

Corporate finance merger analysis sirius xm radio assignment

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Introduction

This report is about the creation of the satellite radio industry, and its only
two operating companies Sirius Satellite Radio, and XM Radio. These
companies, despite obvious duopoly advantages and some early successes,
were too heavily laden with debt, resulting in a controversial merger worth
billions. Even after the merger the company struggled to cope. I chose this
company because of the interesting nature of these two companies with an
immediate duopoly of the newly created industry, and the controversial
nature of the decision that allowed them to merge. History of the industry

The digital radio industry began with the creation of digital audio radio
service (dars) which was established by the fcc in 1992 by reserving certain
segments of radio frequency for satellite broadcast onto the radio. An
auction was held in 1997 after 5 years of negotiations with four competitors,
after which only two companies were licensed for use of these frequencies,
both of which paid around 90m us dollars. History of the companies Xm radio
Xm radio, formerly known as american mobile radio began broadcasting in
september 2001 using their two geostationary satellites “ rock” and “ roll”.

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Within months fortune magazine named xm radio product of the year, was named invention of the year by Time, and “ best of whats new” from popular science, among a myriad of others. By 2002 XM broadcast to the entire united states, but were severley hindered by a defective sattelite, which their insurance company refused to pay 400m dollars for its replacement. this led to a 500m dollar loss in 2002. By 2003 xm radio was outselling subscriptions 5 fold to its only competitor Sirius, while simultaneously keeping its costs at a fraction of that of Its rival. In 2004 xm contracted bob edwards, a popular national radio host, to boost subscriptions.

This was followed shortly by a 650m dollar contract for radio broadcast rights for major league baseball. Also in 2004 the comapny developed a walkman sized reciever unit, months ahead of the technological capabilities of its rival Sirius. Xm increased its subscriptions to 3 million by the end of 2004, triple that of Sirius. Despite its relative success xm radio still reported losses of more than 640m dollars that year. Half of Xm radios subscribers came from a contract with General Motors, which gave free subscription for a month with the option of renewal.

Xm later introduced xm wx satellite weather datacasting for pilots and a navigation system compatiible with all types of vehicle, as well as signing oprah winfrey and snoop dogg to lucrative contracts. Sirius Sirius Satellite radio, formerly known as CD Radio, began broadcasting in 2002. It had nationwide coverage by the end of 2002. Following a low subscriber level in its first several years, 1 million at the end of 2004, Sirius signed the

previously banned explicit radio host Howard Stern to an exclusive broadcasting contract for a reported 500m dollars.

Sirius also entered into contracts with microsoft, in an effort to broadcast video data to cars, ie. television This provided a huge amount of much needed publicity for Sirius and the Industry as a whole. Later signings by sirius include Martha Stewart. In response to Xm radios success in league with GM, Sirius forged a deal with ford to provide radio systems for 20 lines of car. Sirius also followed Xm's example when they signed a contract for broadcasting rights for the NFL, the USA's most followed league. They later signed broadcast contracts with both NBA (national basketball league) and Nascar. n 2007 the two companies announced their intentions to merge, immediately dropping share prices by about 40% each. Both companies traded on the NASDAQ, with XM Radio trading at 12 dollars per share while Sirius traded at 2. 90 dollars per share although this later raised 3. 15 and . 25 dollars respectively, when the fcc granted the merger 16 months later.

Type of merger In 2007 Sirius began the process of a 5 billion dollar acquisition of XM Radio holdings inc. This was finalised in 2008 after a 16 month FCC deliberation.

The companies had a duopoly of the sattelite radio market, and their horizontal merger effectively monopolised the industry. The merger combined their customers, and now the single company Sirius XM Radio services more than 18 million subscribers. Reasons for merger Mel Karmazin, legendary entertainment and radio mogul and ceo of Sirius said “ the merger is crucial to the financial stability and even maybe the survival of both

companies” Cost As both companies will operate independently, the cost of licensing the broadcast material will be drastically reduced, as duplication of contracts will be eliminated.

The amount of staff required to run the company also takes a large decrease. A merger also negates the needs of both companies from employing extra satellites as now the 5 satellites currently used between them, are more than enough for total coverage. Advertising costs would also be consolidated, as would marketing and administration costs, further saving the company sizeable amounts. Variety Although some duplicate programming exists, subscribers of both entities will receive a major bolster in program variety. New Development

With the industries only two competitors merging, not only does each get to stop pumping money into R and D to compete with the other, but the R and D funding can effectively be doubled as both firms pool resources to reach far greater levels of advancement. This synergy between the two rivals could finally make the industry a profitable one. Competition With huge losses reported by both firms, and rumours of bankruptcy tainting both, board members of the firms say that merger was the best option to avoid that inevitability. Shareholder reaction

The companies both had a shareholder vote on November 13 2007. The results were overwhelming as more than 96% of Sirius’s shareholders voted for the acquisition, while 99.8% of XM Radio’s shareholders also wanted the merger. XM chairman Gary Parsons made a statement at the end of the vote “ Today’s vote is the latest demonstration of the strong support for our

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merger from a wide range of individuals and prestigious organizations who recognize the benefits that a merger will bring to consumers". The terms of the merger state all XM shareholders will receive 4. shares of Sirius common stock for each share of XM, an announcement that in one day sent shareprices of XM skyrocketing by 10% and Sirius by 6. 5%. Finance The merger of ' equals' will form a 13 billion dollar entity that will be owned 50% by the shareholders of each firm once stock is traded. Sirius is still however paying a price of 5billion. The combined entity expects cost savings of about \$400m in 2009 and pre interest and tax earnings to exceed \$300m. This is expected to finally achieve positive cash flow. Regulation authority/ wider reactions Several democrat congressmen opposed the measure as anticompetitive. The merger made the company a defacto monopoly. Democratic representative Edward markey, who heads the house energy subcommittee on telecoms, slated the bush administration for its leniency with telecoms mergers. Chairman of an important antitrust subcommittee, senator Herb kohl said the deal would " create an satellite radio monopoly" which was contrary to capitalism. A spokesman for the nonprofit organization which publishes consumer report magazine also criticized the decision saying " if this is what our competition cops do, we might as well close shop and save taxpayers a couple hundred million dollars because they're not doing their jobs. In opposition, mr. Barnett, the head of the justice departments antitrust division insisted the merger was not creating a monopoly because listeners had many other choices of programming, which were increasing in number all the time. The Antitrust division announced that the merger was approved after they determined prices were unlikely to rise,

in part because of competition from other sources like HD radio as well as Ipods and other mp3s, meaning the deal was unlikely to hurt competition or consumers.

Thomas Barnett, assistant attorney general announced after the decision; “ in several important segments of their business, with or without the merger, the parties simply do not compete today and therefor the merger would not be eliminating any competition between them. ” Success/failures of merger Only just over a year after the merger bankruptcy rumours again loom over Sirius XM. Saved however, just in time by liberty media corp which invested \$530m to pay off some of its now astronomical \$3. 5b worth of debt.

The move, authorised by joe malone the media mogul and founder of liberty media corp, was enough to stave off default and/or a hostile takeover from Dish Network Corp. The assistance comes at heavy price however, with joe malone now in control of 40% of the company with an option to buy another 11% for \$250m to pay off more debt, and fund business operations. The move would leave him with controlling majority of the company. During the second quarter of 2010 Sirius XM reached record breaking highs of almost 20million subscribers, which is a 600000 increase over the year before.

New developments in software have allowed for radio satellite streaming from ipod iphone and androids are months away from completion and speculations and rumours are rampant about future collaborations with Apple, which even if it doesnt come to fruition, might be playing a factor in its recent successes. Despite the continually slow moving U. S economy in the wake of the financial crisis, Sirius XM has been reporting good figures right <https://assignbuster.com/corporate-finance-merger-analysis-sirius-xm-radio-assignment/>

through 2010 and 2011, with 3rd quarter revenue results at record high \$762.6m. Net profit for the quarter was nearing \$185m, \$40m higher than last year's final quarter. Total outstanding debt also was reduced from \$1.9b to \$1.7b with a debt to capitalization was 0.81 down from 0.93 from the end of fiscal 2010. Conclusion Although the companies started out as pioneers of their industry, poor profits, coupled with huge debts severely limited both companies. After the takeover even, the level of the then combined debt very nearly bankrupted the company. But after some lucky 11th hour investment the company finally broke even and began turning a profit.

Once what would have been considered nearly junk bonds, are in demand once more with solid profits and rising share prices. Although off to a very shaky, long and drawn out start, Sirius XM is finally reaching its goals, with projected revenue for 2012 \$3.3b. Bibliography http://satelliteradiusa.com/satellite_radio_history.html <http://investor.sirius.com/releasedetail-XM.cfm?releaseid=333669> <http://www.prnewswire.com/news-releases/xm-wins-popular-science-magazines-best-of-whats-new-2006-awards-56199992.html> http://www.time.com/time/specials/packages/article/0,28804,1936165_1936240_1936380,00.html Markels, Alex, "100 Channels, But Where Are the Subscribers?," New York Times, November 3, 2002, p. C4. <http://www.fundinguniverse.com/company-histories/XM-Satellite-Radio-Holdings-Inc-company-History.html> -"Fledgling Satellite Radio Providers Incur Setbacks with Launch and Chipset Delays," Satellite News, January 15, 2001, p. 1 ? Helyar, John, "Radio's Stern Challenge," Fortune, November 1, 2004, p. 123. ? Lewis, Peter, "Sirius Competition," Fortune, June 23, 2003, p. 130.

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