



MFIF

Minutemen Fixed Income Fund

SiriusXM Holdings Inc. (NASDAQ: SIRI)

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We recommend a market underweight position on SiriusXM Holdings' (SIRI) 5.00% 2027 senior unsecured notes. With over 150 full-time channels, reaching 150MM listeners, SIRI is one of the largest American broadcasting companies. However, SIRI is not the company it was a few years ago. We believe the market is not properly pricing SIRI's misrepresentation of vehicle penetration and sales. Because most SIRI users listen to the channels within their cars, SIRI is at a disadvantage relative to competitors when it comes to overcoming supply chain issues and chip shortages. SiriusXM equipment is in 82% of recently produced cars, however, a number of the SIRI-equipped vehicles have been discontinued. We believe this will, in part, contribute to SIRI subscriber revenue and equipment revenue decreasing 2% and 3% y/y, respectively. In FY19 SIRI acquired Pandora, one of the largest ad-supported audio entertainment streaming services within the US. Like SIRI in and of itself, Pandora is no longer the giant it was. The company has been consistently losing subscribers due to the popularity of competitors like Spotify and Apple Music. We believe SIRI's inability to maintain Pandora relevance and revenue despite increased podcast advertising will encourage users to look to competitors. Following the FY18 acquisition of AdsWizz, a leader in digital audio advertising technology, management has suggested consistent growth in advertising. In turn, we project total SIRI ad revenue of ~\$2.29B for FY22. While the increase in ad revenue encourages optimism, advertising is not a good use of capital as Pandora subscription rates will continue to decline and companies will stop buying ad space on SIRI channels. In addition to the aforementioned reasons, SiriusXM's poor management of podcasts coupled with the loss of subscribers mitigating most gains from podcast advertising will lead to SIRI's 2027 notes widening by ~100bps relative to competitors like back in 2020.

Figure 1: Capitalization Table

SiriusXM (SIRI)						
LTM EBITDA, Leverage	2,474	3.6x				
2022E EBITDA, Leverage	2,429	3.7x				
Debt Outstanding (USD in Millions)						
Type	Amount O/S	Maturity	Coupon	Price	YTW	Leverage
1.75% Convertible Senior 2023 Notes	193	12/1/2023	1.750%	-	-	
3.125% Senior 2026 Notes	1,000	9/1/2026	3.125%	92.48	5.10%	
5.00% Senior 2027 Notes	1,500	8/1/2027	5.000%	97.17	5.65%	
4.00% Senior 2028 Notes	2,000	7/15/2028	4.000%	91.05	5.75%	
5.500% Senior 2029 Notes	1,250	7/1/2029	5.500%	97.62	5.93%	
4.125% Senior 2030 Notes	1,500	7/1/2030	4.125%	89.35	5.90%	
3.875% Senior 2031 Notes	1,500	9/1/2031	3.875%	85.88	5.86%	
Total Debt	8,943					3.6x
(+) Market Capitalization	26,017					
(-) Cash	-191					
(-) Preferred Stock	0					
(-) Noncontrolling Interests	0					
Enterprise Value	34,769					

Security Data

Bond Maturity: 08/01/2027

Rating: BB-/B1

Tranche: Senior Unsecured

Price: \$97.39

YTW: 5.58%

Mty. Type: Callable

Coupon: 5.000%

OAS: 250.7 bps

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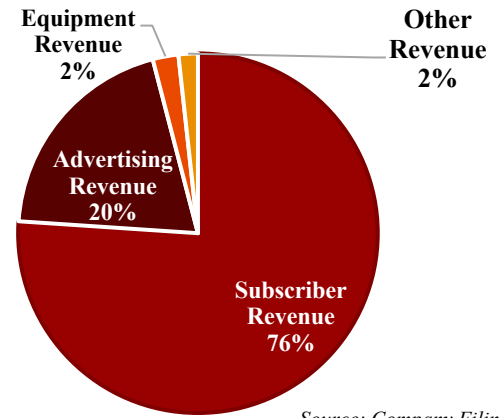
Company Overview

SiriusXM Holdings Inc. was founded on July 29, 2008 and is currently headquartered in New York City. Presently, SIRI has ~34.08MM subscribers and reaches 150MM listeners, making it one of the leading audio entertainment companies in North America. SIRI operates two complementary audio entertainment businesses, SiriusXM and Pandora. It provides music, sports, entertainment, comedy talk, news, traffic, weather channels, and other content in the U.S. on a subscription fee basis. While ~80% of total revenue comes from subscription fees, SIRI also derives revenue from advertising, direct sales of satellite radios and accessories, and other ancillary services.

Industry Overview

Radio broadcasting is a \$22.4 billion per year industry and is projected to grow at an annual rate of 0.1% through FY26. Services such as Spotify have been a major source of competition for radio broadcasters over the last few years. The industry is dominated by SiriusXM and iHeartMedia with market shares of 34.4% and 7.7% respectively. SIRI is also part of the Music Streaming Services Industry, which is a \$13.2 billion per year industry and is projected to grow at an annualized rate of 18.4% through FY26. While the industry holds its roots in the MP3 file, these websites have come and gone. However, consumer demand for digital music access has persisted. This has spurred innovation and led to the creation of major competing enterprises. The major players of this industry are Spotify Technology, Apple Inc., SiriusXM, and Amazon.com Inc. with 30.5%, 19.8%, 15.2%, and 11.4%, respectively.

Figure 2: Revenue Breakdown

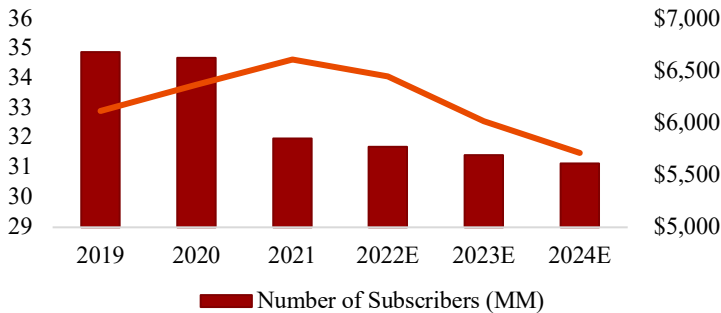


Source: Company Filings

Misrepresentation of SIRI-Equipped Vehicle Growth

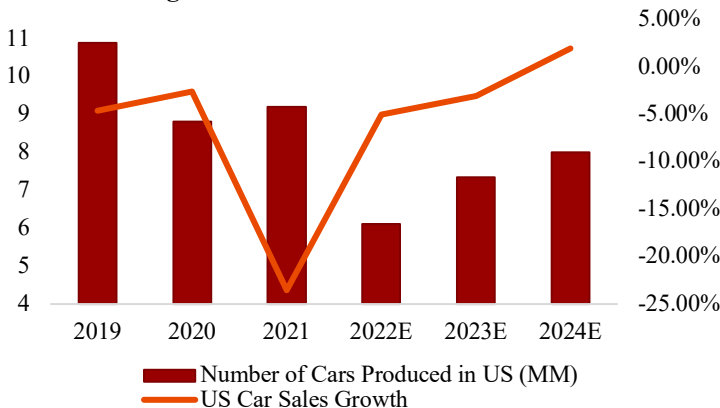
In FY21, SiriusXM hardware was incorporated into 82% of new vehicles sold in the US. Their technology is included in manufacturing new cars in a system called Connected Vehicle Services, or (CVS). While the company’s platform combines streaming and satellite-delivered content, which would typically be a good thing as represented by Sirius’ notes trading tighter than that of competitors, the market is not pricing in the chip shortage and continued supply chain pressures continuing through 2022 and the next year. New-vehicle total sales for 1Q22 is projected to decrease 18.4% from 1Q21. Again, the market will normalize, and this chip shortage may only last through the end of this year, but with silicon and other raw materials being integral to car production, the sanctions on Russia only further contribute to the plummeting new car sales. As ~76% of SIRI total annual revenue comes from subscriber revenue, and management has hinted towards the difficulties of seeing subscriber growth aside from SiriusXM equipped vehicles, we project that the lack of vehicle production and chip shortages will lead to a subscriber revenue of ~\$6.4B, a 2% y/y decrease. This projection is further corroborated by comparing SIRI-equipped vehicles and the models being discontinued due to chip shortages and other supply chain issues. The Ford Fusion, Chevrolet Malibu and Impala, Ford Maverick, Honda Fit and more were all once popular cars whose production is now idling or ceasing. These models are some of the many SIRI-equipped vehicles. With production decreasing, SIRI will not see revenue from subscriber growth and/or equipment growth it has seen historically. We project equipment revenue to decline 3% y/y in FY22, reaching \$194MM. SiriusXM’s inability to popularize its subscription-based app means that it will suffer more than competitors as car production declines. Also contributing to the decline in equipment and subscriber revenue from vehicles is the increase of Apple CarPlay- and Android Audio-equipped vehicles. Between FY18 and FY20, there was a 150% increase in the number of cars that supported CarPlay and Android Audio (240MM to 600MM cars). While the SiriusXM app can be used with CarPlay, the rise in Spotify and Apple Music subscribers indicates that will not be the case. So, again, SIRI’s inability to popularize its app gives it a disadvantage relative to competitors, which will lead to decreases in subscriber and equipment revenue.

Figure 3: Number of Subscribers vs Subscriber Revenue



Sources: Company Filings, MFIF Analysis

Figure 4: US Car Production vs Sales

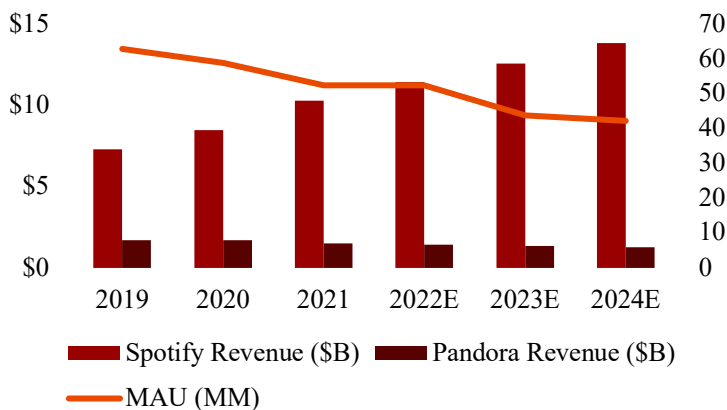


Sources: Company Filings, Bloomberg

Inability to Position Pandora Relative to Competitors

Back in 2016, Pandora had the most monthly users since its inception reaching levels of 81MM. Presently, the company has 52.6MM monthly active users, and those levels have been steadily falling since its peak. In FY19, SiriusXM acquired Pandora in a \$3.5 billion all-stock transaction. While Sirius has expanded its content, including delivering exclusive live performances from artists like J. Cole, ABBA, Alicia Keys and more, that has not been as profitable as it would have been in 2016. Moreover, in 4Q21, Pandora launched new programming with U2 and other artists. Despite the potential for growth with this, in FY21, Pandora lost 128,000 self-pay subscribers and 2,000 paid promotional subscribers. Pandora ended 2021 with ~6.9MM total subscribers and revenue of ~\$1.5B. Major Pandora competitor, Spotify, has grown to be increasingly more popular. In FY21 alone, Spotify saw revenue of ~\$10.3B, 406MM active users, and 180MM subscribers. Spotify recognized that radio was not the future of how people wanted to interact with music, unlike Pandora. In an attempt to catch up to other streaming platforms, Pandora has shifted its focus to increase advertising. In 2018, the company acquired AdsWizz, a leader in digital audio advertising technology for \$66.3MM in cash acquisition and 9MM shares of Pandora common stock. Management has suggested consistent growth in advertising and in turn advertising revenue, so we project total SIRI ad revenue of ~\$2.29B for FY22. While this increase in ad revenue has made SIRI management optimistic, we do not feel this is a good use of capital. SIRI is looking to increase ads as the number of active users and subscribers has been and will continue to decrease. Pandora is simply not what it was, and in our opinion, considering the rise of competition within the industry, and differentiation that Pandora has yet to implement, will continue to provide it with less market share.

Figure 5: Revenues vs MAU

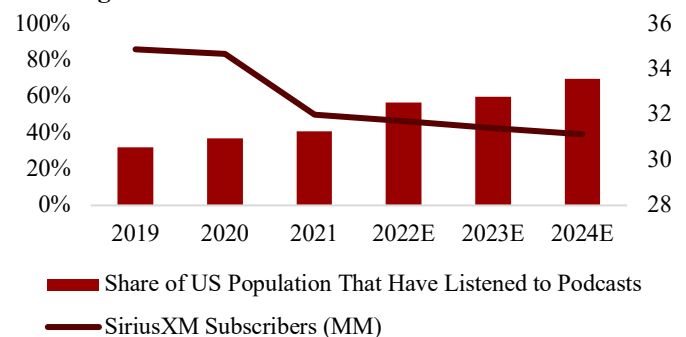


Sources: Company Filings, Business of Apps

Poor Management of Podcasts

In FY20, SIRI acquired podcast platforms Stitcher and Earwolf from E.W. Scripps for \$325MM in cash. The deal brought Stitcher titles to Pandora and SiriusXM radio. Again, while this is beneficial to SIRI in theory, the acquisition was reportedly marked by confusion, culture clash, and shifting objectives. Moreover, SIRI management did not solidify whether podcasting would be an ad sales business or a subscription one. This lack of foresight is also present in the FY21 lawsuit against SIRI for failing to provide podcast transcripts to deaf users. The major source of revenue that comes from podcasts is from podcast advertising revenue. Looking at SIRI's FY21 podcast advertising revenue, we see that it grew 30% y/y to reach \$1.5B, which is comparable to competitor Spotify with a 46.6% y/y growth in podcast ad revenue. Spotify does not break out podcast revenue, but the number of monthly active users increased double digits between 3Q21 and 4Q21. While this appears to indicate that SIRI can hold its own against major players in the podcast industry, management has attributed most of that growth to the reaction to the Stitcher acquisition the prior year and people wanting to see what the platform has to offer. Because access to these podcasts is included within the general SiriusXM subscription plans, the primary way SIRI makes money from podcast advertising is by selling ad space. It also charges clients by the CPM, or cost per mille/thousand views. While its normal music stations are ad-free, some stations, or rather certain shows on those stations, are not. The cost of advertising on Pandora varies, depending on the type of advertising you choose. The average CPM for 30-60 second ads is \$5-7. To determine how much SIRI stands to make with increased podcast advertising, we are using our projected 31.714MM subscribers for FY22, dividing it by 1000, and multiplying it by the CPM of \$7, to get a total revenue per ad of \$221,998, that is if all 31.714MM subscribers listen to that ad. The issue with this is that SIRI is consistently losing subscribers and shrinking its reach, as aforementioned. As a result, we project that ad revenue growth will decrease to a 4% y/y growth by 4Q22 instead of the 11% growth observed in FY21. As SIRI loses more subscribers and users through FY24, we project total revenue to reach ~\$8.6B for FY24, which is a decrease from the FY21 total revenue of ~\$8.7B. SIRI has the potential to grow through podcasts and their advertising, the company however, does not have the viewers to sustain that as opposed to competitors like Spotify.

Figure 6: Podcast Growth vs Subscriber Growth



Sources: Company Filings, Statista

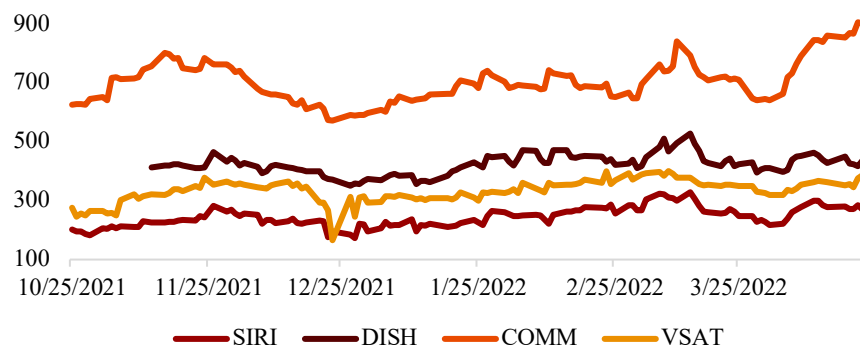
Catalysts

- When software such as Apple CarPlay and Android Audio further taps into auto hardware and simplifies the in-vehicle phone usage
- SIRI is dependent on US and Canadian markets, which poses sales risks. We see this to be a catalyst when people outside of those markets look to find new streaming apps and services. SIRI and Pandora will fall behind Spotify, Apple, and Amazon Music
- As podcasts grow increasingly more popular and people continue to turn to Apple, Spotify, and Amazon for them, we believe this presents a catalyst to further cement SIRI's disadvantage relative to competitors by the next quarter

Risks

- SIRI is able to get customers to think of its app outside of cars and comparable to competitors
- Individuals who enjoy audio streaming services turn to Pandora again
- Introduction of Marvel podcasts on SIRI channels encourages non-SIRI users to listen to those podcasts and others offered

Figure 7: 6-month OAS (Bps)



Source: Bloomberg

Figure 8: Comparable Company Analysis

Comps (USD in Millions)	SIRI	DISH	VSAT	COMM
Market Cap	26,017	17,034	3,683	1,590
Debt	8,943	22,946	2,550	9,698
Net Debt	8,752	17,391	2,384	9,338
Enterprise Value	34,769	34,822	6,108	11,984
EBITDA (LTM)	2,474	4,018	575	1,038
Debt/EBITDA (LTM)	3.6x	5.7x	4.4x	9.3x
Net Debt/EBITDA (LTM)	3.5x	4.3x	4.1x	9.0x
EBITDA Margin (LTM)	28.4%	22.5%	21.4%	12.1%
EBITDA/Interest (LTM)	6.0x	5.1x	5.2x	1.9x
FCF (LTM)	1,610	2,846	(287)	(9)
FCF/Debt (LTM)	18%	12%	-11%	-0.09%
Individual Security Comps				
Rating	BB-/B1	B+/Ba3	BB/Ba3	CCC+/B3
Coupon	5.00%	5.75%	5.63%	8.25%
Maturity	8/1/2027	12/1/2028	4/15/2027	3/1/2027
Price	97.4	91.3	95.0	87.1
YTW	5.58%	7.44%	6.84%	11.85%
OAS	250.7 bps	461.8 bps	396.9 bps	909.3 bps
Next Call Date	8/1/2022	12/1/2002	4/15/2022	5/2/2022
Spread/Turn of Leverage	69.4 bps	80.9 bps	89.5 bps	97.3 bps

Sources: Bloomberg, Company Filings

Relative Value

DISH is currently trading ~205bps wider relative to SIRI. We believe that the market is misjudging DISH's move to 5G. Satellite TV is declining, and DISH is focusing on a growing industry. Like satellite TV, satellite radio is a shrinking industry. However, SIRI is not moving in any other direction aside towards podcasts, which it is not handling well as per the thesis above. Unlike DISH, SIRI is sticking with its failing and outdated business model. SIRI and DISH have comparable credit profiles, with DISH even having a higher EBITDA and spread/turn leverage ratio. For the latter, a lower spread/turn ratio indicates that one gets a lower compensation for the risk they take on. We believe that SIRI should be trading ~100bps wider relative to DISH than it presently is.

Relative to VSAT, SIRI is trading ~140bps tighter. At the end of FY21, VSAT tightened ~200bps following the announcement it would acquire Inmarsat, a British satellite communications company. After news broke that VSAT satellites were hacked in Europe, the notes widened ~130bps to where they normally trade. Despite being a significantly smaller company than SIRI, as indicated by the smaller market cap, SIRI and VSAT have comparable leverage ratios and EBITDA/interests. Even further, VSAT has a higher spread/turn of leverage ratio, so again, more return for every unit of risk. As a result, we believe that SIRI's 2027s should be trading more in line with VSAT's 2027s, ~100bps wider relative to VSAT.

Even though COMM has a considerably worse credit profile, it has a higher spread/turn of leverage ratio than SIRI. Moreover, COMM has a comparable amount of debt and net debt. It also has a smaller market cap. We believe that SIRI should be trading ~30-50 bps wider relative to COMM, but for the most part, SIRI is trading appropriately relative to this comp.

Figure 9: Summary Model

SiriusXM (SIRI)													
Fiscal Year	FY20A	1Q21A	2Q21A	3Q21A	4Q21	FY21	1Q22P	2Q22P	3Q22P	4Q22P	FY22P	FY23P	FY24P
Income Statement													
Revenue													
Subscriber revenue	6,372	1,611	1,641	1,666	1,696	6,614	1,660	1,627	1,596	1,568	6,451	6,023	5,716
Advertising revenue	1,340	354	429	451	496	1,730	545	573	584	590	2,293	2,420	2,518
Equipment revenue	173	57	51	41	52	201	50	49	48	47	194	181	176
Other	155	36	38	40	37	151	37	37	38	38	150	155	159
Net Revenue	8,040	2,058	2,159	2,198	2,281	8,696	2,294	2,287	2,266	2,242	9,089	8,778	8,569
Operating Expenses													
Direct operating expenses, excluding D&A	5,161	1,306	1,376	1,405	1,527	5,614	1,518	1,512	1,498	1,482	6,010	5,802	5,664
SG&A, excluding D&A	511	121	130	125	138	514	140	142	140	138	560	532	523
Other	1,510	377	(5)	40	141	553	149	147	144	143	582	560	547
Total operating expenses	7,182	1,804	1,501	1,570	1,806	6,681	1,807	1,800	1,782	1,762	7,152	6,894	6,734
Income from Operations	858	254	658	628	475	2,015	486	486	484	480	1,936	1,884	1,835
Interest expense, net	(394)	(100)	(103)	(111)	(101)	(415)	(111)	(111)	(110)	(109)	(441)	(426)	(416)
Other Income, net	(34)	3	5	(84)	2	(74)	(14)	(17)	(19)	(16)	(66)	(75)	(70)
Income before income taxes	430	157	560	433	376	1,526	361	359	355	355	1,429	1,383	1,350
Income tax expense	(299)	62	(127)	(90)	(57)	(212)	(79)	(79)	(78)	(78)	(314)	(300)	(294)
Net Income	131	219	433	343	319	1,314	282	279	277	277	1,115	1,084	1,056
Growth rates and margins													
Revenue Growth													
Subscriber revenue growth	4%	0%	2%	2%	2%	4%	-2%	-2%	-2%	-2%	-2%	-7%	-5%
Advertising growth	0%	-25%	21%	5%	10%	29%	10%	5%	2%	1%	33%	6%	4%
Equipment revenue growth	0%	-5%	-11%	-20%	27%	16%	-3%	-3%	-2%	-2%	-3%	-7%	-2%
Other growth	-6%	-10%	6%	5%	-8%	-3%	1%	1%	1%	1%	0%	3%	3%
Total Revenue Growth	3.2%	-6.0%	4.9%	1.8%	3.8%	8.2%	0.6%	-0.3%	-0.9%	-1.0%	4.5%	-3.4%	-2.4%
Expenses % of Sales													
Operating Expenses	89%	88%	70%	71%	79%	77%	79%	79%	79%	79%	79%	79%	79%
SG&A/revenue	6%	7%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Operating Metrics													
Operating Margin	11%	12%	30%	29%	21%	23%	21%	21%	21%	21%	21%	21%	21%
Tax Rate	70%	39%	23%	21%	15%	14%	22%	22%	22%	22%	22%	22%	22%
EBITDA Reconciliation													
(+) EBIT	824	257	663	544	477	1,941	472	469	465	464	1,870	1,809	1,765
(+) Depreciation and Amortization	506	132	131	135	135	533	143	141	138	137	558	537	524
EBITDA	1,330	389	794	679	612	2,474	615	610	603	601	2,429	2,346	2,289
FCF Reconciliation													
(+) EBIT*(1-Tax)	621	154	509	497	403	1,563	380	379	378	374	1,511	1,476	1,435
(+) Depreciation & Amortization	506	132	131	135	135	533	143	141	138	137	558	537	524
(-) Increase in Working Capital	N/A	(173)	835	(879)	(62)	(279)	(30)	(21)	(21)	(35)	(106)	(179)	(202)
(-) Capex	226	78	86	80	144	388	99	101	101	102	403	397	385
Free Cash Flow to Firm	N/A	191	1,561	(167)	620	2,205	591	600	596	578	2,365	2,231	2,143
Credit Metrics													
Debt	8,499	8,878	8,835	8,827	8,832	8,832	8,943	8,943	8,943	8,943	8,943	8,943	8,943
Debt/LTM EBITDA	6.4x				3.6x	3.6x				3.7x	3.7x	3.8x	3.9x
LTM EBITDA/Interest	3.4x				6.0x	6.0x				5.5x	5.5x	5.5x	5.5x

Sources: Bloomberg, Company Filings