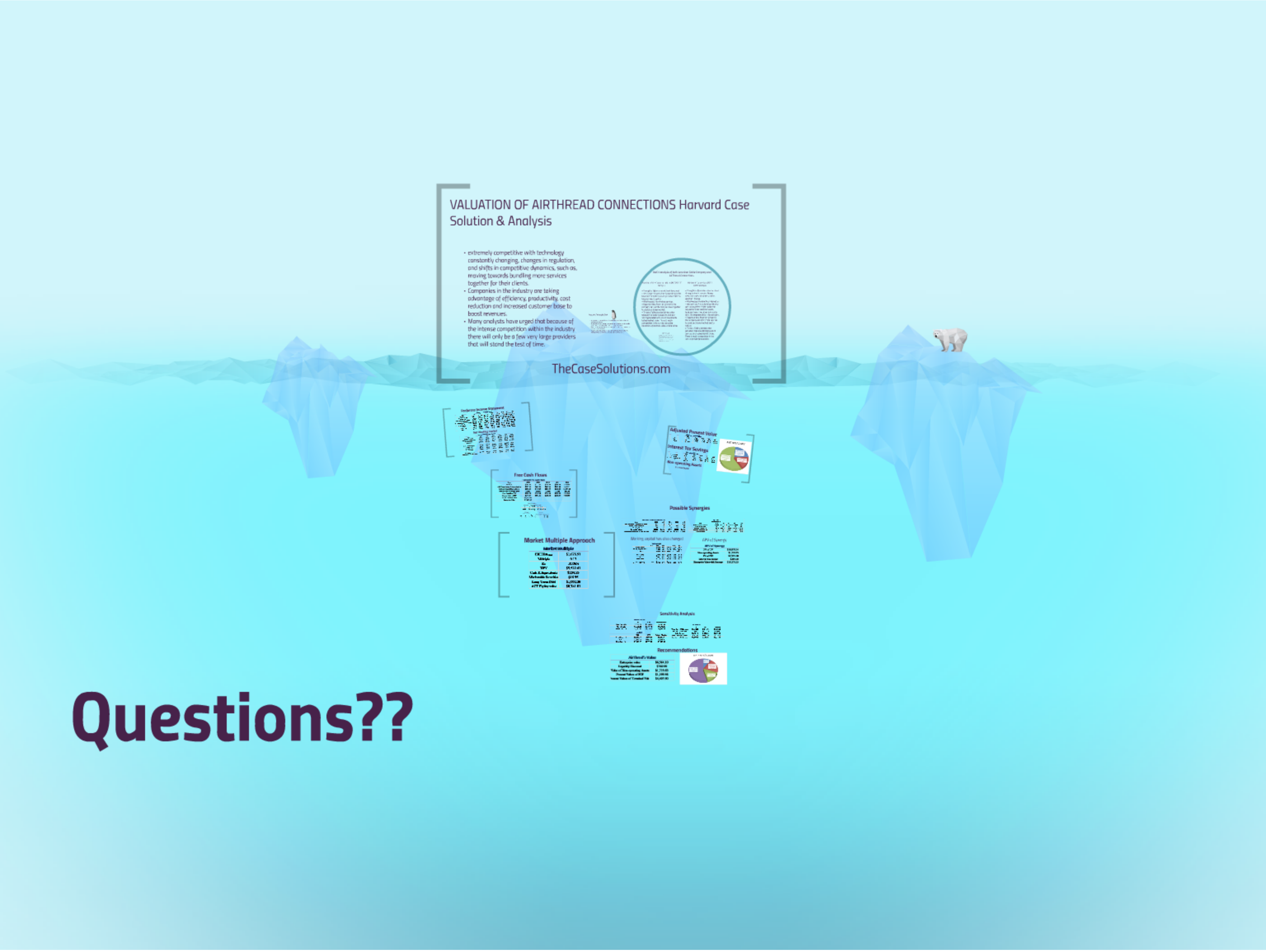
VALUATION OF AIRTHREAD CONNECTIONS Harvard Case Solution & Analysis
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TheCaseSolutions.com
Adjusted Present Value
Interest Tax Savings
Free Cash Flows
Possible Synergies
Market Multiple Approach
Sensitivity Analysis
Recommendations
Questions??

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Reasons for acquisition

- Benefits from being able to offer bundled services of video, internet, landline, and wireless.
- Merging the clients from both companies and adopting the high quality of customer service that A.T.C. provides to their customers.
- A.C.C. has the equity to buy down some of A.T.C. debt that can make the company more profitable.
- Possible synergies between the companies that could cut costs and increase revenues that makes this deal particularly lucrative.

SWOT analysis of both American Cable Company and AirThread Connections.

American Cable Communications (ACC) SWOT analysis.

- Strengths: Offers Internet, land lines, and video. Large company that is operating in the telecommunication service provider that has large barriers to entry.
- Weaknesses: No wireless services.
- Opportunities: Room for growth if the company can bundle more services together to capture a larger market.
- Threats: Falling too far behind other telecommunication providers that are offering bundled services and eventually losing market share. There is much competition in the service providing industries of internet, video, and landline.

Airthread Connections (ATC) SWOT analysis.

- Strengths: offers wirelesses services. Strong customer service. Strong network assets. Valuable wireless spectrum license.
- Weaknesses: No landline, internet, or video services. Not able to bundle any services together. Higher customer acquisitions and retention costs, because there is no other services to offer. Slowing growth for the company.
- Opportunities: Room for growth if the company can offer more services to capture a larger market and to reduce.
- Threats: Falling behind other providers that are offering bundled services and losing market share. There is much competition in the service providing industries.

Proforma Income Statement

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PESTEL Analysis

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PESTEL Analysis

- Political: The main risk is changes in regulations within the industry. There are no real political risks that are involved with political stability, foreign trade policy, tax policy, labour laws, environmental laws, or trade restrictions.
- Economical: The global market is relatively stable, so no real problems are in the foreseeable future.
- Social: Customers expect high quality service and that many services can be bundled together. There is a trend for people to be connected to their devices, and the use of the internet is becoming an everyday occurrence for virtually every customer that uses the industry.
- Technological: All the equipment used by both companies is very expensive, and technology is constantly evolving in the industry.
- Environmental: Every market including telecommunications will be under pressure to become a greener company.
- Legal: There is little legal risk in the telecommunications industry.

easons for acquisition

Benefits from being able to offer bundled services of video, internet, landline, and wireless.

Merging the clients from both companies and adopting the high quality of customer service that A.T.C. provides to their customers.

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TheCaseSolutions.com

Proforma Income Statement

Proforma Income Statement

Net Working Capital

Forecast Net Working Capital

Free Cash Flows

Forecast Free Cash Flows					
Year	2008	2009	2010	2011	2012
EBIPAT	$245.45	$377.53	$354.41	$386.95	$454.44
Add: Depreciation & Amortization	$705.25	$803.96	$867.44	$922.38	$952.91
Subtract: Capital Expenditures	$631.27	$719.65	$867.44	$970.09	$1,055.01
Subtract: Net Working Capital	$25.61	$19.64	$19.99	$17.99	$13.86
Free Cash Flow FCF	$291.78	$442.18	$314.41	$321.22	$318.48
Present Value of FCF	$274.07	$301.91	$260.58	$250.07	$252.89
PV of Terminal Value	$4,405.90				
Enterprise Value	$5,725.42				

Adjusted Present Value

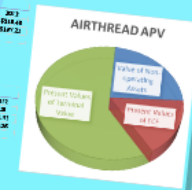
Adjusted Present Value

Interest Tax Savings

Interest Tax Savings

Non-operating Assets

$1,719,630,000



Possible Synergies

Wireless Business Subscribers					
Year	2008	2009	2010	2011	2012
Average Monthly Subscribers (in Mill's)	[illegible]	[illegible]	[illegible]	1.00	[illegible]
Average Monthly Minutes	[illegible]	885	911	959	[illegible]
Total Monthly Minutes	[illegible]	443	638	959	[illegible]
Revenue Per Minute	0.0506	0.0506	0.0506	0.0506	0.0506
Annual Business Revenue Increase (in Mil)	$156.00	$268.00	$387.00	$570.00	$704.00

Synergy					
Backhaul Synergy					
Year	2008	2009	2010	2011	2012
System Operating Expense	[illegible]	$956.31	$1,075.85	$1,183.43	$1,296.27
Backhaul Percentage	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Estimated Backhaul Cost	$167.77	$191.26	$215.17	$236.69	$259.25
Reduction in Backhaul Costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Backhaul Synergy	$0.00	[illegible]	[illegible]	[illegible]	[illegible]

Working capital has also changed

Working Capital

APV of Synergy

APV of Synergy	
PV of TV	$10,878.74
Non-operating Assets	$1,719.63
PV of FCF	$2,395.08
Interest Tax Saving	$284.78
Enterprise Value with Synergy	$15,278.23

Market Multiple Approach

Market Multiple	
$EBITDA_{2007}$	$1,676.97
Multiple	9.17
Ke	10.06%
NPV	$9,522.41
Cash & Equivalents	$204.53
Marketable Securities	$16.35
Long Term Debt	$1,002.29
ACT Equity value	$8,741.01

Sensitivity Analysis

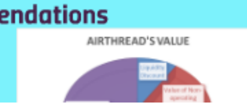
Growth Rate	DCF	APV	Market Multiple
Best Case +1%	$7,302.22	$6,265.76	$8,319.95
Growth Rate	$5,725.42	$5,605.46	$8,741.01
Worst Case -1%	$4,792.21	$4,140.26	$9,185.65

WACC	DCF	APV	Market Multiple
Worst Case +1%	$3,353.77	$3,900.51	$8,319.95
WACC	$5,725.42	$5,605.46	$8,741.01
Best Case -1%	$9,743.57	$9,577.91	$9,185.65

Revenue	DCF	APV	Multiples
Worst Case -10% Revenue	$5,152.88	$5,044.91	$7,866.90
Bad Case - 5% Revenue	$5,439.15	$5,325.19	$8,303.95
Total Revenue	$5,725.42	$5,605.46	$8,741.01
Good Case +5% Revenue	$6,011.69	$5,885.73	$9,178.06
Best Case +10% Revenue	$6,297.96	$6,166.01	$9,615.11

Recommendations

AirThred's Value	
Enterprise value	$6,564.10
Liquidity Discount	$760.99



Proforma Income Statement

Proforma Income Statement								
Year:	2005	2006	2007	2008	2009	2010	2011	2012
Service 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
Plus: Equipment Sales	$203.74	$258.75	$267.03	$314.57	$358.62	$403.44	$443.79	$474.85
Total Revenue	$3,030.77	$3,473.16	$3,946.26	$4,508.90	$5,140.15	$5,782.67	$6,360.94	$6,806.20
Less: System Operating Expenses	$604.09	$639.68	$717.08	$838.87	$956.31	$1,075.85	$1,183.49	$1,266.27
Less: Cost of Equipment Sold	$511.94	$568.90	$640.23	$755.46	$861.22	$968.87	$1,065.76	$1,140.36
Less: Selling, General & Administrative	$1,217.71	$1,399.56	$1,555.64	$1,803.64	$2,056.15	$2,313.17	$2,544.49	$2,722.60
EBITDA	$697.02	$865.01	$1,033.33	$1,110.94	$1,266.47	$1,424.78	$1,567.26	$1,676.97
Less: Depreciation & Amortization	$490.09	$555.53	$582.27	$705.23	$803.96	$867.44	$922.38	$952.91
EBIT	$206.93	$309.48	$451.06	$405.71	$462.51	$557.34	$644.88	$724.06
Less: Taxes	$95.86	$120.60	$216.71	$162.29	$185.00	$222.94	$257.95	$289.62
Net Income	$154.95	$179.49	$314.73	$243.43	$277.51	$334.41	$386.93	$434.44

Net Working Capital

Forecast Net Working Capital						
Year:	2007	2008	2009	2010	2011	2012
Accounts Recievable	$435.50	$521.87	$594.93	$669.30	$736.23	$787.77
Day Sales Equipment Revenue	$101.00	$134.88	$153.77	$172.99	$190.29	$203.61
Prepaid Expenses	$41.60	$46.89	$53.46	$60.14	$66.15	$70.78
Current Assets	$578.10	$703.65	$802.16	$902.43	$992.67	$1,062.16
Deferred Service Revenue	$143.40	$163.23	$186.08	$209.34	$230.28	$246.40
Accounts Payable	$260.80	$335.45	$382.42	$430.22	$473.24	$506.37
Accrued Liabilities	$59.20	$64.66	$73.71	$82.92	$91.21	$97.60
Current Liabilities	$463.40	$563.34	$642.21	$722.48	$794.73	$850.36
Net Working Capital	$114.70	$140.31	$159.95	$179.94	$197.94	$211.79
Changes in Net Working Capital		$25.61	$19.64	$19.99	$17.99	$13.86

Free Cash Flows

Forecast Free Cash Flows					
Year:	2008	2009	2010	2011	2012
NOPAT	$249.49	$277.51	$334.41	$386.93	$434.44
Add: Depreciation & Amortization	$705.29	$803.96	$867.44	$922.38	$952.91
Subtract: Capital Expenditures	$631.27	$719.65	$867.44	$970.09	$1,055.01
Subtract: Net Working Capital	$25.61	$19.64	$19.99	$17.99	$13.86
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Present Value of FCF	$274.07	$301.91	$260.58	$250.07	$232.89
PV of Terminal Value	$4,405.90				
Enterprise Value	$5,725.42				

Hamada's equation

BetaL = BetaU [1 + (1-T) (D/E)] - Betadebt (1-T) (D/E)

Beta Calculation										
Comparable Companies:	Equity Market Value	Net Debt	Debt/ Value	Debt/ Equity	Equity Beta	Revenue	EBIT	EBITDA	Net Income	Beta Unlevered
Universal Mobile	118497.00	69150.00	0.37	0.58	0.86	45882.00	11795.00	16949.00	5794.00	0.64
Neckopper Wireless	189470.00	79951.00	0.30	0.42	0.89	42684.00	7030.00	14099.00	4103.80	0.71
Agile Connections	210779.00	5080.00	0.19	0.24	1.17	34698.00	1651.22	9914.00	-29.74	1.02
Big Country Communications	262285.00	83195.00	0.24	0.32	0.97	38896.46	6701.86	12814.12	5585.99	0.81
Rocky Mountain Wireless	7960.00	5268.00	0.51	0.44	1.13	4065.52	510.05	1028.48	358.75	0.89
Average			0.28	0.40	1.00					0.82
Beta Levered$_{2008-2012}$				0.71						1.16
Beta Levered for TV				0.40						1.01

CAPM equation

ri = rRF + Betai [rm-rRF]

$Ke_{2008-2012}$	
Risk-Free Rate	4.25%
Market Risk Premium	5.00%
Asset β	1.16
Ke	10.06%

Ke for TV	
Risk-Free Rate	4.25%
Market Risk Premium	5.00%
Asset β	1.01
Ke	9.31%

WACC equaltion

WACC=wd rd (1-T)+wps rps+ws rs+we re

WACC for $FCF_{2008-2012}$	
Wd	53.36%
Kd after tax	3.30%
We	46.64%
Ke	10.06%
WACC	6.46%

WACC for TV	
Wd	40.00%
Kd	3.30%
We	60.00%
Ke	9.31%
WACC	6.90%