

Liberty Media Corporation (“Liberty”) is a media conglomerate controlled by the owner-operator John Malone, who is amongst the most creative, opportunistic and shrewd business managers that we have ever encountered. In fact, Dr. Malone laid the foundation for the current company nearly 11 years ago when Liberty Capital extended emergency financing to SiriusXM during the nadir of the global financial crisis. This gave Liberty control over half of the company. In the ensuing decade, SiriusXM has been combined with various media properties, including the F-1 racing league, and the Atlanta Braves Major League Baseball franchise.

In order to isolate these unique assets for investors, Liberty has created “tracking stocks” which track specific assets and associated liabilities within the broader corporation. It should be noted that Dr. Malone has utilized tracking stock structures multiple times throughout his career, and used the unique attributes to extract significant shareholder value, often exploiting attractive tax benefits. However, these tracking stocks are not aligned with indexation and passive management, which we believe will be to the benefit of shareholders in the fullness of time.

The SiriusXM tracking stock holds approximately a 72% equity interest in SiriusXM, investments in affiliates (Sirius Canada), other investments (including iHeart Media), and cash. The net asset value is simply the market values of these assets, net of a modest debt balance of exchangeable debentures and a margin loan (all tied to underlying Sirius shares). At current trading prices, well over 90% of asset value is in the SiriusXM position, hence the investment analysis is essentially a calculation of NAV, coupled with an assessment of the underlying SiriusXM business.

The Liberty tracking stock shares are highly sensitive to the underlying price of SiriusXM stock. However a large discount has developed between the underlying NAV and the share price. The Liberty Media Sirius XM shares currently¹ trade at approximately a 44% discount to net asset value (0.56x NAV), which translates into a potential gain of nearly 80% should Liberty monetize the position tax efficiently at market value. In the event that Liberty successfully eliminates this discount, and SiriusXM shares return to their previous peak price, it would result in a near tripling (200%) of the shares. To reiterate, Dr. Malone and the Liberty team have consistently monetized such assets and found ways to capitalize on similar discounts in the past, hence our opinion that this will be a similar experience.

The underlying SiriusXM business is a satellite broadcasting company with approximately 38 million paying subscribers and has its equipment installed in nearly 80% of new cars sold in the United States. The company is currently a subscription-only based service (as opposed to ad supported), which enables consistent creation of exclusive original content. Additionally, satellite broadcasting pays a considerably lower royalty rate to artists and music labels than do online streaming services. That enables the company to generate nearly 20% free cash flow margins (while streaming only companies are cash flow negative). We believe that this will enable SiriusXM (Liberty) to act as a consolidator within the music industry – which process has already begun with SiriusXM purchasing Pandora (online radio) in an attempt to diversify beyond the automobile market. The current music advertising market remains over 82%

¹ Calculated on March 24, 2020

allocated to terrestrial broadcasters – a market that we believe Sirius will take share from. Additionally, Liberty has a large equity stake in Live Nation, a leading concert promoter and ticketing company.

At current levels, SiriusXM trades at approximately 11x free cash flow – an unduly low valuation for a business of this quality in our opinion. The implicit valuation of the company is approximately 6.2x free cash flow when owned via the Liberty tracking stock, which amounts to a free cash flow yield of over 16%.

To summarize, Liberty SiriusXM is a deeply discounted, high quality company that generates consistent free cash flow. We believe that the current market dislocation may catalyze Liberty Media's strategy to consolidate within the music industry, thereby removing the discount at the tracking stock level, potentially delivering a total return between 100%-200% based off the depressed levels today.

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