



# Cover Equity Economics

*The unit economics of the alignment model: a five-year IRR analysis of the cover equity roster.*



/ 01 · ABSTRACT

## The arithmetic of alignment.

Cover Equity is a commission model in which the studio takes a lower upfront fee in exchange for a small back-end royalty on the artifact. This paper documents the unit economics of the model under three studio configurations, presents an IRR analysis on a representative equity roster, and argues that equity rates are only commercially viable above a specific volume threshold of full-rate commission work that funds the studio's operating expenses.

/ 02 · THE STANDARD MODEL

## Why studios deliver and disappear.

The standard design studio model is a commission economy: the studio is paid an upfront fee for a finished cover, and the studio's relationship with the artifact ends at delivery. The studio captures none of the downstream upside if the artifact performs and absorbs none of the downstream lesson if it doesn't. The economic alignment between studio and artifact is, by design, zero after the invoice is paid.

Cover Equity is an alternative arrangement for a subset of the studio's work. The studio reduces the upfront fee (50–60% off the Studio rate) and takes a back-end royalty of 1.5–3.0% on the artifact's net revenue, structured for a five-year term with a sunset clause. The arrangement is structured at the time of commission and is fully public.

/ 03 · UNIT ECONOMICS

## What the math actually says.

Three scenarios are modeled below for a hypothetical studio with annual operating expense of \$620,000 (two full-time designers, a senior, a studio manager, software and overhead). Each scenario assumes the studio ships 32 covers per year. Equity rosters mature over a five-year window; values shown are at the end of the fifth year of the model.

### Scenario comparison · 5-year horizon

SCENARIO	COMMISSIONS	EQUITY ROSTER	5-YR EQUITY	5-YR TOTAL
All commission	32 / yr · \$720k	0	\$0	\$3.6M
80/20 split	26 / yr · \$585k	30 over 5yr	\$420k	\$3.4M
All equity	0	32 / yr · 160	\$2.6M	\$2.6M

The 80/20 split (the configuration Neon White actually operates) produces broadly comparable five-year revenue to the all-commission model — slightly lower expected value, but with materially different upside variance. The all-equity scenario only becomes competitive on a 10-year horizon and is not commercially viable for studios without



independent capital.

/ 04 · ROSTER IRR

## Why the top decile carries the model.

Modeled equity-roster IRR over a five-year window, assuming a representative distribution of artifact outcomes:

OUTCOME BUCKET	%	AVG REVENUE	STUDIO SHARE @ 2.5%
Breakout (top 10%)	10%	\$2.4M	\$60,000
Strong (next 25%)	25%	\$640k	\$16,000
Solid (next 35%)	35%	\$210k	\$5,250
Modest (next 20%)	20%	\$72k	\$1,800
Underwater (10%)	10%	\$18k	\$450
EXPECTED VALUE			\$13,375

Expected studio share per equity cover is approximately **\$13,400** over the five-year term, against a forgone upfront fee of approximately \$8,000 to \$10,000 versus Studio rate. The model is positive expected value, but highly variance-driven: the top decile of equity arrangements is responsible for the majority of returns.

/ 05 · IMPLICATIONS

## What this means for studios considering it.

*Equity is positive expected value with high variance — which makes selection the most important decision a studio operating this model makes.*

Equity rosters are vulnerable in two ways. First, selection: bad selection of equity partners can move the model from positive to negative expected value without obvious early signals. Second, sequencing: equity revenue is back-weighted, while studio expenses are continuous — early-stage equity studios can be cash-positive on a roster level while cash-negative on a monthly basis. The remedy is a disciplined ratio of commission to equity work; below the 70/30 commission-equity ratio, the model gets hard to fund.