

Valuation of AirThread Connections Case Solution

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Any Questions?

Recommendation for ACC

Yes they should go ahead with the acquisition of AirThread.

Valuation Methods

Method	Value
Discounted Cash Flow	\$1,234,567
Comparable Company Analysis	\$987,654
Precedent Transactions	\$765,432
Market Multiples	\$543,210

Cost of Capital

Component	Rate
Cost of Debt	5.00%
Cost of Equity	10.00%
Weighted Average Cost of Capital (WACC)	7.50%

Balance Sheet

Item	Value
Assets	\$1,000,000
Liabilities	\$300,000
Equity	\$700,000

Income Statement w/ Synergies

Year	Revenue	Expenses	Net Income
2023	\$1,200,000	\$800,000	\$400,000
2024	\$1,300,000	\$850,000	\$450,000
2025	\$1,400,000	\$900,000	\$500,000

Free Cash Flows

Year	FCF
2023	\$300,000
2024	\$350,000
2025	\$400,000

Income Statement w/ Synergies

Year	Revenue	Expenses	Net Income
2023	\$1,200,000	\$800,000	\$400,000
2024	\$1,300,000	\$850,000	\$450,000
2025	\$1,400,000	\$900,000	\$500,000

Sensitivity Analysis

Variable	Optimistic	Base Case	Pessimistic	Expected
Cost of Capital	7.00%	7.50%	8.00%	7.50%
Discount Rate	8.00%	8.50%	9.00%	8.50%
Terminal Value	\$1,200,000	\$1,000,000	\$800,000	\$1,000,000
Share Value	\$1,234,567	\$987,654	\$765,432	\$987,654

Overview

Key Findings	Summary of results
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PE Ratio

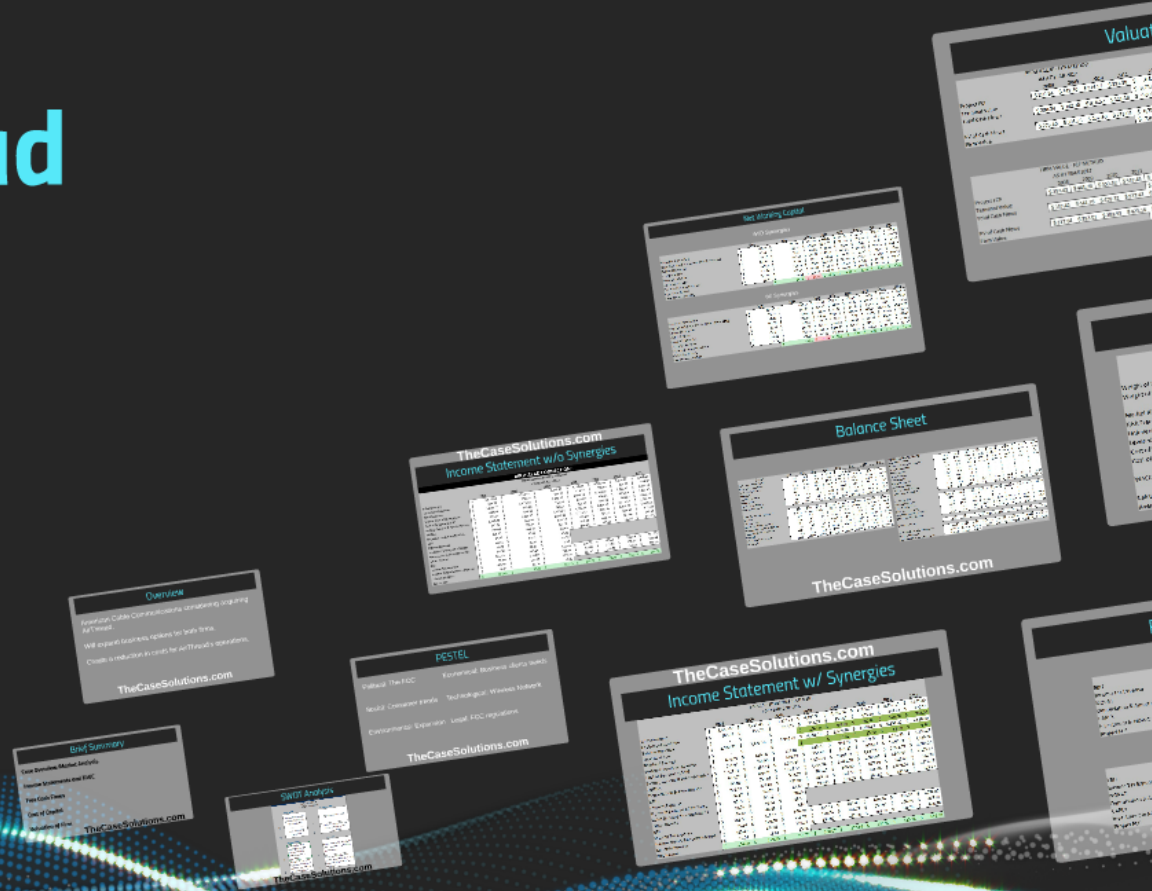
Current PE	15.0x
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WACC

WACC	7.50%
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Brief Summary

Case Overview/Market Analysis

Income Statements and NWC

Free Cash Flows

Cost of Capital

Valuation of Firm

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Overview

American Cable Communications considering acquiring AirThread.

Will expand business options for both firms.

Create a reduction in costs for AirThread's operations.

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SWOT Analysis

AIRTHREAD CONNECTORS

SWOT ANALYSIS
CROSS - INDUSTRY

Strengths

- 1) One of the larger wireless firms in the United States
- 2) High operating revenues

Weaknesses

- 1) High backend costs
- 2) Lack of other services means no business customers

Opportunities

- 1) Companies are looking to merge with or acquire wireless service providers
- 2) Growth of network by purchasing more network coverage at FCC auctions

Threats

- 1) Highly competitive industry and competing with many firms at once
- 2) Other companies may purchase competition and thus make AirThread less desirable

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PESTEL

Political: The FCC

Economical: Business clients needs

Social: Consumer trends

Technological: Wireless Network

Environmental: Expansion

Legal: FCC regulations

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Income Statement w/o Synergies

AIRTHREAD CONNECTIONS

FORECASTED INCOME STATEMENT

FOR YEARS 2005-2012

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Sales Revenue	\$ 2,827.02	\$ 3,214.41	\$ 3,679.24	\$ 4,194.33	\$ 4,781.54	\$ 5,379.23	\$ 5,917.15
Equipment Revenue	\$ 203.74	\$ 258.75	\$ 267.03	\$ 314.77	\$ 358.84	\$ 403.70	\$ 444.07
Total Revenue	\$ 3,030.77	\$ 3,473.16	\$ 3,946.26	\$ 4,509.10	\$ 5,140.38	\$ 5,782.92	\$ 6,361.22
System Operating Expenses	\$ 604.09	\$ 639.68	\$ 717.08	\$ 838.87	\$ 956.31	\$ 1,075.85	\$ 1,183.43
Cost of Equipment Sold	\$ 511.94	\$ 568.90	\$ 640.23	\$ 755.46	\$ 861.22	\$ 968.87	\$ 1,065.76
Selling, General & Administrative	\$ 1,217.71	\$ 1,399.56	\$ 1,555.64	\$ 1,803.64	\$ 2,056.15	\$ 2,313.17	\$ 2,544.49
EBITDA	\$ 697.02	\$ 865.01	\$ 1,033.33	\$ 1,111.14	\$ 1,266.70	\$ 1,425.04	\$ 1,567.54
Depreciation & Amortization	\$ 490.09	\$ 555.53	\$ 582.27	\$ 705.20	\$ 804.00	\$ 867.40	\$ 922.40
EBIT	\$ 206.93	\$ 309.48	\$ 451.06	\$ 405.94	\$ 462.70	\$ 557.64	\$ 645.14
Interest Expense	\$ 84.87	\$ 93.67	\$ 84.68	\$ 199.43	\$ 183.08	\$ 165.80	\$ 147.55
Equity in Earnings of Affiliates	\$ 66.72	\$ 93.12	\$ 90.03				
Gains (Losses) on Investments	\$ 18.06	\$ 50.84	\$ 83.13				
Other Income	\$ 54.50	-\$ 46.63	\$ 6.96				
EBT	\$ 261.35	\$ 313.14	\$ 546.50	\$ 206.51	\$ 279.63	\$ 391.84	\$ 497.59
Income Tax Expense	\$ 95.86	\$ 120.60	\$ 216.71	\$ 82.60	\$ 111.85	\$ 156.74	\$ 199.04
Income Before Minority Interest	\$ 165.49	\$ 192.53	\$ 329.79	\$ 123.91	\$ 167.78	\$ 235.10	\$ 298.56
Minority Interest	\$ 10.54	\$ 13.04	\$ 15.06				
Net Income	\$ 154.95	\$ 179.49	\$ 314.73	\$ 123.91	\$ 167.78	\$ 235.10	\$ 298.56

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Income Statement w/ Synergies

FORECASTED INCOME STATEMENT FOR YEARS 2008-2012

	2005	2006	2007	2008	2009	2010	2011	2012
Sales Revenue	\$ 2,827.02	\$ 3,214.41	\$ 3,679.24	\$ 4,194.33	\$ 4,781.54	\$ 5,379.23	\$ 5,917.15	\$ 6,331.35
Equipment Revenue	\$ 203.74	\$ 258.75	\$ 267.03	\$ 314.77	\$ 358.84	\$ 403.70	\$ 444.07	\$ 475.15
Synergy Revenue	\$ -	\$ -	\$ -	\$ 156.00	\$ 269.00	\$ 387.00	\$ 570.00	\$ 704.00
Total Revenue	\$ 3,030.77	\$ 3,473.16	\$ 3,946.26	\$ 4,665.10	\$ 5,409.38	\$ 6,169.92	\$ 6,931.22	\$ 7,510.50
Backhaul Savings	\$ -	\$ -	\$ -	\$ -	\$ 13.40	\$ 25.80	\$ 52.50	\$ 76.00
System Operating Expenses	\$ 604.09	\$ 639.68	\$ 717.08	\$ 838.87	\$ 956.31	\$ 1,075.85	\$ 1,183.43	\$ 1,266.27
Cost of Equipment Sold	\$ 511.94	\$ 568.90	\$ 640.23	\$ 755.46	\$ 861.22	\$ 968.87	\$ 1,065.76	\$ 1,140.36
Selling, General & Administrative	\$ 1,217.71	\$ 1,399.56	\$ 1,555.64	\$ 1,866.04	\$ 2,163.75	\$ 2,467.97	\$ 2,772.49	\$ 3,004.20
EBITDA	\$ 697.02	\$ 865.01	\$ 1,033.33	\$ 1,204.74	\$ 1,441.50	\$ 1,683.04	\$ 1,962.04	\$ 2,175.67
Depreciation & Amortization	\$ 490.09	\$ 555.53	\$ 582.27	\$ 705.20	\$ 804.00	\$ 867.40	\$ 922.40	\$ 952.90
EBIT	\$ 206.93	\$ 309.48	\$ 451.06	\$ 499.54	\$ 637.50	\$ 815.64	\$ 1,039.64	\$ 1,222.77
Interest Expense	\$ 84.87	\$ 93.67	\$ 84.68	\$ 199.43	\$ 183.08	\$ 165.80	\$ 147.55	\$ 128.27
Equity in Earnings of Affiliates	\$ 66.72	\$ 93.12	\$ 90.03					
Gains (Losses) on Investments	\$ 18.06	\$ 50.84	\$ 83.13					
Other Income	\$ 54.50	-\$ 46.63	\$ 6.96					
EBT	\$ 261.35	\$ 313.14	\$ 546.50	\$ 300.11	\$ 454.43	\$ 649.84	\$ 892.09	\$ 1,094.50
Income Tax Expense	\$ 95.86	\$ 120.60	\$ 216.71	\$ 120.04	\$ 181.77	\$ 259.94	\$ 356.84	\$ 437.80
Income Before Minority Interest	\$ 165.49	\$ 192.53	\$ 329.79	\$ 180.07	\$ 272.66	\$ 389.90	\$ 535.26	\$ 656.70
Minority Interest	\$ 10.54	\$ 13.04	\$ 15.06					
Net Income	\$ 154.95	\$ 179.49	\$ 314.73	\$ 180.07	\$ 272.66	\$ 389.90	\$ 535.26	\$ 656.70

Balance Sheet

Assets:	2005	2006	2007	2008	2009	2010	2011	2012	Liabilities & Owners' Equity:								
Cash & Cash Equivalents	29.0	32.9	204.5	\$ 85.20	\$ 11.37	\$ -	\$ -	\$ -	Accounts Payable	254.1	254.9	260.8	\$ 335.42	\$ 382.38	\$ 430.18	\$ 473.20	\$ 506.32
Marketable Securities	0.0	249.0	16.4	\$ 88.46	\$ 117.95	\$ 74.26	\$ 93.56	\$ 95.25	Deferred Revenue & Deposits	111.4	123.3	143.4	\$ 163.25	\$ 186.11	\$ 209.37	\$ 230.31	\$ 246.43
Accounts Receivable	362.4	407.4	435.5	\$ 521.90	\$ 594.96	\$ 669.33	\$ 736.26	\$ 787.80	Accrued Liabilities	42.9	47.8	59.2	\$ 64.61	\$ 73.65	\$ 82.86	\$ 91.15	\$ 97.53
Inventory	92.7	117.2	101.0	\$ 134.97	\$ 153.86	\$ 173.10	\$ 190.41	\$ 203.73	Taxes Payable	36.7	26.9	43.1	\$ 43.11	\$ 43.11	\$ 43.11	\$ 43.11	\$ 43.11
Prepaid Expenses	32.1	35.0	41.6	\$ 46.91	\$ 53.48	\$ 60.17	\$ 66.19	\$ 70.82	Deferred Taxes	0.0	26.3	0.0	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Taxes	8.2	0.0	18.6	\$ 18.57	\$ 18.57	\$ 18.57	\$ 18.57	\$ 18.57	Note Payable	135.0	35.0	0.0	\$ -	\$ -	\$ -	\$ -	\$ -
Other Current Assets	15.5	13.4	16.2	\$ 15.03	\$ 14.88	\$ 15.38	\$ 15.10	\$ 15.12	Forward Contract	0.0	159.9	0.0	\$ -	\$ -	\$ -	\$ -	\$ -
Total Current Assets	539.9	854.9	833.8	\$ 911.04	\$ 965.08	\$ 1,010.80	\$ 1,120.08	\$ 1,191.30	Derivative Liability	0.0	88.8	0.0	\$ -	\$ -	\$ -	\$ -	\$ -
Property, Plant & Equipment	2,553.0	2,628.8	2,595.1	\$ 2,521.17	\$ 2,436.82	\$ 2,436.86	\$ 2,484.55	\$ 2,586.66	Other Current Liabilities	82.6	93.7	97.7	\$ 91.33	\$ 94.24	\$ 94.42	\$ 93.33	\$ 93.99
Licenses	1,362.3	1,494.3	1,482.4	\$ 1,446.35	\$ 1,446.35	\$ 1,446.35	\$ 1,446.35	\$ 1,446.35	Total Current Liabilities	662.7	856.7	604.2	\$ 697.72	\$ 779.49	\$ 859.93	\$ 931.09	\$ 987.38
Customer Lists	47.6	26.2	15.4	\$ 29.74	\$ 23.77	\$ 22.96	\$ 25.49	\$ 24.07	Long Term Debt	1,001.4	1,001.8	1,002.3	\$ 3,467.62	\$ 3,161.35	\$ 2,837.80	\$ 2,495.99	\$ 2,165.76
Marketable Equity Securities	225.4	4.9	0.0	\$ 76.75	\$ 27.21	\$ 34.65	\$ 46.21	\$ 36.02	Forward Contracts	159.9	0.0	0.0	\$ -	\$ -	\$ -	\$ -	\$ -
Investments in Affiliated Entities	172.1	150.3	157.7	\$ 160.04	\$ 156.02	\$ 157.92	\$ 157.99	\$ 157.31	Derivative Liability	25.8	0.0	0.0	\$ -	\$ -	\$ -	\$ -	\$ -
Long Term Note Receivable	4.7	4.5	4.4	\$ 4.28	\$ 4.15	\$ 4.01	\$ 3.88	\$ 3.74	Deferred Tax Liability	647.1	601.5	554.4	\$ 601.01	\$ 585.65	\$ 580.36	\$ 589.01	\$ 585.01
Goodwill	481.2	485.5	491.3	\$ 491.32	\$ 491.32	\$ 491.32	\$ 491.32	\$ 491.32	Asset Retirement Obligation	90.2	127.6	126.8	\$ 114.90	\$ 123.13	\$ 121.62	\$ 119.89	\$ 121.55
Other Long Term Assets	30.0	31.1	31.8	\$ 30.96	\$ 31.29	\$ 31.34	\$ 31.20	\$ 31.28	Other Deferred Liabilities	46.2	62.9	84.5	\$ 64.56	\$ 70.67	\$ 73.25	\$ 69.49	\$ 71.14
Total Assets	5,416.2	5,680.6	5,611.9	\$ 5,671.64	\$ 5,582.00	\$ 5,636.21	\$ 5,807.05	\$ 5,968.04	Minority Interest	41.9	36.7	43.4	\$ 40.66	\$ 40.25	\$ 41.43	\$ 40.78	\$ 40.82
									Common Stock & Paid-In Capital	1,375.0	1,378.9	1,404.1	\$ 1,418.63	\$ 1,438.51	\$ 1,455.72	\$ 1,474.26	\$ 1,492.13
									Retained Earnings	1,366.0	1,614.4	1,792.1	\$ 1,915.97	\$ 2,083.74	\$ 2,318.85	\$ 2,617.40	\$ 2,975.06
									Total Liabilities & Owners' Equity	5,416.2	5,680.6	5,611.9					

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