

Karmazin has signed up big names, including Martha Stewart.

CEO Interview

Can Mel Put Sirius Back Into Orbit?

Mel Karmazin, Sirius Satellite Radio

It's Monday morning, and Mel Karmazin bursts into a glass-enclosed conference room on the 36th floor of Sirius Satellite Radio's Rockefeller Center headquarters. He's a minute early. But it doesn't take long for the white-haired, bushy-eyebrowed media mogul to live up to his reputation as one of America's most aggressive and

blunt-speaking chief executives. For one thing, he tells us how much he hates being interviewed. And being photographed? Even more so. Despite once running (before being fired from) Viacom, which was then the parent of CBS, Karmazin tells us he never liked television. Then he drops a little bombshell: Sure, he'd be interested in merging Sirius with XM Satellite Radio, his archrival and the market leader in the hotly competitive \$1.5 billion industry.

"Mergers often lead to creating shareholder value," Karmazin says. "I've always been open to that." He'd floated the idea at a trade conference that he'd like to buy XM, but he predicted there would be regulatory hurdles. He no longer thinks regulators would pose a problem.

A native New Yorker, Karmazin, 63, is a well-known figure in media circles. Many Americans may remember him as the guy who stole shock-jock Howard Stern away from the public airwaves and put him on satellite radio. But that's hardly been his only bold move. In two years at Sirius, he's already added everyone from Martha Stewart to Nascar to the station's programming, raising the company's profile in the process.

Still, this is an industry facing a lot of static. Once the darling of Wall Street, satellite radio has made headlines for big losses and plummeting share prices. Consumers, it turns out, love their iPods and are sometimes reluctant to renew the \$12.95 monthly subscriptions that come with new cars. As Sirius's largest individual shareholder, Karmazin finds himself on the hot seat—and on this day talking (quite bluntly, of course) with senior writer **Dyan Machan** about his next step.

You've got an avalanche of debt and no earnings. Your bonds are rated CCC—in other words, junk. Why in the world should anyone buy your stock?

It will be higher in the future. This year we will have over \$600 million in revenue;

next year we will have \$1 billion. By 2010 we will have \$3 billion in revenue and \$1 billion in free cash flow. Using the 15 to 20 times cash flow valuation Wall Street gives growth companies, that's a market value of \$15 billion to \$20 billion. Today it's \$6 billion. The stock will take care of itself.

When you joined the company in 2004, the stock was \$4.72. Today it's under \$4.

How do you live with yourself?

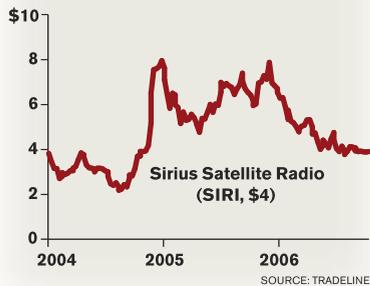
Badly. Wall Street compares us with XM Satellite Radio, and they've had hiccups. The day I started they were \$35, and today they are \$12. Being in the same sector, we've gotten hit.

So it's XM's fault?

We've not missed a single goal in the past two years.

SHOCK RADIO

Sirius shares soared when Karmazin and Stern were hired and then fell back to earth.



Explain your business model.

Before we got a single subscriber, we had to launch three satellites and program more than 100 channels. We have high fixed costs. We had 600,000 subscribers the year I joined; we will have 6.3 million at year's end. As subscribers grow, a significant amount of money falls to the bottom line. It's similar to a cable company.

You will become like a cable company and raise prices?

Subscribers pay \$12.95 a month, the same price they paid before we offered Howard Stern and the National Football League.

We have Nascar starting January. We have a great opportunity to increase our pricing, but I can't say when.

It costs you \$110 to acquire a subscriber—in subsidies and commissions paid to the car manufacturers, retailers and radio manufacturers. It costs XM only \$89 a subscriber.

XM had some costs in place ahead of us. Our subscriber-acquisition cost was over \$200 when I joined. The biggest compo-

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nent is what we pay auto companies like DaimlerChrysler to install Sirius in their cars. When we can order a million radios, instead of several hundred thousand, we'll get a lower rate.

You haven't released numbers on how many consumers stick with Sirius after the promotional period, but only about half of XM's customers stay with XM in GM cars. That seems scary.

Not scary. You should assume our numbers will be about the same. There will be 16 million cars made in Detroit this year. Assume 50 percent—8 million—come with satellite radio. That means we will have 4 million who will continue to be subscribers—just in cars. It took 15 years for FM radio to become standard in the car.

I tried wearing your portable headset radio during my commute, but I had to point my head out the window to make it work and it hurt my neck.

When you go back the other way, turn your head to the other side (laughs). You're dealing with satellite. The service is very good in markets that have lots of [ground-based signal boosters]. I got 100 percent perfect service driving for one and

a half hours today. With time, the products will improve.

Tell us what new technology we can expect.

We will give you real-time traffic. Assume you live in central New Jersey, and have three ways into New York City. AM radio doesn't know where you want to go. The killer application is when we reroute you to the Lincoln Tunnel because a tube is closed in the Holland Tunnel. We could

also tell you where the cheapest gas is.

Where are you with a possible merger with XM?

I'm really not allowed to say. I have focused my entire career on shareholder value and wealth creation. Often mergers allow for that. I combined my radio company with CBS, and I combined CBS with Viacom.

What was XM's reaction to your proposition?

“I'm dreaming” is their quote. But before they said that, both stocks went up. So I guess investors think [a merger] could be interesting.

Have you tried flowers?

I personally believe regulatory agencies are not a problem. If there's an iPod with terrestrial radio, it's hard to believe government is worried about two satellite radio companies combining.

What are you getting out of this?

I am having a blast. I love taking over a company that's not making money and having it make money. That's why I came here: Everyone says, “Gee, it's a great service and I love the content, but what's the business model?” I'm going to show them exactly what it is.