

— *An International* —

# INTELLECTUAL PROPERTY CONSULTING & BROKERAGE FIRM

## Commercialisation Paths IP Toolkit for SMEs

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Prepared by ClearViewIP



## Commercialisation Paths – Summary

This IP tool kit slide deck contains information relating to the value of IP

### **What gives IP value?**

- IP value drivers
- Saleability

### **How is IP value assessed?**

Valuation methods

- Income approach
- Market approach

### **What are the commercialisation paths?**

- Sale v Licensing matrix
- Licensing workflow
- Example investment deck slides



# Valuing IP

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## Value Drivers for IP

IP value is very dependent on the specific context of the transaction but in general value will be significantly increased if the following criteria are met

- **In-use**
  - Depends on the revenue generated by infringing products, or goodwill associated with the brand
  - May depend who it is in use by
  - IP considered highly likely to be in-use in the future but process will reflect the speculative nature of the acquisition
- **Coverage**
  - Geographies of interest to the buyer
  - Normally largest markets with strongest enforcement regime
- **Enforceability**
  - Sufficient life
  - Detectable
  - Well drafted claims
  - Unencumbered
  - Early priority



# Patent Saleability Matrix

This matrix is used by ClearViewIP to determine which patent sale opportunities to take on, on a contingent basis.

In current market conditions, patents generally need to be provably infringed to have strong confidence that they can be sold.

SELLING POINTS

**Infringed**  
(with evidence or evidence of likely future infringement, e.g. product demo, company strategy)

**Infringed**  
(with no evidence, nor evidence of likely future infringement, e.g. product demo, company strategy)

**Know-how and not infringed**  
(and unlikely to be in the future)

**No know-how and not infringed**  
(and unlikely to be in the future)

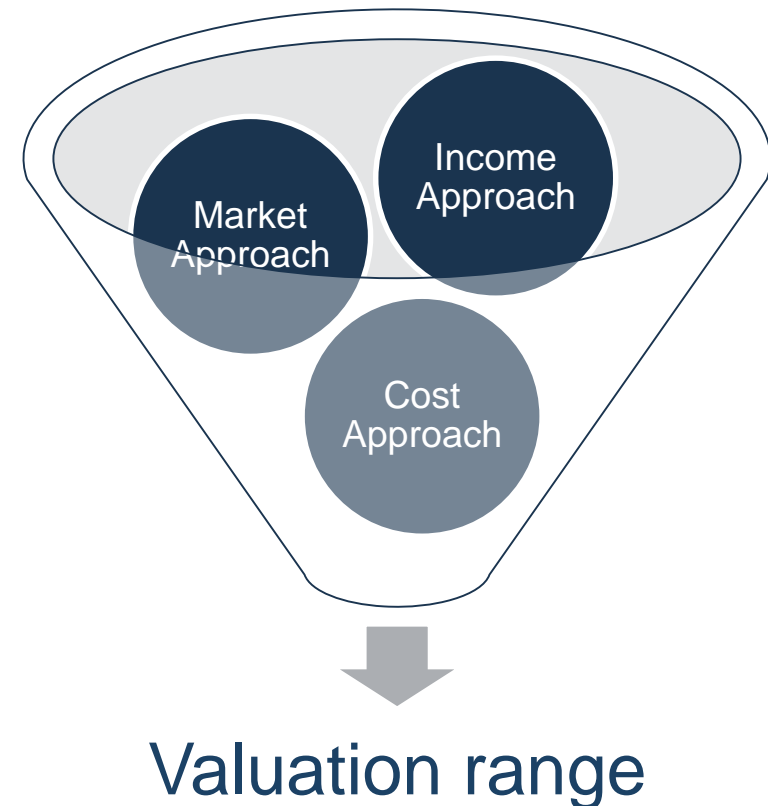
	Saleable patents but somewhat speculative	Highly saleable patents	Very highly saleable patents
	A buyer may have confidential evidence of future infringement	Small market but buyer may have confidential evidence of infringement	Seller may have confidential evidence of infringement in large market
Not saleable	Companies may buy for the know-how with a view of future potential	Not saleable	Interest in know how if provide economic benefit to buyer
Not saleable	Not saleable	Not saleable	Not Saleable
Not in use (and unlikely to be in the future)	Not yet in use (likely to be in the future)	In use (Small market / declining)	In use (Large market, established, growing, high ticket items)



# IP Valuation

As mentioned, IP sale prices are highly context specific (if a patent is infringed by a buyer's biggest competitor, it is more valuable to them than to anyone else) but there are ways of estimating IP value.

- No valuation method is definitive
- All valuation methods have appropriate uses
  - Approach dependent on business context
  - Often different methods are used in combination
- 3 main methods
  - Market approach – look at historical sale prices of similar assets
  - Income approach – model the income that could be generated by the asset in the future
  - Cost – consider the money spent on developing/protecting the IP
- The real value of the various methodologies and metrics is applying them to negotiations





## Income Approach

- Value of an asset is determined by the net present value (NPV) of future income expected to be received from the asset. This normally considers the licensing income the IP could generate if it were not sold.
- Value of \$ received in future is worth less than value of \$ received today. Have to consider:
  - Risk that \$ is never received in future
  - Foregone opportunity to invest \$ received today (by purchasing) – opportunity cost
  - Devaluation of the \$ over time due to inflation
- Analyse comparable deals to apply appropriate parameters (e.g. royalty rates, discount rates, risk premiums)



# Income Model – Basic Example

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Combined Market Opportunity /million \$</b>		21746.70	22964.00	24676.10	25539.30	26433.20	27429.69	28479.80	29586.51	30752.95	31982.45	33278.51
<b>Market Penetration</b>	HIGH	0.00%	0.05%	0.13%	0.25%	0.40%	0.55%	0.70%	0.90%	1.10%	1.30%	1.50%
	LOW	0.00%	0.02%	0.04%	0.08%	0.13%	0.18%	0.23%	0.30%	0.37%	0.43%	0.50%
Applicable license base /million \$	HIGH	0.0	11.5	32.1	63.8	105.7	150.9	199.4	266.3	338.3	415.8	499.2
	LOW	0.0	3.8	10.7	21.3	35.2	50.3	66.5	88.8	112.8	138.6	166.4
Present Value of license base/million \$	HIGH	0.0	10.6	27.5	50.7	77.7	102.7	125.6	155.4	182.8	208.0	231.2
	LOW	0.0	3.5	9.2	16.9	25.9	34.2	41.9	51.8	60.9	69.3	77.1
<b>LICENSING MODEL - HIGH ROYALTY RATE (7%)</b>												
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Licensing income - high royalty rate (rNPV) /million \$	HIGH	0.0	0.4	1.0	1.8	2.7	3.6	4.4	5.4	6.4	7.3	8.1
	LOW	0.0	0.1	0.3	0.6	0.9	1.2	1.5	1.8	2.1	2.4	2.7
Cumulative licensing income (rNPV) /million \$	HIGH	0.0	0.4	1.3	3.1	5.8	9.4	13.8	19.3	25.7	32.9	41.0
	LOW	0.0	0.1	0.4	1.0	1.9	3.1	4.6	6.4	8.6	11.0	13.7
<b>LICENSING MODEL - LOW ROYALTY RATE (5%)</b>												
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Licensing income - low royalty rate (rNPV) /million \$	HIGH	0.0	0.2	0.4	0.8	1.2	1.5	1.9	2.3	2.7	3.1	3.5
	LOW	0.0	0.1	0.1	0.3	0.4	0.5	0.6	0.8	0.9	1.0	1.2
Cumulative licensing income (rNPV) /million \$	HIGH	0.0	0.2	0.6	1.3	2.5	4.0	5.9	8.3	11.0	14.1	17.6
	LOW	0.0	0.1	0.2	0.4	0.8	1.3	2.0	2.8	3.7	4.7	5.9

Take probability-weighted average of cumulative licensing revenue for patent value





# Income Model – Sample Output (Licensing)

**Input:**

Royalty Rate

**HIGH Royalty Rate** 13%

**LOW Royalty Rate** 8%

Milestones

	HIGH	LOW
Up Front	€0.50 M	€0.05 M
Phase 1	€0.10 M	€0.00 M
Phase 2	€0.10 M	€0.00 M
Phase 3	€0.10 M	€0.00 M
First Sale	€1.00 M	€0.05 M

Patent Opposition

Patent is Defended in Court

Deal Agreed

Licensing Deal is Agreed

**Output:**

**Licensor**

Key Model Metrics	
Expected NPV	€7.9 M
Expected rNPV	€2.1 M
Expected IRR	63%
Expected ROI	3.9
Expected Payback Point	6 Years

**Licensee**

Key Model Metrics	
Expected NPV	€32.3 M
Expected rNPV	€8.5 M
Expected IRR	19%
Expected ROI	4.6
Expected Payback Point	7 Years

Example of licensing model outputs. Charts display scenarios based on high and low royalty rates, which are adjusted using the sliders in the top left.



## Market Approach

- Value of an asset is determined by price paid for comparable assets
  - Look at comparable transactions (similar to real estate valuation)
  - Ranking:
    - Breadth of claims, ease of detection, likelihood of use, citations, family jurisdiction coverage, priority date etc.
    - Attribute price bands based on rankings (low, medium, high)
  - Public data on patent transactions (rare)
  - Use proprietary CVIP transaction database (deal values we have done or seen!)
- Problems:
  - Patent transaction details often not publically disclosed
  - To be patentable invention must be unique!



## Market Approach - Example

Patent	Technical category										Assessment				Further Technical Assessment		Patent Pricing	
	Home Audio	Home Video	Headphones	Portable Multimedia	Digital Photo and Video	Car Entertainment Systems	PC Products and Phones	User Interaction	Power Solutions	Wireless Communication	Other Accessories	Overall Ranking	Relevance Ranking	Ease of Detection	Breadth of Claims	Category	Subcategory	Patent Value Category
US6859610	x	x									2	2	1	2	AV Storage	A/V Recording	MED	30,000
US7187840		x									1	1	2	2	Video Processing		MED	150,000
US7945635	x										2	1	1	1	Radio		MED	30,000
US7290889		x									2	1	1	2	Projectors	Image stabilisation	MED	30,000
EP1621020	x	x				x					1	2	1	1	Content Distribution	Searching	HIGH	250,000
US8116181	x	x				x					2	1	2	2	Optical Drive		MED	30,000
EP2137731	x	x				x					1	1	1	1	Optical Drive	Recording	MED	150,000
EP2308244	x										2	1	2	3	Sound Reproduction	Multichannel Sound	LOW	20,000

**Table 3 - ClearViewIP updated assessment of the 8 patent families with grants**



# IP Commercialisation Paths

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## IP Commercialisation Options

The primary purpose of protecting IP is to maintain a company's differentiation in the market. However IP can also be commercialised to generate income/funding:

- **Sale** – The IP is reassigned to the buyer in exchange for a consideration, which is usually cash but could also be equity, discounts, or other IP rights. In the case of a patent sale, the seller usually receives a license back so that they can continue to practice the invention should they wish
- **Licensing** - The right holder grants the licensee the right to use the patent in exchange for a consideration, usually based on a percentage of the licensee's relevant revenues
- **Security** – Valuable IP can be used as a security for a cash loan from certain institutions
- **Demonstrating value for investment/company sale** – Demonstrating the value of IP may encourage potential investors to invest, or convince potential acquirers.
- **Infringement suit** – If the IP is infringed, the holder may extract damages through legal action. This is usually considered a last resort if licensing negotiations have failed.



# Sale v Licensing Patent Monetisation Matrix

This matrix can be used to determine if IP licensing or sale is a preferable option for a given set of assets.

Additional internal factors affecting the commercialisation options of patents:

- Core patent for business
- Appetite for assertion
- Encumbrances
- Existing legal challenge with potential buyers/licensees
- Short-term need for lump sum rather than royalties
- Need to reduce maintenance fees
- Ability to transfer tech
- Timescale to complete deal
- Existing friendly relationship with potential licensees

TECHNOLOGY AND IP AXIS

In use or very likely to be in future, no alternative solutions and broad applicability (with evidence or evidence of likely future infringement), 5 years +

In use or likely to be in the future, few alternative solutions, medium applicability (no evidence, nor evidence of likely future infringement), 5 years +

Not in use (and unlikely to be in the future), several alternative solutions, applicability only to adjacent industries, 2-5 years left

Industry specific, numerous alternative solutions, not in use (and unlikely to be in the future), less than 2 years left

\* Minor contribution of tech feature would make licensing the more likely option

MARKET PULL

Unlikely but saleable at very low price only to company leading research in this field	Licensable* or saleable	Highly saleable (offensive or defensive buy) / licensable	Very highly saleable at good price (offensive or defensive buy) / licensable
Unlikely but saleable at very low price only to company leading research in this field	Unlikely but saleable at average price (buy to X-license or padding)/ licensable as part of large deal	Relatively saleable at average price (buy to X-license or padding)/ licensable as part of large deal	Saleable at average price (buy to X-license or padding)/ licensable as part of large deal
Potential tech transfer licensing if can demonstrate performance improvement	Potential tech transfer licensing if can demonstrate performance improvement	Saleable at low price for portfolio Padding or tech transfer licensing	Saleable at low price for portfolio padding or tech transfer licensing
No monetization option	No monetization option	Saleable at very low price as part of large deal for portfolio padding	Saleable at very low price as part of large deal for portfolio padding

Weak

- No technology market yet
- No and unlikely future litigation in tech area
- No transaction activity in industry
- No potential buyers/licensees
- Blue Sky innovation

Medium

- Small/declining technology market
- No and unlikely future litigation in tech area
- Low transaction activity in industry
- Reducing number of potential buyers/licensees

Strong

- Medium/ growing technology market
- Likely future litigation in tech area or
- Medium transaction activity in industry
- Growing number of potential buyers/licensees (new entrants)

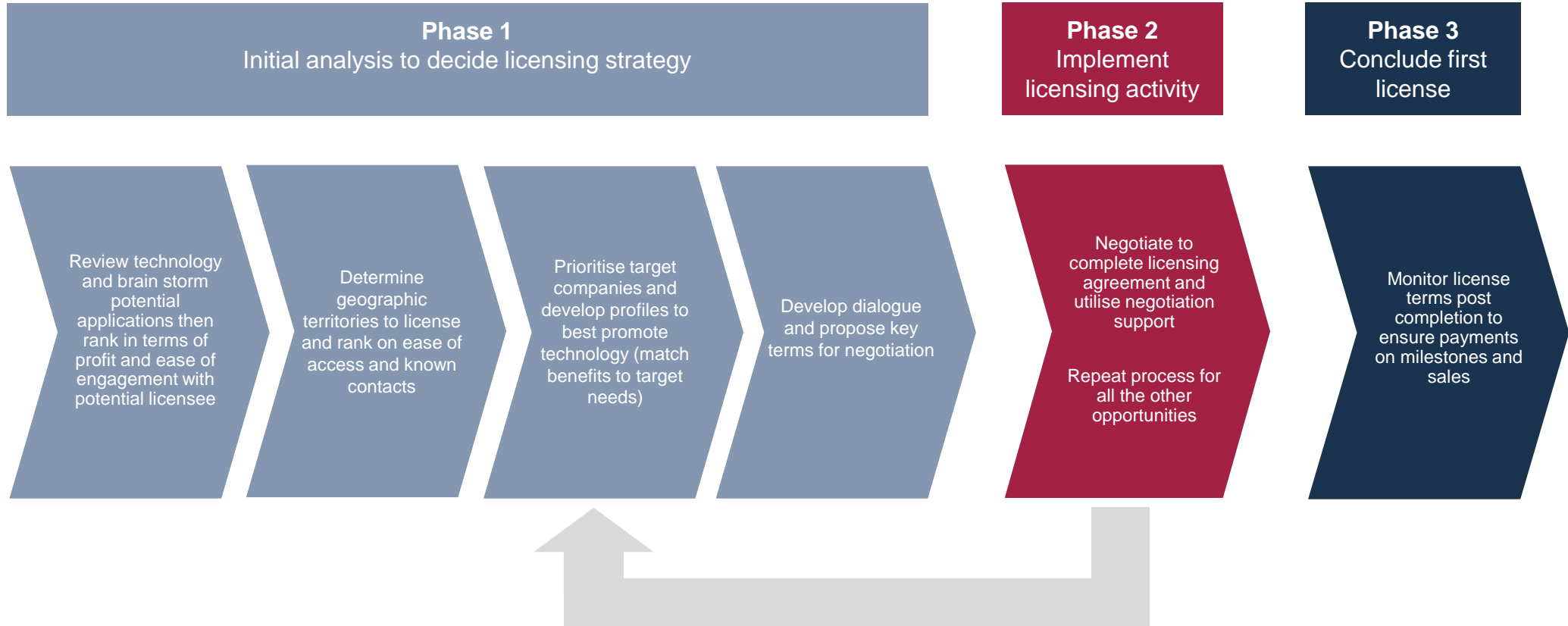
Very Strong

- Large technology market
- Existing litigation in tech area or
- High transaction activity in industry
- Large number of potential buyers/licensees





# Licensing Workflow

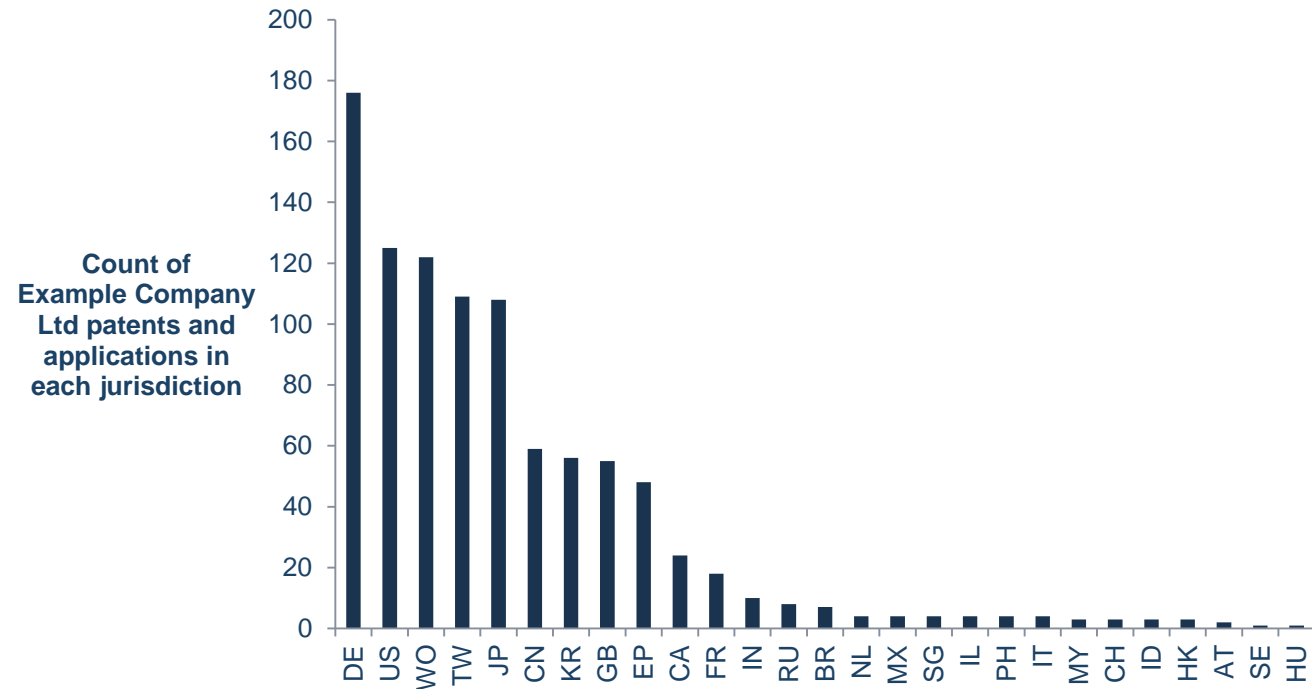




## Example Investment Deck IP Slide

- Presenting a strong IP position to investors is increasingly important in attracting investment
- Investors look for businesses which can be scaled up quickly and which cannot be replicated easily, hence the importance of a broad geographical coverage
- Showing the geographical distribution of a patent portfolio in key markets is valuable

### Example Company Ltd.'s – Patent coverage



Example Company Ltd.'s patent portfolio has a broad geographical coverage which is essential to compete globally

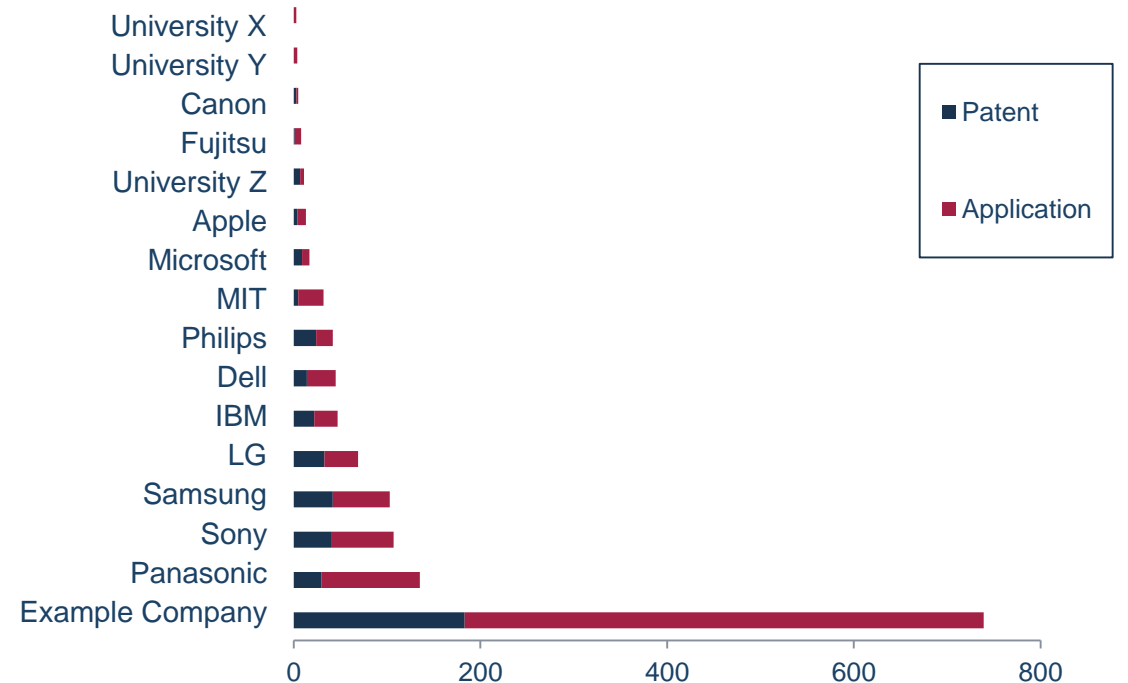




## Example Investment Deck IP Slide 2

- Start-ups innovating faster than large corporates are an attractive investment opportunity
- Large established players may be interested in acquiring the company or could acquire the IP if the venture fails, providing some “salvage value” to shareholders

### Example Company Ltd.'s – Competitive Landscape



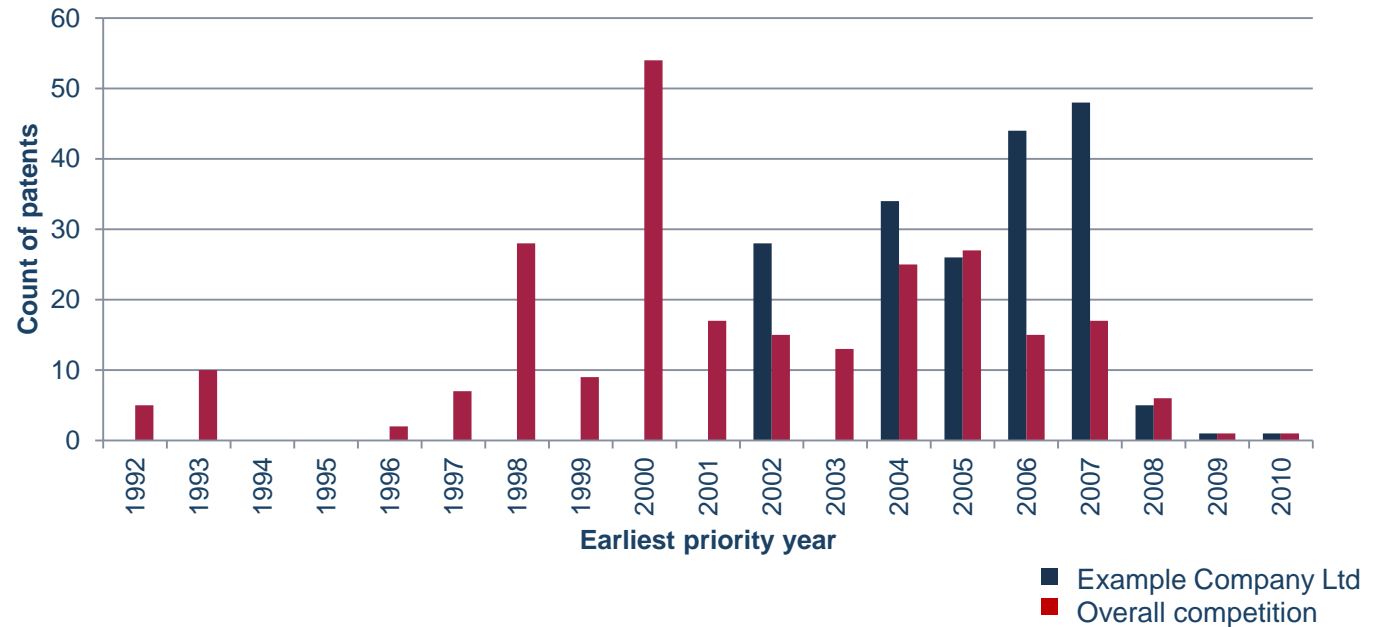
The survey of broadly related filings highlights Example Company Ltd.'s leading position over very large consumer electronics companies



## Example Investment Deck IP Slide 3

- Timing is key for tech companies. Early filings tend to be broad and from university research.
- Showing early priority dates when the market develops will indicate the primacy of the IP of the company they may invest in

### Competitive Landscape – Priority Dates



While a significant number of patents were filed in this technology field before Example Company Ltd.'s IP, it includes filings broader than the core technology. Since 2002, Example Company was more active than the overall competition



## Commercialisation Paths – Takeaways

- IP is valuable if the technology is **in-use**, it has **broad coverage** and is **enforceable**
- The most saleable patents are those that are **infringed** and **in-use** in a **large market**
- There are 3 commonly used IP valuation methods (each with their own pros and cons)
  - **Market approach** – based on historical sale prices of comparable assets
  - **Income approach** – model the licensing income that could be generated by the asset in the future
  - **Cost approach** – based on money spent on development/protection of the IP
- Several **commercialisation paths** are available including tech transfer licensing, offensive or defensive buying / licensing. Which path is chosen depends on the **technology**, the **strength of the IP assets** and the **market dynamics**
- Licensing involves a number of stages, from review of technology to negotiating licensing agreement to monitoring the license payments post completion
- Impressing investors with good **IP knowledge and understanding** through a compelling investor deck can increase the likelihood of securing funding