Larry and Barry Assess Potential for Royalty Seeking Company©

By Arthur Lipper

Amount of investment and Scope of issuer's potential

Deciding the amount, if any, to be invested in the royalty of a company. Does the company have the scope to grow to a size sufficient to justify the inherent risk of buying a royalty? Use REXRoyalties.com and review each of the Samples. Then create as session example through completing a registration and entering the necessary data.

Larry: So the product looks like it could be a real winner and if so the royalty deal could be a great investment.

Barry: Sure, but first we want to determine who else has similar products and what and how good is the IP protection the company has. Have they patents pending or issued?

Larry: Ok, let's assume they have the IP area covered but it's the size and projected growth of revenues they project which interests me. Also, the projections were only for the U.S. and the international market could be as big.

Barry: Ok. Neither you nor I are likely users of the product so let's go meet and talk to a likely customer to see just how excited they are about the product and what they have to say about competitive products. Also, we need to have some advice as to the likely growth of the industry. We don't want to be investing in the revenues of a better buggy whip.

Larry: So where do we get an industry perspective?

Barry: There may be an industry association and certainly will be some professor at the university who has a view on the industry. However, again, it is the potential users who might also have a realistic view of the potential for the industry in which they compete.

Larry: So if the IP is good, the product goof and industry outlook good what else do we need to research?

Barry: We need to understand the company itself and the pricing of the product. Can we count on the company being able to produce the product and how will they price it?

Larry: Of course, they will price it to make a profit and we do not share in profits, only revenues.

Barry: My concern is that if they try to make too high a profit at first. If they do the price will invite competitors to both try to copy it and to drop their prices. Being greedy is not good business but delivering value is. Therefore, I'd rather see them price it for a fair profit and gain broad market acceptance, especially as we would be revenue focused, not profit dependent.

Larry: What else should we be checking on?

Barry: We should become aware of the relative size of the company vis-à-vis their competitors and also if the use of their product will improve the performance of their customers. If so that's a real win.

Larry: What else?

Barry: Lastly we want to be sure the amount the want for the royalty is not too high a percentage of their present sales. It is possible the new product doesn't have the customer appeal they believe and that we will have to get our money back from much lower sales growth than projected. If this is a bet essentially on the single new product we want a higher return than if the success will be incremental. Usually, it seems that 40% of present revenues is a good amount to pay for the royalty if one is really enthusiastic about the prospects for the company.

Larry: Of course, in the case of pre-revenue companies the deal has to be better than for companies already in business and having customers.

Barry: You got it.

Arthur Lipper, Chairman
British Far East Holdings Ltd.