Understanding the Royalty Issuer Assured Return ©

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When planning a trip by car there is frequently a need to estimate the arrival time. The estimated time of arrival (ETA) is calculated by dividing the total miles by the predicted speed, as shown in the U.S. as miles per hour (MPH). Therefore, if the miles are 105, the distance from my house to the Los Angeles International Airport and I am able to average 60 MPH the trip should take me one hour and 45 minutes or 1.75 hours.

Of course, if I needed to get to the airport in only one and a half hours a speed of 70 MPH will be necessary and were my need to be an hour and a quarter the average speed would have to be 84 MPH. It is generally believed the greater the need for speed the greater the possibility of something going wrong such as losing time due to getting a speeding ticket or an accident. Therefore, a balance between the amount of time driving and the ETA has to be considered and reflected in the speed driven, as the distance can't be changed.

Investing in royalties is the same, as a balance must be considered between the desired cumulative amount of royalty payments to be received in an agreed period and the amount of principal risk accepted in the purchase of a royalty usually reflected in the percentage of revenues to be paid or royalty rate. Risk level justifies royalty rate.

We have attempted to assist both investors and issuers in creating the website calculator **REXScaledRoyalties.com** which encouraged issuers to project revenues at levels they believed they could easily exceed and identified the amount which would have to be compensated in the event of a shortfall of the projected revenues. In both cases the calculator user determined the levels of success and disappointment and the time period of measurement.

We are now introducing our website calculator **REX-RIAR.com** which is an abbreviation for Royalty Issuer Assured Return. **REX-RIAR.com** is really an annex to **REXRoyalties.com** to as the data entered there does not have to be reentered in **REX-RIAR.com** to which it is linked.

Using this calculator the projected revenues should not (though they can) be changed whereas the amount of royalty purchased ,royalty rate, maturity of royalty payment period and the agreed amount of issuer assured cumulative payments can be entered and modified.

If a royalty issuing company offers to pay a total cumulative amount of royalty payments over a ten year period of five times the amount paid for a royalty that would be a 17% Internal Rate of Return (IRR) if there were no interim payments. However, if there were only annual royalty payments amounting to the cost of the royalty the return would be a very much higher result than the point-to-point IRR calculation.

The concept of IRR is that when money is returned from an investment it can be reinvested in other income producing vehicles and is no longer required to produce the continuing royalty or other payments,

If the investor insisted and the royalty issuer agreed on a multiple of 10 times the cost of the royalty in ten years the point-to-point IRR would be 25.9% but the true IRR could be almost twice as great depending on the interim royalty payments received.

The point to be negotiated between the royalty issuer and the investor or their agent is whether the issuer assured return is the complete deal or simply a minimum. If a minimum the ensuing royalty could be at a reduced rate, perhaps only at a low level royalty rate and redeemable by the issuer on reasonable terms.

Royalties, no matter how structured and modified, must be fair to both issuers and investors. If the deal is not fair and reasonable as perceived by the issuer they will seek funding elsewhere. Similarly, if the investor does not believe the terms of the royalty deal are a good balance between risk and reward they will pass on the opportunity.

The great advantage for investors in buying royalties from companies having revenues is that total loss, so common in high return promising ventures, is highly unlikely as the agreed level of royalties are deducted from the amount received by the royalty issuer at the time of receipt. Therefore, for so long as there are revenues there will be royalty payments. The level or even total of cumulative royalties received can be disappointing, especially if the expectations were unrealistic, but there will have been a return on the investment.

Of course, there is a valid question as to the immediate collateral value of the royalty issuer's assurance to meet, in the future, the obligation, which they have assured. Actually, the level of issuer obligation is only the difference between the assured amount and that already received by the investor in cumulative quarterly royalty payments. In the event of there being a deficiency in the receipt of cumulative royalties the issuer can possibly make a cash payment, issue a negotiated obligation, arrange for additional royalty payments or find another approach to meeting a contractual obligation.

The use of the **REX-RIAR.com** website calculator will allow a constructive dialogue between royalty issuers and investors seeking reasonable balance between risk and reward for the benefit of both parties and all those benefiting from the growth of the business as made possible by the investor's purchase of the royalty providing the royalty issuer with necessary non-equity diluting capital.

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