

# Alaska Communication update: bidding war confirmed \$ALSK

This post is an update on last month's quick idea (and quick idea update) to buy Alaska Communications (ALSK) in anticipation of a bidding war.

In general, I try not to post updates of ideas. But I've been getting a lot of inbounds on this one and (I'll be honest) I wanted to spike the football a little bit. So I figured I'd go ahead and put some extra thoughts down.

Why am I spiking the football? On Friday, ALSK announced the expiration of a their go-shop. Along with it, they announced two parties had made "superior proposals" and that Macquarie (who made the initial merger offer) has four business days to match or top the current best offer of \$3.15/share. In other words: my thesis was right. Bidding war confirmed.

There's no two ways to cut this: the topping offer is unabashedly good news for shareholders. We now have three parties interested in buying ALSK. This is now a bidding war situation, and a somewhat unique one. I can't remember another situation where a go-shop resulted in two active topping bids.

The only question remaining is how high the bidding can get. I know a lot of people are going to look at the current best offer of \$3.15/share versus the initial bid of \$3/share and think that there's not a lot of upside here given the small increment,

I think that's wrong. Remember that ALSK has a decent bit of leverage, so even good sized changes in the equity price don't have a huge effect on ALSK's EBITDA multiple. Check out the table below: The initial \$3/share bid was priced at just under 5x; even if you include the \$4.2m break free that would be owed to Macquarie in a break, the current \$3.15 topping bid prices ALSK at just 5x EBITDA (PS- I had several other tables on valuation in the initial posts that may be worth refreshing on; I don't want to repost them but they help show how even a good bump from here doesn't result in a crazy multiple).

	Mac. Bid	Current Best Bid
Shares	54.57	54.57
Price	\$ 3.00	\$ 3.15
Market Cap	\$ 163.72	\$ 171.90
Net Debt	\$ 141.6	\$ 141.6
Break Fee	\$ -	\$ 4.2
Total Debt	\$ 141.6	\$ 145.8
EV	\$ 305.34	\$ 317.72
2020E EBITDA	\$ 64	\$ 64
EV / EBITDA	4.8x	5.0x

Also recall from the initial post that ALSK has suggested they have ~\$4m/year in public company costs; the EBITDA number above does not include any savings from those as ALSK goes private.

Peer assets have generally traded for 5-7x EBITDA. At the current best offer, ALSK is trading at the low end without the public company synergies and below that multiple once you include them.

I know people are going to get hung up on the small initial bump, but when you have three bidders looking at an asset and a below peer multiple with the current wide open financing market, the bids can get aggressive very quickly. Remember, CBB got bought out in a bidding war earlier this year; the initial topping bid was just 14% above the original deal price (\$12 initial topping bid versus \$10.50 initial price); the final bid there was \$15.50/share.

As I write this, ALSK is trading for ~\$3.65/share, a decent premium to the \$3.15 bid. Clearly, the market thinks another topping bid is coming. Still, I think the market is underestimating just how aggressive the bidding can get here. You've got three bidders who have done the work on ALSK and are interested in buying the company; small changes in EBITDA multiples can drive pretty nice increases in the equity price and I don't think it's hard to talk yourself into a bump. Say you're Macquarie and you're currently sitting there with your \$3/share bid. You've now got the information that two other sophisticated parties are willing to top your bid. With that support to your thesis, how hard is it for you to bump your multiple by half a turn? Or a full turn? You're still paying at the lower end of peers deals; sure, you would have liked to get the asset a lot cheaper, but you can probably get a little more aggressive bidding now that your thesis has been confirmed by other people doing work on the asset (and you've gotten some confirmation that these assets will have some demand when you eventually look to flip them in a few years).

Bottom line: I think the dynamics here are great; cheap company, cheap financing, three bidders. It doesn't take much for shareholders to do really well here.

I would be surprised if ALSK ends up trading hands for a price

less than \$4/share; I think the final price will be ~\$4.50/share and I wouldn't be surprised if the ultimate deal price starts with a "\$5".

ALSK has been a nice call so far, and I'm proud of the work / research that was done on it. It's possible I'm spiking to football too early here, but I think the initial bid is just the start. We should know more in the near future; Macquarie has until the end of the week to match the topping bid!