

How Easy Is It To Buy A Royalty?

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Buying a royalty from a company is easy. Doing it correctly requires a bit more experience and effort. This assumes the investor believes the company's revenues will increase as projected and that the company will continue to make enough profit to be sustainable.

Negotiating a royalty, an overall percentage of a company's revenue, known as the royalty rate, is simple. However, the following should also be agreed:

Royalty rate – can be modified as a result of amount of royalties received by investor in an agreed period. Can have a minimum and a maximum cap on royalties.

Royalty stages -- the royalty rate may be modified in several stages according to a schedule of years, or following the achievement of defined benchmarks of return, measured either as multiples of the original investment or as Internal Rates of Return

Maturity of the royalty payment period – can be a fixed number of years or a variable period, defined by the amount of royalty payments received.

Combination of debt and royalties-- some transactions may be optimally structured as an initial short-term loan using standard amortization methods, followed by a long-term schedule of royalty payments. This may be done for risk-management purposes, or for companies that are pre-revenue or low revenue.

Contractual compliance – the payment of royalties and the provision of information can be assured by the transfer or assignment of an agreed package of the royalty issuing company's assets.

Definition of revenues – it is possible to negotiate a royalty on all of a company’s revenues or or specific revenues. These can be geographic, customer, product or time period specific.

Bank accounts – the royalty issuer and investor should agree as to the bank or banks into which all revenues will be deposited.

Collection – royalties can be collected as agreed by the parties. In our patented approach the royalties are collectable simultaneously with the company’s receipt of revenues. This is accomplished through a “lockbox” agreement with the designated bank(s) or an agent of the investor having a limited power of attorney on the issuer’s account. Royalties can be due, payable and collected as the parties agree.

Investor royalty payments – should be arranged so the royalties collected on behalf of the investor are distributed to the investor quarterly or as otherwise agreed.

Information – the royalty issuing company should agree to provide the investors with an agreed amount of financial information within an agreed period of time. In some cases full audits will be required and in other cases only an audit of revenues. The ability of the investor to have contact and information from royalty issuer executives should be agreed, subject to agreed confidentiality requirements.

Transferability of the royalty – there should be an understanding of the process for the royalty investor to transfer ownership of the royalty to another qualified, probably accredited, investor and the degree to which the royalty issuer will cooperate in the provision of information facilitating the transaction.

Redemption rights – the ability of the royalty issuer to reacquire the royalty sold to investors is a normal element of the contract. The terms of the redemption are negotiated as to the size of the premium to be paid by the royalty issuer, including the royalties already paid to the royalty investors, and are a part of the royalty payment agreement. Redemptions can also be made by the

royalty issuer through tenders and directly negotiated transactions.

Scaled royalties – it is possible the terms of a royalty will offer a royalty issuer a benefit if the royalties projected, based on projected revenues, are exceeded by an agreed percentage. Similarly, a penalty can be agreed in the case of the royalty issuer missing projected revenues during an agreed period.

Royalty Issuer Assured Returns – it is possible that royalty issuers will be able to reduce the royalty rate investors require by assuring an agreed level of return in an agreed period.

Both investors and royalty issuers are invited to review the library of [Royalties.Website](#) and the six website calculators [REXRoyalties.com](#), [REXComparator.com](#), [REXdebt-shareRoyalties.com](#), [REX-PV.com](#), [REXScaledRoyalties.com](#) and [REX-RIAR.com](#).

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