

Case Questions: Walnut Ventures Associates

Please evaluate the deal terms offered to the RBS Group by Walnut Venture Associates. Assume throughout that the investment is terminated in 5 years. The following questions will help you structure your analysis.

- (1) Describe the payoffs to the Redeemable Preferred (RP) and Convertible Preferred (CP) as a package of securities in five years. (Note that there are dividends that accrue.) At what point would the CP holders convert?
- (2) Use the methodology described in *Venture Capital Contracts: Part 1* to determine the *implied* value that Walnut and Mid-Atlantic must be putting on the firm to justify their investment. Assume volatility is 50% and the risk-free rate is 5%.