

Scenario Analysis

Exhibit 1: Scenario Analysis

	Embedded Expectations ⁴	Bull Case	Base Case	Better Bear Case	Worse Bear Case	Toyota Switch ³
SIRI¹						
CPGA - 2010	\$105	\$87	\$95	\$100	\$104	\$91
OEM Conversion Rate	50%	59%	55%	50%	46%	55%
Churn Rate - 2010, including OEM Non-Conversion	2.4%	2.1%	2.1%	2.5%	2.6%	2.2%
Music Royalties/Subscriber Revenue	11%	7%	7%	10%	12%	7%
ARPU - 2010	\$12.98	\$14.18	\$13.79	\$12.96	\$12.18	\$13.78
Retail Subs in 2010 (M)	8.6	11.6	9.8	7.7	7.8	9.6
Retail Share in 2010	54%	52%	56%	51%	52%	54%
Total Subs - 2010 (M)	16.8	20.5	17.3	15.8	15.5	18.2
Levered FCF - 2010 (M)	\$400	\$1,209	\$775	\$363	\$147	\$874
FCF/Share in - 2010	\$0.25	\$0.74	\$0.48	\$0.22	\$0.09	\$0.54
DCF Stock Price in 12 mo.	\$4.33	\$9.89	\$6.72	\$3.91	\$2.97	\$7.51
Upside/Downside from Current Price		154%	72%	0%	-24%	93%
Probability Distribution		10%	25%	30%	15%	20%
WAVG 12-Month Stock Price		\$5.79				

¹ Includes \$2 price increase in Bull, CS Estimates, and Toyota Switch cases; and \$1 increase in Better Bear Case.

Bull Case also includes a \$2 increase in the family plan price.

³ Toyota Switch scenario assumes that 50% of Toyota volumes go to Sirius, rather than 15% in the other four scenarios.

⁴ Represents our estimates of what the current stock price reflects.

Source: Company data, Credit Suisse estimates

Revised Model

Exhibit 2: Operating Forecast

	2005A	2005A	2005A	2005A	2005A	2006P	2006P	2006P	2006P	2006P	2007P	2008P	2009P	2010P
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY	FY	FY	FY	FY
Subscription fees	40.6	50.1	63.9	79.1	233.6	117.0	138.5	155.3	165.3	576.1	935.6	1,397.4	1,866.3	2,242.9
Activation fees	1.5	1.3	1.9	2.0	6.8	4.6	2.1	2.0	5.6	14.3	13.6	13.6	12.9	12.3
Effects of mail-in rebates	(0.2)	(1.8)	(1.5)	(13.3)	(16.8)	(6.4)	(2.9)	(2.9)	(11.1)	(23.3)	(24.2)	(24.5)	(23.2)	(22.1)
Subscriber revenue, including effects on mail-in r	41.9	49.6	64.3	67.8	223.6	115.2	137.6	154.5	159.7	567.1	924.9	1,386.6	1,856.0	2,233.1
Advertising revenue, net of agency fees	0.5	1.1	1.5	3.0	6.1	7.3	8.1	10.2	14.2	39.9	81.2	142.4	214.1	293.4
Equipment revenue	0.8	1.5	1.0	9.0	12.3	3.7	3.1	2.5	6.7	15.9	16.3	16.3	15.5	14.7
Other revenue	0.0	0.0	0.0	0.2	0.2	0.5	1.2	0.7	1.0	3.4	10.5	54.1	83.1	111.0
Total Revenue	43.2	52.2	66.8	80.0	242.2	126.7	150.1	167.8	181.7	626.2	1,032.9	1,599.3	2,168.7	2,652.1
Gross Profit	1.4	19.7	25.2	10.4	56.7	43.6	62.3	80.4	72.5	258.8	563.6	1,023.8	1,507.6	1,918.7
% Growth	(112.3%)	(277.8%)	(281.8%)	(159.7%)	(204.9%)	2,914.0%	216.2%	219.3%	598.2%	356.4%	117.7%	81.7%	47.3%	27.3%
% Margin	3.3%	37.7%	37.7%	13.0%	23.4%	34.4%	41.5%	47.9%	39.9%	41.3%	54.6%	64.0%	69.5%	72.3%
Adj. EBITDA	(127.1)	(108.8)	(105.4)	(226.3)	(567.5)	(136.7)	(137.4)	(97.2)	(177.0)	(548.3)	(283.2)	84.7	479.7	755.7
% Growth	62.9%	4.0%	(16.1%)	53.0%	24.4%	7.6%	26.4%	(7.8%)	(21.8%)	(3.4%)	(48.4%)	(129.9%)	466.4%	57.5%
% Margin	(294.0%)	(208.4%)	(157.7%)	(282.8%)	(234.3%)	(107.9%)	(91.6%)	(57.9%)	(97.4%)	(87.6%)	(27.4%)	5.3%	22.1%	28.5%
Pre-Marketing EBITDA	(21.2)	(3.4)	5.4	(13.2)	(32.5)	18.9	37.0	54.7	43.7	154.3	473.4	955.9	1,472.0	1,917.0
% Margin	(49.1%)	(6.6%)	8.1%	(16.5%)	(13.4%)	14.9%	24.6%	32.6%	24.1%	24.6%	45.8%	59.8%	67.9%	72.3%
Depreciation and amortization	(24.5)	(24.6)	(24.6)	(24.9)	(98.6)	(24.9)	(25.7)	(25.0)	(25.0)	(100.7)	(90.0)	(92.0)	(100.0)	(110.0)
Operating Income (EBIT)	(190.3)	(174.6)	(166.9)	(297.4)	(829.1)	(446.2)	(230.5)	(162.2)	(242.0)	(1,080.8)	(493.2)	(107.3)	299.7	585.7
% Growth	59.2%	31.3%	(0.2%)	15.0%	22.2%	134.5%	32.0%	(2.8%)	(18.6%)	30.4%	(54.4%)	(78.2%)	(379%)	95.4%
% Margin	(440.3%)	(334.5%)	(249.8%)	(371.7%)	(342.3%)	(352.2%)	(153.6%)	(96.7%)	(133.2%)	(172.6%)	(47.7%)	(6.7%)	13.8%	22.1%
Net Income	(193.6)	(177.5)	(180.5)	(311.4)	(863.0)	(458.5)	(237.8)	(177.5)	(257.7)	(1,131.6)	(558.1)	(173.9)	162.4	358.2
Preferred stock dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred stock deemed dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (loss) applicable to common stock	(193.6)	(177.5)	(180.5)	(311.4)	(863.0)	(458.5)	(237.8)	(177.5)	(257.7)	(1,131.6)	(558.1)	(173.9)	162.4	358.2
Diluted WAVG of common stock outstanding	1,588.4	1,598.3	1,602.5	1,609.7	1,599.7	1,628.3	1,628.3	1,628.3	1,628.3	1,628.3	1,628.3	1,628.3	1,628.3	1,628.3
EPS reported- Diluted	\$ (0.15)	\$ (0.13)	\$ (0.14)	\$ (0.23)	\$ (0.65)	\$ (0.33)	\$ (0.17)	\$ (0.13)	\$ (0.18)	\$ (0.81)	\$ (0.40)	\$ (0.12)	\$ 0.10	\$ 0.22
% Growth	24.5%	21.1%	(0.8%)	12.5%	13.2%	124.0%	26.8%	(6.9%)	(21.3%)	24.2%	(50.8%)	(68.8%)	(180.5%)	120.5%
Goodwill amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments to Net Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subscriber Metrics:														
Total Ending Subscribers:														
Retail	1,110	1,355	1,565	2,465	2,465	3,000	3,277	3,542	4,520	4,520	6,339	7,848	8,994	9,842
OEM	311	433	582	824	824	1,049	1,374	1,558	1,756	1,756	2,970	4,255	5,725	7,291
Pre-owned Car Channel	-	-	-	-	-	-	-	-	-	-	-	-	21	117
Hertz	28	27	27	28	28	28	28	28	28	28	28	28	28	28
Total Subscribers	1,449	1,815	2,174	3,317	3,317	4,078	4,678	5,128	6,304	6,304	9,337	12,131	14,769	17,278
Special Markets	82													
Net Additions:														
Retail	199	245	210	901	1,554	535	276	266	978	2,055	1,819	1,509	1,147	848
OEM	108	122	149	242	620	225	325	184	198	932	1,214	1,285	1,470	1,565
Pre-owned Car Channel	-	-	-	-	-	-	-	-	-	-	-	-	21	96
Hertz	(1)	(1)	1	0	(1)	1	(0)	-	-	0	-	-	-	-
Net Subscriber Additions	305	366	359	1,142	2,173	761	600	450	1,176	2,988	3,033	2,793	2,638	2,509
ARPU	\$ 11.12	\$ 10.66	\$ 11.17	\$ 9.71	\$ 10.53	\$ 11.42	\$ 11.43	\$ 11.41	\$ 10.59	\$ 11.17	\$ 11.25	\$ 12.42	\$ 13.44	\$ 13.79
% Growth	10.0%	0.6%	0.1%	4.3%	3.8%	2.7%	7.2%	2.1%	9.1%	6.0%	0.8%	10.3%	8.2%	2.6%
SAC:														
SAC per Gross Addition	\$ (189.15)	\$ (158.76)	\$ (147.62)	\$ (114.62)	\$ (138.79)	\$ (113.62)	\$ (130.83)	\$ (125.00)	\$ (90.00)	\$ (110.40)	\$ (85.16)	\$ (75.00)	\$ (65.00)	\$ (65.00)
% Growth	(23.8%)	(31.8%)	(35.0%)	(8.0%)	(21.2%)	(39.9%)	(17.6%)	(15.3%)	(21.5%)	(20.5%)	(22.9%)	(11.9%)	(13.3%)	0.0%
Total SAC	(67.1)	(68.7)	(68.7)	(145.2)	(349.6)	(109.1)	(108.7)	(89.0)	(134.4)	(441.2)	(413.7)	(410.4)	(393.3)	(424.6)
% Growth	148.7%	97.9%	45.9%	123.5%	101.3%	62.7%	58.2%	29.6%	(7.4%)	26.2%	(6.2%)	(0.8%)	(4.2%)	8.0%
Unlevered Free Cash Flow:														
Operating Cash Flow	(127.1)	(108.8)	(105.4)	(226.3)	(567.5)	(136.7)	(137.4)	(97.2)	(177.0)	(548.3)	(283.2)	84.7	479.7	755.7
Minus: Cash taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minus: Change in working capital	11.8	45.7	40.5	218.7	316.6	(16.1)	19.3	(10.5)	185.2	177.9	300.4	216.1	231.0	223.7
Minus: Capital expenditures	(6.9)	(4.0)	(7.1)	(31.9)	(49.9)	(5.5)	(22.3)	(72.0)	(10.0)	(109.8)	(50.0)	(195.0)	(170.0)	(170.0)
Unlevered Free Cash Flow	(122.2)	(67.1)	(72.0)	(39.5)	(300.8)	(158.3)	(140.5)	(179.7)	(1.8)	(480.2)	(32.8)	105.8	540.8	809.5
Margin %	(282.7%)	(128.5%)	(107.8%)	(49.4%)	(124.2%)	(124.9%)	(93.6%)	(107.1%)	(1.0%)	(76.7%)	(3.2%)	6.6%	24.9%	30.5%
Growth %	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	49.7%
Levered Free Cash Flow:														
Operating Cash Flow	(127.1)	(108.8)	(105.4)	(226.3)	(567.5)	(136.7)	(137.4)	(97.2)	(177.0)	(548.3)	(283.2)	84.7	479.7	755.7
Minus: Cash taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minus: Cash interest expense	(3.8)	(9.3)	(6.4)	(20.1)	(39.6)	(17.1)	(13.5)	(14.7)	(15.1)	(60.5)	(62.6)	(64.4)	(49.9)	(34.7)
Minus: Change in working capital	11.8	45.7	40.5	218.7	316.6	(16.1)	19.3	(10.5)	185.2	177.9	300.4	216.1	231.0	223.7
Minus: Capital expenditures	(6.9)	(4.0)	(7.1)	(31.9)	(49.9)	(5.5)	(22.3)	(72.0)	(10.0)	(109.8)	(50.0)	(195.0)	(170.0)	(170.0)
Levered Free Cash Flow	(126.0)	(76.4)	(78.4)	(59.6)	(340.4)	(175.4)	(154.0)	(194.5)	(16.9)	(540.7)	(95.4)	41.4	490.9	774.7
Margin %	(291.5%)	(146.4%)	(117.3%)	(74.5%)	(140.5%)	(138.5%)	(102.6%)	(115.9%)	(9.3%)	(86.3%)	(9.2%)	2.6%	22.6%	29.2%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 12 Sep 06)

Clear Channel Communications (CCU, \$29.80, NEUTRAL, TP \$31.00, UNDERWEIGHT)
 DaimlerChrysler (DCXGn.DE, Eu40.64, UNDERPERFORM, TP Eu38.00, MARKET WEIGHT)
 Ford Motor Co. (F, \$9.06, UNDERPERFORM [V], TP \$6.00, MARKET WEIGHT)
 Sirius Satellite Radio (SIRI, \$4.03, OUTPERFORM [V], TP \$6.00, UNDERWEIGHT)
 Toyota Motor Corp. (7203, ¥6,200, OUTPERFORM, TP ¥7,000, MARKET WEIGHT)
 Wal-Mart Stores, Inc. (WMT, \$48.07, OUTPERFORM, TP \$55.00, MARKET WEIGHT)
 XM Satellite Radio (XMSR, \$11.20, OUTPERFORM, TP \$17.00, UNDERWEIGHT)

Disclosure Appendix

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for SIRI



SIRI Date	Closing Price Price (US\$)	Target Price Price (US\$)	Rating	Initiation/ Assumption
7/24/06	3.94	6	OUTPERFORM	X

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Price Target: (12 months) for (SIRI)

Method: Our \$6 target price for SIRI is the probability-weighted average derived by modeling five different scenarios involving pricing, conversion rates, total churn rates, music royalty fees, and market share. We

used a discounted cash flow (DCF) model with a 10.5% weighted average cost of capital (WACC) and based on a defined growth forecast for each scenario and 0% growth after 2020.

Risks: Risks to achievement of our \$6 target price by SIRI include industry risks, (1) consumer demand for satellite radio may be less than we have forecast, which would result in fewer subscribers, revenues, and earnings; (2) Sirius and XM may engage in irrational competitive behavior, destroying the economics of the industry; (3) programming costs may continue to escalate, driving earnings lower; (4) music royalty payments may increase materially as a result of arbitration over a new contract with the Recording Industry Association of America (RIAA), which would drive earnings lower; (5) technological substitution from terrestrial-based wireless networks, high definition radio, and MP3 players may displace demand for satellite radio, resulting in a lower revenue and earnings forecast; and company-specific risk, (6) the loss of the company's contracts with Ford, Daimler Chrysler, BMW, Kia, or Audi/Volkswagen would negatively impact revenues and earnings.

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