

## Sirius XM Holdings (SIRI)

**\$5.90** (As of 03/13/20)

Price Target (6-12 Months): **\$7.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

### Summary

SiriusXM's shares have outperformed the industry in a year's time. The company's subscriber base expansion is expected to continue owing to a strong content portfolio. Moreover, availability on Amazon Echo, Alexa and Google assistant is expected to expand subscriber base further. Additionally, strength in traditional audio advertising, backed by video programmatic and engagement-based video as well as the expansion of off-platform efforts and fee generated on the AdsWizz platform is expected to drive Pandora's ad revenues. However, higher royalty expenses along with increasing music licensing costs hurt profitability. Further, the company is facing significant competition in the music streaming market, which is currently dominated by the likes of Spotify and Apple.

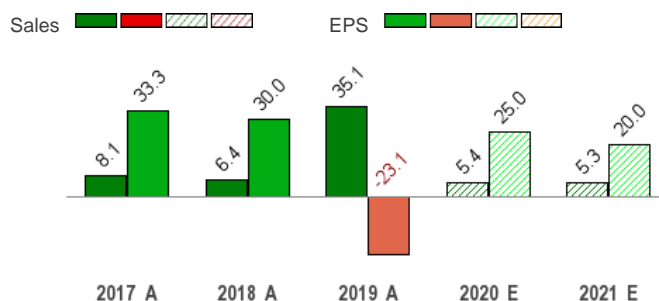
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$7.40 - \$5.17</b>
20 Day Average Volume (sh)	<b>31,426,032</b>
Market Cap	<b>\$26.0 B</b>
YTD Price Change	<b>-17.5%</b>
Beta	<b>1.04</b>
Dividend / Div Yld	<b>\$0.05 / 0.9%</b>
Industry	<a href="#">Broadcast Radio and Television</a>
Zacks Industry Rank	<b>Top 28% (72 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-16.7%</b>
Last Sales Surprise	<b>1.6%</b>
EPS F1 Est- 4 week change	<b>1.9%</b>
Expected Report Date	<b>04/22/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>31.1</b>
P/E F1	<b>23.6</b>
PEG F1	<b>2.6</b>
P/S TTM	<b>3.3</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,027 E	2,115 E	2,158 E	2,218 E	8,643 E
2020	1,936 E	2,037 E	2,070 E	2,125 E	8,211 E
2019	1,744 A	1,977 A	2,011 A	2,062 A	7,794 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.06 E	\$0.07 E	\$0.07 E	\$0.08 E	\$0.30 E
2020	\$0.05 E	\$0.06 E	\$0.07 E	\$0.07 E	\$0.25 E
2019	\$0.03 A	\$0.06 A	\$0.05 A	\$0.05 A	\$0.20 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

## Overview

Headquartered in New York, Sirius XM Holdings Inc. was founded in 1990. The radio broadcasting company creates and broadcasts a variety of content such as commercial-free music, premier sports and live events, news and comedy and exclusive talk and entertainment shows. Sirius XM provides radio services to users in the United States and Canada.

On Feb 1, 2019, Sirius XM completed the acquisition of Pandora, making it the world's largest audio entertainment company.

Notably, the company's services are primarily distributed through its app and website, automakers, and other connected devices like Amazon Echo, Fire TV products and Apple TV.

Sirius XM reported revenues of \$7.79 billion in 2019. Pandora reported revenues of \$1.61 billion.

The company has four revenue generating segments:

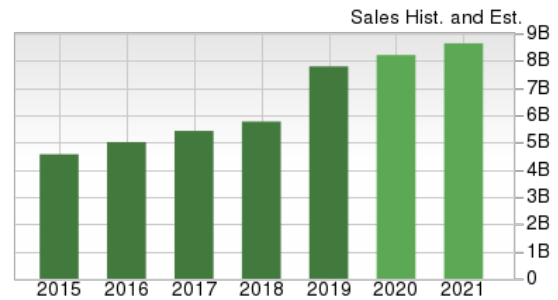
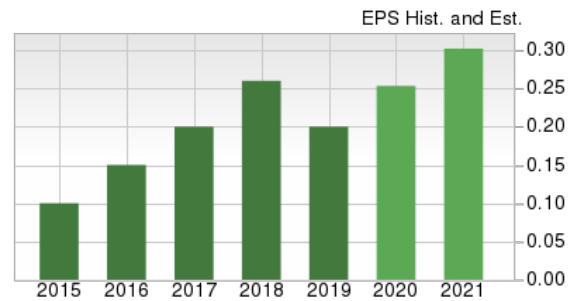
**Subscriber Revenues:** This segment consists of subscription fees, activation fees and the effects of rebates. The segment generated 78.5% of total revenues in 2019.

**Advertising Revenues:** This segment includes the sale of advertisements on the company's non-music channels, net of agency fees and accounted for 17.1% of total revenues in 2019.

**Equipment Revenues:** This segment includes revenues and royalties from the sale of Sirius and XM radios, components and accessories, accounting for 2.2% of total revenues in 2019.

**Other revenues:** This segment offers ancillary services, such as Backseat TV, data and weather services. The segment generated 2.1% of total revenues in 2019.

Sirius XM faces significant competition from Apple and Spotify in the U.S. market. Both these companies dominate the streaming space as they together command the highest market share. Additionally, key initiatives taken by both Apple and Spotify to gain competitive advantage may hurt Sirius XM's user base expansion levels.



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## Reasons To Buy:

- ▲ The acquisition of Pandora helped Sirius XM become the world's largest audio entertainment company, as it significantly expanded the latter's listener base. The combined entity has more than 100 million listeners in North America, of which 40 million are expected to be self-paying subscribers and the rest "trailers and ad-based listeners." Sirius XM expects cost synergies from the acquisition to be more than \$75 million/year. The combination of Sirius XM's subscription-based model and Pandora's ad-based model along with diversified content offerings and the ability to cross sell content across both the platforms is expected to attract users, advertisers and content creators to Sirius XM's platform. Additionally, Sirius XM is also looking to create unique audio packages to boost user engagement levels. The company is also looking to bank on its strength from in-vehicles services and Pandora's out-of-the-vehicle market to boost subscriber growth.
- ▲ Sirius XM's healthy relationships with automakers is expected to boost the adoption of its service. The company inked a long-term agreement with Toyota Motors to extend the deal till 2028, starting with 2020 Toyota models. Notably, the extended partnership was primarily due to increased demand for Sirius XM services from Toyota's dealers and customers. Sirius XM also benefits from the increasing adoption of its 360L platform with General Motors. Moreover, the company extended connected vehicle agreements with Nissan and Infiniti till 2022. Earlier, Sirius XM extended agreements with original equipment manufacturers (OEMs) like Audi, Mazda, Land Rover, Mercedes-Benz, Jaguar and Volvo to install its services in their vehicles by 2020.
- ▲ Sirius XM, which has strong relationships with automobile OEMs, is looking to provide real-time vehicle services to its users. The company in partnership with Visa introduced an in-vehicle payment solution that allows car users to easily make and manage purchases such as paying for coffee, parking and movie tickets among others. Users can "activate and authenticate" payments with their Visa accounts by using biometric authentication like touchscreen commands and voice. Earlier, with the acquisition of automatic labs, Sirius XM introduced an aftermarket solution to enable smart services at a few dealership locations. Notably, the dealers will offer car buyers three years of free crash alert as well as free premium services like roadside assistance for six months. With Sirius XM-enabled radio vehicles increasing on the road, we believe the adoption of its other connected services may also increase owing to agreements with OEMs. At the end of the first quarter, about 119 million vehicles on road were equipped with Sirius XM-enabled radios, up 11% year over year and representing approximately 45% of all the cars in the country currently.
- ▲ Sirius XM will continue to use smart speakers to penetrate into home. The company's plan to bring additional content and features to Amazon Echo is positive in this regard. Earlier, Sirius XM had partnered with Amazon to provide free access to a few of its subscription packages for existing Echo holders. The company is also looking to partner with other big players in the smart speaker market to expand its reach and user engagement.
- ▲ Sirius XM continues to bolster its content offerings by adding content from all spheres including music, politics, news and sports to its platform. The company added 100 ad free music channels to its platform in first-quarter 2019. The channels are available only to Sirius XM's All Access, Premier subscribers and trail users. Additionally, Sirius XM is creating original content in talk, sports and music in addition to its content to make it available for Pandora users to cross-promote content on both platforms. The addition of channels and strong collection of sports content is expected to help the company boost its subscription revenues.

Pandora acquisition, growing subscriber base, partnership strength and solid content portfolio are key factors contributing to Sirius XM's growth.

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## Reasons To Sell:

- ▼ Sirius faces intense competition in the streaming space from the likes of Apple and Spotify, which is expected to hurt the top line in the near term. Apple continues to bolster its presence in the music streaming space backed by acquisitions of Shazam and Asaii. Moreover, the company's recent push into the AR market differentiates its music service offerings and AR initiatives. Spotify, the dominant name in the market, is also ramping up its efforts to expand its subscriber base on the back of partnerships with Samsung and Google.
- ▼ High royalty costs are hurting the company's bottom line. Expenses related to revenue share and royalties rose 64.3% year over year in 2019 compared with 15% growth in 2018. Moreover, growing music licensing costs are a headwind.
- ▼ Moreover, higher subscriber acquisition costs are expected to keep margins under pressure in the near term due to increasing OEM installations and higher OEM hardware subsidy rates. Sirius XM plans to continue to offer subsidies and other incentives to induce auto OEMs to include its technology in their vehicles. Notably, Sirius XM is significantly dependent on the auto industry, as sale and lease of vehicles with satellite radios are an important source of subscription revenues. Hence, slowdown in new car and used car sales is a concern.
- ▼ Sirius XM has a highly leveraged balance sheet, which adds to the risk of investing in the company. As of Dec 31, 2019, the company had total debt of \$7.84 billion. Notably, the high level of goodwill and intangible assets totaled \$7.31 billion or almost 65.6% of total assets, as of Dec 31.

Increasing competition in the streaming space, high royalty costs and leveraged balance sheet are major concerns.

## Last Earnings Report

### Sirius XM Holdings Q4 Earnings Miss, Revenues Rise Y/Y

Sirius XM Holdings reported fourth-quarter 2019 earnings of 5 cents per share that missed the Zacks Consensus Estimate by 16.7% and declined 16.7% year over year.

Total revenues on a reported basis jumped 37.8% year over year to \$2.06 billion and beat the Zacks Consensus Estimate by 1.57%. On a pro-forma basis, revenues increased 6.4% year over year.

The top line was driven by robust subscriber and advertisement revenues. Subscriber revenues (76.1% of total revenues) grew 15.3% from the year-ago quarter to \$1.56 billion. Advertisement revenues (19.5%) surged 660.4% year over year to \$403 million.

Equipment revenues (2.2% of total revenues) rose 9.5% from the year-ago quarter to \$46 million. Other revenues (2.1% of total revenues) increased 10% from the year-ago quarter to \$44 million.

### Sirius XM Standalone Details

Sirius XM segment pro-forma revenues were \$1.59 billion, up 6.5% year over year. The increase was driven by 2.6% growth in subscriber base and 2.9% in ARPU, which was \$14.03.

Sirius XM added 355K net subscribers. Self-pay subscribers increased 3.7% year over year to 29.978 million. The company added 341K net self-pay subscribers in the reported quarter. However, the company lost paid promotional subscribers due to a decline in shipments from automakers offering paid promotional subscriptions.

Total subscribers were 34.909 million as of Dec 31, 2019, better than 33.039 million as of Dec 31, 2018.

Sirius XM traffic users grew 8% year over year to 9.344 million and Canada subscribers increased 2% to 2.707 million.

Additionally, average self-pay monthly churn rate was 1.7% in the fourth quarter, down 0.1% year over year.

Subscriber revenues rose 6.4% year over year to \$1.44 billion. Advertising revenues were \$56 million, up 5.7% year over year.

Moreover, Equipment revenues were up 9.5% to \$46 million. Other revenues improved 9.5% year over year to \$46 million.

### Pandora Details

Pandora's pro-forma revenues increased 6% year over year to \$474 million owing to 10.8% growth in advertising revenues, which totaled \$348 million. This was partially offset by 5.3% decline in subscriber revenues, which came in at \$126 million.

Ad revenues were driven by strong fourth-quarter monetization of \$94.55 per thousand hours, up 9.9% year over year.

Management stated that strength in traditional audio advertising, backed by video programmatic and engagement-based video as well as the expansion of off-platform efforts and fees generated on the AdsWizz platform, drove ad revenues.

Moreover, ARPU increased 2.3% year over year to \$6.76.

Meanwhile, monthly active users (MAUs) were 63.5 million at the end of the reported quarter, down from 69.4 million in the year-ago quarter. Ad-supported listener hours declined 8% year over year to 3.21 billion.

However, Pandora lost 92K self-pay subscribers and exited the fourth quarter with nearly 6.21 million self-pay subscribers, which included 49K paid promotional subscribers.

### Operating Details

In the fourth quarter, total operating expenses surged 60.4% year over year to \$1.66 billion.

Revenue share and royalty costs soared 80.1% year over year to \$607 million. Satellite and transmission costs surged 103.8% year over year to \$53 million.

Customer service & billing costs improved 25.5% to \$123 million. Programming & content costs were \$124 million, up 20.4% while Cost of Equipment remained flat year over year.

Engineering, design and development expenses soared 117.6% from the year-ago quarter to \$74 million. Sales and marketing expenses jumped 106.4% to \$289 million.

However, subscriber acquisition costs declined 3.4% year over year to \$114 million.

Adjusted EBITDA declined 1% year over year to \$587 million.

### Balance Sheet & Cash Flow

As of Dec 31, 2019, cash and cash equivalents were \$106 million compared with \$90 million as of Sep 30, 2019.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	1.57%
EPS Surprise	-16.67%
Quarterly EPS	0.05
Annual EPS (TTM)	0.19

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Long-term debt as of Dec 31 was \$7.84 billion compared with \$7.90 billion as of Sep 30.

At quarter-end, Sirius XM's debt to adjusted EBITDA ratio was 3.2x. The company had \$1.75 billion available under its revolving credit facility.

Cash flow from operating activities in fourth-quarter 2019 was \$532 million compared with \$544 million in third-quarter 2019. Free cash flow was \$408 million in the fourth quarter compared with \$465 million in the previous quarter.

**2020 Guidance**

Revenues, on a pro-forma basis, are expected to be approximately \$8.1 billion for the year. Adjusted EBITDA is expected to be \$2.5 billion.

The company anticipates to add almost 0.9 million Sirius XM self-pay net subscribers.

Free cash flow is expected to be around \$1.7 billion.

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## Recent News

On Mar 11, SiriusXM announced that it will air every Fia Formula One World Championship Race on SiriusXM radios and the SiriusXM app, starting with Formula 1 Rolex Australian Grand Prix 2020.

On Feb 11, SiriusXM Holdings Inc. announced that it invested \$75 million in SoundCloud, the world's largest open audio platform. SoundCloud will use this investment to ramp up product development as well as enhance the services that fuel its global community of creators and listeners.

On Dec 17, Sirius XM announced a tie-up with General Motors to bring SiriusXM with 360L to nearly 1 million Chevrolet, Buick, GMC and Cadillac owners.

On Dec 13, Sirius XM announced exclusive radio broadcast agreement with Rolling Loud, the world's largest Hip-Hop festival brand.

On Dec 4, Sirius XM launched Pandora's redesigned mobile experience available for all listeners after initially rolling out to select users in October. The new features give listeners exposure to Pandora's vast library of on-demand music and podcasts, personalized content recommendations and a wide selection of unique programming across all tiers of service and free ad-supported, Pandora Plus, or Pandora Premium.

SiriusXM also announced a new creative partnership with U2 to launch U2X RADIO, which will include a dedicated SiriusXM channel and exclusive content available only to SiriusXM subscribers and Pandora listeners.

On Dec 2, Sirius XM and UNINTERRUPTED announced the launch of exclusive athlete playlists on Pandora to bring fans closer to their favorite players including LeBron James, Rob Gronkowski, Odell Beckham Jr. and Angel McCoughtry through music.

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## Valuation

Sirius XM shares are down 8.8% in the six months period and 2.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 8.4% and 20.5% in the six months period, respectively. Over the past year, the Zacks sub-industry and the sector are down 13.9% and 17.4%, respectively.

The S&P 500 index is down 9.6% in the six months period and 5.3% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 16.12X, which compares to 19.5X for the Zacks sub-industry, 9.28X for the Zacks sector and 10.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.11X and as low as 13.96X, with a 5-year median of 16.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$7 price target reflects 26.9X forward 12-month earnings.

The table below shows summary valuation data for SIRI

Valuation Multiples - SIRI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	16.12	19.5	9.28	10.05
	5-Year High	19.11	32.64	17.59	12.88
	5-Year Low	13.96	17.72	8.84	8.31
	5-Year Median	16.9	23.22	12.28	10.78
P/E F12M	Current	22.41	19.38	15.43	15.72
	5-Year High	34.28	34.44	23.23	19.34
	5-Year Low	19.53	19.38	15.43	15.18
	5-Year Median	26.06	25.86	19.88	17.42
P/S F12M	Current	3.13	7.54	1.73	2.9
	5-Year High	5.83	13.42	3.19	3.43
	5-Year Low	2.95	6.61	1.73	2.54
	5-Year Median	4.31	9.66	2.53	3

As of 03/13/2020

## Industry Analysis Zacks Industry Rank: Top 28% (72 out of 253)



## Top Peers

Apple Inc. (AAPL)	Outperform
TEGNA Inc. (TGNA)	Outperform
AMC Networks Inc. (AMCX)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Netflix, Inc. (NFLX)	Neutral
Nexstar Media Group, Inc (NXST)	Neutral
E.W. Scripps Company (The) (SSP)	Neutral

Industry Comparison Industry: Broadcast Radio And Television				Industry Peers		
	SIRI Neutral	X Industry	S&P 500	AAPL Outperform	AMZN Neutral	GOOGL Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>B</b>	<b>B</b>
Market Cap	26.04 B	561.61 M	19.05 B	1,216.25 B	888.59 B	834.55 B
# of Analysts	6	2	13	11	13	14
Dividend Yield	0.90%	0.00%	2.31%	1.11%	0.00%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.00	0.16	0.05	0.08	0.06	0.13
EV/EBITDA	16.68	5.56	11.57	15.36	22.94	14.19
PEG Ratio	2.45	0.54	1.68	1.96	2.39	1.36
Price/Book (P/B)	NA	0.83	2.56	13.58	14.32	4.15
Price/Cash Flow (P/CF)	18.93	2.67	10.18	18.22	26.62	17.48
P/E (F1)	22.64	6.70	14.94	20.57	64.64	22.33
Price/Sales (P/S)	3.34	0.60	2.02	4.54	3.17	5.16
Earnings Yield	4.24%	12.44%	6.67%	4.86%	1.55%	4.48%
Debt/Equity	-11.27	1.29	0.70	1.04	0.38	0.07
Cash Flow (\$/share)	0.31	2.13	7.01	15.26	67.05	69.45
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	22.16%	11.87%	10.85%	9.54%	110.19%	24.24%
Proj. EPS Growth (F1/F0)	26.66%	18.53%	5.99%	13.64%	20.00%	10.60%
Curr. Cash Flow Growth	-6.44%	0.53%	6.15%	-3.74%	31.33%	12.62%
Hist. Cash Flow Growth (3-5 yrs)	12.75%	12.75%	8.52%	7.40%	49.26%	19.91%
Current Ratio	0.30	1.80	1.24	1.60	1.10	3.37
Debt/Capital	NA%	56.96%	42.57%	50.97%	27.39%	6.83%
Net Margin	11.73%	7.70%	11.64%	21.49%	4.13%	21.22%
Return on Equity	-204.95%	8.23%	16.74%	60.19%	21.07%	18.66%
Sales/Assets	0.70	0.37	0.54	0.80	1.41	0.62
Proj. Sales Growth (F1/F0)	5.81%	2.84%	3.54%	7.74%	19.14%	17.54%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>B</b>	<b>D</b>
Daily Price Chg	6.12%	3.10%	8.21%	11.98%	6.46%	9.24%
1 Week Price Chg	1.58%	-5.76%	-0.67%	5.73%	0.92%	-3.25%
4 Week Price Chg	-18.40%	-27.22%	-22.67%	-14.44%	-16.97%	-19.76%
12 Week Price Chg	-16.67%	-29.46%	-20.46%	-0.73%	-0.41%	-10.48%
52 Week Price Chg	-3.75%	-38.50%	-10.79%	51.29%	5.86%	1.82%
20 Day Average Volume	31,426,032	76,313	3,061,271	56,206,676	5,628,111	2,463,722
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.48%	0.00%	0.00%
(F1) EPS Est 4 week change	1.92%	0.00%	-0.32%	-1.70%	0.16%	-0.24%
(F1) EPS Est 12 week change	-3.62%	0.00%	-0.65%	3.35%	4.19%	-0.57%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.62%	-11.41%	-0.08%	-0.41%



## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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