Can A Business Owner Be Trusted if Willing To Sell A Part Of His Business For Much Less Than It Should Be Worth, If The Funds Sought Allowed For The Projected Returns – If A Non-Equity Diluting Royalty Alternative Was Available? ©

Arthur Lipper

Those who own businesses are forced to make projections so that prospective investors can decide if the acquisition valuation is reasonable, when considering the probable valuation once the capital had been employed and the business expanded.

In equity related transactions the attraction to the investor is the opportunity to buy something at less than it will be worth if the investor's money is used effectively, producing at least the projected results. Therefore, the investor is being asked to make two bets. The first bet is that the company will, with the additional capital, be able to produce the results predicted. The second bet is that the future market valuation of the results will be at least at the levels anticipated.

Therefore, the investor is basing his decision on the business owner's projections of revenues and profits -- mostly profits.

If investors were prepared to buy a royalty based on the company's revenues, without acquiring any business ownership, would a business owner be better served to sell the royalty and retain the ownership? Why might the business owner not opt for the royalty approach to raising the capital? An answer could be a lack of confidence that the business, even with the additional capital, would be able to significantly increase in valuation.

Investors, especially in illiquid investing, should always ask themselves "Why am I so lucky to have this opportunity?". The question is even more appropriate if the seller of the ownership interest, which he is predicting to be "worth much more in the

future," is the owner of what is being offered, especially if there was a non-equity diluting alternative available.

Arthur Lipper, Chairman
British Far East Holdings Ltd.

March 25, 2016