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Financing Innovation and Financialization of Intangible Assets in HYBE's Acquisition of Ithaca Holdings

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Abstract. In the global economic landscape, cultural and creative enterprises generally face financing constraints, mainly because they highly rely on intangible assets, which are often difficult to accurately evaluate and effectively mortgage under traditional financing models. In this context, this article focuses on the representative case of South Korean entertainment company HYBE acquiring American media company Ithaca Holdings for in-depth research. The study adopts a method that closely combines case analysis with financial data to systematically and deeply analyze HYBE's innovative financing model. The results indicate that HYBE ingeniously packaged and integrated the investment shares, fixed deposits, and other assets of its subsidiaries as collateral, successfully realizing the financialization of intangible assets and constructing a debt financing scheme with asset guarantees. Moreover, during the period of large-scale mergers and acquisitions, the company still maintained good liquidity and interest coverage. This case fully proves that light asset enterprises can effectively break through financing bottlenecks through asset financialization.

Keywords: Intangible assets, Financing structure, Case-study

1. Introduction

In the wave of global economic transformation towards knowledge-intensive industries, cultural and creative industries have become a key engine for promoting economic growth and shaping national soft power. As a leader in the cultural industry, Korean pop music not only creates amazing value but also triggers a global cultural phenomenon [1]. However, the industry's core assets are mostly intangible, which lack physical form. These include artist contracts, music copyrights, brand value and so on. Due to the difficulty of valuation and high risk of disposal, banks and other financial institutions are generally reluctant to accept them as collateral, which leads the industry to face significant constraints like high financing costs and short financing periods. This situation not only erodes enterprises' profit margins but also seriously restricts their long-term investment capacity in content creation and global market expansion [2].

Existing research mostly separates Mergers and Acquisitions' (M&A) strategic synergy from financing. It rarely analyses how cultural and creative industries overcome intangible asset weaknesses in cross-border mega-M&As to design innovative financing plans. With the rise of the global asset-light industry, how to revitalise intangible assets for capital operation becomes a common challenge. An in-depth analysis of a successful frontier case can provide a blueprint for

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similar enterprises and provide inspiration for financial institutions to develop a new credit model to serve emerging industries [3,4].

Given this background, this paper focuses on HYBE's 2021 acquisition of Ithaca Holdings, valued at $1.05 billion. The typical and forward-looking nature of this case is that HYBE creatively packages the investment shares of its subsidiaries (such as Pledis Entertainment), lease deposits and industrial bank time deposits as guarantees to obtain most of the funds needed for M&As, rather than relying on traditional cash reserves or equity dilution. This paper will outline HYBE's financing model, refine the universal insights and potential risks of the case to the cultural industry and provide a new analysis paradigm for understanding the capital operation in the era of knowledge economy.

2. Case background

Against the backdrop of accelerated integration in the cultural and creative industry, HYBE rose rapidly through its successful management of the idol group Bangtan Sonyeondan (BTS). It launched a strategic transformation after its listing in 2020. It is committed to upgrading from a single artist brokerage company to a global entertainment capital group with IP and platform as its core. In order to break through the limitations of the local market, obtain key content resources and international operation capabilities, HYBE wholly acquired Ithaca Holdings through its subsidiary HYBE America, for a consideration of about $1.05 billion on May 6, 2021.

According to the details of acquisition price distribution disclosed in HYBE's semi-annual report of 2021, intangible assets account for a very high proportion of the fair value of identifiable net assets obtained by this acquisition. These mainly include music copyright and other intellectual property rights (about 1.44 trillion won), relational intangible assets (such as customer relations and artist contracts) and trademark rights. At the same time, the tangible assets part covers physical resources such as cash and cash equivalents (about 33.9 billion won), accounts receivable, inventory and tangible assets (about 888 million won). Through this acquisition, HYBE not only obtained a large number of music copyrights, but also undertook the operation foundation of the artist resource system managed by top broker Scooter Braun and physical record companies such as Big Machine Label Group. Compared with the tangible assets that are easy to value and obtain, the creative content and market channels contained in music copyright, artist contracts and customer relations are the keys to HYBE's acquisition to enhance its core competitiveness and realise its strategic intention of globalisation.

3. Case analysis

3.1. Asset-backed debt financing

Under the traditional corporate financial framework, large-scale M&As usually rely on internal cash or equity financing. The former will weaken the company's liquidity and affect its ability to cope with future risks. The latter may dilute original shareholders' control. It may also send a negative signal to the market that the company's share price is overvalued. In order to quickly raise huge amounts of funds to complete strategic acquisitions without harming financial health and shareholders' interests, HYBE breaks through the traditional financing path and designs an innovative financing scheme with asset guarantee as the core. According to financing data, mortgage loans make up the bulk—over 70%—of the $1.05 billion for acquisitions, with limited internal cash use and no equity financing. The scheme packaged assets with stable value and liquidity, such as

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subsidiary investment shares and industrial bank time deposits. It constructed a mortgage portfolio based on future income rights. This financing structure enables HYBE to successfully and rapidly raise funds for M&As without using a large amount of cash reserves and diluting shareholder control, reflecting its flexibility and foresight in capital structure design.

3.2. Financialization path of intangible assets

The core and essence of HYBE's financing innovation lies in the successful realisation of the financialization of intangible assets. HYBE regards the investment shares of its core subsidiaries, such as Pledis Entertainment, as the core collateral, which account for about 70% of the total collateral value to constitute the main body of mortgaged assets. The value of these shares does not come from book numbers. It comes from intangible assets that are difficult to value and mortgage independently in traditional credit markets. These include exclusive artist contracts, music copyright libraries, mature production systems and strong fan economic relationships [5].

The key to this operation lies in the fundamental transformation of valuation logic: what financial institutions recognise is no longer the unreliable valuation of individual copyrights or contracts, but the ability that HYBE integrates these decentralised intangible assets into the subsidiary system through its professional operation and management. HYBE can prove its value and future profitability by continuously generating stable cash flow and considerable profits. For example, Pledis Entertainment realised operating income of about 497.4 billion won and operating profit of about 42.6 billion won in the first half of 2021, which provides a solid financial foundation for its credibility as a high-quality collateral. Through this strategy of asset packaging and cash flow bundling, abstract and risky intellectual property is transformed into a high-quality financing tool with relatively dispersed risks, predictable cash flow and accepted by financial institutions [6]. This marks the evolution of intangible assets from simple value creation elements to strategic capital tools with strong financing capabilities. It provides a replicable paradigm for asset-light enterprises to break through financing bottlenecks [7].

3.3. Synergy and risk control

The acquisition, driven by innovative financing, brought significant synergy and a controllable risk structure to HYBE. In terms of financial synergy, Table 1 shows that the asset-liability ratio increased from 37.7% to 42.6% after the acquisition. This reflects the increase in debt financing. However, the interest coverage remained high at 15.58. This indicates that the company's core profit has a strong ability to cover interest expenditure and control the financial risk. In terms of strategic and operational synergy, HYBE has obtained mature channels to enter the North American market, top broker resources and their managed artist matrix, as well as a huge Music Publishing Library through this acquisition. The financial data after the acquisition confirmed the release of synergies, especially the North American market revenue increased from 23739 billion won in the first half of 2024 to 26309 billion won in the same period in 2025. The increase of 10.8% strongly confirmed the success of the merger in global layout and IP resource integration [8].

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Table 1. Comparison of major financial ratios before and after acquisition

Financial ratio	Dec. 31, 2020 (Before acquisition)	June 30, 2021 (After acquisition)	Change
Asset liability ratio	37.70%	42.60%	↑
Cash ratio	1.28	1.00	↓
Interest coverage	22.10	15.58	↓

At the risk level, HYBE managed it by building an excess mortgage structure. According to its financial report, Table 2 shows that the total amount of collateral secured creditors' rights (765 billion won) provided for the acquisition is higher than the actual loan amount (about 749 billion won), forming an excess mortgage of about 16 billion won and establishing a safe credit buffer. At the same time, the subsidiary itself has strong profitability and stable cash flow to provide the first guarantee for debt repayment [9,10]. The identifiable net assets of more than 4562 billion won owned by Ithaca holdings also provide deep support for the value basis and long-term risk mitigation of the transaction.

Table 2. Comparative analysis of guaranteed assets and loan amounts

Category	Amount	Comparison results
Total claims on encumbered assets	765,000,000	Benchmark
Amount of acquisition related loans	749,024,930	-15,975,070
Excess collateral	15,975,070	+2.1%

4. Conclusion

This paper confirms that HYBE transformed intangible asset rights into mortgageable capital through asset financialization. It constructed a financing plan that balanced strategic expansion, financial stability and risk control. This case provides a paradigm of great reference value for enterprises relying on intangible assets to break through financing constraints in the era of the knowledge economy. This paper also has several limitations. The case focuses on the immediate and short-term financial impacts. Long-term strategic synergy and integration effects require further observation. Secondly, Ithaca Holdings is a non-listed company. Thus, complete independent financial data before the acquisition is difficult to obtain. The analysis mainly relies on HYBE's fair value assessment on the acquisition date and the consolidated data after the acquisition, which can not reflect the full picture of its independent operation.

HYBE's case provides the following management implications: For cultural and creative enterprises and their financial managers, they should systematically sort out, integrate and manage their own intangible assets, consciously package their core business or IP into subsidiaries or business units with independent financial performance to lay the foundation for their future use as collateral or financing tools. In addition, they should actively examine the balance sheet, explore the financial potential of various assets, especially long-term investment and right-of-use assets, and explore the possibility of transforming them into financing instruments. For financial institutions, they should develop new credit evaluation models suitable for asset-light industries, which pay more attention to IP portfolio quality, future earnings rights and ecosystem value. With the deepening of the knowledge economy, the asset financialization model practised by HYBE is expected to be

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applied in a wider range of fields, such as e-sports, sports management, science and technology start-ups and so on. Future research can focus on the following aspects: First is to make a comparable study on the applicability of mortgage financing of intangible assets in different industries. The second is to track the long-term performance of HYBE model and test its sustainability. The third is to explore the application of financial technology in the confirmation, valuation and mortgage of intellectual property rights, and how to further reduce the transaction costs and risks of such financing.

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