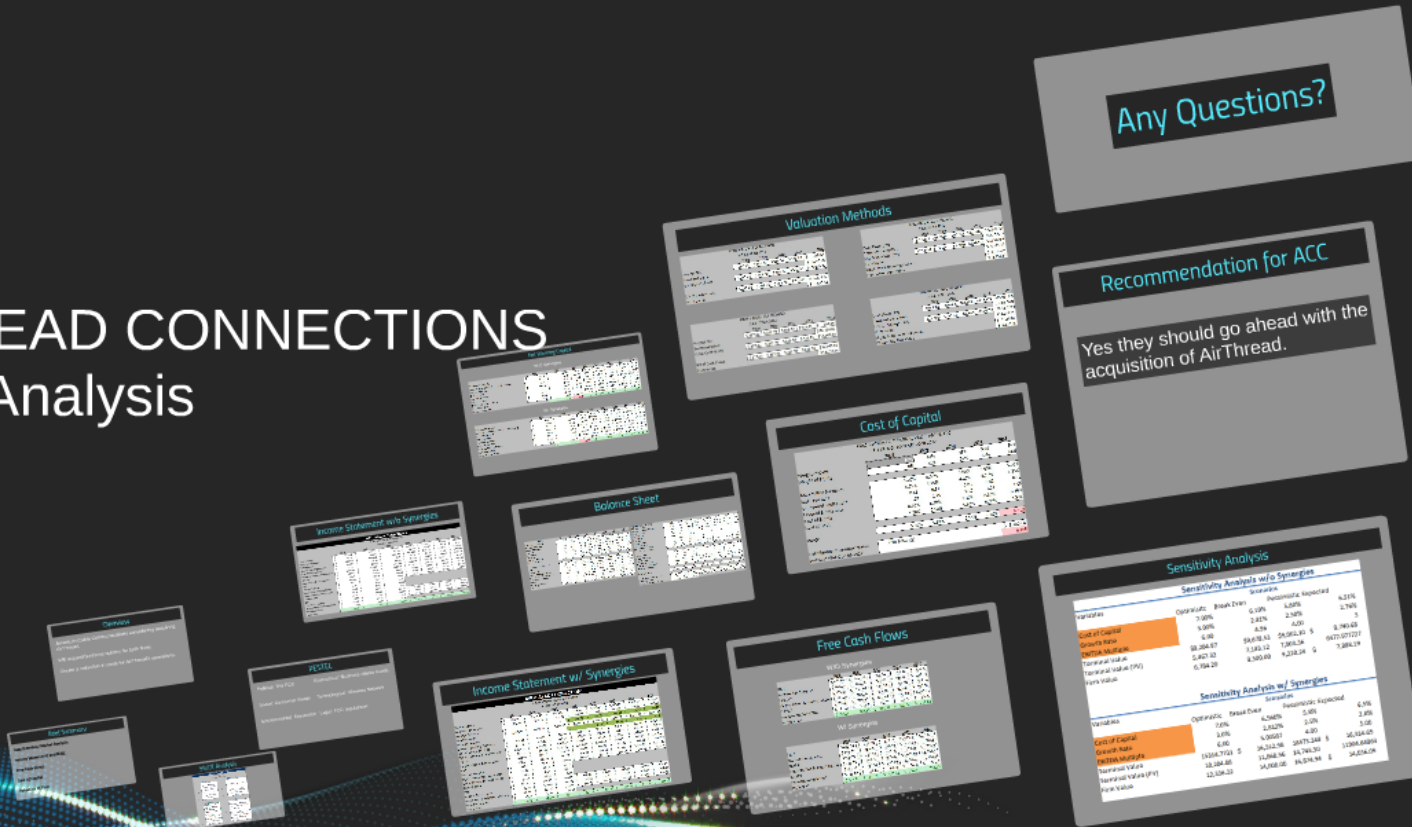
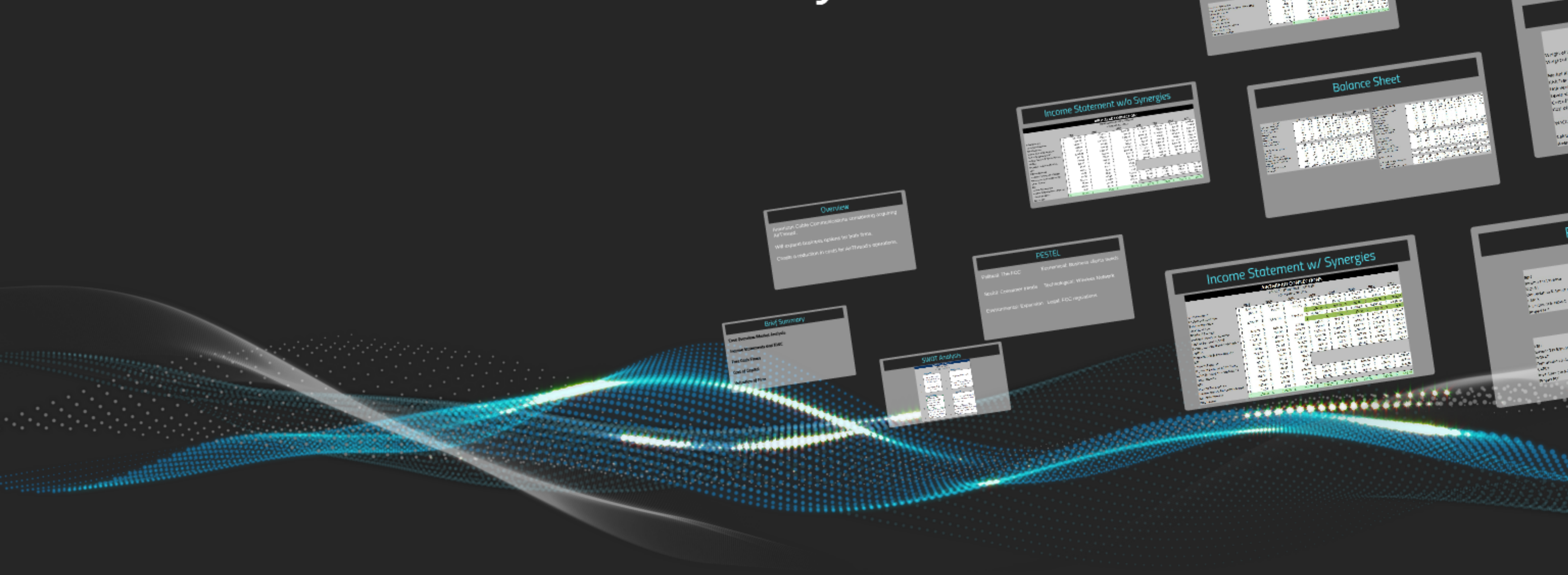
VALUATION OF AIR THREAD CONNECTIONS
Harvard Case Solution & Analysis



TheCaseSolutions.com

VALUATION OF AIR THREAD CONNECTIONS
Harvard Case Solution & Analysis



TheCaseSolutions.com

Brief Summary

Case Overview/Market Analysis

Income Statements and NWC

Free Cash Flows

Cost of Capital

Valuation of Firm

Overview

American Cable Communications considering acquiring AirThread.

Will expand business options for both firms.

Create a reduction in costs for AirThread's operations.

SWOT Analysis

AIRTHREAD CONNECTIONS			
SWOT ANALYSIS			
CROSS - INDUSTRY			
	Strengths		**Weaknesses**
1)	One of the larger wireless firms in the United States	1)	High backend costs
2)	High operating revenues	2)	Lack of other services means no business customers
	Opportunities		**Threats**
1)	Companies are looking to merge with or acquire wireless service providers	1)	Highly competitive industry and competing with many firms at once
2)	Growth of network by purchasing more network coverage at FCC auctions	2)	Other companies may purchase competition and thus make AirThread less desirable

PESTEL

Political: The FCC

Economical: Business clients needs

Social: Consumer trends

Technological: Wireless Network

Environmental: Expansion

Legal: FCC regulations

Income Statement w/o Synergies

AIRTHREAD CONNECTIONS

FORECASTED INCOME STATEMENT

FOR YEARS 2005-2012

	2005	2006	2007	2008	2009	2010	2011
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

Income Statement w/ Synergies

AIRTHREAD CONNECTIONS

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