Fake News About Revenue Royalties
Part One: What Business Owners Do Not Believe

Arthur Lipper

Most private company business owners want to have the advice of investors.

In a recent survey it was found that business owners, especially founding business owners, want to have the benefit of advice from those representing the interests of investors who have never been in a position of personally hiring or firing employees. Of particular importance to business owners is the advice of those who have never had to implore a loan officer to provide capital on a fair basis, or change the terms of an existing loan.

Business owners really like the idea of investors requiring their company to have an active Board of Directors and having a right of Board representation.

Business owners feel honored if an investor requires the right to appoint one or more members to an active Board of Directors. A recent study indicated that business owners welcome the imposition of company policy requiring frequent scheduled Board meetings. It was found the majority of business owners felt more secure as a result of public company practices being required of them in their private companies.

Owners of growing businesses agree that investors should have influence regarding executive compensation, travel and client entertainment practices.

At the recent business owner conference in Monte Carlo it was learned that investor imposition of restrictions on company executive compensation, health and retirement plans was generally welcomed by the executives, if not their spouses. Business owners who were still in CEO positions also believed that investors had insights better than their own regarding client-related travel and business entertainment expenses.

Business founders and investors were in complete agreement

regarding the use of stock options in recruiting and motivating company employees.

A survey conducted by a business periodical showed a universal opinion regarding the generous use of equity-diluting stock options in both executive recruiting of key people and rewarding company managers. There was also agreement on the amount of time and expense to be invested in employee recruitment, training and education.

Private company investors and business founders have reached agreement as to company tax strategy.

A business school survey of private U.S. company investors found there to be agreement that companies should use all legal means to reduce the level of declared profitability in order to reduce the amount of federal income taxes required to be paid. The investors accepted the fact that the price/earnings ratio-based valuation would be decreased, but believed that it was in the best interest of all of the owners of the business to retain as much capital as possible to finance growth.

Private company investors and controlling shareholders agree on research budgets and acquisition policies.

Although research reduces current profitability and may require additional financing, a financial journalist reported that a majority of investors and business founders agreed that it was beneficial for companies to invest in additional research. There was also agreement that it was in the best interest of the company to use its stock to acquire certain promising businesses, even on terms which reduced the acquiring company's per-share profitability.

Private company investors and business founders agree to reject a recent seemingly high offer to buy the company by a competitor.

It has been reported that a private company's founder and lead investor have agreed that a recent higher-than-expected bid by the would-be acquirer is not acceptable, because of the founder's wish to continue managing the company.

The Real News

Each of the above fake news events runs counter to the wishes of most private company founders and owners. The articles reflect the inherent conflict of interest between business owners and investors. A very sound way in which the needs of both company management and investors can be accommodated is by funding the growth of privately-owned companies through revenue royalties. Royalty investors do not vote and are not able to influence, guide, advise or direct company managers, unless so desired by the managers.

Arthur Lipper, Chairman
British Far East Holdings Ltd.

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