

AB Corporate Credit Case Study

Sirius XM Holdings Inc. | Corporate credit assessment | Prepared by Shraddha Deshmukh

- Please build a 3-statement model (income statement, balance sheet, and statement of cash flows) with 3 years of historical and 3 years of projections. Include any KPIs or segment level data in both the historical and projected periods.

- Include an EBITDA-->Changes in Cash bridge using the following format for all the historical and forecast periods

Cash Flow Summary	2023Y	2024Y	2025 Y	LTM	2026E	2027E	2028E	2026E	2027E	2028E
Adj. EBITDA	2,758	2,717	2,665	2,702	2,600	2,661	2,741	2,411	2,367	2,374
Cash taxes	(165)	(218)	(156)	(153)	(152)	(156)	(160)	(141)	(139)	(139)
Cash interest	(507)	(473)	(439)	(432)	(425)	(386)	(286)	(425)	(386)	(286)
EBITDA-tax-int	2,086	2,026	2,070	2,117	2,023	2,119	2,295	1,845	1,843	1,949
Working capital	(50)	(109)	(25)	(99)	(25)	(26)	(26)	(23)	(23)	(23)
Other changes in CFO**	(207)	(176)	(147)	(91)	(125)	(136)	(316)	(299)	(299)	(299)
Cash flow from operations	1,829	1,741	1,898	1,927	1,873	1,958	1,953	1,523	1,521	1,627
Capex excluding satellite expenditure	(284)	(307)	(365)	(405)	(408)	(408)	(408)	(408)	(397)	(395)
Satellite expenditures	(285)	(262)	(204)	(264)	(215)	(50)	0	(115)	(50)	0
FCF (CFO-capex)	1,545	1,434	1,533	1,522	1,350	1,500	1,545	1,000	1,074	1,233
Change in Debt	(1,101)	(709)	(679)	(741)	(89)	(1,595)	(1,575)	(89)	(970)	0
Change in Equity	0	0	0	0	0	0	0	0	0	0
Share Repurchase	(274)	(6)	(136)	(133)	(22)	0	0	(22)	0	0
M&A	0	0	0	0	0	0	0	0	0	0
Proceeds from sale leaseback	0	0	0	0	0	0	0	0	0	0
Dividends	(65)	(143)	(365)	(365)	(365)	(365)	(365)	(365)	(365)	(365)
Proceeds from NCI	0	0	0	0	0	0	0	0	0	0
Proceeds from prepaid variable forward	0	0	0	0	0	0	0	0	0	0
Settlement of intergroup interests	273	0	0	0	0	0	0	0	0	0
Other changes in cash flow	(433)	(721)	(421)	(335)	0	0	0	0	0	0
Net change in cash	(55)	(145)	(68)	(52)	874	(460)	(395)	524	(260)	868

- Be sure to calculate any applicable metrics/ratios (leverage, margins, returns, etc) helpful for financial analysis of the historical and/or projections

Growth, Profitability, Cash Flow & Credit Ratios	2023Y	2024Y	2025 Y	LTM	2026E	2027E	2028E	2026E	2027E	2028E
Revenue growth	N/A	-2.8%	-1.6%	0.3%	1.1%	1.5%	2.2%	-10.6%	-2.6%	-0.5%
Gross Margin	53.0%	52.5%	51.9%	52.0%	52.4%	52.6%	52.6%	52.4%	52.6%	52.6%
SG&A/Revenues	24.8%	23.6%	23.2%	23.1%	24.8%	24.6%	24.4%	24.7%	24.6%	24.4%
Adj EBITDA growth	N/A	-1.5%	-1.9%	1.4%	-2.4%	2.3%	3.0%	-12.0%	-1.8%	0.3%
Adj EBITDA margin	30.8%	31.2%	31.1%	31.5%	30.1%	30.3%	30.6%	30.1%	30.3%	30.6%
EBITDA / interest	5.16	5.48	5.81	5.95	5.35	5.48	5.64	4.96	4.87	4.89
(EBITDA - capex) / interest	4.10	4.33	4.57	4.70	4.28	4.54	4.80	3.89	3.95	4.07
Capex / revenue	6.4%	6.5%	6.6%	6.6%	6.0%	5.2%	4.5%	6.5%	5.7%	5.1%
Capex / EBITDA	20.6%	20.9%	21.4%	21.1%	20.1%	17.2%	14.9%	21.7%	18.9%	16.6%
FCF / debt	13.7%	12.6%	15.8%	15.6%	14.0%	18.7%	23.9%	10.4%	12.4%	14.2%
Gross adj debt/EBITDA	4.1x	4.2x	3.6x	3.6x	3.7x	3.0x	2.4x	4.0x	3.7x	3.7x
Net adj debt/EBITDA	4.0x	4.1x	3.6x	3.6x	3.3x	2.8x	2.3x	3.7x	3.5x	3.1x

- Please analyze the historical financials and provide written commentary below with observation on financial performance (including any helpful KPIs, ratios, metrics, etc.) and comments about the capital structure and shareholder return policy.

a) Financial performance observations:

- Credit view:** SiriusXM remains a highly cash-generative subscription audio franchise, but the credit is in transition. Stable margins and recurring free cash flow support debt service. Persistent subscriber erosion, a shrinking Pandora audience, low balance-sheet cash and sizeable refinancing needs keep the focus on execution and disciplined deleveraging.

Historical financial and credit profile

\$mm, except ratios	2023A	2024A	2025A
Revenue	8,953	8,699	8,558
Adjusted EBITDA	2,758	2,717	2,665
Adjusted EBITDA margin	30.8%	31.2%	31.1%
Cash flow from operations	1,829	1,741	1,898
Free cash flow	1,545	1,434	1,533
Total debt	11,268	11,364	9,706
Cash and equivalents	306	162	94
Gross debt / Adjusted EBITDA	4.09x	4.18x	3.64x
Net debt / Adjusted EBITDA	3.97x	4.12x	3.61x
Adjusted EBITDA / interest expense	5.16x	5.48x	5.81x

Operating performance

- **Consolidated revenue** declined 4.4% over FY2023–FY2025, from \$8.95bn to \$8.56bn. The core SiriusXM subscription line fell 6.0% to \$5.96bn as ending subscribers declined from 33.9m to 32.9m and ARPU eased from \$15.56 to \$15.11 per month. Churn improved to 1.5% in FY2025 from 1.6%, but the lower subscriber base and softer monetization still outweighed that benefit.
- **Pandora engagement also weakened**: monthly active users fell from 46.0mm to 41.1mm, self-pay subscribers from 6.1mm to 5.6mm, listener hours from 10.48bn to 9.75bn and RPM from \$99.39 to \$91.78. The offset was off-platform advertising, estimated in the model to have increased from \$547mm to \$720mm, allowing reported Pandora and off-platform advertising revenue to rise modestly to \$1.62bn.
- **Cost control preserved profitability**. **Adjusted EBITDA** declined only 3.4% over the two years and the margin remained around 31%, despite the revenue contraction. Sales and marketing declined from \$931mm to \$760mm, while cost of services was broadly stable at approximately \$4.1bn. This resilience is a key credit strength, although part of it reflects active expense management rather than organic growth.
- **Cash conversion** remained strong and relatively stable. **CFO** recovered to \$1.90bn in FY2025 and FCF to \$1.53bn, after \$1.74bn and \$1.43bn respectively in FY2024. **FCF** therefore covered FY2025 dividends and repurchases, leaving meaningful capacity for debt reduction.

Capital structure, liquidity and shareholder returns

- **Total debt** declined by \$1.66bn in FY2025 to \$9.71bn, reducing gross leverage to 3.64x and net leverage to 3.61x. Interest coverage strengthened for a third year to 5.81x as interest expense fell to \$459mm (cash interest paid was \$439mm). This is clear improvement, but leverage remains material for a business with declining legacy KPIs.
 - **Liquidity is more dependent on ongoing FCF and committed** facilities than on cash held on the balance sheet: year-end cash fell to \$94m. Q1 2026 refinancing reduced current maturities to \$59m, but the company still faces sizeable 2027–2028 maturities and must retain market access.
 - **Shareholder distributions became more meaningful**: Dividends increased from \$65mm in FY2023 to \$365mm in FY2025 and repurchases were \$136mm in FY2025. The policy is affordable against current FCF, but buybacks should remain subordinate to achieving and maintaining the low-to-mid 3x leverage target. The base case therefore assumes only the \$22m Q1 2026 repurchase, no further buybacks, and a flat \$1.08 annual dividend per share.
3. For the projections, base your assumptions & model drivers on what you believe to be reasonable based on the materials provided and any other public information available. Make your assumptions & model drivers visible for review in the excel file and provide a summary of key assumptions and the rationale below.

a) Key model assumptions:

Key forecast outputs

\$m, except ratios	2026E	2027E	2028E
Adjusted EBITDA	2,600	2,661	2,741

Cash flow from operations	1,873	1,958	1,953
Free cash flow	1,350	1,500	1,545
Total debt	9,636	8,041	6,466
Gross debt / EBITDA	3.71x	3.02x	2.36x
EBITDA / cash interest	6.12x	6.89x	9.58x
Dividends	365	365	365
Share repurchases	22	—	—

Operating assumptions and rationale

- **SiriusXM subscribers and ARPU:** FY2026 quarterly self-pay subscriber movements repeat the FY2025 seasonal pattern, producing 31.2m ending self-pay subscribers. Monthly churn is held at 1.5%. ARPU averages \$15.23 in FY2026 and grows 0.5% annually in FY2027 and FY2028, reflecting modest pricing power but continued promotional and mix pressure.
- **Other SiriusXM revenue:** Advertising is held flat at \$157mm annually in line with management's flat outlook; equipment revenue declines 2.2% annually as next-generation chipsets are introduced; other revenue is held at \$122mm.
- **Pandora audience:** Monthly active users decline 5% annually in FY2027 and FY2028 and subscribers decline 2% annually, consistent with recent trends. Listener hours decline at approximately the FY2025 rate. RPM is forecast to normalize from the weak Q1 2026 level toward the FY2025 level by FY2028.
- **Off-platform advertising:** Growth is based on the model's derived off-platform revenue and the FY2023-25 CAGR of approximately 14.7%, supported by podcasts, programmatic demand and technology fees.
- **Costs and EBITDA:** Cost of services is held at 47.44% of revenue. FY2026 Adjusted EBITDA is anchored to management's approximately \$2.6bn guidance. Thereafter the model assumes 25 bps of annual margin expansion from operating leverage. Share-based compensation remains 2.35% of revenue and no future legal-settlement add-backs are assumed.

Cash flow, debt and capital allocation assumptions

- **Cash taxes** are forecast at 5.85% of Adjusted EBITDA, based on FY2025 cash taxes paid. **Cash interest** declines from \$425mm in FY2026 to \$386mm in FY2027 and \$286mm in FY2028 as debt is repaid. Working capital is modeled as a 0.29% use of revenue, consistent with FY2025.
- **Non-satellite capex** is \$407.5mm annually. Satellite expenditure declines from \$115m in FY2026 to \$50m in FY2027 and nil in FY2028 based on the modeled program. These assumptions support FCF of c. \$1.35bn, \$1.50bn and \$1.55bn.
- **The debt** schedule includes quarterly delayed-draw term-loan amortization of \$13.75mm, repayment of the \$70mm revolver balance, scheduled note maturities and a modeled refinancing of 50% of the \$2.0bn 2028 notes. Debt falls to \$9.64bn by FY2026 and \$6.47bn by FY2028.
- Dividends remain \$0.27 per quarter, or \$1.08 per year on 338m diluted shares. No additional repurchases are assumed after Q1 2026 so that excess FCF can support deleveraging.

4. Comment on key risk factors that you have identified, ideally those apart from what the company includes in the attached materials.

- a) **Risk factors (risks to business performance, company's ability to repay debt, etc.):**
The central credit risk is not near-term interest coverage; it is whether SiriusXM can replace declining legacy subscriber economics quickly enough to sustain FCF while refinancing a still-large debt stack.
- **Structural subscriber erosion and connected-car disintermediation.** Core self-pay subscribers, ARPU and Pandora users are all declining. Greater in-car integration of Apple CarPlay, Android Auto and streaming services reduces switching friction and can weaken SiriusXM's historical distribution advantage. **Mitigant:** low churn, recurring billing, exclusive content and entrenched OEM relationships.
 - **Off-platform growth may mask weaker on-platform economics.** The model derives off-platform advertising as a residual because the company does not separately disclose the full revenue and margin bridge. Strong top-line growth could therefore be lower-quality if technology fees, podcasts or represented inventory carry lower margins or greater revenue-share costs. **Mitigant:** diversification away from the shrinking Pandora audience.
 - **Advertising cyclicity and concentration.** Digital audio and podcast advertising is exposed to macro conditions, agency budgets, measurement changes and large content or platform partners. A downturn would hit the model's principal growth engine. **Mitigant:** subscription revenue remains the majority of consolidated revenue.
 - **Refinancing and maturity risk.** Low cash and material 2027–2028 maturities leave SiriusXM dependent on capital-market access. Refinancing at a higher coupon could slow deleveraging even if EBITDA is stable. **Mitigant:** annual FCF of roughly \$1.3bn to \$1.5bn, interest coverage above 5x and demonstrated access to secured and unsecured funding.
 - **Capital-allocation conflict.** The dividend consumes approximately \$365m annually and repurchase authorization remains available. If management resumes buybacks before leverage is durably lower, debt repayment capacity would weaken. **Mitigant:** No additional repurchases are assumed after Q1 2026, preserving cash for scheduled debt repayment and refinancing needs.
 - **Satellite and technology investment risk.** The service depends on satellite continuity, spectrum, cybersecurity, billing systems and a successful 360L/digital product transition. Launch delays, satellite failure or higher-than-modeled capex could reduce FCF. **Mitigant:** the company has multiple distribution channels and historically strong cash generation.
5. Provide diligence questions that you would ask management to (1) better understand the identified risk factors, and (2) refine/improve the assumptions you used in the projections.

a) **Diligence areas:**

- i) **Subscriber cohorts and churn:** Voluntary churn, vehicle-related churn, non-pay churn and reactivations by new-car, used-car and streaming-only cohorts. What portion of recent improvement is sustainable rather than timing or promotional mix?
- ii) **ARPU and pricing:** Please provide bridge headline price increases to reported ARPU, including promotional discounts, plan mix, streaming-only products, retention offers and contra-revenue. What churn elasticity has management observed by cohort?

- iii) **OEM funnel and 360L:** What percentage of new vehicles are trial-enabled, activated and converted to self-pay? How do conversion, acquisition cost and lifetime value differ for 360L versus legacy satellite installations?
- iv) **Pandora engagement:** What explains the decline in monthly active users and listener hours? What retention initiatives are underway, and what leading indicators would demonstrate stabilization?
- v) **Advertising disclosure:** Please provide on-platform Pandora, podcasts, AdsWizz/technology fees and represented off-platform revenue separately, including organic growth, take rates, gross margin, traffic-acquisition or revenue-share costs and customer/content-partner concentration.
- vi) **Advertising outlook:** How much FY2026 revenue is committed or visible? What are the sensitivities to ad pricing, listener hours, programmatic demand and a recessionary decline in agency budgets?
- vii) **EBITDA bridge:** Please reconcile the approximately \$2.6bn FY2026 Adjusted EBITDA guide to subscriber losses, ARPU, advertising mix, content costs, personnel savings and one-time adjustments. Which cost reductions are structural versus deferrals?
- viii) **Cash conversion:** Please bridge Adjusted EBITDA to CFO and FCF, especially “other changes in CFO,” working capital, cash taxes and restructuring payments. Why should FY2027 FCF reach \$1.5bn if the legacy subscriber base continues to decline?
- ix) **Capex and satellites:** What are the committed payments, launch windows, insurance coverage and contingency plans for each satellite? What is maintenance capex excluding satellite spend, and what could cause the modeled capex run-rate to increase?
- x) **Debt and liquidity:** Please provide sources and uses for every 2026–2028 maturity, available revolver capacity, covenant headroom, secured-debt capacity, expected refinancing mix/cost and the minimum operating cash requirement.
- xi) **Capital allocation:** Is the low-to-mid 3x leverage target calculated on gross or net debt and which EBITDA definition is used? What leverage or liquidity thresholds govern dividends and the resumption of repurchases?
- xii) **Downside actions:** Under a scenario with a 5% revenue decline, no RPM recovery and 200 bps margin compression, which costs, capex and shareholder distributions can be reduced, and within what timeframe?

Please be prepared to discuss your view of the company, the industry and competitors, and field questions from the investment team.

Overall view:

- The business has a defensible recurring-revenue franchise and strong near-term debt-service capacity, but it should be underwritten as a mature, declining core subscription asset funding a less-proven digital advertising growth engine. The credit improves if management converts FCF into debt reduction; it weakens quickly if subscriber erosion accelerates, off-platform margins disappoint or capital returns outrun deleveraging.
- **Recommendation:** Market Perform, with a positive/deleveraging bias

Industry and competitive position

- SiriusXM's advantages are nationwide satellite distribution, deep automotive integration, exclusive live sports and personality-led content, low monthly churn and a large installed paying

base. These support recurring cash flow and distinguish the service from purely on-demand music platforms.

- The competitive set includes Spotify, Apple Music, Amazon Music, YouTube Music, terrestrial radio, podcasts and other digital audio platforms. Their strengths are broad device ecosystems, personalization, global scale and lower switching costs. SiriusXM's challenge is to preserve the value of differentiated content while becoming easier to use across connected-car and mobile environments.
- The key debate is whether off-platform advertising is a durable second engine or merely an offset to deterioration in SiriusXM and Pandora. Credit quality does not require high growth, but it does require stable EBITDA, transparent cash conversion and a credible maturity-management plan.

Investment-team discussion points

- **Supporting factors:** Recurring subscription revenue; approximately 31% historical Adjusted EBITDA margin; FCF consistently above \$1.4bn in FY2023 to FY2025; interest coverage above 5x; and a clear path to lower gross leverage if repurchases remain paused.
- **Constraining factors:** Multi-year subscriber and engagement decline; shrinking on-platform advertising economics; low balance-sheet cash; sizeable debt maturities; reliance on derived off-platform assumptions; and continued dividend leakage during deleveraging.
- **Monitoring triggers:** Self-pay net additions and churn, ARPU realization, Pandora listener hours and RPM, off-platform revenue and margin disclosure, FCF versus guidance, gross leverage, refinancing cost and any restart of share repurchases.