INTELLECTUAL PROPERTY VALUATION & EXIT

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INNOVATION

- DEFINITION: The process of translating an idea or invention into a good or service that creates value or for which customers will pay.

- To be call innovation, an idea must be replicable at an economical cost and must satisfy a specific need.

(extracted from www.BusinessDictionary.com)

INNOVATION PROCESS (5I)

- Initiation (IDEA)
- Invention (ACTION)
- Intellectual property (RIGHT / OBLIGATION)
- Implementation (INVESTMENT)
- Income (RETURN)

(In chronological order)

IP POSITION

- Intellectual Property is standing in the middle of the Innovation Process.
- To implement the IP, it requires capital to convert the IP into income that justify the investment.
- To maximize the IP, it requires mature IP deliverables.

IP VALUE

- INTLLECTUAL PROPERTY is the right and obligation of the inventor which may require certain capital INVESTMENT to convert into consumer product and generate INCOME.

- IP Holders need to materialize the IP VALUATION so as to attract IP investors provide adequate capital investment in exchange of certain IP DELIVERABLES.

WHY VALUATION?

- IP VALUATION – THE ECONOMIC APPRAISAL ANALYSIS OF CERTAIN INTELLECTUAL PROPERTIES.

- IP VALUATION is the method(s) adopted by the investors to justify certain capital investment in the Intellectual Property.

- INVESTMENT < INCOME

VARIOUS IP VALUATION

- The intellectual property value is the quantitative value consider by various stakeholders in making a decision.

- The quantitative value can be built by a mathematic model derived from certain approaches.

- The stakeholders include IP holders, IP investor, professional, such as lawyers, accountants, valuators, etc.

QUANTITATIVE APPROACHES

The IP value may be estimated by calculating certain fundamental value of an intellectual property with the application of certain approaches. The most popular types are:

- (1) COST
- (2) MARKET
- (3) INCOME
- (4) DIRECT

COST APPROACH

Investor will pay at cost to obtain an IP.

VAULATION METHOD:

- Historical cost
- Replacement cost
- Replication cost

MARKET APPROACH

- Investor will pay the demand and supply equilibrium price obtain from free and unrestricted market of such Intellectual Property.
- VALUATION METHOD
- Value is set from indication from similar transactions of such property exchange, which may obtain from public sources or royalty rate databases.

INCOME APPROACH

Investor will pay the price at which equal to estimated fair value of intellectual property by discounting the future economic benefits at certain discount rate.

METHOD

Cash flow discount models

Assumptions:

- 1) return
- 2) time of returns
- 3) discount interest rate.

DIRECT APPROACH

- Investor will pay the price on the current value of shares of intellectual property in an intellectual property share market.

METHOD:

- Option-based method such as option price model to calculated the valuation of certain intellectual property.

QUALITATIVE APPROACH

On top of quantitative model and financial data, investor also consider the importance / quality of the intellectual property.

Examples:

- 1) Legal structure
- 2) Technology level
- 3) Market size
- 3) Product life cycle
- 4) IP owner / organization structure

HOW TO CHOOSE APPROACH

IP Holders: Maximum IP Valuation

IP Investors: Minimum IP Investment

- Compromise model: mutually agreed model.
- Cost approach is appropriated in early stage or fundamental IP property.
- Market, Income and Direct approaches are appropriated in mature or commercialize IP property investment valuation models.

IP VALUATION – CORE ISSUES

- The IP investors look for Tangible Assets and Intangible Assets in the deal.

- Tangible Assets can easily be accessed by quantitative approaches.

- Intangible Assets cannot only be accessed by quantitative or quantitative plus qualitative models, but also investors eye on the perceived value and deliverables of IP.

PERCEIVED VALUE

- DEFINITON - A customer's opinion of a product's value to him or her. It may have little or nothing to do with the product's market price, and depends on the product's ability to satisfy his or her needs or requirements.

(extracted from www.BusinessDictionary.com)

PERCEIVED VALUE PRICING

- DEFINITION - The valuation of goods or service according to how much consumers are willing to pay for it, rather that upon its production and delivery costs. Using a perceived value pricing technique might be somewhat arbitrary, but it can greatly assist in the effective marketing of a product since it sets product pricing in line with its perceived value by potential buyers.

(extracted from www.BusinessDictionary.com)

IP DELIVERABLES

IP Deliverables are the actual tangible and intangible assets beyond the IP rights and obligations which an IP holder can deliver.

Example:

- (1) An entire business operation
- (2) A franchise contract
- (3) IP license/lease for Performance Model
- (4) Documentation
- (5) Models or trade secret
- (6) Software

BUILD A DELIVERABLE IP

- (1) Determine the deliverable
- (2) Establish commercial vehicles
- (3) Transfer IP rights into commercial vehicles
- (4) Convert IP into commercial products
- (5) Set-up price for the commercial products
- (6) Enter the market
- (7) Operation and/or Execution

The Conversion Process

- The conversion process require various talents from legal, accounting, finance, marketing, operation and/or production.

- To implement this process, a professional teams may do a better and faster job than do it by the inventor alone.

IP PROPERTY RATIONALE

ADVANTAGES	LIMITATION
LEGAL PROTECTION	LIMITED TO GEOGRAPHIC REGION
BARRIERS TO ENTRY	CAN BE CATCH UP SOONER OR LATER
EARLY ENTRY	CAN BE SURPASSED BY BETTER INVENTORS
MARKET SHARE	CAN BE NEUTRALIZED OR BY BETTER COMPETITORS

EXIT

STRATEGY

- 1) PARTIALLY EXIT
- 2) COMPLETELY EXIT

OBJECTIVE

- In route of exit, try to obtain maximum benefits in exchange of IP deliverables.

COMFORTABLE

- The most comfortable way out is EVERY PARTY GETS WHAT THEY WANT!

- In realty, there are winners and losers.

- In order to get a fair deal, the IP holders may likely choose partially exit instead of completely exit.

EXIT CHOICE

Winner or Loser concern:

- (1) What is on sale
- (2) How much is the IP valuation
- (3) Can we identify the perceived value of the IP
- (4) What will be deliver
- (5) How we arrange the IP deliverable

ARRANGEMENT

	TERM = LIFE OF IP	TERM < LIFE OF IP
EXCLUSIVE	COMPLETED PERFORMANCE (1)	PROPORTIONAL PERFORMANCE (2)
NON-EXCLUSIVE	COMPLETED OR PROPORTIONAL PERFORMANCE (3)	COMPLETED OR PROPORTIONAL PERFORMANCE (4)

ARRANGEMENT 1

- A complete exit, similar to a complete sales.
- There may be no additional performance once completed.
- Future benefits may or may not retained.

ARRANGEMENT 2, 3 &4

- A partial exit, similar to an operating lease.
- The IP right will revert to IP holder at the end of the term.
- There may be additional performance.
- Future benefits may be retained.

OTHER CONSIDERATIONS

- (1) FIXED OR DETERMINABLE FEES
- (2) CONTINUING PERFORMANCE OBLIGATIONS
- (3) TAX IMPACT ON THE ARRANGEMENT(S)
- (4) DO IT ALONE OR WITH ALLY
- (5) TIMING OF IP
- (6) RELIANCE ON OTHER PROFESSIONAL(S)

SUMMARY

- The IP valuations are influenced by what the IP holders can deliver.
- The IP valuations are relied on the perceived value which the stakeholders can identify.
- There are various exits which have different considerations.
- The IP holders may get better rewards if ally with the appropriate professional teams.

END

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