

The Business of Satellite Radio

XM Innovates; Sirius Provides Serious Content



PICTURED IS AN EXAMPLE OF XM'S DELPHI SATELLITE RECEIVER

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Satellite Radio is one of the newest broadcast mediums for in-vehicle entertainment. The two major providers in the industry are XM Radio, backed by GM and Honda, and Sirius Satellite Radio, backed by DaimlerChrysler and Ford Motor Co. Each provide over 60 channels of commercial free music, along with dozens of other channels of news, sports and special interest programming to paying subscribers. XM charges \$9.99 a month with a discount for a multi-year service agreements and Sirius charges \$12.99 a month, or \$9.99 with a 1 year service agreement, and discounts for multi-year service agreements.

XM and Sirius compete on the basis of content, visibility, number of subscribers and price. XM is the leader in visibility, number of subscribers and price, but still has trouble drawing the big name talent and coming up with new content. XM only leads Sirius by a few channels and lacks depth in their news and information content. Other than the obligatory CNN Headline News, Bloomberg News, The Weather Channel and Fox News; XM lacks further news content. As far as sports content is concerned, MLB and NASCAR coverage cannot compete with Sirius' NFL and NHL coverage. Unfortunately, competition in this industry is so close, that there are few "product differentiators."

XM Radio has held on to its lead as the premier satellite radio provider because of GM and Honda's willingness to aggressively market XM Radio to new subscribers and new car manufacturers.

100 vehicle models have XM radio available as an option for the 2005 model year. Manufacturers include Honda and Acura, Audi, Infiniti, Isuzu, Lexus, Nissan, Porsche, Toyota and Scion, and VW.

XM has also shown a willingness to innovate. During the model year 2005, Acura and XM partnered to introduce the world's first on-board vehicle navigation system with real-time traffic information. The 2005 Acura RL will display up-to-date traffic information and real-time traffic flow on the in-car navigation system, and reroute subscribers accordingly. XM has also made in-roads into the home entertainment area with the introduction of a Polk Audio manufactured XM Radio component receiver for home theaters.

Sirius is widely regarded as having some of the easiest after market receivers to install. That has allowed Sirius to attract new customers through the custom tuning aftermarket channel. Sirius still trails in number of new subscribers, pricing and visibility in the new car market, but makes up for it with their content. Sirius is still 1.4 million subscribers short of XM. Furthermore, Sirius charges \$3 more than XM per month without the 1 year service agreement.

One of the major "product differentiators" for Sirius is its content. A big draw for Sirius is its ability to broadcast NFL and NHL games. Furthermore, Sirius has added 69,000 new subscribers since Howard Stern announced his intentions to broadcast on Sirius starting in 2006. As a side note, Sirius is the only satellite service provider to broadcast Traffic and Weather

reports from local reporters, unlike XM which broadcasts its Traffic and Weather reports from a studio in Washington, D.C.

As investments, XM and Sirius have big cash-flow problems on their hands and they are having difficulty bringing profits into their realities. Add the addition of multi-million dollar mega-licensing deals, and you have a debt-laden experiment in pay radio. Additionally, XM has suffered a fall-out from the discovery that their "satellite radio for PC" (A.K.A. PCR) service can be adapted to allow users to record songs and content from XM Radio and distribute them online.

Furthermore, Sirius has opted to drop their insurance policy on their three orbiting satellites, citing the high cost of the insurance which can easily lead to major problems if any of the satellites experience problems which both of XM's satellites have already proven can be a definite possibility. Sirius does, however, have a spare satellite on the ground, which XM does not.

XM's stock has recovered from a low of almost \$9 two years ago to hit a high of above \$40 in December, 2004. As of Monday, November 21, 2005, the price was at \$31.12 at market close.

On the other hand, Sirius' stock bottomed out to a low of under \$1 in 2002, but rose above \$8 back in December of 2004, and most recently closed at \$7.13 on Monday, November 21, 2005. The Howard Stern push in the stock price was experienced on October 6, 2004 and caused Sirius' stock price to catapult 33%, or approximately \$1. More recent reports regarding Howard Stern's debut say that it could disappoint which would send stock prices down. XM also has an edge as far as its technology and it has announced that it plans on achieving 6 million new subscribers and \$500 million in subscription revenue by the end of Fiscal 2005. If they can accomplish this, it could possibly send their stock price skyrocketing into the \$40 range.

As long-term investments, satellite radio holds promise with its new content licensing deals and innovative new services. But as short-term investments based on recent history, XM and Sirius will continue to move sideways, especially in light of the hurricanes and other recent economic events.