Estimate of the Fair Value of a Stock Grant

as of July 31, 2017
Prepared for Issueco

August 28, 2017

by

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Draft

Exhibit
1 of 3

Issueco
Estimate of the Fair Value of a Stock Grant
Executive Summary

(1) **Valuation Results**

Fair Value per share of the $34.00 grant	$22.747
Fair Vaue of the $34.00 grant (rounded)	$2,275,000
Median time in years to vest of the $34.00 Grant, when it vests.	0.85
Fair Value per share of the $47.00 grant	$19.300
Fair value of the $47.00 grant (rounded)	$1,930,000
Median time in years to vest of the $47.00 Grant, when it vests.	1.55

Footnote(s):

(1) Refer to Exhibits 2 and 3.

Issueco
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Confidential and for the sole use of Issueco as described in our Engagement Letter.
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Exhibit
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Issueco
Estimate of the Fair Value of a Stock Grant
Assignment and Methodology

Assignment

On August 31, 2017, Issueco gave its new CFO two tranches of 100,000 share common stock grants. The first tranche vests if Issueco's common stock price closes at or above $34 for 5 consecutive
trading days in the 5 years post grant. The second tranche vests if the common stock price closes at or above $47.00 for 5 days in the 5 years post grant.
We have been asked to calculate the fair value of the two grants as of their issue date and also, for each grant, the median time to vest for those cases where vesting occurs.

Methodology

Vesting depends upon the stock price over time, that is, it is stock price path-dependent. The best way to value such grants is to use a Monte Carlo "risk-neutral" simulation.
In a risk-neutral simulation, the stock price drifts upward at the risk-free rate and then all values in the simujlation are discounted back to present value at the risk-free rate.
This is a well-established methodology that eliminates the problem of calculating the apporpriate disocunt rate for the stock grant, which is riskier than the common stock.
We calculate the median time to vest in the same simulation altered so that the stock price drifts upward at the cost of equity for Issueco as recommended by ASC 718.
In our simulation we model monthly stock price and vesting occurs when the stock price is at or above each threshhold, $34.00 or $47.00. When vesting occurs we discount that stock price
to the present. The fair value of the grant is the average of the vested stock prices across all simulations. When we simulate using the cost of equity we record when vesting occurs
and take the median of those times across the simulation.

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Exhibit
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Issueco
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Monte Carlo Simulation of the Value of Issueco's Common Stock with Vesting Noted

Valuation   Iteration

Valuation												
(1) Common stock price	$25.64											
(2) 5-year risk-free rate	2.90%											
(3) Common stock volatility	50%											
(4) Cost equity	9.50%											

	1				2			...	100,000			
Month	Price	Month	Price	Month	Price	Month	Price		Month	Price	Month	Price
1	$37.50	31	$22.20	1	$22.07	31	$8.25		1	$24.42	31	$40.92
2	$36.57	32	$18.51	2	$19.26	32	$8.16		2	$34.95	32	$37.85
3	$31.12	33	$17.21	3	$19.32	33	$7.93		3	$31.52	33	$34.64
4	$30.27	34	$18.05	4	$18.59	34	$9.77		4	$30.61	34	$34.88
5	$32.50	35	$18.43	5	$22.06	35	$9.64		5	$33.07	35	$34.39
6	$38.25	36	$13.52	6	$20.03	36	$11.57		6	$39.35	36	$34.54
7	$39.17	37	$10.30	7	$21.17	37	$13.01		7	$37.46	37	$45.10
8	$33.81	38	$9.61	8	$21.38	38	$10.46		8	$39.66	38	$44.04
9	$35.24	39	$11.19	9	$23.44	39	$14.59		9	$39.73	39	$46.10
10	$38.14	40	$14.30	10	$23.57	40	$12.95		10	$35.19	40	$60.60
11	$30.85	41	$13.96	11	$23.96	41	$12.32		11	$34.68	41	$56.46
12	$34.71	42	$15.36	12	$29.43	42	$14.00		12	$31.32	42	$48.37
13	$39.45	43	$13.82	13	$29.17	43	$10.48		13	$26.54	43	$51.80
14	$45.40	44	$14.91	14	$29.20	44	$9.20		14	$28.47	44	$43.98
15	$42.69	45	$17.36	15	$27.32	45	$9.02		15	$29.51	45	$39.37
16	$39.60	46	$17.37	16	$27.16	46	$10.24		16	$26.94	46	$55.54
17	$44.07	47	$15.91	17	$24.11	47	$9.01		17	$24.55	47	$47.56
18	$39.27	48	$17.00	18	$22.14	48	$7.75		18	$20.71	48	$47.63
19	$47.61	49	$17.23	19	$18.15	49	$6.25		19	$17.11	49	$51.34
20	$56.53	50	$17.74	20	$13.75	50	$7.75		20	$16.56	50	$48.69
21	$46.89	51	$20.56	21	$12.92	51	$6.50		21	$22.29	51	$57.45
22	$41.00	52	$19.67	22	$10.20	52	$7.04		22	$23.29	52	$49.22
23	$34.66	53	$17.86	23	$11.70	53	$7.17		23	$24.07	53	$43.64
24	$25.20	54	$19.83	24	$9.27	54	$7.91		24	$24.54	54	$49.38
25	$25.01	55	$20.59	25	$10.31	55	$7.69		25	$31.09	55	$41.90
26	$28.44	56	$22.02	26	$12.15	56	$7.71		26	$31.21	56	$30.39
27	$24.19	57	$21.99	27	$14.11	57	$7.71		27	$26.31	57	$34.01
28	$22.69	58	$21.03	28	$12.87	58	$9.95		28	$29.85	58	$32.05
29	$21.17	59	$19.68	29	$12.20	59	$9.37		29	$28.07	59	$30.73
30	$21.07	60	$15.10	30	$10.61	60	$8.75		30	$30.89	60	$35.99

Footnote(s):

(1) S&P Capital IQ
(2) US Constant Maturity Treasury Rates as obtained from S&P Capital IQ.
(3) Based on the equity volatilty for Issueco for the previous 5 years.
(4) Based on a risk-free rate of 2.9%, a beta for the last 5 years of 1.10 and a market risk premium of 6%.