



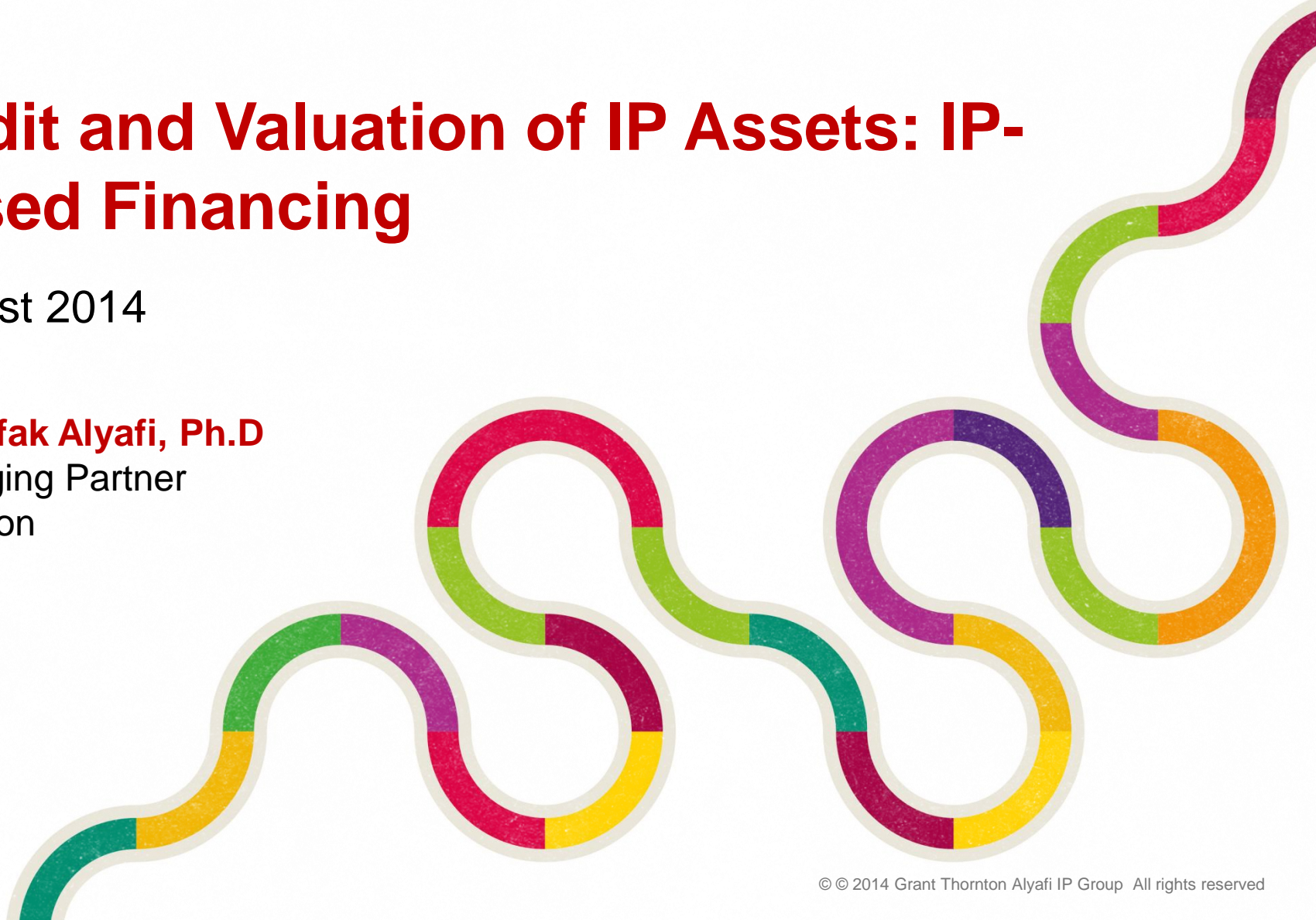
Grant Thornton Alyafi IP Group

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# Audit and Valuation of IP Assets: IP-based Financing

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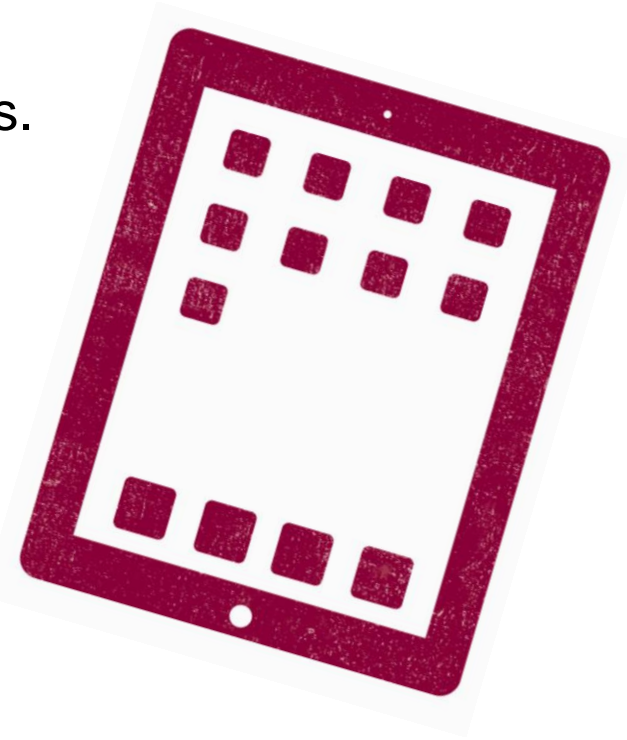
# Agenda



- **What is IP Audit**
- What is IP Valuation
- What are the types of assets in an organization
- What are the types of IP audit
- What are the methods of IP valuations
  - IP valuation methods in depth – Quantitative
- What are the drivers of IP value
- From IP valuation to commercializing your IP assets

# What is an intellectual property audit

- Intellectual property: the legal rights which result from intellectual activity in the industrial, scientific, literary and artistic fields.
- Audit: An inspection of an individual's or organization's accounts, typically by an independent body.
- Intellectual property audits relates to the inspection of an organization's legal rights relating to their intellectual property assets



# What is an intellectual property audit (contd)

## Objectives of IP Audits:

- **Completeness:** Are all IP assets recognized, exploited and understood by the company
- **Accuracy:** Is the value underlying in the IP assets recognized?
- **Validity:** Have all statutory requirements for maintaining such assets been met
- **Existence:** Are all IP assets owned by the firm? Do these assets exist
- **Exclusivity:** Does the company own all IP assets internationally exclusively, is there a potential for conflict.



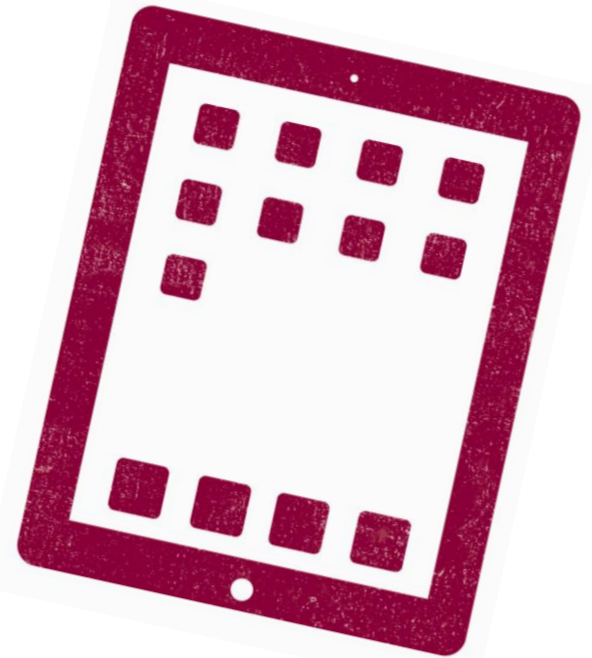
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# What is an intellectual property valuation

- The **value** of an asset is the value of the future economic benefits it brings.
- Monetary or financial valuation is the process of determining or measuring reliably the value or worth of an asset, the cost or price of an asset may be a good indicator of its value.
- The value of an IP asset derives, in essence, from its ability to exclude competitors from a particular market. Whilst the **legal** right that grants the right to exclude the **economic** right is based on exclusivity of use, that is the ability to control the use of the IP asset



# Top Brands year 2013 (Interbrand)

<u>2013 Rank</u>	<u>2012 Rank</u>	<u>Brand</u>	<u>Brand Name</u>	<u>Sector</u>	<u>Brand Value \$m 2012</u>	<u>Brand Value (\$m) 2013</u>	<u>Company Value (\$B) 2013</u>	<u>Change in Brand Value</u>
1	2		Apple	Technology	76,568	98,316	500	28%
2	4		Google	Technology	69,726	93,291	382.47	34%
3	1		Coca-Cola	Beverages	77,839	79,213	168.7	2%
4	3		IBM	Business Services	75,532	78,808	202.54	4%
5	5		Microsoft	Technology	57,853	59,546	343.82	3%
6	6		GE	Diversified	43,982	46,947	259.56	7%
7	7		McDonald's	Restaurants	40,062	41,992	96.91	5%
8	9		Samsung	Technology	32,893	39,610	186.47	20%
9	8		intel	Technology	39,385	37,257	129.22	-5%
10	10		Toyota	Vehicles	30,280	35,346	193.54	17%

# What is an intellectual property valuation (contd)

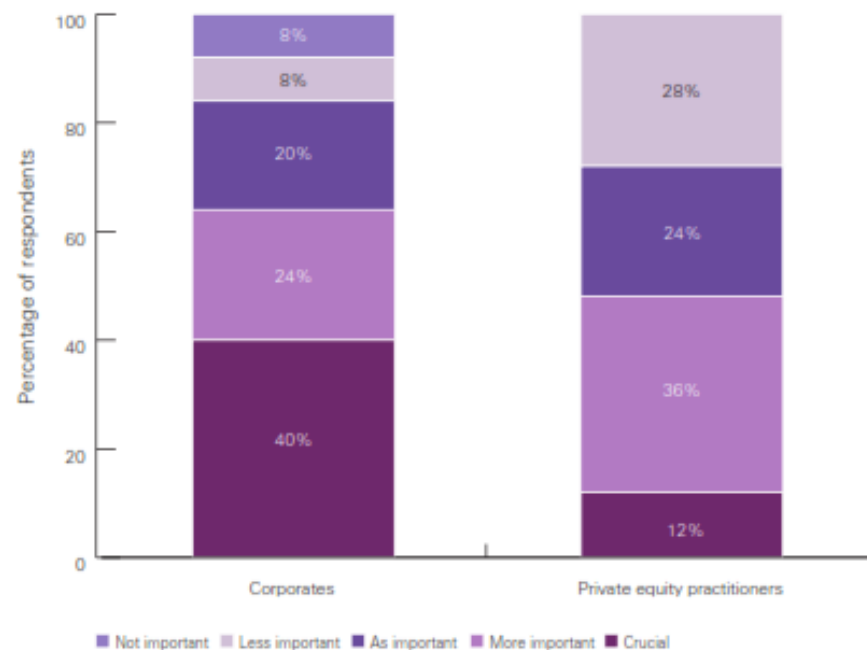
**IP valuations** are performed for many reasons:

1. Transactions:

- Licensing
- Franchising
- Sale or purchase
- M&A

A survey conducted in 2004 to stress the importance of IP assets revealed that 12% of private equity houses and 40% of corporations believe that IP is a **crucial** asset during transactions.

When identifying a target, how important is a company's IP portfolio compared to other assets?





# What is an intellectual property audit (contd)

**IP valuations** can be done for many reasons:

2. Enforcement of rights (damages)
3. Internal use
  - Management
  - Financing and/or raising equity/capital
  - Strategic plans
4. Other – (Financial reporting, Bankruptcy/liquidation, taxation, Insurance)

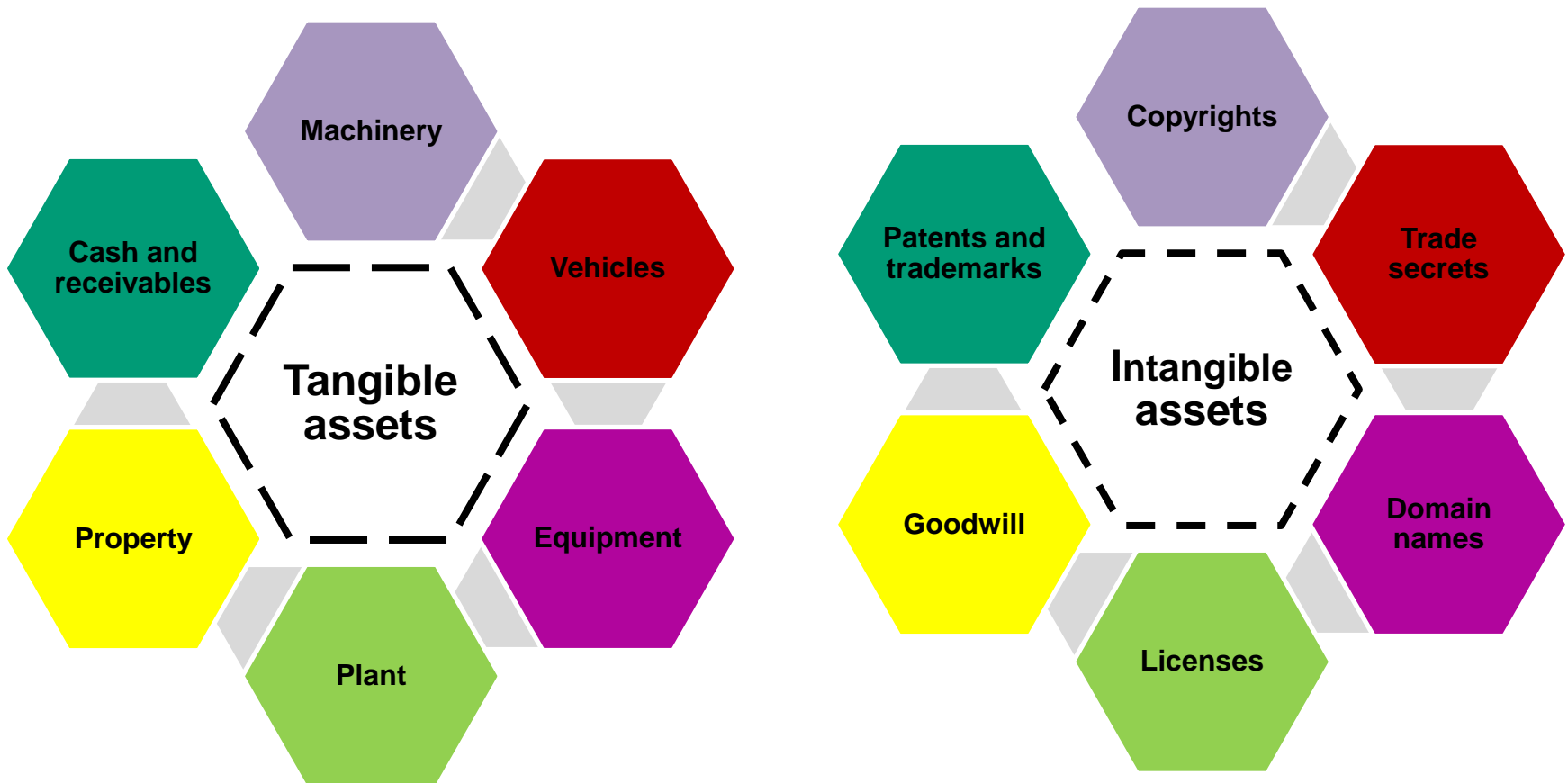


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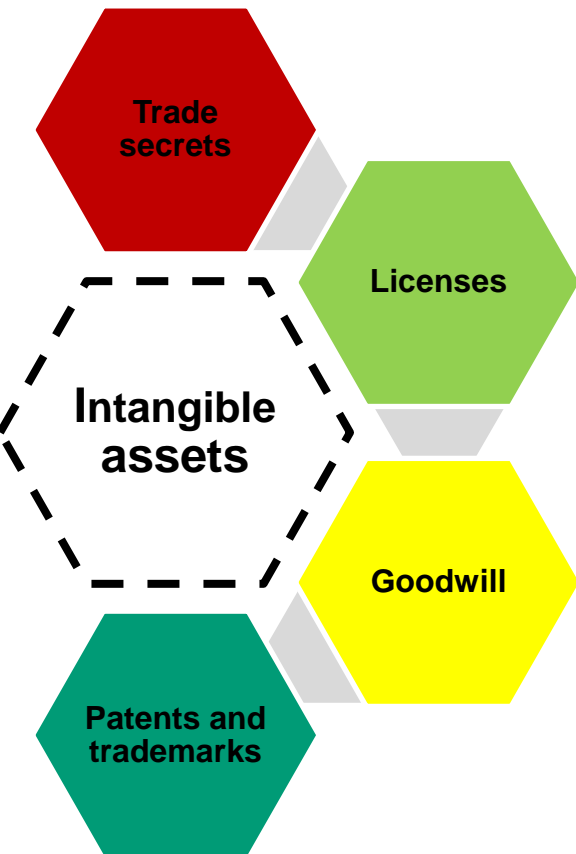


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# What are the types of assets in an organization



# What are the type of assets in an organization



- Company's most important assets are intangible:
  - company name
  - brands
  - symbols
  - slogans
- As intangible assets have:
  - underlying associations
  - perceived quality
  - customer base

# What are the types of assets in an organization

- The value of intellectual property asset can be observed in the following example:

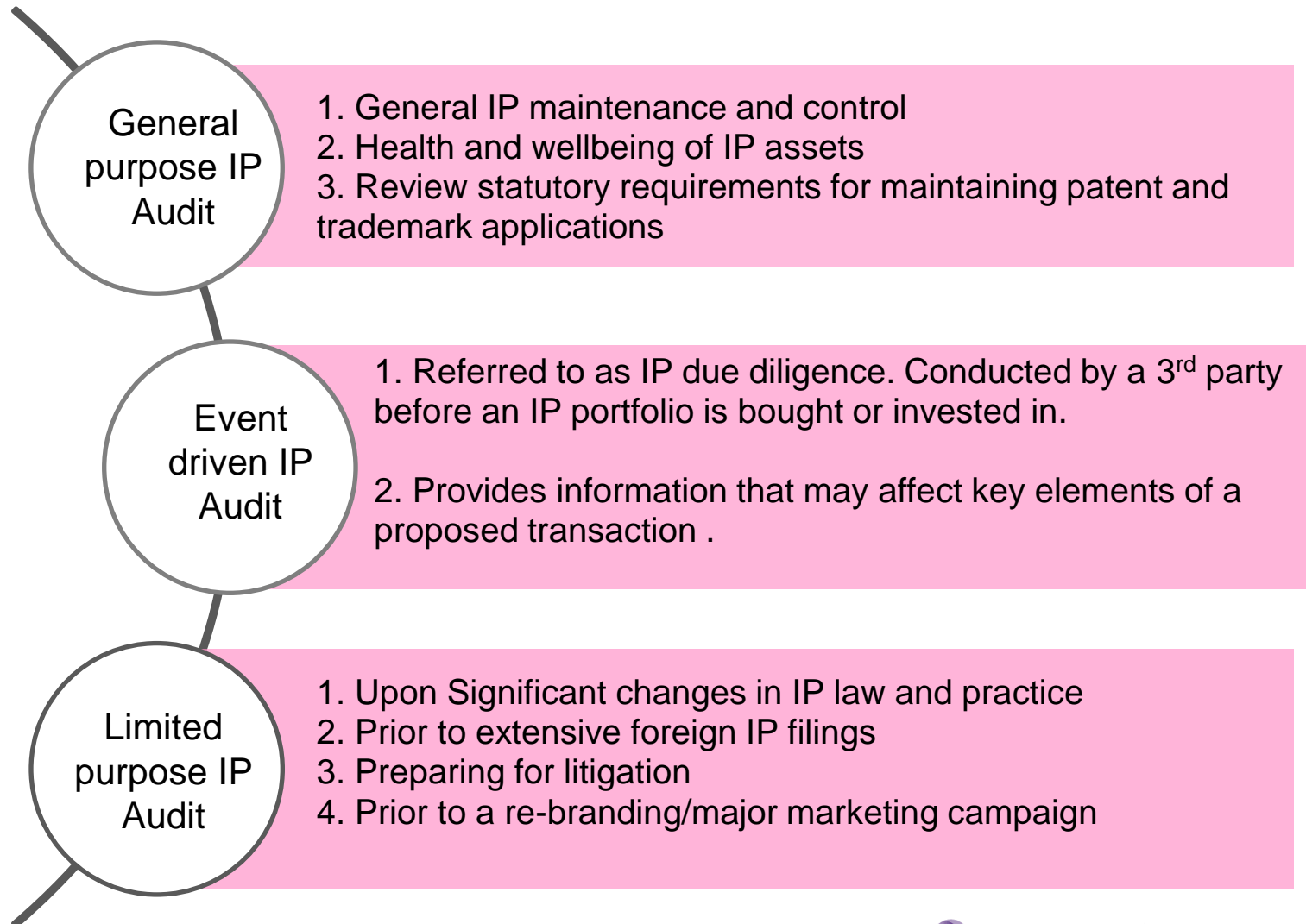


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# What are the Types of IP audit



# What are the Types of IP audit

Audit is conducted on company's Portfolio technical matter as a kind of assurance for future sales of its IP Assets such as:

- Audit on Chain – of – title on company's patents and trademarks
- Audit registered and non-registered Trade marks
- Audit registered and non-registered Copyrights
- Audit of agreements.
- Audit of Trade secrets; Confidential / Information.
- Audit of Enforcement.
- Audit of Domain Names.
- Audit of Internal Procedures.



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# What are the methods of IP valuations

- Different approaches of intellectual property valuation are used by organizations, which can be divided into two broad categories:

**Qualitative:** focuses on the analysis of the characteristics and uses of the intellectual property

**Quantitative:** relies on numerical and measurable data to calculate the economic value of the intellectual property

# What are the methods of IP valuations – Qualitative approach

The qualitative approach is commonly referred to as evaluation, and is performed through the analysis of different indicators with the purpose of rating the intellectual property right.

The indicators chosen cover all the aspects that can impact the value of an intellectual property asset, including:

- Legal
- technology
- Innovation
- market details
- Company organization.

This method is commonly implemented through a questionnaire

# What are the methods of IP valuations – Quantitative approach

The quantitative approach can be grouped in four methods:

1. **Cost-based method;**
2. **Market-based method;**
3. **Income-based method;**
4. **option-based method:**

# IP valuation methods in depth – Quantitative approach - Cost-based method

**Cost-based method;** is based on the principle that there is a direct relation between costs expended in development of IP and its economic value.

1. **Reproduction cost method:** Estimations are performed by gathering all costs associated with the purchase or development of a replica of the intellectual property under valuation.
2. **Replacement cost method:** Estimations are performed on the basis of the costs that would be spent to obtain an equivalent IP asset with similar use or function

# IP valuation methods in depth – Quantitative approach – Market based method

**The market-based valuation method** : It relies on the estimation of value based on similar market transactions (e.g. similar license agreements) of comparable intellectual property rights. Given that often the asset under valuation is unique, the comparison is performed in terms of utility, technological specificity and property, having also in consideration the perception of the asset by the market

# IP valuation methods in depth – Quantitative approach – Income based method

- **Income based method:** It is based on the principle that the value of an asset is intrinsic to the (expected) income flows it generates. After the income is estimated, the result is discounted by an appropriate discount factor with the objective to adjust it to the present circumstances and therefore to determine the present value of the intellectual property.
- There are different methods of calculation of the future cash flows, such as:
  - *Discounted cash flow method:* This method aims to estimate future cash flows, which are projected and after discounted by applying an appropriate discount factor. The main source of information to estimate the cash flows is generally the business plan of the company that exploits or intends to exploit the asset

# IP valuation methods in depth – Quantitative approach – Income based method (contd.)

- *Relief-from-royalty method: In this method the value of the asset is considered as the value of the royalty payments from which the company is relieved due to its ownership of the asset. Hence, the appropriate royalty rate must be determined, allowing the estimation of the future royalty income stream. A discount rate is applied to determine the present value of the asset*



# IP valuation methods in depth – Quantitative approach – Option based method

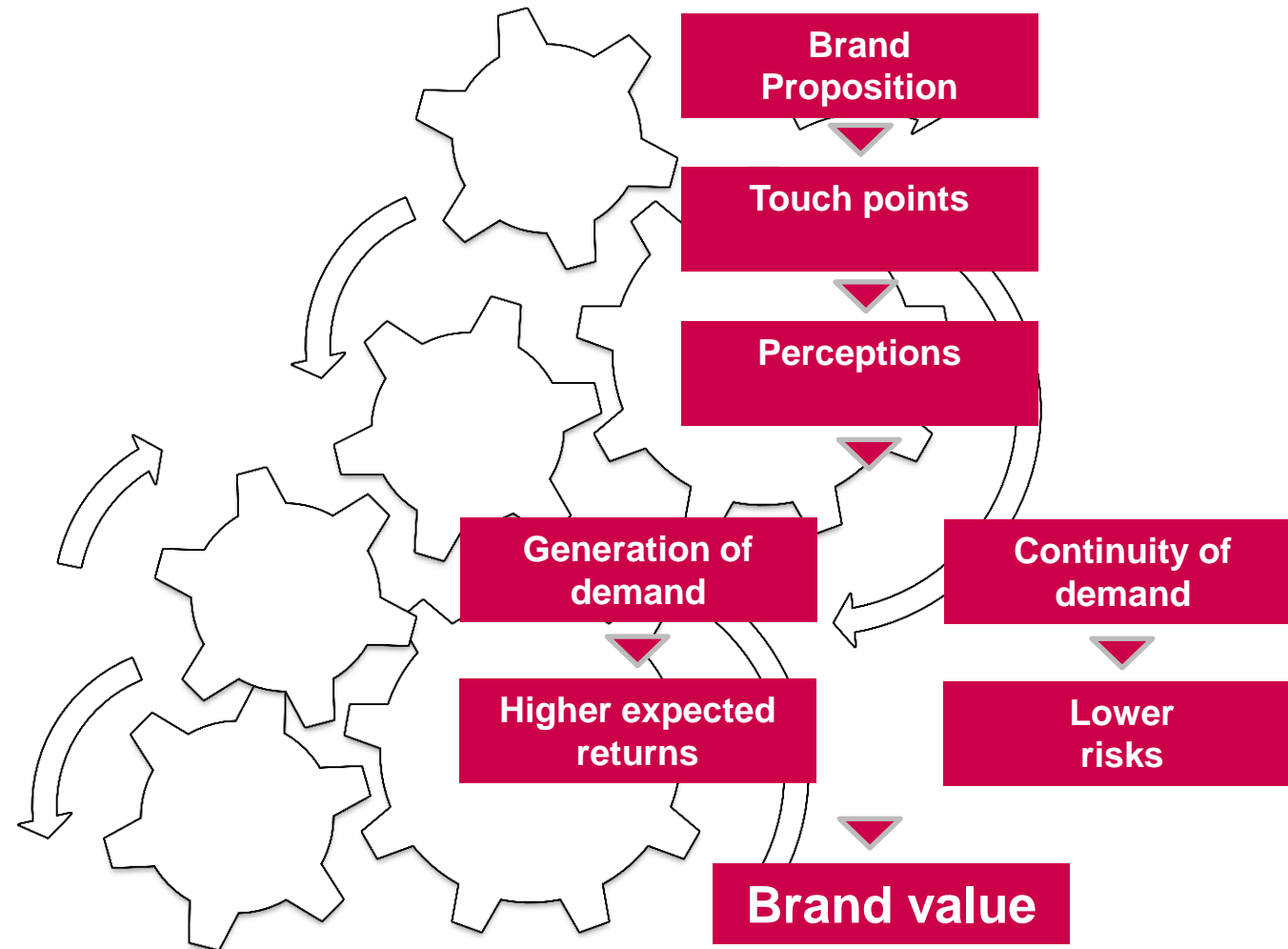
- **Option based method:** Its methodology takes into consideration the options and opportunities related to the investment. It relies on option pricing models for stock options to achieve a valuation of a given intellectual property asset.

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# What are the drivers of IP value



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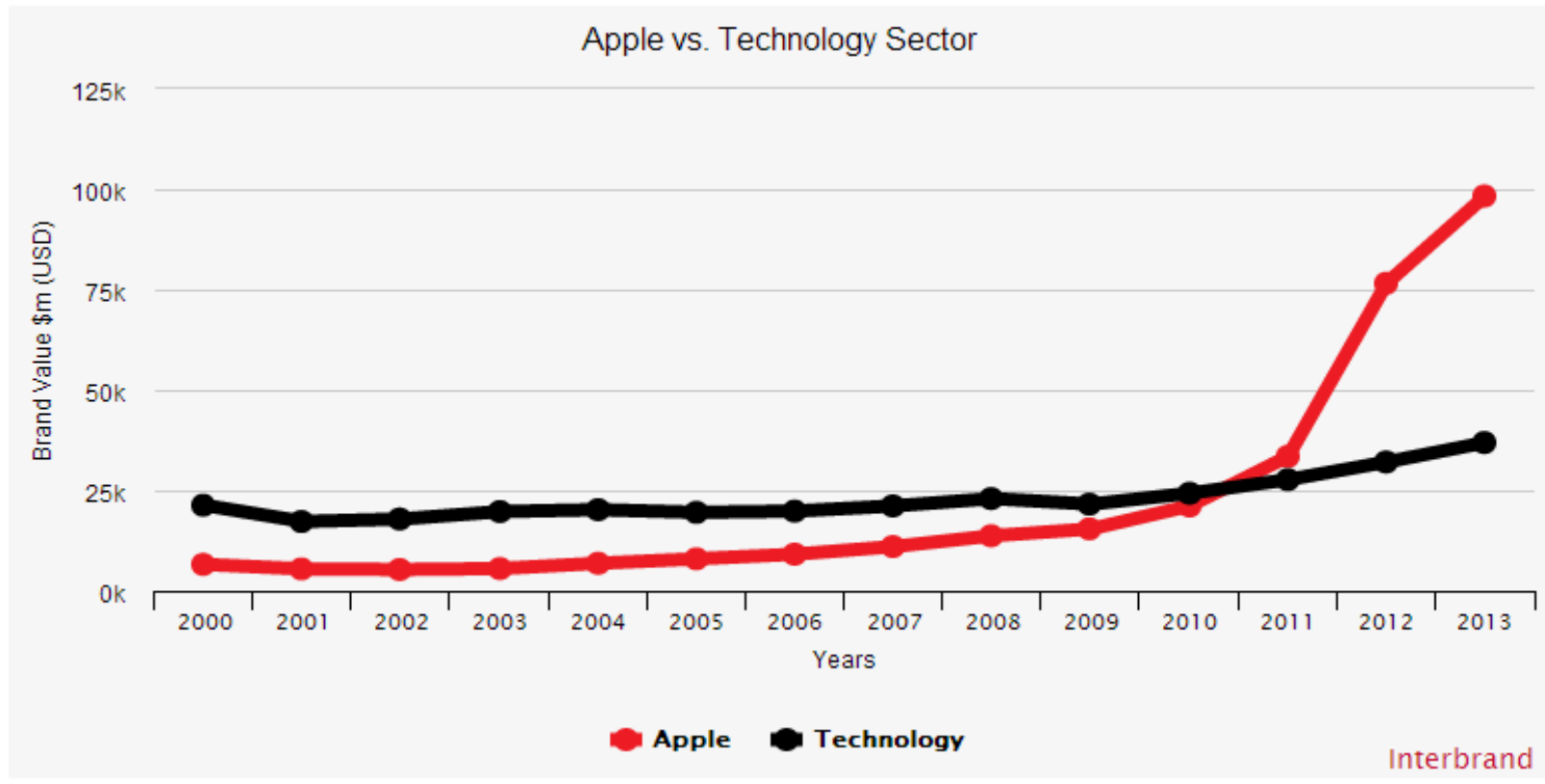
A company's decisions – to maintain an IP portfolio or dispose of it, to assert a right or not, to sell or license a portfolio – are the real drive value.

True value comes from the active and effective management of all IP assets.

*By using their intellectual property in various ways, rights holders can increase the value of their intellectual property, and also **identify** critical **business intelligence** information necessary to maximise the value of their portfolios*

# Apple Vs. technology Sector

(Interbrand)



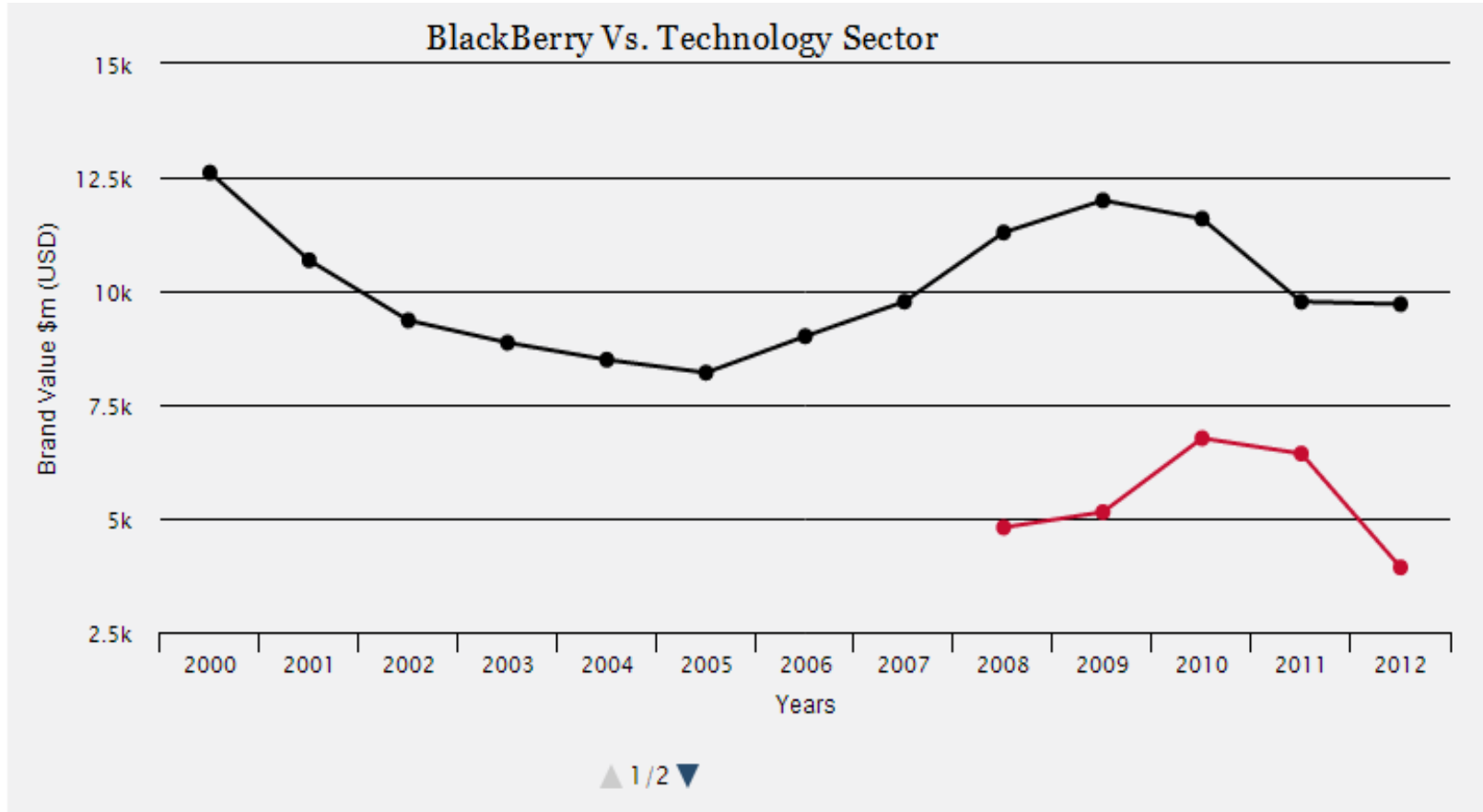
# Apple...

- Apple reached a financial pinnacle in 2013 when it became the most valuable company of all time. The peak value was not sustained, however, but the brand's financial performance in 2012 was even stronger than 2011 and, on a product and popularity basis, Apple continues to whet appetites for more.
- Today, there are 72 million Macs in use, and in the last five years, Mac sales have grown an average of 15 percent annually, compared to an average of three percent a year for the PC market as a whole. The iTunes App Store, which turned five this year, has crossed the 50 billion app download mark and the brand's trendsetting retail stores (according to RetailSails research) are performing 17 times better than any other physical retail store—a fact that seems to justify the trademark Apple received for its distinctive design and layout earlier this year.



# BlackBerry Vs. technology Sector (2012)

(Interbrand)



# The Rise and Fall of BlackBerry..

- The year 2012 was tumultuous year for the BlackBerry brand. In a category that is driven more by design and user experience, BlackBerry is struggling to find a point of difference beyond security, BBM, and its physical QWERTY keyboards — none of which are capable of being secure, long-term advantages.
- BlackBerry shipments are down 41% in the past year, and market share now stands at 4.8% globally. In order to survive, the brand must demonstrate relevance in the crowded smartphone market. If BlackBerry can deliver a truly innovative experience designed for today's mobile professional, it will send the message that the brand is committed to the B2B market that once made it such a success.





# What are the drivers of IP value (contd)

- Value driving activities relate to:
  - IP surveillance - identify who is involved in a particular industry; determine what intellectual property is being created, licensed or sold; identify the deal structures agreed to by market players; determine the value of intellectual property.
  - IP valuations - identify royalty rates paid for intellectual property; determine M&A multiples paid for intellectual property.
  - IP deal making - identify market players and interested parties; identify the deal structures agreed to by market players; determine the value of intellectual property in a particular deal.

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# From IP valuation to commercializing your IP assets

1

## Audit your intellectual property assets

1. What are your IP assets
  1. Legally and
  2. Commercially
2. Are your assets consistent
3. Are your assets protected
4. Do you have an environment that fosters IP creation and protection
5. Are all your IP risks mitigated and are controls in place

# From IP valuation to commercializing your IP assets (contd)

## 2

### Understand the market

1. What have competitors done in order to expand
2. How have competitors utilized their IP assets;
3. What is the room for expansion:
  1. Geographically
  2. Horizontally
  3. Vertically

# From IP valuation to commercializing your IP assets (contd)

# 3

Create a strategy for expansion

1. Assess business direction and strategy;
2. Discover unclaimed business opportunities;
3. Reducing new product development costs

# From IP valuation to commercializing your IP assets (contd)

## 4

### Protect your IP assets

1. Are your IP assets in line with your strategy
2. Are your IP assets protected
3. Are your IP assets exclusive and can you exploit them freely
4. Develop a plan in order to protect your IP assets prior to proceeding with your expansion strategy

# From IP valuation to commercializing your IP assets (contd)

# 5

## Value your IP assets

1. How can you price your IP assets
2. What is the underlying value
3. What are people willing to pay for your IP assets
4. How can you groom your assets in order to derive the most value

# From IP valuation to commercializing your IP assets (contd)

## 6

### Make deals

1. Based on the market assessment, what are the potential deals that can be made
  1. Licensing
  2. Franchising
  3. Assignments
  4. Sales
  5. Joint ventures



# Questions & feedback

