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Leveraging brand values to raise finance



- Brands have been the poor relation but drive value
- Sheryl Crowe raised \$10m; Abbie Leibovitz some £11m
- Brands must be combined with other assets to impress the lenders

“Sadly, brands are the poor relation when it comes to assets which can be used to raise finance yet ironically it is these which tend to drive business value,” says Whitwell. Rightly enough, he argues that most companies are dependent to some degree on their brand names.

“Remove this and significant losses will inevitably occur. Despite the difficulties it is possible to use brands to raise finance. There are two main ways, the securitization markets and equity investors,” he says.

Persuading the bankers

Banks are still the primary source for asset securitisation. While there are examples of intellectual property being used as collateral for loans, these are rare and only when accompanied by proven revenue streams.

Whitwell expands: “For instance, in August, Sheryl Crowe raised \$10m from her back catalogue and future two albums, and in February the photographer Annie Leibovitz raised £11m from rights to back catalogue and all future work. There is also precedent from brand licensing income, Guess raised \$75m; franchise income, Dunkin’ Donuts raised \$1.7bn; and patents, Yale University raised \$100m from its HIV patent.”

He warns that in isolation: “You will get nowhere attempting to raise finance from banks with just a brand to offer. However, when combined with other assets, such as stock or property, the brand name can help enhance the loan value or reduce the cost of borrowing – as Intangible Business found out by helping Burn Stewart Distillers raise £31m from KBC Business Capital. We combined its distillery, accounts receivable and inventory with its Scotch whisky brands, such as Bunnahabhain, Tobermory, Deanston, Scottish Leader and Black Bottle.”

Raising equity

The second source of finance would be the equity investor, willing to inject finance into the business in return for equity.

Whitwell again: “Whether a trade or private investor, demonstrating the value of all your assets will be an important part of the valuation exercise. Brands are unlikely to be on your balance sheet, as only brands acquired by listed companies since 2005 may do this, so carrying out an independent brand valuation is a must.”

Whitwell contends that an independent brand valuation would be necessary in both circumstances to demonstrate to the bank or investor the value of the brand and its relationship to the other assets in the business.

He adds: “This exercise is comprised of a number of elements such as benchmarking the brand’s value against similar brands and transactions and calculating how much you would have to pay to use the brand if the business didn’t already own it. Also, you need to quantify the strength of the brand within different customer segments, analysing the future market opportunity for the brand, calculating the value of the brand both in isolation from other assets and in conjunction with them.

The brand’s USP

Also, illustrating how the brand generates value through measures like its ability to command a premium or the volume that is achievable because of it.”

He concludes: “This may sound a bit disheartening but investor appetite for strong brands is growing, just as the tools for demonstrating this value have improved too. The more information that is provided the more investors are likely to appreciate the value of brands, hopefully resulting in a happy ending for all.”

Stuart Whitwell will chair our October 14 conference, The FD Agenda: Evaluating Business; Managing Perceptions. Join us at the debate and hear the different evaluation approaches of the expert panel, including Atradius, Intangible Business, KPMG and Brand Finance.