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J.P.Morgan

North America Equity Research
02 February 2017

Sirius XM Radio Inc.

Continue to Like the SIRI Story and Future Growth Drivers; Establish $5 Price Target

Neutral

SIRI, SIRI US

Price: $4.75

Price Target: $5.00

Sirius XM reported a strong 4Q16 with both financials and subscriber results better vs. expectations. The company reported total revenues of $1.30b vs. our $1.292b estimate and consensus of $1.29b (SA), with adj. EBITDA of $475m vs. our $467m and consensus of $466m. Total 4Q net subscriber adds came in at 355k vs. our 335k with self-pay net adds of +423k (which the company pre-announced in early January) offset by -68k paid-promo net adds (vs. our -50k). SIRI maintained its 2017 guidance: self-pay net adds of approximately 1.3m, approximately $5.3b in revenue, approximately $2.025b in adj. EBITDA, and FCF of approximately $1.5b). We have largely maintained our 2017 projections, but review estimate revisions below. The company bought back $459m worth of shares in the quarter, vs. our $500m estimate, and paid $48m in dividends (~9% annualized cash payout). We remain Neutral on Sirius XM as we believe shares already reflect the company's strong EBITDA and FCF growth story, but are encouraged by the company's total cash payout.

- **Remain Neutral, but establish a $5 price target on robust EBITDA/FCF growth and levered equity return buttressed by potential tax reform.** We like the SIRI story, especially its impressive top-line growth and stable EBITDA/FCF generation, but believe shares are fully-valued at a 4.7% FCF yield (fully-taxed). We expect SIRI to post consistent outperformance due to its solid business model (particularly as US auto sales plateau near record levels), strong operating leverage (70% contribution margins) and its beat and raise story. In addition, over the long term SIRI will likely benefit from the growing used car channel (~31% of all used car sales in 2016 included a satellite radio) and burgeoning connected vehicle opportunity. However, we believe there are potential risks around both new and used car momentum and questions regarding the resiliency of growth should new and used car sales slow as a result of macro headwinds. Our new $5 price target implies a 4.5% fully taxed FCF yield as well as a ~9% capital return yield based on $230m in dividends and $1.8b in buybacks in 2017, which are even more favorable given the company's 7% top-line growth.

- **Conservative guidance maintained.** Sirius XM maintained its 2017 financial and subscriber guidance (which has historically been on the conservative side). It continues to look for self-pay net adds of approximately 1.3m, approximately $5.3b in revenues, approximately $2.025b in adj. EBITDA, and approximately $1.5b of FCF. Below we adjust our previous 2017 estimates to reflect the company's guidance.

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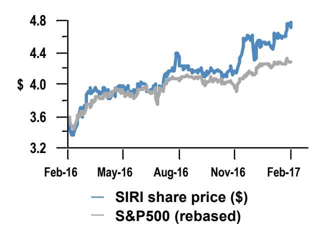
Price Performance



	YTD	1m	3m	12m
Abs	6.7%	6.7%	15.0%	33.1%
Rel	4.8%	4.8%	6.3%	13.2%

Sirius XM Radio Inc. (SIRI;SIRI US)

FYE Dec	2014A	2015A	2016A	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*
EPS - Adjusted ($)							
Q1 (Mar)	0.02	0.02	0.03	0.04	0.04	0.05	0.05
Q2 (Jun)	0.02	0.02	0.03	0.04	0.04	0.05	0.05
Q3 (Sep)	0.02	0.03	0.04	0.04	0.05	0.05	0.05
Q4 (Dec)	0.03	0.03	0.04	0.04	0.04	0.05	0.05
FY	0.08	0.09	0.15	0.17	0.17	0.21	0.20

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	4.75
Date Of Price	02 Feb 17
52-week Range ($)	4.82-3.29
Market Cap ($ mn)	23,024.49
Fiscal Year End	Dec
Shares O/S (mn)	4,847
Price Target ($)	5.00
Price Target End Date	31-Dec-17

See page 8 for analyst certification and important disclosures.

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- **Adjusting our 2017 subscriber estimates to reflect guidance.** New vehicle conversion rate came in at 40% in 4Q16, above our 39% estimate, with new vehicle penetration ticking down to 75% (vs. 76% in 3Q and 78% in 4Q15). We continue to model 75% penetration for 2017 and beyond, but have adjusted our conversion rate lower to 38% in 2017 (from 39% in 2016). This brings our Self-Pay net adds up to 1.4m for the year (vs. guidance of 1.3m). For paid promo adds, we model +11k in 2017 vs. +90k adds in 2016. Overall, we estimate total net adds of 1.4m vs. 1.75m in 2016 and 1.24m previously.

- **Tweaking 2017 financials higher on guidance and strong 4Q ARPU results.** We raise our 2017 revenue estimates to \$5.35b (vs. guidance of approximately \$5.3b) from \$5.31b on flow through of subscriber expectations from above and strong 4Q results. We raise 2017 adj. EBITDA 2% to \$2.031b from \$1.99b previously (vs. guidance of approximately \$2.025b), with a margin of 38.0%, which is up 60bps y/y (vs. implied guidance of +120bps). We maintain our 2017 FCF estimate of \$1.53b (vs. guidance of approximately \$1.5b) as flow through from above is offset by higher capex related to the 2019/2020 satellite launches (management noted an incremental \$50m in satellite-related capital spend in 2017). We continue to estimate \$1.8b worth of share buybacks in 2017 (in-line with 4Q16's run-rate) and still expect ~\$2b in total capital returns in 2017 (\$1.8b in buybacks plus ~\$230m in dividends) – a ~9% cash payout.

- **Management steadfast in its disciplined approach to M&A and strategic options.** Once again SIRI management downplayed interest in Pandora (JPM analyst Doug Anmuth) given concerns about that company's direction, despite what could be construed as 'mixed signals' from Liberty, and reaffirmed its commitment to a disciplined M&A strategy. Management noted that they are focused on strategic options that are scalable, defensible and adjacent to existing core competencies – consistent with its "business models matter stance" – with ample discussion regarding the long-term opportunity in the connected vehicle space. However, management acknowledged the Agero acquisition has exhibited slower growth and required greater funding than initially planned, albeit as a result of streamlining the Agero business model. While SIRI's OEM relationships are a strategic advantage, in our view, the company's appetite for further connected vehicle acquisitions remains in question as Verizon has been more active in the space of late. In terms of streaming audio, SIRI touted its initiatives, including a burgeoning mobile-only initiative, as well as in-house capabilities to replicate a 'Pandora-like' product. While SIRI acknowledges Pandora's achievements (~80m MAUs and mobile capabilities), the company has routinely expressed concerns with Pandora's path to profitability (as interactive music does not generate profits) and core business given the strategic direction.

Figure 1: SIRI 4Q16 Results and 2017 Estimate Changes

	4Q16	3Q16	% Change	4Q16-Prev	% Variance	2017E	2016	% Change	2017E-Prev	% Variance	Guidance
Sirius XM											
Subscribers											
Ending Self-Pay Subscribers	25,951	25,528	1.7%	25,913	0.1%	27,350	25,951	5.4%	27,173	0.7%	
Net adds	**423**	**385**	**9.9%**	**385**	**9.8%**	**1,399**	**1,663**	**-15.9%**	**1,260**	**11.1%**	**1,300**
Ending Paid Promo Subscribers	5,395	5,463	-1.2%	5,413	-0.3%	5,406	5,395	0.2%	5,392	0.3%	
Net adds	**(68)**	**(39)**	**74.4%**	**(50)**	**36.0%**	**11**	**90**	**-87.3%**	**(21)**	**-153.6%**	
Total Ending Subscribers	31,346	30,991	1.1%	31,326	0.1%	32,757	31,346	4.5%	32,565	0.6%	
Net adds	**355**	**346**	**2.6%**	**335**	**5.8%**	**1,411**	**1,753**	**-19.5%**	**1,238**	**13.9%**	
Average self-pay monthly churn	**1.9%**	**1.9%**	**0 bp**	**1.9%**	**(3) bp**	**2.0%**	**1.9%**	**4 bp**	**2.0%**	**(0) bp**	
ARPU (Reported)	**$13.16**	**$13.04**	**0.9%**	**$12.99**	**1.3%**	**$13.09**	**$12.91**	**1.4%**	**$13.04**	**0.4%**	
Revenue											
Subscriber	1,084	1,070	1.3%	1073	1.0%	4454	4197	6.1%	4415	0.9%	
Advertising	39	34	13.5%	39	0.4%	144	138	4.4%	144	0.6%	
Equipment	33	31	4.3%	32	1.2%	126	119	6.2%	125	1.3%	
Other	147	142	3.5%	148	-0.3%	621	563	10.2%	626	-0.9%	
Total Revenue	**1,303**	**1,278**	**2.0%**	**1292**	**0.9%**	**5346**	**5017**	**6.5%**	**5309**	**0.7%**	**5,300**
Costs											
Revenue share and royalties	320	273	17.1%	278	14.8%	1166	1109	5.2%	1166	0.1%	
Programming and content	96	89	7.9%	92	4.7%	393	354	11.0%	390	0.7%	
Customer service and billing	102	95	7.1%	96	5.9%	390	387	0.8%	388	0.7%	
Satellite and transmission	22	22	0.8%	25	-10.4%	104	103	1.0%	104	0.0%	
Cost of equipment	12	10	21.0%	10	17.3%	43	41	4.5%	36	18.6%	
Total cost of services	551	489	12.8%	501	10.0%	2096	1993	5.2%	2083	0.6%	
Subscriber acquisition costs	131	120	9.3%	125	4.7%	483	513	-5.9%	492	-1.9%	
Sales and marketing	107	99	8.3%	110	-2.1%	407	387	5.1%	407	-0.2%	
Engineering, design and development	25	19	27.5%	22	11.8%	88	82	6.5%	88	-0.1%	
General and administrative	92	90	1.9%	93	-1.0%	358	341	4.9%	357	0.2%	
Total SG&A	355	329	8.0%	350	1.5%	1335	1323	0.9%	1344	-0.7%	
Operating cash flow (EBITDA)	**396**	**460**	**-13.9%**	**441**	**-10.0%**	**1915**	**1701**	**12.6%**	**1882**	**1.8%**	
Margin (%)	30.4%	36.0%	(559) bp	34.1%	(369) bp	35.8%	33.9%	191 bp	35.4%	38 bp	
Adj. EBITDA	**475**	**492**	**-3.5%**	**467**	**1.6%**	**2031**	**1876**	**8.3%**	**1989**	**2.1%**	**2,025**
Margin (%)	36.4%	38.5%	(206) bp	36.2%	26 bp	38.0%	37.4%	60 bp	37.5%	52 bp	
Operating Income (EBIT)	**330**	**392**	**-16.0%**	**372**	**-11.5%**	**1647**	**1432**	**15.0%**	**1618**	**1.8%**	
Net Income (Loss)	**205**	**194**	**5.5%**	**184**	**11.2%**	**793**	**743**	**6.8%**	**762**	**4.1%**	
Diluted EPS - adjusted	**$0.04**	**$0.04**	**7.1%**	**$0.04**	**10.1%**	**$0.17**	**$0.15**	**15.3%**	**$0.17**	**3.0%**	
Total Capex	**74**	**65**	**13.1%**	**64**	**15.8%**	**256**	**206**	**24.4%**	**258**	**-0.7%**	
Free Cash Flow	**429**	**357**	**20.4%**	**376**	**14.1%**	**1529**	**1509**	**1.3%**	**1529**	**0.0%**	**1,500**

Source: J.P. Morgan estimates, Company data.

Investment Thesis, Valuation and Risks

Sirius XM Radio Inc. *(Neutral; Price Target: $5.00)*

Investment Thesis

We maintain a Neutral rating on Sirius XM Holdings Inc and establish a Dec 2017 price target of $5. In our view, Sirius XM has a solid business model with high operating leverage and somewhat limited impact from programming costs as a result of the satellite broadcast model, which is different than Internet streaming music. Because of the high operating leverage and low capital intensity, it generates significant free cash flow, which affords it the ability to buy back a significant amount of its shares (as a percentage of its float). However, at the current price, we feel the shares are close to fully valued at 13.9x 2017E EV/EBITDA with a 7.2% FCF yield (un-taxed) vs. 8.3x and 5.1% for Comcast and 13.4x (1.6x excluding spectrum assets) and 3.8% for Dish Network.

Valuation

We introduce a December 2017 price target of $5 for Sirius XM based on our DCF valuation. We estimate a WACC of 7.5% and a perpetual growth rate of 3.0%. Sirius XM currently trades at 13.9x 2017E EV/EBITDA. We show our full discounted cash flow analysis following our earnings and cash flow forecast.

Risks to Rating

Upside Risks

Expect significant share buybacks to continue. With continued strong cash flow generation ($1.5b in 2016 and 2017E) and room for increased leverage, we expect Sirius XM to continue to return capital in the form of share buybacks. We estimate $1.8 billion of share buybacks per year for the foreseeable future, although with Liberty Media owning 3.16 billion shares, or ~67% of shares outstanding, that pace would mean the public's share of the company could be completely bought out by 2020 if it continues through then.

Strong subscriber trends could continue despite a potential slowdown in new car sales as the used car market opens up. With the Federal Reserve expected to raise rates several times before the end of the year, a slowdown in the economy and new car sales may result (particularly as interest rates on auto loans increase). However, the expansion into the used car market, increased used car trials and the higher than expected conversion rate could offset the potential decrease in the new car trial funnel, contributing to a sustained strong subscriber net add trend.

Connected vehicles not a threat to satellite radio; could even benefit. We don't expect the emergence of connected vehicles to be a threat to satellite radio as the high cost of cellular data and variable coverage will largely prohibit consumers from supplanting terrestrial or satellite radio with Internet streaming music in the car. Our view is further strengthened by the fact that consumers have had the ability to stream Internet music in the car through their smartphones for the past few years, and yet Sirius XM's subscribership has continued to grow. On the contrary, Sirius XM expects to benefit from connected vehicles as they should allow the company, for the first time, to receive feedback on what its subscribers are listening to, allowing it to improve the service and potentially start selling local advertising.

Downside Risks

Economic slowdown could force cutback on consumer discretionary spending, new car sales, resulting in a loss of subscribers. While the company saw the effects of the Great Recession lag those of other industries and it recovered before other industries (U.S. auto sales declined from 16 million cars in 2007 to 10 million in 2009), churn nonetheless spiked to 2.2% in 1Q09 and trended around 2.0% until 2Q10, while gross adds were less than two-thirds today's level. Should the U.S. economy experience another recession, it would not be surprising to see churn increase from the 1.9% in 3Q15 to 2.0% or above, while gross adds will most likely decrease as new car sales decline. This could then potentially result in a loss of subscribers instead of the gains that we model for the next few years.

Liberty Media and public Sirius XM shareholders' interests could diverge. Liberty Media is the majority owner of Sirius XM, with ~65% ownership of the shares (and the ownership is steadily increasing as a result of SIRI's share buybacks). Should Liberty Media decide to pursue acquisitions in the cable or media space, it could potentially lever up Sirius XM to fund such transactions. These transactions would diminish Sirius XM's ability to return capital to shareholders. Alternatively, given the implied discount of Liberty Media shares to Sirius XM shares, Sirius XM could be directed to buy Liberty Sirius XM shares with its buyback funds instead of public Sirius XM shares.

Sponsored data could induce consumption of Internet streaming music in the connected car, offering consumers a free substitute product. While we don't believe Internet streaming radio in the connected car poses a competitive threat to Sirius XM, primarily due to the high cost of cellular data, should another company decide to pay for the data on behalf of its subscribers (i.e., sponsored data), it could potentially draw consumers away from a paid satellite radio subscription.

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Figure 2: SIRI Valuation Summary

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	CAGR 15-25E
Revenue																
Subscriber revenue	2,595	2,963	3,285	3,554	3,825	4,197	4,454	4,682	4,883	5,032	5,157	5,297	5,446	5,604	5,768	4.2%
% growth, YoY		14.1%	10.9%	8.2%	7.6%	9.7%	6.1%	5.1%	4.3%	3.1%	2.5%	2.7%	2.8%	2.9%	2.9%	
Advertising revenue	74	82	89	101	122	138	144	158	171	183	195	208	222	238	254	7.6%
% growth, YoY		11.7%	8.5%	13.1%	21.1%	13.0%	4.4%	9.3%	8.4%	7.1%	6.5%	6.7%	6.8%	6.9%	7.0%	
Equipment revenue	71	73	81	105	111	119	126	125	122	120	119	118	116	115	114	0.2%
% growth, YoY		3.4%	9.7%	29.9%	6.0%	7.2%	6.2%	-1.3%	-2.0%	-2.0%	-0.6%	-1.1%	-1.1%	-1.1%	-1.2%	
Other revenue	274	284	345	421	512	563	621	676	730	781	832	887	948	1,012	1,082	7.8%
% growth, YoY		3.4%	21.5%	22.2%	21.6%	10.0%	10.2%	8.8%	8.1%	7.0%	6.5%	6.7%	6.8%	6.9%	6.9%	
Total revenue	**3,015**	**3,402**	**3,799**	**4,181**	**4,570**	**5,017**	**5,346**	**5,640**	**5,907**	**6,117**	**6,302**	**6,510**	**6,733**	**6,969**	**7,218**	4.7%
% growth, YoY		12.9%	11.7%	10.1%	9.3%	9.8%	6.5%	5.5%	4.7%	3.6%	3.0%	3.3%	3.4%	3.5%	3.6%	
Operating Expenses																
Total cost of services	1,121	1,229	1,394	1,608	1,843	1,993	2,096	2,262	2,360	2,437	2,507	2,585	2,668	2,756	2,849	4.5%
% of revenue	37.2%	36.1%	36.7%	38.5%	40.3%	39.7%	39.2%	40.1%	40.0%	39.8%	39.8%	39.7%	39.6%	39.5%	39.5%	
Total SG&A	949	1,034	1,107	1,187	1,276	1,323	1,335	1,358	1,375	1,381	1,389	1,398	1,407	1,418	1,430	1.1%
% of revenue	31.5%	30.4%	29.1%	28.4%	27.9%	26.4%	25.0%	24.1%	23.3%	22.6%	22.0%	21.5%	20.9%	20.4%	19.8%	
Adj. EBITDA (reported)	**731**	**920**	**1,166**	**1,468**	**1,658**	**1,876**	**2,031**	**2,150**	**2,302**	**2,429**	**2,537**	**2,658**	**2,788**	**2,925**	**3,069**	6.4%
% growth, YoY		25.9%	26.7%	25.9%	12.9%	13.2%	8.3%	5.9%	7.1%	5.5%	4.4%	4.8%	4.9%	4.9%	4.9%	
Cash EBITDA margin	24.2%	27.1%	30.7%	35.1%	36.3%	37.4%	38.0%	38.1%	39.0%	39.7%	40.3%	40.8%	41.4%	42.0%	42.5%	
Depreciation	268	266	253	266	272	269	268	266	282	296	302	306	307	307	306	
EBITA	463	654	913	1,201	1,385	1,607	1,763	1,884	2,020	2,132	2,234	2,352	2,480	2,618	2,764	7.2%
Taxes paid	(14)	2,998	(260)	(338)	(382)	(349)	(529)	(559)	(615)	(680)	(739)	(808)	(883)	(964)	(1,040)	
% of EBT	3.2%	-631.9%	39.5%	40.6%	42.9%	31.9%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	
% of revenue	0.5%	-88.1%	6.8%	8.1%	8.4%	7.0%	9.9%	9.9%	10.4%	11.1%	11.7%	12.4%	13.1%	13.8%	14.4%	
Interest expense	(305)	(265)	(205)	(269)	(299)	(331)	(325)	(356)	(352)	(303)	(256)	(203)	(143)	(78)	(34)	
Interest coverage ratio ((EBITDA-Capex)/Int Expense)	1.9x	3.1x	4.8x	5.0x	5.1x	5.0x	5.5x	5.3x	5.8x	7.1x	8.9x	11.8x	17.6x	34.4x	83.3x	
Capital Expenditures	**137**	**97**	**174**	**122**	**135**	**206**	**256**	**266**	**267**	**266**	**264**	**262**	**260**	**257**	**255**	6.6%
Capital expenditures/revenue	4.6%	2.9%	4.6%	2.9%	3.0%	4.1%	4.8%	4.7%	4.5%	4.3%	4.2%	4.0%	3.9%	3.7%	3.5%	
% growth, YoY		-37.3%	59.8%	-36.3%	1.5%	39.0%	16.7%	-1.5%	-4.2%	-3.8%	-3.7%	-3.9%	-4.1%	-4.2%	-4.4%	
Unlevered Free Cash Flow	655	931	1,058	1,318	1,445	1,823	1,815	1,884	1,722	1,484	1,534	1,588	1,645	1,703	1,775	2.1%
% growth, YoY		42.3%	13.7%	24.6%	9.6%	26.2%	-0.5%	3.8%	-8.6%	-13.9%	3.4%	3.6%	3.6%	3.5%	4.2%	
Yield	3.1%	4.4%	5.0%	6.2%	6.8%	8.5%	8.5%	8.8%	8.1%	6.9%	7.2%	7.4%	7.7%	8.0%	8.3%	
Levered Free Cash Flow	**389**	**702**	**875**	**1,089**	**1,146**	**1,501**	**1,500**	**1,528**	**1,371**	**1,180**	**1,278**	**1,386**	**1,502**	**1,626**	**1,741**	4.3%
% growth, YoY		80.4%	24.7%	24.3%	5.3%	31.0%	-0.1%	1.9%	-10.3%	-13.9%	8.3%	8.5%	8.4%	8.3%	7.1%	
Yield	1.8%	3.3%	4.1%	5.1%	5.4%	7.0%	7.0%	7.2%	6.4%	5.5%	6.0%	6.5%	7.0%	7.6%	8.2%	
Earnings per share (diluted)	$0.06	$0.53	$0.06	$0.08	$0.09	$0.15	$0.17	$0.20	$0.23	$0.25	$0.27	$0.30	$0.33	$0.36	$0.38	15.1%
% growth, YoY		726.4%	-88.4%	33.4%	13.9%	59.0%	15.3%	15.6%	13.8%	10.4%	8.8%	9.3%	9.3%	9.2%	7.9%	
Dividends	0	(327)	0	0	0	48	233	344	325	325	325	325	325	325	325	
Dividend per share (diluted)	$0.00	($0.07)	$0.00	$0.00	$0.00	$0.01	$0.05	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	
Yield	0.0%	-1.5%	0.0%	0.0%	0.0%	0.2%	1.1%	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	
Payout ratio	0.0%	44.9%	0.0%	0.0%	0.0%	3.2%	15.2%	22.6%	23.8%	27.7%	25.6%	23.6%	21.7%	20.1%	18.7%	
EOY Net Debt	1,911	1,705	3,456	4,354	5,337	5,634	6,138	6,761	5,723	4,875	3,929	2,875	1,705	412	412	
Net debt to TTM adj. EBITDA	2.6x	1.9x	3.0x	3.0x	3.2x	3.0x	3.0x	3.1x	2.5x	2.0x	1.5x	1.1x	0.6x	0.1x	0.1x	
Share repurchase	0	0	1,762	2,497	2,016	1,673	1,800	1,800	0	0	0	0	0	0	0	
End of period share count	6,501	6,635	6,204	5,644	5,248	4,847	4,443	4,060	4,060	4,060	4,060	4,060	4,060	4,060	4,060	

Private Market Valuation Summary	2017E
NPV of EBITDA 18E--25E	14,988
NPV of taxes paid 18E --25E	(4,452)
NPV of capex 18E --25E	(1,538)
NPV of free cash flow 18E --25E	8,998
NPV of 2525 terminal value	23,067
PMV of operations	**32,065**
NPV of NOLs	772
Net debt, end of period	(6,138)
PMV of equity	**26,698**
Basic shares outstanding	4,592
Shares to be issued from converts/warrants/options	66.2
Fully diluted shares outstanding	4,658
DCF Value per Share	$5.73
Private to public discount	20%
Fair Value per share	**$4.59**
Annual dividend	$0.05
Upside to Fair Value	-3.5%

Price Multiples @ $ 4.75	EV ($b) 23,339	2015	2016E	2017E	2018E	2019E	2020E
Current EV/EBITDA	28.26	17.1x	15.1x	13.9x	13.1x	12.3x	11.6x
Current P/E		50.4x	31.7x	27.5x	23.8x	20.9x	18.9x
Current FCF Yield		5.3%	6.6%	7.2%	7.9%	7.1%	0.0%
Target EV/EBITDA	27.50	16.6x	14.7x	13.5x	12.8x	11.9x	11.3x
Target P/E		48.7x	30.6x	26.5x	23.0x	20.2x	18.3x
Target FCF Yield		5.5%	6.8%	7.5%	8.2%	7.3%	0.0%

SiriusXM Valuation Grid - DCF Value of Equity
Terminal Growth Rate (across) on 2025E EBITDA, Discount Rate (down)

	2.0%	2.5%	3.0%	3.5%	4.0%
7.00%	4.3	4.7	5.3	6.0	6.9
7.25%	4.0	4.4	4.9	5.5	6.3
7.50%	3.8	4.2	**4.59**	5.1	5.8
7.75%	3.6	3.9	4.3	4.8	5.4
8.00%	3.4	3.7	4.0	4.4	5.0

Valuation Based on Forward FCF Multiple

	2015	2016E	2017E	2018E	2019E	2020E
Adj. EBITDA	1,658	1,876	2,031	2,150	2,302	2,429
Less: Cash capex	(135)	(206)	(256)	(266)	(267)	(266)
Less: taxes	(17)	(25)	0	0	(313)	(680)
Less: Change in Working Capital	(61)	179	40	0	0	0
Less: Interest expense	(299)	(331)	(325)	(356)	(352)	(303)
Levered Free Cash Flow	1,315	1,509	1,529	1,521	1,363	1,173
FCF / diluted share	$0.25	$0.31	$0.34	$0.37	$0.34	$0.29
FCF Yield	5.3%	6.6%	7.2%	7.9%	7.1%	6.1%
EV/FCF	21.5x	18.7x	18.5x	18.6x	20.7x	24.1x
FCF / share fully taxed	$0.18	$0.24	$0.23	$0.24	$0.26	$0.29
Fully taxes FCF Yield	3.8%	5.1%	4.7%	5.0%	5.5%	6.1%

Valuation Grid - year-end value per share

Free Cash Flow Multiple	2015E	2016E	2017E
12.0x	$3.0	$3.7	$4.1
13.0x	$3.3	$4.0	$4.5
14.0x	$3.5	**$4.36**	$4.8
15.0x	$3.8	$4.7	$5.2
16.0x	$4.0	$5.0	$5.5

Source: J.P. Morgan estimates, Company data.

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Sirius XM Radio Inc.: Summary of Financials

Income Statement - Annual	FY16A	FY17E	FY18E
Revenues	**5,017**	**5,346**	**5,640**
Cost of Revenues	(1,993)	(2,096)	(2,262)
Gross Profit	**-**	**-**	**-**
Other operating expenses	-	-	-
Operating income	**1,432**	**1,647**	**1,753**
EBITDA	**1,701**	**1,915**	**2,020**
Non-Operating Income/(Expenses)	-	-	-
Pre-tax Income	**1,092**	**1,322**	**1,398**
Income Taxes	(349)	(529)	(559)
Tax rate	31.9%	40.0%	40.0%
Net income recurring	**743**	**793**	**839**
Diluted shares outstanding	4,958	4,592	4,198
EPS	0.15	0.17	0.20
EPS - consensus (I/B/E/S)	0.15	0.18	0.22
EBITDA - consensus	1,861	2,054	2,181

Income Statement - Quarterly	1Q17E	2Q17E	3Q17E	4Q17E
Revenues	**1,301**	**1,321**	**1,347**	**1,377**
Cost of Revenues	(514)	(514)	(514)	(555)
Gross Profit	**-**	**-**	**-**	**-**
Other operating expenses	-	-	-	-
Operating income	**407**	**418**	**425**	**397**
EBITDA	**474**	**485**	**492**	**464**
Non-Operating Income/(Expenses)	-	-	-	-
Pre-tax Income	**328**	**338**	**343**	**314**
Income Taxes	(131)	(135)	(137)	(125)
Tax rate	40.0%	40.0%	40.0%	40.0%
Net income recurring	**197**	**203**	**206**	**188**
Diluted shares outstanding	4,745	4,643	4,541	4,443
EPS	0.04	0.04	0.05	0.04
EPS - consensus (I/B/E/S)	0.04	0.05	0.05	0.05
EBITDA - consensus	492	504	526	516

Cash Flow Data and Balance Sheet	FY16A	FY17E	FY18E
Net income (including charges)	746	793	839
D&A	269	268	266
Other Adjustments	526	684	682
Change in working capital	179	40	0
Cash flow from operations	**1,719**	**1,785**	**1,787**
Capex	(206)	(256)	(266)
Free cash flow	**1,739**	**1,724**	**1,734**
Free cash flow / share	**0.35**	**0.38**	**0.41**
Dividends paid	(48)	(233)	(344)
Dividend yield	0.2%	1.1%	1.7%
Payout Ratio	6.7%	28.9%	40.0%
Cash and cash equivalents	214	214	214
Accounts receivable	223	223	223
Current assets	**643**	**643**	**643**
PP&E	1,399	1,387	1,387
Total assets	**8,004**	**7,992**	**7,992**
Short term Debt	5	5	5
Current Liabilities	2,669	2,669	2,669
Long term Debt	5,843	6,347	6,970
Total liabilities	8,789	9,293	9,916
Shareholders' equity	**(792)**	**(1,301)**	**(1,924)**

Ratio Analysis	FY16A	FY17E	FY18E
Sales growth	9.8%	6.5%	5.5%
EBITDA growth	17.2%	12.6%	5.5%
EBIT growth	21.5%	15.0%	6.5%
Net Income growth	45.7%	6.8%	5.7%
EPS growth	59.0%	15.3%	15.6%
Gross margin	-	-	-
EBIT margin	28.5%	30.8%	31.1%
EBITDA margin	33.9%	35.8%	35.8%
Net margin	14.8%	14.8%	14.9%
Free Cash Flow Margin	34.7%	32.3%	30.7%
Net debt / EBITDA	331.2%	320.6%	334.8%
Debt / Capital (book)	109.0%	121.5%	133.9%
Enterprise value / Revenues	5.7	5.5	5.3
Enterprise value / EBITDA	16.9	15.3	14.8
P/E	31.7	27.5	23.8

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

Other Companies Discussed in This Report (all prices in this report as of market close on 02 February 2017)
Pandora Media Inc (P/$13.00/Overweight)

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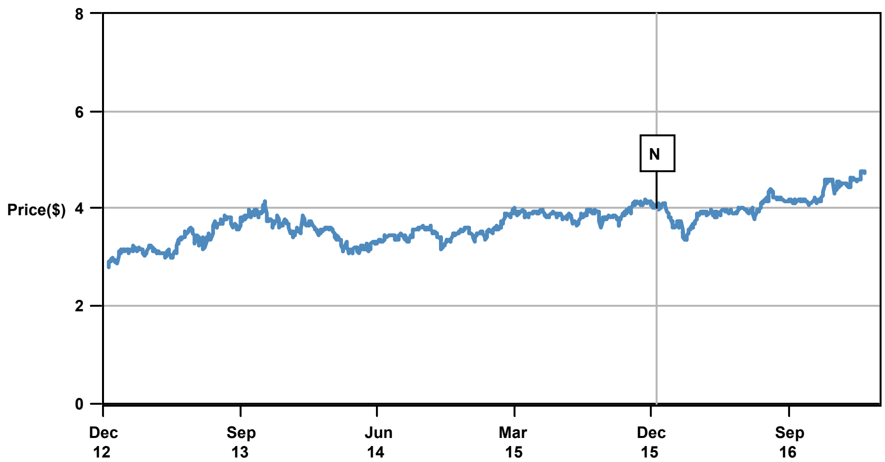
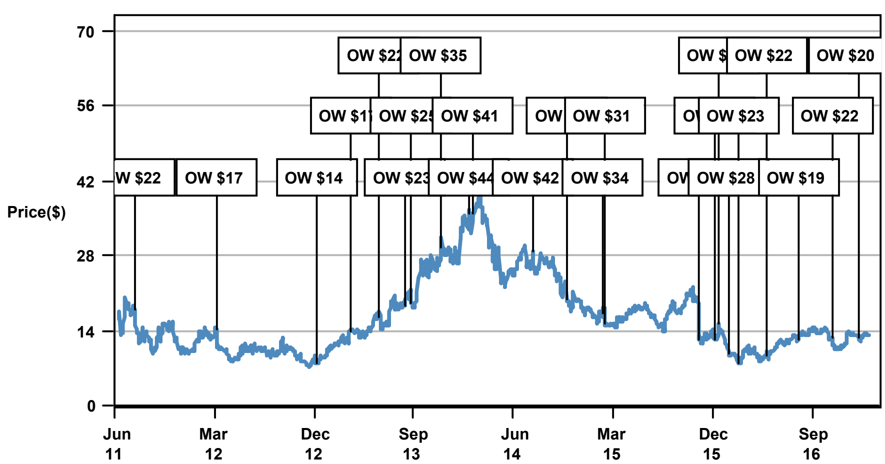
Sirius XM Radio Inc. (SIRI, SIRI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 14, 2015.

Date	Rating	Share Price ($)	Price Target ($)
14-Dec-15	N	4.00	--

Pandora Media Inc (P, P US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 25, 2011.

Date	Rating	Share Price ($)	Price Target ($)
25-Jul-11	OW	17.81	22.00
07-Mar-12	OW	14.27	17.00
05-Dec-12	OW	7.80	14.00
08-Mar-13	OW	13.79	17.00
24-May-13	OW	16.43	22.00
07-Aug-13	OW	18.64	23.00
23-Aug-13	OW	18.91	25.00
15-Nov-13	OW	29.47	35.00
31-Jan-14	OW	36.07	44.00
06-Feb-14	OW	35.83	41.00
25-Jul-14	OW	28.72	42.00
24-Oct-14	OW	20.00	35.00
03-Feb-15	OW	17.40	34.00
06-Feb-15	OW	15.24	31.00
23-Oct-15	OW	12.39	27.00
07-Dec-15	OW	12.26	25.00
17-Dec-15	OW	15.26	30.00
14-Jan-16	OW	9.90	28.00
12-Feb-16	OW	8.00	23.00
29-Apr-16	OW	9.44	22.00
22-Jul-16	OW	12.28	19.00
24-Oct-16	OW	12.64	22.00
03-Jan-17	OW	12.72	20.00

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IB clients*	52%	48%	34%
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*Percentage of investment banking clients in each rating category.
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