Satellite Radio OUTLOOK

Analysis and Projections for the Industry

2005

FIRST EDITION

Kagan Research

FINAL

SDARS Ex. 67

SE 0202984

Satellite Radio's Big-League Deals

Howard Stern

Sirius's announcement of its five-year, $500 mil. deal with Howard Stern was a watershed moment for the company. At the time of the announcement, Sirius was trailing XM in every key category and was looked upon as the weaker of the two satellite services by Wall Street. The Stern deal changed that, as Sirius' newfound inside track to Stern's estimated eight mil.-12 mil. listeners gave it a greater degree of legitimacy on Wall Street, which in turn positively impacted its automotive and retail partnerships.

Sirius' Stern Contract: The Facts

Sirius Contract	$500 mil./5 years
Start Date	Jan. 1, 2006
Est. Fan Base	8 mil.-12 mil. (estimated)
Current Ad Revenues	$80 mil.-$90 mil./year
Current Reach	Approx. 50% of U.S. pops
Current Markets	46 of 350 markets

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One question many asked, however, was whether Sirius paid too much for Howard Stern. The five-year contract consists of payments of $80 mil. per year in cash and a one-time payment of $100 mil. in stock, for a total of $500 mil. This includes Stern's salary and the total cost of production. In addition, Stern will receive additional equity compensation if he generates a certain number of subscribers verifiably tracked back to him, or if Sirius exceeds subscriber forecasts of about 13 mil. by 2010.

There are many variables to consider when evaluating the Stern deal, the foremost being the number of Stern fans likely to choose Sirius because of him. Sirius estimates there are 12 mil. Stern fans, but research reports suggest there are as few as six mil. According to marketing materials from CBS, Howard Stern has two mil.-three mil. daily listeners and five mil.-six mil. weekly listeners.

Sirius estimates it needs only one mil. new subscribers over and above the number it would have gained regardless of Stern to break even on the Stern deal. This does not include intangibles such as the advertising value the Stern deal brought to Sirius and the satellite radio industry prior to his joining the company.

There are good reasons to think Sirius will get at least one mil. new subs because of Stern. His fans tend to be loyal and fall within the demographic targeted by Sirius. According to a survey conducted by the San Francisco market research firm Odyssey, about 30% of Stern fans said they would be "very likely" to sign up for satellite radio when Stern moves to Sirius. According to Scarborough Research, Stern's fan base is about 30% wealthier than average, and thus can afford the $13 per month service. Even if we assume Stern has just eight mil. fans and only 20% of this fan base moves to Sirius—as suggested by a different survey conducted by The Bridge—Sirius would still gain 1.6 mil. new subs.

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