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Royalty Exchange's Plan Unfolds: Music, IP, Oil & Gas Royalty Investing For All

Raleigh startup grows its alternative asset investment offerings, readies for Series B raise.



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The Raleigh-based pioneer of music royalty auctions expects to make history in coming days when it closes the first ever multi-unit securitized auction of royalties and receives federal approval to auction off oil and gas royalties.

In both cases, investors get easy access to assets never publicly available for sale before, as well as recurring monthly revenue for the life of the investment. And content creators and property (with oil & gas lines) owners have a new way to monetize their work or holdings.

But for [Royalty Exchange](#), the brainchild of former SAS software salesman **Sean Peace** (pictured left), the new offerings validate a vision cast in 2011 that royalty investing could be a viable alternative to stock and real estate investing.

“It shows we have a lot of opportunity in front of us, and it's not just in music,” says **Sean Daley**, the startup's vice president of marketing and operations.

A \$675,000 investment from Washington D.C.'s [Grotech Ventures](#) and a pair of New York investors is serving as bridge financing this summer, but Royalty Exchange expects to close a series B round yet this year to fuel the company's growth past this month's milestones. Conversations are under way to determine the right amount to raise, Daley says.

In any case, more jobs will be created in Raleigh. And more innovation will come out of a startup already [generating national headlines](#) and buzz in the financial industry for its inventive new offering.

Multi-unit investing is Royalty Exchange's big break.

Earlier this year, Royalty Exchange learned that it could offer royalties as asset-backed securities without requiring a broker/dealer license.

Different from its previous model of auctioning and selling only entire portfolios of music royalties (as well as those from intellectual property and solar and wind farms), it could offer up those portfolios in multiple units so investors could share in the ownership.



The only catch was that each unit had to be offered at the same price (like an initial public offering).

Fast forward to last Thursday, when Royalty Exchange closed the first round of bids for the producer's cut of royalties from 11 *3 Doors Down* songs. More than 111 accredited investors registered for the auction and 26 took the bait, bidding \$4,850 per share for a total price of \$242,500 (some bid on multiple shares). Though the price fell below the reserve set by the seller, a second round of bids will follow.

Daley says the firm is confident a sale will happen (If all units are bid at a higher price or the seller agrees to the existing), and that its new model will be proven for the market. There were more bids than any previous auction, he says. And five multi-unit auctions are already lined up for coming weeks, including **Jason Aldean's** "She's Country" hit.



“What we've seen with these is that people want to diversify within these investment types,” Daley (pictured left) says. “So they'll come and buy the minimum of each multi-unit auction and create their own fund of royalties.”

Royalty Exchange makes an 8 to 12 percent transaction fee on each auction, paid by the seller. From the buyers, the startup earns a half a percent of each monthly royalty distribution.

Multi-unit sales are a key way to bring more activity to the platform, and they position the company for a time when unaccredited investors will be permitted to invest (pending the approval of federal crowdfunding rules) on the platform.

Royalty Exchange's next frontier.

But a bigger opportunity will come even sooner, when Royalty Exchange begins to auction oil and gas royalties.

After an intensive six-month process, the company expects to earn a broker/dealer license within days. The startup went through the trouble due to high demand from existing investors and potential sellers.

The oil and gas industry represents hundreds of billions of dollars of opportunity—the federal government earns about \$100 billion a year in royalties, but the majority is generated by private companies and there's no good way of tracking that number.

The only similar online marketplace exists for people inside the industry who operate or own refineries and use royalties as another way of generating revenue

for their businesses. Royalty Exchange will open up those once private opportunities to all.

“Not only is there demand from our existing investor base but it's a mature market that everyone understands," Daley says.

Just as important: “The oil and gas opportunity represents the foundational element of Royalty Exchange in that we're not just about music royalties. We are about royalty investments across many industries, and this is the first expansion. This proves our model."



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