Monetization Financing: Where Creativity and Capital Meet

Using Untapped Collateral and Non-Traditional Payment Terms

1. Overview

There are strong creative opportunities presented from an evolving niche financing tool termed “Monetizaton financing” that uniquely facilitate transactions in a broad array of industries and has many significant structural advantages over traditional financing. Additionally, this financing may be utilized by what may be considered by traditional finance as a “qualified” borrower as well as an unqualified borrower. This financing is completed through an efficient streamlined private placement, which can provide funding within an amazing 30 days. The ultimate investor for the private placements are pension funds and insurance companies.

There are three significant requirements needed for a client to utilize this monetization financing: 1) an assignment of/or an absolute and unconditional promise to pay from an investment grade obligor or an acceptable substitute financial instrument backing the transaction, 2) a predictable cash flow, and 3) a date certain payment. An investment grade obligor for this program is typically rated by S&P and Moody’s with an acceptable rating. However, there are exceptions and substitutes for these rating criteria. If a company is not rated there are alternate procedures to qualify said obligor. An obligor is typically a customer or other third party that has contractually agreed to make payments to the client within a term of 1-30 years. In one sense monetization financing can be viewed as a longer-term variation of factoring without the high cost and other major differences associated with factoring.

As discussed herein, this financing vehicle is differentiated from and more advantageous than traditional financing for unqualified borrowers in the following categories:

- Low competitive fixed bank interest rates rather than tied to prime interest rate
- Interest rates are determined by a combination of term of the loan, credit of the obligor, and treasuries at the time of the commitment
- Unique flexibility in payment terms allowing payor to customize repayment terms to suit their own specific corporate needs, including the option to defer payments for up to 5-7 years, and then periodic scheduled payments thereafter extending from 1 year to 30 years in amounts determined by the client.
- Transactions available at levels starting as low as $1 million with no upper limit, whereas large investment banks only undertake these private placements starting at much higher minimums per transaction of $75 million plus.

- Off balance sheet financing can be structured in many cases, allowing corporate assets to be still available for other financings
- Funding can be structured as a loan or as a contract buy-out in many cases, at the discretion of the client
- In many cases repayment can be structured as an operating expense versus repayment of debt, which is more beneficial for many budget restricted entities such as hospitals, schools, Governments, etc.
- Completely non-recourse to client seeking funding
- Private placement to one institutional investor rather than a syndicate; transaction is therefore confidential
- No closing fees or transaction fees from financing company
- Extremely diverse industries financed, no industry restrictions
- Lender does not rely on underlying transaction but solely unconditional promise to pay by investment grade obligor or equivalent substitute collateral
- Potential for corporate clients' strategic partners/sponsors to assist synergistically in financing client by providing their investment grade muscle or other substitute collateral to facilitate transaction
- Generally 100% LTV of the present value of the payment stream can be funded versus lower LTV's with traditional financing
- No geographical restrictions, transactions may be in the United States or foreign
- Detailed review of clients' financials, projections, business plan, collateral and other documentation is not necessary, due to reliance on the promise to pay by a qualified third party.
- Quick approval and expedited closing facilitated by reduced due diligence and the monetization process

II. History of Evolution of Private Placement Monetization Structure-Now Repurposed to provide Diverse Corporate Financing

This financing vehicle has been available for decades but had previously been directed towards other types of transactions; primarily tax deferred related financings, such as "Section 42" real estate financing created by the 1986 Tax Reform Act. There are certain financing companies that previously specialized in undertaking such private placements, primarily involving large corporations taking advantage of tax credits. The Section 42 financings have now slowed down significantly. Hence, there is a unique opportunity for these experienced specialized finance companies to proactively redirect their proprietary investor channels to this far more diverse market of corporations and clients seeking funding for various business purposes.

It is significant that this powerful and diverse financing structure, which ultimately taps investors' pools of funds, is only available to be accessed through financing company conduits which have the prior execution track record and pre-existing relationships with the pensions/insurers funds by virtue of their having undertaken billions of $ in the prior tax related financings. This effective barrier to entry results in a limited source of finance companies that can undertake these transactions, accordingly this unique private placement structure for corporate finance and the multi-disciplinary advantages over traditional financing - is not expected to be ubiquitous like bank financing, factoring and other well known financing channels.

III. Monetizaton of Pre-existing Future Payment Streams and New Transactions

A.) Monetization of Pre-existing Future Payment Streams

This financing vehicle allows pre-existing or newly created future payment streams ranging from 1-30 years to be monetized. These transactions can either be structured as a loan or as a contract buy-out at the discretion of the client. In all of the vertical market areas where this financing is relevant, including monetization of triple-net leases, M&A buy-outs, law suit awards and settlements, licensing and royalty payment streams, long-term purchase agreements, deferred compensation contracts and endorsement deal revenue streams, the fixed bank interest rates and flexibility provided by monetization financing typically provide a more competitive structure than than other financing companies attempting to finance similar transactions. For example, there are companies that provide lump sum funding of lawsuit settlements, lottery winnings, etc. However, the industry market rate for such fundings to clients is generally always above bank rates and often is priced at hard money rates. Long-term contractual payment streams are typically not financeable by traditional lending sources. Also, a client can generally obtain 100% LTV of the net present value of the payment stream funded via monetization versus lower LTV's from traditional financing sources.

B.) Monetization of New Transactions

The second major market area for this type of financing is huge and could encompass virtually every business category needing financing from capital equipment acquisition, to acquisition of a company, to funding from working capital needs. However, only those borrowers that have an existing relationship with a strategic investment grade third party or that can entice an investment grade third party to guarantee their financing will qualify. Given the ability of the borrower to provide an investment grade guarantor, then the borrower can utilize a monetization to fund any transaction type or business financing need. Uniquely key is the ability of the client to customize their repayment schedule. The unique flexible financing terms available through this structure include; l) deferred repayment for up to 5-7 years, 2) payments throughout the term of the loan do not have to be equal or at the same periodic levels, and 3) no traditional collateral requirements, thereby keeping the assets available to be used as collateral for other traditional financing collateral; and, 4) off balance sheet financing is available in many cases. There are many compelling scenarios where a company makes an acquisition using monetization to provide 100% financing and the asset being purchased generates revenues and profitability, such that by the time that repayment starts, the project's cash flow is sufficient to service the debt. This "NO MONEY OUT OF POCKET EVER" dynamic results in an infinite rate of return.

IV. Unique Structural Advantages of Private Placement Monetization

A. Unique Flexibility in Payment Terms Not Found in Other Financing

To the prospective corporate client seeking to avail themselves of this unique financing to match financing repayment to cash flow needs, the extreme flexibility of allowing the client to fashion their own sequence timing of repayment including deferred repayment for up to 7 years and structured payment thereafter going out, if requested, up to 30 years is striking. Such flexible payment terms are not available through other funding sources without more onerous added terms and covenants.

B. Funding Minimums as Low as $1 million

Securitization is not a new financing sector but has mainly been undertaken by large investment banks that primarily handle transactions with $75 million minimums. The repurposed application of pensions/insurers' funds by financing companies, as discussed herein, can accommodate funding at much lower minimums with all of the attendant benefits.

C. Off Balance Sheet Financing

Monetization financings can be structured in many cases to not create debt on balance sheets. This allows for improved financial ratios for some corporate clients. As a result, this financing may not adversely impact the clients existing credit facilities.

D. Non-Recourse Financing

Clients receive funding through this structure on a non-recourse basis. The unconditional guarantee to pay is separate from the underlying corporate use of the funds or client assets normally required to collateralize a financing.

E. No Closing Fees/Transaction Costs from Finance Company

Generally there are no upfront fees, points, or closing fees associated with these financings, thus making it more attractive than traditional financing.

G. Potential for Strategic Partners or Other Entities to Support Facilitation Of Financing

A client that utilizes this financing structure to acquire assets, e.g., a purchaser of another company, may align itself with one of its industry strategic partners, such as a supplier, or a hospital or university requiring capital equipment may be able to enlist the financial support of a government entity as its' sponsor, etc. The client may utilize the investment grade status or obtain substitute collateral enhancement from that strategic partner or sponsor to enable the financing to occur. This type of financial support or collateral enhancement typically occurs when the strategic partner or sponsor is greatly benefited through the client's use of the resulting financing. Many government entities, including foreign governments, are willing to pledge guarantees to enhance or develop infrastructure and other worthy projects.

H. No Geographical Restrictions

This financing structure is offered for both domestic and international transactions. The minimum transaction level for certain foreign transactions, or transactions involving non-U.S. domiciled companies, typically is $5 million.

V. Broad Range of Funding Purposes / Use of Proceeds Ideal for Monetizaton Financing

A. Financing Acquisition of Assets

This monetization financing can uniquely facilitate a corporate client's acquisition of assets whether it is capital equipment or acquisition of a company in an M&A transaction. The ability of clients to structure repayment terms to defer initial repayment for up to 5-7 years, and stretch the overall repayment schedule as long as 30 years is very attractive. Specifically, there is an opportunity for a " "No Money Out Of Pocket Ever" scenario where the purchased asset, whether it be equipment or a corporate entity, etc. can be revenue/profit accreting over time, so that by the time a deferred repayment commences, the purchased asset pays for the financing out of its revenues. Further, this financing offers clients the ability to preserve their cash reserves for other uses. Sellers can frequently realize higher prices by enticing more buyers to participate in bidding, and buyers are more willing to raise their offers without the pressure of having to pay all cash upfront.

B. Equipment Finance

The structure and requirements for collateral and repayment of monetization finance, is different than equipment leasing and other traditional equipment finance channels. In many instances, monetization finance is more favorable and provides powerful access to funds, and can be used advantageously by either sellers or the buyers of equipment. To the seller, availability of monetization financing basically makes the equipment purchase by the buyer easier from several perspectives. More product may be able to be purchased, and certain purchases may be undertaken via this financing that may not have occurred through more restrictive traditional equipment finance channels. For the buyer wanting to undertake a transaction to purchase big-ticket equipment, this financing provides unique flexibility and certain attendant advantages. These advantages include extended repayment terms and no limitations on the amount of the financing due to residual value concerns, since the financing is not based on the collateral value of the equipment.

Essentially monetization enables a company to pay little or nothing in advance to put the equipment to productive use, and only once it's in use be obligated to make payments.

C. Real Estate Finance

Landlords can receive upfront payment for the value of leases via monetizaton, thus relieving the landlord of any risk associated with collecting leases in the future. This real estate monetization is sometimes referred to as "conduit" financing with the investment grade status of the tenant rather than the landlord providing the guarantee of repayment. Monetization of triple net leases is limited by provisions of existing mortgages that have liens against the lease revenues. Therefore, monetization financing of triple net leases is generally viable in two scenarios. First, when the lease is long-term, e.g., 15 years. Second, where the borrower/developer has multiple leases and is able to obtain subordination from the primary mortgage lender to allow for monetization for one or more leases.

By monetizing a 15 plus year lease stream, the amount of funding may be comparable to a traditional real estate mortgage, but without the risks of a mortgage. The monetization financing would have the benefit of being non-recourse and also can be structured as off- balance sheet financing, in some cases.

In some cases a borrower may be able to carve out certain leases and have their first mortgage lender subordinate their position to allow the borrower to obtain additional funds via monetization of the carved out lease stream. The first mortgage lender may particularly be willing to accommodate the subordination request if the funding obtained by the client is used to enhance the property value or enhance the borrower's net worth.

There are many Investment grade borrowers, including REITs that can benefit from a monetization funding for their real estate holdings. This type of borrower can obtain funding without liens being placed on their properties. Also, funding can be obtained without the normal documentation required for a mortgage, resulting in closing in less than 30 days, in most cases. The monetization approach also allows for funding to enhance the values of the property without having to refinance the existing first mortgage.

D. Energy

Energy has been one of the primary industry sectors for monetization financing, as there is strong linkage between the capabilities of this financing vehicle and various energy transactions. For example, a company or institution needing to install energy saving equipment can often times obtain a quantified minimum energy savings guarantee from either the equipment manufacturer or utility. In most cases these energy saving guarantees can be monetized to provide the funding to purchase the equipment. Another example to demonstrate the synergy between monetization and energy would be representative of a municipality or developer that plans to construct a waste to energy facility. Many times the purchaser of the energy, e.g., the utility, due to the benefits to be realized by them, may be willing to enter into a minimum guaranteed Power Purchase Agreement which may be monetized to provide funding for the construction of the facility.

Solar energy, wind energy, waste to energy, and other capital-intensive energy areas, such as the various waste to energy programs, similarly have large initial infrastructure costs where early repayment requirements can be deferred and customized until the facility is producing revenue versus traditional lending sources. Financing of energy savings equipment, that provide cost efficiencies and savings, and also often tax advantages, can often be financed with a “No Out of Pocket Ever” scenario by matching the actual cash flows to the financing repayment schedules. Additionally, when energy equipment purchases create tax credits, the financing company can also provide financing for these credits from third-party investors. Monetization funding for energy projects is compelling due to the extreme leverage provided by the monetization structure, which typically allows for 100% of the project costs with deferred repayment provisions.

Due to the revenue and/or energy savings generated by these projects, the excess cash flow, after monetization debt service, yields an infinite return as a result of substituting monetization financing for equity capital. These projects become self-funding. Solar energy is a major focus for monetization finance as the large upfront costs for infrastructure can often be offset by appropriate use of monetization finance. Broad availability of tax credit programs in almost all such projects can be tied beneficially to monetization finance to create significant advantages, including “No Out of Pocket Ever” linkage of cash flows to repayment of the financing.

E. Lawsuits/Structured Settlements

Monetization of long term plaintiffs’ structured settlements into a lump sum payment is one of the most common areas currently being serviced by fragmented and expensive lenders. The monetization financing vehicle discussed here is very different from the programs offered by that group of structured settlement lenders. The interest rates available through this monetization structure are typically substantially lower than the other structured settlement lenders. For the monetization finance companies, the source of funds is from pension funds and insurers, rather than higher cost funding sources used by the structured settlement companies. Also, the monetization finance companies have no ceiling on transaction size, thereby enabling funding for the many multi-million dollar settlements.

Monetization finance is also very relevant to corporate clients for certain large dollar structured settlements, which result from being a plaintiff or defendant in a lawsuit. This structure provides a powerful negotiating tool to both the corporate defendants' or plaintiffs' attorney to either maximize or minimize the amount of the settlement, subject to which party the attorney is representing. The plaintiff's attorney can leverage the flexible repayment terms to negotiate a larger, longer-term settlement payout that can be monetized for an amount greater than could have been obtained via a lump sum settlement from the defendant. The defendant attorney of a client with limited cash resources can conversely structure a long-term payout, which will meet his client's repayment ability while providing the lump sum payment to the plaintiff via monetization. The monetization financing can be structured into the $100s of millions for these lawsuit settlements. Large class actions, mass tort, medical malpractice, environmental liabilities and others may be financed by this vehicle, which allow the defendant company to continue operations while structuring their large liabilities far into the future under their own planned payback schedule, and further avoiding bankruptcy filing.

F. Financing for Government Entities and Financing for Contractors for Government Programs

This financing can be a powerful tailored solution to the particular financing needs of municipalities, cities, and foreign countries. There is a broad array of different opportunities in this sector as governments have very large capital-intensive projects; and also significantly, many consistent payment streams that may be monetized. The powerful diversity of applications for monetization financing in the various structures discussed herein for corporate finance apply to government entities, and include short and long term budgeting, which government entities must address. Accordingly, the flexibility of monetization repayment terms is a strong tool for government entities. Monetization finance is also a vehicle that allows contractors to monetize long-term contracts with government entities when they're able to obtain an unconditional promise to pay from the government entity. However, the contractor would first have to satisfy performance concerns, if any, in order to obtain the unconditional promise to pay. Companies doing work with governments can bid more aggressively for contract payment streams with the knowledge that they can obtain lump sum financing via monetization.

G. Deferred Compensation and Endorsements

It is easy to see how monetization finance can be a compelling solution in providing lump sum payment at the lowest available rates to professional athletes and corporate executives for deferred compensation contracts providing long-term payment streams. The contract terms do need to be absolute and unconditional, but in certain instances "bifurcation" of contract terms can allow for contracts to be financed where the contract language was not originally sufficient. Many professional athletes and corporate executives and their financial advisors would much rather have a lump sum to allow them full autonomy now to invest or use the money that had been locked up in future payment stream contracts.

Endorsement revenue streams are another strong market for this finance, whether for professional athletes, or for owners of other sports related entities. Naming rights for stadiums, large advertisers' endorsement contracts and other payment streams are all good candidates for monetization. In addition, in certain instances an additional benefit can be realized by lowered overall tax rates by appropriate reclassification of such contracts as long term capital gains rather than higher-taxed ordinary income through interfacing with the monetization financer.

H. Charities and Non-Profits

In many instances charities, non-profits, schools, hospitals and other entities receive charitable donations made as deferred contributions by their supporters, including wealthy individuals and corporations. Monetization financing allows these beneficiaries to manage their cash flow by proactively utilizing this financing solution as a strong tool to receive multiyear future donor commitments with a lump sum payment today.

This can facilitate an increase in total donations and benefits the organization by having cash available now for their financial needs.

I. Intellectual Property / Licensing & Royalty Fees

There are significant opportunities for monetization of intellectual property (IP) cash streams, including royalties and licenses. Intellectual property funding opportunities are prevalent, for example, in patent licenses, pharma/biotech licenses and royalties, as well as technology licensing. Existing license fee and royalty streams may be monetized if they have a predictable cash flow, date certain payment, and are due from an investment grade entity. When the royalty or license fee stream fluctuates due its' linkage to sales revenue, often a minimum fee can be agreed on to satisfy the predictable cash flow requirement for a monetization financing. Additionally, many companies have large portfolios of patents and other forms of intellectual property, but use only a small percentage in their core business. The remaining IP assets effectively are shelved and not in use. Although many of these unused IP assets have little or no value, some do and can provide an economic benefit to the company. For example, licensing fees may be obtained from third parties in industries in which the patent owning company does not compete. These license fee cash streams, assuming they meet the above criteria, can be monetized and provide immediate capital to the client.

J. Entertainment

Monetization financing is relevant to both individual clients, such as entertainers with defined future payment streams, and corporate entities which need to facilitate entertainment project finance. The former, involving individuals, is similar to monetizing deferred compensation payments for professional athletes and corporate executives.

Corporate entertainment entities typically fund their projects through private investors that limit their investment to their cash liquidity. For those investors that have illiquid assets which could serve as collateral for a letter of credit there are advantages in utilizing a monetization loan. The flexibility in structuring the loan to allow for deferred repayments during project development versus the traditional lender that requires debt service payment from loan inception allows the investor to match repayment of debt commensurate with expected project profits. Once the project is completed, the entertainment entity typically will enter into an agreement with a large entertainment distribution company. The cash stream from the distribution agreement could also be monetized, assuming an investment grade distributor.

VI. Summary- Monetization Finance is a Powerful Tool With Compelling Advantages For Many Industries

Whereas many traditional financing source channels are fungible, monetization finance is set apart and vastly unique in many respects. It presents clients, and also those colleague finance companies sourcing/referring deals in the numerous relevant vertical industry segments, with multiple advantages to the broad middle market with financing needs of $ 1 million and above. It further can be a powerful and compelling enough inducement to allow for certain transactions to occur that otherwise would not, if traditional financing were solely available.

While it may seem that transactions that would meet the criteria we've discussed herein are few and far between, in reality there are many transactions that qualify on their own merits, or would qualify with creative modifications to the current transaction in the various market segments we've discussed.

In summary, Monetization financing can benefit two types of borrowers:

1) Investment Grade Borrowers- where any transaction can be funded with repayment terms customized by the client and not the lender.

2) Non Investment Grade Borrowers- where transactions can be funded with repayment terms customized by the client and not the lender, if they have the following:

   - Future revenue streams from investment grade customers or other obligors or acceptable substitute financial instruments backing the transaction to unconditionally promise repayment of the loan or buy-out. Transactions such as leases, licensing revenues, royalties, M&A transactions, energy savings, minimum purchase agreements, charitable contribution commitments, structured settlements, etc. are financable.

   - Guarantees from investment grade third parties that have an interest in the borrower obtaining financing to complete their projects, e.g., strategic partners and sponsors. Transactions for any business purpose are financable.