



Danger Zone Update: Pandora Media (P)

Danger Zone Pick, [Pandora Media](#) (P: \$9.50/share), down 18% since publish date (S&P up 1% over same time), recently announced it is looking into “strategic alternatives, including a possible sale.” With this news, the “[stupid money risk](#)” looms large.

When we published our Danger Zone report, we noted that Pandora was not a particularly attractive acquisition target, largely due to its negative margins, smaller paid user base, lack of competitive advantage, and high valuation. However, with the company announcing it would be open to an acquisition, firms such as Google (GOOGL), Amazon (AMZN), or even Verizon (VZ) could view Pandora as a means to quickly bundle music streaming into existing services.

Pandora still earns a Dangerous rating. The company earns a bottom-quintile return on invested capital ([ROIC](#)) of -30% and its NOPAT margins sit at -23%. In many ways, Pandora’s decision could be a last gasp to stay alive. Accordingly, we think the downside risk here is diminished and are closing this position.

We hope investors were able to avoid a portfolio blowup or even participate in the 18% fall in the stock price since we placed it in the Danger Zone.

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Disclosure: David Trainer, Kyle Guske II and Kenneth James receive no compensation to write about any specific stock, style, or theme.

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