



Invest Like Kevin O'Leary and Collect \$1,000 Per Month

Description

Kevin O'Leary was my favourite on the hit CBC reality show *Dragon's Den*.

O'Leary's role on the show—which brings together venture capitalists with small-time entrepreneurs desperate for cash—was mostly one of comedic relief. He would relentlessly mock bad ideas, telling business owners things like, "I forbid you from spending any more money on this terrible idea."

When it came to actually investing in these businesses, O'Leary was more of a value investor, selective in his opportunities. As you can imagine, that didn't go over so well among a group of other venture capitalists willing to pay for growth. O'Leary would only do a handful of deals per season, far fewer than the other dragons.

O'Leary also became somewhat infamous about asking for royalties—a payment of a certain dollar amount per unit sold or a certain percentage of total revenue. This would enable him to essentially collect a dividend from a business that would likely be better off reinvesting that cash back into growth.

It's pretty obvious why O'Leary only did a small number of royalty deals during his tenure on the show. But that doesn't mean the royalty business is a bad one. Given the right business and the right circumstances, arranging a royalty deal can be attractive for a business and can deliver steady profits for the royalty holder.

Here's how investors can join Kevin O'Leary in the royalty business and collect some sweet income.

Alaris

Alaris Royalty Corp. (TSX:AD) is Canada's largest royalty company with a market cap of a little more than \$1 billion.

Alaris has royalty deals with 16 different companies, most small or medium sized. Some notable partners include Planet Fitness, End of the Roll, and Kimco. To date, Alaris has invested some \$600 million into its partners—royalty deals that usually grow as the underlying company grows.

Predictable cash flow tends to translate into a great dividend-paying investment opportunity, and Alaris delivers. The company currently pays a \$0.135 per share monthly dividend, good enough for a yield of 5.5%. Dividend growth has been spectacular too, with eight total dividend increases since 2010.

Alaris shares trade at approximately 19 times trailing earnings, which is a steal for how fast it's growing. In 2011 the company generated \$22.1 million in revenue. For 2016 Alaris is on pace to generate approximately \$103 million in revenue. That's the kind of growth many companies can only dream of.

Growth looks poised to continue, too. Because the company takes a truly passive stake in a business, it becomes the ideal choice for a lot of companies looking for capital, especially small- and medium-sized ones that can't access capital markets.

Diversified royalty

Alaris isn't alone in the royalty business in Canada. **Diversified Royalty Corp.** ([TSX:DIV](#)) has emerged as a formidable competitor, doing deals with household names Mr. Lube and Sutton Real Estate. It also has a deal with a company called Franworks Brands, which owns franchised restaurants Original Joes, State and Main, and Elephant & Castle.

Diversified Royalty also has a much higher dividend yield than Alaris with the payout coming in at 9.8%. This high dividend does look sustainable, and the company has hiked its payout twice in the last year alone.

One wrinkle in the Diversified Royalty story is the company's former CEO John Bennett has been charged with fraud. This has caused it to shell out millions in legal fees that could end up being paid back by either insurance or Mr. Bennett. At this point, however, nothing has been decided, and we all know how the market hates uncertainty.

Collect \$1,000 per month

Collecting \$1,000 per month from both of these investments would be a nice boost for any investor.

To do so, an investor would need to own 3,703 Alaris Royalty shares and 26,958 Diversified Royalty shares. This represents an investment of \$170,793, excluding any commissions or other fees.

Admittedly, that's a tall feat for the average retail investor. But an investment of \$17,079 would generate income of \$100 per month, good enough to pay a cell phone or internet bill. That's certainly achievable.

Kevin O'Leary is one of the sharpest investing minds out there. Join him in the royalty business and your fatter wallet will thank you.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)

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