Globe Talk: Don't brush off satellite radio

June 9 2006

How does one decide on whether a risk is worth taking? There's obviously no set formula to that question that is asked by any shrewd investor or entrepreneur. At first blush, the risk in putting money into satellite radio may not seem a prudent one. Yet most Wall Street analysts are shying away from writing off the industry altogether, even though their financial performances have been far from dazzling.

While XM and Sirius Satellite Radio are fast becoming household names, and the companies are competing with one another to become fixtures in U.S. automobiles, neither has yet been able to translate their continued rise in subscribers into actual profits. In fact, both XM and Sirius have seen their share prices more than halve over the past two years as shareholders continue to be disgruntled by the need for ever more investments that outpaces the amount they are able to generate in revenue.

The situation becomes worse for Worldspace, a Silver Spring, Md.-based satellite network that caters largely to emerging markets in South Asia, Africa, and the Middle East. Since the company's initial public offering just under a year ago, Worldspace has seen its share price lose more than three-quarters of its peak value, even though the number of its subscribers has continued to rise slowly but surely.

Certainly, this is no get-rich-quick scheme, and those putting money on the business of satellite radio either within the United States or abroad can by no means expect to see impressive returns any time soon.

Yet there may well be a reason why analysts nevertheless still hesitate to write off the entire industry as a sell, and instead keep on advising investors to hold their shares for the long haul.

"This is a market ... that's investment-intensive," said Judith Pryor, senior vice president of corporate affairs at Worldspace. "There's a lot of cost upfront...people need to understand that."

To be sure, for Worldspace to keep its two satellites up in space to ensure network coverage for its subscribers currently totaling some 153,000 worldwide, in addition to setting up all the necessary infrastructure to guarantee high-quality broadcasting in some areas of the world where even basic infrastructure including electricity is patchy is no easy task. Moreover, given that subscribers in developing countries only pay about $4 to $6 per month, the network needs far more clients than it has now to be able to turn around a profit.

Sirius, for instance, said Thursday that it will add a fourth satellite to its fleet by the end of 2008 which will cost $260 million, including the development, launch, and insurance fees, even though the company continues to struggle to be in the black. In short, not only is launching and maintaining satellites costly, but providers are under constant pressure to provide ever-better quality and coverage that requires big bucks.

Yet while it would be all too easy to be dismissive about the costs of keeping satellite networks going and instead be cynical about how there will never be enough listeners willing to pay for the service to justify the business, it's hard not to be taken up by the industry's dreams for the future.

In the case of Worldspace in particular, the company's emphasis on catering to the specific tastes of local markets rather than simply trying to impose U.S. programming on to non-U.S. subscribers is a breath of fresh air in the world of global entertainment which is increasingly U.S.-dominated. While the company has its fair share of dishing out mainstream U.S. and British pop songs and offerings of U.S.-centric broadcasts, it is fully aware that a line-up aimed at a U.S. audience will not fly among its own clientele. After all, of the company's total subscribers, 73 percent are based in India, and Worldspace has channels devoted to various Bollywood music genres, in addition to having programs in 17 of the subcontinent's multiple languages in order to meet the market's specific needs.

"At the end of the day, it's all about the product...the programs," Pryor said, pointing out that even with the best-quality sound and state-of-the-art technology, people would not be subscribing unless they actually enjoyed listening to the network.