

# Intellectual Property based Financing

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G. Migliori at the :  
**8th Annual WIPO FORUM on  
INTELLECTUAL PROPERTY and SMEs**  
Unioncamere, Rome, 4th-5th October 2010

## Reference CITATIONS :

- “Today’s markets are being transformed by intangibles, a growing number of them are scrambling to find methods that will help them better use, develop and communicate about them” NYT report Sep 07
- ”there is huge value & first mover advantage becoming a leading intermediary in this unconsolidated multi-billion ”corporate service” in Europe” Global head of technology, Merrill Lynch (14bn portfolio)
- Europe’s priority is the creation of OTTs (offices of technology transfer), be they internal like ours or external like MrgoodIDEA - V.Fykovski, former Head of technology transfer at University of California.
- Future competition in the world is IP competition - Wen Jibao, chinese prime minister
- “The Italian Model has finished its “value cycle”. Creativity, design, flexibility, adaptation of existing technologies no longer suffice. It needs true Research & Innovation!” *G.Pietro, head Autostrade+Turin Univ.*

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**K E Y**

**“INNOVATION & IP”**

**R E Q U I R E M E N T S**

**(valuation - commercialisation - funding)**

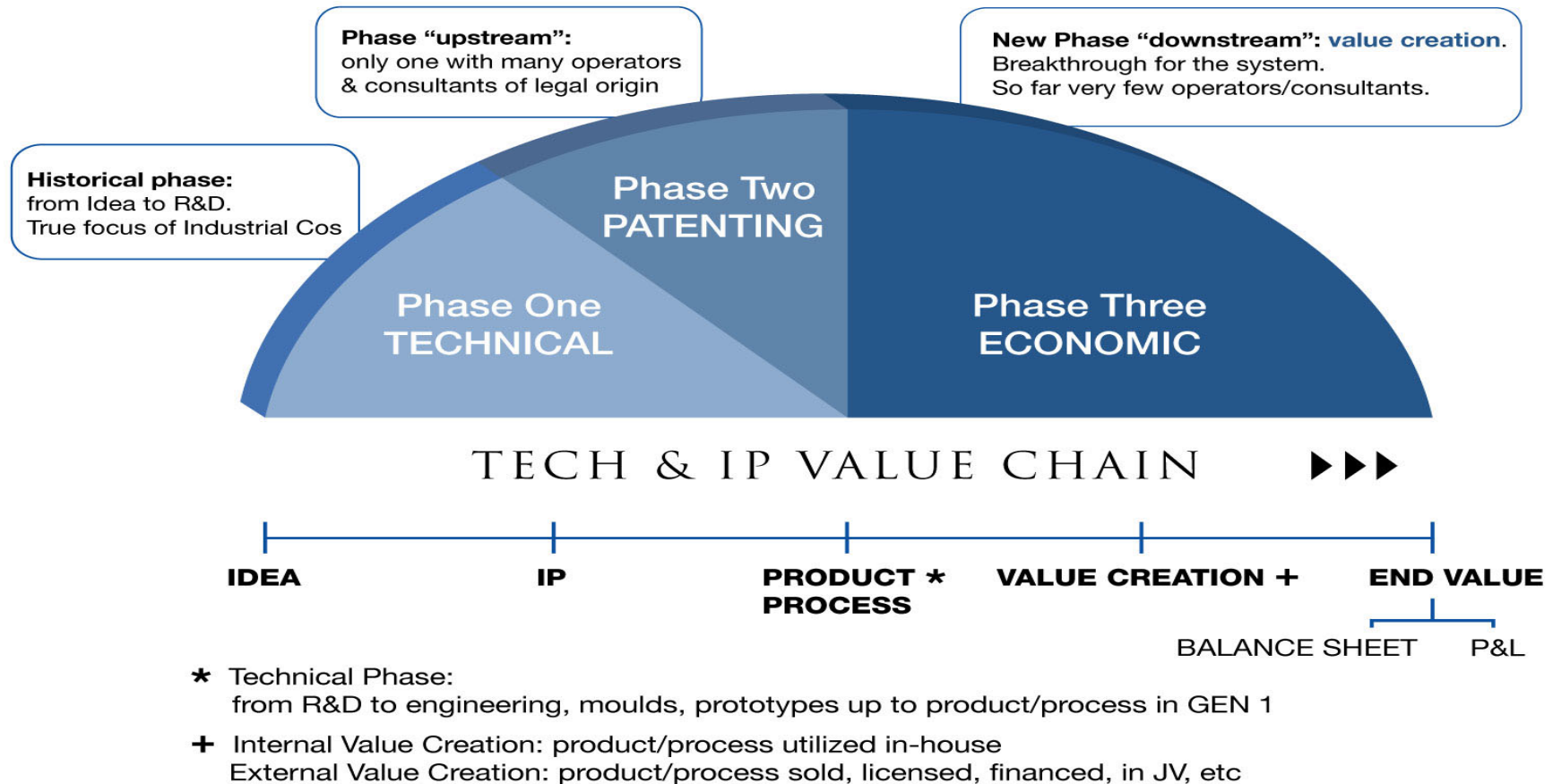
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## R&I : cultural+practical OBSTACLES to IP Financing

- Resistance to MOVE from INTERNAL to EXTERNAL R & D. COs+R&D world seek new Sources of Ideas, R&D, Patents, Licenses - i.e. IP from the MARKET. This needs Brokerage, Trading, Licensing, Outsourcing.
- INNOVATIVE COs to become MORE DYNAMIC but change made difficult by lack of “specialist service sector” as in USA (see **pg.6**)
- INNOVATION ASSETS to be MORE MARKETABLE (i.e. better structured, which essential to improve spin-offs & university sales)
- the LANGUAGE “R&D to ENTERPRISE” MUST EVOLVE to beat : “*not invented here*” - “*my R&D is best*” - “*base research is the only way*” - etc.
- EU FUNDING to go to INNOVATION as well as RESEARCH
- EU PROCEDURES must be “simplified” (EU work in progress)
- FUNDING must be more “up-front” and less “reimbursement”
- SERVICES & CONSULTING must be more “LOW-COST” (**pg.7**)

# R&I SECTOR needs more “economic & financial” experts

Phase 1 is essentially in-house R&D. Phase 2 is the classic technical/legal advisory  
Phase 3 : the new way of valuing, market-making and monetizing Technology & IP



World needs to build more top class R&I and IP economic value-creators

# COST : any Low-Cost TOOLS ? (in SME-based economy)

## There are good news for INNOVATION COSTS !

- **GENERAL factors allowing reduction in costs :**
  - Emergence of “Full value-chain” Advisors (reducing time and failure rates)
  - New EU Mix will drive larger volumes of Innovations leading to lower deal costs
- **STRUCTURING services allowing reduction in costs :**
  - despite major new contents, prices down to 5-15K from 75K+ (eg. PPR with Val+Position)
- **VALUE-CREATION services allowing reduction in costs :**
  - Trading platforms are reducing costs (eg. transaction, search, etc.)
  - Licensing is not costing less but is producing more (eg. wider applications/scope)
  - Open Innovation, R&D JVs, etc. are growing ways to reduce costs
- **FINANCING services allowing reduction in costs :**
  - Better EU-derived services leading to more Public/Private funding (which costs less)
  - Initial impact of IP on credit, debt and other Innovation operations

# EMERGING MODELS

1. **IP VALUATION**: still needing “benchmarks”, but there are now **Models available** (i.e. statistical, automatic, low-cost) which:  
preferred by **A. EU/NAT/REG** funding **B. by PRIVATE** Finance
2. **LOW-COST SOLUTIONS** to insert in **Public or Private** strategies
3. **IP integrated into Innovation-Led CORPORATE STRATEGY**  
- i.e. **M&A, international growth, Licensing, JVs, Collaborations**
4. **Joint PUBLIC/PRIVATE TECH&IP Support strategies**  
- **Direct Investments** (specially on **Regional** basis)  
- **More structured deals**
5. **TECH&IP Exchange PLATFORMS**
  - ▣ **Global IPXI or Macro-Sector/Territorial/Academic Platforms**
6. **TECH&IP INTEGRATED SYSTEMS**
  - ▣ **Regions or Tecno Parks or Districts or Enterprise Networks**

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**“DRIVERS” of  
CHANGE  
(Solutions)**

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## Some TRENDS or SOLUTIONS

- The economic **CRISIS** has accentuated the need for not **OPTIMAL** model for **GROWTH : ALL-to-HIGH-TECH** but **REALISTIC** model for **GROWTH : ALL-to-ALL-TECH**
- Resulting **POLITICAL & STRATEGIC MIX** changing (eg. in EU) :  
from **RESEARCH / HIGH-TECH / LARGE CORPNS**  
to **R & I / ALL-TECH / MSMEs**
- Some of the Consequences :
  - Hundreds of BNs changing focus (for example in EU)
  - More Innovation Market
  - Better (larger) Intermediaries
  - IP as key reinforcement to Innovation & Technology
  - More Private Finance (public debts too high, private funds too low)
  - More Technology Investments going Early-Stage with IP



# **PUBLIC SECTOR - Europe's future plans (EU 2020)**

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**EU INSTITUTIONS finally seem to want change, as direct reaction to post-Lisbon un-changed USA leadership in TECHNOLOGY.**

**Here are citations from a the key DOC : EUROPE 2020 !**

“ Smart Growth must reduce barriers to free movement of knowledge and innovation and also reduce gap between R&D and markets”

“ Inclusive Growth must build well functioning and connected markets for the 21<sup>st</sup> century where innovation & competition stimulate growth ”

“ Smart Growth must combine supply-side with demand-side policies in innovation “

**RESULT : Europe wants a more dynamic demand-side model which means more innovation flows, more exchanges, more MARKET !**

# PRIVATE SECTOR - reacting to the crisis with R&I

Irreversible changes are taking place which make a pro-active Tech & IP strategy inevitable for SUPPLY (R&D world) and DEMAND (industrial cos)

- **STRATEGIC Driver : impact of “intangibles” on Value of Balance Sheets.**  
Intangible Assets have become the primary economic value and a New Asset Class.  
**Technology & Intellectual Property are the main “intangible asset” for Companies !**
- **INDUSTRIAL Driver : Technology & IP are the 1° Factor of Competitiveness**  
In situations of Competitive Gap, countries as well as companies are obliged to look at **Tech&IP Flows** as key to improving Exports and **Product / Process Innovation.**
- **LEGAL Driver : more incisive courts + more aggressive owners/speculators =**  
Technology strategies before non after products going to market in order to avoid copying and litigation. It's the end of the bad habit of “first going to market then (perhaps) patenting” !
- **ADMIN Driver : by 2011-12 “Intangible Assets” in balance sheets. (IASB)**  
International accounting boards are moving to ensure EU companies will insert intangibles in their accounts “even when not negotiated in active markets”. First among them : Tech & IP.
- **FINANCIAL Driver : innovation & technology improve profit and productivity.**  
Banks, Funds and Investors prefer projects and risks which include IP and technology.

# **IP - B a s e d F I N A N C I N G**

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**Actual results in the**  
**Innovation Marketplace**  
**(with Focus on SMEs)**

# SMEs' 4 main R&I PRIORITIES for “competitiveness”

1.

## **VALUATION/ MAPPING/ COMPETITIVE TECH POSITIONING**

These services are “priorities” for MSMEs and their supporting institutions  
The optimise R&D & Tech investments and establish the SME positioning in terms of  
“competitiveness of its intellectual capital” - nowadays 60-80% del Balance Sheet !

2.

## **VALORIZATION & COMMERCIALIZATION of Patents & Licenses**

with Private (brokerage) and Public (tenders, auctions, internat PI exchange) Markets

3.

## **INTERNAZIONALIZATION, M&A&A (Mergers, Acquisitions, Aggregations)**

4.

## **INVESTMENTS & SPECIALIST FINANCING for TECH&IP**

Through techniques of risk reduction and IP portfolio management supply of a  
range of services typical of a “specialist Investment Bank” - eg.:  
Re-structuring, Loans, Leasing, Risk Capital - all using IP and Patenting ASSETS !

## Examples of Actual Market Deals - (single client)

1. **IP-LINKED START-UP turned MID-SIZE M&A** (pg.16)
2. **CLASSIC IP-LINKED START-UP turned IPO** (pg.17)
3. **MICRO-Co going INTERNAT through w/w licensing program**  
Sector: packaging. Services and co-funding by public body.
4. **MID-CAP sub of Large quoted Group switching Tech due to IP**  
Sectors : from waste-to-energy to cleantech energy  
Value of switch : € 60M. Out - € 20M. In.
5. **LARGE Engineering Co. reviewing w/w biz policies due to IP.**  
IP policy able to transform “bidding” prospects + raise margins
6. **LARGE CORP monetizing 200+ IP Portfolio “free-of-charge”**  
- i.e. out of € 1M. annual IP mgmt fees

## Example of **FULL VALUE CHAIN** - Low-Tech project

From Italian Tech&IP portafoglio of MrGI : **BULLOCK**

Patented method patent owned by individual inventor.

Developed in Italy. Sector : Auto accessories

G.Migliori acquired Option on “rights-of-use” nel 2004.

- 1.** Option paid Zero and Technology patented and sold to sector SME for € 200.000 after 6 months marketing.
- 2.** SME developed activity using MrGI services over 4 years.
- 3.** Activity, Patents & Brand sold to sector Mid-Cap for € 17 M.

### COMMENTS :

- true type of “tech venture capital”, un-earthing value “upstream”
- proof that Low-Tech not tantamount to “low-returns”
- in today’s IP mkt, IP or Tech Fund would have optimized ROI

## R&I+IP MARKET : single SME “success story” from Italy

Example from the SME Portfolio of MrGI : ADTECH

This technology has always belonged to one individual.  
It has been developed in Italy. It is in the IT/Web space.

- 1.** In the USA its appeal to IP investors was limited to Litigation and its value over 2 years rose to 28 Million.
- 2.** In the USA its appeal to industrial/financial investors in 1 year (2009) rose to 75 Million. The Company has been quoted on Nasdaq OTC in Feb 2010.
- 3.** In Feb 2010 its strategy doubled with Lawsuit against 1st (of several) major internat Cos for Patent infringement

**RESULT** : market value by early 2011 put at 150 Million.  
( **N.B.:** the Company is still in its pre-turnover phase! )

## Examples of Actual Market Deals - (multiple client)

1. **REGION** (as well as Tecno Park Assoc.) reviewing entire **TECH** Portfolios due to more affordable/reliable IP solutions.  
Size: up to 500 Patents + other IP and 4.200 Technology projects.
2. **NEW** mixed **PUBLIC/PRIVATE** Regional Technology FUND centered on IP. Initial Value : € 15 M. (**pg. 19** for National version)
3. **BANKING GROUP** reviewing strategy towards **CORP** clients through IP (innovation) seeking increases in : A. market share, B. corp client satisfaction, C. share of innovative cos.
4. **MACRO-SECTORS** developing a “Dedicated Marketplace”
  - A. “Financial IP” Sector - see example of changes at **pg. 20**
  - B. High-IP incidence sector with 4.400 creative internat. Cos
5. **IP-BASED** (i.e. intangible) Import/Export Alliance  
- eg. Mid-Tech Tech&IP exchanges Italy-India



# R&I+IP: PUBLIC/PRIVATE FUND “success” from Italy

[ Following is a “virtuous model” tipped to be repeated throughout Italy and the EU ]

## **SUDTECH - a new Public/Private Innovation VC Fund**

- 1. The Ministry for economic development makes available € 37.5 M. for specific investments into Innovative projects and companies provided these have significant Intellectual Property.**
- 2. Private VC and PE Funds are invited to match such Capital to build a € 75 Million mixed Fund.**
- 3. The Fund was fully capitalised in June 2009, including several quality bias (eg. specific ip/sectors, geo focus, size of deal, etc.)**
- 4. RESULT : through typical credit leverage (up to 100% of capital base) the Fund has turned a strategic view by a Public authority into a € 150 MILLION Targeted IP and Innovation vehicle for Italy !**

# IP-Based FINANCING: comparison with classic VC & PE

Following is Example of how new TECH&IP Valuation & Risk-management methods are facilitating and accelerating the rise of

A. IP-Based dedicated marketplaces B. more investments in “early-stage” Assets

## RISK CAPITAL SECTOR - Example from Leading EU Market:

1. Capital Flows by classic Private Professional Investors - i.e. VC or PE Funds
2. Capital Flows by NEW Private Investors specialized in Technology & IP

### RESULTS from the 2 sectors - PERIOD 2006-09 :

1. Example of EUROPEAN VC & PE Industry (100 Funds, 5.4 BN ava CAPITAL)
  - Total Investment Flows in Early-Stage projects/companies : **158 Milioni**  
(data is net of public and banking funds)
2. Example of TECH&IP SPECIALISTs (OT+MrGI, 2 small firms 1 US, 1 italian)
  - Total Investment Flows in IP, mostly pre-money Patents : **150 Milioni**  
(results include a 25% Gross Margin!)

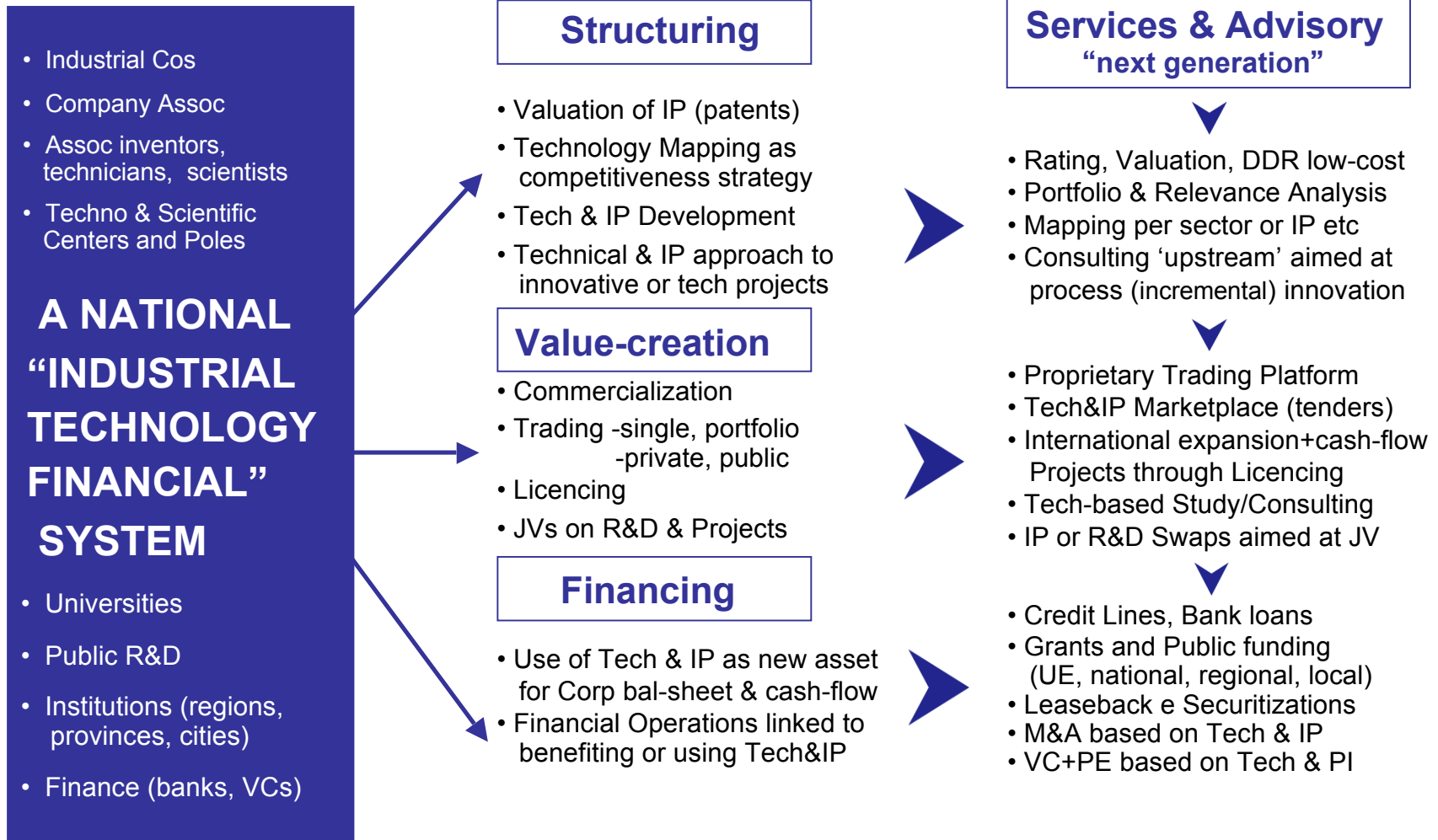
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**NEW TOOLS**

**AVAILABLE**


# “NEXT GENERATION” R&I (Tech) + IP Services

**MARKET DEMAND**    **TECH&IP PROBLEMS**    **SOLUTIONS** by **Mr good IDEA**  
FROM IDEAS TO IP CAPITAL



# TOOLS : IP Valuation - low-cost+neutral+objective

Valuations Models acceptable to the financial sector are a breakthrough !



## PATENT DUE DILIGENCE REPORT

REPORT DATE: January 11, 2006

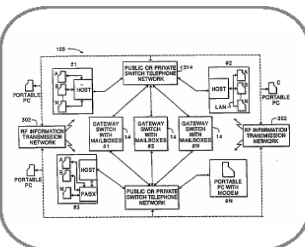
US0543696

Patent: **US5436960**  
 Filed: **5/20/1991**  
 Priority: **5/20/1991**  
 Issued: **7/25/1995**  
 Inventor: **Campana; Thomas J., et. al.**

IPQ<sup>®</sup> Score: **180.5**  
 Overall Rating: **A+**

Assignee (orig): **Campana, Thomas J., Jr.**  
 Assignee (cmt): **NTP, Incorporated**  
 Recorded: **006986/0758; 5/20/1994**  
 Attorney: **Antonelli, Terry, Stout & Kraus**  
 Current Status: **IN FORCE**

Electronic mail system with RF communications to mobile processors and method of operation thereof



Field: **COMPU/SOFT**  
 U.S. Class/Subclass: **455/412**  
 Class Description: **Telecommunications**  
 Int'l Class / SIC: **H04M / 3661**

Number of Claims (dep/ind): **89 (8 / 81)**  
 Number of Related U.S. Patents: **5; 1 pending**  
 Number of Related Int'l Patents: **1**  
 Number of Forward Citations Rec'd: **42**

**Summary of Scores/Ratings**

Intellectual Property Quotient (IPQ<sup>™</sup>): **180.5<sup>1</sup>**  
 Overall Percentile Rank: **99%<sup>2</sup>**  
 Overall Patent Rating: **A+<sup>3</sup>**  
 Nominal Expiration Date: **7/25/2012<sup>4</sup>**  
 Remaining Life Expectancy: **6.1 yrs<sup>5</sup>**

**Scores & Percentile Rankings<sup>2</sup>**

Factor <sup>a</sup>	Score/Rank	Raw Score <sup>b</sup>	Percentile Rank by Group <sup>2</sup>				
			Overall	Field	Class	Subclass	Assignee
TECHNOLOGY	1.55	96.1%	90%	---	---	---	---
DISCLOSURE	1.24	80.8%	63.6%	85%	80.7%	---	---
CLAIMS	1.97	99.6%	98.7%	99.5%	97.7%	---	---
PROSECUTION	1.74	98.7%	97.8%	99%	97.9%	---	---
OTHER	1.37	89.6%	90.2%	36.8%	95.3%	---	---
<b>IPQ SCORE<sup>1</sup></b>	<b>180.5</b>	<b>99%</b>	<b>98.9%</b>	<b>99.7%</b>	<b>99%</b>	<b>99%</b>	<b>---</b>
<b>IPQ SCORE<sup>4,500</sup></b>	<b>162.5</b>	<b>97.3%</b>	<b>95.9%</b>	<b>98.5%</b>	<b>96.5%</b>	<b>---</b>	<b>---</b>


**Life Exp. & Survival Probabilities<sup>6</sup>**

Life Exp. (Years)	M1				M2				M3				
	Y0	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Y11	Y12
Exp. Survival	16.7	15.7	13.7	12.5	11.5	10.5	9.5	8.5	7.5	6.5	5.5	5	89%

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\*For application notes on this page please refer to Appendix 1 attached hereto.



## PATENT DUE DILIGENCE REPORT

REPORT DATE: January 11, 2006

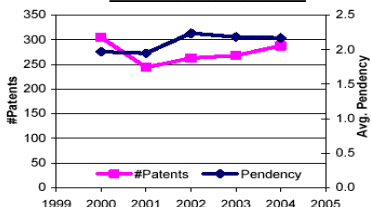
US0543696

**Related Technology Space**

The '960 patent is currently classified by the USPTO in primary U.S. Class/Subclass 455/412 ("Telecommunications") and Int'l Class G06M 003/00. The closest corresponding SIC code is 3661 (Telephone And Telegraph Apparatus). Major patent holders in USPTO class 455 are listed below along with a patent-activity summary for the trailing 5-years.

Patent Assignee	#Pats	IPQ
Xerox Corporation	19	96.3
International Business Machines Corpor:	18	83.5
Brother Kogyo Kabushiki Kaisha	18	128.6
Lexmark International, Inc.	17	91.6
Eastman Kodak Company	16	111.3
ZIH Corp.	16	100.6
Fargo Electronics, Inc.	12	117.0
Pitney Bowes Inc.	11	119.0
Francoalp-Postalia AG & Co.	11	81.8
Monarch Marking Systems, Inc.	10	130.7

**Patent Activity - Class 455**



Patenting activity in USPTO patent class 455 has been gradually increasing over the past 5 years, as shown in the above graph, with about 1897 new patents now issuing per year on average. Average pendency times (time from filing to issuance) have been increasing over the past 5 years to about 3.55 years currently, indicating a somewhat higher than normal backlog of pending cases awaiting examination.

Of course, it should be noted that patent technology classification is an inexact science and relies largely on subjective review and analysis by human decision-makers. Because of this, some patents and patented technologies may be "misclassified" and/or put into existing classifications that do not exactly fit or aptly describe a particular technology. Thus, it may be beneficial to consider other possible patent classifications. Other relevant USPTO patent classifications in this case are indicated below along with estimated relevancy scores and growth trends for each.

**Relevant USPTO Classifications and Patenting Trends**

Class#	Brief Description	Relevance	Trend	Relevance
200	Circuit breakers...	0.971	█	0.971
345	Computer graphics processing	0.837	█	0.837
128	Surgery	0.777	█	0.777
607	Surgery: light, thermal...	0.766	█	0.766
400	Typewriting machines	0.702	█	0.702
600	Surgery	0.688	█	0.688
341	Coded data generation...	0.627	█	0.627
273	Amusement devices: games	0.554	█	0.554
324	Electricity: measuring and testi	0.513	█	0.513
601	Surgery: kinesotherapy	0.303	█	0.303

\* Trend data represents patent issuance rates in a trailing 5-year period.

Source: OTPR analysis

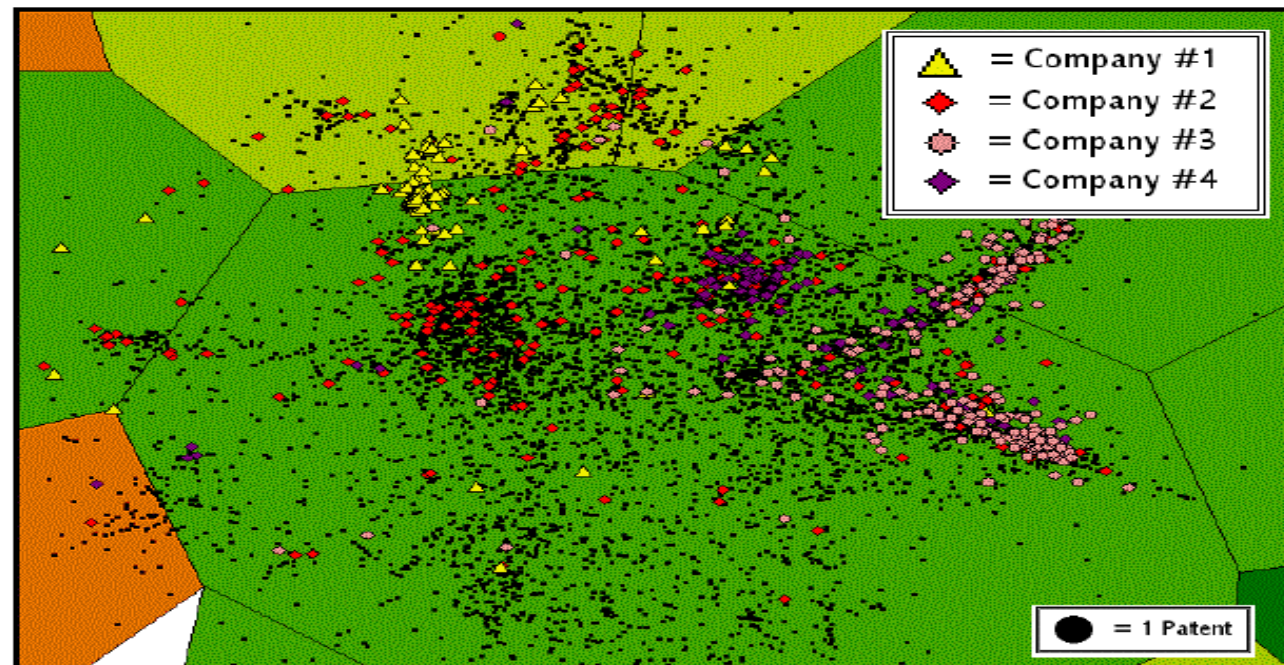
# TOOLS : IP Mapping - competitiveness & relevance

## ❑ PATENT MAPPING through the use of BENCHMARK RATING

- ❑ Rating and relational mapping
- ❑ Tracking and ranking of Patent trends
- ❑ Identification of “white” or void spaces
- ❑ Relevance Analysis based on patent population - proximity - voids v. clusters overlaps - trends - saturation areas

*IDENTIFY  
COMPETITIVE  
STRENGTHS OR  
WEAKNESSES IN  
YOUR COMPANY'S  
PATENT SPACE*

*TARGET  
FOR SALE,  
DEVELOPMENT,  
DEFENSE,  
LICENSING,  
OR INNOVATION*



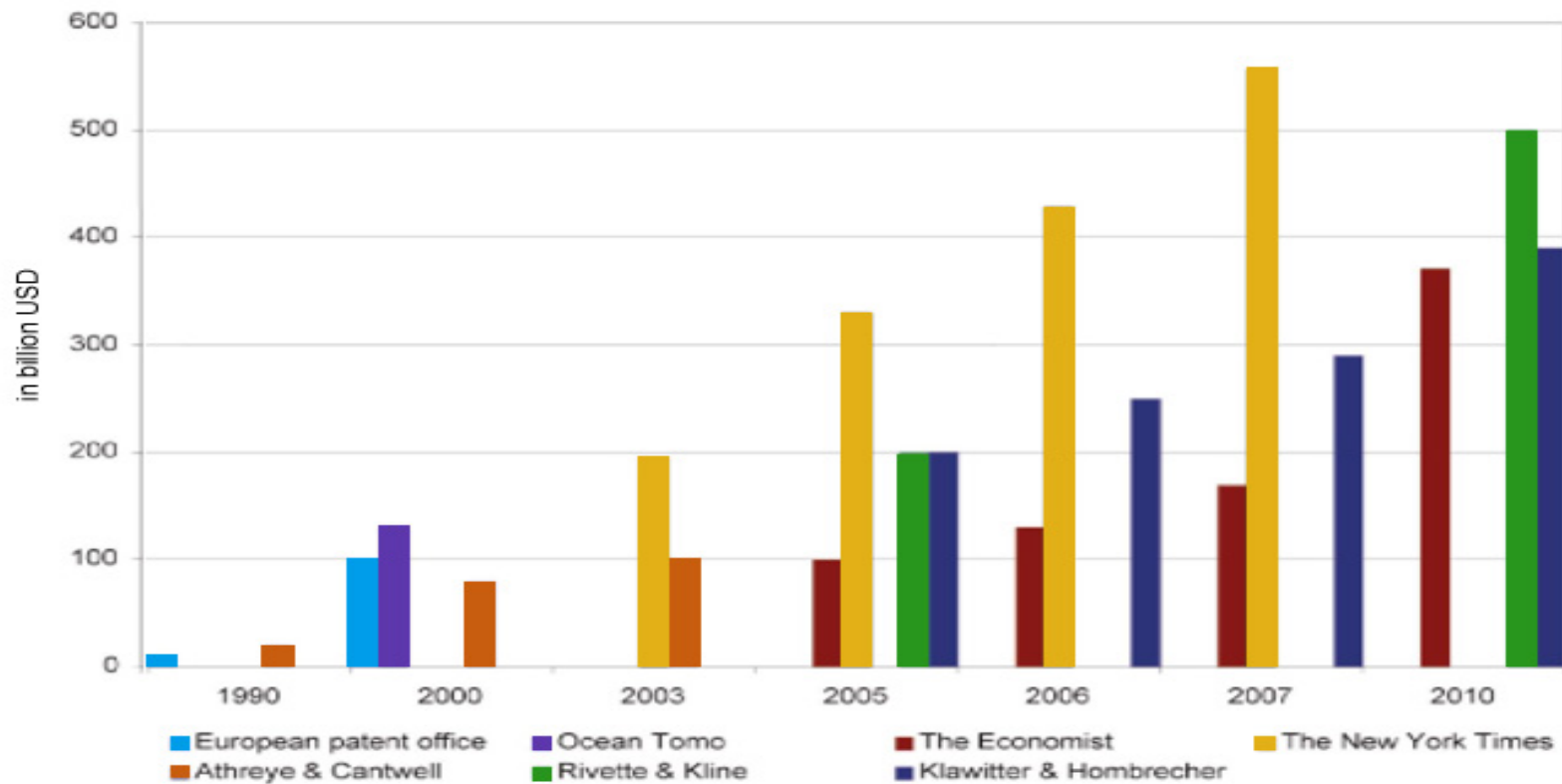
Source: OTPR analysis

# TOOLS : Licensing and Commercialisation

In few years world-wide value of licences & roys went from Zero to 200 BILLION!

## RECENT REPORTS ON "LICENSING" AS SOURCE OF VALUE CREATION FROM IP PERIOD 1990-2010

Sources: european patent office, top press, leading operators, major research institutes



# TOOLS : open Public Trading

IP AUCTIONS in US & EU raised Total \$ 150 in the period 2006-09



## OCEAN TOMO AUCTIONS

*2008 European Live IP Auction Catalogue*



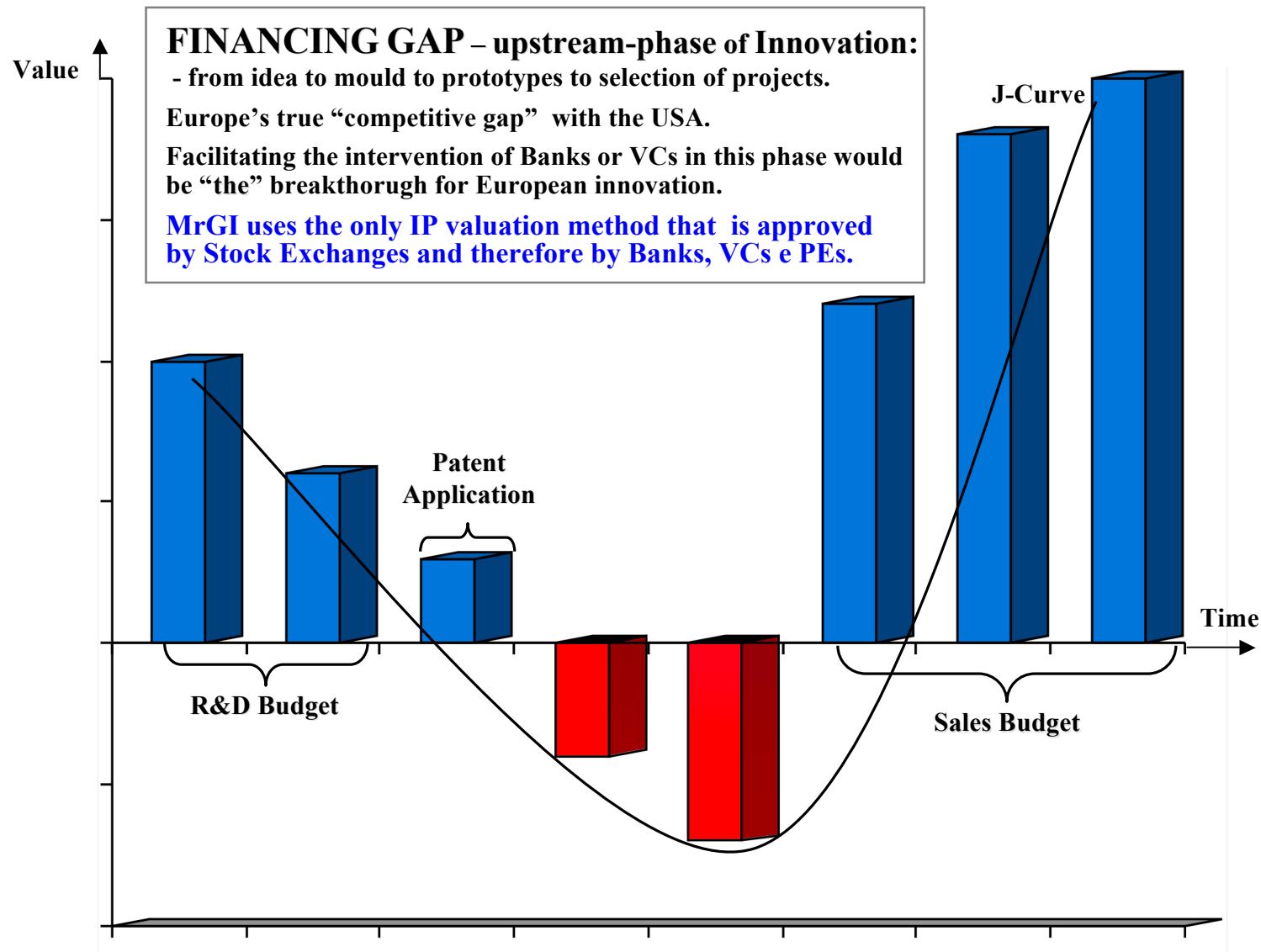
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# TOOLS : “neutral” valuation of IP for venture capital



# CONCLUSIONS

A more dynamic R&I and IP SERVICE SECTOR with better links to both CLASSIC FINANCE and IP FINANCE means :

- ALL-TECH            Low-to-Mid-to-High Tech
- ALL CORPS        Micro to SME to Large Corps
- ALL IP              Patents, Trade Marks, Brands but also  
                          Know-how, Rights, Trade secrets

In my opinion, this would produce :

1. MORE VALUE (both in quantity and quality)
2. BETTER RISK REDUCTION & MANAGEMENT
3. BETTER PENETRATION - SMEs competing with Large CORP
4. MORE WIDESPREAD thus SUSTAINABLE GROWTH
5. MORE BANKS+VCs, KEY to INNOVATION Market liquidity

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