Listerine Mouthwash Royalty Investment Memorandum

1. Asset Definition

The offering is a royalty interest in the global sales of Listerine Antiseptic Mouthwash, stemming from a 19th-century agreement. In 1881, Dr. J.J. Lawrence sold the secret formula for Listerine to Jordan W. Lambert in exchange for ongoing royalties. This contract – often cited as an extraordinary business arrangement – obligates the manufacturer to pay a fixed royalty for every unit of Listerine sold, in perpetuity. As a result, Listerine's inventors (and their successors) have been receiving monthly royalty payments for over 140 years. Notably, by 1959 the royalties had already totaled over $22 million paid and were running $1.5 million per year at that time, illustrating the long-term value generated.

Today's investment opportunity is a share of this perpetual Listerine royalty stream. The purchaser will step into the shoes of a current royalty holder, acquiring the rights to receive the designated portion of Listerine royalty payments going forward. According to the listing, the share on offer produced $63,280 in royalty earnings over the last 12 months, and it is being offered at a list price of $940,000 (a 15.01× multiple of LTM royalties). The royalty interest is derived from a contract established in 1881 and will last for the life of the Listerine brand – in other words, as long as Listerine is sold, this royalty will be paid. The asset's uniquely long earning history (over 142 years) and ongoing monthly cash flow from a household consumer product make it a one-of-a-kind royalty investment opportunity.

2. Included Rights

By purchasing this asset, the investor acquires the right to receive a fixed royalty payment for every quantity of Listerine sold worldwide, as defined by the original agreements. Specifically, the contract (as amended in 1885) requires the manufacturer (now Johnson & Johnson's consumer division) to pay $6 for each gross of Listerine produced or sold. (A "gross" is 144 bottles, equating to approximately $0.0417 per bottle of Listerine.) These royalties are calculated on gross sales of Listerine Antiseptic and are paid monthly, with accounting and payment due by the 10th of each month for the prior month's sales. Both domestic U.S. sales and international sales are included: the contract encompasses global sales of Listerine and the royalty is earned on worldwide volume. In practice, international sales royalties are reflected in the payments every third month (quarterly), aligning with how foreign sales are reported, while

U.S. sales royalties are paid monthly – the two together constitute the steady overall income stream.

It is important to note that this royalty is not a typical licensing royalty that expires with a patent or copyright. Rather, it was structured as a perpetual payment obligation tied to the product itself, not its intellectual property protection. In the famous 1950s court case *Warner-Lambert Co. v. Reynolds*, the manufacturer (Warner-Lambert) sought to terminate payments, arguing that once Listerine's formula became public knowledge, the royalty should end. The court firmly upheld the contract, ruling that the royalty must continue "as long as [Listerine] is manufactured or sold", regardless of the formula no longer being secret. In other words, the right to payment is unconditional and permanent, only ending if the company ceases to sell Listerine altogether (a highly unlikely scenario for such a popular, profitable product). There are no reversion triggers or term limits; the royalty is payable in perpetuity to whoever owns the rights. This gives the investor a durable claim on Listerine's revenue stream, enforceable by contract law as proven by over a century of uninterrupted payments.

In summary, the included rights are:

- A proportional share of the original Listerine royalty entitlement. The winning bidder will own the specified share of the contractual right to $6 per gross (144 units) of Listerine sold globally. This share receives that same formula of royalty, prorated to the portion acquired. (The listing represents one such share held by an heir or assignee of Dr. Lawrence.)

- Monthly royalty payments deposited to the owner. The contract stipulates monthly reporting and payment, so the investor will receive income monthly. Payments typically spike in the quarter-end months due to the inclusion of international sales in those periods, but overall are consistent and predictable.

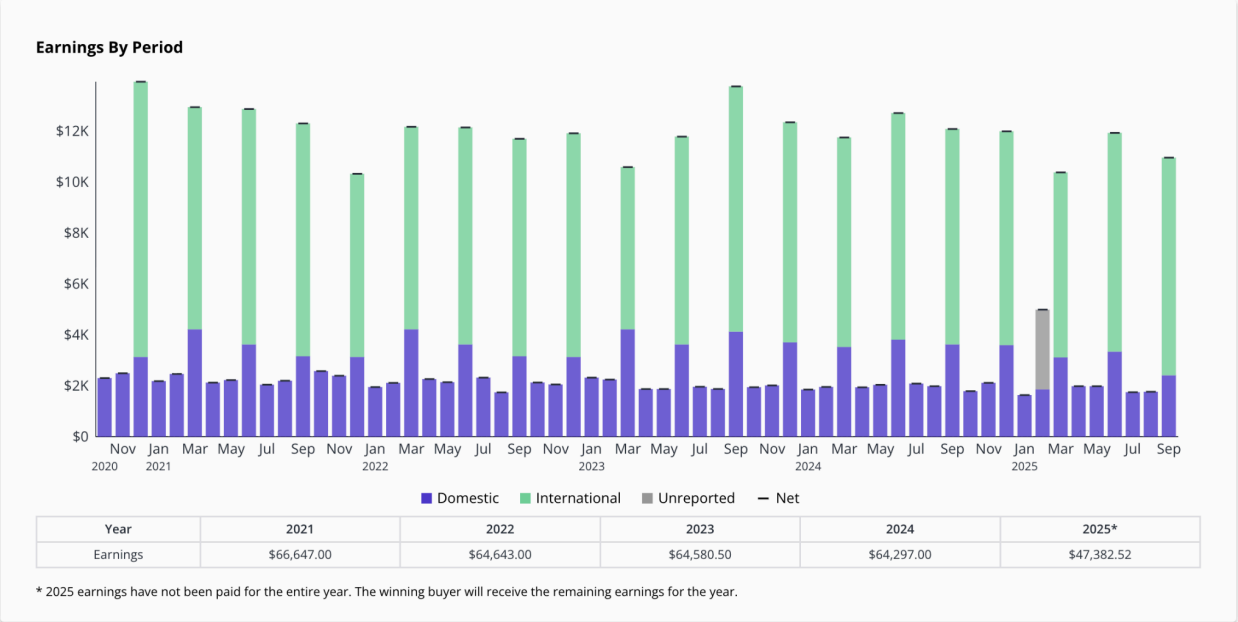
- Rights assignable and inheritable. Just as the current seller is the successor to the original royalty owner, the buyer can hold or transfer this royalty right in the future. The contract binds the manufacturer and its successors to pay "to [Dr. Lawrence's] heirs, executors and assigns" – meaning the obligation follows the asset no matter who owns it. The investor will effectively become an "assign" of the original payee, entitled to all corresponding payments.

- No active management required. Royalties are calculated and remitted by the product manufacturer (through its paying agent) automatically based on sales. The investor does not need to manage operations of the product; they simply collect passive income generated by Listerine sales. Johnson & Johnson (the current maker of Listerine) handles all sales accounting and payment distribution according to the longstanding contract. In effect, this is a turn-key income stream backed by a stable consumer goods

business.

3. Earnings Analysis

Historical Stability: The royalty revenues from this asset have demonstrated long-term stability, with a generally **flat to modest growth trend over the decades**. Initially, as Listerine sales expanded through the 20th century, royalty income grew substantially (e.g. it was already $1.5M per year for the total contract by 1959). Over the more recent past, growth has leveled off. Our analysis of the provided earnings data shows that annual royalty income for this share hovered in the **$60–$67k range over the last 5–10 years**. There have been minor year-to-year fluctuations – for instance, a 7.6% dip in 2017 followed by a nearly 10% jump in 2020 – but no sustained upward or downward trajectory. In other words, **revenues have been essentially flat in the past decade**, with no evident trend of either consistent decline or growth. The **compound annual growth rate** (CAGR) over the last 10 years is approximately zero, indicating that Listerine sales (and hence royalties) are holding steady at a mature plateau.



Year	2021	2022	2023	2024	2025*
Earnings	$66,647.00	$64,643.00	$64,580.50	$64,297.00	$47,382.52

* 2025 earnings have not been paid for the entire year. The winning buyer will receive the remaining earnings for the year.

Figure: Monthly Royalty Earnings for the Listerine Royalty Share (2020–2024). Overall, the income has been very stable, fluctuating only modestly around ~$60–65k in the last several years.

Current Earnings Level: In the most recent reported periods, the royalty generated approximately **$64,000 per year** in gross earnings. For example, the total for 2022 was about $64.6K, for 2023 about $64.6K, and for 2024 about $64.3K – all within 1% of each other.

Management (Johnson & Johnson) reports sales and pays royalties monthly. Typically, the royalty income per quarter is around $15–$16K, with slight seasonal patterns corresponding to sales cycles (for instance, Listerine sales can be marginally higher in certain quarters, but the variation is small). Notably, international sales constitute roughly half of the royalty income. In 2024, about 53% of the total came from outside the United States, with the remainder from U.S. sales (e.g. Q3 2024 included ~$8.46K from international markets and ~$3.63K domestic). This geographic diversification adds stability – the product's global presence means that no single market downturn drastically affects the overall royalty.

Growth/Decay Trends: When viewed over a multi-year horizon, the royalty earnings show remarkable stability with minimal decay. There is no clear long-term decline: Listerine is a mature, staple product in the oral care market, and its sales volumes have been steady. In fact, some periods have seen modest growth (for example, royalties edged up in the early 2010s, and 2020 saw an anomalous ~10% spike, possibly due to pantry-loading or increased hygiene focus during the pandemic). However, those gains have been largely offset by slight corrections (e.g. a few percent pullback in 2021–2022). The net result is that the trend is essentially flat. For instance, comparing the last five full years (2019–2023), the annual payout has stayed in a tight band around ~$61–67K with *<1% average change year-over-year*. This consistency implies low volatility in the cash flow – a desirable trait for income-focused investors. It also suggests that Listerine's market share and usage are stable; the product isn't experiencing material growth, but neither is it eroding.

Forward Expectations: Given Listerine's status as a century-old brand in a relatively saturated market, most analysts would project flat to modestly declining sales long-term (roughly tracking population and usage patterns). There is little evidence of organic growth in mouthwash sales at this stage; any upside would likely come from market expansion, while potential downside could come from competition or changing consumer habits. Recent performance indicates a "new normal" around the mid-$60Ks annually for this royalty share. For prudence, one might assume a slight gradual decline in real terms, simply due to market maturation or slight volume erosion over many years (offset to some extent by pricing power of the brand). Importantly, inflation does not directly increase the royalty – since it is a fixed $6 per gross units, higher selling prices for Listerine do not raise the royalty amount, only higher unit volumes do. This means the royalty stream's purchasing power can erode with inflation if unit sales remain flat. In the last decade, volume growth roughly kept pace with inflation (maintaining flat nominal royalties), but if unit sales were to stagnate or dip, the real value of payments would decline. Thus, in forecasting, it is reasonable to assume *conservatively flat or slightly negative real growth*. The next section provides detailed scenario projections under various growth assumptions to illustrate possible outcomes.

4. Scenario Analysis and Cash Flow Projections

To evaluate the investment's potential returns, we model three forward-looking scenarios for the royalty cash flows over a 10-year holding period, plus a terminal exit value in year 10. In each scenario, we assume the investor purchases the royalty at the $940,000 list price and holds it for 10 years of cash flow, then sells the royalty at the end of Year 10. We assume an exit valuation multiple of 15× the Year 10 royalty (in line with the current listing's valuation of ~15× LTM earnings). All cash flows are in nominal dollars (we ignore inflation for simplicity, as the royalty is a fixed nominal amount per unit). We then calculate the Internal Rate of Return (IRR) for the investor and the Net Present Value (NPV) of the cash flows at an 8% discount rate under each scenario. The scenarios are defined as follows:

- Conservative: Assumes Listerine sales (and thus royalty receipts) decline by 2% per year going forward. This models a gentle erosion in volume year after year (perhaps due to competition, slight loss of market share, or decreased usage). The decline compounds, resulting in about ~18% lower royalties by Year 10 versus today.

- Normal (Base Case): Assumes zero growth, i.e. flat royalties each year at the current LTM level (~$63K/year). This reflects the expectation that Listerine maintains its current sales level without significant growth or decline. Given historical performance, this "status quo" scenario is quite plausible.

- Optimistic: Assumes 1% annual growth in royalty income. This models a modest uptick in volume or other slight improvements (for example, gradual expansion into new markets or increased per-capita usage). A 1% growth rate is conservative in absolute terms, but for a product as mature as Listerine it would be a positive outcome reflecting continued small gains in sales volume each year.

Below are the projected cash flow tables for each scenario, including yearly royalty income and the projected terminal exit proceeds in Year 10 (which is calculated as 15× Year 10's royalty run-rate):

Conservative Scenario – Cash Flow Projection (–2% YoY decline)

Entry	$(940,000.00)
Year 1	$61,740.00
Year 2	$60,505.20
Year 3	$59,295.10
Year 4	$58,109.19
Year 5	$56,947.01

Year 6	$55,808.07
Year 7	$54,691.91
Year 8	$53,598.07
Year 9	$52,526.11
Year 10	$823,609.39*
TIRR	4.61%

Under the conservative scenario, royalties shrink to about $51.4K by year 10. The exit sale (at 15× the final year's $51.4K) would fetch approximately $772K plus the year 10 royalties earned.

Base “Normal” Scenario – Cash Flow Projection (0% growth, flat)

Entry	$(940,000.00)
Year 1	$63,000.00
Year 2	$63,000.00
Year 3	$63,000.00
Year 4	$63,000.00
Year 5	$63,000.00
Year 6	$63,000.00
Year 7	$63,000.00
Year 8	$63,000.00
Year 9	$63,000.00
Year 10	$1,008,000.00*
TIRR	6.74%

In the base case, royalties stay constant at ~$63K per year. The year 10 exit at a 15× multiple would roughly equal the original price (about $945K), reflecting no change in earnings level.

Optimistic Scenario – Cash Flow Projection (+1% YoY growth)

Entry	$(940,000.00)
Year 1	$63,630.00
Year 2	$64,266.30
Year 3	$64,908.96
Year 4	$65,558.05
Year 5	$66,213.63
Year 6	$66,875.77
Year 7	$67,544.53
Year 8	$68,219.97
Year 9	$68,902.17

Year 10	$1,113,459.10*
TIRR	7.81%

Under the optimistic scenario, royalties grow to ~$69.6K in year 10. Selling at 15× that earnings yields about $1.04 million.

IRR and NPV Results: Using these cash flows, we find that the investor's IRR (internal rate of return) and the NPV at an 8% discount rate vary significantly by scenario:

- Conservative: IRR ≈ 4.6%. The present value (discounted at 8%) of all cash flows plus exit is only about $741K, which is far below the $940K price paid. This scenario indicates substantial downside risk – if Listerine sales were to erode by 2% annually, an investor paying the full asking price would realize a poor return (well under the 8% hurdle). In other words, the current pricing would not be justified if a persistent decline materializes.

- Base/Flat: IRR ≈ 6.7%. The 10-year cash flows and exit yield a present value of roughly $860K at 8% discount. This is still below the $940K price – implying the asset is priced above an 8% yield. An investor's IRR in this zero-growth scenario (where the royalty remains at ~$63K/year) would be about 6.7%, which is lower than a typical 8% target return. The implication is that at the listing price, the market is perhaps pricing in the royalty's extraordinary stability (accepting a lower yield for a lower-risk asset).

- Optimistic (+1%): IRR ≈ 7.8% (with 15× exit). The present value at 8% is around $928K. Even with a decade of mild growth, the IRR still doesn't quite reach 8% under these assumptions. The NPV is slightly under the asking price (about a $12K shortfall). If we assume that a growth trajectory would allow a modestly higher exit multiple (say 16× instead of 15×), the IRR improves to our 8% threshold at ~8.3%. Still, even the optimistic scenario only approaches, but does not exceed, an 8% return at the list price. This suggests the current pricing (15×) is anticipating near-zero risk or potentially expecting a longer holding period beyond year 10 to realize more value. It's worth noting that if one were to hold the asset indefinitely (beyond 10 years), the IRR would converge toward the royalty yield plus growth rate.

Valuation Takeaways: Under all three scenarios, the calculated NPV at 8% discount is below $940K, and the IRRs are below 8%. This indicates that the asset is priced to deliver a mid-single-digit return (around 6–7% IRR) given flat-to-modest growth expectations. The only way to achieve an 8% or higher IRR at the list price would be either to assume stronger growth than 1% (which appears unlikely based on historical data), or to assume the ability to resell at a significantly higher multiple than 15×. Another perspective: if an investor demands an 8%

discount rate, the fair value of the asset would be roughly $800–850K under reasonable scenarios – the $940K price implies a premium for the asset's longevity and stability. Investors may be willing to accept a ~6–7% yield for such a unique perpetual royalty backed by a blue-chip company, as it behaves somewhat like a high-quality bond or annuity. Nonetheless, the scenario analysis highlights that downside scenarios (decline in sales) could significantly impair returns, whereas even the upside scenario only marginally improves them. Therefore, careful consideration of Listerine's future sales trajectory and the terminal market for this royalty is warranted. On balance, the asset's value lies in its reliability and duration, rather than growth, and the return profile is correspondingly bond-like.

5. Investment Criteria Analysis

Management has outlined several investment criteria for royalties of interest. Below we evaluate the Listerine royalty offering against each of these benchmarks:

- Size: *Target: $100K+ annual royalties and ~$1M+ valuation.* The Listerine asset is valued at $940K (list price) which is in line with the desired scale (approximately a million-dollar asset). Its annual royalties are about $63K (last 12 months). This falls short of the $100K/year target, meaning the income size is somewhat lower than ideal. In absolute terms, $63K per year is a substantial stream, but it's below the six-figure threshold that might be preferred. The lower current yield is partially offset by the asset's longevity – even at ~$63K/year, over 20+ years the cumulative cash flow is sizable. Additionally, because this is a perpetual royalty (with effectively no end date), the total nominal dollars it will pay out over its life will far exceed the initial investment. However, strictly against the stated "Size" criteria, the Listerine royalty is a bit under the target annual run-rate, while the valuation is right around the $1M mark (the price being ~$940K). Investors should recognize that this asset's strength is not in high current cash volume, but in extremely secure and long-duration cash flow. It might be considered on the smaller end of the annual income spectrum for target deals, but it compensates via quality and duration.

- Growth: *Target: Flat or positive historical revenue trend (no significant decline).* Listerine royalties meet this criterion. Historically, the trend has been flat to slightly positive – effectively no decline. As discussed, the last decade of royalty earnings has been essentially flat, fluctuating only a few percent up or down. There is no evidence of a structural drop in revenue; if anything, volumes have held steady or grown very marginally in recent years. One could consider the growth criterion satisfied in that the royalty stream has been at least stable (0% growth) and has not shown material erosion. If anything, it has demonstrated resilience – for example, it weathered the 2020 economic disruptions with an uptick in sales, and returned to normal levels thereafter without any long-term damage. While the royalty is unlikely to show high growth going

forward, it at least has not shown decline, aligning with the goal of "flat or better" revenue trend.

- Dollar Age: *Target: Average dollar age of 7+ years.* This asset far exceeds the Dollar Age criterion. The "dollar age" here is on the order of ~140 years – literally one of the longest continually-paid royalties in existence. Listerine was first sold in the 1880s, and the royalty stream has been paying ever since. In practical terms, this means the income is derived from a very seasoned, time-tested source. A high dollar age usually indicates low volatility and predictable decline curves; in this case, it indicates a product with multi-generational staying power. Most of the earnings come from a formula invented in the 19th century, which is extraordinary and implies that these dollars are as "aged" and dependable as they come. The brand and product have proven enduring demand over a century. Thus, on dollar age, Listerine's royalty is an ideal candidate, showcasing longevity that few (if any) other royalty assets can match.

- Duration: *Target: 20+ years of remaining earnings life (no near-term termination).* The Listerine royalty has effectively unlimited duration. It will continue for as long as Listerine is produced and sold, with no fixed end date or sunset clause. The original contract does not expire; it only terminates if the manufacturer chooses to stop selling Listerine entirely (which is highly unlikely given Listerine's entrenched market position and profitability). There are well over 20 years remaining – in fact, one could reasonably expect several decades or a century more of sales based on the product's history. Johnson & Johnson, which currently markets Listerine, has every incentive to keep the brand in market indefinitely. Even in scenarios where the Listerine product might evolve or be rebranded, the royalty would likely apply as long as the formula's lineage continues (and any discontinuation would be economically irrational unless a superior substitute emerges within J&J's portfolio). In short, the duration is essentially perpetual. This easily satisfies the 20+ year criterion. Investors can be confident that there is no looming expiration or cutoff. Even if an investor doesn't hold the asset that long, knowing that another buyer 10 or 20 years from now will still see plenty of life left supports its resale value.

- Distribution Partner: *Target: Royalties collected and paid by a reputable, reliable partner.* Here, the distribution partner is Johnson & Johnson (through its consumer health division) – one of the most credible and financially strong companies in the world. Johnson & Johnson acquired the Listerine brand (when it bought Pfizer's consumer healthcare division in 2006), and today Listerine is part of J&J's portfolio (now under the spun-off Kenvue unit). Royalty payments have historically been handled professionally by the successive owners (Warner-Lambert, then Pfizer, now J&J). There has never been a missed payment in over a century, even through multiple corporate acquisitions. The royalty statements and payments are administered by a large

corporate finance department that is accustomed to this obligation. Additionally, the contract's legacy is well-known to J&J – it's a routine liability on their books, and given the relatively small size (tens of thousands per month) for a giant firm, they have no incentive to default. In fact, after losing the 1959 court case, the manufacturer has no legal ambiguity and has consistently paid "whoever owns a share" of the royalty, like clockwork. The American Bible Society, Wellesley College, and other institutions have held shares in the past and collected reliably, underscoring the partner's trustworthiness. In summary, the distribution partner criterion is fully met – investors can be confident that the royalty payments are handled by a blue-chip, highly reliable payor with an excellent credit profile and operational integrity. This dramatically reduces counterparty risk; the only risk to payment would be if Listerine sales stopped, not that J&J would fail to pay on sales made.

Risks & Mitigants: While the asset meets or exceeds most investment criteria, a balanced assessment should note key risks. The primary risk is product-specific risk – Listerine must continue to be a successful product for the royalty to hold value. Any unforeseen decline in mouthwash usage, a new competitor or technology that obsoletes mouthwash, or reputational damage to Listerine could impact sales. However, given the brand's long history and the essential nature of oral hygiene, this risk appears low. Another risk is inflation and fixed-rate payoff: $6 per gross is fixed in nominal terms, so high inflation without volume growth can erode real returns. This is partly mitigated by the stable or growing volume historically (which has kept revenues roughly in line with inflation), but it's a consideration – the royalty lacks an inflation escalator. On the positive side, the asset's extraordinary duration and the strength of the distribution partner mitigate many typical risks. There is no termination/clawback risk, no dependence on new content creation, and minimal credit risk. The key value drivers for this asset are its consistency, longevity, and low volatility, rather than high growth or high yield. Investors who value steady passive income backed by a fundamentally sound consumer staple will appreciate this offering, whereas those seeking rapid growth might find the return profile modest.

Conclusion

In conclusion, the Listerine royalty share is a truly unique investment asset characterized by a 142-year track record of reliable cash flows. It offers exposure to the revenue of an iconic consumer healthcare product with no expiration date on the income stream. The asset's strengths lie in its stability and durability: it has survived and thrived through economic cycles, inflation, and market changes, always producing income. The risks are relatively limited and primarily revolve around long-term demand for Listerine (which has been and remains robust).

From a returns standpoint, the asset is priced for safety, not for high growth – with an initial yield around 6.7% and an expected IRR in the mid single digits under reasonable scenarios. For investors comfortable with that profile, it represents a compelling "royalty annuity" with equity upside (if the brand endures far beyond the 10-year horizon, future cash flows add substantial value). The NPV analysis at 8% suggests the current price is somewhat above a strict 8% valuation, implying a premium for quality. Each investor should consider whether the rarity and security of this asset justify accepting a slightly lower yield.

In evaluating against the investment criteria: Size is borderline (annual income ~$63K vs. $100K target, though overall value ~$1M is achieved); Growth is essentially flat but non-negative (meets the stability requirement); Dollar Age and Duration are unparalleled (the royalty is as seasoned and long-lived as they come); and Distribution is rock-solid (J&J). The asset can thus be seen as a lower-risk, long-duration royalty that fits well for an income-oriented portfolio prioritizing capital preservation and steady cash yield over aggressive growth. It is a chance to own a piece of a famous contract often cited in legal and financial circles as an example of enduring royalty streams – literally earning money from every bottle of Listerine sold. For the right investor, the Listerine royalty share offers consistent cash flows, minimal maintenance, and the intangible appeal of a legacy asset that has been paying since the days of horse-drawn carriages and could reasonably continue into the era of self-driving cars. It is an investment rooted in history but still very much relevant today, turning everyday mouthwash purchases around the globe into a revenue stream for its owner.