



IP & Finance: Accounting & Valuation of IP Assets and IP-based Financing

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Current Market Trends

- Increasingly competitive market environment;
- Maximise return from all assets, including intangible assets (e.g. IP assets);
- Expanded global marketing and branding;
- Corporate re-organisations (e.g. mergers and acquisitions).

Current Market Trends

IP is an economic asset

- Global Awareness of market value of IP;
- Accurate valuation of IP has grown in importance;
- Increasing use of IP assets as a financing vehicle (e.g. as a collateral and in an M&A);
- Leveraging the full bundle of IP rights (e.g. assignment, licensing, franchising, etc);
- Unused IP assets as a source of working

Who Cares?

- Shareholders and Directors;
- Actual/Potential Joint Venture Partners;
- Creditors;
- Banks and Financial Institutions;
- Financial Analysts;
- Lawyers and Accountants.

Bundle of IP Assets

- Primary and secondary trademarks;
- Worldwide IP registrations
- Corporate name and logo;
- Copyright in marketing and technical brochure;
- Packaging and product design and copyright;
- Patent in product and manufacturing process;
- Technology;
- Confidential information.

Contexts

- Business transactions (e.g. sale, M&A, spin-off, licensing, franchising, joint venture);
- Loan securitization (e.g. capital re-structuring and re-financing);
- Financial and tax purposes (e.g. transfer pricing, holding company for intangible assets);
- Bankruptcy/Reorganisation (e.g. liquidation and sale of IP assets); and
- Litigation (e.g. assessing damages, lost profits and lost royalties).

Factors Affecting IP Value

- **Cycle of the product in question/Remaining economic life;**
- **Market share;**
- **Profitability;**
- **Emerging Technologies;**
- **Barriers to entry;**
- **Growth prospects;**
- **Availability of legal protection.**

Factors Affecting IP Value

- **Economic Benefits derived from the Technology -**
 - **Benefits derived from complementary assets;**
 - **Efforts of competitor(s);**
 - **Consumer reactions/preferences;**
 - **Management competency;**
 - **Production efficiencies (inefficiencies);**
 - **Marketing expenses.**

Factors Affecting IP Value

- **Duration of Economic Benefits -**
 - **Rapid technological obsolescence;**
 - **Availability of alternative or substitute technologies;**
 - **Patent risks;**
 - **Changing consumer reactions/preferences.**

Factors Affecting IP Value

- **Risks of Receiving Economic Benefits from IP-**
 - **Economic risks (e.g. unexpected market conditions and events);**
 - **Regulatory risks;**
 - **Political risks;**
 - **Inflationary risks.**

Valuation is Context Specific and Time Critical

- **Going Concern;**
- **Reorganisation;**
- **Liquidation;**
- **Litigation.**

Valuation Methods

- **Market-Based;**
- **Cost-Based;**
- **Income-Based.**

Market-Based Methodology

- **Comparable Market Value;**
- **Comparable Royalty Value.**

(However, good comparables are seldom available)

Cost-Based Methodology

- **Historical Cost;**
- **Replacement Cost.**

Income-Based Methodology

- **Net Cash Flow method;**
- **Royalty method.**

Comparison of the three main IP valuation methodologies

	<i>Cost</i>	<i>Income</i>	<i>Market</i>
Advantages	<p>Objective and consistent.</p> <p>Reliability of historic cost data - if a recent acquisition cost of IP exists it is a reliable indicator of value.</p>	<p>Theoretically superior to other approaches as focused on future earnings or cash flow.</p> <p>Consistency can be achieved facilitating comparison across an IP portfolio.</p> <p>Widely accepted and concepts widely understood.</p>	<p>Practical methodology which makes use of prices actually paid for comparable assets.</p> <p>Variety of market-based indicators such as comparable companies, comparable transactions or a premium price-earnings-multiple approach allows comparison.</p>

Comparison of the three main IP valuation methodologies

	<i>Cost</i>	<i>Income</i>	<i>Market</i>
Disadvantages	<p>No correlation between expenditure on an asset and its value.</p> <p>Difficult to distinguish between 'normal' operating expenses and IP investment expenditure.</p> <p>Subjective nature of estimate of costs of replacement and some IP assets may not be replaceable.</p>	<p>Requires subjective cash flow allocation.</p> <p>Translation of theory into practice requires assumptions which are limiting.</p> <p>Relevant information is not always readily accessible from internal reporting systems and external sources.</p>	<p>Given the uniqueness of IP assets, third party arm's length transactions involving similar assets are often infrequent.</p> <p>Transactions involving the shares of companies owning IP are more frequent but allocating value between the business and the IP is difficult.</p>

Comparison of the three main IP valuation methodologies

	<i>Cost</i>	<i>Income</i>	<i>Market</i>
Typical Use	<p>Only used in limited circumstances (<i>e.g.</i> when the replacement cost can be estimated with a reasonable degree of reliability and confidence).</p> <p>Cost is, however, a relevant benchmark where an IP has recently been acquired.</p>	<p>Primary valuation methodology and the most widely used where information of an appropriate quality can be obtained.</p> <p>The limiting nature of the assumptions needs to be understood and, where possible, scenario analysis should be performed.</p>	<p>Important indicator of value, if information on recent transactions involving IP exists.</p> <p>However, in practice sufficient information is rarely disclosed and this methodology is used as a cross-check on other more theoretical methodologies.</p>

IP value may also be assessed using one of the following approaches:

- **Past Precedent;**
- **Industry Standard;**
- **Allocation of economic benefits.**

Past Precedent Approach:

- **Nature of Exclusivity of the Licence;**
- **Technology and Industry Involved;**
- **Duration of the Licence;**
- **Extent of the Territory to be covered;**
- **The prevailing market.**

Industry Standard Approach:

- **Standard terms and conditions of licences;**
- **Availability of alternatives or substitutes;**
- **Ability to make ancillary sales.**

Bankruptcy/Reorganisation of Polaroid Corporation

Key IP Assets

- 800+ Patents;
- 500+ Patent Applications;
- Patent Licences;
- Photography Technologies;
- Core “Polaroid” Trade Mark;
- Secondary Trade Marks (e.g. “PoGo”, “Speedliner” and “Swinger”);
- Trade Mark Licences;
- Huge Photo Archive.

Liquidation/Reorganisation of Polaroid Corporation

Maximising the Value of the IP Assets

- Valuation of the Assets;
- Identification of Target Markets and possible acquirers;
- Asset disposition and/or securitization plan;
- Implementation of the plan.

Liquidation/Reorganisation of Polaroid Corporation

Polaroid Net Asset Values

	Orderly Disposition	Liquidation
Total Technology Asset Value	\$15.2m - \$19.5m	\$36.5m - \$43m
Total IP Asset Value	\$30.8m - \$45.2m	\$67.4m - \$78.0m
Net Value (after deducting costs)	\$46.0m - \$65.0m	\$10.4m - \$12.1m



Conclusion



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