

DOMAIN NAME CASH FLOWS: LEASING, FINANCING AND STRUCTURING

Tips & tricks from 10+ years of domain name brokerage and valuations by Mark Kychma of DNPric.es, January 2019

DOMAIN NAMES AS DERIVATIVES: WHAT ARE THEY?

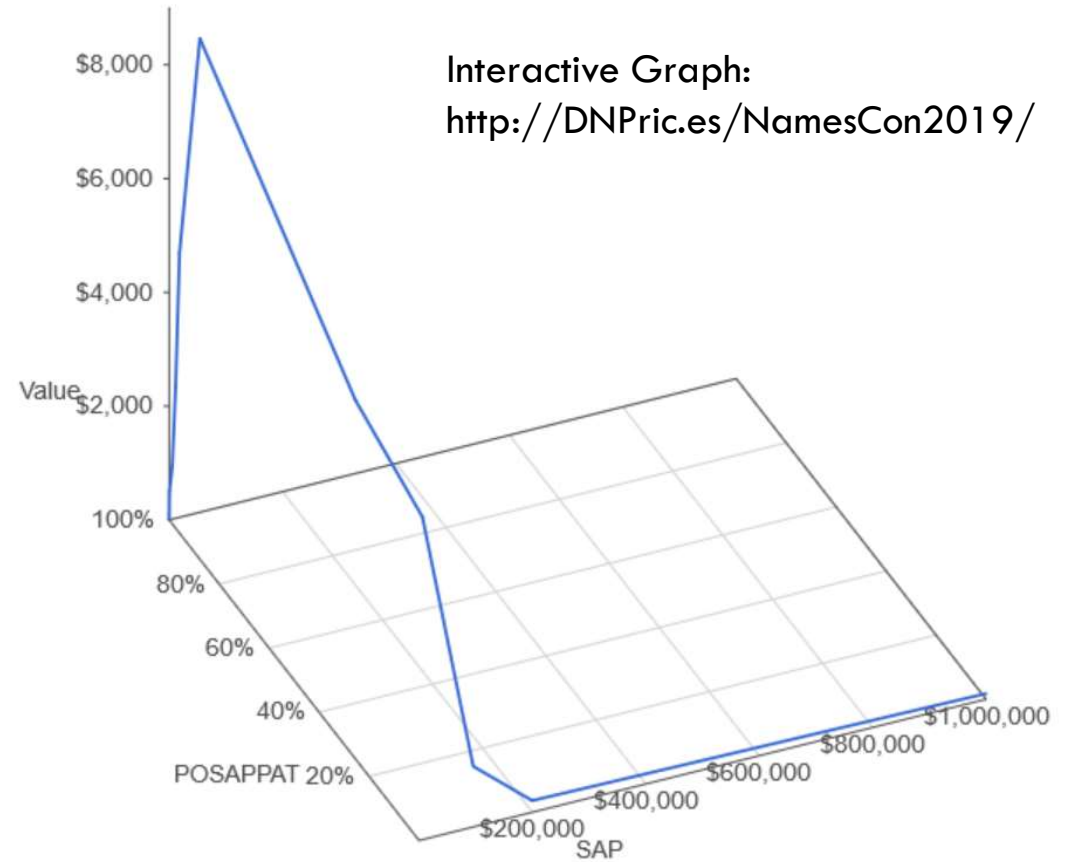
- Tangible or intangible?
- Rights: use, renew, transfer rights to other parties
- Similar to oil drilling licenses or property renting
- Asset or liability?
- Single vs portfolio
- Positive or negative **CashFlo.ws**
- Costs: fees, management, legal, ...

COMPONENTS OF PRICE 1/2

- Liquidity: Demand vs Supply
 - pizza.com D↑↑↑ S↓↓↓ {ultrapremiums: majority or not!}
 - {c}pizza.com D↓ S↑↑ {black | blue | green | red | ...}
 - unlock.it D↑ S↓
- Predominantly buyers' driven market
- Buyer's Budget (BB↓) vs Seller's Asking Price (SAP↑)
- Probability of Sale @ Particular Price & Time (POSAPPAT)
- Black-Scholes model and equations (fancy Nobel-level talk?)
- Price = MAX { SAT_i * POSAPPAT_i } (simpler, works at home)

COMPONENTS OF PRICE 2/2

SAP	POSAPPAT	Price
\$ 1.00	100.00%	\$ 1.00
\$ 10.00	100.00%	\$ 10.00
\$ 100.00	100.00%	\$ 100.00
\$ 500.00	100.00%	\$ 500.00
\$ 1,000.00	99.00%	\$ 990.00
\$ 2,500.00	98.00%	\$ 2,450.00
\$ 5,000.00	97.00%	\$ 4,850.00
\$ 10,000.00	90.00%	\$ 9,000.00
\$ 20,000.00	30.00%	\$ 6,000.00
\$ 50,000.00	10.00%	\$ 5,000.00
\$ 100,000.00	1.00%	\$ 1,000.00
\$ 200,000.00	0.10%	\$ 200.00
\$ 1,000,000.00	0.01%	\$ 100.00



Interactive Graph:
<http://DNPrice.es/NamesCon2019/>

WHAT IS LEASING? *S*

- A lease is a contractual arrangement where the lessee pays the lessor for the use of an asset.
- The lessor is the legal owner of the asset; the lessee obtains the right to use the asset in return for regular rental payments.
- Why leasing?



STRUCTURING

- Period: fixed vs indefinite
- Strike price: force vs optional
- Finance lease
- Options:
 - ❖ Call / put
 - ❖ Evergreen, American*, European^x, ...



VALUATION

Rule of thumb: if you want to sell it for a reasonable price, say @ \$10k, monthly lease should be between \$99 and \$199

Use IRR & XIRR in Excel to calculate the yields

Use PMT in Excel to calculate the [monthly] payments

calculator.net



EXAMPLES *S*

Present value	\$ 50,000.00	Present value	\$ 50,000.00
Rate	22%	Rate	22%
Period, years	10	Perpetual	
Monthly payment	\$ -1,033.48	Monthly payment	\$ 916.67
Quarterly payment	\$ -3,116.02	Quarterly payment	\$ 2,750.00

	2019-01-01	2019-02-01	2019-03-01	2019-04-01	2019-05-01	2019-06-01	2019-07-01	2019-08-01	2019-09-01	2019-10-01	2019-11-01	2019-12-01
Cash Flow	\$-5,000.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 99.00	\$ 5,000.00
XIRR	24%											
	2019-01-01	2019-02-01	2019-03-01	2019-04-01	2019-05-01	2019-06-01	2019-07-01	2019-08-01	2019-09-01	2019-10-01	2019-11-01	2019-12-01
Cash Flow	\$-5,000.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 199.00	\$ 5,000.00
XIRR	54%											

RISKS

- Damage to the domain name (UDRP, fraud, ...)
- Registrar / registry faults
- Do the due diligence
- Minimise by 5%...10% non-refundable deposit
- Indemnity insurance
- Do NOT allow sublease⁴

SWEETENERS AND HOOKS

- Guarantee the exclusivity
- Offer 50% discount for the first 6 ... 12 months
- Show you care
- Make it really lessee friendly!
- Promote leasing actively: 4 sales : 1 lease
- Escrows: e.g., payment plans by Uniregistry



CAVEATS

- Trademarks and claims
- Average lease life?
- What happens on average after two years?
- Late payments
- Have a good contract



Q&A?

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