

Analyzing and Investing In Revenue Trends ©

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It has always been an easier task to predict revenues than profits, easier for both managers and observers. Although there are a range of factors beyond the ability of a management to control or predict in terms of a company's revenue growth, there are even more such factors impacting the profitability of any enterprise.

It also must be recognized that there are many decisions impacting reported profits which managers have to make which must balance the mandates of owners and other stakeholders and the needs of the business. Sometimes such policy based decisions are beneficial to the longer term interests of owners and sometimes, in the case of publicly traded companies, they are negative, due to the market's adverse reaction to what may be valid management decisions.

Now that revenue participation or royalty-based investing has arrived and royalties of companies will be listed on exchanges which may not require the disclosure of profits, there is a need to apply securities analysis type research to the future revenues of these companies. Some of these revenue participation contracts will prove to be excellent investments and some will be disappointing, some should be bought and some sold short, depending on the valuations resulting from investor anticipations.

Valuations for royalties issued by companies will reflect:

**the percentage of revenues to be distributed,
the frequency of distribution,
the duration for which the payments will be made,
the amount of revenue required to be distributed in royalties
the terms and assets protecting the royalty holders, and
the prospects for revenues and therefore royalties to change.**

The comparative investment value of royalties are influenced by;

**the reputation and business prospects for the company,
the viability and prospects for revenue growth of the company,
the comparative present value of the amount of funds which
will be paid over the remaining years of the royalty were the
revenues to remain the same as in the last 12 months.
the credit rating applied to any of the company's securities,
and**

comparative ratio analysis for competitive and comparable companies leading to an approximated investment value for the royalties available from the subject company.

There are a range of modifying contractual terms and arrangements which can be applied to royalties. Some of these include:

**Minimum cumulative royalty payments,
Convertibility into issuer equity,
Stipulated royalty entitlement termination schedule, and
Warrants issued as inducement for relief.**

The analysis of future revenue trends is both possible and warranted in determining the relative attraction for a range of royalty instruments.

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