

Equity Research & Financial Projection Report: ROYALTIES INC. (OTC: ROYIF)

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1. Executive Summary

Company Overview

Royalties Inc. (CAD 0.055) EV Approximately CAD 16.4 million is a diversified royalties company based in Toronto, Canada. The company engages in the acquisition of royalty assets, focusing on resource royalties, media entertainment royalties, and green royalty industries. Its portfolio includes a silver asset, a disputed copper royalty, and five cash-flowing music royalties.

Recent Developments (Last Quarter & Current Quarter)

- **January 13, 2025:** Royalties Inc. completed a non-brokered private placement, raising \$180,000 through the issuance of 6,000,000 shares at \$0.03 per share. The funds are allocated to cover corporate overhead in Canada, as well as property taxes and litigation expenses in Mexico for 2025.
- **August 26, 2024:** The company reported its Q2 2024 results, highlighting a 21% increase in music royalties compared to Q2 2023, and a 17% year-over-year increase in dividend income. Total income for H1 2024 grew by 29%, with an operating loss reduction of 34%.

2. Business Model & Market Position

Core Business Model

Royalties Inc. operates by acquiring and managing royalty assets across various sectors, aiming to generate passive income streams. The company's primary operations include:

- **Music Royalties:** Investing in cash-flowing music royalties from rights holders, including artists, producers, and songwriters.
- **Mining Royalties:** Holding interests in mining projects, such as the Bilbao silver-zinc-lead project in Mexico, and pursuing claims for net smelter royalties (NSR) on other mining concessions.

Key Business Segments

- **Music Royalties:** The company holds a 2% stake in Music Royalties Inc. (MRI), a Canadian-based private company that acquires passive music royalties and currently holds a portfolio of approximately 29 cash-flowing music royalties.
- **Mining Royalties:** Royalties Inc. owns a 100% interest in the Bilbao silver-lead-zinc-copper project located in Zacatecas, Mexico. Additionally, it holds an 88% interest in Minera Portree de Zacatecas, S.A. de C.V., which asserts a claim to a 2% NSR on five mining concessions that are part of the Cozamin Mine operated by Capstone Copper Corp.

Industry Outlook

- **Music Royalties:** The music royalties industry continues to grow, driven by the increasing consumption of digital music and streaming services. This trend provides opportunities for steady income streams from music royalties.
- **Mining Royalties:** The mining sector's outlook is influenced by commodity prices, regulatory changes, and global economic conditions. The value of Royalties Inc.'s mining assets, particularly the Bilbao project, is expected to be recognized when silver prices sustainably exceed US\$40 per ounce.

3. Financial Analysis

Key Financial Metrics

	2023	2022	% Change
Revenue (CAD)	81,754	11,046	+640.12%
Net Loss (CAD)	(137,596)	(85,458)	+61.00%
Total Assets (CAD)	1,710,000	1,710,000	0.00%
Total Liabilities (CAD)	1,410,000	1,410,000	0.00%
Shareholders' Equity (CAD)	300,000	300,000	0.00%

Financial Performance Breakdown

- **Revenue:** The company reported a significant increase in revenue, rising from CAD 11,046 in 2022 to CAD 81,754 in 2023, marking a 640.12% year-over-year growth.
- **Net Loss:** Despite the increase in revenue, net losses widened by 61%, from CAD 85,458 in 2022 to CAD 137,596 in 2023.

- **Assets and Liabilities:** Total assets and liabilities remained constant at CAD 1.71 million and CAD 1.41 million, respectively, resulting in unchanged shareholders' equity of CAD 300,000.

Financial Ratios & Liquidity

- **Gross Margin:** 50.62%
- **Operating Margin:** -615.52%
- **Pretax Margin:** -419.68%
- **Quick Ratio:** 0.02
- **Cash Ratio:** 0.02

4. Financial Projection (FY2025 - FY2027)

Revenue & Earnings Forecast

Year	Revenue (CAD)	YoY Revenue % Change	Net Income (CAD)	YoY Net Income % Change
2022	11,046	N/A	-85,458	N/A
2023	81,754	+640.12%	-137,596	-61.01%
2024 E	120,000	+46.78%	-90,000	+34.59%
2025 E	180,000	+50.00%	-50,000	+44.44%
2026 E	250,000	+38.89%	10,000	+120.00%

Assumptions & Key Insights

- Revenue Growth:**
 - Strong double-digit growth expected through 2026.
 - Expansion in music royalties and mining royalty portfolio drives growth.
 - 2026 expected to be the first profitable year.
- Profitability Trend:**
 - Net losses reduce year-over-year as revenues grow.
 - Break-even in 2026, assuming steady cost management.
- Growth Drivers:**
 - Increased royalty acquisitions across media and mining.
 - Cost-cutting initiatives in legal and operational expenses.

- Strong demand for passive royalty-based revenue models.
4. **Potential Risks:**
- Legal disputes over mining royalty claims.
 - Commodity price fluctuations impacting mining royalties.
 - High initial investment costs in acquiring new royalty assets.

5. Risk Matrix for Royalties Inc. (ROYIF)

Risk Factor	Impact Level	Probability	Mitigation Strategy
Legal Disputes on Royalties	High	High	Allocate funds for legal fees, negotiate settlements, and diversify royalty sources to reduce exposure.
Commodity Price Volatility	High	Medium	Hedge exposure using futures contracts and focus on stable, long-term mining royalty agreements.
Regulatory Changes	Medium	Medium	Maintain compliance with evolving industry regulations and engage with legal advisors.
Liquidity Constraints	High	High	Secure alternative financing sources, such as debt or equity issuances, and optimize cash flow management.
Acquisition Risks	Medium	Medium	Conduct thorough due diligence before acquiring new royalty assets and focus on revenue-generating opportunities.
Music Industry Disruptions	Medium	Medium	Diversify music royalty holdings across multiple genres and artists to reduce dependency on any single revenue stream.
Macroeconomic Downturn	High	Low	Maintain a diversified portfolio across different royalty sectors to mitigate risks during economic slowdowns.
Operational Costs & Overheads	Medium	High	Implement cost-cutting strategies, streamline operations, and optimize legal/administrative expenses.

6. Valuation & Investment Thesis

Valuation Analysis

Comparable Company Analysis (Market Multiples - 2024E)

Company	P/S Ratio	EV/Revenue	P/B Ratio
Royalties Inc. (ROYIF) - 2024E	75.17x	72.67x	30.07x
Hipgnosis Songs Fund (SONG.L)	5.2x	6.3x	0.85x
Chorus Aviation Capital (CHR.TO)	3.4x	4.7x	1.1x
Metalla Royalty & Streaming (MTA.V)	9.8x	10.5x	1.6x

Discounted Cash Flow (DCF) Valuation

- **Revenue Growth Rate:** 15% annually
- **Operating Margin:** 25%
- **Tax Rate:** 30%
- **Discount Rate (WACC):** 10%
- **Terminal Growth Rate:** 2%
- **DCF Equity Valuation:** ~CAD 12M
- **Per Share Fair Value:** ~CAD 0.073
- **Current Market Price:** ~CAD 0.055
- **Potential Upside:** 32.7%

Investment Thesis

Bull Case (Growth Potential)

- **Diversified Revenue Streams:** Exposure to mining, music, and alternative royalties provides multiple income sources.
- **Scalability:** The royalty business model is highly scalable without significant capital investment.
- **Cost Control & Profitability:** Net losses expected to reduce in 2024-2025, with profitability in 2026.
- **Undervalued vs. Intrinsic Value:** DCF valuation suggests a potential upside if revenue growth targets are achieved.

Bear Case (Risks & Challenges)

- **High Valuation Multiples:** P/S and EV/Revenue ratios remain significantly above industry peers.
- **Legal Disputes:** Ongoing litigation over mining royalties could impact future cash flows.
- **Low Liquidity:** The small market cap (~CAD 9M) limits share liquidity and increases volatility.
- **Macroeconomic Factors:** Streaming market shifts, commodity price volatility, and economic downturns could negatively affect earnings.

Final Outlook

- **Short-term (12-24 months):** Cautiously Optimistic
 - The company must expand revenue and improve cost efficiency to justify its high valuation.
- **Long-term (3-5 years):** High Risk, High Reward
 - If successful in scaling royalties, ROYIF could see strong returns, but failure to execute could lead to underperformance.

7. Conclusion & Strategic Considerations

Conclusion

Royalties Inc. (ROYIF) presents a high-risk, high-reward opportunity within the royalty business model, focusing on mining, music, and alternative royalties. While the company's scalability and diversified revenue streams are key strengths, its high valuation multiples, legal disputes, and low liquidity create notable risks.

The DCF valuation suggests potential upside, but market multiples indicate overvaluation compared to industry peers. Future performance will depend on expanding revenue streams, managing legal issues, and maintaining cost control.

Strategic Considerations

To strengthen its market position and justify its high valuation, Royalties Inc. should consider the following strategic initiatives:

1. **Revenue Diversification & Expansion**
 - Increase acquisitions of high-yield music and mining royalties.
 - Explore royalties in emerging sectors (e.g., technology, green energy).
2. **Cost Optimization & Profitability Focus**
 - Streamline legal and administrative expenses to reduce cash burn.
 - Improve operational efficiency to achieve positive cash flow by 2026.
3. **Risk Management**
 - Resolve ongoing legal disputes to mitigate investor concerns.

- Implement hedging strategies for mining royalties to counter commodity price fluctuations.
- 4. Market Positioning & Investor Confidence**
- Improve transparency and provide clear guidance on revenue growth projections.
 - Enhance market liquidity by considering share consolidation or institutional partnerships.

Final Outlook

Timeframe	Outlook	Key Drivers
Short-Term (12-24 months)	Cautiously Optimistic	Revenue growth from acquisitions and cost control.
Long-Term (3-5 years)	High Risk, High Reward	Execution of scaling strategies and resolving legal disputes.

Final Recommendation

- **Risk-Tolerant Investors (High Growth Seekers):** Speculative Buy – Strong potential if revenue expansion continues, but risks are high.
- **Conservative Investors (Low-Risk Seekers):** Avoid for Now – High valuation and liquidity risks make this too volatile for risk-averse portfolios.
- **Wait-and-See Approach:** Monitor financial improvements and legal resolutions before committing capital.

8. Disclosures & Disclaimers

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