

# The business of Intellectual Property

Including IP patent value funds

15<sup>th</sup> September 2008

Julian Nolan

# Julian Nolan - background

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- Applications Engineer – National Instruments, USA
- Business Development Director – Scipher plc, UK
- Vice President of Licensing - Europe, Honeywell Inc., Switzerland
- CEO, Iprova SA (in formation), Switzerland
  - New IP start-up – offices in London and Lausanne
  - Broad range of IP services provided in conjunction with partners
  - Unique patent synthesis tools
  - Author of BBC licensing column
  - Close partnership with IPB AG ...

- One of Europe's leading consulting firms for intellectual property services such as patent evaluation, patent monetisation and patent management
- Access to international network with worldwide resources in commercial legal protection, in the financial services sector and in auditing and taxes
- More than 130 transactions with a total volume of € 2.5bn
- Bank independent spin-off from HypoVereinsbank Group
- Headquarter: Hamburg
- International representatives in
  - United Kingdom
  - United States
  - Japan
  - Switzerland
  - India
  - China
  - Korea



- **Clients**

- International blue chips
- DAX-, MDAX-, STOXX 600 companies
- SME
- Universities
- Research centres
- Individual inventors

- **Background**

- Investment bankers
- Innovation managers
- Engineers
- Scientists
- Lawyers
- Patent attorneys



# Agenda – the business of IP

- Revenue generation
  - Patents Part 1
  - Trademarks

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- Patent investment funds
  - Open Innovation Part 2
  - Converting ideas to products

# Intellectual Property - what is it?

- Intellectual property is not just about patents.
- It's about brand names, products, services, music, software, paintings and many other creations of the mind.

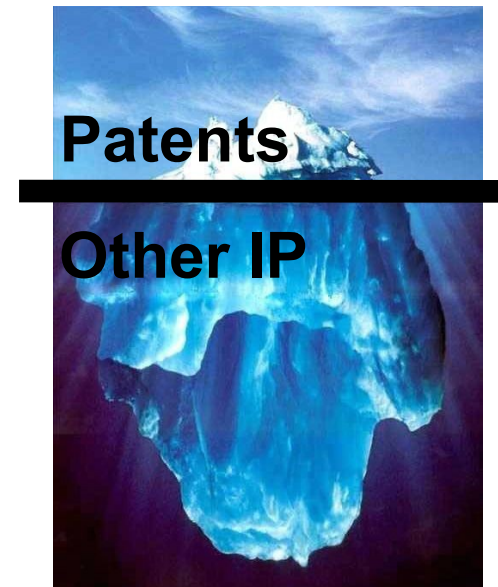


The Coca-Cola logo, featuring the brand name in its signature red script with a white outline.



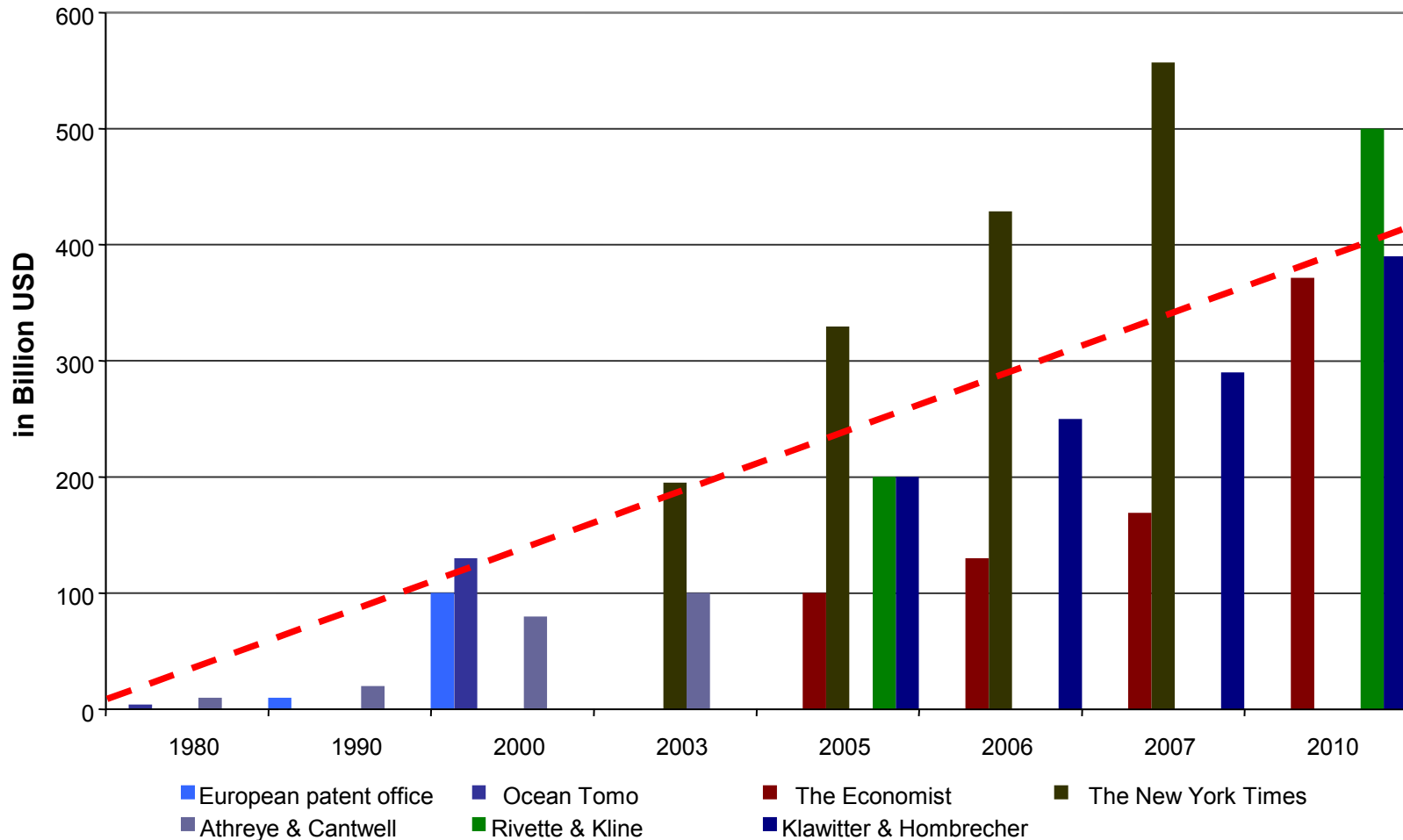
Boeing 737 APU Exhaust Muffler

• Boeing 737 APU Exhaust Muffler  
• Part Number: 65-2275-28-08  
• Boeing List Price (April 2004): \$21,171  
• Completely rebuilt at a savings of 75% off Boeing list price.  
• Total turn around time 14 days



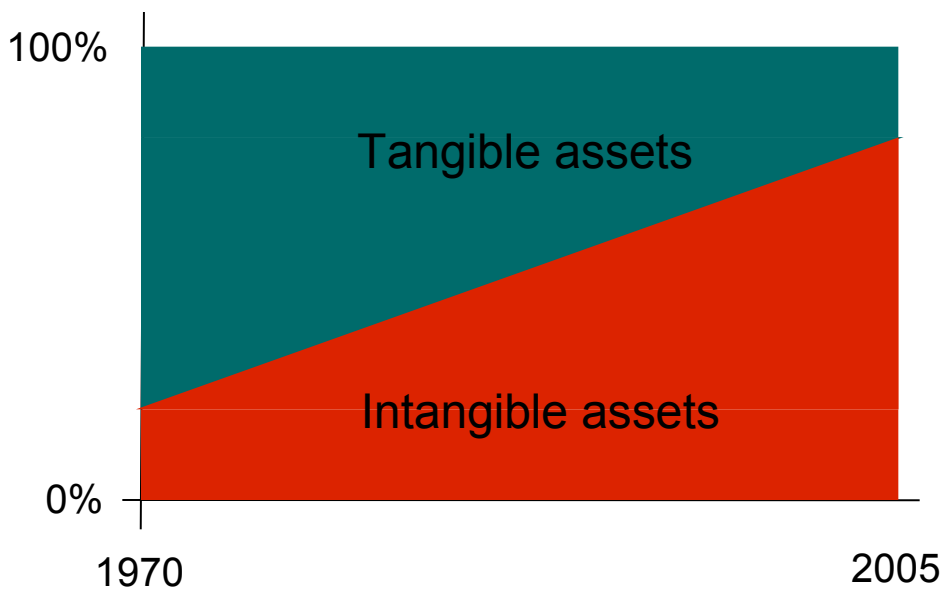
# Worldwide Licensing Revenues, 1980 to 2010

## Development of Worldwide Licensing Revenues

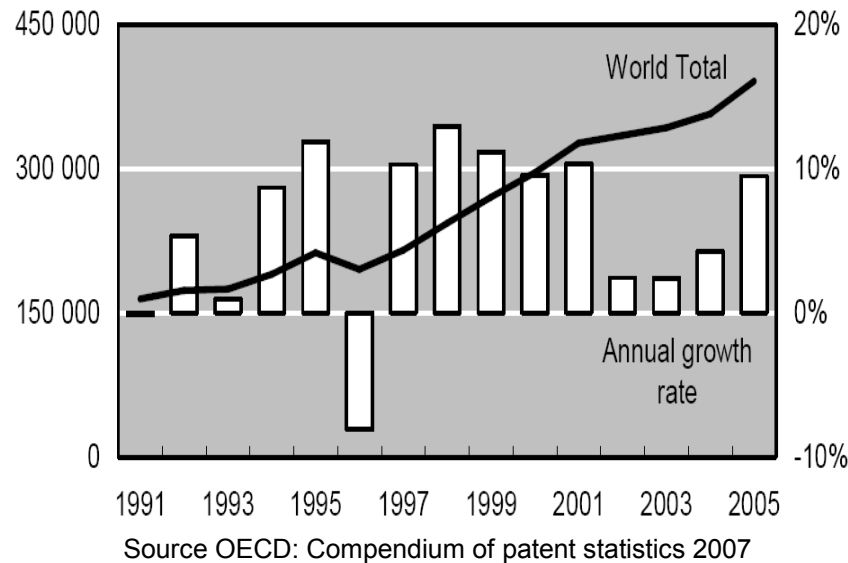


# Why is IP valuable?

Components of S&P 500 market value



USPTO patent applications





# Specifically, why is IP valuable?

- Common uses Include ...
  - Generate income
  - Preserve competitive advantage
  - Scale product lines and brands
    - License to other companies
  - Allow greater focus on core business
    - License non-core or 'nuisance' products
  - Discourage unauthorised use of IP
    - Prevent copying ...
  - Identify acquisition targets

... “use of IP to obtaining and raising finance, earn revenues, raising loans or venture finance, licensing, franchising, securitization, valuation, obtaining technical and commercial information”

# What is licensing?

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Licensing is a direct way of creating value from IP

“A License is a written authority granted by the owner of a patent or other intellectual property (licensor) to another party (licensee) empowering the latter to make or use the article for a particular application.”

# The business of IP - Patents

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- Patents
  - Use for defence and competitive advantage
  - Assert to 'tax' competitors
  - Analyse for competitive intelligence
  - Sell and license for incremental income
  - Buy/sell and trade or cross-license
  - Timing is everything!


# The patent deal

... Licensor can limit the licensee's use of a patent by:

- Market
- Geography
- Time
- Specific Application
- Grant of Rights Usage
  - ◆ Make, have made, sell, market, sublicense, etc.



# Patents that mean business



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Technology & science / Wireless / BlackBerry Battle

## Settlement reached in BlackBerry patent case

Research in Motion pays NTP \$612.5 million; devices to stay on

Ap Associated Press  
updated 6:56 p.m. ET March 31, 2006

Research In Motion Ltd., the maker of the BlackBerry e-mail device, announced Friday it has settled its long-running patent dispute with a small Virginia-based firm, averting a possible court-ordered shutdown of the BlackBerry

The New York Times  
Monday, March 31, 2008

## Technology

WORLD U.S. N.Y. / REGION BUSINESS TECHNOLOGY SCIENCE HEALTH SPORTS OPINION



## Kodak Told It Must Pay \$909 Million

By JOHN HOLUSHA  
Published: October 13, 1990

**LEAD:** In the largest award ever in a patent-infringement case, a Federal judge ruled yesterday that the Eastman Kodak Company must pay the Polaroid Corporation \$909.4 million for infringing Polaroid's patents for instant photography.

In the largest award ever in a patent-infringement case, a Federal judge ruled yesterday that the Eastman Kodak Company must pay the Polaroid Corporation \$909.4 million for infringing Polaroid's patents for instant photography.

Despite the size of the judgment, the decision represents something of a victory for Kodak, since it is well below the \$12 billion sought by Polaroid and the \$1.5 to \$2 billion that some financial analysts had expected.

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## Judge reverses \$1.5B patent award against Microsoft

Judge rules Microsoft did not infringe one of Lucent-Alcatel's MP3 patents

By Stephen Lawson, IDG News Service  
August 07, 2007

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A federal judge Monday effectively reversed a \$1.5 billion patent-infringement award against Microsoft in a case involving MP3 technology.

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Ruling on post-trial motions in a lawsuit by Alcatel-Lucent, Judge Rudi Brewster of the U.S. District Court for the Southern District of California in San Diego said one patent in the case wasn't infringed by Microsoft. On the other patent, the court didn't have jurisdiction because a co-owner of the patent didn't join in the suit.

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In February, a jury awarded Alcatel-Lucent \$1.5 billion in damages for infringement of two of its patents covering MP3 audio technology. It was one of six cases involving a series of patent disputes between the two companies. Lucent Technologies had brought the suit in 2003 before it merged with Alcatel.

# The business of IP - Trademarks

- Brand licensing
  - Globalisation
  - Extend to adjacent markets
- Business advantages
  - “Try before you buy”
    - Test out new markets and territories
      - Identify acquisition targets or alliance partners
      - Time limited deals
      - Contractual reporting provisions
  - Income
  - Increase brand equity etc.

# The trademark deal

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- Usually exclusive for product category territory
- Usually time bound
  - 3 to 8 years
- Licensee has to comply with strict brand usage guidelines
  - usually as set out in a 'brand manual'
- Agreement terminates if strict guidelines are broken
- Commercial structures vary but
  - upfront fee, percentage of product revenues typical

# Deals that go bad



Vs



## The prize



- 1973
  - RR trademark becomes owned by RR aircraft
  - Bentley trademark still owned by RR cars
- 1998
  - BMW offers \$575M for RR cars
  - VW outbids BMW with an offer of \$795M – for RR Cars
  - BMW acquires the RR trademark for \$65M from RR aircraft



# Summary

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- Intellectual Property
  - 80:20 flip between tangibles and intangibles
  - About \$300B of IP transactions per year
- Use it to
  - Get competitive advantage
  - Gain strategic focus and scale
  - Generate incremental revenues
- Increasing investment opportunities
  - Such as the IPB investment fund ...

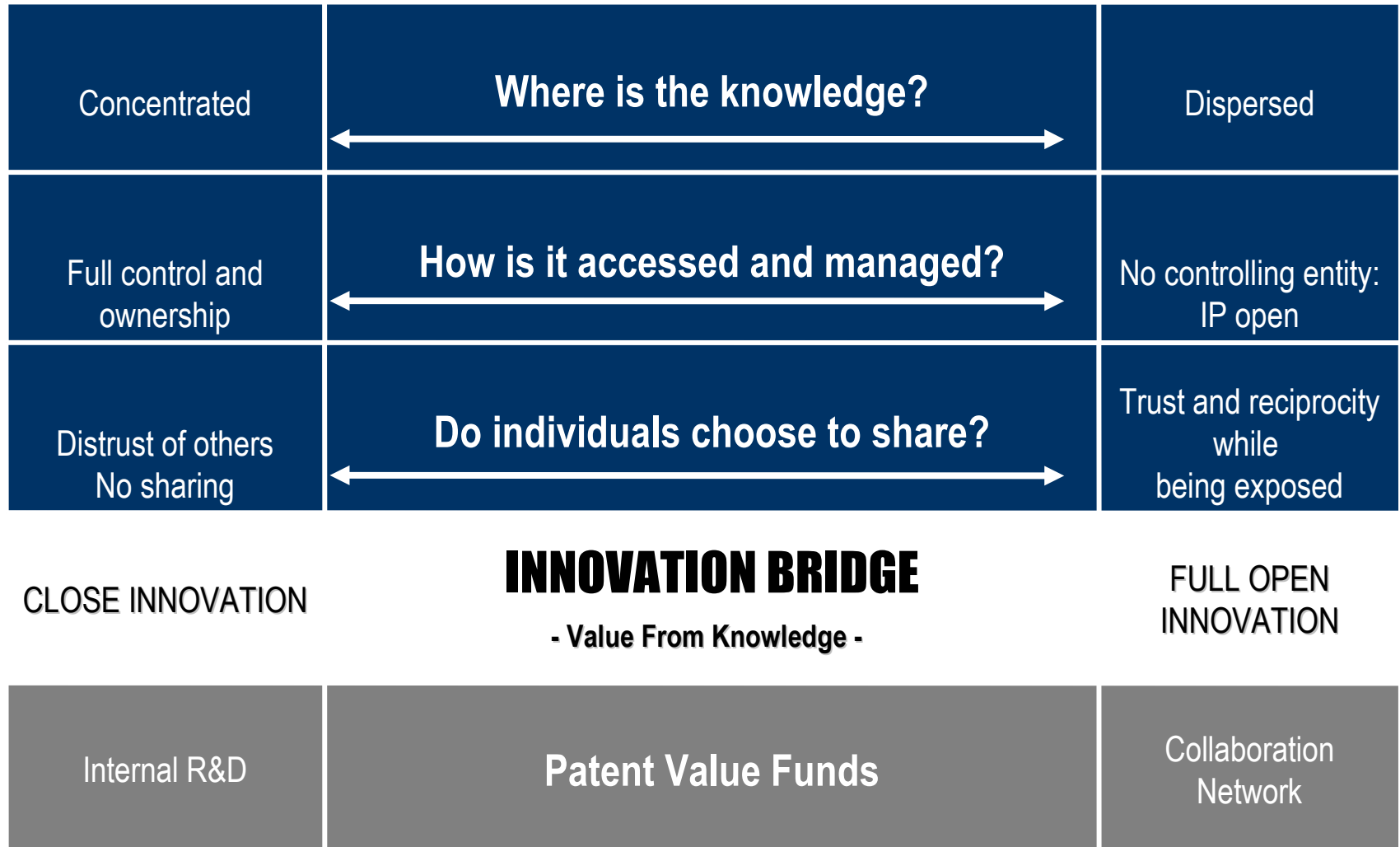
# Part 2 – Patent Value Funds

## OPEN INNOVATION

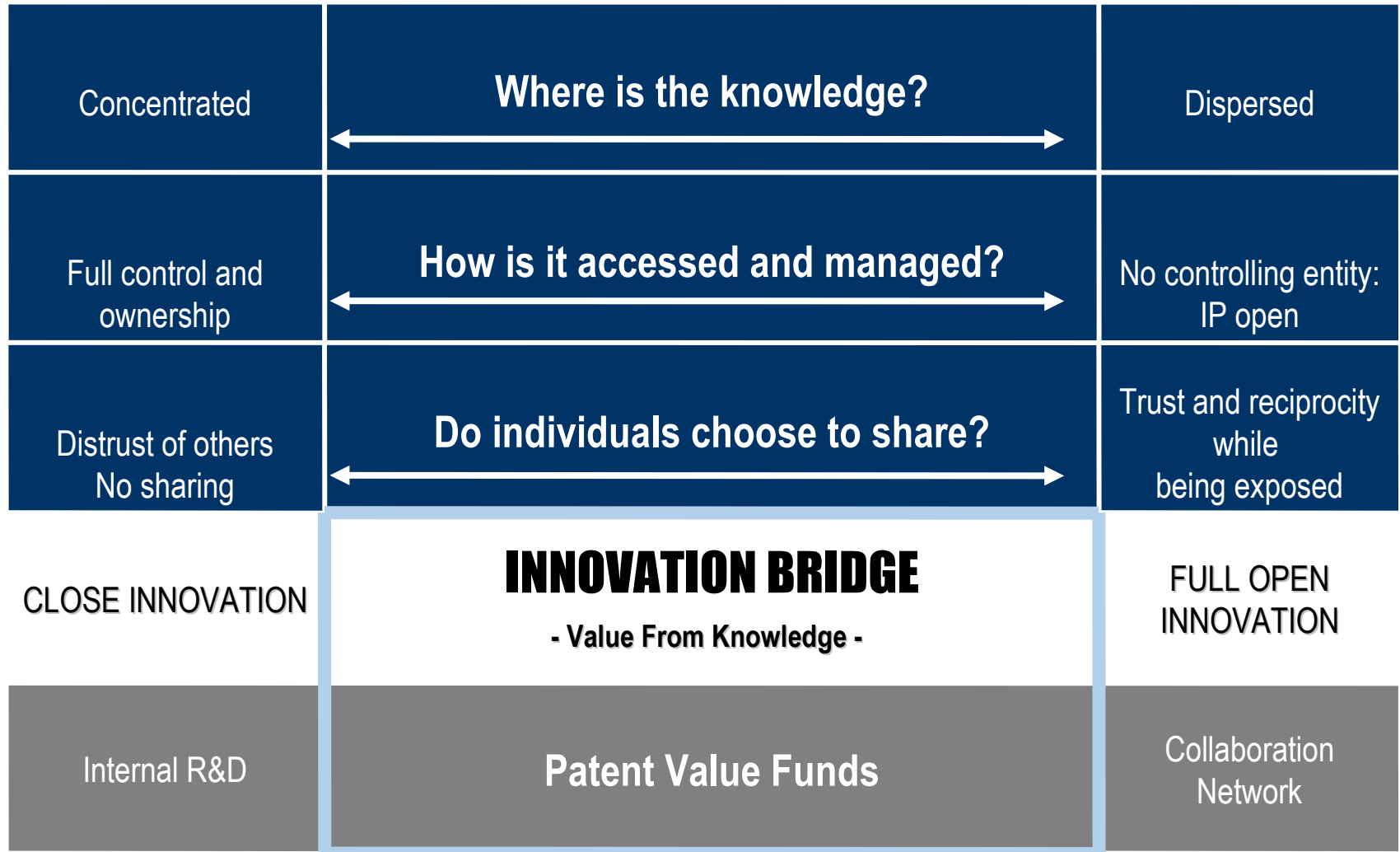
Companies, by looking outside their boundaries, can gain better access to ideas, knowledge, and technology than they would have if they relied solely on their own resources

- increasing the use of inflow of knowledge
- increasing the use of outflows of knowledge
- accelerating the rate of internal innovation
- expanding the markets for external use of innovation

# Open Innovation by Patent Value Funds



# Open Innovation by Patent Value Funds



# How to combine external knowledge and protection?

## External Knowledge Sourcing

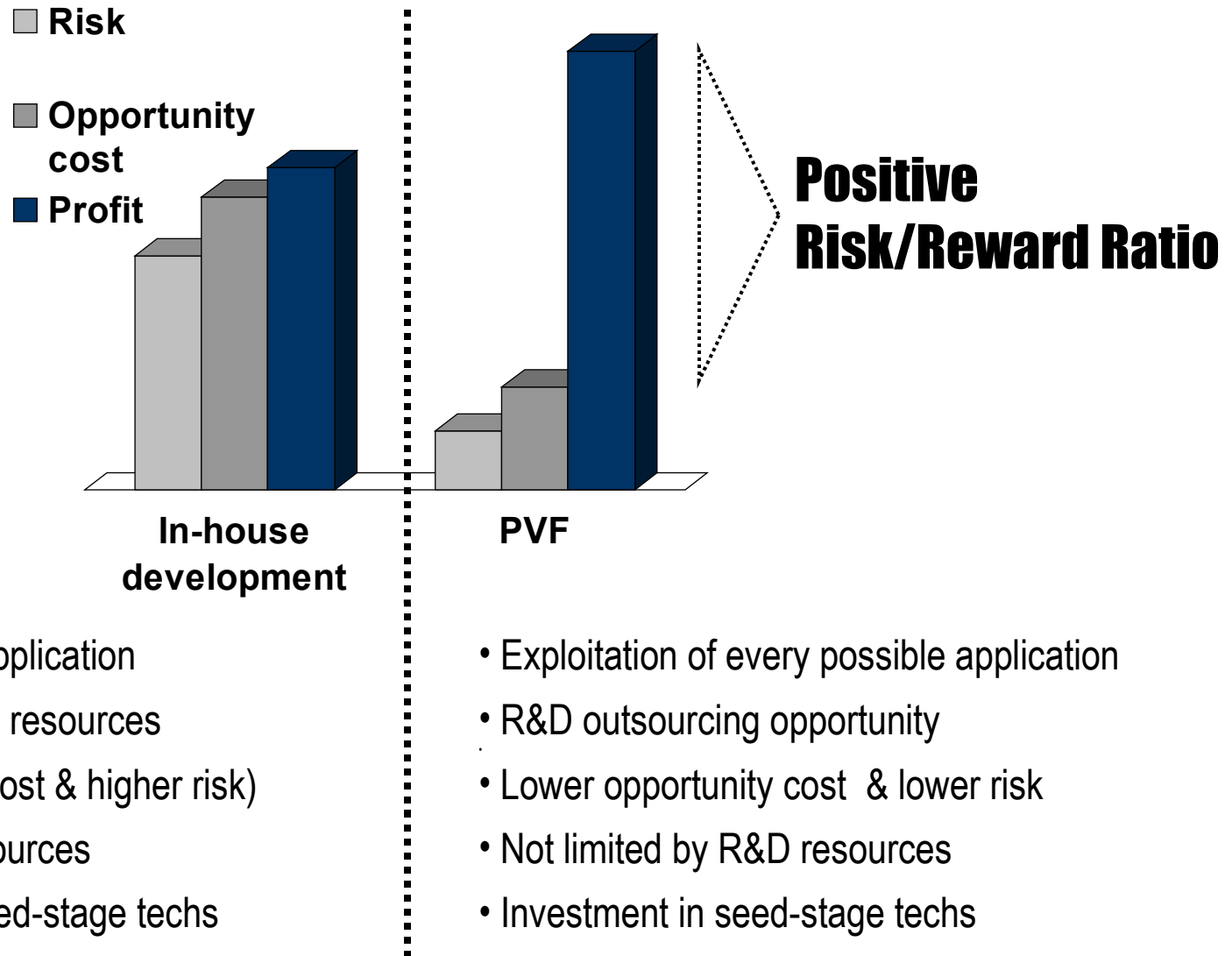
- Universities
- R&D centres
- SMEs
- Large Corporations
- Other knowledge intensive, non competing entities

## Knowledge Protection

- Strategic
- Freedom to operate
- Tactical

Innovation through  
**Patent Value Funds**

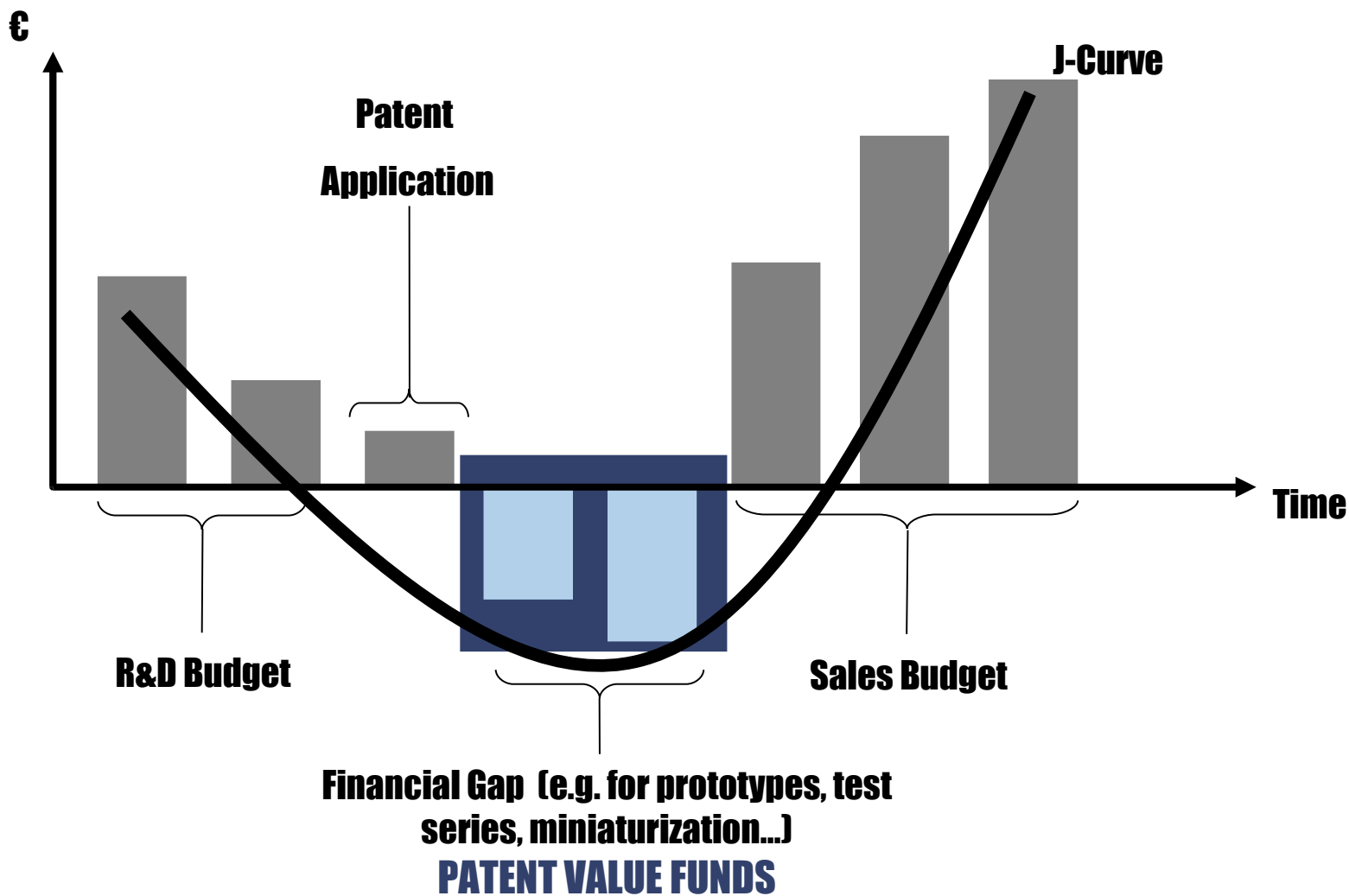
# An alternative to in-house R&D



- Single field of use/application
- Utilization of internal resources
- Higher opportunity cost & higher risk)
- Limited by R&D resources
- No investment in seed-stage techs

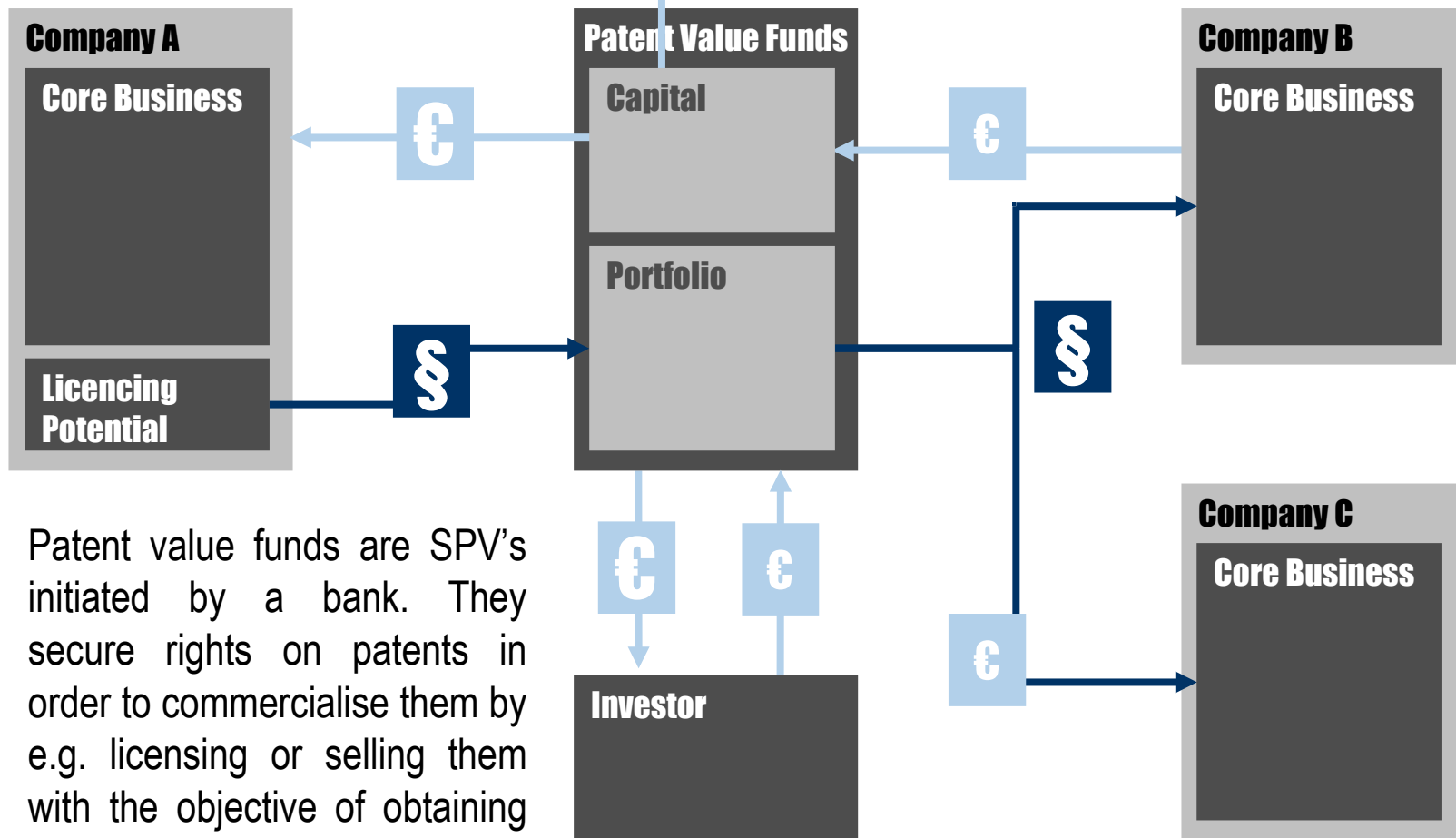
- Exploitation of every possible application
- R&D outsourcing opportunity
- Lower opportunity cost & lower risk
- Not limited by R&D resources
- Investment in seed-stage techs

# Why are patent value funds needed?





# Patent Value Funds



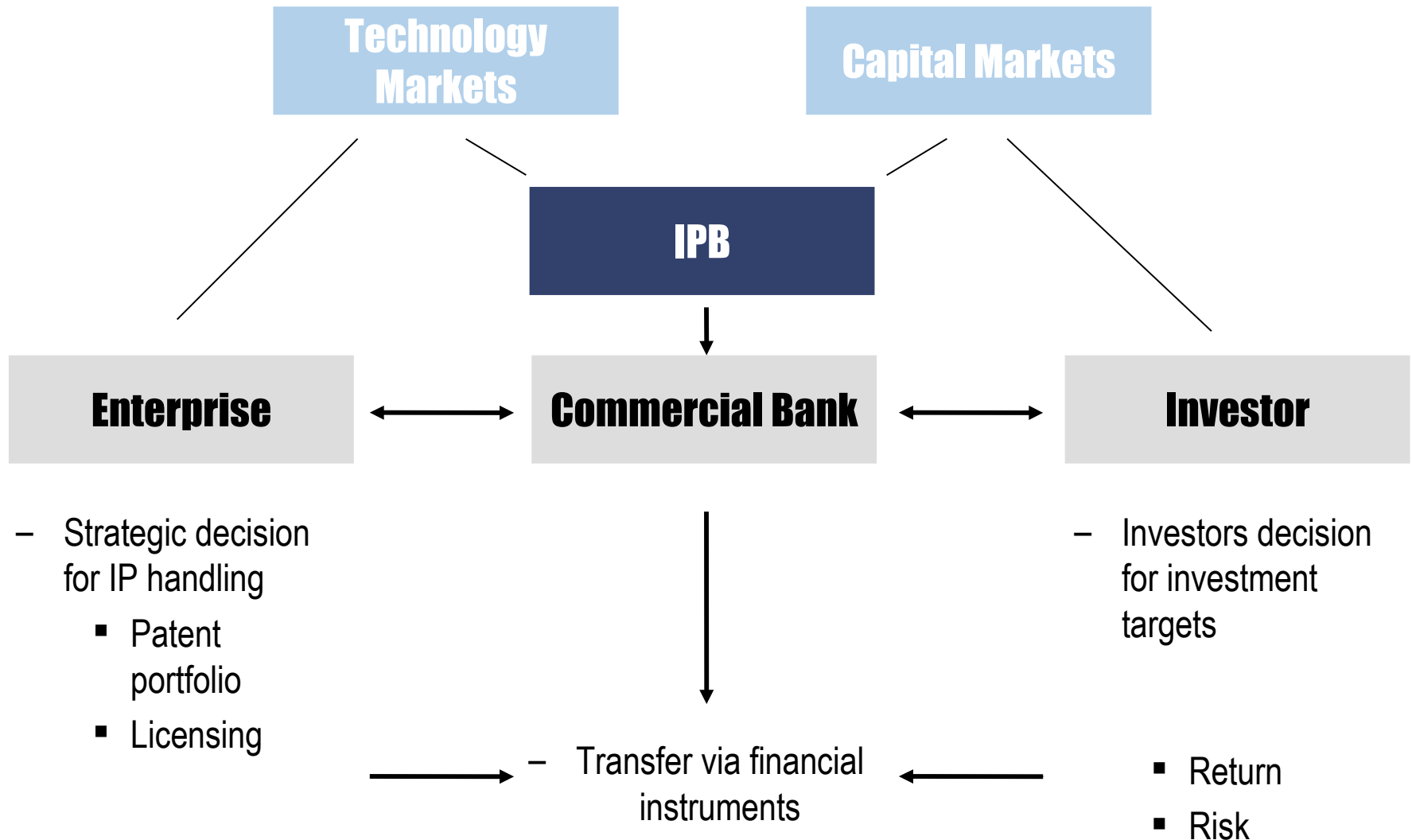
Patent value funds are SPV's initiated by a bank. They secure rights on patents in order to commercialise them by e.g. licensing or selling them with the objective of obtaining the maximum rate of return for both, the patent owner and the investor.

# Patent Value Funds: value proposition

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- Accessing the Open Innovation Model without bearing its costs
- Financing the “Death Valley”
- Solving the False Positive Problem – you don’t invest in R&D directly: no opportunity cost –
- Solving the False Negative Problem – you can access excellent R&D otherwise not selected –
- Bridging from Base Research to Development
- Bridging from Invention to Innovation
- Developing Technologies towards specific industry needs/applications
- Enlarging companies’ R&D base
- Eliminating the R&D Opportunity Cost
- Realizing the value of unexploited technologies
- Stimulating the Markets for Technology

# Where is IPB positioned ?



# Summary

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- Patent value funds
  - Investing in early stage technologies
    - To overcome the 'technology gap'
  - Driven by increasing liquidity in the market for IP
    - Open Innovation driving the market

Good technologies + prudent investment + 'market pull'

=

tomorrow's blockbuster products

# Thank You for Your Attention !

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