Sirius XM Holdings (SIRI)

Thesis and analysis — October 12, 2026

The thesis

TRIM

A high-margin, cash-generative franchise bolted to a slowly melting in-car subscriber base and about $9.6B of debt: on a clean normalization it trades at about 11× EV/EBIT and about 10× earnings, but appraising its declining cash flows at the business's about 9% cost of capital and subtracting the debt at face, the equity is worth about $17 a share (probability-weighted) against about $26.50 price, so the margin of safety is deeply negative and the overweight position should be trimmed toward, and arguably below, its 6% target.

The score

3.0 / 10 — sell signal



Lifting it: Return on capital (ROIC), Operating margin

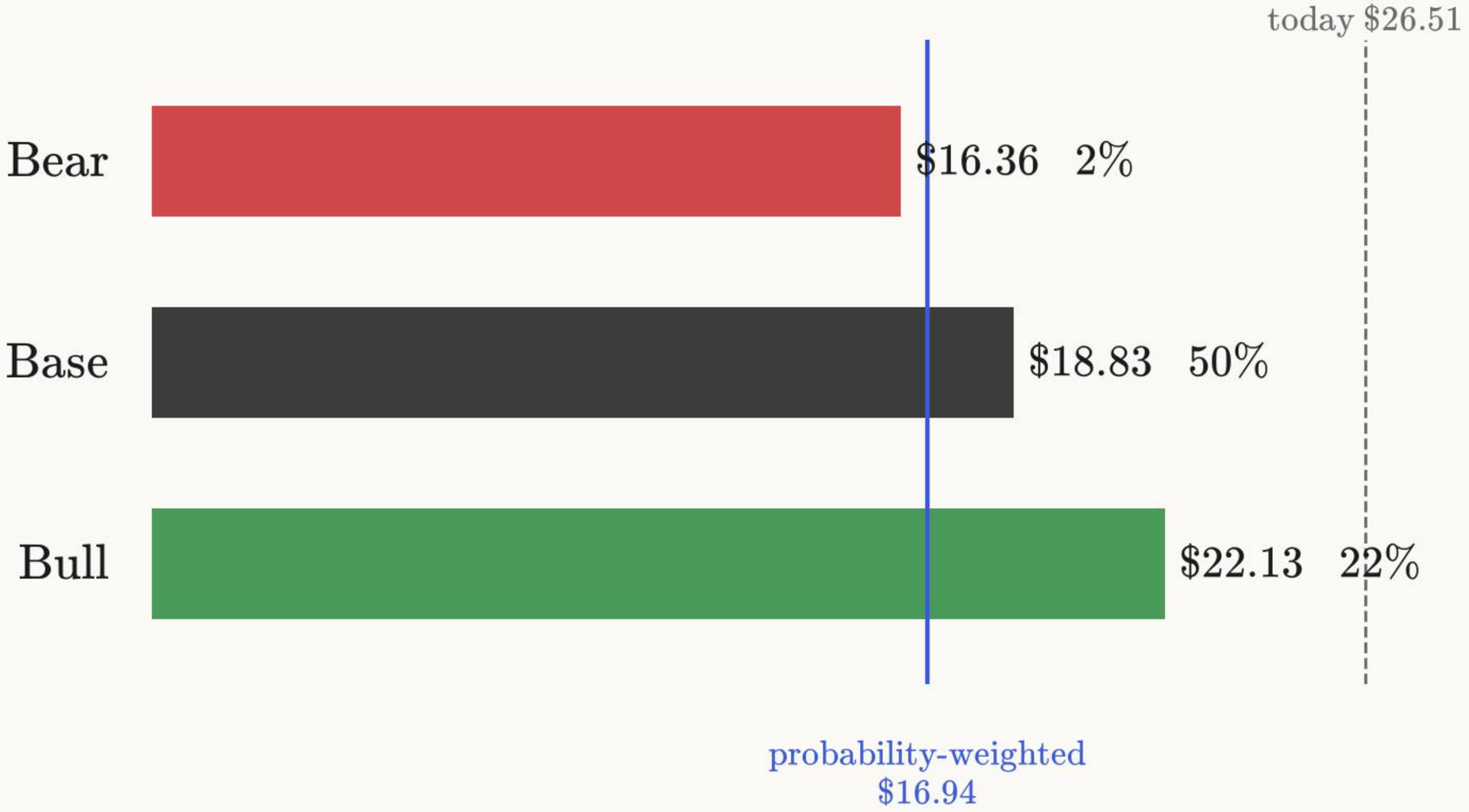
Holding it down: Price, Return on capital (ROIC)

The key numbers

EV / EBIT, normalized	11.2×
P / E, normalized	10.3×
ROIC, normalized	10%
Operating margin, average	19.5%
Marginal return on capital	sales fell while capital was added

normalized FY2019-FY2025

What one share is worth



Filings and accounting quality

Accounting is clean US-GAAP; the only material judgement is separating one-time goodwill/intangible impairments from recurring restructuring, which this review corrected from the filings.

- FY2024 "Impairment, restructuring and other costs" of $3,453M is $3,355M of one-time impairment — $2,819M SiriusXM-reporting-unit goodwill + $500M Sirius XM Canada equity-method + about $36M — triggered by the Sep-2024 Liberty split-off (ASC 350 interim test); only about $98M is recurring restructuring.
- FY2020 included a $956M Pandora goodwill impairment + $20M trademark, COVID-era, one-time.

Balance sheet

Customer-funded operations with almost no tangible capital, but a thin, goodwill-only equity under heavy debt.

- Net working capital -$1.50B in FY2025 (customers prepay subscriptions); current liabilities $3.65B vs current assets $1.10B.
- Operating capital (working capital + net fixed assets) just $763M, tangible capital under 10% of sales — the business funds itself.
- Invested capital $21.3B = equity $11.56B + long-term debt $8.65B - cash $0.09B; equity is essentially all goodwill/intangibles ($22.45B), so tangible book is deeply negative.

Cash flow statement

Strong, real cash generation covering the dividend and deleveraging, with capex rolling off.

- FY2025 free cash flow $1,060M = operating cash flow $1,898M - stock-based pay $179M - capex $653M - finance leases $6M; normalized FCF $1,097M, about 65% of EBIT and above net income $940M (cash-backed).
- US GAAP: interest paid sits in operating cash flow, so no IFRS lease/interest add-back needed.
- Capex rolling off as satellites SXM-11/12 finish (FY2024 $728M -> FY2025 $653M); FCF less the about $365M dividend leaves about $695M for debt reduction.

Income statement

Stable, high-margin earning power that is modestly but persistently declining.

- Revenue $8,558M in FY2025,–1.6% on the year; +1.6% a year FY2019->FY2025 but it peaked in FY2022 ($9,003M) and has fallen -1.7% a year since (FY2022->FY2025).
- Operating margin 17.2% reported, 19.7% normalized (recency-weighted, falling), about 22% before about $200M/yr recurring restructuring.
- Normalized EBIT $1,690M, net income $940M, EPS $2.63; one-time impairments removed. Normalized EV/EBIT 11.0, P/E 10.1 (reported 12.7 / 11.9).

Debt tables

Leverage is the central risk: about $9.6B net debt, cheaply funded and well-laddered but large against a declining business.

- Total debt about $9.7B (net about $9.6B); weighted coupon about 4.7% ($459M interest); interest coverage about 3.2× reported / about 3.7× normalized EBIT.
- Net leverage about 3.6× adjusted EBITDA (about 5.7× normalized EBIT); covenant debt/operating cash flow ≤5.0×; management targets net low-3× and prioritizes deleveraging over buybacks.
- Maturities laddered: about $1.25B 2027, $2.58B 2028, $1.25B 2029, $1.6B 2030, $2.75B thereafter; $2.0B revolver to 2030; $575M 3.75% convertible due 2028 (strike about $31).

Commitments and contingencies

Large fixed commitments and a genuinely uncapped tax-indemnity tail add materially to the risk.

- about $14.5B of total contractual obligations, including about $2.3B of music/podcast royalties and minimum guarantees (e.g. Call Her Daddy) and about $666M of programming commitments.
- Satellites SXM-11 and SXM-12 under construction; about $581M of planned clean-energy tax-equity investments to lower cash taxes.
- Contingencies: an uncapped Section 355(e) tax indemnity to Liberty if the 2024 split-off is deemed taxable; the New York AG ROSCA suit over subscription cancellation; Music Royalty Fee litigation; uncertain tax positions (about $201M).

Market and segment analysis

Concentrated in the declining, higher-margin SiriusXM segment, with a smaller, lower-margin Pandora.

- SiriusXM about 75% of revenue ($6,485M FY2025), segment operating margin about 22%; about 33M self-pay subscribers, slowly declining; ARPU about $15.3 held up by price increases.
- Pandora & Off-platform about 25% ($2,143M), margin about 11%; ad-supported, Pandora MAUs -7%; podcast/off-platform ad growth is the only expanding piece.
- Largest segment 75% of revenue -> concentrated (diversification effect -0.15); the whole is US in-car/streaming audio.

Depreciation analysis

Depreciation and amortization are handled conservatively; capex is the binding cost and is rolling off.

- FY2025 total D&A $547M = PP&E depreciation $422M + acquired-intangible (Pandora/XM) amortization $125M.
- Normalized EBIT uses maintenance capex $653M in place of D&A and drops the $125M intangible amortization (no reinvestment needed); maintenance capex exceeds PP&E depreciation, so it is the honest cost of keeping the assets.
- Satellites carry about 15-year lives (SXM-11/12 under construction); the FM-6 satellite's shortened life adds about $60M of depreciation in 2026.

Business quality and moat

A real but narrow and eroding moat that protects margins in a shrinking market; reinvestment adds little value.

- Moat: the only US satellite-radio spectrum licenses, factory OEM integration in about 80% of new vehicles, and exclusive content (Howard Stern, sports) — evidenced by about 22% underlying margins and ARPU that keeps rising even as volume slips.
- But the addressable in-car-audio category is shrinking as EV/CarPlay/streaming spread, so the moat is narrow and eroding (a demand problem, not a competitive breach).
- Returns: ROIC on invested capital 10.5% pre-tax (about 8% after tax); tangible capital not meaningful (customer-funded). Marginal return weak — sales fell $221M while about $975M of capital was added; new capital earns about 9% after tax, around the cost of capital.

Management and governance

Competent operators under a controlled-company structure; execution is solid but governance risk offsets it (grade average).

- Liberty/Malone-controlled after the Sep-2024 split-off — a controlled company with a related-party Tax Sharing Agreement and the uncapped Section 355(e) tax tail.
- Capital allocation is sensible: deleveraging prioritized over buybacks (only about $170M of the $1.166B authorization used), dividend $1.08/yr (about $365M), about $250M cost-savings program executing. Berkshire Hathaway is a holder.
- Risk: buybacks resumed well above intrinsic value, or a value-destructive Liberty-complex related-party transaction, would destroy value.

Valuation

On a cash-flow appraisal the equity is worth far less than the price; the cheap-looking multiples are a leverage artifact.

- Two-stage APV DCF at 9.5%, terminal 0%: worst $3, bear $14.39, base $16.86, bull $19.15; probability-weighted $15.16, value-without-bull $14.16 vs a $26.51 price — margin of safety ~-43%, chance of being worth more than price about 0%.
- Normalized EV/EBIT 11.0, P/E 10.1, P/FCF 8.1 look only average/cheap, but they credit the about $9.6B of debt at its about 4.7% coupon; appraising the melting operating cash at the about 9.5% cost of capital and subtracting debt at face leaves the thin equity.
- Even the bull case ($19.15) sits below the price; the DCF, not a multiple, governs.

Risk and margin of safety

No margin of safety at $26.51, so the position should be reduced; downside is amplified by leverage and a genuine tail risk.

- Weighted value $16.95 vs price $26.51 = ~-36% margin of safety; buy-below about $13.
- Permanent-loss 0.35: worst case $9 (26% odds) reflects a fast melt gearing the about 5.7×-levered equity down; uncapped Section 355(e) tax indemnity is a low-probability, high-severity tail.
- Partial offsets (capex rolloff lifting FCF, Q2–26 +22k self-pay, Berkshire ownership) do not restore a margin of safety at this price.

Decision, sizing and portfolio fit

Trim the overweight toward, and arguably below, its 6% target; add only well below today's price.

- SIRI is 7.31% of the portfolio (#6 of 9, CAD 90,855) vs a 6% target — overweight by about 1.3 points.
- Sell signal (score about 3.0/10) and no margin of safety (weighted value about $17 vs $26.51, about 0% chance worth more than the price) argue to reduce about 1.3 points to target and bias to the low end of the sleeve.
- Portfolio fit: a declining, leveraged single name — keep only as a shrinking cash-return/income holding, not a core compounder.

Monitoring and selling

Hold as a monitored, shrinking income position with clear sell discipline; re-rating to a buy needs a durable inflection well beyond today's evidence.

- Watch quarterly: self-pay net adds / churn (sell trigger churn >2% or net losses past -600k), operating/adjusted-EBITDA margin trend, and free cash flow below about $1.0B.
- Balance-sheet watch: net leverage drifting toward 4× adjusted EBITDA vs the low-3× target; dividend + debt-reduction coverage.
- Governance watch: any value-destructive Liberty related-party transaction, buybacks above intrinsic value, or Section 355(e) tax-indemnity developments.

The decision

TRIM

The decision: trim. Buy below $13.00. Trim above $20.00.

Target weight 6.0 percent of the portfolio.

The decision (continued)

TRIM

What would change our mind: A durable inflection — free cash flow sustainably above about $1.4B on the capex rolloff, operating margin stabilizing above about 20%, net subscriber losses narrowing toward flat, AND evidence that reinvested capital earns clearly above the about 9% cost of capital — would lift the base-case cash flows and could restore a margin of safety.