



Liquidation Value of Intellectual Property

Recently we were engaged by a hedge fund to assess the value of various intangible assets of a firm on a liquidation basis. The company intended to use the proceeds of the loan to acquire another business to broaden its portfolio of services and increase its attractiveness as an acquisition target to various consolidators. While the thesis seemed relatively sound, the loan amount would have significantly exceeded the tangible asset base. To further complicate matters, the company was not cash flow positive. However, everyone agreed the intangible assets had SOME value, the question was, how much? While most practitioners are accustomed to valuing intangibles for financial reporting or tax, we weren't aware of many that had endeavored to opine on their true market value. While the scope of the exercise was well beyond a blog post, it was not an easy assignment – not by a stretch. We conducted some serious research and found that there definitely were markets out there where intangible assets transacted (namely patents and trademarks) but barely, and typically only for the largest companies and most well known assets. There were also market makers (intermediaries), but their fees were commensurate with the illiquidity of the market (around 10% brokerage fee). It was interesting though. I would expect in the coming years these markets experience significant growth and development.

