

Royalty “Put” or Guarantee Fund[©]

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There are investors for whom inexperience with royalties results in a concern for loss. A mechanism whereby loss was limited to an agreed percentage of the net cost of a royalty, perhaps 10%, could justify the payment by the royalty investor of an annual protection premium or fee, of perhaps 5% of the net cost of the royalty. It is likely that only in the early years of the royalty payment period would the investor feel that a guarantee to be necessary or purchased.

The premium could be paid from the royalties received by the investor’s account so there would be no incremental payment for the loss protection, though there would be a temporary reduction of royalty income.

A Royalty Guarantee Fund (or any party satisfactory to the royalty investor) could issue a 12-month “put” to the investor, which would also increase the liquidity of the specific royalty.

The investor would not be required to exercise the put, which could be exercised within perhaps 6 months of the put expiry date.

The royalty investor could require the Royalty Guarantee Fund to retain an agreed percentage of its guarantee liability. The net cost of the royalty would reflect the royalty payments received so the exercise value of the put would reflect the agreed percentage of the net cost of the royalty. Therefore, once the cumulative royalty payments received by the investor reached the percentage of potential loss stipulated in the put, the liability of the put maker would be eliminated.

It is also possible the royalty issuer, to make the royalty more attractive to an investor, could pay all or a portion of the put premium (guarantee fee). The cost could be deducted from the initial capital received by the issuer. The put could be renewable for an agreed number of years.

The above is for consideration and addresses one of the issues concerning investors regarding the minimum guaranteed performance of a royalty, especially in cases where the royalty issuer, while anticipated to show strong revenue growth, has limited documented track record to show.

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