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# Best Ideas 2019, Hosted by MOI Global

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LBW Wealth Management

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# LBW WEALTH MANAGEMENT

- Nathaniel Leach, Co-Founder & Portfolio Manager
- Fee-based<sup>1</sup>, Independent, Registered Investment Advisor (RIA), based out of Madison, WI
- Services offered:
  - Financial Planning
  - Estate Planning
  - Investment Management
  - Business Consulting
  - Other

# GCI Liberty Revisited

- Formerly known as Liberty Ventures
- MOI's Best Ideas 2018
- Cheap
- CHTR set to produce huge FCF in 2019 as Capital Intensity decreases



# LIBERTY SIRIUS XM GROUP (LSXMA/B/K)

A Liberty Media Corporation tracker stock

# WHY ARE WE LOOKING AT THIS?

- New SXM
  - Play on Sirius XM (“SXM”; ticker: SIRI)
  - Pandora (“Pandora”; ticker: P)
  - iHeart Media (“iHeart”; ticker: IHRTQ)
- Sum-of-the-Parts (SOTP) play
- LSXM’s collective economics:
  - predictable revenue stream and cash flows
  - Relatively low CapEx maintenance requirements
  - Focus on “Live”

# LSXM GROUP

- History & Management
  - John Malone, Greg Maffei
  - Liberty Media, subsequent trackers
- Business Segments
  - SXM
  - Pandora
  - iHeart
- Attributes
  - Liberty playbook: FCF generators + buy back stock
  - Financial Engineering experience
  - Excellent management & capital allocation skillsets
- Opportunities: realization of value
- Risks: Malone dies, no succession plan in place (there is)
- Valuation Overview
- Investment Summary



# SXM: History & Management

- Sirius Satellite Radio = 1990
- XM Satellite Radio = 1992, 1999
- Sirius & XM merger 2007-08
- Jim Meyer 2012-present

# SXM: Business Segments

## Subscription

- Music
- Sports
- Entertainment
- Comedy
- Talk
- News
- Traffic
- Weather
- Infotainment

## Advertising

- On select non-music channels

## Other Revenues

- U.S. Music Royalty Fee
- Connected Vehicle services
- SXM Canada
- Ancillary Revenues

# SXM: Metrics to pay attention to

- Self-Pay Subscribers
- Paid Promotional Subscribers
- Net Additions
- Daily Weighted Average Number of Subscribers
- Self-Pay Churn
- New Vehicle Consumer Conversion Rate
- ARPU
- Adjusted EBITDA
- Free Cash Flow (Adjusted)
- Diluted Weighted Average Common Shares Outstanding (GAAP)

# SXM: Metrics to pay attention to

Period	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	9-mon ended 09/30/2018
<b>Self-pay Subscribers</b>	15,550	15,704	16,687	17,909	19,570	21,082	22,523	24,288	25,951	27,513	28,501
<b>Paid Promotional Subscribers</b>	3,454	3,069	3,504	3,984	4,330	4,477	4,788	5,306	5,395	5,223	5,192
<b>Net Additions</b>	1,655	-231	1,418	1,702	2,008	1,659	1,752	2,283	1,752	1,390	957
<b>Daily Weighted Average Number Of Subscribers</b>	18,373	18,530	19,385	20,904	22,794	24,886	26,284	28,337	30,494	31,866	33,192
<b>Average Self-pay Monthly Churn</b>	1.80%	2.00%	1.90%	1.90%	1.90%	1.80%	1.90%	1.80%	1.90%	1.82%	1.70%
<b>New Vehicle Consumer Conversion Rate</b>	47.5%	45%	46%	45%	45%	44%	41%	40%	39%	40%	39%
<b>ARPU</b>	10.56	10.95	11.73	11.58	12.00	12.23	12.38	12.53	12.91	13.25	13.24
<b>SAC Per Installation</b>	74	63	59	55	47	43	34	33	31	29.53	26.50
<b>Customer Service And Billing Expenses Per Average Subscriber</b>	1.11	1.05	1.03	1.03	1.07	1.06	1.07	1.01	1.00	0.94	0.88
<b>Adjusted EBITDA</b>	-136,298	462,539	626,288	731,018	920,343	1,166,140	1,467,775	1,657,617	1,875,775	2,115,886	1,664,555
<b>Free Cash Flow</b>	-551,771	185,319	210,481	415,742	709,446	927,496	1,155,776	1,315,193	1,509,113	1,559,772	1,100,277
<b>Diluted Weighted Average Common Shares Outstanding (GAAP)</b>	2,169,489	3,585,864	6,391,071	6,500,822	6,873,786	6,384,791	5,862,020	5,435,166	4,964,728	4,723,535	4,586,346

# SXM: Other Attributes

- Contracted Revenue streams & Cost structure:
  - high fixed + low variable -> widening margins
  - FCF / Adj. EBITDA conversion = 74-80%
- High Cash Returns on Incremental Invested Capital
- Debt management & application
- Return Capital to shareholders via share repurchases and dividends

# SXM: Risks

## Market

- # New cars sold decreases
- # Used cars sold decrease

## Competition

- Satellite Radio
  - AM/FM
  - Internet radio
  - In-Dash Infotainment
  - Direct Broadcast Satellite and Cable Audio
  - Other Digital Media
- Traffic Services
- Connected Vehicle Services

## SXM-specific

- Revenue share
- Royalties %
- NOLs ending sometime in 2019
- OEMs don't renew contracts with SXM
  - Penetration % decreases

# IHEARTMEDIA

LSXM owns 660m principal of debt = 4-5% post-bankruptcy

Business segments:

- iHeartMedia – LSXM & SXM want this segment
- Outdoor advertising (Clear Channel Outdoors) – to be spun out to public markets

Why do LSXM & SXM want iHeart?

# PANDORA TRANSACTION

- 1.44 shares SIRI for every 1 P share
- Effects on SIRI's business model after Pandora merger
  - Pandora gets scale from merger and can cross-sell with SXM
  - SXM can offer alternative to their Paid Promotional Subs and increase conversion rate
  - offer on-demand or satellite radio or combination thereof
  - Pandora = negative FCF
  - Pandora's NOLs = 1B+
- No transaction collar



# PANDORA

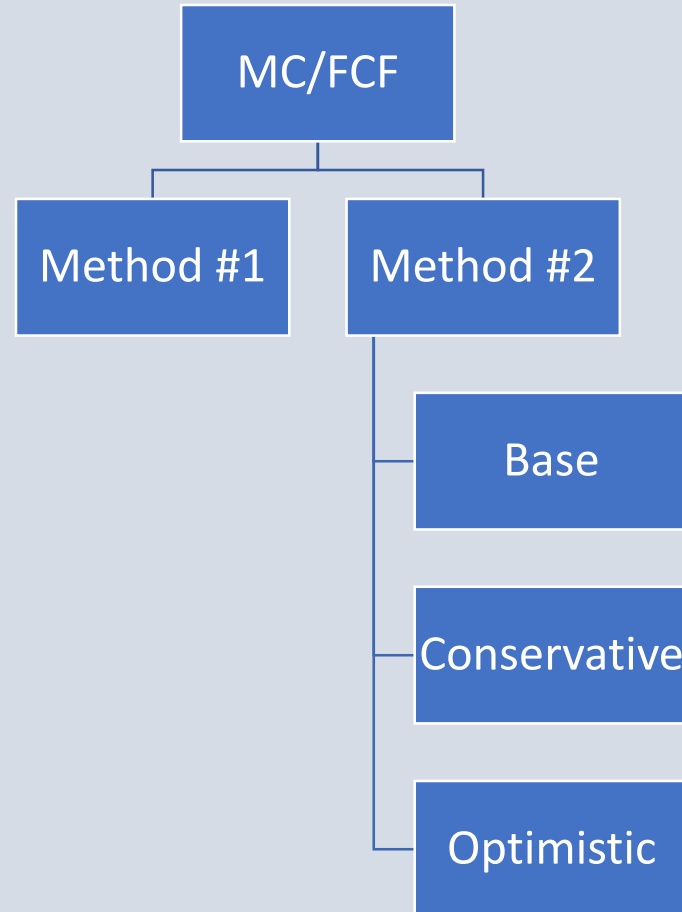
- Music discovery platform, personalized stations and playlists, on-demand songs and albums
- Competition: Spotify, Apple Music, Amazon Prime Music
- AdsWizz

# LSXM: Valuation Overview

- NAV
  - Eliminate discount – SXM & LSXM combine
    - LSXM share issuance
    - LSXM hard spin
    - LSXM waits

NAV		
Company	Sirius XM	Sirius XM + P
Ticker	SIRI	SIRI
% owned	71.2%	64.9%
Price \$	5.71	5.71
Shares owned	3,162,173,995	3,162,173,995
Shares outstanding	4,441,648,517	4,873,036,618
Market Cap \$	25,361,813,032	27,825,039,086
Market Cap \$ - SIRI	25,361,813,032	27,825,039,086
Cash - LSXM	80,000,000	80,000,000
iHeart Media debt	496,000,000	496,000,000
Debt - LSXM	(950,000,000)	(950,000,000)
NAV - LSXM	24,987,813,032	27,451,039,086
LSXM \$ owns of SIRI	17,789,749,067	17,813,320,266
Market Cap \$ - LSXM	12,091,997,521	12,091,997,521
Prem (Disc) \$	(5,697,751,546)	(5,721,322,744)
Prem (Disc) %	-32.0%	-32.1%
Return %	47.1%	47.3%
<b>LSXM look-through price of SIRI \$</b>	<b>3.88</b>	<b>3.88</b>

# LSXM: Valuation Overview



# LSXM: Valuation Overview

<b>MC/FCF</b>				
<b>Sirius XM + Pandora</b>	<b>Method #1</b>	<b>Method #2</b>		
		<b>Base</b>	<b>Conservative</b>	<b>Optimistic</b>
Market Cap \$ - LSXM	12,091,997,521	12,091,997,521	12,091,997,521	12,091,997,521
FCF est. \$	1,534,452,826	1,593,383,002	1,434,408,941	1,758,396,759
FCF est. \$ - LSXM owns	995,725,500	1,033,966,023	930,805,780	1,141,045,500
Multiple	<b>12.1</b>	<b>11.7</b>	<b>13.0</b>	<b>10.6</b>
<b>SIRI - per share</b>				
Multiple	<b>15.2</b>	<b>14.1</b>	<b>6.7</b>	<b>23.4</b>
FCF est./share: Gr% - 5 yrs	12.1%	10.3%	-7.7%	23.9%
<b>LSXM - per share</b>				
Multiple	<b>16.6</b>	<b>14.6</b>	<b>6.7</b>	<b>25.9</b>
FCF est./share: Gr% - 5 yrs	14.4%	11.2%	-7.7%	26.5%
MoS	27%	20%	-94%	59%

# LSXM: Valuation Overview

- Well worth buying at today's prices
- Many avenues available to LSXM management to develop value for LSXM shareholders
- Exciting possibilities available for growth at SXM & Pandora

# LSXM: Investment Summary

- Own a proprietary satellite network with unique content
- Own a proprietary algorithm (P's Music Genome)
- Cost structure leads to high FCF \$ and FCF %
- Multiple opportunities to grow revenues
- Management = excellent capital allocators and heavily experienced

# NON-GAAP FINANCIAL METRICS & OTHER DISCLOSURES

- EBITDA is defined as net income (loss) plus net interest expense, income taxes, depreciation and amortization.
- Adjusted EBITDA excludes the impact of other income, loss on extinguishment of debt, other non-cash charges, such as certain purchase price accounting adjustments, share-based payment expense, loss on disposal of assets, and legal settlements and reserves related to the historical use of sound recordings.
- OpEx is defined as operating expenses.
- CapEx is defined as capital expenditures.
- Levered free cash flow (FCF) is defined as net cash flows from operating activities, minus capital expenditures.
- Unlevered free cash flow (UFCF) is defined as net cash flows from operating activities, minus capital expenditures, plus after-tax net interest expense.
- Market Capitalization (MC) is defined as multiplying a company's current market price by the company's outstanding share count.
- Enterprise Value (EV) is defined as the market capitalization plus debt, minority interest, and preferred shares, minus total cash and cash equivalents.

THANK YOU

Q&A



# Learn More

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