

Monetizing IP

DURING FINANCIAL CRISIS



By **LINDSAY MOORE**, PhD

Recent developments in the world of debt finance, the economy and the resultant recession of 2008 are all challenging companies financially. However, these developments highlight new ways for companies with actual or potential intellectual property to generate income, and in some cases to recapitalize themselves.

Fundamentally, all enterprises create economic value by leveraging their assets in order to fund their operations and future needs for capital. During the last 35 years, value has shifted. During the industrial economy, tangible assets, mostly, held the most value. Today, it is intangible, knowledge-based, intellectual-capital assets. These consist of brands, intellectual property (trademarks, patents, copyrights, trade secrets, licenses, and trade dress), human capital, databases, contracts and other knowledge-based assets.

The strategic thinking about intellectual capital that emerged during the closing decade of the 20th century precipitated a renaissance of economic activity that has driven the global economy to record heights, and, with the end of 2008, back again to 2003 levels with the world's first global recession.

Prior to the 1990s, there was only one class of assets to leverage in enterprise strategy – the traditional tangible and financial assets of plant, property, equipment and cash. However, since that time,

the value of an enterprise, or the market capitalization of public companies, is increasingly the result of the combined value of its tangible and intangible assets. The recession of 2008 has reduced the book value of all enterprises most heavily hit by the sub-prime mortgage crisis. Brand valuations, the bellwether of intangible asset values, have been decreasing precipitously as well.

Theory would tell us that both classes of assets, tangible and intangible, must be leveraged to their optimum in order to achieve the highest levels of monetary valuation, and capitalization for future growth. Enterprises generally acquire this investment through debt or the sale of equity. As an alternative, enterprises with important knowledge-based intellectual assets can deploy *securitization finance*. When used with intellectual property, it is a type of asset-backed leverage that pools income streams from licensing arrangements to form a financial instrument that can be sold in the capital markets. Since the 20th century, securitization has been used with many asset classes, and now to translate prime 'intellectual property' and 'brand equity' into capital.

Securitization finance can be ideal for companies with intellectual-property portfolios and strong brands to access the capital markets and obtain financing and capitalization through investment, rather than through becoming customers of banks and holders of debt, or by losing ownership through depleting equity. Securitization acts to monetize assets that are already owned but unrecognized as such, and it is attractive when it costs less to obtain than other sources of capital. It attracts investors who understand that intangible assets are generating most of today's societal wealth even in a recession.

The earliest example of IP monetiza-

tion was the so-called 'Bowie Bonds.' In 1997, David Bowie bundled together the royalties of a music catalogue of his pre-1990 work, and sold the income streams as a bond to raise \$55 million in capital. His copyright-based capitalization was followed by trademark securitizations, and the licensing of patents, formulations, and even trade secrets.

These examples showcase, if not in industry in practice, how intellectual-asset holdings such as brands and intellectual property can be licensed and securitized to raise capital. The alternative, debt financing, comes with a high cost, creates no new asset and is burdensome to the spirit of the organization. Venture capital (VC), under certain circumstances, can be a viable option for capitalization, but VCs want a large equity position and are frequently 'built to flip,' resulting in loss of ownership and control. Private placements are an option, but also a slippery slope that dilutes control. Similarly, a public offering can net substantial capital while entailing an even greater loss of control and ownership, likely never to be regained.

Monetizing intangibles offers a strategic solution. *Because title is not transferred* in licensing intangible assets, monetization ensures the continuing ownership and complete control of all intellectual assets, while concomitantly generating income at a low cost.

Under this strategic model, an enterprise can ride the rise of intellectual property values and use its natural core competencies to finance its own mission to a greater degree.

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