IP VALUATION:
UNDERSTANDING THE FINANCIAL VALUE OF YOUR IP PORTFOLIO

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Biography of Ms. Kasznik

- Founder and President, **Foresight Valuation Group**, a Silicon-Valley based IP valuation, strategy and start-up advisory firm.

- IP valuation and strategy expert, with 20 years of experience

- Lecturer on IP Strategy, **Stanford Grad. School of Business** (GSB)

- Chair, Internet of Things (IoT) Committee, **Licensing Executives Society (LES USA-Canada).**

- Listed on **IAM 300** list of WORLD IP strategists: 2013 – 2016.

- Co-founder and adviser to startups, incubators and venture funds in the US, Israel and Europe

- Conference speaker and regular contributor to IP and Business publications.

Outline

- ☑ The IP Valuation Gap
- ☐ IP Valuation: Circumstances & Methods
- ☐ IP Valuation in Startup Situations
- ☐ Case Study: Patent Acquisition in Litigation
- ☐ Key Takeaways

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Types of Intellectual Property Assets

Copyrights

Trademarks

Trade Secrets

Patents

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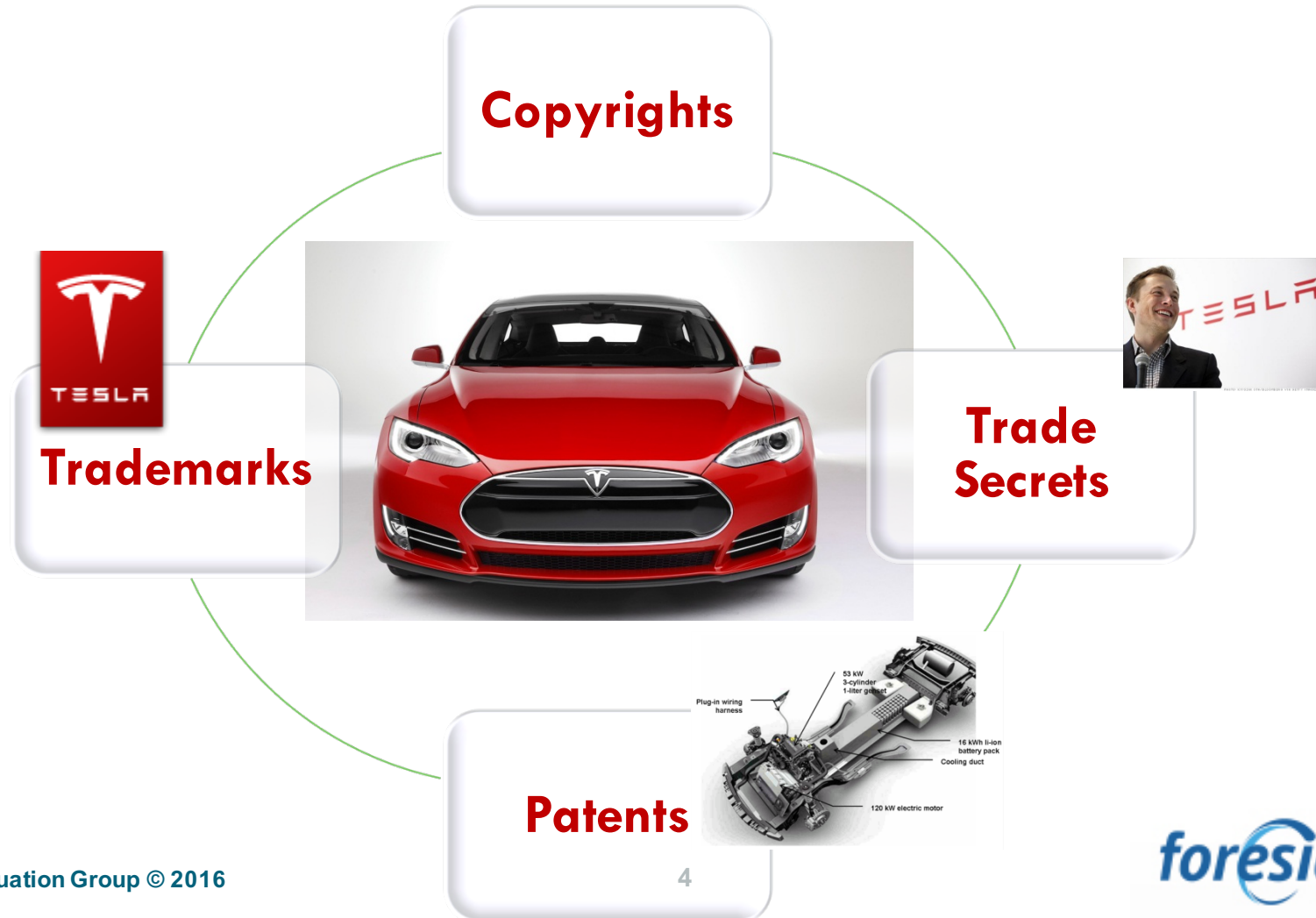
Intangible Assets Are "Invisible"

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Industry report - Financial reporting for intangibles: the case of the invisible assets

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Foresight Valuation Group LLC - IP valuations

Google's recently announced sale of Motorola Mobility's mobile phone business to Lenovo for $2.9 billion reignited some of the discussion around the valuation of Motorola's IP assets at the time of the original $12.4 billion acquisition in 2012. Financial markets and IP experts were embroiled in speculation about what exactly Google paid for when buying Motorola, and how central the intellectual property – primarily Motorola's massive patent portfolio – was in driving the acquisition price. Looking at Motorola's balance sheet on the eve of the acquisition offered no clues to untangling the acquisition price: according to US Generally Accepted Accounting Principles (GAAP), internally grown 'intangible assets' (the accounting terminology used when referring to intellectual property) are not reported as assets on the balance sheet of the company that created them.

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The IP Valuation Gap

- ***Reporting Gap: Internally-generated IP Assets are NOT valued annually nor reported on the financial statements of companies***
  - Companies only required to report IP Assets they acquired from other companies

- ***Disclosure Gap: Most IP transactions are highly confidential***
  - Lack of transparency into basic deal terms (royalty, etc.)

- ***Comparability Gap: IP assets are unique and novel***
  - Difficult to compare one asset/deal to another, even if the data were available

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Google-Motorola Acquisition Example

May 2012: Google acquires Motorola Mobility for $12.5 billion

Google – Motorola Mobility (MMI) Acquisition Facts

☐ Google

Market Cap $182 Billion (as of 8/12/2011)

Mountain View, California

29,000 Employees
Co-CEO's are Founders

Leader/Dominant in search-based advertising business; Focus on Android software, a leading smartphone Operating System (43%).

Competitors:
Microsoft/Facebook/Yahoo/Apple.

About 750 patents …

☐ Motorola Mobility

Pre-deal $7.3 Billion

Libertyville, Illinois

20,000 Employees, new California based CEO brought in for turnaround.

Spin off from original Motorola:
Mobile devices (Android focused) & cable/home equipment.

Competitors: LG/HTC/Apple/Samsung/RIM.

17,000 Patents (and 7,500 patent applications).

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Reporting Gap:
The MMI Balance Sheet on the Eve of Acquisition

	MMI Mar 2012 Book Values	
Current assets	6,299	
Other tangible assets	1,659	
Patents	-	
Other Intangibles (non-goodwill)	-	
Goodwill	1,434	
Total Assets	9,392	
Current liabilities	3,754	
Long-term liabilities	547	
Total Liabilities	4,301	

Disclosure/Comparability Gap:
Patent Prices around Google-MMI Acquisition Time
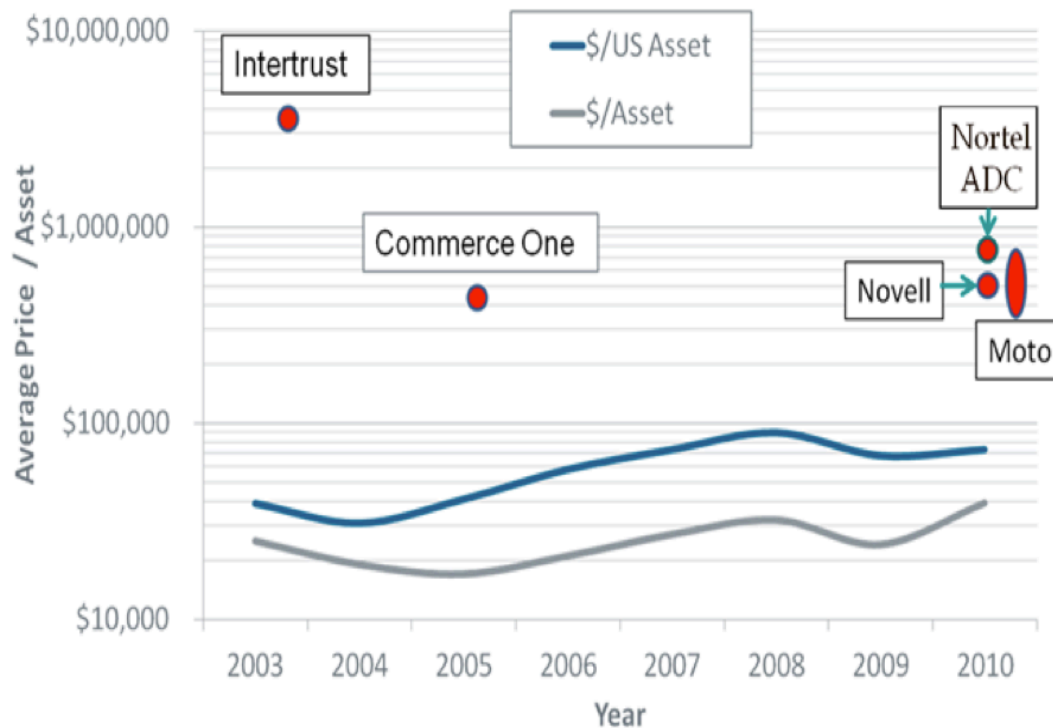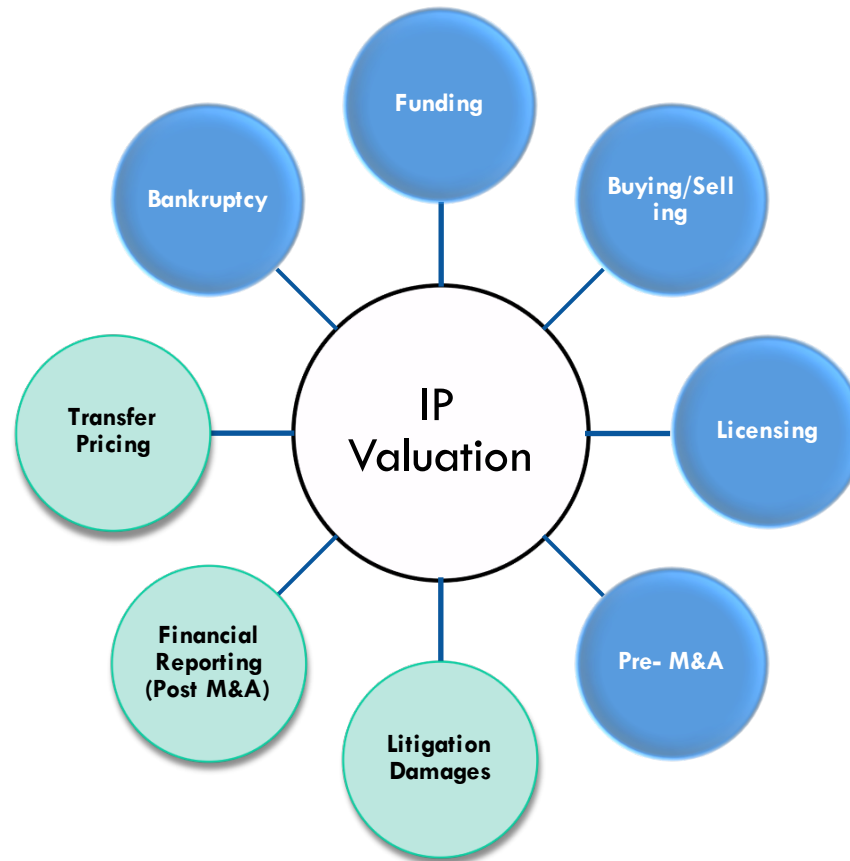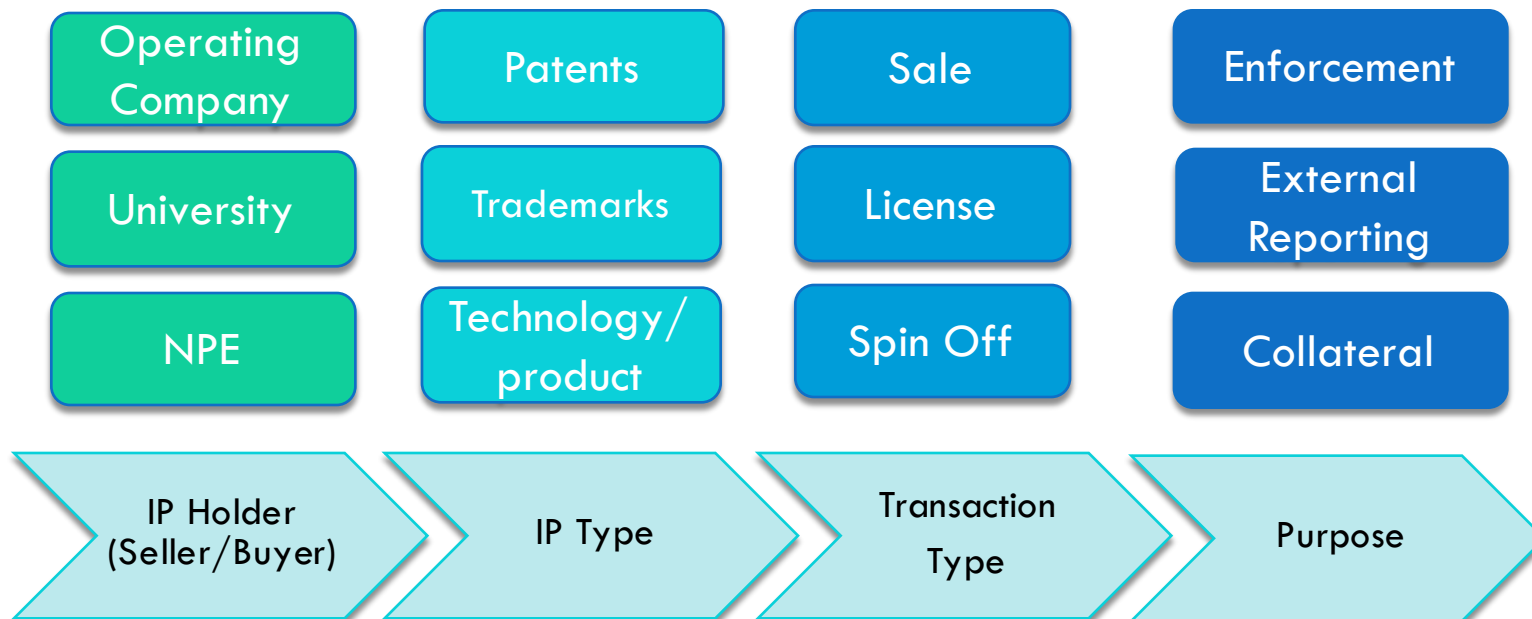

Source: Intellectual Ventures

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IP Valuation Circumstances:
The Corporate IP Holder's View

What is the IP Valuation Context?

IP Valuation is Highly Contextual

Operating Company	Patents	Sale	Enforcement
University	Trademarks	License	External Reporting
NPE	Technology/ product	Spin Off	Collateral

IP Holder (Seller/Buyer) ➤ IP Type ➤ Transaction Type ➤ Purpose

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The IP Valuation Process

Valuation Purpose

IP Assets Assessment = Evaluation

- **Technology**
- **Legal**
- **Business (Industry & market)**

Valuation Scenario & Analysis

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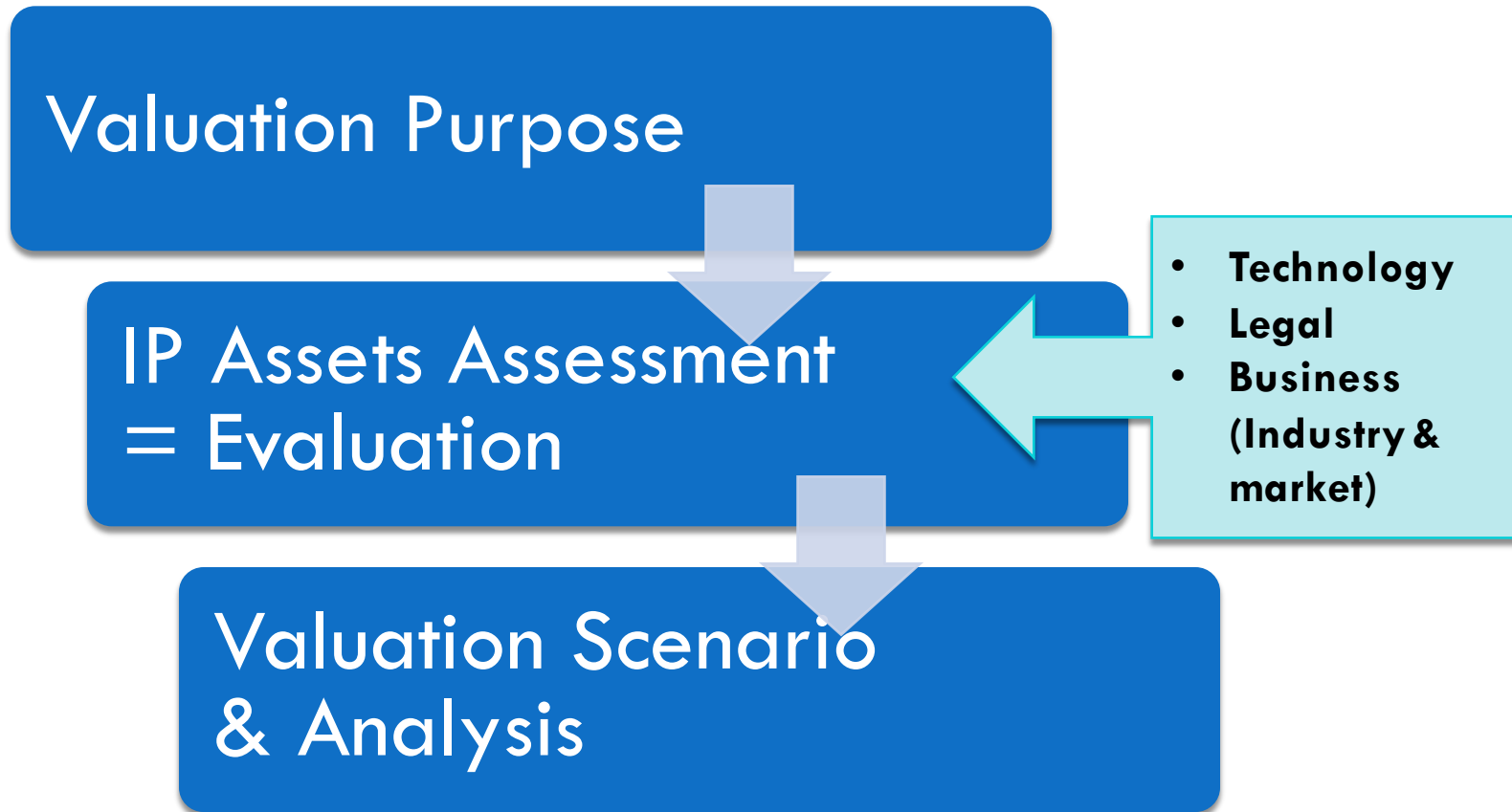
IP Valuation Methods: At a Glance

Method	Description	Advantages	Disadvantages	When Used
Market	Based on market transactions involving comparable intangibles	Market driven, reflects market prices (supply and demand equilibrium)	Comparable transactions are not always available	**Most desirable, but rarely used (lack of market data)**
Income	Based on future economic utility generated by the intangible (royalties or incremental profits)	Top-down approach, based on economic utility and on industry norms	Input factors may be hard to estimate: Future projections, Royalty rates, Market penetration	**Most commonly used (based on studies by KPMG, Deloitte)**
Cost	Based on estimation of the cost to replicate/reproduce the intangible	Easy to calculate – based on known factors (time and materials, hourly rates, overhead)	No measure of utility or market demand	**Not very common**

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Relief from Royalty: Income Method

TECHNOLOGY Information

Applications: packaging
Products : Plastic bottle

PRODUCT & SERVICES Information

Unit sales: Bottles
Selling Price: $0.06 /bottle
Markets: US
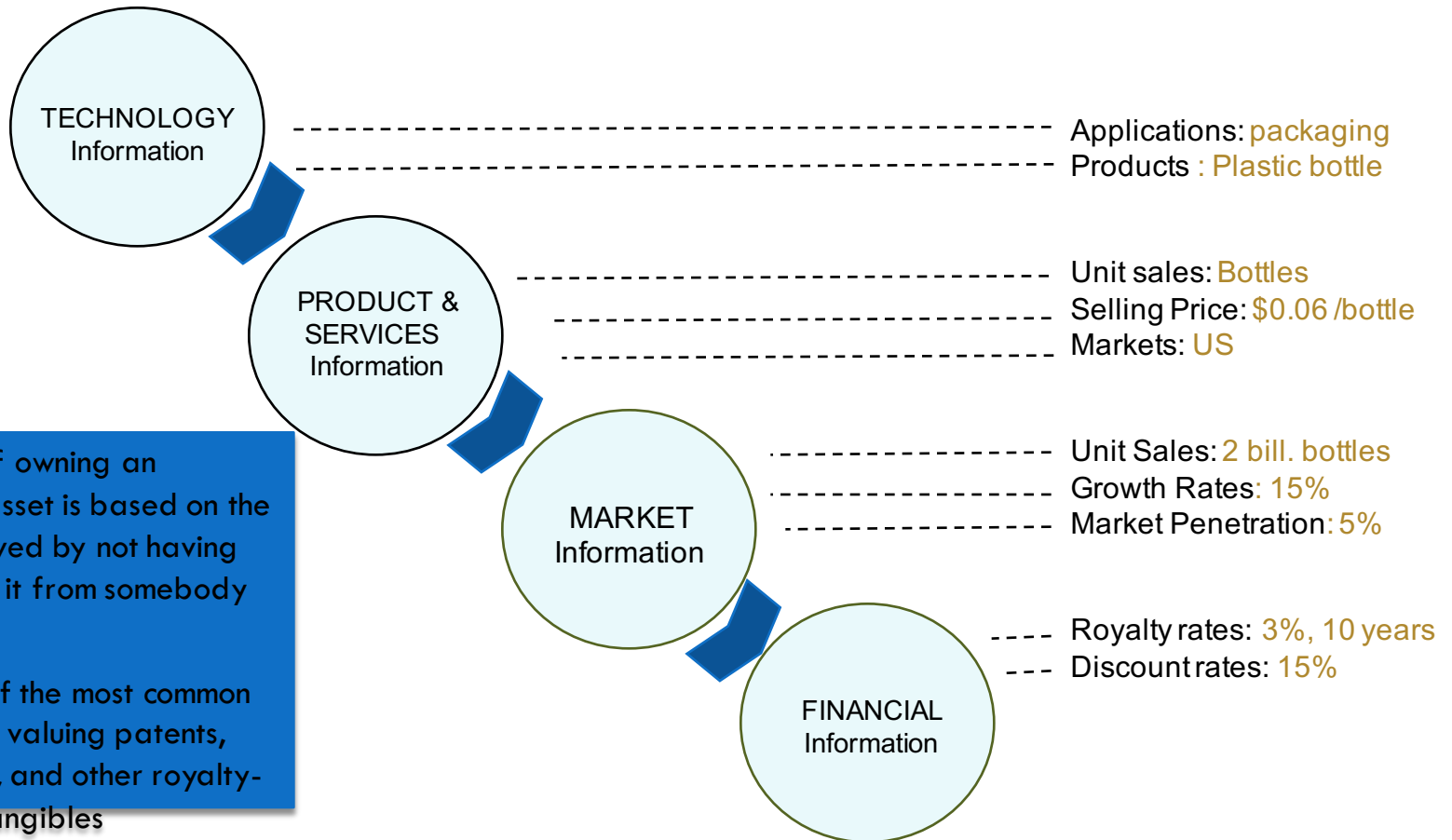
The value of owning an intangible asset is based on the royalties saved by not having to in-license it from somebody else

This is one of the most common methods for valuing patents, trademarks, and other royalty-bearing intangibles

MARKET Information

Unit Sales: 2 bill. bottles
Growth Rates: 15%
Market Penetration: 5%

Royalty rates: 3%, 10 years
Discount rates: 15%

FINANCIAL Information

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Types of IP Value in Startups –
By Investor & Type of Investment

	Debt	**Equity**
Institutional	LIQUIDATION VALUE	GROWTH (PIVOT) VALUE
Strategic	MONETIZATION VALUE	SYNERGISTIC VALUE

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Special Startup Situations: Insights from Silicon Valley

☐ The Use of IP for Funding is Increasing:
- ◪ Collateralization in Debt funding (Silicon Valley Bank, Fortress Fund)
- ◪ More Scrutiny on quality in Equity funding
- ◪ Valuation is becoming a key issue
- ◪ Identify the right asset (patents, software, other)
- ◪ Identify the right valuation framework

☐ "Pivot" Value of IP:
- ◪ Can IP platform be leveraged to multiple products?
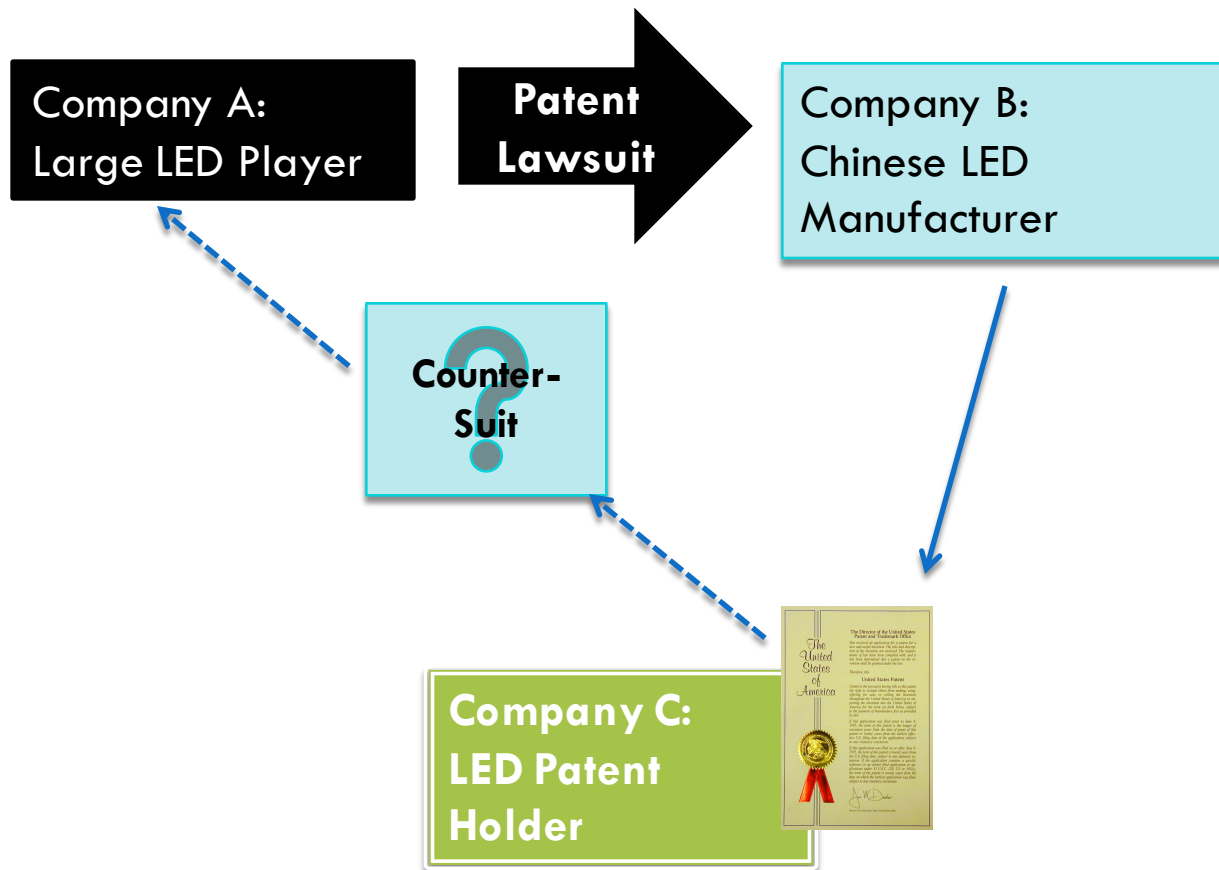- ◪ Many VC investors fail to see beyond the limited defensive value of the IP – need more education

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Case Study: Patent Acquisition in Litigation

- Litigation scenario:
  - *Company A*: a large LED market leader in the US
  - *Company B*: a Chinese mfg entering the US market with cheap LED light bulbs, no patents
  - *Company C*: a mid-size LED component maker with very valuable IP assets, selling to entire market (incl. A and B)

- *Company A suing Company B* over patent infringement (plus unfair competition)

- *Company B approaches company C* to acquire a patent for counter suing company A

** What's the value of the patent? **

Complex IP Valuation:
Patent Valuation in Litigation

Company A:
Large LED Player

Patent Lawsuit

Company B:
Chinese LED Manufacturer

Counter-Suit

Company C: LED Patent Holder

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Range of Patent Value Scenarios

- Value to Company C (Seller):
  - Development cost (design around)
  - Opportunity cost (Comp. A is a client)
- Value to Company B (Buyer):
  - Litigation Avoidance: delta in probability (with/without the patent) applied to litigation & damages cost
- Other strategic options:
  - Sell to Company A
  - Sell to another competitor
  - Start an enforcement campaign

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☑ Key Takeaways

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Key Takeaways

- There's an IP Valuation Gap!
    - Particularly critical in M&A Situations (Google-MMI)
- There are three IP Valuation Methods
    - Market comps are hard to find
    - Income methods are the most common (royalty based)
- IP Valuation is highly contextual, depending on:
    - The Holder
    - The IP Type
    - The Transaction
    - The Purpose
- This is particularly true in complex IP transactions (Patent acquisition in litigation example)
- The Use of IP Valuation is Increasing in Startup Funding Situations

Questions?

THANK YOU!

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Presentation available upon request