HAVE YOU UNLOCKED THE LIQUIDITY THAT THE INTELLECTUAL PROPERTY IN YOUR PORTFOLIO COMPANIES CAN PROVIDE?

Intellectual Property (IP) is a significant and highly liquid form of collateral that is often underutilized in credit facilities. Private equity groups are acutely aware of IP’s importance. Whether it be a trade name for a consumer products company, or the contracts of an equipment rental business, savvy investors know that IP is often the asset class that drives the transaction as opposed to the target’s tangible assets. Despite this fact, it can be a challenge to persuade lenders that the collateral of the business is significantly more than the value of the working capital and equipment. B. Riley Advisory Services appraises hundreds of IP portfolios, and has the expertise to not only value the assets, but also help lenders understand the collateral exit strategy.

WHICH INTELLECTUAL PROPERTY TYPES MAKE FOR THE BEST COLLATERAL?

1. **Trade names** – A trade name, often referred to as a brand, is typically inclusive of all registered trademarks, trade dress and domain names. For a consumer facing business, the trade name is the main asset that drives company sales. In the liquidation of a consumer business, the trade name is what brings strategic buyers into the process, thereby increasing recoveries across all asset classes.

2. **Customer contracts** – When customer relationships are formalized in contracts, the revenue of the business becomes less risky and more predictable. Potential buyers are particularly interested in assets tied to contracts as they not only acquire the tangible assets, but they also acquire the customers that the tangible assets are servicing.

3. **Patented technologies** – When established products and services are proprietary and the technology drives customer behavior, a patent portfolio becomes a key asset group that brings strategic buyers to the table.

4. **Other customer related intangible assets** – While not formalized in a long-term contract, customer relationships have value and are transferred in an asset purchase when paired with tangible assets that liquidate in place. Examples of this are customer routes for a linen and uniform delivery service, customer lists for propane and heating oil delivery, or even customers who are renting installed equipment such as a modular classroom or a natural gas compression unit at a well.

WHAT IP IS EXPECTED TO MAINTAIN ITS VALUE AS THE ECONOMY EMERGES FROM COVID-19?

While it is impossible to predict the full economic impact of the COVID-19 pandemic at this time, there are some companies and associated IP assets that will perform better as we recover.

1. IP that has some connection to the “Stay-at-Home Economy” will likely remain strong. For brands, this means that access to a robust e-commerce platform is more important than ever. Customer behavior has been slowly shifting to online purchasing over the last two decades, but the pandemic has expedited this natural shift and consumer behavior will remain impacted going forward. If this channel remains underdeveloped, brand value of laggards will deteriorate.

2. Customer contracts will remain a strong asset class. The credit worthiness of customers will be a key component to examine as the economy recovers, but to the extent that the businesses of the customer base will survive, the values will continue to be supported.
THROUGH ITS AFFILIATES B. RILEY ADVISORY SERVICES IS A MARKET PARTICIPANT FOR IP.

In addition to providing appraisals for IP, through its affiliates, B. Riley Advisory Services is also a market participant.

1. The firm’s retail liquidation team has strategic partnerships that have facilitated the sale of retail IP during its extensive liquidation experience. In these liquidations, IP is continuing to become a greater component facilitating the lender’s recovery.

2. Orderly liquidations of IP are typically conducted by an investment bank. B.Riley FBR is a full-service investment bank that is a sister company to B. Riley Advisory Services. B. Riley FBR has the expertise necessary to sell IP and other assets of the business in an orderly process.

3. Through its affiliates, B. Riley Financial has acquired and manages the following consumer brands and continues to be in the market for additional acquisition opportunities:

   - Catherine Malandrino
   - English Laundry
   - Joan Vass
   - Kensie Girl
   - Limited Too
   - Nanette Lepore
   - Bebe Stores (large non-controlling interest)
   - Hurley International (large non-controlling interest)

4. As it pertains to customer related IP, B. Riley’s Principal Investments division acquired United Online and Magic Jack and continues to harvest the cash flows and manage the customer related IP. B. Riley’s Principal investments continues to seek acquisition targets that have strong customer related IP.

IP is a key asset of your portfolio companies, which may not be included in your current borrowing base. B. Riley Advisory Services is here to help you unlock additional liquidity that IP can provide through collaborative discussions with your lenders, by providing an upfront assessment of value, and by providing full-scope valuation work. Please contact us if you wish to discuss further.