Common Stock Valuation for Shockwave Innovations

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Overview

Gordon Daugherty (the "Preparer") has prepared this report for Shockwave Innovations (the "Company") to document the calculations used to determine the fair market value of the Company's common stock as of August 15, 2020 (the "Valuation Date").

Based on the analysis, the calculated value of commmon stock is $0.00289 per share.

This report is intended to be used by the Board of Directors and Management of the Company for the exclusive purpose of compliance with IRC §409A – specifically, as the basis for establishing a strike price for the Company’s option grants – and as an input for ASC 718 compliance. This report should not be considered, in whole or in part, as investment advice by anyone.

Company Description & Stage

Software company

At this stage in the Company's development, the business has no revenue or proven business model. The Company's product offering is still in the early phases of conceptualization and development, and the assets of the business consist solely of cash, intellectual property, and basic office supplies

Purpose & Scope

IRC Section 409A
In October 2004 the IRS issued new regulations (Internal Revenue Code §409A) that suggest private companies should not issue stock options that are “in-the-money” or with an exercise price that is below “fair market value” as defined in IRS Revenue Ruling 59-60. To avoid an additional tax event and potential penalties, a formal valuation opinion is suggested every 12 months, or more often if there is a material change in either the business or the implied market value of the common stock.

FASB ASC 718
Issued in December 2004 by the Financial Accounting Standards Board (FASB), ASC 718 (formerly SFAS 123R) addresses the accounting for stock-based compensation such as stock options. The statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and requires that such transactions be accounted for using the fair value method. A key driver for that calculation is the fair value of the common stock.

Valuation Approach Used

Given the Company's early stage of development and lack of revenues or significant assets, it was deemed inappropriate to apply robust valuation methodologies using the Asset, Market and Income valuation approaches.

Accordingly, a simple model was used to estimate three likely outcomes for the Company: a "Downside" scenario, a "Midcase" scenario, and an "Upside" scenario. Each of these scenarios was assigned a probability based on the Preparer's knowledge and expectations of the business as of the Valuation Date. These scenarios represent possible valuations for various future events, including a disolution, a financing round or sale of the company.

The resulting probability-weighted expected outcome was then discounted to the present using the standard present value formula:

$$PV = C / (1 + r)^n$$

where *C* is the probability-weighted expected value, *r* is cost of capital, *n* is the estimated years until the next liquidity/valuation/exit event, and *PV* is the present value.

Next, debt is subtracted, cash is added, and the resulting amount is divided by the number of shares outstanding to arrive at a value per common share.

Finally, the common share value is adjusted for lack of marketability to account for the fact that there is no liquid market for the Company's shares.

The results of the calculation are presented in Exhibit A.

Exhibit A: Calculation of Common Stock Fair Market Value

Scenario	Downside	Midcase	Upside
Estimated Value	0	3,000,000	4,500,000
Probability	70%	21%	9%
Weighted Value	$1,034,475		
Years to Event	7.0		
Discount Rate	60%		
Marketability Discount	20%		
Non-Marketable, Probability-Weighted Present Value	$38,537		
Less: Debt	0		
Plus: Cash	0		
Equity Value	$38,537		
Common Shares Outstanding	10,000,000		
Fair Market Value Per Common Share	$0.00289		

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