

Wide-Comm Wireless Co.

Wide-Comm Wireless Co. provides wireless broadband service in rural communities. It uses Wi-Max, a still-new and largely unproven technology on a large scale. The company was funded by several venture capital firms. As expected, it lost money its first several years as it built up its towers and other infrastructure. Charging subscribers \$39.95 per month, it does not expect to reach profitability for another three years. For 2007 it had a positive cash flow of \$4 million. By 2010, management projects \$10 million in positive cash flow.

Mega Telecomm, Inc. has approached Wide-Comm about acquiring it. It has offered \$12 million. Wide-Comm countered that it thinks it is worth at least \$50 million.

Both companies agree they are using a simple rate of return calculation to come up with the value and are willing to negotiate.

Use the valuation techniques presented in lecture or the text to answer the following questions.

1. First, take the viewpoint of Wide-Comm's owners: How would they come up with the \$50 million value? **Given the information you have**, how could this be justified?
2. Then, take the viewpoint of Mega Telecomm's Board. How did they come up with their valuation and how might they justify that?

See [Valuation.pdf](#). Make sure to go over it