

WEEKDAY TRADER EXTRA

Sirius Deserves Richer Offer From Liberty Media

Why Liberty's \$10.6 billion offer for full ownership is "not even close" to what Sirius is worth.

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John Malone and Liberty Media just can't get enough of Sirius XM. Last Friday, the famed media investor announced he would try to buy the entirety of the satellite music provider. Liberty (ticker: LMCA), which already owns 53% of Sirius, is offering to purchase the rest of the company for \$10.6 billion.

Malone will likely have to do much better, however, if he wants to seal a deal. Liberty's \$3.68 a share offer is a scant 3% premium to last week's close. And Sirius (SIRI) traded as high as \$4.18 in October. Bullish investors think the stock will be worth \$6 or more in coming years. In November, Barron's was similarly optimistic about the stock. (See Cover Story, "[Sirius XM's Sweet Sound of Success](#)," Nov. 25, 2013).

Sirius has 26 million paying subscribers, more than any cable company or satellite TV company. And unlike TV providers, Sirius will continue to add subscribers in coming years. Some 70% of all new cars sold in the U.S. now come with Sirius radios pre-installed and nearly half of those cars' buyers become Sirius subscribers. In a November interview, Sirius CEO Jim Meyer said his company would easily get to 30 million subscribers and could hit 40 million in the years ahead.

Liberty's offer requires majority approval from Sirius' minority stake -- the 47% not held by Liberty. Wall Street is expecting a negotiation. On Monday, Sirius shares traded above Malone's offer price, closing the day up 7.3% to \$3.83 on very heavy volume of more than 400 million shares. Minority investors should wait for a price of at least \$4.50 before agreeing to the deal. Whether Liberty goes that high is unknown, but Sirius is a long-term story that deserves a bigger premium.

Larry Sarbit, the chief investment officer of Sarbit Advisory Services, says he won't approve the current deal. His firm has bolstered its Sirius position in recent weeks and now owns 27 million shares, or roughly 1% of the minority stake.

"I think Liberty sees what we see: a free cash flow machine," Sarbit told Barron's on Monday. "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 Sirius shares are worth \$6 to \$7 by 2018.

As currently structured, Liberty's deal gives minority Sirius holders 0.076 shares of Liberty stock, through a new class of non-voting "C" shares. Sirius owners would wind up with a 39% equity stake in Liberty, which is effectively a large media investor. In addition to its Sirius position, Liberty currently owns 26% of cable provider Charter Communications (CHTR), as well as stakes in Barnes & Noble (BKS) and Live Nation (LYV).

Liberty and Sirius have a long and tangled relationship. In 2009 -- at the height of the credit crisis -- Malone saved the company from bankruptcy, agreeing to provide a last-minute loan of \$400 million. The loan terms gave Liberty the right to acquire 40% of Sirius' equity for essentially nothing. It turned out to be a stroke of genius for Malone and Liberty. Since then, Liberty has increased its stake, crossing the 50% control threshold last year. This year, sales at Sirius are likely to reach \$4.2 billion, generating free cash flow of \$1.2 billion.

Liberty wasn't available to comment on Monday.

In a conference call on Friday night, Liberty CEO Greg Maffei told investors that his firm wants to "eliminate some ambiguity around our long-term relationship between Sirius and Liberty...It allows the Sirius shareholders to benefit from capital deployment and organic and strategic investments and return of capital across the whole Liberty portfolio." For Liberty holders, Maffei added: "We believe it will enhance Liberty's access to capital to support the pursuit of other potential attractive investment opportunities."

Maffei conceded on Friday that a negotiation with a special committee of Sirius directors was a possible outcome. Liberty has underpaid for Sirius once before -- this time, the committee should play hardball.

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