



SIRIUS studios at company headquarters in Rockefeller Center. Photo courtesy of Sirius.

## What does the future hold?

As the satellite radio broadcasting market in the US keeps growing, talks of a possible merger between the two satellite operators intensify. Philippa Smyth, Correspondent of Satellite Evolution EMEA, reports.

**Few stories in the satellite industry are as happy** as that regarding the development of satellite radio. First introduced in the developing world in the late 1990s, radio broadcasting via satellite has truly found its home in the largest consumer market in the world: the US. Between them, the two satellite operators in the market, Sirius Satellite Radio and XM Satellite Radio have reached a total combined subscriber base of 13 million. Their rate of growth over the past few years has been amazing, and it continues to be so.

Sirius recently announced that it ended 2006 with approximately 6,024,000 subscribers, an 82 percent increase over the company's 2005 ending subscriber base of 3,316,560. The company added a record 2.7 million net subscribers in 2006, and it stated that based on preliminary financial data, Sirius achieved its first ever quarter of

positive free cash flow in the Fourth Quarter (Q4) of 2006.

A remarkable rate of growth was also experienced by XM Radio, though not as brilliant as it was expected. The company said it ended 2006 with more than 7.6 million subscribers, falling short of its target because of low retail demand. It said a year ago it had hoped to top nine million users in 2006 but eventually trimmed that estimate to 7.9 million subscribers. In the fourth quarter, XM added some 442,000 new net customers, less than half of its increase of nearly 900,000 in the same period in 2005.

The company's Chief Executive Officer (CEO), however, remains positive. "XM completed another year of significant subscriber growth, despite retail softness, and did so with continued cost controls," Hugh Panero, XM's CEO, said.



Both companies are expected to introduce new retail products that could spur consumer interest. Significant subscriber gains are likely to come from partnerships with automakers, as more and more cars are manufactured with satellite radio built-in. And yet, that does not seem to satisfy the companies' top brass, as rumours persist of possible merger in 2007. Interestingly, XM, which was first to market and remains the company with the largest subscriber base despite experiencing slower growth rates in recent months, is showing signs of caution with regards to the merger. Sirius, on the other hand, has been particularly enthusiastic.

Mel Karmazin, CEO of Sirius Satellite Radio, is reported to have explicitly told investors that he would be open to a combination with XM Satellite Radio, stating that a merger could be in the best interests of both companies.

"One way you can create shareholder value is through consolidation, particularly in a fragmented industry like radio. Conceptually a deal makes sense and you could add value from synergies." Speculation about a possible deal has boosted the stock prices of both companies in recent weeks. Both companies have continued to lose money despite strong revenue and subscriber growth.

Commenting on the market, Karmazin conceded that XM is a tough rival and that traditional radio companies also present a challenge. But he dismissed concerns that radio would be supplanted by iPods or other mobile music devices. "I remember when people first

#### SIRIUS SATELLITE RADIO TO CARRY CNN ONLINE

Sirius Satellite Radio has recently announced that SIRIUS subscribers are now able to listen to a simulcast of CNN as part of Sirius' online listening lineup.

As of 16 January 2007, CNN now streams online to SIRIUS subscribers 24/7. SIRIUS also broadcasts CNN on its satellite radio channel 132. SIRIUS simulcasts the programming from CNN's powerful television lineup, featuring shows such as American Morning, The Situation Room, Lou Dobbs Tonight, Paula Zahn Now, Anderson Cooper 360, and Larry King Live. CNN offers round-the-clock coverage of breaking news and is home to experienced journalists, such as Wolf Blitzer, Dr Sanjay Gupta, Soledad O'Brien and Miles O'Brien.

Subscribers to SIRIUS Satellite Radio can access online all of SIRIUS' 100 per cent commercial-free music channels, a combination of talk entertainment such as Howard Stern, Maxim, Cosmo Radio, political talk shows, and comedy channels, as well as exclusive sports talk programming.

Subscribers to SIRIUS Internet Radio (SIR), Sirius' CD-quality, Internet-only service, can hear CNN also. With SIR, subscribers anywhere in the world can hear CNN online, without the need for a radio, along with talk, news, sports and 100 per cent commercial-free music programming, for a monthly subscription fee of US\$12.95. In addition, SIRIUS airs Headline News on its satellite radio channel 133 and CNN en Español on its satellite radio channel 182.

put an 8-track in the car and people said that nobody would listen to radio," he commented.

#### From strength to strength

As we have seen earlier in this article, satellite radio broadcasting in the US has been going through a period of flourishing growth. According to the company's sources, Delphi Corporation has just sold its thirteen-millionth satellite radio receiver, setting a new milestone.

As satellite radio service providers revolutionise the US radio landscape, Delphi has steadily ridden the wave by providing a variety of original equipment and retail receivers. The satellite radio market now boasts more than 13 million subscribers.

Delphi is the leader in the OE satellite radio market and produces receivers for more than ten new vehicle manufacturers. It also sells a variety of models as add-on accessories for multiple uses at home and on the road.

Among consumers, the Delphi name has become synonymous with satellite radio because of its Delphi SKYFi, MyFi and ROADy family of portable satellite radio receivers. In fact three out of four users listen to satellite radio on Delphi hardware.

"Satellite radio is changing the paradigm of radio in the US," said Ken Erickson, Delphi Electronics & Safety General Director of the Entertainment & Communications product business unit. "Satellite radio has not only taken a long-time analogue medium and made it digital, but it has also opened a new world of offerings to customers by providing more than a 100 additional channels of programming."

Satellite radio is the radio medium that offers customers up to 170 channels of programming in addition to the traditional AM/FM radio offerings in OEM applications. Satellite radio programming is beamed from satellites and includes a very wide variety of music, talk, sports, news, traffic, weather and entertainment coast-to-coast in the US without fading.

"Consumers now demand this level of flexibility and ownership, fuelled even more today by their ability to personalise their listening experience through MP3 players," said Max Rogers, Delphi Consumer



### **XM AND BUSHNELL UNVEIL FIRST PORTABLE HANDHELD GPS NAVIGATION DEVICE TO OFFER XM RADIO AND SATELLITE WEATHER**

XM Satellite Radio and Bushnell Outdoor Products, unveiled the Bushnell ONIX 400 at the Consumer Electronic Show (CES) in Las Vegas.

The waterproof ONIX 400 portable packs a Global Positioning System (GPS), real-time XM WX weather data and XM Radio into a handheld device.

The ONIX 400 is the first fully integrated portable handheld device that can simultaneously access GPS location data; XM's 170 plus channels of acclaimed music, sports and entertainment; and personalized local real-time XM weather information anywhere in the US.

"XM and Bushnell have developed a product that packs the power of XM's music and entertainment, along with a continuous pipeline to the situational data like weather and GPS into a single device," said Michael Hooper, Manager, Advanced Application and Services, XM Satellite Radio. "Now consumers can continuously hold the most intuitive, up-to-date and comprehensive weather data and entertainment content in the palm of their hands."

"We are pleased to partner with XM to develop a revolutionary device. The product is designed for the outdoor enthusiast looking for the most advanced GPS device available, and will be among the more affordable products in this area," said Phil Gyori, Vice President (VP) of marketing at Bushnell.

The ONIX 400 will deliver current and forecasted weather data, including detailed, real-time weather warnings. The ONIX 400 will be the only outdoor device that provides personalized, localized weather content delivery integrated within the GPS map environment.

The handheld features a split screen allowing users to monitor what XM content is playing while listening or viewing weather data. The waterproof portable handheld unit is ergonomically designed to fit into the palm of the hand for easy use in any type of weather.

The ONIX 400 has the ability to layer weather information on the screen along with aerial and satellite photos and topography maps for the ultimate in real world navigation.

Other features include enhanced sports scoreboard with user interface, sports statistics and scores; an extra large full color LCD screen (3.5"; 320x240 pixel); imbedded 64MB Micro SD card for data and map services; and rechargeable Li-Ion battery.

The ONIX 400 will be available in the summer of 2007.

Electronics Executive. "Satellite radio's 170 channels of individual programming offers the same type of tailored listening experience with no downloading hassles."

Many of the offerings are commercial-free and categorised by chronological time periods music genre and other defined segments that add another dimension to satellite radio that is not offered by traditional AM/FM radio.

"Satellite radio has all of the right features and benefits to keep moving up the growth scale," said Erickson. "We are continuing to develop technologies to make it more attractive. Several new car manufacturers have already announced that they will include the satellite radio feature on all of their vehicles."

In addition to adding loads of new programming to the vehicle, Delphi has developed a digital data decoder that works in conjunction with the Delphi satellite receiver to enable real-time traffic services in North America. Vehicles with a Delphi satellite receiver

equipped with this data port and a navigation system can receive up-to-date traffic while playing satellite radio. The system is also capable of providing real-time weather, sports scores and stock updates.

Delphi's long history with satellite radio receivers includes celebrating sales milestones for 2.5 million in May 2004 and five million units in April 2005.

In 2001, Delphi helped launch satellite radio with the SKYFi. Delphi went on to introduce the first satellite radio boom box, first home signal repeater and even the first personal and portable satellite radio receiver, the MyFi. Its most recent first, SKYFi3, is the first microSD compatible MP3 satellite radio with pause-replay to hit the stores.

Satellite radio is expanding to other locations around the world. Delphi manufactures hardware for use by satellite radio subscribers in Canada and has announced its intentions to help launch satellite radio in Europe.

In the last decade alone, Delphi has pioneered or led the introduction of multi-speaker, multi-amp premium audio, CD playbacks, DVD rear seat video, MP3 playbacks, advanced TV reception systems and satellite radio into the market. Delphi supplies both OEM and retail hardware for both domestic satellite radio providers. Since beginning production in 1936, Delphi has manufactured more than 260 million radio systems and introduced an array of new technologies.

### **Conclusion**

After this year's record growth, satellite broadcasting in North America in general and the US in particular, can look forward to a prolonged period of sustained expansion. In fact, the new generation of receivers about to be launched in the marketplace and the firm relationship established with car manufacturers, are set to drive this already popular application for the next few years.

However, from the point of view of business practice, satellite radio is about to reach its mature stage, and that, inevitably, leads to consolidation in the industry. In other words, it likely that the two entities would manage to find an agreement that satisfies both parties. The problem, however, seems to be of a legal nature. Kevin Martin, Chairman of the Federal Communications Commission (FCC), has recently said that the two satellite radio companies would not win approval for a merger under current regulatory rules. A ban on a single owner for both satellite services was written into the regulations that authorised the two nationwide licenses, Martin said after an FCC meeting.

But the fact remains that the two companies have lost billions of dollars competing with each other, and that this issue needs to be addressed by the two companies. ●

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