

# What is your IP Worth?

6th Annual Intellectual Property Seminar  
1st & 2nd August, 2014 Hong Kong



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**Censere**

# Introduction to Censere

A regional advisory firm with expertise in Cross border M&A

## Censere Group

Censere Group is a leading strategic advisory and transaction support firm which operates throughout Asia Pacific. We provide below a brief introduction of ourselves and some of the more pertinent aspects of our business:

Censere Group is head quartered in Singapore and currently has 12 offices throughout Asia Pacific – Auckland, Bangkok, Beijing, Hong Kong, Kuala Lumpur, Maldives, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Censere was established in 2002 in response to a perceived gap in the market for pan-asian strategic advisory and transaction support services for M&A, pre-IPO, financial reporting and restructuring purposes. Censere's services include strategic analysis, valuation, financial modelling and forecasting, due diligence and research.

### Overview



# Brett Shadbolt – CEO Censere Group

More than 25 years of experience in Asia in transactional and strategic advisory

## Brief Description

### **Brett Shadbolt– CEO**

As the founder and CEO of Censere Group, Brett has over 25 years of experience in corporate advisory and valuation of financial interests, intangible assets and technical plant and machinery. He has undertaken projects in more than 30 countries and has worked extensively throughout Asia and the South Pacific. Brett has completed numerous assignments for initial public offerings, joint venture establishment, acquisition, financial reporting, restructuring, insurance and finance. He has acted as Project Manager and Lead Valuer on many major transactions throughout the Asia Pacific Region for clients such as China Construction Bank, Bank of China, Oriental Fortune Capital, Macquarie Capital, Quam Capital, Maanshan Iron & Steel, Dongfeng Motors, Mitsubishi, NEC, and Proton, etc.

Brett graduated with a MSc in Global Finance from HKUST-NYU Stern. He is a Chartered Valuation Surveyor, Registered Business Valuer and is a professional member of the HK Securities Institute and the Australasian Institute of Mining and Metallurgy. Brett is a regular speaker at conferences and has contributed to several books concerning the valuation of assets in emerging markets. He has also written numerous articles about valuation and financial due diligence in emerging markets.

Brett is a member of the Financial Reporting Valuation Working Group of the HKICPA and a member of the Intellectual Property Sub-Committee 1 for the Ministry of Law, Singapore.

## Curriculum Vitae

- More than 25 years of experience in valuation and advisory
- Member of the Financial Reporting Valuation Working Group of the HKICPA
- Member of the Intellectual Property Sub-Committee 1 for the Ministry of Law, Singapore.
- MSc Global Finance HKUST/NYU



# Asset Characteristics

# Definition

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What is intangible?

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**“An intangible asset is an identifiable non-monetary asset without physical substance.”**

*[Source: IAS 38 Intangible Assets - IFRS](#)*

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# Tangibles & Intangible

- Brand ←
- Innovation ←
- CRM ←
- Management ←
- Technology ←
- Design ←
- Reputation ←
- Patents ←

Tangibles

Intangibles

# Definition

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## How to recognize intangible assets?

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The recognition of **intangible assets** require an entity to demonstrate that the item meets:

- I. the **definition** of an **intangible asset**
- II. the recognition criteria:

- a. it is probable that the future economic benefits that are attributable to the asset will flow to the entity
- b. the cost of the asset can be measured reliably

*[Source: IAS 38 Intangible Assets - IFRS](#)*

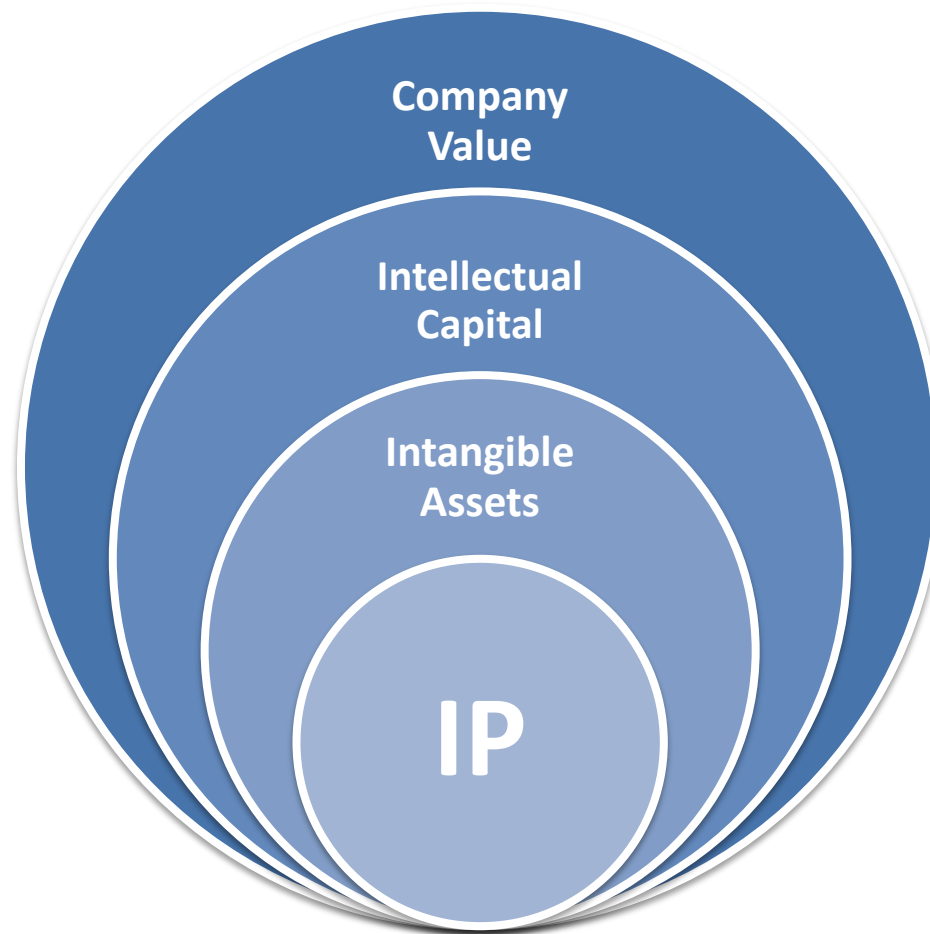
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# Promise of Value of Assets

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What is the fraction?

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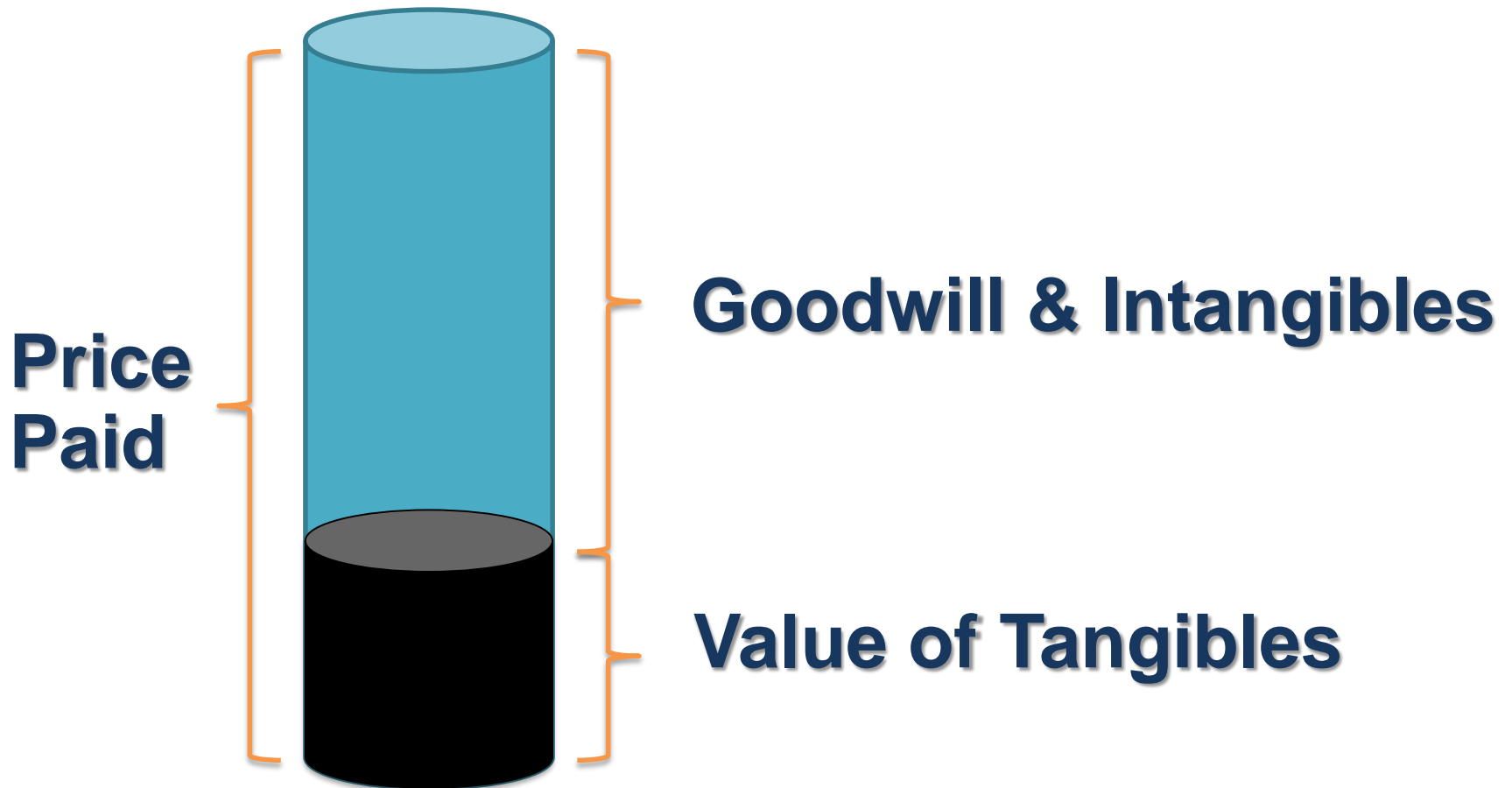


# Intangibles in Financial Transactions

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What is the fraction?

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# Group of Intangible Assets

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## What is intangible?

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### Customer-related IA

- Order or production backlog
- Customer contracts
- Customer relationships
- Customer lists

### Marketing-related IA

- Trademarks
- Internet domain names
- Non-competition agreements

### Technology-based IA

- Patented & unpatented technologies
- Software
- Databases
- Secret formulas, processes

### Artistic-related IA

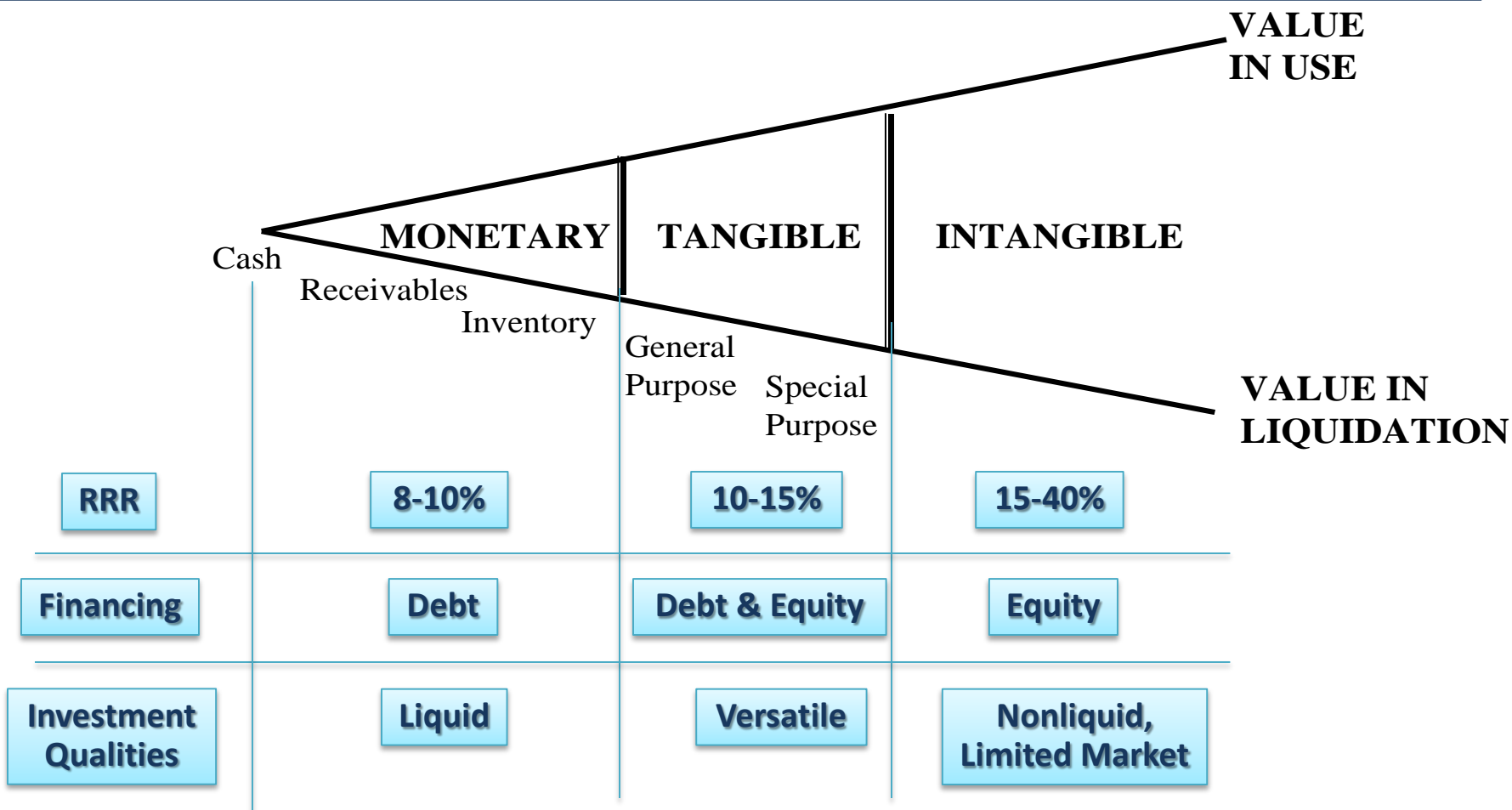
- Plays
- Books
- Pictures

### Contract-based IA

- Licensing, royalty agreements
- Leasing agreements
- Broadcasting rights

# Promise of Value of Assets

## What is the Required Return?



Source: Swaim, J. D. (2006, July 11). MEASURING THE VALUE OF INTANGIBLES INTELLECTUAL PROPERTY VALUATION. Retrieved July 22, 2014, from [www.wipo.int/edocs/.../wipo\\_insme\\_smes\\_ge\\_06\\_www\\_64176.ppt](http://www.wipo.int/edocs/.../wipo_insme_smes_ge_06_www_64176.ppt)

# Intellectual Property (IP) Valuation

# Why Value IP?

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Is there any advantage to value ip?

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## Why value IP?

**“What can be measured can be managed”**

*Or, put another way...*

**In order to manage properly you must measure accurately**

**Regular valuation of IP & monitoring of royalty rates is  
the basis for successful commercialisation of IP.**

# IP and Business

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How IP translates into business?

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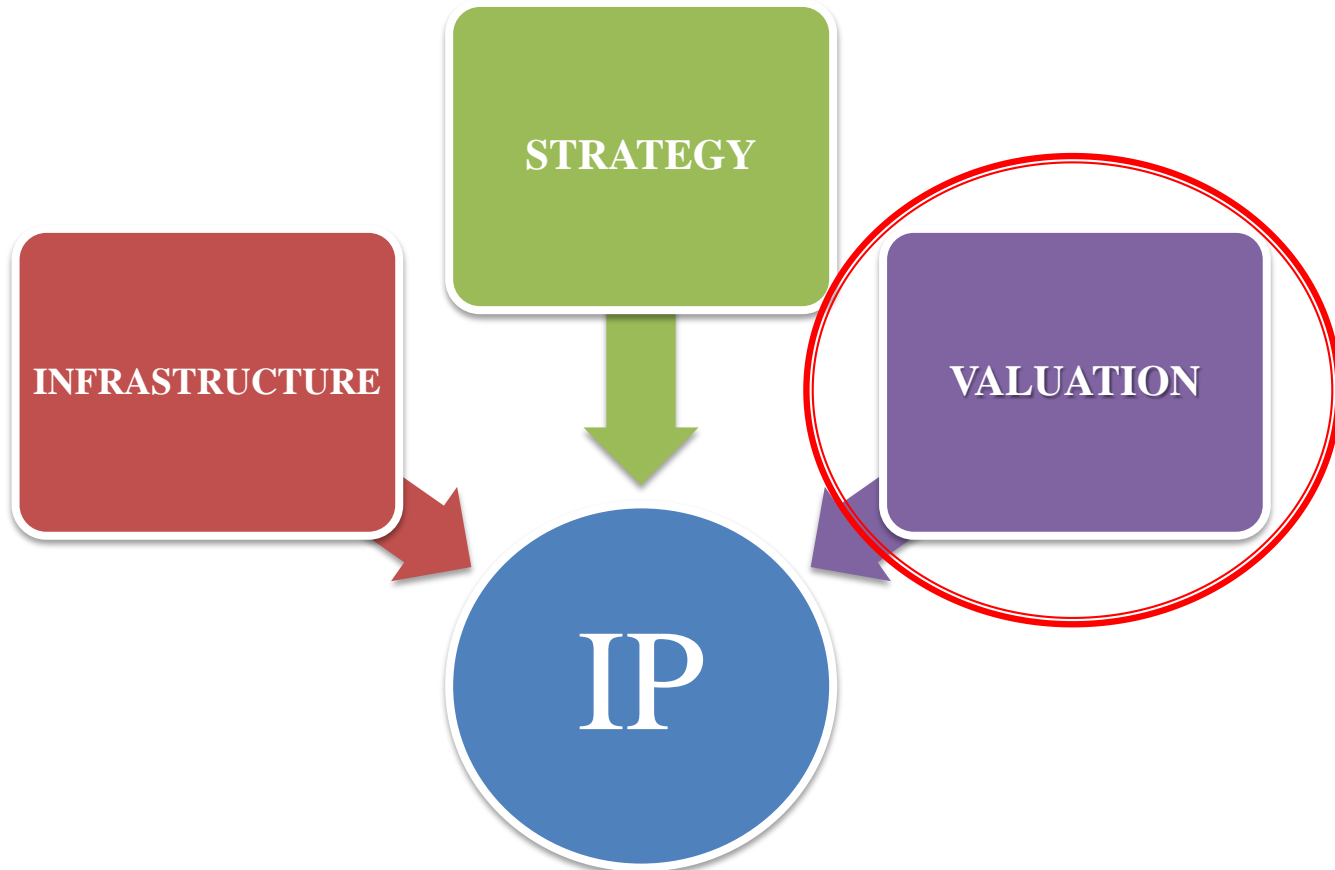
## IP and Business

- Premium selling price
  - Price of subject product versus commodity product
- Increased sales volume
  - Synergies or economies of scale
- Reduced costs
  - Less material wastage and reduced energy costs
  - Automation (reduced labour costs)
- Reduced risk/cost of funds
- Licensing

# Bringing IP to the market

What do we need to bring ip to the market?

## Bringing IP to the market



# Three Approaches to Value

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will the value of the three approaches be different?

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## Three approaches to value



### **Income approach**

based on principle of anticipation of benefits



### **Market approach**

based on principle of substitution



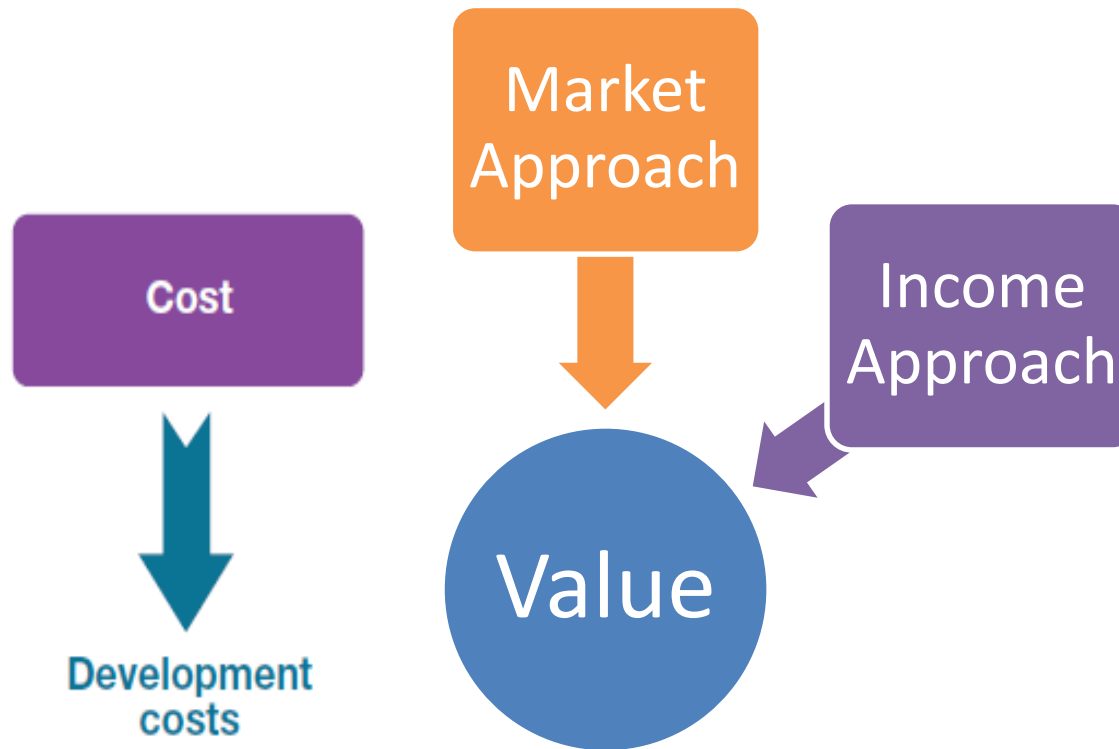
### **Cost approach**

based on principle of contribution to value

# Three Approaches to Value

will the value of the three approaches be different?

## Three approaches to value



# The Cost Approach

## What is the cost approach?

### The cost approach

- Cost to reproduce or replace similar assets
- Considering accrued depreciation or obsolescence

#### PROS

1. Ability to accurately determine Replacement Cost New
2. Identify economic life versus physical or statutory life
3. Can directly allow for various elements of depreciation

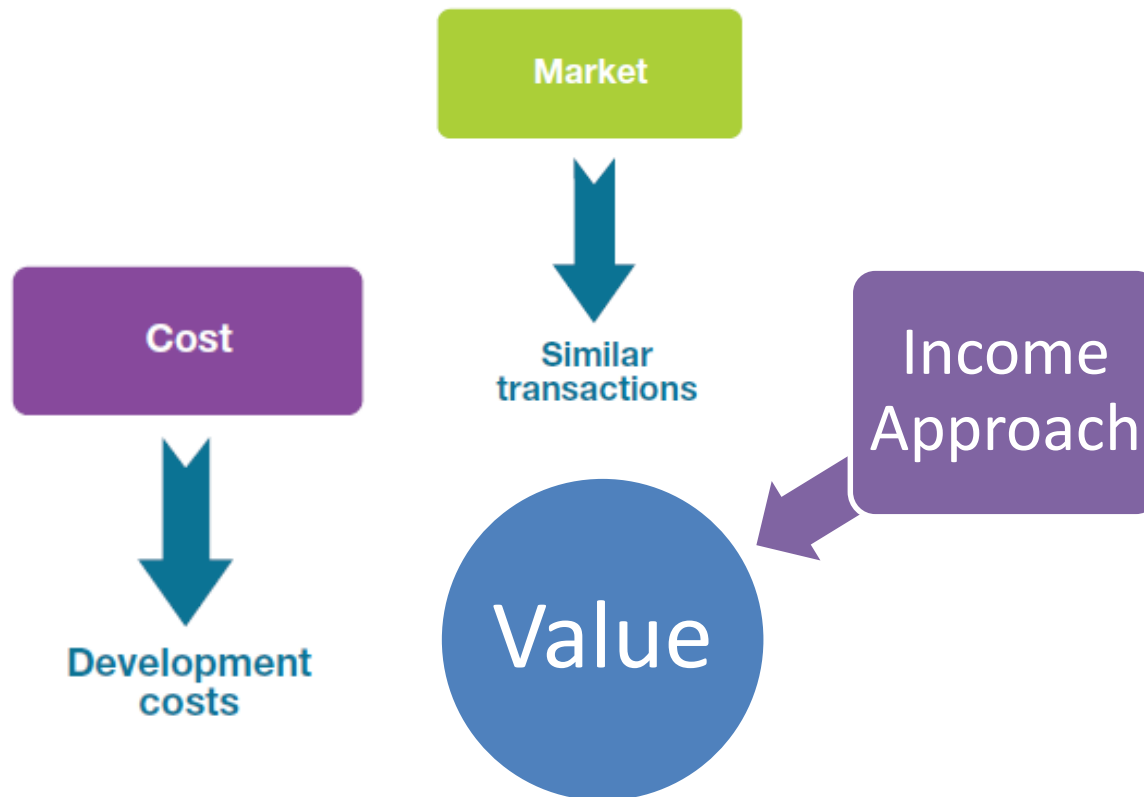
#### CONS

1. Doesn't address economic aspects of ownership
2. Risks of not receiving economic benefits not addressed
3. Some elements of depreciation difficult to quantify accurately

# Three Approaches to Value

will the value of the three approaches be different?

## Three approaches to value



# The Market Approach

## What is the market approach?

### The market approach

- Prices recently paid for similar assets
- Adjustments to reflect condition and utility of the assets

#### PROS

1. Easy applicability when there is an active market
2. Easily understood
3. Comparables are found in the public markets

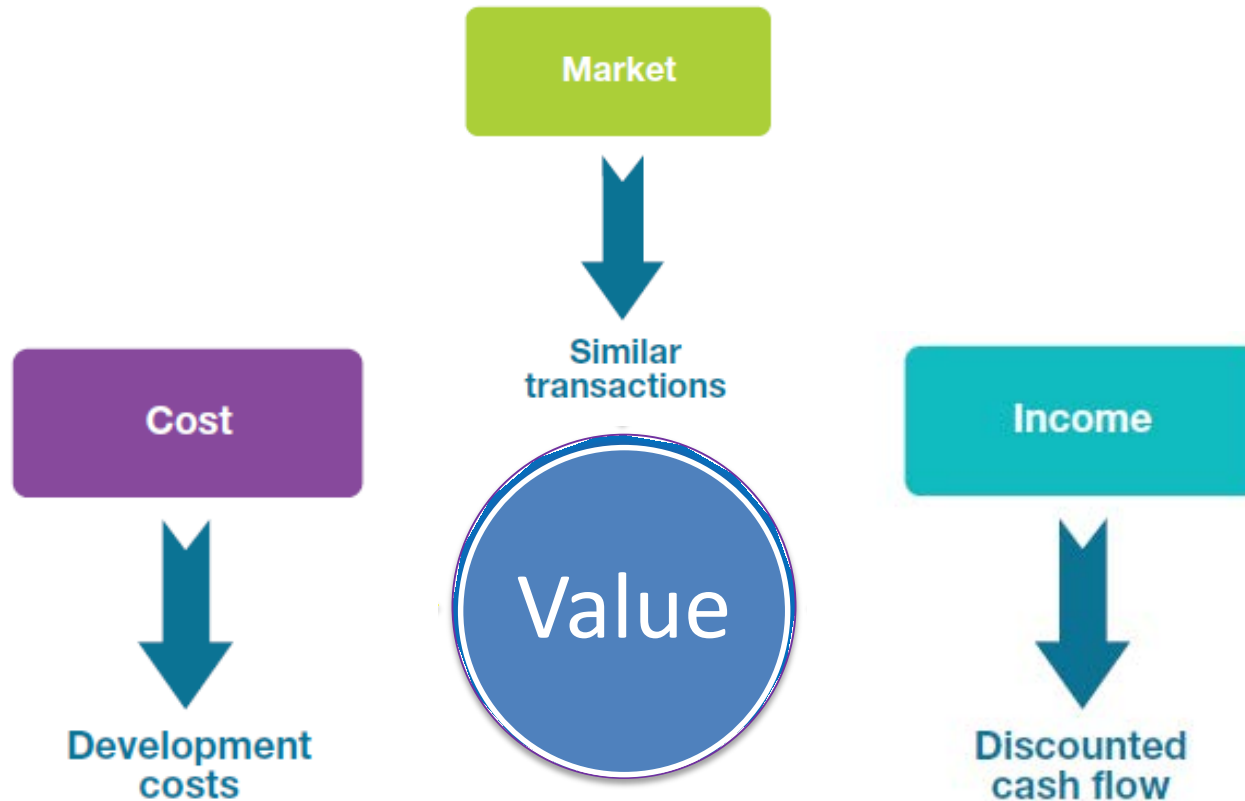
#### CONS

1. Limited comparable transactions
2. Confidential information
3. Uniqueness of IP assets

# Three Approaches to Value

will the value of the three approaches be different?

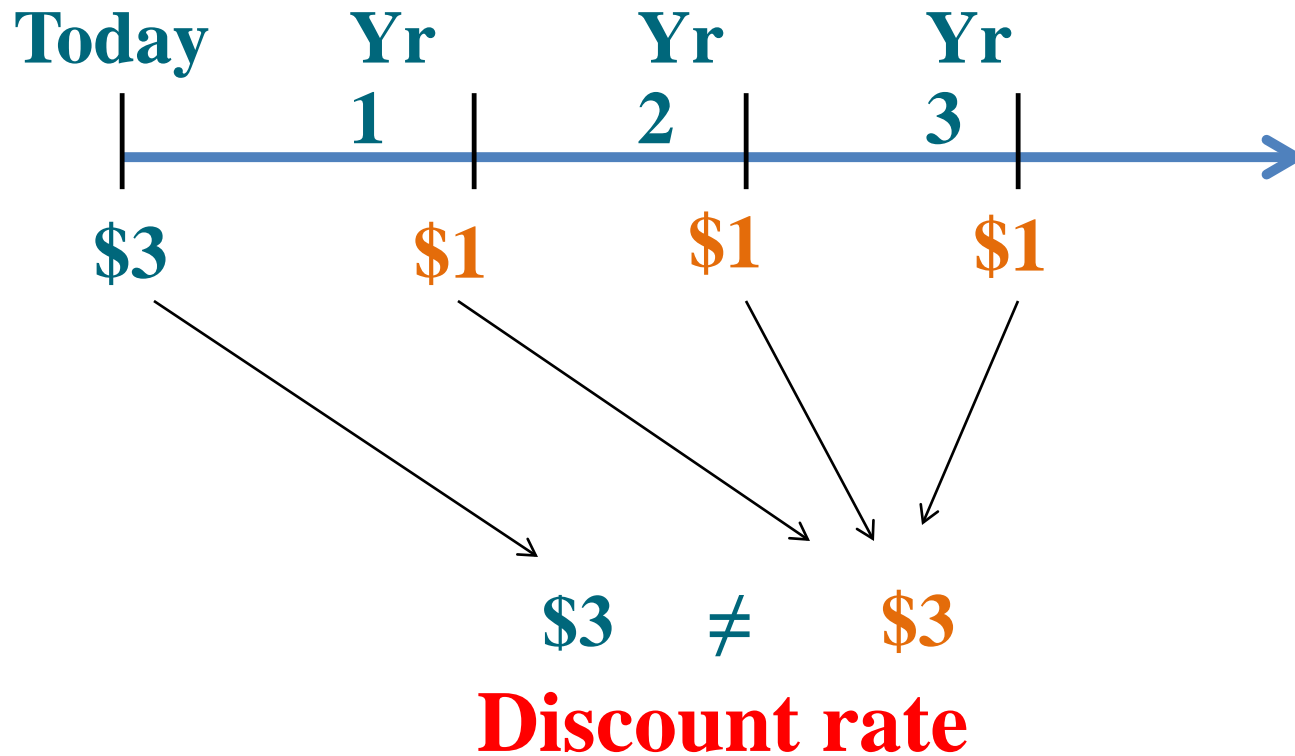
## Three approaches to value



# The Income Approach

What is the income approach?

Time value of money



# The Income Approach

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What is the income approach?

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## The income approach

- Expected periodic benefits of ownership

### PROS

1. Time value of money
2. Asset specific

### CONS

1. Forecasts can be subjective
2. Determination of correct discount rate

# IP lifecycle

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Which approach should I use?

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Research

Development

Commercialization



# Diff. Assets – Diff. Approach

Which approach should I use?

Diff. Assets – Diff. Approach		
Intangible Asset Category	Approach	Considerations
<ul style="list-style-type: none"> <li>Assembled workforce</li> <li>Management software</li> <li>Technical drawings, manuals, blueprints</li> <li>Corporate practices</li> <li>Distribution networks</li> <li>Databases</li> </ul>	<i>Cost</i>	For assets without an identifiable income stream or active market
<ul style="list-style-type: none"> <li>Domain names</li> <li>Permits</li> <li>Airport gates and slots</li> </ul>	<i>Market</i>	For assets where an active market exists, or verifiable data can be found for comparable assets
<ul style="list-style-type: none"> <li>Copyrights</li> <li>Product software</li> <li>Trademarks/Trade Name</li> <li>Patents</li> <li>Contracts and agreements</li> <li>Production backlog</li> <li>Manufacturing/assembly processes</li> <li>Favourable leases</li> <li>Franchises</li> <li>Covenants not to compete</li> <li>Mining Licenses</li> <li>Secret formulas and processes</li> </ul>	<i>Income</i>	For assets with an identifiable stream of future economic benefits

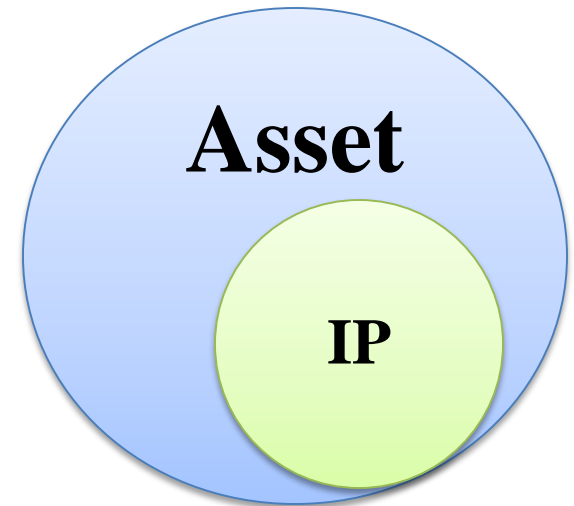
# IP Valuation in practice

# Steps in doing IP valuation

What should we do to have a relevant and precise IP valuation?

## Preliminary work in the valuation process

- Valuers should clearly define
  1. The purpose of the exercise
  2. The scope of the valuation
- Due diligence
  1. Assess relevance and strength of the asset
  2. Investigate the industry dynamics
  3. Investigate the regional situation
  4. Consider the IP and the need for contributory assets
  5. Assess degree of legal protection and uncertainties



# Steps in doing IP valuation

What should we do to have a relevant and precise IP valuation?

## Preliminary work in the valuation process



# Example – Residual Income

Divisional Earnings Before Interest			1,500,000
Less contributory asset charges:			
Land & Buildings	2,000,000	5%	100,000
Machinery & Equipment	5,000,000	18%	900,000
Inventory	500,000	12%	60,000
Cash	200,000	5%	10,000
Receivables	350,000	10%	35,000
Total return on contributory assets			1,105,000
Excess Earnings			395,000
Capitalized at	30%		1,316,667
Manufacturing Know-how value, rounded to			1,320,000

# Example – Relief From Royalty

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	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
Revenue (growth 5%)	100	105	110	115	122
Royalty savings (10%)	10	10.5	11	11.5	12.2
Taxes (30%)	3	3.1	3.3	3.4	3.6
After taxes royalty	7	7.3	7.7	8.1	8.5
Discount rate	15%	15%	15%	15%	15%
Discount factor	0.869	0.756	0.657	0.571	0.497
Present value	6	5.5	5	4.6	4.2
Total value	25.5				

# Royalty Rate Study

How much should I charge for the license fee?

## Royalty rate study

### Licensee Analysis

Econometric analysis to ascertain benefits, risks, rewards

### Market Analysis

Analysis of similar licensing agreements to derive market benchmark



**Equitable  
Royalty Rate**

**25% Rule?**

# 25% Rule

How much should I charge for the license fee?

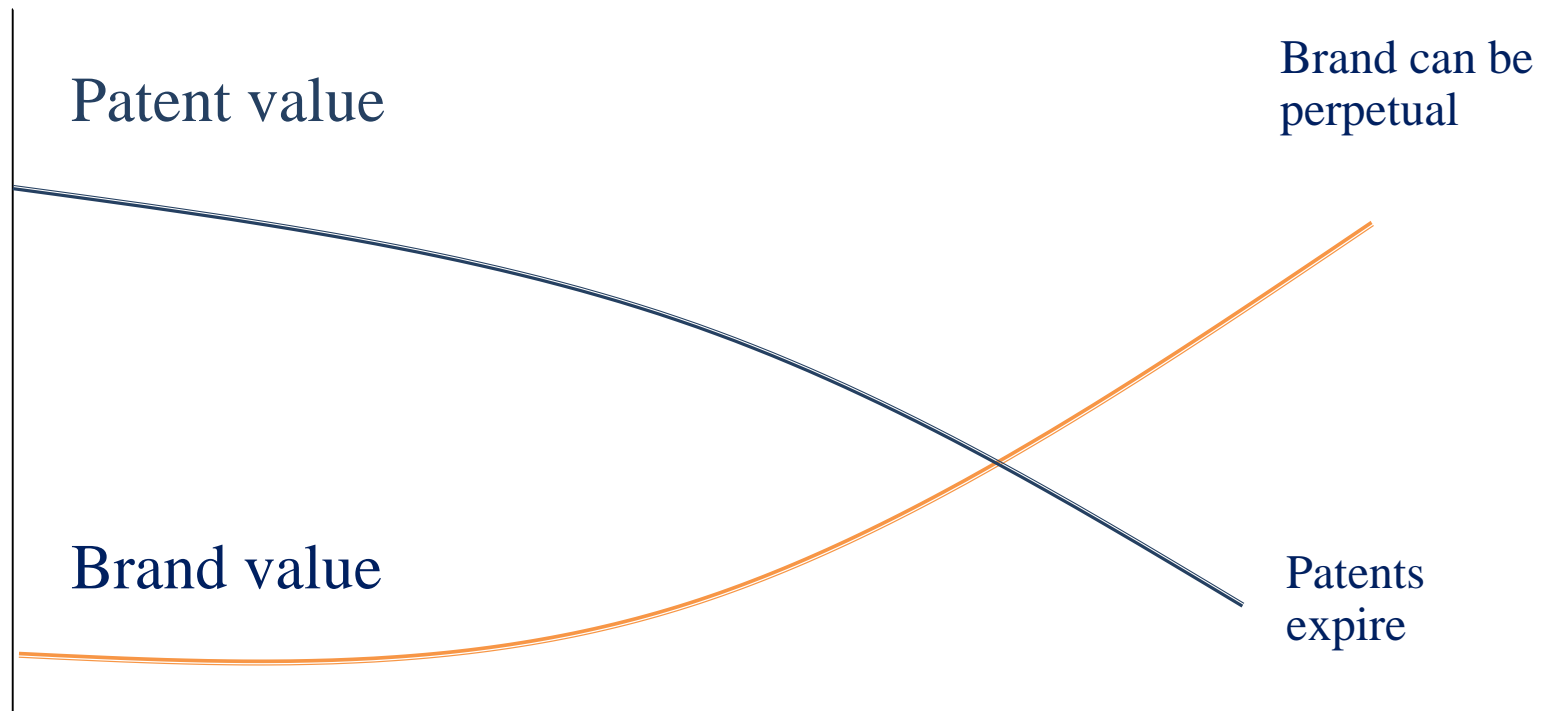
## 25% rule

- 25% of incremental operating profit should be payable as a license fee for use of IP
- An arbitrary split which illustrates that bulk of risk is usually borne by the licensee
- Actual split is best determined after analysis of relative risks to each party



# Patent Lifetime

## Patent lifetime



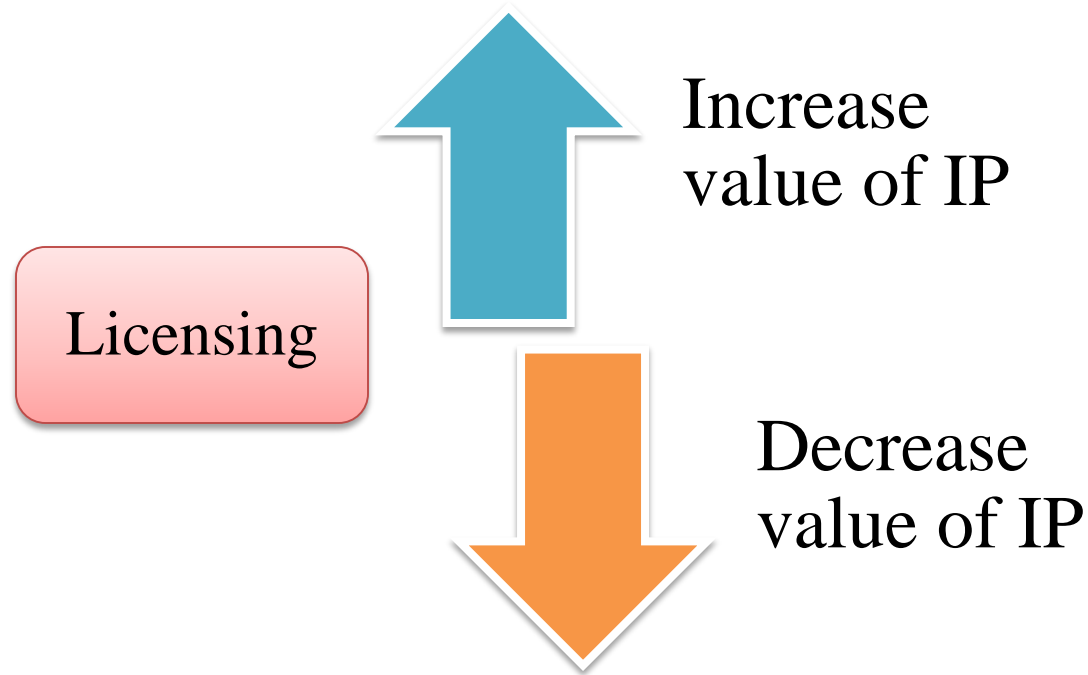
Es. ASPIRIN,  
PANADOL

# Licensing

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## Licensing

- Existing/proposed license agreements directly impact the value of IP



# Conclusion

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## Conclusion

- IP is a driver for more value
- Three approaches to value IP
  - Cost approach
  - Market approach
  - Income approach
- 25% rule!

# Q&A

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# For further questions

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## Contact Details

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