

## Monetizing Sunk Costs

Over the years, you have made a number of strategic investments in your business, some of which may have broader applicability and intrinsic value that exceeds your original investment. More often than not, you do not appreciate this embedded Intellectual Property (I.P.) as being something that can be monetized, because it is a ubiquitous feature of your business. But with the right insight into the market needs and wants, there are certain assets that can be commercialized. By positioning and packaging your I.P. to be leveraged in markets that are outside your primary market, you have the ability to drive incremental revenues from already sunk costs, while not strengthening your competitors.

### Discovery

It is very difficult to know when you are sitting on a piece of intellectual property that has broader applicability in the market. This Intellectual Property can take on many forms, to include: a set of proprietary processes; algorithms and models; software, or actual equipment components. While you believe that your Intellectual Property is meaningful and is adding value to your business, it is difficult to really know if the same Intellectual Property would be deemed valuable to others.

As part of the discovery process, Advisor's from Sylvan will conduct an analysis of your proprietary Intellectual Property, along with a market scan for like services and/or products. A study of this nature will show the market's appetite for the Intellectual Property, expected market pricing levels, and repackaging requirements.

Within a relatively short period of time, you will know if you have a proverbial "silk purse" or "sow's ear".

### Intelligent Market Scan

As part of your interest in commercializing a component of your Intellectual Property, you must consider the real risk of providing your competitors with access to your trade secrets or unique selling propositions. We have witnessed commercialization efforts that have cannibalized the business' existing revenue stream, by strengthening the competitive field.

By conducting a truly intelligent market scan, Advisors from Sylvan focus on understanding the needs of similar and related markets, as opposed to researching the needs of your peers. By virtue of our market breadth, we have the proven ability to identify prospective Buyers in areas where no natural competitors exist.

Consider the commercialization of a software companies proprietary Operating System (software for running ERP applications) to be embedded as part of the firmware within a sprinkler manufacture's products. There is no risk of strengthening a competitor's market position, or eroding future sales of the main line of business.

### New Revenue Stream

In order to establish a newly commercialized product as a valid revenue stream, the business must gain an appreciation for the potential Revenues, Gross Profit Margins, EBITDA margins, and long-term viability of the business. The business must make a determination if the new product/service line will be accredited to the current business, or will undermine it over time.

If the new line has the potential to meet or increase current Shareholder value, then it should be enshrined as a new line within the current business. Alternatively, if it has the ability to clearly eclipse or erode the value of the existing business, then it should be spun-out as a separate and distinct entity.

Making these decisions is not always obvious, and typically requires Advisors from Sylvan to conduct further market analysis and modeling, in order to facilitate this strategic decision.

### Reality Check

Like the old baseball cards that are sitting in your attic, you inherently believe they are worth a lot of money, but the reality of the situation is that they are only worth what somebody else is willing to pay for them.

Your embedded I.P. is analogous to those baseball cards. You have no idea what they are really worth, until an outside expert reviews them, and poles the market for the their current value. While you are capable of recognizing value, it is recommended that you engage an Advisor to assess the real value and market potential associated with commercializing a component of your business.

## Benefits

The benefit of converting an already sunk-cost into a new revenue stream, can be compelling, but must be performed in a metered and intelligent manner. We have delivered actual scenarios where the new line of business has resulted in multiple millions of dollars within its first year of commercialization, along with higher then expected Gross Profit and EBITDA Profit margins.

In cases where the newly commercialized service/product has warranted the formation of a separate company, we have worked with clients to deliver triple-digit revenue growths, and EBITDA margins exceeding 21%.