NOVA SCHOOL OF BUSINESS & ECONOMICS

Applied Corporate Finance
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Case Study Questions
Iridium LLC

On Friday August 13, 1999 Iridium LLC filed for bankruptcy in the United States Bankruptcy Court in Delaware. The company, a $5.5 billion venture backed by Motorola, offered global phone, fax and paging services via satellite, but had been having trouble attracting customers since it began commercial services in November 1998. Despite almost $6 billion of investment, the assets appear to be worth less than $50 million. Your team of experts has been brought in to do a post-mortem on the Iridium experience and provide an analysis of the things that went wrong.

1. Based on DCF analysis and using the forecast in Exhibit 5, determine Iridium's enterprise value, equity value and per share value.
2. What are the important determinants of value in your DCF valuation of Iridium? How confident are you in your valuation? Compare your estimate to Iridium's stock price at the end of 1998.
3. Describe briefly Iridium's financial strategy (no need to assess it at this point). How did Iridium justify its target debt-to-total book capitalization ratio of 60%? Which capital structure theory justifies its target debt-to-total book ratio?
4. Assess Iridium's financial strategy. In your view, did it have the wrong target capital structure, issue the wrong kind of capital, or issue capital in the wrong sequence?
5. In 1991, Motorola incorporated Iridium as a separate company, financed with project debt rather than corporate debt. What are the pros and cons of this decision? Would you have done the same? Why or why not?
6. What caused Iridium to fail: was it a bad strategy, bad execution or bad luck? If there are several factors, list them and evaluate their relative importance.
7. What lessons for the financing of large green field projects do you draw from Iridium's experience?

NOTE: There is a typo in Exhibit 5: for the year of 2000 Total Debt should be 3,437 not 4,437.