



Fair Value of Private Securities

as of August 15, 2017

Prepared for Issueco*

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by

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Draft

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Issueco
General
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Issueco
Fair Value of Private Securities
Executive Summary

(1) Valuation Results	Cash-on Cash Return @ 20%	
Fair Value of Series A	\$30,000,000	2.22
Fair value of Common	\$10,978,955	
Fair value of Management Interests	\$4,052,831	
Fair value of Employee Interests	\$2,821,352	
Enterprise value	\$47,853,138	

Footnote(s):

(1) Refer to Exhibits 2 and 4

Issueco
Fair Value of Private Securities
Assignment and Methodology

Assignment

On August 15, 2017, Issueco sold to a private equity group Series A preferred shares with a face value of \$30 million and an annual coupon of 5%. After Series A receives its liquidation preference it shares the residual with common stock 50:50 until the value of the firm reaches \$80 million. When the value reaches \$80 million Series A's coupon payments are transferred to the Management Pool. Incremental values above \$80 million are divided among Series A, Common Stock, the Management Pool and the Employee Pool in the proportions 35:35:15:15. We have been asked to value each class of equity relative to the arms' length transaction in the Series A and to provide the expected value of the cas-on-cash return for Series A at an IRR of 20% for total equity.

Methodology

A standard approach to valuation of private securities in a complex capital structure is a Contingent Claims Analysis (CCA). This method translates the claims of each class into a portfolio of call option spreads. In this case, there is also a "digital option" in the form of the give-back of interest. The inputs necessary to implement a CCA are the risk-free rate of interest, a time to a liquidity event, the volatility of equity, and wither the enterprise value or the price of one of the securities. In this case, we have the price of Series A and we derive or "backsolve" for the equity value.

Footnote(s):

Issueco
Fair Value of Private Securities
Valuation

Initial common stock value

Valuation

(1) Transaction value of Series A	\$30,000,000
(1) Coupon	5.0%
(2) Risk-free rate	1.9%
(3) Volatility	60%
(4) Time to liquidity event	\$5.00
Accrued interest (face value of the digital option)	\$8,288,447
(1) Series A participation from \$0 to \$38,288,447	100%
(1) Series A participation from \$38,288,447 to \$80,000,000	50%
(1) Common Stock participation from \$38,288,447 to \$80,000,000	50%
(1) Series A participation above \$80,000,000	35%
(1) Common Stock participation above \$80,000,000	35%
(1) Management Pool participation above \$80,000,000	15%
(1) Employee Pool participation above \$80,000,000	15%
(5) Enterprise Value	\$47,853,138

Values (in millions)						
	<u>\$0 to \$38.3</u>	<u>\$38.3 to \$80.0</u>	<u>\$80.0 to infinity</u>	Digital Option		
Call Spreads Value	\$20,252,524	\$8,791,601	\$18,809,012	Probability	16.37%	
				Payoff	\$8,288,447	
				Present value factor	0.9076	
Claims %				Value	\$1,231,479	
Series A	100%	50%	35%			
Common Stock		50%	35%			
Management Pool			15%			
Employee Pool			15%			
Claims \$				Sub-Total	Digital	Total
Series A	\$20,252,524	\$4,395,801	\$6,583,154	\$31,231,479	-\$1,231,479	\$30,000,000
Common Stock		\$4,395,801	\$6,583,154	\$10,978,955		\$10,978,955
Management Pool			\$2,821,352	\$2,821,352	\$1,231,479	\$4,052,831
Employee Pool			\$2,821,352	\$2,821,352		\$2,821,352

Footnote(s):

- (1) Based on the Agreement.
- (2) US Constant Maturity Treasury Rates as obtained from S&P Capital IQ.
- (3) See Exhibit 4
- (4) Provided by Management
- (5) Backsolved from the CCA such that the value of Series A is \$30 million.

Techco
Estimate of the Fair Value of Deal Equity & Options
Volatility of Companies Comparable to the JV

Company	Total Debt (1)	Market Cap (1)	Equity Volatility (1)	Asset Volatility (2)
Comp 1	\$27,446	\$97,325	72%	61%
Comp 2	\$12,319	\$48,962	84%	72%
Comp 3	\$45,984	\$160,964	78%	66%
Comp 4	\$9,742	\$124,230	65%	62%
Comp 5	\$78,632	\$158,953	58%	44%
Comp 6	\$13,209	\$76,021	72%	65%
Comp 7	\$24,398	\$142,864	85%	76%
Mean			73%	61%
Median			72%	62%
Selected				60%

Footnote(s):

- (1) Source: Most recent four years of data from S&P Capital IQ.
- (2) Based on the Hamada Model
- (3) Based on assumption of no debt financing.