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The Rise of Intangible Assets

April 2020

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Background

- Early in the twenty-first century, a quiet revolution occurred whereby companies in major developed economies began to invest more aggressively in intangible assets, including design, branding, R&D and software.
- Western economies have shifted from making goods to providing information and services, such that simultaneously the composition of companies' balance sheets have also migrated with this virtual asset class gaining prominence.
- Business' investment in intangible assets is proving to be the decisive factor in maintaining a competitive advantage.
- The global economies continued trajectory towards increased digitalisation will highlight the importance of intangible assets which amount to 70% of modern-day corporate balance sheets and 53% of the total value of the FTSE 100.

Digitalisation

- The UK economy is in a transition phase, diverging from a traditional model into a digital one.
- Digitalisation may be viewed as a technology/supply-side shock which affects the main economic aggregates, notably inflicting disruptive competition, enhanced productivity and variable employment, as well as increasing its interaction with Public and Private sector institutions and sparking a new era of compliance governance.
- However, productivity benefits can only be realised if Governments are able to install digital infrastructure (5G&6G), support innovation and legislate to promote the digital economy. The Public sector has immense volumes of data spanning health, demographics, transport etc, generating a new valuable currency.
- In the manufacturing and energy sectors, artificial intelligence, the "internet of things", robotics and 3D printing are widely being adopted. Digitalisation plays a crucial role in the production process, increasing profit margins and returns of physical capital.
- The main obstacles to the adoption of digital technologies are the complexities of adjusting the internal organisation and the need to recruit and retain highly skilled ICT staff. Future human capital requirements will include coding skills, software engineering and digital analysis, as multidisciplined and multi-career employment becomes the basic standard across multiple sectors for the future of work.
- Automation and digitalisation will likely affect lower-skilled workers disproportionally and this will increase the ratio of high-skilled to low-skilled workers within businesses and Public bodies, generating an emphasis on retraining and the reassignment of workers.
- In essence, the digital economy will favour low employment, asset poor but intellect rich businesses which create economic impact by their interaction with ecosystem supply chains for hardware products and outsourced services.

Intangible Assets Examples

Data

Marketing

Training

Trademarks

Software

Copyright Protection

Internal Processes

Research & Development

Licensing Agreement

Rights of Use

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Intangible Assets

- Intangible assets are non-monetary assets without physical substance.
- They encompass a broad range of highly heterogeneous assets, including human capital, innovative products, brands, patents, trademarks, software, consumer relationships, databases and distribution systems.
- Some of these virtual assets enable firms to obtain productivity gains and efficiencies from new technologies and, as such, play a strategic role in value creation.
- The value of intangible assets is more complex to establish and calculate when compared to tangible fixed assets as valuation assessments must factor in volatility, on-going creation and challenges with protection and enforcement laws.
- There a number of accepted principles for calculating the value of intangible assets and these methodologies are based on projected income streams, market data and cost of creation and maintenance.
- The income approach applies forecasts of economic benefits or cash flows and discounts them for the associated time and risks involved to derive a present day value of these projected income streams.
- There are two general considerations to the cost basis approach, historic costs of creating the intangible asset and the estimated costs and time that would be required to create an equivalent or replacement.
- Conceptually, due to their virtual nature, this renders intangibles less attractive as means of collateral for Funders. This means that traditional forms of financing have become unsuitable for businesses that have significant intangible assets supporting their balance sheets. Therefore, virtual businesses looking to raise capital are more likely to rely on stakeholder financing, venture capital, private equity and grant related instruments.
- Lending on intangible assets is a relatively new concept, although there has been a growing trend in the US for banks to advance against secured intangible assets, such as brands, copyrights and IP. This trend is gradually flowing across to Europe.
- Banks can also use asset backed lending to collateralise IP, whereby the lender owns the IP and reviews the value of the asset at regular intervals via a finance lease arrangement.
- Lenders' due diligence processes will have to include sector experts and in the near future debt lenders will need to specialise in specific sectors to create new debt products for IP laden businesses.
- In the UK, the current banking system is not geared towards the intangible economy, as property lending continues to be the most prominent asset class of interest. For the intangible economy to be successful there will have to be new debt financing products to sit along side equity financing, venture capital and IPOs.

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- Rights of Use

Cases Study

Inspiretec
Customer-first technology

Background

- Inspiretec is a leading global technology partner for travel agents, tour operators, loyalty brands, hotels, conference destinations and tourism organisations.
- The group's complementary market leading software products, including the Travelink end-to-end booking and reservation system and the Holistic travel CRM system, provide the only full stack solution available to the Travel & Hospitality sector.
- The company achieved considerable success in 2019, securing significant new customers, developing new products and integrating systems and teams. As a result of this success, Inspiretec's revenue has risen to £9.2 million, with EBITDA of £1.2 million.

6 Stage Process

1. Relationship
Managers meet with client to discuss requirements.

2. Specialist
Associated cash, third party contracts, development cost and future plans and used to understand the IP.

3. Value
A value is agreed and a credit facility is put in place.

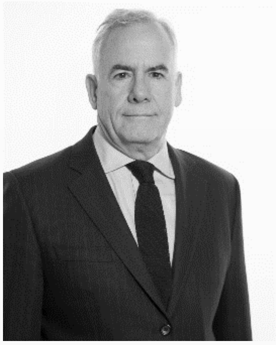
4. Documents
A transfer of ownership of the IP to Lombard as collateral against the funding.

5. Funds
Funds are transfer to the business's bank account.

6. Review
Agree a future date to review any developments and conduct a virtual asset inspection.

Conclusion

- Gambit Corporate Finance secured a new multi-million-pound asset backed lending, finance lease from the NatWest via its Lombard Intellectual Property Funding solution.
- The funding solutions enables technology companies to unlock the value of their software IP.
- This is a new model of lending which enabled Inspiretec to gain access to capital to pursue its ambitious growth plans.



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Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the Human Capital sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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