



Analysis of Nextel Communications, Inc.

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valuation / analysis / strategy

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Investment Recommendation: MARKET OUTPERFORM

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NXTL – Nasdaq NM (11/27/01)	\$10.71	<u>EPS Forecast</u>	
52 week range	\$6.87-\$38.625	FYE 12/31	2000A 2001E 2002E 2003E
Revenue (12/31/00)	\$5,714,000,000	EPS	-\$1.21 -\$1.54 -\$0.40 \$0.47
Market Capitalization	\$8,193,546,270	<u>Ratios</u>	
Share Outstanding	771.0MM	Firm	Average of Competitors
Dividend Yield	N/A	Forward P/E	N/A 26.88
Avg Daily Trading Volume	15,119,681	Forward PEG	N/A 1.38
Book Value per Share	\$1.13	M/B	9.52 1.57
Return of Equity	-120.12%	<u>Valuation Predictions</u>	
Return on Assets	-5.91%	Actual Current Price	\$10.71
Est. 5 Years EPS Growth Rate	27.5%	P/E Valuation	N/A
Industry	WIRELESS COMMUNICATION	PEG Valuation	N/A
5-year Weekly Chart of NXTL and the Dow Jones U.S. Wireless Communications Index SM		M/B Valuation	\$1.77
		EBO (Abnormal Earnings) Valuation	\$7.09
		DCF Valuation	\$14.33
		<u>Performance of NXTL</u>	
		Trailing	6 mo 12 mo 24 mo
		Return on Nextel	-32.7% -65.5% -78.4%
		Return on S&P 500	-9.3% -13.3% -18.0%
		Return on Competitors	-15.1% -19.5% -53.6%



- Assigning a rating of market outperform on Nextel Communications at its current price of \$10.71 and a 12-month target price of \$14.33 (based on DCF valuation)
- In 24 month period stock has depreciated -78% compared to direct competitors which depreciated -53% over the same period
- Nextel currently provides service to approximately 8,165,600 digital handsets in the United States and 1,189,500 digital handsets in Latin America and the Philippines
- Trading prices are near its 52 week low of \$6.87 (82% discount from 52 week high of \$38.625)
- Nextel Communications' revenue per handset is projected to decrease due to competitive pressures
- As of 9/30/01, revenues rose 38%, but net loss before extraordinary items rose 78%

Rating System:

BUY: A strong purchase recommendation with above average long-term growth potential.

MARKET OUTPERFORM: A purchase recommendation that is expected to marginally outperform the return of the market.

MARKET PERFORMER: A recommendation to maintain current positions with returns to match that of the market.

SELL: A recommendation to sell the security (or short the security) as it is expected to decrease in price in the medium term.

Strategic Analysis:

Business Model:

Nextel Communications, Inc. provides digital wireless communications services throughout the United States targeted primarily at business users. The company offers an integrated package of digital wireless communications services under the Nextel brand. Nextel's digital mobile network utilizes a single transmission technology, which was developed by Motorola, Inc., and is referred to as integrated Digital Enhanced Network (iDEN) technology. Their digital mobile network constitutes one of the largest integrated wireless communications systems utilizing a single transmission technology in the United States.

In addition to its operations in the United States, Nextel has ownership interests in international wireless companies through its substantially wholly owned subsidiary, Nextel International. Nextel International, through its subsidiaries, provides wireless communications services in and around various major metropolitan market areas in Latin America and the Philippines. Nextel International also invests in wireless communications providers in Canada and Japan and owns analog specialized mobile radio companies in Chile.

The services provided to customers using Nextel's digital mobile network include digital mobile telephone service, digital two-way radio dispatch service, internet applications, mobile messaging services, e-mail, three-way calling, voicemail, call forwarding, additional line service, international roaming capabilities, text paging, and numeric paging.

Competitors:

Competitors of Nextel Communications include AT&T Wireless Services, Inc. (AWE - NYSE), Sprint Corporation PCS Group (PCS - NYSE), United States Cellular Corp. (USM - AMEX), Vodafone Group PLC (VOD - NYSE), and Western Wireless Corp. (WWCA - Nasdaq NM).

AT&T Wireless Services, Inc. provides wireless voice and data services using time division multiple access, cellular digital packet data, and analog technologies.

Sprint Corporation PCS Group is involved in the wireless mobile telephone operations conducted by Sprint Corporation, which includes Sprint Spectrum, SprintCom, PhillieCo, and an interest in Cox PCS.

United States Cellular Corp. owns, manages, and invests in cellular systems throughout the United States and is the country's eighth largest cellular telephone company in terms of customers.

Vodafone Group PLC is a global telecommunications network company with interests in mobile networks that service approximately 93 million customers in 29 countries across five continents.

Western Wireless Corp. provides wireless communications services in the United States through its ownership and operation of cellular and personal communications services systems.

Market share for the top five wireless service providers is as follows: Verizon Wireless 23.4%; Cingular Wireless 17.8%; AT&T Wireless 13.7%; Sprint PCS 9.4%; Nextel 6.4%.

Risk:

The wireless communications industry faces risk due to the uncertainty of capital expenditures and the funding required as companies seek to upgrade their networks as voice traffic increases. In addition, the weak economic condition, the concerns that penetration may have reached full capacity, and the fears of a slowdown in the sector due to increased competition are all additional risk factors.

Nextel faces considerable challenges due to continual competition in the wireless communications sector that will continue to negatively impact the firm's earnings. Nextel's average monthly revenue per domestic handset is projected to continue to decrease in the future, as the company faces competitive pressures to both lower the prices of its offering packages and restructure the packages to provide more value to customers. In addition, as new wireless communications providers launch their services, Nextel will have to respond to introductory pricing packages to prevent customer defection in an industry with low switching costs. Should Nextel decide to target non-business users, the company will have to expand its marketing efforts, further straining its cash resources and reducing its margins. The outlook for the company's international operations is similar, with average monthly revenue per domestic handset also projected to decrease as competition continues to increase.

Stock Performance:

Nextel's stock closed at \$10.71, which is down significantly from its 52-week high of \$38.625. Like many companies in the wireless communications sector, Nextel's revenues and earnings have been negatively impacted by the current economic downturn and sluggish performance of the stock market. The stock prices of Nextel's competitors have decreased an average of 19.5% over the past twelve months. The individual return on its competitors is as follows: AWE -22.4%; PCS 10%; USM -21.4%; VOD -25.7%; WWCA -38.1%.

Financial Performance:

As of September 30, 2001, revenues for Nextel rose by 38% to \$5.62 billion, but their net loss before extraordinary items rose by 78% to \$1.53 billion. The increase in revenues reflects the additional number of domestic digital subscriber units in service the company has added to its base subscribers. Part of the higher net loss is attributable to a \$188 million reduction in the fair value of its securities.

Domestically, Nextel reduced its workforce in the second quarter of 2001 as a part of a restructuring designed to reduce its domestic payroll and operating costs. This affected 800 of the company's 19,500 employees across Nextel's domestic organization. Because of the restructuring, Nextel recorded a \$22 million charge comprised of \$15 million related to severance and fringe benefits and \$7 million related to the write-off of information technology development projects that the company discontinued because of its headcount reduction. The company projects that any savings in operating expenses due to the workforce reduction will be offset by an increase in the operating expenses associated with future headcount increases in their direct sales force.

Outside of the U.S., Nextel International announced that it would discontinue incremental funding to its Philippine operating company during the third quarter of 2001. As a result, Nextel International recognized a pretax impairment charge of \$147 million.

Growth Potential:

Nextel plans to significantly upgrade the technology behind its iDEN digital mobile network. This upgrade, which Motorola is developing, is expected to be deployed in 2003. The company expects that this upgrade will double its voice capacity and help it leverage its existing infrastructure more efficiently. In addition, Nextel announced that it plans to roll out an enhancement to its compression technology in 2002 to deliver packet data service more efficiently at higher speeds.

In July 2001, Nextel launched an enhanced Nextel Direct Connect service that is available in some of their markets that allows any Nextel subscriber to instantly communicate with any other Nextel subscriber in the same local dispatch calling area. The company expects to make this enhanced service available in all of its markets by the end of 2001. In its next enhancement of Nextel Direct Connect, the company plans to allow any two or more Nextel subscribers traveling to a market outside of their home calling area to continue to use Nextel Direct Connect with each other and with other Nextel subscribers in the visited market. The company expects to make this “traveling Nextel Direct Connect” feature available in 2002 and considers it to be the next step in its planned introduction of a nationwide Nextel Direct Connect feature.

Internationally, Nextel plans to continue to scale back its investment in its wholly owned operations due to unfavorable market conditions. This decision will primarily affect the company’s Latin American based operations. However, the company has also already decided to discontinue incremental funding of its Philippine operations in the third quarter of 2001.

Valuation Analysis:

Valuation Based on Market/Book Analysis:

To predict the price target for Nextel using Market/Book analysis, we used the median Market/Book ratios of Nextel's five competitors and multiplied it by Nextel's Book Value Per Share Outstanding. This resulted in a target price of \$1.77 for Nextel, indicating that the company is currently overvalued.

We chose the median instead of the mean because the Market/Book ratio for Sprint PCS is substantially higher than that of the other competitors, which causes a skew in the average and a subsequently higher target price for Nextel.

Valuation Based on Price/Sales Analysis:

To predict the price target for Nextel using Price/Sales analysis, we used the median Price/Sales ratios of Nextel's five competitors and multiplied it by Nextel's 2001 forecasted Sales Per Share Outstanding. This resulted in a target price of \$25.73 for Nextel, indicating that the company is currently substantially undervalued.

We chose the median instead of the mean because the Price/Sales ratio for Vodafone is substantially higher than that of the other competitors, which causes a skew in the average and a subsequently higher than reasonable target price for Nextel.

Valuation Based on Price/EBITDA Analysis:

To predict the price target for Nextel using Price/EBITDA analysis, we used the median Price/EBITDA ratios of Nextel's five competitors and multiplied it by Nextel's 2001 forecasted EBITDA Per Share Outstanding. This resulted in a target price of \$31.30 for Nextel, indicating that the company is currently substantially undervalued.

We chose the median instead of the mean because the Price/EBITDA ratio for Vodafone is substantially higher than that of the other competitors, which causes a skew in the average and a subsequently higher than reasonable target price for Nextel.

Valuation Based on Forward Price/Earnings Analysis:

To predict the price target for Nextel using forward Price/Earnings analysis, we used the average forward P/E ratios of Nextel's two competitors who had predicted positive earnings and attempted to multiply it by Nextel's own forward EPS. However, forward P/E analysis is an inappropriate valuation technique for Nextel because the company is not projected to be profitable until 2003.

Valuation Based on Forward PEG Analysis:

To predict the price target for Nextel using forward PEG analysis, we used the average forward PEG ratios of Nextel's two competitors who had predicted positive earnings and attempted to multiply it by the ratio of Nextel's own forward EPS to its five year earnings growth rate.

However, forward PEG analysis is an inappropriate valuation technique for Nextel because the company is not projected to be profitable until 2003.

Please refer to Appendix A for further details on company comparable analysis.

Valuation Based on Discounted Cash Flow Analysis (DCF):

To predict the price target for Nextel using the DCF Analysis, we did a bottom up build for the operating free cash flows and used a discount rate based on the CAPM model. The first step in this process was to estimate the net income for 2001 – 2005, using a percentage of sales method. To estimate the 2001 earnings, we annualized the income statement financials from Nextel's 10Q for the third quarter. For 2002 - 2005, we looked at Nextel's historical performance, industry trends and macroeconomic factors to predict sales growth to get revenue estimates. We used ratios such as COGS/Sales, Interest/Long Term Debt to project the change in expense items from 2001 – 2005. As Nextel is in the early stages of its operations, we believe that by 2005, it will be able to lower its cost of Goods Sold and G&A due to economies of scale and greater capacity utilization. Using interpolation, and the above mentioned ratios; we projected earnings from 2002 – 2005.

We then used the indirect method to obtain an estimate of free cash flows. By adding back depreciation & amortization, adjusting for Working Capital accruals and deducting CAPEX, we were able to obtain estimates for free cash flows. In the wireless industry, operators have made significant investments in infrastructure, and the depreciation and amortization incurred as a result is almost equivalent to Net Income in the years 2000 and 2001. This lowers income significantly. To estimate changes in current assets and liabilities (non-cash), we used the percentage of sales method. Nextel's inventory and A/R as percent of sales appear to be in line with expectations, and there is limited potential for improvement on these metrics. For CAPEX, it is our understanding that CEO Tim Donahue stated at a recent conference that domestic capital expenditures could be equal to the 2001 level assuming an aggressive growth strategy. Using this guidance, we assumed that CAPEX in 2002 would be almost equal to CAPEX in 2001, and would then decrease slowly from 2002-2005.

For an estimate of the discount rate, we relied on the CAPM. We regressed Nextel's stock returns vs. the market premium over a period of the last 60 months to obtain an estimate for Beta (1.96). Using a market risk premium of 8.68% (long run average of '97-'00) and a risk free rate for 4.57% (based on the 10 year Treasury constant maturity rate), we obtained a discount rate for Nextel for 21.6%.

To calculate the terminal value, we assumed a constant growth rate of 8% beyond 2005. We believe this is reasonable given that the wireless sector currently has a penetration lower than 50%, the need for wireless data services is increasing and the ARPU (average revenue per unit) seems to be increasing.

Using the above mentioned estimates for free cash flow, discount rate and growth rate and a constant number of shares outstanding, we predict a price of \$14.33 for Nextel. Please refer to Appendices B and C for a detailed explanation of cash flow estimation and stock price valuation.

Sensitivity Analysis on DCF:

<u>Discount Rate</u>	<u>Growth Rate</u>				
	5%	8%	10%	12%	15%
15%	\$ 27.40	\$ 38.22	\$ 52.65	\$ 86.33	N/A
20%	\$ 14.30	\$ 17.43	\$ 20.55	\$ 25.24	\$ 39.30
21.6%	\$ 12.04	\$ 14.33	\$ 16.42	\$ 19.63	\$ 27.84
25%	\$ 8.48	\$ 9.72	\$ 10.82	\$ 12.27	\$ 15.52

Valuation Based on Abnormal Earnings Analysis:

For the abnormal earnings valuation, we initially estimated the earnings for 2001- 2005. For further details on the process, please read the section on estimation of earnings under the DCF section. To estimate the Abnormal earnings, we used the formula $\text{Abnormal Earnings} = \text{Earnings (t)} - \text{Rate of Return} * \text{Book Value (t-1)}$. Further, to obtain the equity Value, we used the formula $\text{Equity Value} = \text{Initial Book Value} + \text{Present Value (Sum of Abnormal Earnings)}$. For the equity cost of capital, we used 21.6%, similar to the discount rate for the DCF analysis. We assumed that abnormal earnings would persist beyond 2005 and would grow at a rate of 6%, given that Nextel had growth opportunities in the wireless sector. Using this methodology, we obtained a target price of \$7.09 per share. This is lower than the current trading price. However, we do not believe that Nextel is overvalued. Currently, it has negative earnings as it has substantial depreciation and amortization related charges. These negative abnormal earnings have a negative impact on its valuation. Thus, we believe that the DCF method is a much better way to estimate Nextel's stock price

Sensitivity Analysis on EBO:

<u>Discount Rate</u>	<u>Growth Rate</u>					
	3%	5%	8%	10%	12%	15%
15%	\$ 12.63	\$ 14.36	\$ 18.82	\$ 24.77	\$ 38.64	N/A
20%	\$ 7.62	\$ 8.19	\$ 9.39	\$ 10.59	\$ 12.39	\$ 17.79
21.6%	\$ 6.68	\$ 7.09	\$ 7.95	\$ 8.78	\$ 9.95	\$ 12.92
25%	\$ 5.10	\$ 5.33	\$ 5.77	\$ 6.17	\$ 6.68	\$ 7.84

Quality of Earnings Analysis:

Sales growth for Nextel has been 1616% for a 5 year period versus 856% growth in A/R for the same period. This does not appear to be consistent with aggressive booking of Sales. If this were the case, A/R growth would have exceeded Sales growth. However, A/R growth may be lower than Sales if the company is having trouble collecting on its A/R. Since the number we are showing is net A/R, its growth could have been lower due to an increase in the allowance for doubtful accounts. $\text{Net A/R} = \text{Gross A/R} - \text{Allowance for doubtful accounts}$.

The ratio of the scaled standard deviation of Operating Income over the past 5 years to the scaled standard deviation of Operating Cash Flows is less than one, which implies that volatility in operating income is less than the volatility in operating cash flows. Since Operating Income appears to be fluctuating less than Operating Cash Flows, it appears that Nextel's management is smoothing earnings in line with the market's expectations. Nextel's ratio is lower than its competitor USM, but higher than its competitor WWCA. USM's Operating Income appears to be in line with its Operating Cash Flows, as its ratio is closer to one than Nextel's and WWCA's ratios. The ratios for Nextel and WWCA imply that the management of both firms are smoothing earnings more than their competitors.

	<u>NXTL</u>	<u>USM</u>	<u>WWCA</u>
Vol (Operating Income)/Vol (CFO)	0.32	0.99	0.12

Nextel's increase in EPS is relatively more than its increase in Net Income for '99 - '00. Initially, we thought that this might be due to a decrease in the number of shares outstanding as $\text{EPS} = \text{Net Income}/\text{Shares Outstanding}$. However, as we researched this further, we discovered that the number of shares outstanding actually increased due to a stock split in 2000. Thus, we concluded that this difference cannot be attributed to managing reported EPS.

Summary:

Given the various methods mentioned above, we believe that Nextel's price target is in the range of \$12 - \$16. We based our conclusion primarily on the DCF analysis and the sensitivity analysis we performed around it. At its current price, Nextel appears to be slightly undervalued, and expected return on it given our analysis will be slightly higher than the market return. The stock has suffered a dramatic downturn in its performance, given the current economic conditions. The company has recently restructured its operations, reduced headcount, and has the highest ARPU in the wireless sector. With growing demand for wireless services (including data), and good liquidity ratios (current ratio and quick ratio greater than 2), we believe that the stock will rise as the general stock market indices improve and give it a rating of Market Outperform.

Appendix A : Comparative Analysis

Market/Book Analysis:							
	NXTL	AWE	PCS	USM	VOD	WWCA	
Market/Book Ratio	9.52	1.45	20.67	1.68	0.87	N/A	
Mean of Competitors Market/Book Ratios	6.17						
Median of Competitors Market/Book Ratios	1.57						
Book Value Per Share	1.13						
Valuation Estimate of Nextel (Using Mean)	6.97						
Valuation Estimate of Nextel (Using Median)	1.77						
Price/Sales Analysis:							
	NXTL	AWE	PCS	USM	VOD	WWCA	
Price/Sales Ratio	1.13	2.65	2.75	2.08	7.05	1.90	
Mean of Competitors Price/Sales Ratios	3.29						
Median of Competitors Price/Sales Ratios	2.65						
2001 Sales Forecast (millions)	7486.67						
Total Shares Outstanding (millions)	771.00						
2001 Sales Per Share Outstanding	9.71						
Valuation Estimate of Nextel (Using Mean)	31.91						
Valuation Estimate of Nextel (Using Median)	25.73						
Price/EBITDA Analysis:							
	NXTL	AWE	PCS	USM	VOD	WWCA	
Closing Stock Price	10.71	13.97	24.95	44.40	25.34	24.57	
EBITDA Per Share Outstanding	1.92	0.98	1.19	6.69	0.46	3.64	
Price/EBITDA Ratio	5.58	14.31	21.02	6.64	55.28	6.75	
Mean of Competitors Price/EBITDA Ratios	20.80						
Median of Competitors Price/EBITDA Ratios	14.31						
2001 EBITDA Forecast (millions)	1686.67						
Total Shares Outstanding (millions)	771.00						
2001 EBITDA Per Share Outstanding	2.19						
Valuation Estimate of Nextel (Using Mean)	45.50						
Valuation Estimate of Nextel (Using Median)	31.30						
Forward Price/Earnings Analysis:							
	NXTL	AWE	PCS	USM	VOD	WWCA	
Closing Stock Price	10.71	13.97	24.95	44.40	25.34	24.57	
Mean Consensus Earnings Per Year 01	-2.01	-0.08	-1.23	2.13	0.77	-1.88	
Forward Price/Earnings Ratio	N/A	N/A	N/A	20.85	32.91	N/A	
Mean of Competitors Price/Earnings Ratios	26.88						
Median of Competitors Price/Earnings Ratios	26.88						
Valuation Estimate of Nextel (Using Mean)	N/A						
Valuation Estimate of Nextel (Using Median)	N/A						
Forward PEG Analysis:							
	NXTL	AWE	PCS	USM	VOD	WWCA	
Forward Price/Earnings Ratio	N/A	N/A	N/A	20.85	32.91	N/A	
Five Year Earnings Growth Rate	27.5%	30%	30%	18.7%	20%	27%	
Forward PEG Ratio	N/A	N/A	N/A	1.11	1.65	N/A	
Mean of Competitors PEG Ratios	1.38						
Median of Competitors PEG Ratios	1.38						
Valuation Estimate of Nextel (Using Mean)	N/A						
Valuation Estimate of Nextel (Using Median)	N/A						

Appendix B : Earnings Forecast and Ratios

All numbers in \$000's, except for earnings per share

Source for Data: Global Access

Component	Historical						Estimate					Notes
	1995	1996	1997	1998	1999	2000	2001 (A)	2002	2003	2004	2005	
Income Statement Items												
NET SALES	171,703	332,938	739,000	2,295,000	3,786,000	5,714,000	7,486,667	9,509,370	11,697,629	13,920,858	16,008,987	
COST OF GOODS	151,718	247,717	289,000	1,218,000	1,579,000	2,172,000	2,818,667	3,160,617	3,371,792	3,398,400	3,201,797	
GROSS PROFIT	19,985	85,221	450,000	1,077,000	2,207,000	3,542,000	4,668,000	6,348,754	8,325,837	10,522,458	12,807,189	
R & D EXPENDITURES	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
SELL GEN & ADMIN EXP	210,693	330,256	862,000	1,297,000	1,672,000	2,278,000	2,981,333	3,315,578	3,498,872	3,474,016	3,201,797	
INC BEF DEP & AMORT	(190,708)	(245,035)	(412,000)	(220,000)	535,000	1,264,000	1,686,667	3,033,176	4,826,965	7,048,442	9,605,392	
DEPRECIATION & AMORT	236,178	400,831	526,000	832,000	1,004,000	1,265,000	1,693,333	2,033,536	2,622,210	3,198,419	3,678,182	
NON-OPERATING INC	10,153	10,149	37,000	(3,000)	49,000	502,000	(441,333)	95,094	116,976	139,209	160,090	
EBIT	(416,733)	(635,717)	(901,000)	(1,055,000)	(420,000)	501,000	(448,000)	1,094,734	2,321,731	3,989,231	6,087,300	
INTEREST EXPENSE	115,034	227,495	408,000	656,000	878,000	1,245,000	1,428,000	1,590,046	1,736,836	1,860,427	1,953,449	
INCOME BEFORE TAX	(531,767)	(863,212)	(1,309,000)	(1,711,000)	(1,298,000)	(744,000)	(1,876,000)	(495,312)	584,895	2,128,804	4,133,852	
PROV FOR INC TAXES	(200,602)	(307,192)	259,000	(192,000)	(28,000)	(33,000)	(62,667)	(188,219)	222,260	808,946	1,570,864	
MINORITY INT (INC)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
INVEST GAINS/LOSSES	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
OTHER INCOME	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
NET INC BEF EX ITEMS	(331,165)	(556,020)	(1,568,000)	(1,519,000)	(1,270,000)	(711,000)	(1,813,333)	(307,093)	362,635	1,319,859	2,562,988	
EX ITEMS & DISC OPS	NA	NA	(46,000)	(133,000)	(68,000)	(104,000)	625,333	-	-	-	-	
NET INCOME	(331,165)	(556,020)	(1,614,000)	(1,652,000)	(1,338,000)	(815,000)	(1,188,000)	(307,093)	362,635	1,319,859	2,562,988	
OUTSTANDING SHARES	123,401	227,583	269,859	289,000	369,000	763,000	771,000	771,000	771,000	771,000	771,000	
EARNINGS PER SHARE						\$ (1.07)	\$ (1.54)	\$ (0.40)	\$ 0.47	\$ 1.71	\$ 3.32	

Balance Sheet Items

Component	Historical						Estimate					Notes
	1995	1996	1997	1998	1999	2000	2001 (A)	2002	2003	2004	2005	
PP&E	1,192,204	1,803,739	3,225,603	4,915,000	6,152,000	8,791,000	9,974,000	13,556,907	17,481,402	21,322,792	24,521,211	
Long Term Debt	1,687,829	2,783,041	5,038,250	7,710,000	9,760,000	13,763,000	15,616,000	17,388,061	18,993,295	20,344,840	21,362,082	
Shareholder's equity	2,945,141	2,808,138	2,441,539	1,808,000	4,344,000	3,909,000	1,484,994	1,177,907	1,540,542	2,860,400	5,423,388	
Paid - in capital							8,633,000	8,633,000	8,633,000	8,633,000	8,633,000	
Accumulated earnings							(7,148,000)	(7,455,093)	(7,092,458)	(5,772,600)	(3,209,612)	
Other							(6)	-	-	-	-	

Current Assets

Component	Historical						Estimate					Notes
	1995	1996	1997	1998	1999	2000	2001 (A)	2002	2003	2004	2005	
CASH	340,826	139,681	301,601	321,000	4,701,000	2,609,000	3,040,000					
MRKTABLE SECURITIES	68,443	5,012	131,404	NA	1,107,000	2,065,000	1,187,000					
RECEIVABLES	41,451	90,392	240,637	443,000	619,000	864,000	1,052,000	1,239,902	1,406,736	1,533,092	1,600,899	
INVENTORIES	21,220	45,168	101,338	NA	113,000	183,000	246,000	312,463	384,366	457,417	526,030	
RAW MATERIALS	NA	NA	NA	NA	NA	NA	NA					
WORK IN PROGRESS	NA	NA	NA	NA	NA	NA	NA					
FINISHED GOODS	NA	NA	NA	NA	NA	NA	NA					
NOTES RECEIVABLE	NA	NA	NA	NA	NA	NA	NA					
OTHER CURRENT ASSETS	32,721	28,844	64,617	288,000	80,000	737,000	541,000	634,240	715,087	773,519	800,449	
TOTAL CURRENT ASSETS	504,661	309,097	839,597	1,052,000	6,620,000	6,458,000	6,066,000					

Appendix B : Earnings Forecast and Ratios (pg. 2)

All numbers in \$000's, except for earnings per share

Source for Data: Global Access

Current Liabilities

	Historical						Estimate				
	1995	1996	1997	1998	1999	2000	2001 (A)	2002	2003	2004	2005
NOTES PAYABLE	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
ACCOUNTS PAYABLE	233,269	225,309	529,191	636,000	559,000	953,000	669,000	849,746	1,045,287	1,243,952	1,430,545
CUR LONG TERM DEBT	1,277	1,524	7,577	9,000	1,191,000	102,000	133,000				
CUR PORT CAP LEASES	NA	NA	NA	NA	NA	NA	NA				
ACCRUED EXPENSES	130,463	148,911	232,123	537,000	643,000	1,244,000	1,776,000	2,255,829	2,774,932	3,302,330	3,797,679
INCOME TAXES	NA	NA	NA	NA	NA	NA	NA				
OTHER CURRENT LIAB	NA	NA	NA	NA	438,000	423,000	NA	95,094	116,976	139,209	160,090
TOTAL CURRENT LIAB	365,009	375,744	768,891	1,182,000	2,831,000	2,722,000	2,578,000				
Capex	270,940	434,640	1,597,420	2,081,930	1,947,000	3,518,000	2,671,000	2,662,624	2,339,526	1,948,920	1,600,899

Ratios for Forecasting

	Historical					Estimate				
	1996	1997	1998	1999	2000	2001 (A)	2002	2003	2004	2005
Sales Growth	94%	122%	211%	65%	51%	31%	27%	23%	19%	15%
% COGS of Sales	74%	39%	53%	42%	38%	38%	33%	29%	24%	20%
%SG&A of Sales	99%	117%	57%	44%	40%	40%	35%	30%	25%	20%
Depreciation expense as %age of PP&E	22%	16%	17%	16%	14%	17%	15%	15%	15%	15%
% Non Operating Income of Sales	3%	5%	0%	1%	9%	-6%	1%	1%	1%	1%
Interest Expense as % of Long term debt	8%	8%	9%	9%	9%	9%	9%	9%	9%	9%
Income Tax Rate (benefits)	-26%	-31%	-38%	-68%	-167%	-76%	38%	38%	38%	38%
Net Income as % of Sales	-167.00%	-218.40%	-71.98%	-35.34%	-14.26%	-15.87%	-3%	3%	9%	16%
PP&E growth	51%	79%	52%	25%	43%	43%	36%	29%	22%	15%
Long term debt growth %	65%	81%	53%	27%	41%	13%	11%	9%	7%	5%
Growth in Outstanding Shares	84%	19%	7%	28%	107%	1%				
Growth rate in Shareholder's equity	-5%	-13%	-26%	140%	-10%	-62%				
Receivables as % of Sales	27%	33%	19%	16%	15%	14%	13%	12%	11%	10%
Inventories as % of Sales	14%	14%	0%	3%	3%	3%	3%	3%	3%	3%
Other Current Assets as % of Sales	9%	9%	13%	2%	13%	7%	7%	6%	6%	5%
Accounts Payable as % of Sales	68%	72%	28%	15%	17%	9%	9%	9%	9%	9%
Accrued Expenses as % of Sales	45%	31%	23%	17%	22%	24%	24%	24%	24%	24%
Other Current Liabilities as % of Sales	N/A	N/A	N/A	12%	7%	N/A	1%	1%	1%	1%
Capex as % of Sales	131%	216%	91%	51%	62%	36%	28%	20%	14%	10%

Notes:

A. For 2001 income statement items, annualized 9 months ending 9/30/01. For balance sheet items, used numbers as of 9/30/01

B. Assumed extraordinary items would be zero in the years - 2002, 2003, 2004, 2005

Appendix C : Discounted Cash Flow Analysis

All numbers in \$000's, except for earnings per share

Discounted Cash Flow Analysis

Discount Rate (Based on the CAPM)

21.55%

As we wanted to be conservative, based the discount rate on the CAPM rather than the Fama French Model.

Calculations for Discount Rate using the Fama French Model

Rf (Based on 10 year Treasury Constant Maturity Rate)

4.57%

The Betas were calculated based on a regression analysis.

	<u>Beta</u>	<u>Long Run Average</u>
Rf - Rm	1.230	8.68%
Rsmb	0.327	3.02%
Rhml	(1.195)	4.71%

Discount Rate

10.61%

Calculations for Discount Rate using the CAPM

Rf (Based on 10 year Treasury Constant Maturity Rate)

4.57%

The Betas were calculated based on a regression analysis.

	<u>Beta</u>	<u>Long Run Average</u>
Rf - Rm	1.957	8.68%
Discount Rate	21.55%	

Growth Rate in Cashflows (beyond 2005)

8%

Free Cash Flow from Operations

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net Income	-815,000	-1,188,000	-307,093	362,635	1,319,859	2,562,988
Adjustments to Net Income						
Depreciation & Amortization	1,265,000	1,693,333	2,033,536	2,622,210	3,198,419	3,678,182
Decrease (increase) in A/R		-188,000	-187,902	-166,835	-126,356	-67,807
Decrease (increase) in Inventories		-63,000	-66,463	-71,903	-73,052	-68,613
Decrease (increase) in other current assets		196,000	-93,240	-80,846	-58,432	-26,931
Increase (decrease) in accounts payable		(284,000)	180,746	195,540	198,665	186,593
Increase (decrease) in accrued expenses		532,000	479,829	519,103	527,398	495,349
Increase (decrease) in current liabilities		-	95,094	21,883	22,232	20,881
Net Cash provided by operating activities		698,333	2,134,507	3,401,787	5,008,734	6,780,643
Capital Expenditures		2,671,000	2,662,624	2,339,526	1,948,920	1,600,899
Free Operating Cash Flow		(1,972,667)	(528,116)	1,062,261	3,059,813	5,179,745
Annual growth rate in Cash Flow 2001 - 2005					188%	69%
Year from 2001			1	2	3	4
Present Value of Cash Flows		(1,972,667)	(434,476)	718,957	1,703,735	2,372,746
Terminal Value						18,908,280
Present Value of Terminal Value				8,661,535		
Total Value of Equity				11,049,831		
Shares Outstanding in 2001				771,000		
Price Per Share				\$ 14.33		

Sensitivity Analysis

Discount Rate

Growth Rate

	5%		8%		10%		12%		15%	
15%	\$	27.40	\$	38.22	\$	52.65	\$	86.33	N/A	
20%	\$	14.30	\$	17.43	\$	20.55	\$	25.24	\$	39.30
21.6%	\$	12.04	\$	14.33	\$	16.42	\$	19.63	\$	27.84
25%	\$	8.48	\$	9.72	\$	10.82	\$	12.27	\$	15.52

Appendix D : Residual Income Valuation

All numbers in \$000's, except for earnings per share

Residual Income Valuation:

Cost of Equity Capital
Growth Rate

25.00%
3.00%

Year from today

	0	1	2	3	4		
	<u>2000</u>	<u>2001 (A)</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Notes</u>
Book Value	3,909,000	1,484,994	1,177,907	1,540,542	2,860,400	5,423,388	
Net Income (Earnings)	(815,000)	(1,188,000)	(307,093)	362,635	1,319,859	2,562,988	
Abnormal Earnings		(2,165,250)	(678,342)	68,158	934,723	1,847,888	A
PV of AE		(2,165,250)	(542,674)	43,621	478,578	756,895	B
Terminal Value for Abnormal Earnings						3,543,644	C
PV of Terminal Value for AE		1,451,477					D
Equity Value		3,931,648					E
Shares Outstanding in 2001		771,000					
Price Per Share		\$ 5.10					

Sensitivity Analysis:

Discount Rate

Growth Rate

	3%	5%	8%	10%	12%	15%
15%	\$ 12.63	\$ 14.36	\$ 18.82	\$ 24.77	\$ 38.64	N/A
20%	\$ 7.62	\$ 8.19	\$ 9.39	\$ 10.59	\$ 12.39	\$ 17.79
21.6%	\$ 6.68	\$ 7.09	\$ 7.95	\$ 8.78	\$ 9.95	\$ 12.92
25%	\$ 5.10	\$ 5.33	\$ 5.77	\$ 6.17	\$ 6.68	\$ 7.84

Key Assumptions:

Assumed Nextel doesn't pay any dividends

A. *Abnormal Earnings = Net Income (t) - (R* Book Value(t-1))*

B. *Assumed entire value of Abnormal earnings would be available for shareholders for 2001. Thus, we did not discount 2001 earnings, and used the entire value to calculate the Equity Value. A perhaps more accurate way would be to just use the earnings for this quarter, but we assumed that this timing difference was insignificant.*

C. *Assumed abnormal earnings persist forever and have a growth rate of g beyond 2006.*

PV of perpetuity in 2005 = Abnormal Earnings in 2005(1+g)/(r-g)*

D. *PV of Terminal Value for AE = Terminal Value/(1+r)^4*

E. *Equity Value (2001) = BV(2000) + sum of PV of all Abnormal Earnings*

Appendix E : Earnings Management

All numbers in millions, except for ratios

<u>NXTL:</u>	<u>Dec-96</u>	<u>Dec-97</u>	<u>Dec-98</u>	<u>Dec-99</u>	<u>Dec-00</u>
Sales	332.94	738.9	1846.76	3326	5714
Accounts Receivable	90.39	240.64	443.45	619	864
% Growth in Sales		122%	150%	80%	72%
% Growth in A/R		166%	84%	40%	40%
% Growth in Sales (five years) (Sales(t) - Sales (t-5))/(Sales (t-5))	1616%				
% Growth in Accounts Receivable ((A/R(t) - A/R (t-5))/(A/R(t-5)))	856%				
Operating Income before depreciation	-245.04	-411.44	-219.96	535	1264
Operating Activities - Net Cash Flow	-227.58	-362.52	-321.9	324	800
Std deviation of Operating Income before depreciation	705.59				
Average Operating Income before depreciation	184.51				
Std deviation of Operating Activities - Net Cash Flow	505.67				
Average Operating Activities - Net Cash Flow	42.4				
Std dev Operating Income before depreciation/ Average Operating Income before depreciation	3.82				
Std dev Cash Flow from Operations/ Average Cash Flow from Operations	11.93				
Vol (Op Income)/Vol (CFO)	0.32				

<u>USM:</u>	<u>Dec-96</u>	<u>Dec-97</u>	<u>Dec-98</u>	<u>Dec-99</u>	<u>Dec-00</u>
Operating Income before depreciation	162.00	256.33	376.93	474.47	532.03
Operating Activities - Net Cash Flow	160.97	274.50	311.10	333.18	541.91
Std deviation of Operating Income before depreciation	152.43				
Average Operating Income before depreciation	360.35				
Std deviation of Operating Activities - Net Cash Flow	138.53				
Average Operating Activities - Net Cash Flow	324.332				
Std dev Operating Income before depreciation/ Average Operating Income before depreciation	0.42				
Std dev Cash Flow from Operations/ Average Cash Flow from Operations	0.43				
Vol (Op Income)/Vol (CFO)	0.99				

<u>WWCA:</u>	<u>Dec-96</u>	<u>Dec-97</u>	<u>Dec-98</u>	<u>Dec-99</u>	<u>Dec-00</u>
Operating Income before depreciation	(32)	(41)	16	147	271
Operating Activities - Net Cash Flow	(61)	(115)	(46)	93	167
Std deviation of Operating Income before depreciation	133.80				
Average Operating Income before depreciation	72.24				
Std deviation of Operating Activities - Net Cash Flow	117.61				
Average Operating Activities - Net Cash Flow	7.66				
Std dev Operating Income before depreciation/ Average Operating Income before depreciation	1.85				
Std dev Cash Flow from Operations/ Average Cash Flow from Operations	15.35				
Vol (Op Income)/Vol (CFO)	0.12				

<u>NXTL:</u>	<u>1999</u>	<u>2000</u>
Net Income	-1270	-711
EPS	-4.58	-1.21
% Change in Net Income from 1999 to 2000	-44% directionally this increased so it is positive 44%	
% Change in EPS from 1999 to 2000	-74% directionally this increased so it is positive 74%	