Intellectual Property Collateral Protection Insurance (IP CPI)

An IP CPI policy is a novel risk transfer solution that facilitates debt financing for growth-stage companies by backstopping a portion of the company's principal and interest payments to a lender. An IP CPI policy can unlock investments/funding opportunities that might not otherwise be available between debt capital providers and growth-stage borrowers.

IP CPI background

- Intangible assets constitute the majority of nearly every company's value today, representing the driving force of the modern economy.
- The largest component of intangible asset value in the economy is intellectual property (IP) — patents, trademarks, copyrights, and trade secrets.
- However, lenders have been slow to update lending practices to recognize such value.
- Historically, growth-stage technology companies seeking non-dilutive capital have had two options:
  - Tech banks
    - Downside: small loan amounts; focus on tangible assets; highly regulated.
  - Venture debt
    - The venture debt market had a value of ~$18B in 2020 across more than 2,200 deals.
    - Downside: 9%-15% interest rates; generally requires warrants (equity).
- IP CPI is a novel solution to meet this need.
- IP CPI is a nonpayment insurance facility that protects lenders against payment defaults on IP-backed loans.

Participant benefit breakdown

- Benefits for borrowers
  - IP CPI helps growth-stage companies access debt financing (backed by their IP assets) that is more efficient and typically offers more competitive terms than alternative sources of capital.
  - IP CPI funding is generally non-dilutive and offers attractive borrowing rates with no prepayment penalty.
- Benefits for lenders
  - IP CPI allows lenders to tap into new revenue streams while reducing credit risk and potentially while facilitating regulatory capital relief.
- Benefits for insurers
  - IP CPI presents an opportunity to underwrite a performing credit risk with debt sized to a fraction of the value of a senior secured interest over independently valued IP.
  - Significant premium opportunity.
- IP CPI represents a powerful non-dilutive funding solution for innovative companies with valuable intangible assets.

Borrower details

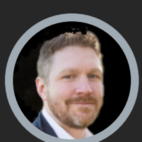
TARGET BORROWERS

- Growth-stage revenue-producing companies that use technology in their products or to create their products.
- Borrowers should be looking to raise $10M to $80M of debt
- Typically, $5M-$10M in annual revenue; trending toward positive cash flow; series B funding or later; >30% gross margin.
- Typically, significant U.S. presence (IP and operations)
- Substantial valuable intellectual property
  - Other intangible assets will also be recognized, including customer contracts, executed commercial agreements, spectrum licenses, etc.
- Disqualifiers:
  - Pre-revenue companies; insignificant intellectual property or lack of ownership of relevant IP; IP not aligned with business operations; regulatory risk (e.g., FDA approval requirement); ownership structure includes material presence of investors or owners without skin in the game

Loan details

- Target LTV ratio will be 30%-50%.
- Loan sizes of $10M-$80M at competitive market rates with three to four year terms
  - MGA will underwrite $10M-$50M policies, with excess layers adding additional capacity if required and appropriate.
- Interest rates based on current market
  - Rates will be lower than venture debt and will not require warrants.
- Typically, one-year initial interest-only period followed by two years of straight-line amortization (longer terms, bullet principal payments, or different amortization schedules may be considered for certain qualified borrowers)
- First priority security on all assets of the borrower/issuer (i.e., both intangible and any tangible assets)
- Specified, documented use of funds
- Affirmative and negative covenants as usual and customary for standard senior secured loan agreements
  - Financial covenants customized for each transaction (minimum liquidity; minimum cash flow or profitability; minimum revenue; maximum leverage; percentage of financial projections realized, etc.)
  - Limitation on distributions; investments; indebtedness; additional liens; M&A; asset sales; transactions with affiliates
- Reporting requirements (e.g., monthly financial statements within 30 days; annual audited financial statements within 120 days; annual operating budget within 30 days; Compliance Certificate signed by Responsible Officer; compliance with laws and insurance requirements)
- Non-voting board observation rights for collateral manager, insurer, and investor if requested

CONTACTS



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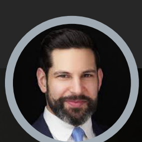

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