ThinkVest

Revenue Sharing Securitization (RSS)

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1 Revenue Sharing Securitization (RSS)

Revenue Sharing Securitization (RSS) is a financing method where a company converts expected future revenues into digital securities—often via **Smart Contracts**—and sells them to investors. These investors receive a portion of the future income generated by the project.

This model benefits startups and businesses with predictable and consistent cash flow, allowing them to raise capital **without taking on traditional debt or diluting equity**. Instead, they monetize future revenue streams.

For example, tech companies with valuable intellectual property (IP) can establish a **Special Purpose Vehicle (SPV)** to hold rights to future IP revenues. The SPV then issues membership interests or shares—typically structured as a **Delaware Series LLC or corporation**—providing a transparent legal framework that protects investor interests and aligns returns with the company's future performance.

In essence, RSS provides a **non-dilutive funding** option by turning future earnings into present-day investment opportunities.

Key Elements of RSS

1. **Revenue Stream**: A predictable income source, such as product sales, licensing fees, or royalties, underpins the model.
2. **Securitization**: Future revenues are converted into financial instruments, often via Smart Contracts, turning expected income into tradable assets.
3. **Revenue Sharing**: Investors receive periodic payouts based on the actual revenue performance of the asset or project.
4. **Non-Dilutive Financing**: Founders retain full ownership and control while raising capital.

Advantages:

1. **Access to Capital**: Funding is based on future income potential, not current cash flow or credit.
2. **Risk Sharing**: Investors' returns depend on the project's performance, aligning interests.
3. **Flexibility**: Revenue-based payouts scale with earnings, unlike fixed debt payments.

2 SUMMARY: RSS BUSINESS MODEL

The **Revenue Sharing Securitization (RSS)** enables startups and tech companies to raise capital by securitizing future income from IP licenses. A **Special Purpose Vehicle (SPV)**, often using **digital Smart Contracts**, holds the assets separately from the operating business.

EXAMPLE IN ACTION:

1. **A startup** licenses a portfolio of patents to third parties' licensees.
2. **SPV Management**: a startup assigns or pledges licenses to the SPV to isolate assets and manage risk.
3. **SPV Structure**: Usually a Delaware Series LLC **or corporation**, with each asset or revenue stream in a separate series or share class.
4. **Investor Offering**: The SPV sells **membership interests** or **shares** that entitle investors to a portion of future licensing income.
5. **IP Revenue**: Royalties or usage fees are generated from licenses.
6. **Licensees** pay the SPV, which distributes revenue to investors according to their stake.
7. **The startup** receives **upfront capital** without incurring debt or giving up equity.
8. **Revenue Sharing**: Investors receive returns aligned with the performance of the IP.

3 WHY USE DELAWARE SERIES LLC?

A **Delaware Series LLC** allows multiple, legally distinct "series" under one entity, each with its own assets, investors, and obligations.

Benefits:

- **Risk Isolation**: Liabilities in one series don't impact others.
- **Operational Flexibility**: Each series functions independently.
- **Cost Efficiency**: Cheaper than forming separate LLCs for each asset or project.

This structure aligns well with RSS, offering scalable, protected management of multiple revenue generating assets.

4 SPV Mechanism for Securitization

An SPV is a separate legal entity that holds and manages IP assets. The company transfers or pledges IP rights to the SPV, which issues securities backed by future income.

Two common structures:

1. **Membership Interests**: Investors gain ownership stakes in the SPV or individual series and share in the generated revenue.
2. **Asset-Backed Securities**: Investors buy financial instruments (e.g., bonds) tied to future IP cash flows, with fixed or performance-based returns.

5 Common Use Cases For RSS:

1. **Startups & Tech**: Early-stage software or AI companies can raise capital by securitizing projected revenues, avoiding equity dilution.
2. **Media & Entertainment**: A film studio securitizes expected revenue from box office, streaming, or merchandise through Smart Contracts and offers them as securities.
3. **Renewable Energy**: A solar firm secures funding by selling Smart Contract-backed securities tied to future energy sales.

6 SPV in IP Securitization

IP securitization transforms patents, trademarks, or copyrights into tradable securities. The SPV, structured to be "**bankruptcy-remote**," minimizes risk and safeguards investor interests.

SPV Responsibilities:

- Hold legal IP rights
- Manage and collect IP revenue
- Issue securities backed by that revenue
- Distribute payouts to investors **Securitization Process**:

Securitization Process:

1. **IP Transfer or Pledge**: The company **assigns** or **pledges** rights to the SPV.
2. **Revenue Management**: Payments are collected—often via **escrow**—and allocated to investors.
3. **Issuance**: Securities (e.g., bonds) are sold, backed by IP cash flows.
4. **Capital Injection**: The company gains **upfront capital**; investors receive future revenue.

For further information, please refer to the “SPV Legal Structure” document.