

## **IP License Acquisition Series – Volume 4**

### **How to Set Minimum Guarantees (MG) Discipline Using Break-Even Economics**

#### **Executive Summary**

Minimum Guarantees (MGs) are advance royalty commitments.

They are not expressions of confidence. They are financial obligations.

MG discipline requires modeling break-even volume before contract signature.

#### **I. Understanding MG Risk**

MG = Fixed Cost.

Break-even units =  $MG \div \text{Royalty per unit}$

If royalty per unit is \$2 and MG is \$500,000, break-even volume is 250,000 units — before profit.

#### **II. Building the MG Model**

Step 1: Determine target net margin

Step 2: Model forecast volume

Step 3: Apply downside case (–25%)

Step 4: Confirm MG recoverability under conservative case

If MG recovery requires 90%+ forecast accuracy, risk is excessive.

#### **III. Portfolio-Level Discipline**

Licensees should:

- Cap aggregate MG exposure as % of EBITDA
- Diversify across staggered deal timelines
- Tie MG tranches to performance milestones

#### **IV. Negotiation Levers**

To control MG risk:

- Extend amortization period
- Lower rate / higher MG trade-offs
- Performance-based step-ups
- Retail distribution contingencies

#### **V. Service Provider Implications**

Consultants, agents, and legal advisors should:

- Model MG recovery under realistic assumptions
- Present risk bands
- Align MG with cash flow tolerance

#### **Conclusion**

MG discipline protects capital.

Break-even economics must precede optimism.