

# **Raising Capital Through IP**

## **WIPO-WASME Special Program on Practical IPRs Issues (Geneva, May 3 to 6, 2004)**

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# Introduction

- IP assets can be sold, licensed, used as collateral or security for debt finance, can attract private investors (such as “business angels”, venture capitalists, specialized and even regular banks)
- IP assets’ owners can obtain financial support from Governments
- IP assets can be monetized but only if properly valuated

# Topics

- Why IP Assets Have Value
- Monetize IP Assets
- Conclusions

# Why IP Assets Have Value

- Can be legally protected
- Can create income
- Can be valued
- Can attract investors
- Can boost R&D

# Monetize IP Assets

- Know what IP you own
- Undertake IP asset valuation
- Check existing laws
- Identify potential partnerships
- Identify the best source of finance

## Monetize IP Assets (./..)

- Potential of IP assets as source of finance is a matter of great interest among investors, particularly if supported by reliable and innovative valuation methodologies
- The IP asset valuation give you:
  - the real value of your IP assets and not the price
  - the estimate of how much capital can the IP assets attract

## Monetize IP Assets (./..)

- In using IP assets for financing, special attention has to be devoted to:
  - Whether or not the assets are legally protected
  - Ownership status (absence of litigation proceeding, for instance)
  - Potential of the underlying IP asset to maintain its value (absence of clear challenge to its competitive edge)

## Monetize IP Assets (./..)

- Some large corporate and companies have successfully used their IP assets to raise finance
- While very few SMEs have done so, mainly because of lack of awareness



## Monetize IP Assets (./..)

- Areas where IP assets have been used successfully to raise finance include:
  - Licensing IP assets (royalties)
  - Assigning of IP assets

# Monetize IP Assets (./..)

- **Licensing**
- In most universities, licensing pays for less than 5% of R&D costs. Maximum is 20% at Stanford and Columbia (see Google's example)

# Monetize IP Assets (./..)

- New areas where IP assets may be used to raise finance include:
  - Collateral
  - IP asset-backed security
  - Venture capital
  - Business Angels

# Monetize IP Assets (./..)

- **Collateral**

- Companies can use their IP assets as loan collateral, provided that they are able to prove their liquidity, value, durability and marketable power
- Importance of obtaining an objective valuation of the identified IP asset
- Acceptance of IP assets as collateral need to be supported by respective national laws

## Monetize IP Assets (./..)

- Examples of use of IP assets as collateral:
  - Michael Jackson was reported to have borrowed US\$ 200m from Sony using the Beatles' catalogue as collateral
  - GIK Worldwide, a San Francisco based company, used its patents as collateral for raising US\$ 17m

## Monetize IP Assets (./..)

- Two examples of Government support in using IP assets as collateral:
  - In 2001, Taiwan's Cabinet has revised proposals to give the biotech industry a five-year exemption of tax and allow intellectual property rights (IPRs) of companies to be used as collateral to apply for bank loans.
  - In Spain IP owners may use their IP assets in order to get loans from public banks or private investors

# Monetize IP Assets (./..)

- **IP asset-backed**

- Taking an intangible asset (such as a patent being licensed to a third party) and utilize the future cash flows from the license payments or royalties to secure current financing for the licensor
- IP securitization is a growing financial area (so far the value of business done is estimated at US\$ 6 billion)
- Sectors: Pharma, medical, electronics, chemicals, mechanical devices, music, film industry
- IPRs: Patents, copyrights and trademarks

# Monetize IP Assets (./..)

- IP asset-backed main benefits:
  - Immediate liquidity in the form of tax-free cash infusion
  - The IP holder diversify his/her assets
  - The IP holder maintains total control over his/her IP rights which revert to the holder when the bonds are paid (mature)



## Monetize IP Assets (./..)

- Example of use of IP as asset-backed:
  - In 1997, David Bowie issued 10-year asset-backed bonds using future royalties on publishing rights and master recording from 25 albums recorded before 1990, raising about US\$ 55 million
  - Similarly, James Brown raised US\$ 30 million
  - In 1993, Calvin Klein raised US\$58 million with the securitization of royalties on perfume brands, arising from the exclusive right to use the Calvin Klein trade mark on existing and future products

# Monetize IP Assets (./..)

- **Venture capital**

- An investment in a start-up business that is perceived to have excellent growth prospects but does not have access to capital markets
- An alternative source of fund raising
- Well managed IP portfolios can influence decisions of venture capital investors

## Monetize IP Assets (./..)

- Example of use of IP assets in venture capital:
  - Google's success story
  - Jazz Pharmaceuticals, a Palo Alto-based company, which develops drugs for brain and mental disorders, raised \$250 million in March 2004, the most ever for a start-up's second round of funding

# Monetize IP Assets (./..)

- **Business Angels**

- Family, friends or close associates with money and, in most cases, a business background
- Expect returns on their investment
- IP knowledgeable business angels would favorably consider investing in enterprises with IP assets

# Conclusions

- Increase awareness of policy makers and SMEs support institutions on new fund-raising financial strategies leveraging IP assets
- Increase coordination between IP and specific financial sectors
- IP rights should not used only for preventing others entering the market

Many thanks for your kind  
attention