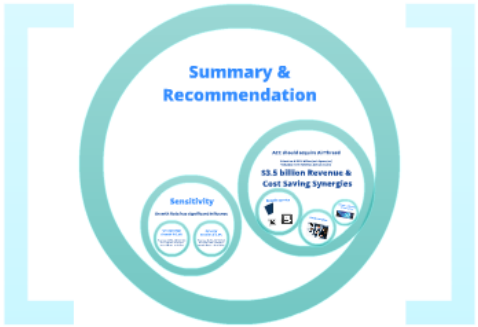
Valuation of AirThread Connections

Alex Ho Ivan Ng Ata Naemi Keith Ellis



Valuation of AirThread Connections

Alex Ho Ivan Ng Ata Naemi Keith Ellis

Introduction

American Cable Company

Video

Internet

Telephone

Introduction

Acquisition of AirThread

Wireless

Synergy

Executive Summary

Rational behind acquisition

Backhaul cost savings

Bundle Service

Business User & Increase utilization of fiber optics

Valuation Approach

Step 4: Terminal Value

$$Terminal\ Value = \frac{(1+r_g)FCF_{2012}}{r_{WACC} - r_g}$$

Growth rate:

$$g \sim RoC \times Reinvestment\ rate$$

$$RoC = \frac{LD + E - Minority\ Interest}{Earning\ Before\ Interest}$$

$$Reinvestment\ rate = \frac{Net\ Capex + \Delta Working\ Capital}{Earning\ Before\ Interest}$$

APV

Valuation done using APV

Did not use WACC because Debt/ Equity Ratio changes

Step 1: AirThread's WACC

1. Considering Airthread fully financed through equity

2. Calculate cost of equity using CAPM
βu = 0.83; Rf = 4.25%; Risk premium = 5%

3. Weighted average cost of capital (WACC) is calculated

$$r_{WACC} = \frac{D}{D+E} r_d (1-\tau_c) + \frac{E}{D+E} r_e$$

rwacc = 8.4%

Step 2: PV of unlevered FCFs

Determine unlevered Free Cash Flow
· Revenue, Expense Working Capital

$$FCF_t = \underbrace{(OR_t - CCA_t)}_{EBIT_t}(1-t) + CCA_t - \Delta NWC_t - CAPEX_t$$

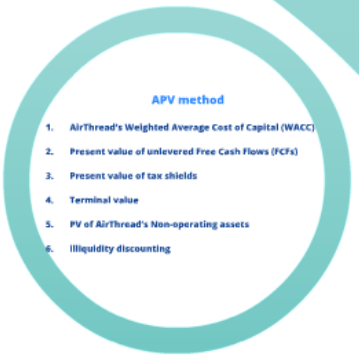
Present Value of Free Cash Flow
· Discount rate @ rwacc = 8.4%

Step 3: PV of Tax Shields

$$PV\ (interest\ payments\ tax\ shield) = \boldsymbol{tr_d D}$$

(for perpetuity)

APV



Valuation done using APV

Did not use WACC because Debt/ Equity Ratio changes

Det
· R
$FCF_t =$
Presen
· Disc
Step
$PV\ (in$

APV method

1. AirThread's Weighted Average Cost of Capital (WACC)
2. Present value of unlevered Free Cash Flows (FCFs)
3. Present value of tax shields
4. Terminal value
5. PV of AirThread's Non-operating assets
6. illiquidity discounting