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## A new home for your IP

David Bowie's done it. Guess? has done it. Dunkin' Donuts has done it. And Yale University's done it. They have all created special purpose vehicles for their intellectual property, writes Thayne Forbes, joint MD of brand valuation consultancy Intangible Business.

Special purpose vehicles (SPVs) are legal entities, such as limited companies, created to house assets or liabilities in isolation from the rest of a business.

In the past, they've mainly been used to isolate financial risk. But a growing trend is seeing SPVs created specifically to house intellectual property (IP) such as brands, patents or music and film rights.

There are a number of benefits to this approach. It enables finance to be raised against IP (whether equity or debt), it can encourage better management and in some cases it will even reduce your tax burden.

If a brand, copyright or patent is transferred to an SPV, the royalty income the IP brings in can be securitised. This enables the originator of the IP to maintain ownership and receive an upfront payment which can then be invested elsewhere.

In 1997, David Bowie securitised 287 songs through a bond and raised \$55 million (then equivalent to £34 million). Ten years later the IP rights reverted but in the meantime he was able to finance the buy-out of other David Bowie songs owned by a former manager.

The fashion brand Guess? securitised royalty streams from 14 licensee agreements in 2003 and raised \$75m. Franchise income can also be securitised by being put in a special purpose vehicle. Dunkin' Donuts did this in 2006 and raised \$1.7bn. Yale University securitised its patent for HIV drug Zerit for \$100m which it used to fund another capital project.

SPVs have the additional benefit of increasing management's focus on the brand, which is set apart as a crucial asset. It also ensures that, rather than being given the brand to use for free, management is now responsible for ensuring a healthy return for its use.

Registering the SPV in a low-tax jurisdiction could have the benefit of lowering tax payments. For example, Burberry could place its trademarks in an SPV registered in the Cayman Islands. The business in the UK, franchisees and licensees throughout the world could pay the company in the Cayman Islands royalties for licensing the trademarks.

Critics would claim that, if housed offshore, SPVs deprive the UK of corporation tax. Companies are also more exposed to transfer pricing issues if the internal financing is not done correctly. However, the potential benefits of raising finance, management focus and tax reduction outweigh these risks and provide an excellent opportunity for businesses to consider leveraging the value of their IP through the use of SPVs.