



ELEVATION CAPITAL  
GLOBAL SHARES FUND



Liberty SiriusXM (NASDAQ: LSXMA, Market Capitalisation US\$15,619m) is a Liberty Media tracking stock, formed in April 2016. The stock features ownership of large entertainment companies, including 76% of radio conglomerate SiriusXM, and 33% of Live Nation, an events company they repositioned from The Formula One Group. SiriusXM is a high-quality business with near monopoly-like characteristics, dominating the United States satellite radio industry.

What is a tracking stock and how was it formed? Early in 2016, Liberty Media investors were becoming increasingly frustrated with the growing gap between the stock price of Liberty Media and the Net Asset Value (NAV). In response, Liberty split into three tracking stocks which track the different core assets of the company - one of these tracking stocks is Liberty SiriusXM Group. However, the opposite has happened since becoming a tracking stock, as the discount to Net Asset Value (NAV) has not only not closed, but has widened. At the date of this report, Liberty SiriusXM Group trades at a ~40% discount to the NAV comprised of mainly SiriusXM stock. We have capitalised on this opportunity to acquire shares for investors in the Elevation Capital Global Shares Fund.

Liberty SiriusXM has two clear, quantifiable drivers. The first is a narrowing of the NAV discount and the second is appreciation in LSXMA's stake in SiriusXM (NASDAQ:SIRI). The discount essentially attributes a negative value to Liberty's ownership stakes in Live Nation, iHeart Media, Braves Holdings, and the Formula One Group. As a firm rooted in the value investing school of thought, Elevation Capital is a student of history and we are encouraged by the control of Liberty SiriusXM by John Malone, who owns a majority stake in Liberty Media. Malone is an ethereal force in the media industry where he's been an active investor and expert capital allocator for more than 40 years. He is very shareholder-minded, and knows how to select strong cash generative businesses, capitalise them effectively, and create synthetic equities or undertake mergers & acquisitions when appropriate.

## Liberty SiriusXM portfolio of assets<sup>1</sup>



**76% ownership**

A satellite radio company delivering commercial-free music plus sports, entertainment, comedy, talk, news, traffic and weather.



**33% ownership**

Largest live entertainment company in the world, consisting of three segments: concerts, sponsorship and advertising and ticketing.



**5% ownership**

American audio company with over 850 live broadcast stations and a leading streaming broadcast radio platform.



**4% ownership**

Liberty Media's wholly owned subsidiary Braves Holdings, which indirectly owns the club, stadium and real estate projects.



**Formula One Group**

**2% ownership**

Liberty Media's wholly owned subsidiary F1 and other minority investments (Liberty Media Acquisition Corporation, AT&T).

\*As at 30 June 2021



# SiriusXM maintaining a compelling growth outlook



SiriusXM is an automotive satellite radio company, with 34.4m US subscribers and 2.6m Canadian subscribers. Auto manufacturers are very committed to SiriusXM both now and looking towards the future, and SiriusXM's easy-to-use interface in the car has maintained and grown market share against streaming, terrestrial radio, etc. Its numbers are strong, with 75% of new cars in the US coming with SiriusXM installed at sale. This is forecast to increase to 80% over the next two years as Toyota makes it standard on all of its cars.

SiriusXM has competed successfully by using a different model than free-to-air radio: paid subscriptions, exclusive content plus a set of unique channels that provide a wide variety of news, talk, sports and music with a focus on special features and personalities like Howard Stern. Streaming audio has long been available via mobile phones and more recently through a limited selection of connected cars but has failed to gain much traction against satellite or terrestrial car audio thus far<sup>2</sup>. This is likely to change over time, especially as software achieves better integration into connected cars with more robust and higher bandwidth wireless, but the change is likely to be slower than has been prognosticated by industry watchers, as it has been for years.

## Growing podcast content and business

The growth of streaming from industry players such as Spotify, Apple, Amazon and Google made it clear that SiriusXM needed to seriously consider providing a viable digital product offering too. This propelled them to acquire Pandora, a podcast streaming provider, in September 2018 for US\$3.5 billion.

Pandora provides a new revenue stream to SiriusXM along with a very large funnel of potential subscribers to both Pandora streaming and SiriusXM audio. Pandora had historically offered a subscription-free model focused on advertising revenue, but later added a subscription option when that model was proved effective by Spotify, and later by Apple and others too. SiriusXM seems to be re-focusing Pandora away from unprofitable subs, translating into less listening hours and fewer free and paid subscribers, but a more profitable business model. We believe SiriusXM will use Pandora to build a better advertising and subscription model, while also using it as a funnel of potential SiriusXM paid subscribers. SiriusXM has been stepping up their game outside the car in other ways, too, like providing its service through phone apps and options such as Amazon's wildly successful smart speakers. We believe SiriusXM will maintain its focus on exclusive content as a differentiator while building out Pandora as an advertising platform and a funnel for new, paid subscribers.

Further, the acquisition of Stitcher in October 2020 provides the company with increased exposure to podcasting. Stitcher is a content studio and advertising representative business, and its app provides features and discovery benefits for SiriusXM's other platforms.

FREAKONOMICS RADIO NETWORK



STEPHEN J. BARBER



TEAMCOCO

EARP WOLF





# SiriusXM possesses a competitive moat

How is SiriusXM different from competing streaming services?



## Ubiquity of Service

While streaming services are subject to the availability of wireless signal strength, SiriusXM uses satellites which cover the entire United States.

## Ease of Use

SiriusXM's interface is built into the vehicle console and/or steering wheel by OEMs, offering easier usage than a smartphone.

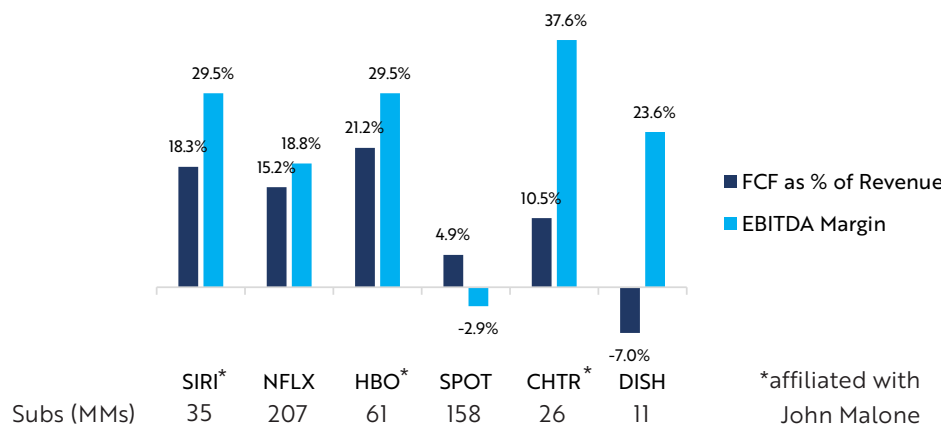
## Differentiated Content

While music content is fairly commoditised across services, SiriusXM also offers exclusive sports, news, talk shows, and live events (e.g. concerts).

## No On-Demand Music

SiriusXM does not offer the ability to pick songs. This is for financial reasons, as on-demand music has more expensive royalty rights than linear music.

# SiriusXM possesses highly attractive business model



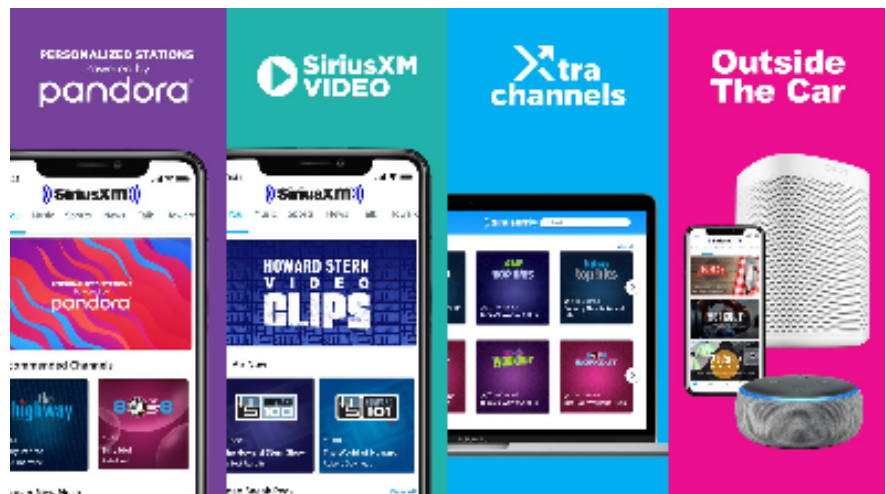
For many streaming music services, content costs can be up to 70% of revenues, while for SiriusXM, these content costs are estimated to be less than 20%. This is a result of SiriusXM's business model, which does not offer on-demand music to its customers but curated stations of content. This model has led to high EBITDA margins and free cash flow conversion relative to their peers in the media and media distribution industries.

*"SiriusXM generates more revenue per employee than 90% of the companies in the S&P 500. More importantly, SiriusXM generates more cash flow per employee than 95% of the companies in the S&P 500"*

- JAMES MEYER, CHIEF EXECUTIVE OFFICER AT SIRIUSXM

The business is steady and slow growing, but it generates prodigious free cash flow. Over the last three years, the company generated \$1.6 billion, \$1.5 billion, and \$1.6 billion of free cash flow, respectively.

The growth of streaming services such as Spotify and Apple Music has not impacted SiriusXM materially, with SiriusXM growing by 8.5 million subscribers over the last five years. About 2/3 of SiriusXM's subscribers reported that they regularly stream an audio service<sup>3</sup>, so the two appear to be complimentary rather than substitutive.





## Growing existing and additional service lines

SiriusXM, Pandora, Stitcher, and their recent US\$75m investment, SoundCloud, reach a combined audience of more than 150 million people. SiriusXM is bolstering its position as North America’s leading audio entertainment company with new innovative talk shows and podcasts, streaming music channels targeting younger audiences, and extended deals with major media brands, such as NBCUniversal News Group.

They also recently signed an exclusive audio agreement with The Masters and secured additional digital sports rights with the NFL and NBA to benefit their streaming products.

SiriusXM’s next generation automotive platform, which they call “360L” combines their satellite and streaming services into a single, cohesive in-vehicle entertainment experience. They have agreements with many automakers to deploy their 360L interface in a variety of vehicles.

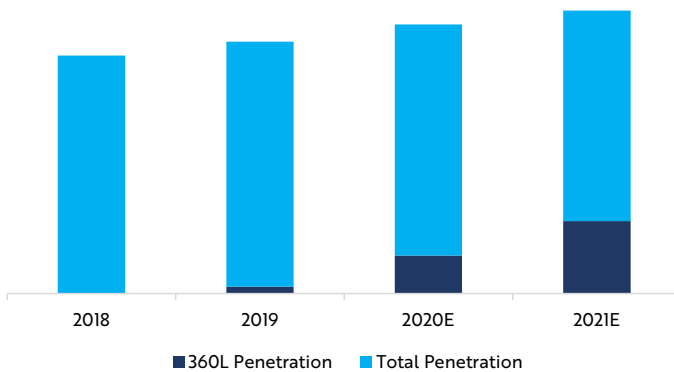
### Total reach of 150M+ listeners



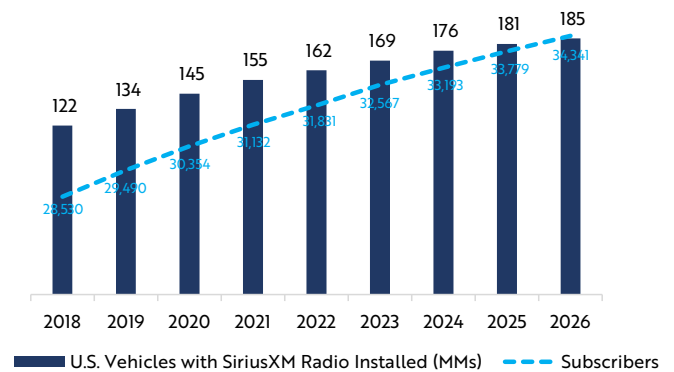
### New long-term OEM deals



### SiriusXM’s new car penetration to climb above 80%<sup>2</sup>



### Market opportunity will increase 19% over the next 5 years<sup>2</sup>



## The Howard Stern effect



Howard Stern, the self-proclaimed “King of All Media,” has cultivated a loyal audience over the course of a successful thirty-year radio career. Stern appears on SiriusXM satellite radio just three days a week, however his listening statistics are unheard of: the average radio listener tunes in for 18 minutes, whilst the average Howard Stern fan listens for an hour and 20 minutes.

The original signing of Howard Stern by Sirius not only boosted subscribers (currently 3.4 million listeners annually), but was also instrumental in driving a merger between XM and Sirius. Macquarie estimated that SiriusXM would lose 5% of subscribers if Stern exited<sup>4</sup>, however SiriusXM has reached a contract extension through to 2025, staving off competition from Spotify.



# Impressive financial performance

## What are the drivers of revenue?

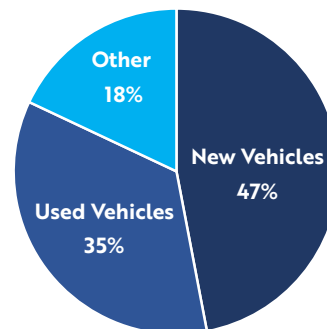
The primary source of revenue from the SiriusXM business is subscription fees, with most of their customers subscribing to monthly, quarterly, semi-annual or annual plans. They also derive revenue from advertising on select non-music channels and direct sales of their satellite radios and accessories. The majority of revenue from the Pandora business is generated from advertising on the Pandora ad-supported radio service. They also derive subscription revenue from their Pandora Plus and Pandora Premium subscribers. The Pandora business also sells advertising on audio platforms and in podcasts unaffiliated with them. Pandora is the exclusive US ad sales representative for SoundCloud. Through this arrangement Pandora offers advertisers the ability to execute campaigns in the US across the Pandora and SoundCloud listening platforms.

SiriusXM has been able to raise prices ahead of inflation, at around 3-4% per year, producing attractive revenue growth. The combination of unit and price growth has translated into 6-7% revenue growth year-on-year. SiriusXM churn is below 2% per annum, resulting in a 98%+ retention rate which is impressive for any subscription service.

## Visible runway for future growth

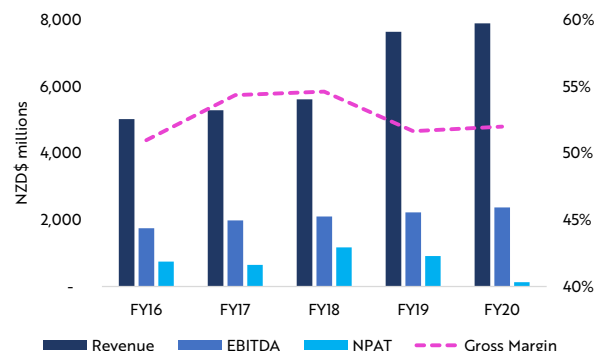
Despite the headwinds from a target market that was driving fewer miles, SiriusXM still saw its 2020 self-pay subscribers grow 3% to 30.89 million from 29.98 million subscribers at the end of 2019, while the associated revenue grew 4% from \$5.64 billion to \$5.86 billion. Estimates for earnings growth are expected to be 15% in 2021 and over 16% in 2022.

New Customer Additions in 2020



## Track record of strong execution

SiriusXM has performed strongly over the last five periods, growing revenue through to NPAT year-on-year from FY16 to FY19, and weathered the impacts of COVID-19 well. Every year since 2011, SiriusXM's operating margins have been more than 20%. Anything above 10% is considered great, so these are exceptional results.



## Significant capital returns and investments, reflecting its strong cashflows

### \$15.1 Billion:

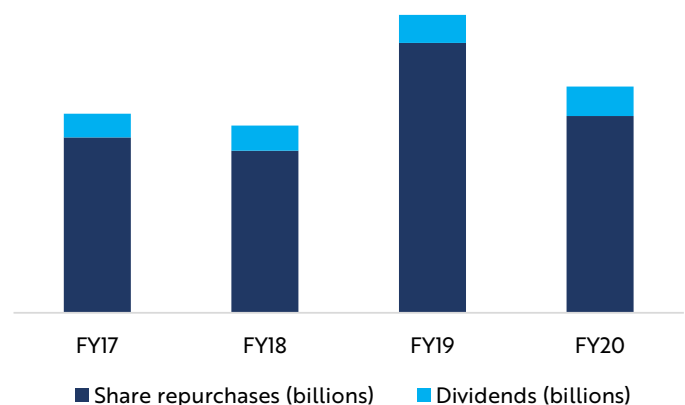
Total capital returned to shareholders since 2012

### Growing Dividends:

Announced 4th annual 10% increase to quarterly dividend

### Acquisitions & Investments:

\$428 million committed this year: Stitcher, SoundCloud & Simplecast





## Malone orchestrating capital allocation



### Malone and Maffei are the kingmakers

As Liberty Media's chairman and largest shareholder, John Malone is one of the world's most influential media magnates. He has built an illustrious empire from a track record of excellence in capital allocation - notably through telecommunications giant, TCI. Greg Maffei is the President and CEO of Liberty Media, and has had a renowned career in the technology industry. Malone, through his super-voting Class B shares, effectively controls most major decisions of Liberty Media and the voting rights of the Liberty SiriusXM Group. As mentioned, Liberty currently owns 76% of the common stock of SiriusXM Holdings, and thus controls the SiriusXM board. Last year's proxy statement shows Malone held 47.9% of the votes of the Liberty SiriusXM Group and Greg Maffei held another 1.1% of the votes of that group.

### Warren Buffett and Berkshire Hathaway demonstrate affinity<sup>5</sup>

Berkshire Hathaway is Liberty SiriusXM's largest independent shareholder with an 11.24% stake. Berkshire has progressively increased its stake over the last five years. Berkshire increased its shareholding by an approximate US\$330 million in May 2020, through the 'C' shares, taking its total ownership to 40 million 'C' shares and 15 million 'A' shares. Berkshire are a fellow practitioner of the value investing approach which Elevation Capital employs, and clearly see the same attractive fundamentals.

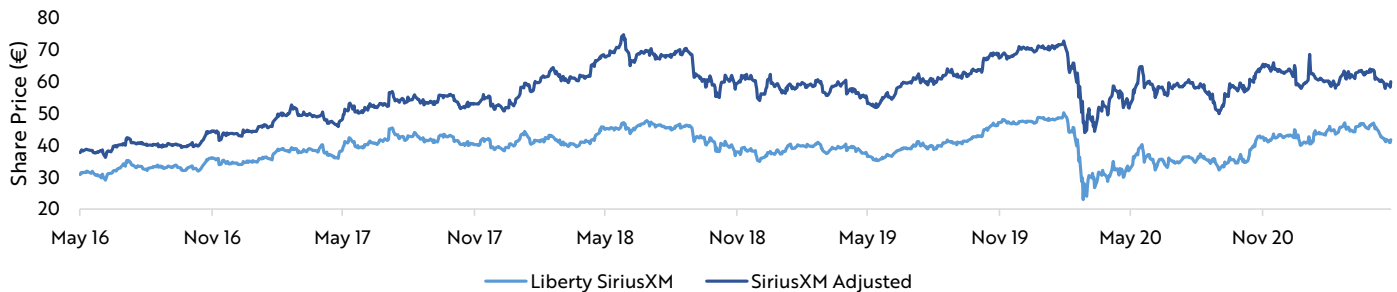
### Repositioning of Live Nation shares

Leading into COVID-19, Formula One and Live Nation Entertainment were performing well. However, when the economy shut down, these businesses faced serious interruption, and Formula One was very close to tripping loan covenants. Formula One had at its disposal a \$500 million undrawn revolving credit facility and a \$2.9 billion loan, which was secured by share pledges, bank accounts and floating charges over Formula One's primary operating companies. If Formula One defaulted on the loan, the lender would become the new owner of the sport. Malone responded by moving Live Nation and some debt out of the Formula One tracking stock vehicle and into Liberty SiriusXM. Next, he injected cash into Formula One to save it, with Live Nation receiving support from the strong cash flow at SiriusXM. In order to fund the cash injection, Malone initiated a capital raise through a rights offering, which Elevation Capital, Malone and Maffei fully participated in. The deal provided Formula One with enough financial strength to weather the hiatus in its motor racing schedule. Housing Formula One's Live Nation stake inside Liberty SiriusXM also enabled Malone to use satellite radios cash flow to increase his Live Nation ownership through purchasing further Live Nation shares on market in 2020.



# Liberty SiriusXM NAV discount persists

Widening of NAV discount has provided a further buying opportunity



## Suggested reasons for NAV discount<sup>6,7</sup>

### Liberty is complex

Liberty's myriad businesses and assets are housed under five main corporate umbrellas. Within that group of five are nine stocks, seven of which are tracking stocks. The complex structure can make it challenging for investors to understand, as well as the changes in allocation of capital between the tracking stocks. The liberty tracking stocks have very complex characteristics (debt, tracking stock accounting).

This is the most likely scenario. Investors have accordingly not paid much attention to the stock due to its unique structure.

### SIRI is overvalued

This theory states that SiriusXM is overvalued, but given its tiny liquidity and the enormous buybacks, short sellers prefer to use the more liquid Liberty SiriusXM as a proxy to short, which drives its share price down. Hence, so goes this theory, Liberty SiriusXM is correctly valued, while SiriusXM itself is too expensive. The NAV discount is a discount compared to an illusionary value.

This seems unlikely given the breadth of analysts covering SIRI and its responsiveness to earnings calls and strategic announcements.

### Won't reach threshold

This hinges on the prediction that the 80% ownership threshold in SiriusXM will never be reached, since ongoing and potential corporate finance activity would delay further repurchases (e.g. acquisition of Pandora, Live Nation etc.).

Unlikely because SiriusXM has shown commitment to repurchasing shares, with the pandemic only an interruption to this program.

Many larger firms will not invest in tracking stocks or other unusual corporate structures. This leads to market mispricings as we believe is the case here. As a tracking stock, the company is not covered by many analysts, is not included in any of the major indices, and is essentially off limits to most institutional investors as neither index funds or mutual funds own tracking stocks.

This is, in our opinion, the principle reason for the mispricing of Liberty SiriusXM.

## Share buybacks the catalyst to close gap

Liberty has instructed SiriusXM's CEO to buy back massive amounts of stock in the past years, and they're going to continue to do so. At current rates, they're buying back 4% to 6% of SiriusXM's own stock each year. This means that within four years, all remaining shares not owned by Liberty could be bought back and retired. We believe this gradual program of buybacks will serve as a catalyst for the tracking stock to be valued by the market at Net Asset Value. We think the sole reason for the 40% discount the market is irrationally attributing to Liberty SiriusXM Group versus the underlying SiriusXM asset on the balance sheet is due to a lack of demand for the stock because of institutional constraints as discussed above. The 80% ownership mark is a milestone because the subsequent changes to tax treatment between Liberty and SiriusXM enables a more efficient transfer of funds. If the NAV discount were to persist, we could expect SiriusXM to pay a significant dividend instead of buying back its own shares to the same degree, and Liberty to use those funds to repurchase LSXM shares.



## Valuation

As mentioned, SiriusXM is a high margin business which produces prodigious amounts of free cash flow. As shareholders this provides us with a degree of certainty in how we value the company, and it also affords the company with a significant amount of capital to deploy.

In order to assess the medium-term outlook for this investment, we have utilised the following data: FY2020 & estimated 3-year normalised EBITDA (FY21-FY23).

Utilising 5-year average EV/EBITDA trading multiples, we arrive at a valuation range for LSXMA of \$66.90 to \$93.88, presenting upside of between +44.20% to +102.39% from the 30 June 2021 share price and +66.53% to +132.26% from the Elevation Capital Global Shares Fund current cost basis.

The NAV discount provides our investors with a potential 69% upside on their investment simply from the NAV gap closing which we believe is likely to happen in the forthcoming years.

This provides Elevation Capital Global Shares Fund investors with the opportunity to potentially experience gains on their investment through the NAV discount narrowing or closing off completely, along with any additional value that the underlying asset, SiriusXM, creates over time.

### SiriusXM Valuation Summary (all numbers in millions except share prices)

	FY20	FY21-23F
<b>EBITDA</b>		
EBITDA	2,575	2,760
EV/EBITDA Peers Multiple	15.2	15.0
<b>Implied Enterprise Value</b>	<b>\$39,140</b>	<b>\$41,400</b>
Minority Interests	1,911	1,952
Net Debt	8,429	9,281
Leases	434	864
<b>Total Equity Value</b>	<b>\$32,188</b>	<b>\$31,255</b>
Shares Outstanding	4173	3580
<b>Implied SOTP Share Price</b>	<b>\$7.71</b>	<b>\$8.73</b>
Current Share Price	\$7.09	
<b>Implied Upside</b>	<b>+8.79%</b>	<b>+23.14%</b>

### Liberty SiriusXM NAV Discount (all numbers in millions except share prices)

3.1b SIRI Shares x \$7.09	22,036	
LSXMA Net Debt	3,149	
iHeart Debt	103	
Leases	440	
<b>NAV</b>	<b>25,728</b>	
NAV / Share	\$76.80	
Current Price / Share	\$46.39	
<b>Discount</b>	<b>-39.6%</b>	
	20% Discount	0% Discount
<b>Implied Share Price</b>	<b>\$58.57</b>	<b>\$78.35</b>
Current Share Price	\$46.39	
<b>Implied Upside</b>	<b>+26.26%</b>	<b>+68.90%</b>
Elevation Capital Cost Basis	\$39.42	
<b>Implied Upside</b>	<b>+48.59%</b>	<b>+98.77%</b>

\*as at 30 June 2021





## Conclusion

We believe that LSXMA is currently trading at a discount to its intrinsic value, and that it offers attractive upside in the near-term. The company as at 30 June 2021, has returned +17.68% for the Fund. We believe that we have acquired LSXMA at an opportunistic time, and stand to benefit from strong momentum in the vehicle industry along with the growth of SiriusXM's podcast offering.

There are risks to this investment; notably performance in new car penetration, OEM (manufacturer) relationships, used car expansion, content exclusivity and expense, and financial or capital allocation could be worse than anticipated. Further, the 80% ownership threshold may take a while to reach, or may not reflect a discount on LSXMA at all (as mentioned on page 7).

However, we don't believe such risks provide reasons to not own the stock. We welcome the NAV discount and are in no particular hurry for it to close. If M&A delays the closing and causes a sell-off, then in the meantime, repurchases at even larger discounts to NAV would increase Elevation Capital's share of the cake. The story is clear: we own a fractional interest in an investment vehicle that owns stakes in various cash-generative companies. The capital allocators have a proven track record and are risk-averse, extremely patient, and smart. They also have skin in the game, owning personally large stakes in Liberty Media. Overall, we like the alignment of interests and the risk/reward profile for our investors.

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Any data not referenced was sourced from Liberty Media and SiriusXM Annual Reports & Earnings Conference Calls.

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6 Value Walk. (2020). Liberty Sirius: NAV Calculation Shows A Significant Discount.

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8 Capital IQ as at 30 June 2021.

This summary report was written in June 2021 - July 2021.

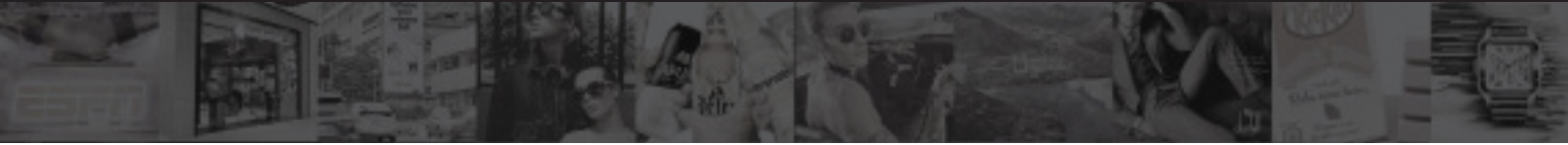
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ELEVATION CAPITAL  
GLOBAL SHARES FUND



# Independent Thinking Disciplined Investing

**[In-de-pend-ent Think-ing] ind ə'pendənt THiNkiNG verb**

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

**[Dis-ci-plined In-vest-ing] disciplinəd inves'ting verb**

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.



MORNINGSTAR INTERNATIONAL  
EQUITIES CATEGORY FUND MANAGER OF  
THE YEAR 2017, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL  
EQUITY SECTOR FUND MANAGER OF THE  
YEAR 2013, NEW ZEALAND



NOMINEE - MORNINGSTAR INTERNATIONAL  
EQUITIES CATEGORY FUND MANAGER OF  
THE YEAR 2012, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL  
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