

>: XM & Sirius Have Bigger Problems than the FCC

Wednesday, April 2, 2008 / Wayne Mulligan

~~Market Commentary~~ **XM & Sirius** most cars now, iPods are outselling satellite radios by orders of magnitude and with the proliferation of podcasting, the "talk show/news" aspect of radio is rapidly becoming commoditized."

There was a pretty interesting Q&A exchange that appeared on TickerHound this week.

A member asked, "If Sirius and XM get approval from the FCC is it time to buy?" - [click here](#) to read the entire question.

One of the members was leaning towards the Bearish side of the argument... and he makes a good point:

This got me thinking - how has satellite been doing relative to HD radio and the iPod?

Where will this industry end up?

Many opponents of the XM/Sirius merger argued that the union of these two companies would create a virtual monopoly in the satellite radio industry. But what XM and Sirius argued - and ultimately, what the Department of Justice agreed with this week - was that the battle they're fighting isn't with other potential satellite rivals, it's with EVERYBODY ELSE in the personal audio market, namely Apple and traditional broadcast radio.

And I have to admit, I personally don't listen to the radio in my car anymore. I plug my iPod in and I have my own personalized radio station for an hour. I know plenty of other folks who can't stomach the thought of paying to listen to the radio in their car either - even if it is for Howard Stern. They'll simply tune into the regular radio stations.

It's pretty clear that the alternatives are compelling, and that's why I think it made a lot of sense for the DOJ to approve this merger - and ultimately I think it'll pass the FCC as well. There's a lot of competition in this game and the prize is certainly a big one.

So let's take a quick look at the battlefield and break it down by the numbers:

XM Satellite Radio

Subscribers: 9 million

Revenue: \$1.14 billion

Sirius Satellite Radio

Subscribers: 8.3 million

Revenue: \$922.1 million

Together these companies will have roughly 17 million subscribers (have to assume very little overlap here).

Broadcast & HD Radio

While it's still the clear leader in terms of market penetration, traditional broadcast radio has been plagued by sluggish advertising revenues for the last few years. If this industry has any hope of surviving, its future lies in Digital/HD radio.

iBiquity, the company that invented and sells HD radio technology, is privately held so accessing credible data is difficult. My best guesstimates are below:

HD Radios sold (FY: 2007): 330,000

Revenue (\$180 per unit): \$59.4 million

Apple iPod

I've bought roughly 3 iPods over the last few years, so it would be unfair to use the number of total iPods ever sold as an accurate comparison to XM/Sirius. To be conservative I'll just use Apple's Fiscal 2007 numbers instead.

iPods sold (FY: 2007): 51.6 million units

Revenue (FY: 2007): \$8.3 billion

equipped with HD broadcasting technology, and the price of the units is bound to come down as manufacturing processes and component costs fall.

But will that deter the growth of satellite or the iPod as a compelling alternative?

HD radio sounds good in theory, but you still can't fit it into your pocket and carry it to the gym with you. With satellite radio and the iPod, you can take your music with you wherever you decide to go - with HD radio, you're still stuck in your car.

And while satellite is certainly growing, it's far from profitable and it still lacks the penetration rate of the iPod.

Furthermore, Apple is making a concerted effort to penetrate the auto market - the only big car manufacturer that doesn't have an iPod option is Toyota, and I don't see that lasting much longer. In any case, with all of the after-market options available, anybody can bring their iPod into their car with ease these days.

This is a direct challenge to both broadcast AND satellite radio, and based on the numbers, Apple's definitely leading the pack for the moment.

So even if the FCC gives this merger its blessing, I think XM/Sirius have bigger problems ahead.

Visit the TickerHound Blog at <http://blog.tickerhound.com> to weigh in on this topic today

Where's Wayne?

A few members have written in to me lately saying that they "found" me on the web. What they meant was that they found my personal blog. It's not something I've ever talked about here, but it's true, I keep a personal blog and it's something I really enjoy doing.

I talk a lot about my random day-to-day thoughts on the market, technology in general and I also go into my personal life a bit (pictures of my latest trip to San Francisco for instance). So instead of having folks randomly find my pages on the web, here they are:

- [My Personal Blog](#)
- [My Twitter](#)
- [My LinkedIn Profile](#)
- [TickerHound's Facebook Page](#)

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Top TickerHounds

We've made a change to how some of the Top TickerHounds are appearing on the site now. If you take a look at the homepage, and many of the category pages, you'll notice that we're no longer posting the Top TickerHounds "of all time". Instead, we're posting the Top TickerHounds for that day.

This helps some of the newer community members rise through the ranks and get credit for being such amazing educators and contributors. It's also easier for them to come to our attention over here at TickerHound Headquarters.

So this week we have a couple of new names on our Top TickerHound's list - it's my pleasure to present them to you today:

[MaverickInvestor](#)- First off, we have [MaverickInvestor](#)

. He came out of nowhere and has quickly emerged as one of the most experienced and knowledgeable investors in this community. Not only that,

but he's more than willing to share this knowledge with everyone in the TickerHound neighborhood. So let me be the first to congratulate and thank him for the wonderful job he's been doing.

[SirCrashton](#)- Next up we have [SirCrashton](#)

, another "new kid on the block". Well not very "new" actually - he had been on the site several weeks ago but took a bit of a hiatus, but now he's back in full effect and sharing his knowledge with the rest of the TickerHounds!

Thanks SirCrashton, I know I speak for everybody when I say I hope you continue to so active in the community.

[larryat36](#)- And finally we have [larryat36](#), another member who started out a few weeks ago but really hit his stride this passed week.

I hope he continues to work his way up through the TickerHound ranks and eventually takes that top spot. And if this week's performance is any indicator, I think we'll be seeing big things from this guy in the months to come.

Congratulations everybody!

TickerHound Challenge

We announced last week's winners in our TickerHound Weekly newsletter - if you want to find out who wins each week, simply go to [TickerHound](#) and sign-up

This Week's TickerHound Challenge Questions are:

[Where do I place my target when a stock's price breaks out of a chart pattern?](#)- [click here](#) to try answering this question.

[What is the difference between the options strategies: strangle and a straddle?](#)- [click here](#) to submit your answer.

[How does options backdating work?](#)- [click here](#) to answer this question.

Good luck!



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