

XM & Sirius Merger?

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EEP 142 – Industrial Organization

Recent News

- February 19, 2007 announced merger
- “Sirius Plans to Buy XM in \$4.6B Stock Deal”

» Reuters 20 Feb 2007

Recent News cont.

- **Sirius, XM expect deal to close by end 2007**
- Tue Feb 20, 2007 1:45 PM GMT
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- NEW YORK (Reuters) - Sirius Satellite Radio Inc. (SIRI.O: [Quote](#), [Profile](#), [Research](#)) and XM Satellite Radio Holdings Inc. (XMSR.O: [Quote](#), [Profile](#), [Research](#)) expect their merger to close by the end of 2007, according to presentation slides for an analysts' conference call on Tuesday.
- The two companies expect shareholders to vote on the deal in four to six months and expect to receive regulatory approval in about nine months, according to the slides.
- Sirius plans to buy rival XM for \$4.6 billion in stock, but U.S. Federal Communications Commission Chairman Kevin Martin said on Monday the deal would face a tough time winning regulatory approval.
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Similar Merger Attempt

- Direct TV & Dish Network
- FCC rejected push for satellite media merger
 - Why?
 - How is the XM/Sirius merger different?

XM Radio: A Background

- NASDAQ: XMSR
- Founded in 1988 as American Mobile Radio Corp.
- HQ in DC
- Services in US & Canada
- 73 music, 83 news/entertainment channels

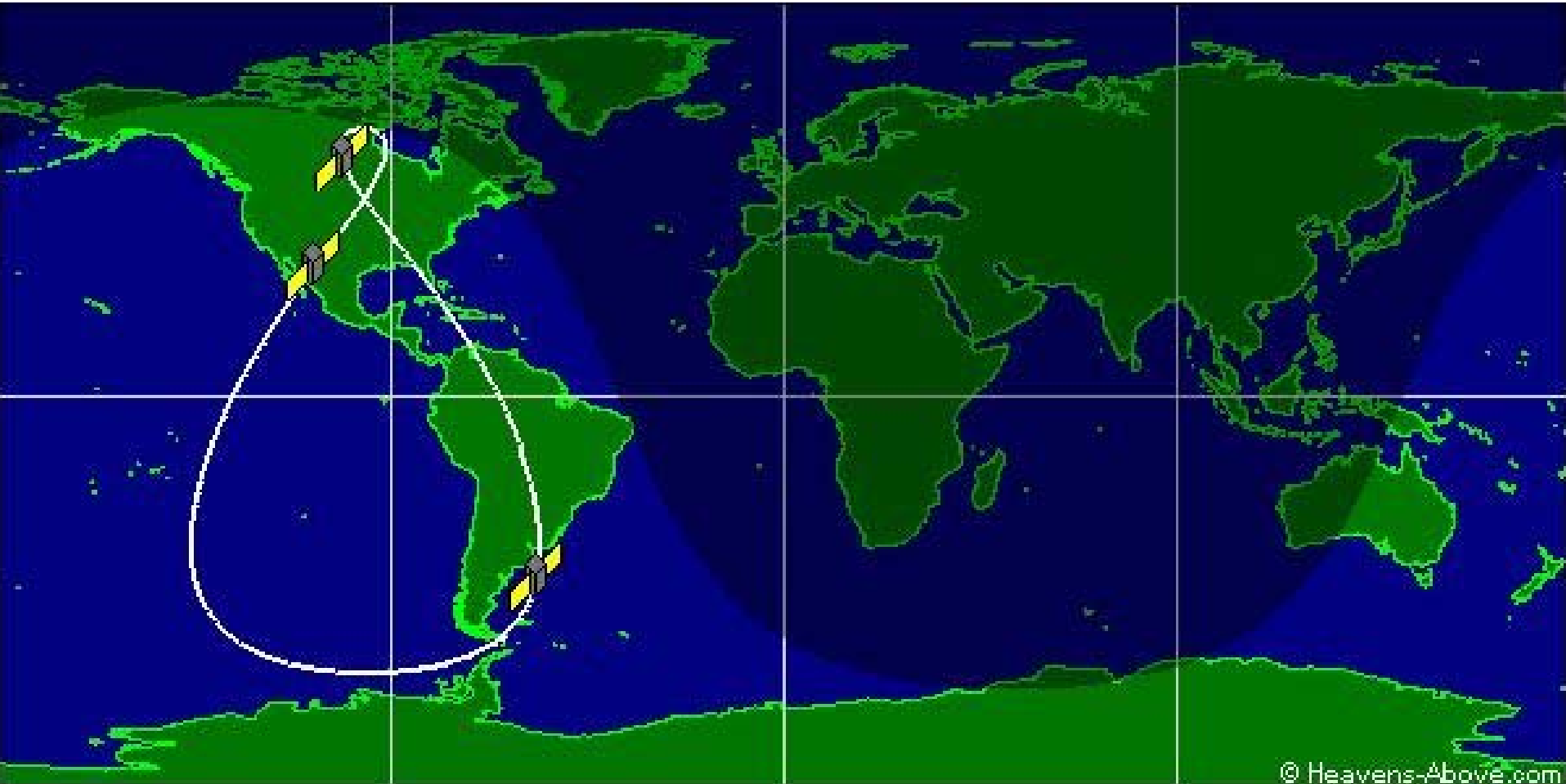


Sirius Satellite Radio

- HQ in NYC (seriously)
- 69 music, 65 news/entertainment channels
- Formerly known as Satellite CD Radio Inc. but changed name to Sirius Satellite Radio



Sirius Satellites



Products, Products!



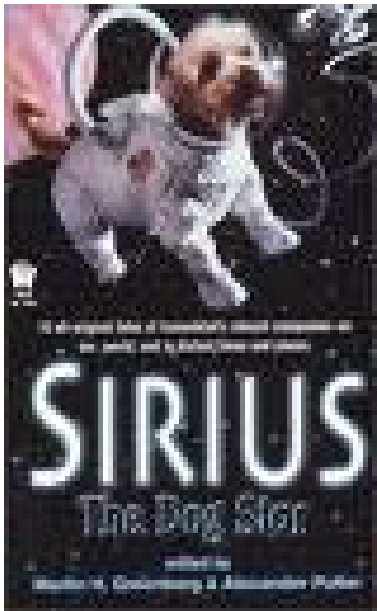
- XM Radio
- Home theater system
- Car stereo
- Portable player
- Plug-&-Play hybrids
- XM online



- Sirius Satellite Radio
- Home theater system
- Car stereo
- Portable player
- Plug-&-Play hybrids
- Sirius Internet Radio

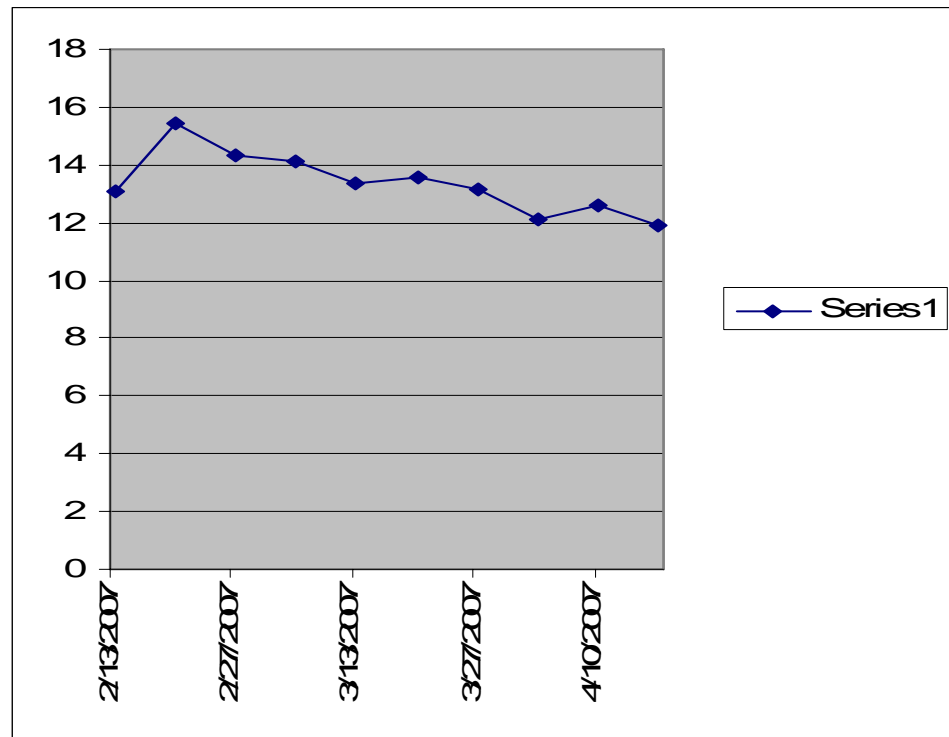


www.sirius.com



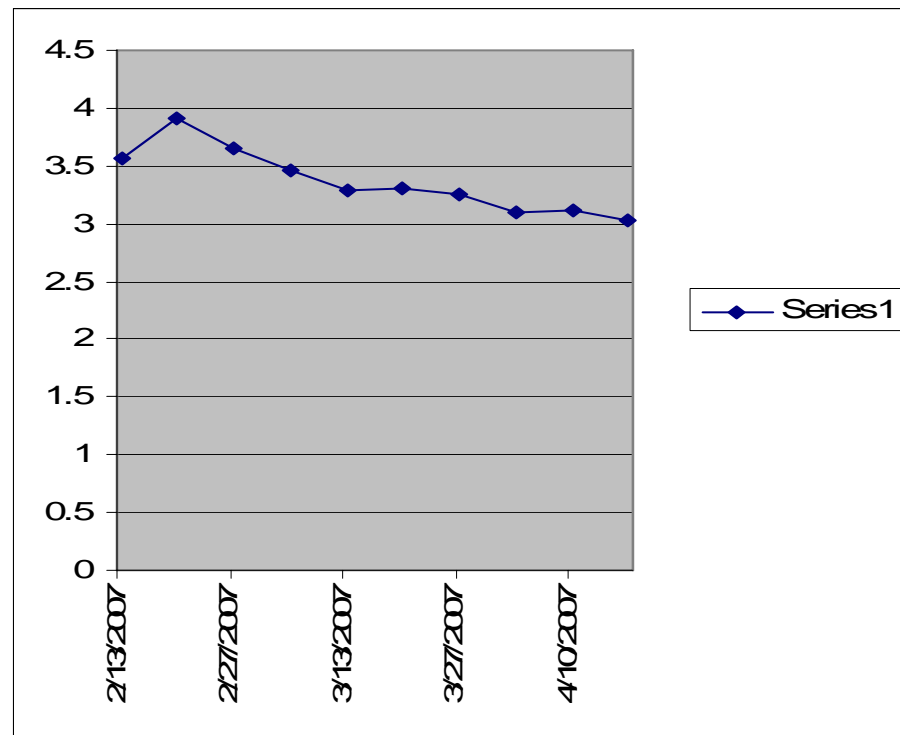
XM Stock Prices – Before & After

<i>Date</i>	<i>Day</i>	<i>Price</i>	<i>P delta</i> %	<i>Vol. mil</i>	<i>V delta</i> %
13-Feb	T	13.06		6.72	
20-Feb	T	15.41	0.179939	81.16	11.07738
27-Feb	T	14.32	(0.0707)	13.22	(0.8371)
6-Mar	T	14.14	(0.0126)	13.93	0.0537
13-Mar	T	13.35	(0.0559)	4.56	(0.6726)
20-Mar	T	13.54	0.0142	5.59	0.2259
27-Mar	T	13.17	(0.0273)	3.47	(0.3792)
3-Apr	T	12.14	(0.0782)	7.12	1.0519
10-Apr	T	12.6	0.0379	-	
17-Apr	T	11.9	(0.0556)	-	

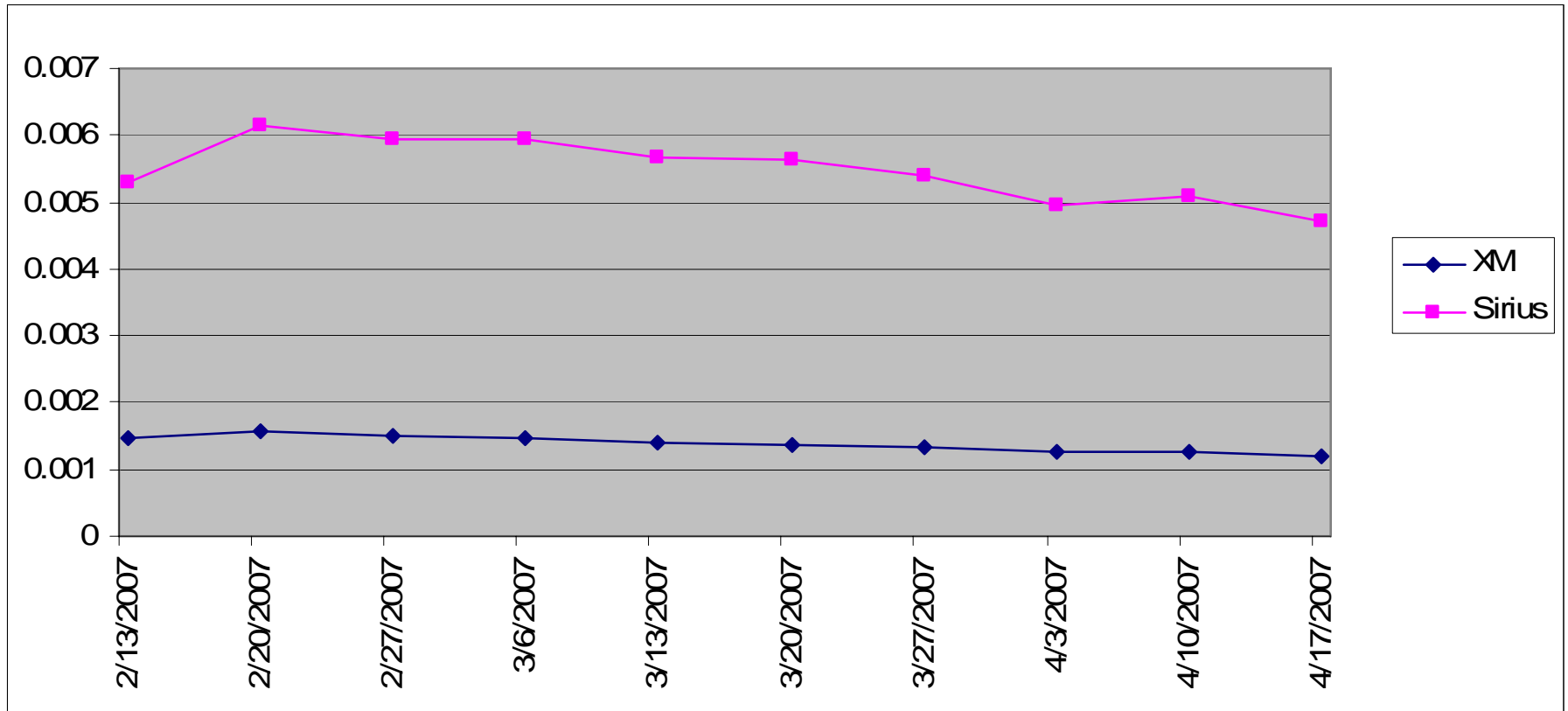


Sirius Stock Prices – Before & After

Date	Day	Price	P delta %	Vol. mil	V delta %
13-Feb	T	3.57		24.48	
20-Feb	T	3.92	0.098039	260.82	9.654412
27-Feb	T	3.65	(0.0689)	72.15	(0.7234)
6-Mar	T	3.47	(0.0493)	79.45	0.1012
13-Mar	T	3.29	(0.0519)	37.07	(0.5334)
20-Mar	T	3.31	0.0061	44.53	0.2012
27-Mar	T	3.26	(0.0151)	20.15	(0.5475)
3-Apr	T	3.09	(0.0521)	45.32	1.2491
10-Apr	T	3.12	0.0097	-	
17-Apr	T	3.03	(0.0288)	-	



Stock Prices - Normalized



A Duopoly into a Monopoly?

- We have a duopoly within satellite radio
- Do they have market power?
- How will market power change after merger?
- How would the two-set of current subscribers be treated?
 - Few years still keep services separate
 - Slowly phase out one & replace losing side

Competition Landscape

- AM
- FM
- HD Radio
- Digital Radio
- Podcasts
- CD/Cassettes



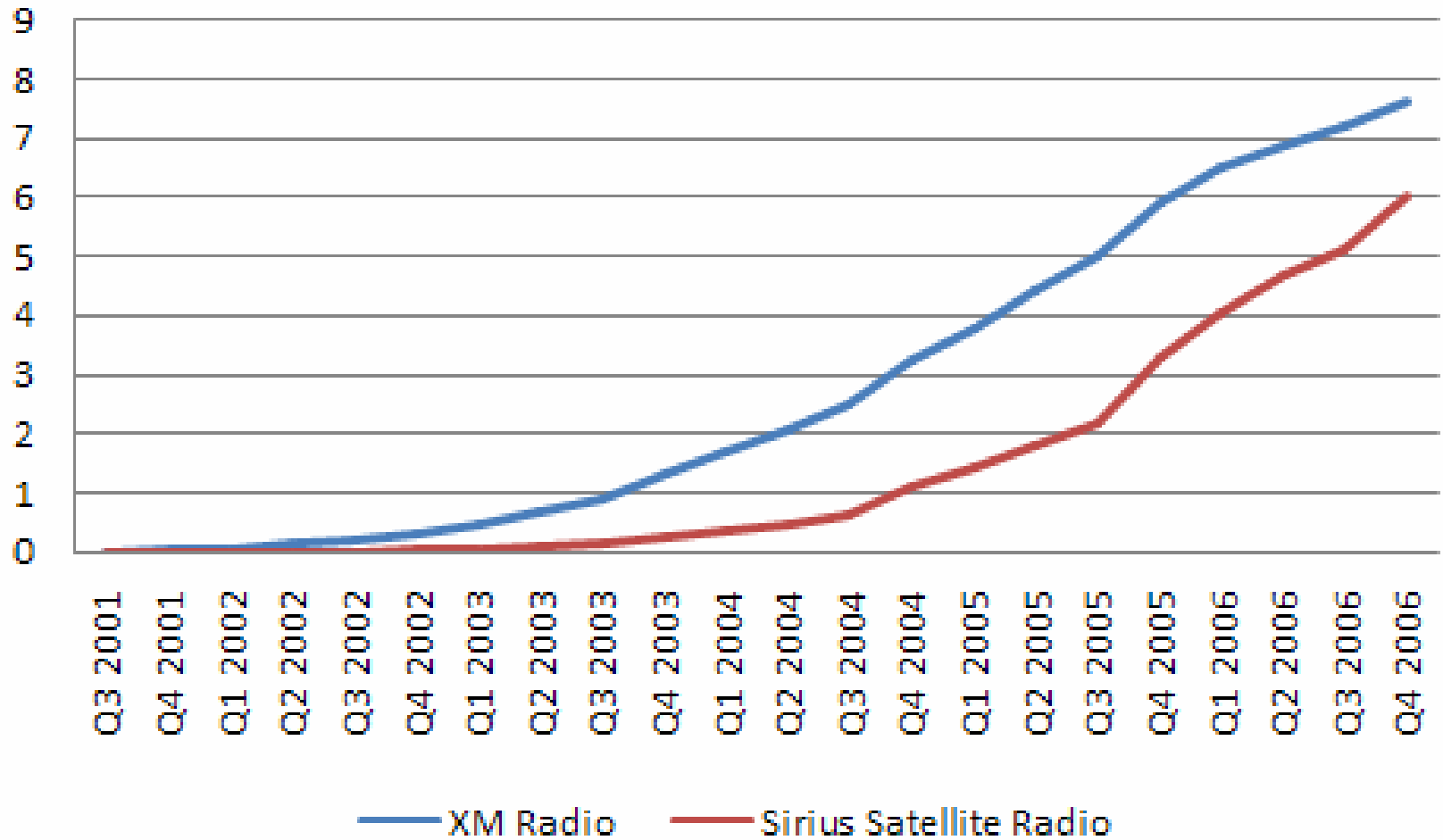
Market Power & Product Differentiation?

- Do consumers really believe that satellite radio is different?
- If so, why?
 - Little to no commercials
 - Greater selection (e.g., choice of NFL games to listen to)
 - Quality
 - Exclusive access (e.g., Howard Stern)
 - XM & Sirius subscription & equipment are similar

Notable Unholy Alliances

- XM & Napster
- XM & JetBlue & DirecTV
- XM & AirTran Airways
- XM & Zipcar
- XM & DirecTV
- XM & AOL Radio (free limited)
- XM & Winamp
- Exclusive satellite right to all NHL games
- Sirius & Howard Stern
- Sirius & Martha Stewart
- Exclusive satellite rights to all NFL, CFL & NBA games

The Great Race



Moral of the Story

- Don't buy XM & Sirius because of merger rumors
- This stuff is expensive for college students (so get it illegally – but don't get caught)
- The merger is uncertain
- And most importantly...

