

Satellite radio unfazed by losses

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Radio might seem anachronistic when there is so much competing technology that provides news and entertainment instantaneously. But if the latest earnings results from two of the biggest U.S. satellite radio providers offers any insight into the industry, then the radio-listening community is still growing strong and is willing to pay more for the privilege.

The problem is, however, that even if there are more subscribers, the costs of running the operation may not offset the sales revenue, at least for now.

On Tuesday, Sirius Satellite Radio announced its latest financial statements for the third quarter while XM reported its earnings last week. Yet while both companies boasted gains in their respective listenership, both posted net profit losses. Nevertheless, corporate executives remained largely upbeat about satellite radio's future prospects.

"Satellite radio is one of the fastest-growing entertainment services ever and is expected to exceed more than nine million total subscribers by the end of this year," XM Chief Executive Hugh Panero said in a statement announcing the latest results.

XM said that the number of subscribers to the service doubled from a year ago to 5.03 million, with 617,152 new members joining the network in the three-month period. The company said it expects to exceed 6 million subscribers by the end of this year.

Certainly, the fact that XM has over 150 digital channels available nationwide and has partnerships with General Motors, Honda, Toyota, Hyundai, Nissan and Audi to provide their cars with XM-compatible stereo systems has been a boom to the expansion of their market. As a result, the company's revenue increased by 134 percent from a year ago to \$153 million, and yet XM reported that it posted a net loss of \$131.9 million, up from the loss of \$118 million during the same quarter last year.

XM was not alone, however, in reporting that despite the surge in new listeners, it continued to lose money.

Rival Sirius reported that it now has over 2.17 million subscribers in total, with 359,294 listeners joining in the latest quarter alone. The result was that revenue soared 250 percent from the previous year to \$66.8 million, and yet it posted a net loss of \$180.4 million against a \$169.4 million loss in the third quarter of 2004.

Still, Sirius's chief executive remained upbeat about the company's prospects.

"We continued to gain retail and overall market share in the quarter. ... As we move into the important fourth quarter, we believe that our mix of innovative and competitively-priced products ... will yield strong year-end results," stated Mel Karmazin. He added that the company expects to have over 3 million subscribers by the end of this year.

Moreover, Karmazin pointed out that Sirius has high hopes for acquiring even more listeners with the launch of so-called shock jock Howard Stern's show from January, for which the company signed a \$500 million contract, and the recent start of a radio program by Martha Stewart for which it paid the consummate homemaking adviser \$30 million.

Industry analysts largely shared the two companies' bullishness about the satellite-radio industry.

"Growth comes at a cost ... it's a natural cycle," said Craig Moffett, senior cable and broadcasting analyst at New York investment group Sanford C. Bernstein. He argued that it was the nature of any subscription-based companies to lose money at a time when they were rapidly expanding.

At the same time, Moffett pointed out that "what's different about these companies, though, is that unlike most subscription companies (such as mobile providers and satellite television networks), customers in the (satellite radio) industry pay for a year in advance." The result is that they will have strong cash flow a year out, even though they are currently losing money.

As a result, "both companies look equally attractive right now," Moffett said, but he warned that "big contracts like the \$500 million for Howard Stern shouldn't become routine."

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