IP management

Valuing IP and due diligence

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Valuing IP

There often comes a stage in a patent's life when the patent owner will ask how much is my patent worth? The reasons for the question may differ dramatically. From an inventor looking to raise capital so that his invention can move from the back room to the high street, to a technology leader attempting to put a price on their invention, to those that wish to license it, or vice-versa to those lagging in the market, who realize that to stay competitive, the best option available to them is to seek a licence for the use of that new technology.

Regardless of the above, each invention will find its own price, and will generally depend on five common factors:

- **Importance of the patent.** Generally, breakthrough patents are worth more than improvement inventions.
- **The market.** Market size, the number of articles that are likely to be made and the cost of each article also have a significant bearing on the value of a patent.
- **The patent term.** Patents have a maximum life of 20 years and therefore a 20-year monopoly. Patents that are just beginning their life and which have longer to run on their monopoly position understandably have more value.
- **Amount of prior art.** The number of cited documents or patented products populating an area of innovation also have an effect on the value of the patent.
- **Patent significance.** Every patent has its own significance in a particular area and will usually form part of an overall IP strategy, either to maximize its earning potential or to allow other patents to maximize theirs.

Intangible assets

Intellectual property rights (IPRs) are often described as being intangible assets. They comprise the company brand, patent portfolio, R&D strategies and licensing agreements.

Other significant intangible assets are invested in a company's human capital and its know-how, and include such things as its databases, manuals, product specifications and manufacturing guidelines. All of these intangibles have a value and some effort should be made to quantify them so that when technologies are transferred or a business is bought or sold, or a merger takes place, then a fair market price can be realized.

Almost every SME undervalues its intangible assets.

Due diligence and valuations obligations

One aspect of IP management that is often talked about is the extra revenue to be gained by leveraging off technologies that are not being used through licence agreements, royalties and joint ventures.

However, with these advantages there comes a duty to ensure that the rewards are not just seen as being serendipitous but are real and commensurate with the value of the IP concerned. The transaction will involve due care on both parties.

The due care will generally have two components. Firstly, there is the requirement for the Patent, Copyright or Trademark to be verified. This verification is often the primary subject of a due diligence search.

No IPR purchase should be made, or licence agreement entered into, without due diligence having been conducted beforehand.

Due diligence ascertains among other things ownership of the property in question, that all of the true and first inventors are acknowledged and will include such things as any third party interests, outstanding or due payments and relevant expiry dates of the IPR.

Due diligence has been defined as "an evaluation, performed by investors or their agents, of the details of a potential investment or purchase, where the evaluation involves a verification of all the material facts relevant to the investment or purchase".

In any licensing agreement or IP assignment or business sale, merger or acquisition, regardless of its size, both parties should present a Non Disclosure Agreement and an independently commissioned IP Due Diligence Report.

The second part of the equation involves an investigation into the value of an IP. How to measure the value of an IP is discussed. Needless to say, there are many formulae involved in this exercise and all have at least some relevance.

The bottom line is, that if any IP portfolio is to be successfully managed, opportunities realized and alliances made, the value, ownership and content of what is being bought, sold or licensed needs to be clearly understood.

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The theory of technology

commercialization relativity

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To explain his theory of relativity, Albert Einstein used an analogy..he said if a man sits on a hot stove for two seconds it feels like eternity, if he sits with a beautiful woman for two hours it feels like two seconds. "That," Dr. Einstein said, "is relativity!" Do you understand Einstein's "Theory of Relativity?" Does this theory have an application to technology commercialization?

Einstein believed that our internal clock's 'tick' at a speed relative to what's going on in our own minds – a concept that lends itself just as well (beyond hot stoves and beautiful women) to a group of individuals involved in the world of technology commercialization. To translate Einstein's idea to our industry, you might include a variation on John Gray's bestseller, *Men are from Mars, Women are from Venus*, only make the players from distant galaxies instead. This "Theory of Technology Commercialization Relativity" might go something like this...

Dr. X (university or government researcher) spends years performing painstaking basic research on a technology for which s/he has a deep personal commitment. The work develops to a point where it appears to have commercial potential. A technology commercialization team is called in to assist in the development of a commercialization strategy. Discussions are initiated with prospective commercialization partners that culminate, after extensive negotiations and the creation of necessary contractual and licensing agreements, into a team made up of the academic and/or government players and the commercial entity. The team successfully commercializes the products… and everyone lives happily ever after!

The question is, what are the key elements that were required to achieve this success?

The academic team

University clocks tick relative to class schedules, homework, semesters, papers, reports, tests, grades, student's social needs, parties, future career options, etc. Some important drivers of academic teams include:

Professor's perspective: funding for graduate students; research for dissertations/theses; case studies for presentations/ conference papers; acquisition of new/upgraded equipment; areas of interest to the school's administration; technology that builds on/complements prior research; potential for collaboration with other institutions; etc.

Student/Researcher's perspective: research for dissertations and/or theses; tuition and/or stipend support; enough excitement to keep them involved; something to brag about to friends/ family; something meaningful to put on a resume; etc.

The private sector/commercial team

Private sector clocks are far removed from any academic relativity. The private-sector team focuses on economic drivers: customers needs, trends, product life cycles, engineering schedules, production lead times, etc. Some of the critical elements to be considered from day one include:

- Management's perspective: potential for profitable new products/services; potential for cost reducing process improvement; risk profile justifiable to a board of directors; commercialization cycle to satisfy investors; potential for visibility (read: promotion/raise); etc.
- Engineering/Development's perspective: something "cutting-edge" to work on; an intellectual challenge; potential for long-term involvement; potential for a raise; something meaningful to put on a resume; etc.
- Marketing/Sales perspective: something that will knock the customer's socks off; potential for performance/bonus achievements; synergy with existing products/services; something meaningful to put on a resume; etc.

The government team

Government players have their own clocks/timetables with yet another set of priorities, including fiscal budgets created sometimes enigmatically by individuals and/or groups who are often far removed from the world of technology transfer and development. In order to work successfully with most government researchers and funding agencies, it is critical to consider the following:

The government researcher's perspective: something meaningful to work on; a connection to real-world application; a profile that's significant; potential for long-term involvement; something meaningful to put on a resume; etc.

The government funding group's perspective: fit with the organization's charter/mission; potential for job creation/retention; favourable political value; acceptable risk profile; etc.

Beyond the "Hard aspects"

Technology commercialization requires not only experience and training in the appropriate fields of technology. Doing deals requires that all parties understand and accept the needs, priorities and drivers of all other parties in the commercialization partnership. This goes well beyond hammering out what I call the "hard aspects" - the scope, schedule and budget, as well as the IP/patent, equity, royalty elements, etc.

Having a global understanding of the team's and individual member's priorities are the "soft aspects" of the project. The

world's greatest minds and the most sophisticated systems are doomed to fail without ensuring that these soft aspects are painstakingly cared for.

Coach's tip: Give "soft" aspects of the relationship as much consideration during the entire technology commercialization relationship - from initial discussions and partnership development, through project negotiations and administrative programme details, ongoing into the creation/launch of any commercial/production entities and exit strategies.

The clock as an analogy for success

The key to a successful technology commercialization team is to develop an understanding of, and empathy for, the priorities of other players in the relationship. Look at the relationship as though its a clock. A clock's gears, by design, move and operate independently from one another. This very precise interrelationship is integral to the clock functioning properly.

Allow your technology commercialization teaming partners to operate as would a clock's gears - let them operate in their own ways, as individual components in an interdependent functioning mechanism. Just as it would in a clock's gears, to force otherwise would cause the mechanism to cease to operate properly, and, in fact, will quite possibly destroy the entire mechanism.

The coach's call to action: Do you understand the clocks/timetables of the technology commercialization partners with whom you are working? Are your operating with your technology commercialization partners like gears in a clock - let them each operate in their own ways, as individual components in an interdependent functioning mechanism. The best way to ensure that everyone's needs are being met is to see how excited they are about the way things are progressing. Simply ask them if they're having fun! What about you, are you having fun? ❐