SALOMON SMITH BARNEY

Initiating Coverage ☑

Sirius Satellite Radio, Inc. (SIRI)

SIRI: Initiating Coverage: Rating 2S, Price Target $25

2S *(Outperform, Speculative)*
Mkt Cap: $760.3 mil.

United States

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SATELLITE TECHNOLOGY & SERVICES

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SUMMARY

- Sirius Satellite Radio Inc. plans a full-scale commercial launch of satellite-to-car radio service beginning in the second half of 2001.
- Sirius has key distribution partnerships, no satellite risk, and minimal technology risk having demonstrated that its in orbit system is capable of broadcasting to mobile car receivers.
- Never-the-less, Sirius will require significant additional funding before it reaches profitability and has been plagued by repeated delays of its Lucent-developed chipset.
- Sirius's shares seem to be a solid value, but we expect them to be highly volatile until market demand proves itself. We are setting a 12-month price target of $25.

FUNDAMENTALS

P/E (12/01E)	NA
P/E (12/02E)	NA
TEV/EBITDA (12/01E)	NA
TEV/EBITDA (12/02E)	NA
Book Value/Share (12/01E)	$5.70
Price/Book Value	3.2x
Dividend/Yield (12/01E)	NA/NA
Revenue (12/01E)	$5.7 mil.
Proj. Long-Term EPS Growth	NA
ROE (12/01E)	NA
Long-Term Debt to Capital(a)	72.0%

SIRI is in the Russell 2000® Index.

(a) Data as of most recent quarter

SHARE DATA

Price (3/21/01)	$18.06
52-Week Range	$60.00-$15.75
Shares Outstanding(a)	42.1 mil.
Convertible	No

RECOMMENDATION

Current Rating	**2S**
Prior Rating	NA
Current Target Price	**$25.00**
Previous Target Price	NA

EARNINGS PER SHARE

FY ends		1Q	2Q	3Q	4Q	Full Year
12/00A	Actual	($1.35)A	($1.11)A	($0.97)A	($1.40)A	($4.83)A
12/01E	Current	($1.19)E	($1.06)E	($1.68)E	($1.64)E	($5.57)E
	Previous	NA	NA	NA	NA	NA
12/02E	Current	NA	NA	NA	NA	($5.32)E
	Previous	NA	NA	NA	NA	NA
12/03E	Current	NA	NA	NA	NA	($4.27)E
	Previous	NA	NA	NA	NA	NA

First Call Consensus EPS: 12/01E ($9.15); 12/02E ($7.48); 12/03E NA

COMPANY DESCRIPTION

Sirius Satellite Radio Inc. plans a full-scale commercial launch of satellite-to-car radio service beginning in the second half of 2001. It is one of two companies licensed to offer such a service in the United States. The company plans to offer 100 channels of programming consisting of 50 channels of music and 50 channels of news/sports/talk. Sirius has launched all three of its satellites and is now completing its full system integration.

FINAL

EXHIBIT
SX Trial Ex. 49
7/18/07 B

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INVESTMENT HIGHLIGHTS

Key partnerships should ensure distribution. Sirius has agreements with automobile manufacturers, consumer electronics manufacturers and retailers. These partnerships should facilitate both rollout and subscriber acquisitions by motivating multiple channels to sell the service.

No satellite risk remaining. Sirius completed its three satellite constellation in the fourth quarter of 2000. It is now finalizing system integration, but has already publicly tested the system at the Consumer Electronics Show (CES).

Technology risk minimal. Sirius conducted live demonstrations of its service by broadcasting its signal to mobile car radios at the CES in early January, muting residual fears of technology risk.

INVESTMENT RISKS

Large funding requirements remain. Even after last month's secondary offering, we estimate Sirius will need to raise approximately $370 million (in addition to its credit facility of $150 million) before reaching breakeven in 2004.

Lucent chipset delivery delayed. Until the Lucent chipset is delivered (we estimate April), receivers will be manufactured using discrete components. This will add about $100 in cost to each receiver that Sirius must shoulder in order to maintain "consumer-friendly" prices.

FORECAST

Expect strong subscriber growth and financial rewards but only after large investments. We are forecasting Sirius to generate EBITDA losses of ($157) million in 2001, ($130) million in 2002 and ($59) million in 2003, before breaking even in early 2004. We expect EBITDA should accelerate dramatically thereafter, growing to $777 million in 2006. Our analysis is based on subscribers growing from 150,000 at year-end 2001 to 1.1 million in 2002, 5.0 million in 2005 and 13.0 million in 2006. We assume Sirius will need roughly $340 million in additional financing to achieve this, after drawing down from its recent $150 million credit facility.

VALUATION

Our 12-month price target for shares of SIRI is $25. We arrived at this price target for shares of SIRI based on a 20% DCF model using a 13.5x terminal multiple of 2008 free cash flows. Our analysis gives us a private market equity value for Sirius of $3.9 billion, to which we have assigned a 18% discount for a publicly traded value of $3.2 billion, or $34.00, assuming fully diluted shares of 92.2 million. However, given current market conditions we are haircutting this valuation by 25% and setting a 12-month price target of $25. If the roll out of commercial goes well and market conditions improve we still believe that $33 would be an appropriate price level one-year from today.

SSB CONCLUSION

Sirius's shares seem to be a solid value, but we expect them to be highly volatile until market demand proves itself. Delivery of the Lucent chipset, radios and advertising rollout could be major catalysts. Over the long-term Sirius is a clear bet on the demand for satellite radio.

SDARS CRB 00000614

RECENT HEADLINES

Sirius Raised $230 Million (2/23/01) Sirius successfully sold 11.5 million shares of its common stock at a public offering price of $21.00 per share, realizing net proceeds of $230 million after fees. Although the $21 offering price was significantly below the previous day's close, we believe the bought deal makes sense in a turbulent market. With the completion of this offering and the draw down of its $150 million credit facility (which we expect in the coming weeks), Sirius should have sufficient funds to operate its business through mid 2002.

Sirius Radios Are Shipped to Retailers (2/20/01) Sirius ready radios by Kenwood were shipped to retailers nationwide. They will retail for less than $300 and will be available at Circuit City, Good Guys, and Tweeter Home Entertainment Group this summer. Nine Kenwood models are equipped to accept an "add-on" Sirius module via a simple connection. We believe it's crucial that receivers be available in quantity before Sirius executes its full-scale commercial launch this summer. Sirius has partnerships with Sony Electronics, Panasonic, Visteon, and others to manufacture Sirius-ready radios.

Sirius Signs Partners for Customer Care Services (2/19/01) Infintium Technologies has purchased the ClearCommerce Engine to process transactions for Sirius. The ClearCommerce Engine, which provides real-time credit authorization, payment and fraud detection, will process transactions for Sirius subscribers. Portal software will develop the billing platform. We believe exceptional customer care could help keep subscriber churn rates down.

Sirius Enters Into Agreement with Sony (2/5/01) Sirius announced an agreement with Sony Electronics that allows Sony to develop car, home and portable satellite radios capable of receiving Sirius' satellite broadcasts. We believe the Sony agreement should help Sirius in its OEM effort. More importantly, this agreement signals Sirius' intention to address the home market. Despite this, we continue to believe the automotive market is more attractive than the home market as there are very few "pipes" to the car. Eventually, we believe satellite radio providers will leverage their platform to generate additional revenues from t-commerce and interactive advertising.

DITIONAL INFORMATION AVAILABLE UPON REQUEST

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