

Comparing Rates of Return and Royalties

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This article discusses some details of interpretation of the results of a royalty investment in the online website calculation, <http://www.rex-riar.com>

Comparing the rates of return from a royalty that pays quarterly income based on a percentage of the royalty issuing company's revenues to that of a standard equity investment requires study, and an understanding of the differences. In private company and project royalty financing it is important to note that the investor is not required to provide more money to achieve the agreed percentage of royalties as originally contracted.

In the case of royalties the amount of capital at risk by the royalty owner is reduced with every payment received. The cumulative royalties eventually equal the cost of the royalty.

The normal measurement of return or yield is the rate of annual return as a percentage of the cost of the investment, which standard financial calculators show on an annual basis.

Most importantly, it must be assumed the investor uses the royalty payments received constructively; therefore our calculator allows the investor to indicate the annual rate of return anticipated to be earned on the payments received. This Accrued Compound Quarterly Return On

Investment or ACQROI grows rapidly due to the pre-tax compounding of the amounts received, and is a significant benefit for the royalty investor.

When an investor buys shares in a company, the investment is based on a belief that at some point in the future that the shares can be sold at a significantly higher price. The increase in value is based on either anticipated significantly higher reported per-share earnings, a buyout or other liquidity event.

The royalty investor, who receives an ongoing agreed percentage of expected increasing company revenues, collected whenever revenues are received and distributed quarterly, experiences an increasing return, irrespective of per-share earnings growth. Once the investor has recaptured the amount paid for the royalty, the royalty distributions are pure profit.

In the REX-RIAR % Rates of Return column headings the Internal Rate of Return (IRR), the Annual Yield and the Accrued Compound Quarterly Return On Investment (ACQROI) are shown for comparison purposes. On the following chart pages the data is shown graphically for ease of comparison.

A study of this new segment of REX-RIAR and especially the ACQROI justifies our belief that “Royalties are the better way of both investing in and financing of privately owned companies”.

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