Cotton IP Licensing Framework

Commercial assumptions for drafting - brand licence and group services.

TO	Gabriel Nadal
FROM	Christian Marstrander, Cotton Lifestyle
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PURPOSE	Commercial parameters for a master licensing framework between Cotton IP GmbH and the Cotton operating companies - present and future

This note sets out the commercial assumptions on which we would like the licensing documentation drafted. The intention is a **master template**, not a one-off agreement. Two markets are trading today; at least three further venues and two product lines are in development. Every future market should sign the same paper with a market-specific schedule attached, so the framework is built once and rolled out without renegotiation.

1. Parties and scope

LICENSOR	Cotton IP GmbH (Switzerland) - holder of the Cotton master brand, the trademarked sub-brands, the brand bible and the domains. Wholly owned by Cotton Holding.
LICENSEES	Each local operating company in which Cotton Holding holds the shares. Currently Spain (Ibiza) and Greece (Zakynthos).
OUT OF SCOPE	Star Chris Cotton GmbH is a personal consulting company and sits entirely outside this framework. It is not a party, not a licensee, and should not appear in the documentation.

Two agreements, not one. Brand licensing and group services should be papered separately. Mixing a trademark royalty with management and creative services into a single fee is the first thing a tax authority unpicks, and it makes the royalty harder to benchmark. Separate documents, separate pricing logic, separate invoices.

2. Agreement A - Brand Licence

Grant

Right to operate under the applicable Cotton mark in a defined territory, and to use the brand bible, visual identity, naming conventions and domains in connection with the licensed venue. Exclusive within the city or island; non-exclusive beyond it. No right to sub-licence without written consent from Cotton IP.

Royalty

5% of net revenue - revenue excluding VAT and service charge - invoiced monthly, settled quarterly. For a newly opened venue a ramp applies, so that the licence does not draw cash out of the business in its fragile years:

- Opening year - 2%
- Second year - 3.5%
- Third year onward - 5%

Term and Termination

Ten years from commencement, renewing automatically in five-year blocks. Cotton IP may terminate for material breach of brand standards subject to a cure period, and on insolvency or change of control of the licensee. On termination, all use of the marks ceases, subject to a wind-down licence of six to twelve months to protect forward bookings during a rebrand.

Quality Control

The licensee must operate to the brand bible as issued and updated from time to time. Cotton IP holds inspection rights and the right to require remedy of brand-standard failures. This clause matters commercially as well as legally - an actively policed brand is what makes a 5% royalty defensible on review.

Ownership of Improvements

All goodwill in the marks accrues to Cotton IP. Any new marks, sub-brands, recipes, concepts, design assets or content developed at or for a licensed venue vest in Cotton IP and are licensed back under the same agreement. This should be explicit; it is how the group keeps its assets together as venues multiply.

3. Agreement B - Group Services

A separate agreement covering brand development, creative and art direction, culinary and concept development, supplier negotiation, group marketing and central management support.

Priced at cost plus 8%, invoiced against an annual budget with a year-end true-up. This keeps services income out of the royalty debate and is straightforward to evidence. A short annual scope schedule should sit under the agreement so that what each operating company receives is documented.

4. Rate card - present and future operations

The rates below should be built into the master template as a schedule, so that each new market, pop-up or product line attaches to the existing framework rather than starting from a blank page.

CATEGORY	ECONOMICS	NOTES
Group-owned venue	5% of net revenue	Ramp of 2% / 3.5% / 5% over the first three years
New venue development fee	€100,000 – €150,000 one-off	Payable on signature; covers brand build-out, identity application and opening support
Third-party licensee or franchise	€250,000+ initial fee, 6% royalty, 2% marketing contribution	Ten-year term. Different risk profile to a group-owned venue and priced accordingly
Pop-up or temporary edition	€15,000 – €25,000 flat per edition	Fee rather than royalty - short duration makes revenue-share administration disproportionate
Product lines	6% of wholesale value; 8% where Cotton IP funds the design	Applies to eyewear, 1868 and any future licensed product
Boats, villas and ancillary services	5% of net revenue	Treated as group-owned venues where operated under the Cotton name

5. Market roll-out

The same master licence should be executed in each market below, with a schedule setting territory, mark, commencement date and applicable rate. Nothing in the body of the agreement should need renegotiating market by market.

MARKET	MARK	STATUS
Ibiza, Cala Tarida	Cotton Beach Club	Trading - licence to commence with the 2027 season
Zakynthos	Cotton Club	Trading - licence to commence with the 2027 season
St. Moritz, Engadin	Cotton 1868	In development - Swiss operating company to be formed
London or equivalent metropolitan city	Cotton Grand Café	In development - operating company to follow site
Ibiza, Cala Tarida	Cotton Cabana Club	In development
Travelling programme	Cotton Pop-Up	Active - per-edition fee basis
Product	Cotton Eyewear, 1868	Active - wholesale royalty basis

Cotton Boats and Cotton Villas to be confirmed as to which entity operates them and therefore which schedule applies.

6. Tax and transfer pricing

These points sit with the tax advisor rather than with the drafting, but they shape the numbers above and should be confirmed before signature.

• **Withholding tax.** Confirm the treaty position on royalties from Spain and from Greece to Switzerland, and the rate applied in practice. Greek deductibility limits on intercompany royalties should be checked in the same pass.
• **Swiss patent box.** Trademark income does not qualify. No relief should be assumed on this income stream.
• **Benchmarking file.** A short transfer pricing memo supporting 5% should exist before the first invoice, not after the first question. Hospitality brand licences sit broadly in a 3–6% range, so the rate is comfortably inside it - but the file needs to be on record. Prepared once, it supports every market added later.
• **Substance.** Cotton IP should be seen to do something for the royalty - hold the registrations, issue and update the brand bible, and conduct the brand-standard inspections the licence provides for.

7. Open points for you

• Confirm Cotton Holding is incorporated and holds the shares in Cotton IP GmbH and in each operating company, or set out the steps to get there.
• Confirm the trademark registrations in force by mark, class and jurisdiction, and flag any market in the roll-out table where the mark is not yet protected. The Alps and metropolitan filings should be made ahead of the venues, not alongside them.
• Advise on governing law and forum - our assumption is Swiss law with a Swiss forum across all markets, for consistency.
• Confirm whether existing minority shareholders at operating-company level need to approve a royalty payable to a related party, and if so on what majority.
• Any currency, indexation or minimum-royalty provisions you would normally expect in agreements of this kind.

Happy to talk any of this through before you start drafting - the rates are our working assumptions, and if anything here reads as unusual for the jurisdictions involved, say so and we will move.

Cotton
LIFESTYLE GROUP

FOR MORE INFORMATION PLEASE CONTACT:

Chris Cotton
Lifestyle Concept Creator

+34 633 622 000
christian@cottonlifestyle.com
www.cottonlifestyle.com