

25 Aug 09

## **MTI & IBL release study on Brand Securitization in SL**

With tangible assets accounting to only about 30% of company's value and remaining 70% in intangible assets, securitization of intangible assets is becoming an alternate/preferred option for raising funds.

MTI Consulting and Intangible Business recently analyzed how the changing economic dynamics and recent financial crisis have challenged companies financially, resulting in development of new ways for companies with Intangible assets to recapitalize themselves.

The idea of intellectual capital emerged during the late 90's, until then it was only one class of assets that were leveraged i.e., the tangible assets of receivables, plant, property and equipment. It was during the end of the 20th century companies started to realize the importance of intangible assets and ever since the intangible proportion of company value (market capitalization) has increased.

Securitization of intangible assets ensures continuing ownership and control over all intangible assets. In this strategic model, an enterprise can ride the rise of intangible asset values and use its natural core competencies to finance its own mission to a greater degree.

This provides an opportunity for banks and other financial institutions to offer new, more competitive, debt finance by taking advantage of the intangible assets suitable for supporting debt. It also highlights the need to address other loss making parts of the businesses. Current accounting standards do not automatically mean that this is apparent, and so the challenge for the accounting profession is to identify such situations and act on them.

There are two main benefits of securitizing intangible assets. Firstly, it provides access to a greater source of capital to fund investment. Secondly, by securitizing the loan the risk is reduced leading to lower interest rates and therefore cost savings. Isolating the intangible assets also has its own benefits. This delivers a greater appreciation and management of the intangible assets as their values will be continuously monitored internally as well as externally.

### **GLOBAL SCENARIO**

Globally there have been few companies in the past which were successful in using their intangible assets for raising debt. The most famous example being Walt Disney, which raised about USD 725 million in the Japanese market in 1988 through issuance of bonds against future earnings of the park for the next 20 years. The deal was structured in such a way that the investors had to bare any shortfall in the revenues and Disney continued to get its royalties without losing any money. It was the Walt Disney brand in which investors showed faith and responded positively in the markets. Tokyo Disneyland is owned by a Japanese company Oriental Land Company (OLC). OLC pays royalties to Disney for using its brand. In 2004, BCBG Max Azria group, a US-based fashion retailer raised about USD 53 million by securitizing its brand which involved bond issues backed by brand name.

Securitizing intangible assets has been a trend in the film and music industry over the past few years. In 2002, DreamWorks raised USD 1 billion by securitizing copyright in a film portfolio to refinance outstanding credit facilities. Paramount in 2004, raised USD 210 million from royalties for films to be made in future. The famous transaction that happened in 1998 where David Bowie was able to secure USD 55 million by securitizing music rights of David Bowie's hits, was considered to be a landmark deal which started a trend of intangible securitization in the film and music industry. Fashion products manufacturer Calvin Klein raised USD 58 million by securitizing its royalties on perfume brands in 1993 providing and a similar deal was seen in 2003 when fashion brand Guess raised about USD 75 million by securitizing its domestic and international trademark licenses.