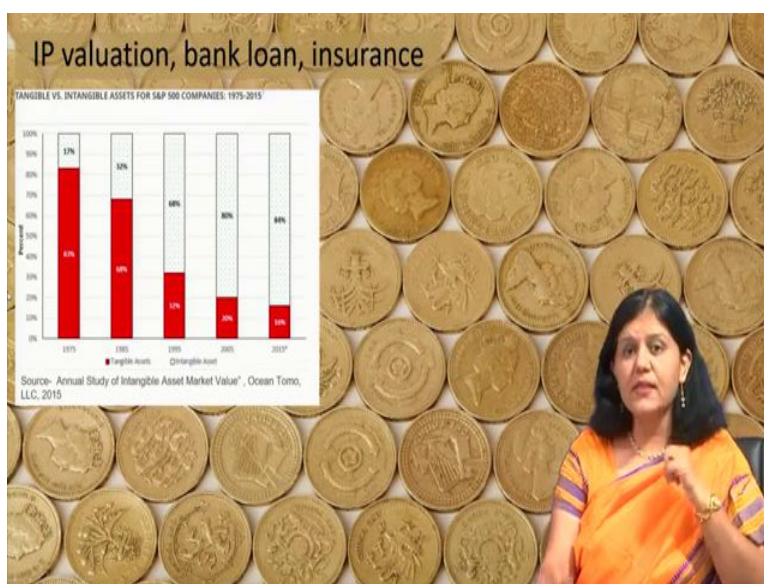


Entrepreneurship and IP Strategy
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Lecture 33
IP Valuation, Bank Loan, Insurance

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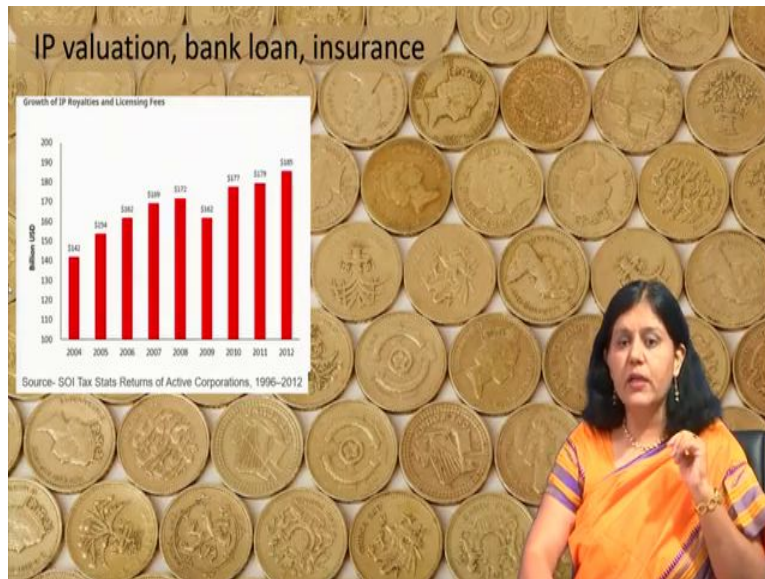
A very warm welcome in the 3rd Module of Week 7 of the course Entrepreneurship and IP Strategy titled; IP valuation, bank loan and insurance. Here you can see on the screen one graph actually. So what that graph is about? This graph is giving you, idea about the decline proportion of tangible assets, from 83 percent which was in 1975 to 16 percent in 2015. So, what the thing is happening is like tangible assets are declining and intangible assets are increasing.

Now, this trend is not simply due to the increase in importance of IP assets. There are some parallel developments that have altered the balance sheet of a corporates and the reason is like technology companies the composition of a technology companies since 1990s if you see there is a change in that and then what the thing happened is like that, we moved from that industry based kind of economy towards a knowledge based economy where wealth creations stems from a technological innovations; and that give rise to a importance of a IP rights.

Now, for mini technology firms these IP rights have become most valuable assets. Now, example like Apple, Google, Facebook if we consider this kind of companies it clearly reflects the

importance of IP in today's economy. Now, in this knowledge based economy, physical assets such as tangible property like a plants or equipments, manufacturing units et-cetera they get the value of that or the importance of that is reduced, and IP assets that are giving you more what we can say the wealth creation. And they are like contributing to; we can say that more than 80 percent of the intangible assets of the organization.

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Now, a few what we can say the examples if we see, we can see that the royalties and licensing fees you can see on the screen the royalties and licensing fees. Now, these royalties and licensing fees these are increased gradually since mid-90s and that income from that IP royalties and that licensing fees; you can see that it move from or it grew from 60 billion dollar in 1996 to over 154 billion dollar in 2010.

And then it is like further moving and approximately it reached up to the almost like a 185 dollar million dollar in like a 2012. So, that kind of trend you can see here in the graph, and yes this is the graph is up to 2012; yes, it is still increasing. And we can see that increase in royalties and the licensing fees which is raised from the IP.

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IP valuation, bank loan, insurance

(Amounts in Billions of U.S. Dollars)

Date	Buyer	Seller	Technology Sector	Purchase Price	Patent Count
2/2013	Consortium	Kodak	Digital Imaging	\$325	1,100
11/2012	Consortium	MIPS Tech	Chip Architecture	200	498
6/2012	Intel	InterDigital	Wireless	\$75	1,700
4/2012	Facebook	Microsoft	Various	100	400
4/2012	Microsoft	ADL	Internet	1,000	1,100
10/2011	Starling	MORGAD Tech	Semiconductors	104	2,822
8/2011	Google	Motorola	Wireless	12,500	24,300
6/2011	Consortium	Nortel	Wireless	\$4,500	6,000+

Source- 2014 Patent Marketplace Report by RPX Corporation

Let us check a few examples now about the patent valuation and how much what we can say that give and take of patent, how much transaction, money transactions has occurred. Now, in August 2011 the Google the company paid almost 12.5 billion to Motorola Mobility to access a portfolio and that portfolio is consisting of 17000 patents and 7500 patent applications.

So, that was a portfolio of Motorola, Google bought that particular thing; then the generally, means if we see that examples merger acquisition is a one way or one event, when that kind of a valuation majorly occurs. We will see what are the different that events are there or what are the different reasons are there for IP valuation. But, this is a major example what we have seen that merger acquisitions whenever happening that is a major valuation and thing happens.

Now, the other thing is like bankruptcy and liquidation kind of thing that kind of scenarios if occur at that time also valuation is very important. We will not go into the details of that but that has to be done very strategically. If unfortunately that kind of event happened; how we should without damaging the brand, we have to handle this portfolio selling we can say in short. And how we can manage that, that is another we can say the subject.

Will not going in details of that but we will see now few more examples related to the that particular transaction through that IP transactions whatever are there. Now, here the example is like this that in 2013 consortium Kodak means consortium is a buyer; they have bought that

Kodak related IP portfolio. It was related to digital imaging as the technologies sector is digital imaging.

And if you see the purchase price it is around like a 525 billion dollar; and patent count was around 1100. So, just imagine 1100 patents 525 billion dollar and that kind of a transaction happened. The another example of consortium is that you can see the example of Facebook and Microsoft here that buyer is like a Facebook and seller is Microsoft. And this transaction occurred in 2012. And here what we can say that transaction is of 650 kind of number is patent count is 650; and the cost is like a 550 billion dollar.

Now, you can go details of that particular in the table, and you can see how that transaction has happened. The last example we can see that is in 2011, Consortium is a buyer Nortel is a seller; and it was a wireless technology around 6000 plus patents that was a portfolio. And the costing 2011 costing 4500 dollar billion dollar kind of costing was there.

So, this like examples of how the transaction is happening and obviously this transaction is determined based on the IP valuation of this. So, they have done the patent valuation, they have decided the cost of that portfolio, we have just concentrated only on patents. So, they have decided the cost of that patent portfolio, and then what they have done that accordingly the transaction, negotiation, contract everything will be go into the that particular activity and that transaction will occur.

Now, there is one more thing we would like to share with you that patent aggregators kind of a entities are there, intellectual venture is one of them. So, what they are doing like that, that may be sometimes licensing or selling of a patent, it is little bit that is technology transfer. It is a most challenging patent drafting and then doing that invention that is a one part. But, technology transfer is a most challenging and the last part or last phase of that particular innovation or invention, whatever you want to say that journey.

And here probably means the, there are no specific availability of entities which will dedicatedly do that particular activity of transaction. Or, there are very few that kind of organizations are there but that is a very challenging scenario actually how to handle that particular sell and technology transfer related activities. So, here the example of patent aggregators if you see they are probably, we will not suggest you but this is one of the way we are just giving you that okay;

this is they are the, there are so many patent aggregators and they maybe they are taking that technologies.

They like buy technologies from various resources, they bundle it and then they sell it; that is kind of a business model is there. And but you should be good in negotiation, when you are doing that kind of activity. But, that is one thing probably you can go in details of that; that is one another we can say business model and that is another subject. That will just avoid here because we have to just concentrate on the IP valuation.

Now, when we see the academic literature and the banking and loan and IP valuation; if you want to see the details and the relationship and how exactly it is going. We have to keep in mind that when they are talking about bank loans, banks have certain guidelines. And according to that guidelines they have to do that particular valuation of that particular asset, property whatever it maybe.

And then against that they have the rules and regulation accordingly they are giving the loan. So, generally what happen that when patent related valuation and that kind of activity come generally, banks are maybe some banks or almost what we can say they have that kind of setup and they can do that particular thing. But, if we see that valuation and bank loan mostly that hedge fund kinds of activity or some investment banks or institutional investor they are playing key role in that asset based lending.

So, we have to keep in mind that when we are talking about bank loan kind of thing a traditional banking they have little bit risk constraints we can say. And this hedge funds investment banks or institutional investor, these are the key players we can say and they are playing a major role in that asset based lending. So, we have to keep in mind if we want to go for a fund raising probably these are the good options kind of which are available in the market. So, I guess this kind of a scenario currently which is happening, now moving further if we see that we should know about asset valuation and how exactly that asset valuation happened.

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So, will just watch now one video related to how exactly that asset and that valuation is done. This video is by Investopedia actually, and you will get idea about how exactly IP and that valuation are means that asset how it is considered when they are doing the valuation kind of activity. So please watch this video.

(Video Start Time: 11:13 to 12:03)



Video Voiceover: Intangible assets do not physically exist, they are valuable because they represents potential revenue; taken intangible asset like brand recognition. There is value in

people remembering your company and then wanting to buy its products. Another type of intangible asset is intellectual property; intellectual property includes legal rights such as patents, trademarks and copyrights.

Intellectual property has a fixed lifespan, because of this limited lifespan intangible assets are energized and thus fractionally expense over their legal lifespan. Rocky star is a famous guitar player in order Rocky star productions; Rocky star productions also a number of intangible assets.

Professor: So, now we will go more details about the IP valuation, and what is IP valuation and what is a definition of IP valuation.

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So, IP valuation if you see it is a process to determine the monetary value of a IP asset. So, we have to just label that particular IP with a certain tag price tag kind of thing so, how we can do that thing.

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But, before that we will just check out if any asset or any kind of a valuation related thing we have to consider, what are the characteristics that particular asset should follow. So, here are the some characteristic like; it should be separately identifiable, then it should be having a tangible evidence, then identifiable point in time, then there is like a legally enforced and transferred. Then there should be income stream from that particular asset. And there should be like a subject to destruction or determination termination; so, what exactly that is.

So, separately identifiable that is a it should have any IP if you take; example say patent trademark or copyright. They should have a separately they should be able to you should be able to do the activity like sell and take kind of activity. So, that separate identity should be there and yes, patent have that kind of or any IP have that kind of a standing that is a separately identifiable.

Then the tangible yes because you are converting that patent into the draft, you are filing that particular thing and you are using it into the product; so that kind of evidences they are definitely. Then identifiable yes, it is following that identification criteria; then yes you can legally enforce because you know that it is a territorial rights. Once you register that lifetime that 20 years for patent, and all other you know the respective life period and all that thing, so accordingly you can do the enforcement.

Yes, you can transfer that particular such like other properties and therefore you can give it to friend, you can give it to here, you can gift it whatever you want to do you can do with that thing. Yes, defiantly IP is giving you income so that thing is there and subject to destruction or termination yes, they are cap... means after that particular period of time.

Yes, they are like the value completely it is going into the public domain, we are, so totally all this criteria whatever are there for the assets are completely followed when we are talking about IP. So, IP valuation we know at okay, we are giving that particular value to that particular IP. Whether IP fall into that category? Yes, because of this six characteristic in this IP is falling into that particular category.

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Now, so after means these 6 characteristics, we will just see when you will do valuation or what are that events we have just seen the two events like mergers and acquisitions. Or, we have seen the events like liquidity when you are deciding that bankruptcies and liquidation is there at that time, you are going for that valuation kind of activity.

So what are the other activities are there where you are doing IP valuation; so maybe to get for initial estimate kind of thing, what we can say the overall how much I own kind of thing, if organization want to know, you can do IP valuation. Then some market assumption what is that market assumption about that IP if you want to know that; yes, you can do IP valuation. Then for

portfolio management you are doing that means when you are doing that portfolio management definitely you will require to know.

Okay this is the portfolio I am owning and maybe what is the value of that particular thing. When you are deciding for R&D investment, probably you would like to know that what is the value for that my portfolio will have that value and all that thing. Then when you are doing licensing or cross licensing, licensing is one way cross licensing two way process or it may be many fold process it maybe.

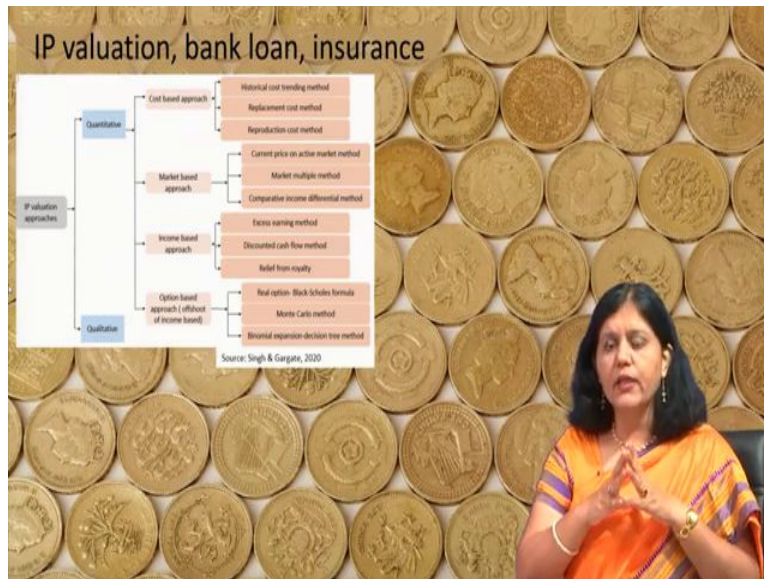
But, at that time you also would like to know because it is a strategic move, when you are doing cross licensing; generally it is a strategic move. So, at that time you will, you should know that how much you are giving and how much you are gaining out of that particular thing. Sell and buy, yes it is a direct kind of activity when you are talking about; then joint ventures you are doing at time also you would also like to know about valuation.

Spinoffs are there and these spinoffs are occurring many times in the big organization. Sometimes they activate or they sometimes they concentrate on that spinoffs, sometimes that kind of activity will not been followed by that organization. But, yes spinoffs are possible and at that time probably you would like to know about that. Then CSR activity if you want to do a technology donation, yes that kind of activity is done.

Money donation we have talked about, but technology donation kind of thing is there; and that kind of CSR activity is there maybe you will require the IP valuation. And yes when you enter into unfortunately into the litigation, at that time yes you should know because you have to claim damages and all that details you should know. And therefore definitely at the time of litigation you should know about the value of your IP.

So, these are the few examples where probably you would like to know merger acquisitions and bankruptcy we have already seen so these are the few examples you would like to know the valuation of that IP.

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Now, moving further we will see a little bit about this is like a very complicated presentation you can say. But, yes this valuation related so many approaches are there and so many methods are already there and that are followed for the IP valuation. So, we will just see a background for this, so there is majorly we can say there are two approaches; that is a qualitative approach and a quantitative approach is there. So, as a name suggest you can easily say that okay qualitative approach is like a it looks why and how to do a valuation. That is one thing, qualitative approach will be there.

Then it will evaluate IP using different indicators and that indicators maybe quality and potential of IP. Then weakness and validity of a protection, then enforcement of IP, then maybe challenges like legal restrictions or what maybe the risks. So, these are the few examples means there are more than hundred parameters, when we are talking about IP valuation kind of. And you are doing that particular evaluation of IP there are that the huge parameters are there; we have just seen now these five parameters.

But, there are that parameters and that are definitely consider when your IP valuation is done. Now, when we are talking about a quantitative approach, what you are doing into that quantitative approach. Look into the numeric value of IP, we are giving that particular number actually and we look into that quantitative approach. And it will evaluate IP based on three traditional approaches and these are very popular.

So, if you search in the Google IP valuation, probably these things will come immediately that is cost based approach, then income based approach, market based approach. These are three very common methods when you are talking about quantitative kind of approach, when you are following. These are the main what we can say the methods which are followed and there is one more option based approach that is offshoot of income based approach.

We can say it is a income based, but you can take it as the separately if you want that is option based approach. And in that way you can see that there are 4 ways by which you can do the quantifying that, quantitative way of methods are there. So, quantitative approach is there and these are the 4 methods which are followed.

And probably you will get so many videos on that cost way, cost approach and that income kind of method and market method. So, we will not go in details of that particular thing now, because for you it is good enough for you to know that okay there are qualitative method, quantitative method and based on that valuation is done. There are when you are talking about qualitative, there are more than hundred parameters are there and based on that parameters evaluation is done for that particular IP.

And yes IP is following that particular criteria of property, or according to accounting principles whatever criteria are there. Definitely it is following in that particular thing, and yes therefore for that you can consider it for the valuation.

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Now, the next is like a insurance when we are talking about; when IP insurance is required or why will you require the IP insurance. Mainly two reasons are there for IP insurance like a litigation and a theft. So you will say litigation because sometimes what happen that, by ignorance you are copying technology of somebody else.

Or by unfortunate any events or somebody will copy your invention or whatever your IP is. So, whatever the event is there, whatever the reason maybe there, you enter into the litigation, and if you enter into litigation. Yes, that litigation is little bit costly business and is a good to have some protection and so insurance will be IP insurance will be a safe way to protect you from that kind of litigation.

And if sometimes theft happen; theft is you can identify that particular if you are doing that kind of enforcement team is there. And if looking into that particular enforcement kind of thing, then probably you will get idea if anything kind of that kinds of events are happening. And at that time yes you will require insurance.

So, this is about the insurance this is good enough, and yes in India also you can get insurance for IP; it is of the few companies are giving that particular insurance. So, we can say that we are in a knowledge economy to conclude, we can say that yes we are in a knowledge economy.

There are there is a importance to intangible assets and we are now completely accepting that yes more than 80 percent assets of the organizations are intangible assets.

Then yes for business IP is important and the businesses are valuing IP and we have seen in a few examples now. Then we have also seen what is IP valuation, we have get a idea that is okay IP valuation monetary kind of tag or pricing of that particular IP is done. Then how IP is following the criteria? Yes, we have seen certain criteria which are according to the accounting principles that is followed by IP.

Then what are the different approaches that qualitative and quantitative approaches are there and then based on that particular methods are followed for IP valuation. And different methods are cost method or income based method that particular methods are available and then we have seen little bit information about the IP insurance.

And I guess this is more than enough for you to know the to appreciate the value of a IP in a entrepreneurship. And probably you can think over that yes if you require IP insurance or if you require a valuation of IP, if you require raising fund. So, we have suggested you instead of traditional bank, you have to use or choose the different way for that particular thing.

And then we have also given idea about the aggregators if you are thinking in that and that maybe more useful for a individuals or academic kind of, in academic set ups in inventor is there then probably that may be useful you have to be very careful doing that kind of activity.

But, when you are talking about entrepreneurship activity, probably you will require IP valuation and we have just seen what exactly the things are. And I guess this is good enough for you, and with this fear coming to the end of the session. See you in the next session, thank you.

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