

Forbes

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These Hidden Assets Can Solve Your Company's Covid Liquidity Problems

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Millions of small businesses today are desperately struggling with Covid-induced liquidity problems. For a lucky few, the federal government's Paycheck Protection Program loans may provide the cash needed to survive the current slowdown. But for other firms — especially startups with innovative technology — salvation could lie instead in a group of very valuable company assets that don't even show up on the balance sheet.

I'm talking about patents.

Most entrepreneurs view patents merely as defensive weapons against larger incumbents who may try to copy their innovative products or services — sadly, a not uncommon practice in many cutthroat technology markets today. And patents can indeed serve that purpose.

But patents can also be valuable financial assets that can be monetized to provide the cash needed to either survive a downturn like today's, scale up the business during times of rapid growth, or even pivot to new markets when the business plan doesn't work out as expected.

To give a sense of just how valuable patents can be, it is estimated that up to 80% of the market value of all companies today lies in their patents and other intellectual assets. The irony is that even in today's Knowledge Economy, many startup CEOs have no idea of the true value lying hidden

in their company's intellectual property portfolio.

Consider, for example, two small businesses that leveraged their patents for millions in cash to solve their liquidity problems — and then used that cash to achieve commercial success.

ASSIA, Inc. (Adaptive Spectrum and Signal Alignment) develops technologies for Internet service providers that improve connectivity worldwide. "We're a software company with about 100 employees," says CEO Dr. John Cioffi, who is also a Stanford Emeritus Professor of electrical engineering. "We sell cloud-based software solutions to about 40 ISPs, telcos, and cable companies around the world that enable them to optimize connectivity and enhance the speed and stability of their network service to homes and businesses."

But four years ago, the company ran into trouble when it invested a considerable sum of money to expand its business into China.

"We booked a lot of revenue but we weren't paid, and that was very difficult for the company," he explains. "We were owed over \$20 million in revenue but only received \$4 million of it. So, that led to a loss of about \$16 million, which put the company in stress. The truth is, we didn't understand the Chinese market and how to address it properly."

Then Fortress Investment Group approached Cioffi. A global investment firm with more than \$40 billion in assets under management, Fortress has a special unit called the Fortress Intellectual Property Finance Group that focuses on intellectual property-backed loans and equity investments. In 2016, Fortress offered ASSIA a \$16 million loan collateralized by the startup's patent portfolio.

Fortress is not the only lender and investor in patents, but it has emerged as perhaps the largest and most active participant in the market. Other players, including Soryn IP Group, also based in New York, are also dedicated to this rapidly-growing investment arena. But even with the likes of established players like Fortress and Soryn bringing financing options to owners of intellectual property, few entrepreneurs even today seem to be aware of the opportunity.

As for the loan to ASSIA itself, "The terms were appropriate to the situation — and importantly, not dilutive to our shareholders," recalls Cioffi. "The loan enabled us to grow our company, develop some newer products, and strengthen our intellectual property (IP) portfolio."

And strong IP, insists Cioffi, is absolutely crucial in ASSIA's industry. "There is rampant infringement of small companies' intellectual property by some ISPs and telcos. Some vendors to large telcos

will learn of your idea, even if clearly patented, and offer the same thing at one quarter of the price in order to drive a smaller innovator out of the business. So as a result, a lot of small companies in this business area fail. In fact, the failure rate is so large that most venture capitalists won't even invest in startups that have infrastructure-related products in the telecommunications industry unless they're developing apps for a smartphone."

The bottom line, says Cioffi, is that "you've got to have very strong patents to survive in this business."

Today, four years after the loan, how is the company doing?

"Fortress's investment basically saved the company," insists Cioffi. "It gave us the opportunity to get our business model straight and strengthen our intellectual property. The company is now profitable."

Indeed, the Covid crisis is stimulating the company's growth, as the large number of people now working at home puts extra strain on Internet networks — and thus increases demand for ASSIA's Internet-optimizing products.

Meanwhile, entrepreneur Martin Renkis founded Smartvue in 1999 based on the rather visionary idea — this was 21 years ago! — that "sometime in the future businesses and consumers will be remotely monitoring things they care about using the emerging technology of video over internet."

Remember, there wasn't even any broadband back in 1999. But Smartvue launched its first product anyway, which won best of show at the consumer electronics trade show. The company became an Internet of Things (IoT) video platform provider, developing software and cloud products that enabled firms to

conduct commercial and residential video surveillance. They landed some large accounts like Time Warner Cable and Cox Communications, becoming, in essence, a Ring or Nest *before* there even was a Ring or a Nest. The company even attracted former AT&T CEO David Dorman to its board.

But then, like many small startups with a viable business model, after some early success Smartvue reached a turning point: How to scale up the business?

"How were we going to grow?" wondered Renkis. "I thought we could just go out and raise \$10 million to \$20 million in new funding — I mean, we had already had some success in the past with angel investors and even in raising a Series A round. But for whatever reason, we had trouble raising capital at that time. It wasn't as easy as I thought it was going to be. And so we ran into difficulties with liquidity."

In the meantime, however, the company had earned more than 25 patents for its inventive technology, with another 25 patent applications awaiting approval at the Patent Office. Which meant that Smartvue had some valuable intellectual property assets, although Renkis had no idea just how valuable they were at the time.

"One day board member David Dorman called me up and asked if I had heard of Fortress Investment Group," recalls Renkis. "And I had heard of them, but I said, 'They're not going to invest in us.' I mean, we're just some little company out of Nashville, Tennessee, with, I don't know, 40 employees or something. Why would they invest in us?"

Because of the IP, that's why. In 2016, Fortress offered Renkis a \$15 million loan backed by the company's patent portfolio.

"The advantage of the loan," explains Renkis, "was that it was not dilutive, the terms were reasonable, and the amount was right in the sweet spot of what we were looking for to scale the business. We immediately applied the funds towards building out our sales team as planned."

In the ensuing years, Smartvue rapidly grew, eventually pivoting the business towards more commercial customers after several cable companies acquired their own video-over-cloud platforms for their residential customers. Then, in 2018, the \$30 billion global conglomerate Johnson Controls, with 120,000 employees, offered to acquire Smartvue.

"When I thought about it, it made sense," says Renkis. "They had global sales of access control, fire intrusion, building management, heating, and cooling products. But they had no cloud play. They had no technology even close to the level of ours in terms of scalability and security and all that you need for video over cloud. So it was really a perfect marriage."

How important was Smartvue's IP to Johnson Controls?

"The key part was the technology, of course," says Renkis. "They needed our cloud technology. But the IP played a very important part in their decision to acquire us."

And how important was the IP to Smartvue?

"Here I had this hidden asset that I didn't even know could be used to secure a \$15 million loan," he says. "It was sitting there hidden on my balance sheet and I didn't even know it was there."

The lesson for entrepreneurs? Don't ignore the value of your intellectual property in solving your liquidity problems. 