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# Entertainers auction off royalties to pave future career path



Singer Jake Broido performs as indie pop artist the Truth Experiment. Broido auctioned off royalties from his work as a background singer to launch a solo career. (Blake Charles)

By RANDEE DAWN

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When singer Jake Broido wanted to kick his musical career out of the background-singer ranks and into a project called the Truth Experiment, he hit a wall pretty fast. For all his ambition and solid résumé, he was not exactly flush with cash.

“I’d moved to Austin, Texas, and had very little money to my name,” Broido says. “I was just trying to be an artist. And then I saw this ad on Facebook for the Royalty Exchange.”

While Royalty Exchange might sound like a dating service for those in the peerage, it’s actually a company geared to assisting artists looking to auction off some of their most valuable assets: their royalties and residual rights. Royalties and residuals are contract-guaranteed percentages doled out to creators and performers based on the use or performance of works they were involved in. And participation in a hit song, movie or TV show can mean they rack up pretty fast.

In Broido’s case, he had a particularly good royalty to auction: his steady stream of about \$10,000 each year from his background vocals on Wiz Khalifa’s 2015 hit “See You Again” (featuring Charlie Puth). Ten grand is a nice chunk of cash to count on each year, but at that pace it would take him 10 years to amass the money he’d need to kick off his career as indie pop artist the Truth Experiment.

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So, in 2017, he paired with Royalty Exchange, which auctioned his domestic royalties to the song for \$102,000 for Broido to pocket, minus a percentage the company collects.

“It gave me a three-year runway to focus on my music and put out my own record,” says Broido, who has since worked with Rihanna, Justin Timberlake and Kendrick Lamar, among others. “All these things have come from me taking the independent investment to run my own career.”

“We’re unlocking the power of markets to financially empower creatives,” says Royalty Exchange partner Anthony Martini. “In the creative industry, it’s hard to get loans. This is a way to empower them to do the things they need to do using the assets they created.”

When an artist approaches Royalty Exchange, the company analyzes and evaluates the asset being offered, then determines a potential value. After getting a guarantor to set a minimum price, it clears everything with the rights holder — and the auction can begin.

Broido has the kind of happy-ending story the company hopes everyone will achieve. Right now, Royalty Exchange has 25,000 registered investors (though anyone can sign up to become a potential investor) and has done \$85 million worth of deals in the past four years, according to Martini.

Recently, the company branched out from music royalties into residuals from film and television, with sales including 1983’s “Trading Places” (producer residuals sold for \$140,300 in 2019); 2008’s “Repo! The Genetic Opera,” which sold director residuals for \$563,000 in June; and a package of 21 films (including four “Star Trek” movies and “Beverly Hills Cop III”), which sold director residuals for \$61,200 in September. Buyers then get paid every time the film, TV show or song is used on a platform.

Not all sellers auction off full rights; Broido, for example, still holds his international royalties. Other auctions might be selling royalties and residuals only for a set period of time. As an auction house of sorts, Royalty Exchange never owns the rights itself. Instead, the seller writes up a letter of direction, which redirects payments he otherwise would be receiving from a guild or publishing house, to the new owner of the rights.

“They’re a safer asset than a stock market investment,” asserts Martini, who says rights and residuals became exponentially more valuable in the age of streaming. As he notes, consumers no longer purchase a song or DVD once, so every time a film or song is streamed, there’s a new payment. “It’s accelerated the desire for people to get into this,” he adds.

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Investor Charles D’Atri, a former music catalog head at the Walt Disney Co., is pleased with the result. He’s made over a dozen investments in royalties and residuals over the five years he’s been investing, and he says the returns have been “excellent.”

“If you buy sensibly, it’s a fantastic area to participate in with a stable and growing return,” he notes. “It’s entirely legitimate, straight-up investing. I mean, if you love Warren Buffett, it’s legitimate to buy a share of Berkshire Hathaway. It’s no different in music and film. If I’m a huge ‘Star Trek’ fan, any return is enjoyable if I can say I’m a participant in the success of ‘Star Trek.’”

If there’s any shadow over all of this buying and selling of residuals and royalties, it might be within the unions that negotiated them in the first place for their members, says Richard W. Kopenhefer, a partner in the Labor and Employment Practice Group at Sheppard Mullin. “Residuals are collectively bargained participation,” he says. “The idea that those residuals could be alienated or sold through a third party would be a mandatory subject of collective bargaining.”

SAG-AFTRA Chief Operating Officer and general counsel Duncan Crabtree-Ireland had the same concern. He notes in a statement to The Times that as collectively bargained wages paid on ongoing or supplemental use of an artist’s work, residuals are subject to legal wage protections. Those protections can include limitations on garnishment or assignment of those wages and, in jurisdictions like California, on the individual’s right to void any assignment of those wages.

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He also notes that federal labor law preempts attempts to divert those kinds of payments that are contrary to a collective bargaining agreement. Anyone who wants to sell or assign residuals should have a lawyer, he adds, saying, “As to those who might purchase residuals rights, the best guidance is *caveat emptor* — let the buyer beware.”

The DGA, Writers Guild and Producers Guild declined to comment for this article.

But despite any potential misgivings, Kopenhefer does say the arrangement Royalty Exchange has set up is “good for talent,” likening it to a “reverse mortgage.”

And overall, it’s hard to spot where anyone is losing out. Broido, for one, couldn’t be happier. “I was sleeping on couches in L.A. figuring out how I was going to get my artist project off the ground before this,” he says. “Having funds from an auction means you can stay independent and keep your publishing and your masters.”

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For his part, D’Atri is planning to keep adding to his investments, and Broido is planning to launch more auctions. “They really are, in my opinion, doing something that is helping musicians and artists — 100%,” he says.

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