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Why Malone Must Raise His Sirius Bid

Some holders view Liberty Media's \$3.68 offer for the rejuvenated satellite-radio outfit as greatly underpriced. Is the stock really worth \$6.00 or more?

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John Malone has earned a reputation as the U.S.'s savviest acquirer of media assets. So when his firm Liberty Media decides to go all in on an investment, it's worth paying attention. Such is the case with Sirius XM (ticker: SIRI).

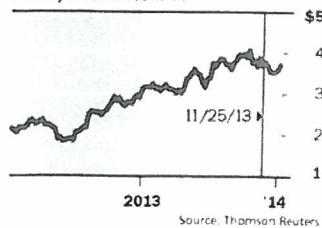
Liberty (LMCA) is seeking to purchase the 47% of the satellite-radio provider that it doesn't already own in a stock deal worth \$10.6 billion, or \$3.68 per Sirius share.

Sirius shareholders should hold out for a better bid, especially with the stock closing the week at \$3.70, already above Liberty's offer. Just a day before the bid was made, Evercore Partners analysts upgraded Sirius to Overweight from Equal Weight, with a target price of \$4.50—far more reasonable.

Malone, Liberty's chairman, believed in Sirius XM's potential when most investors had thrown in the towel. In 2009, Liberty agreed to provide an emergency loan of \$400 million, under terms that gave the company the right to acquire 40% of Sirius' equity for essentially nothing. Sirius shares have since soared, from a credit-crisis low of five cents. All the while, Liberty has continued to add shares, taking control of the company in early 2013.



Sirius XM Holdings (SIRI - Nasdaq)
Weekly close on Jan. 10



One Sirius XM holder argues that the shares are worth \$6 to \$7 by 2018.

But times have changed. Sirius now is thriving, not ailing. Some 70% of new cars come with Sirius radios pre-installed. And nearly half of those cars' buyers become subscribers, at \$15 a month. Recently, *Barron's* hailed the comeback in a bullish cover story ("[Sirius XM's Sweet Sound of Success](#)," Nov. 25, 2013). Malone's latest actions only support our thesis.

This year sales at Sirius are likely to reach \$4.2 billion, generating free cash flow of \$1.2 billion.

Under the current deal, each Sirius share would be exchanged for 0.076 share of Liberty Class C, a new nonvoting stock. The minority Sirius holders would wind up with 39% of Liberty. But the deal requires approval from a majority of all non-Liberty-owned shares, a high hurdle.

Larry Sarbit, chief investment officer of Sarbit Advisory Services, owns 27 million shares of Sirius, giving him roughly 1% of the minority Sirius stake. He says he won't approve the deal: "I think Liberty sees what we see: a free-cash-flow machine. They're trying to pick it up at a bargain price." As for Liberty's current offer, "it's not even close to the value."

Sarbit thinks the stock will be worth \$6 to \$7 by 2018.

Famed stockpicker Leon Cooperman has 72 million shares, or \$266 million worth, of Sirius stock, making it the third-largest holding of his Omega Advisors hedge fund. Cooperman says he's always viewed Liberty as a good steward of assets. But, he adds, "If they got it at \$3.68, we would be disappointed. And we think they'd be getting a terrific deal."

Last week, Liberty's chief executive, Greg Maffei, sought to dispel any notion that Sirius holders were being squeezed out. "This is really just a reorganization of how they are a part of the group," he told *Barron's*. "They're going to participate not only in all of Sirius' opportunities... but they'll get to participate in Liberty's opportunities," too. Sirius' business would be 70% of the new Liberty, which also includes holdings in cable company Charter Communications (CHTR) and concert promoter Live Nation (LYV).

As for the price, Maffei says: "I think what we've put on the table is fair, but there's often a negotiation of these things. And we'll see what that arrives on."

-- Alexander Eule

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