

**WIPO-Italy**  
**International Conference on Intellectual Property and Competitiveness of MSME**  
**December 10<sup>th</sup>, 2009, Rome**

Workshop 3:

# **IP Valuation**

## **An Overview of IP Valuation for MSMEs**

**Guido von Scheffer, Managing Director IPB**

# About IPB (IP Bewertungs AG)

- One of Europe's leading consulting firms for intellectual property services such as patent evaluation, patent monetisation, patent management and technology scouting
- International network with worldwide resources in commercial legal protection, in the financial services sector and in auditing and taxes
- More than EUR 200 Mio. under management
- Bank-independent spin-off from HypoVereinsbank
- Shareholders are partners in international law firms, board members in the financial and insurance sectors, professors and entrepreneurs among others
- Headquarter: Hamburg
- International representations in
  - Switzerland
  - United Kingdom
  - Finland
  - United States
  - Japan



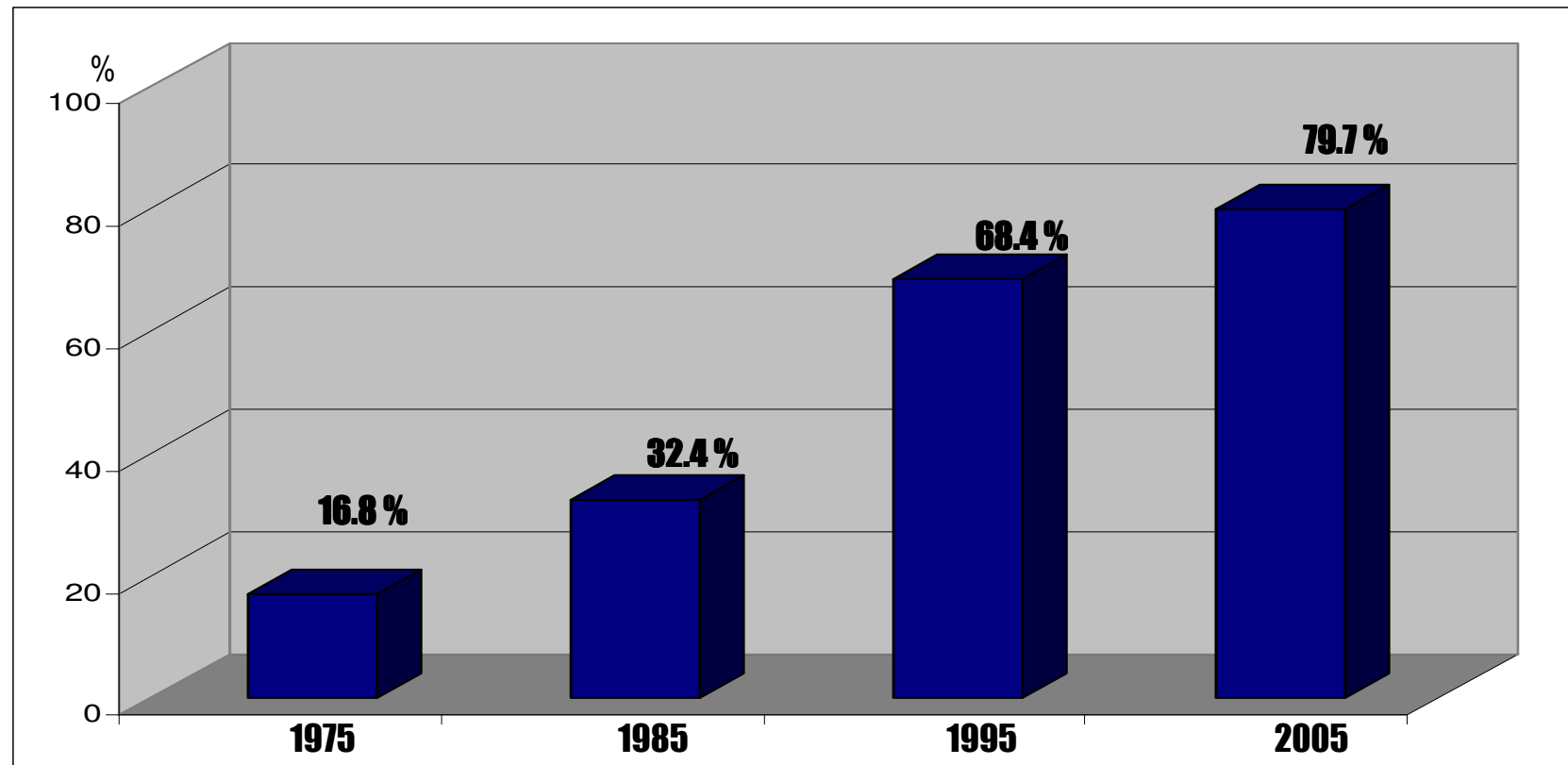
# **Why is Intellectual Property important?**

**“Intellectual Property is the  
Oil of the 21st century.”**

**Mark Getty, founder Getty Images**

# Shift in company's value drivers

## S&P 500® Intangible Value as % of Market Capitalisation



Data: Ned Davis Research, Inc.

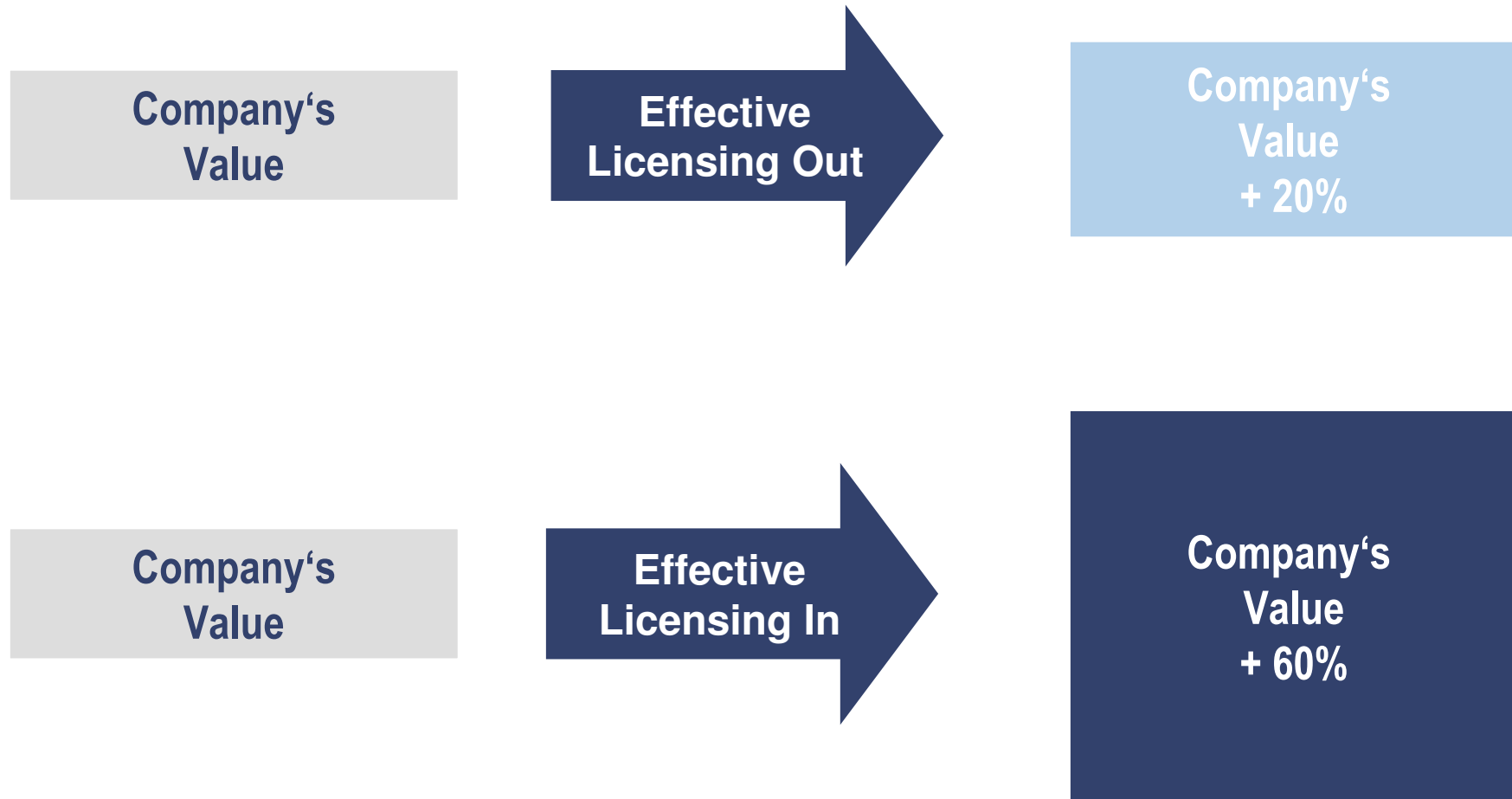
- In the last thirty years, the industrial society ended and the knowledge-based economy has begun.
- Intangible assets are emerging as the most powerful asset class.

# Evaluation of IP Management

---



# IP Values, IP Management and Company's Value



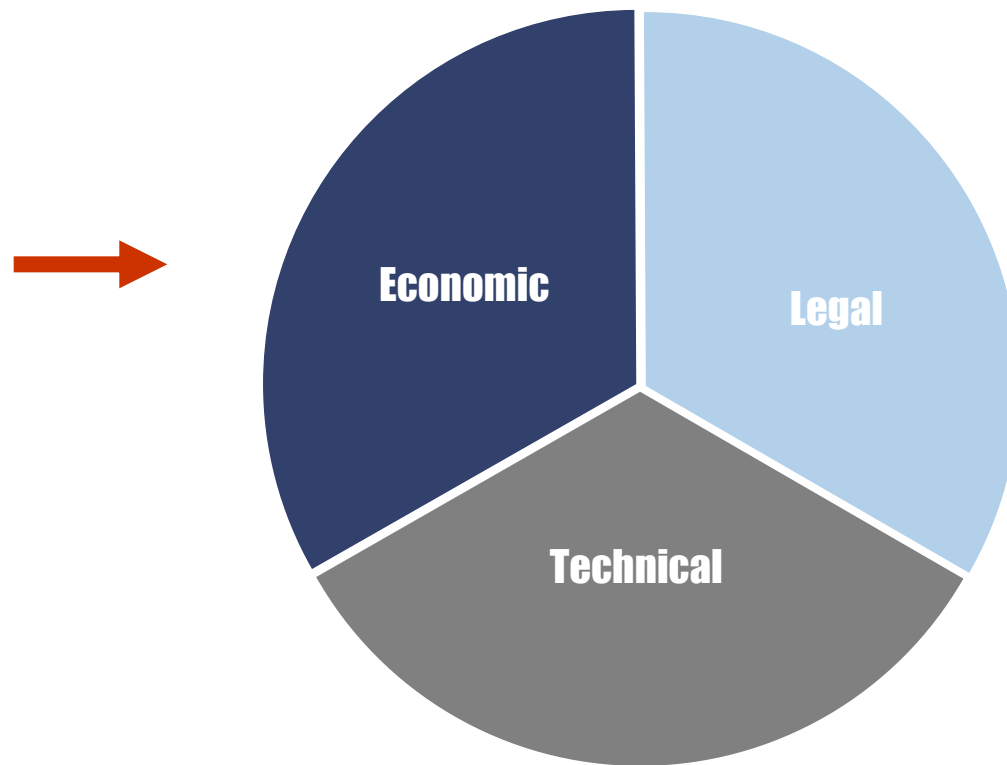
Source: McKinsey

# How to evaluate patents?

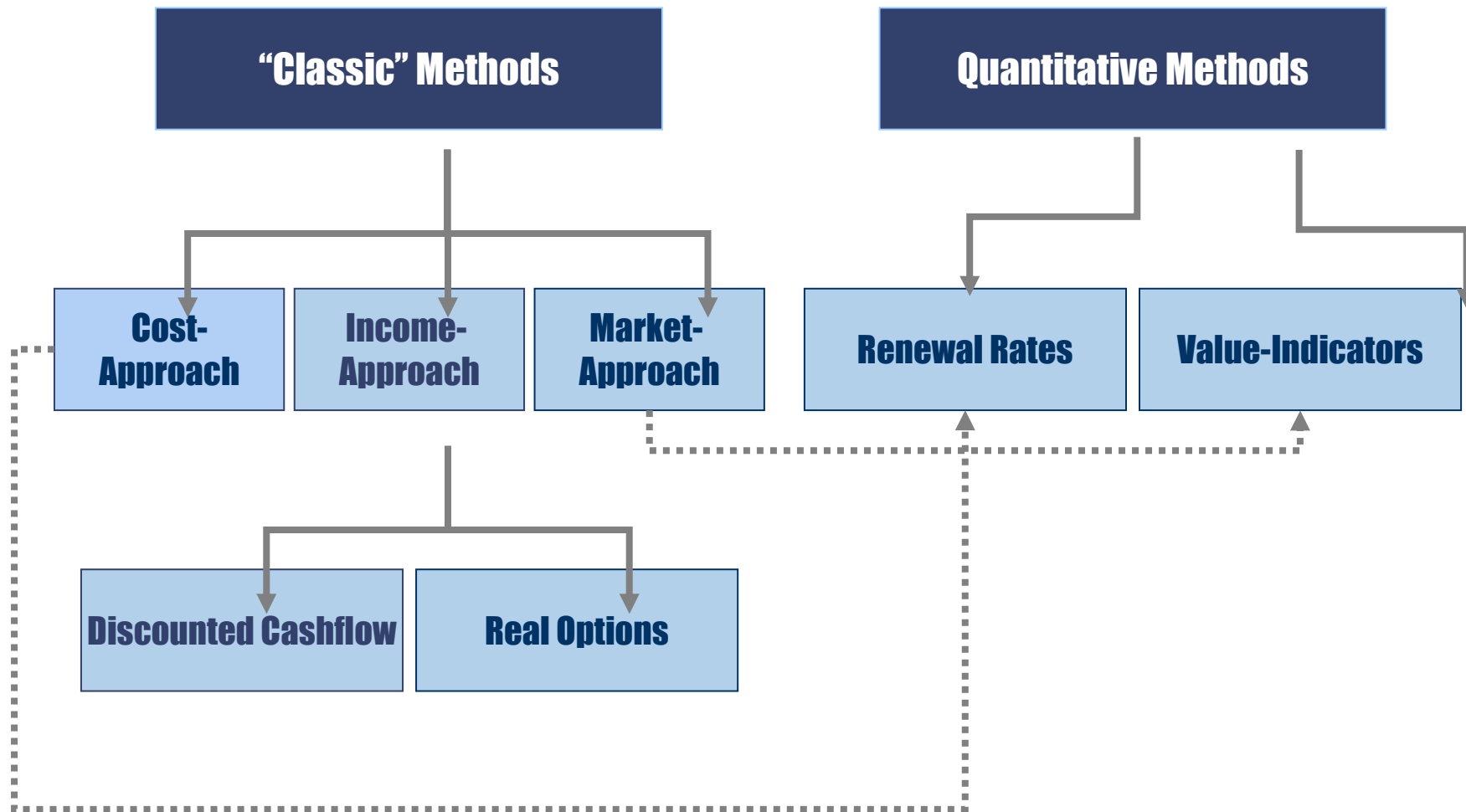


# Levels for Evaluation

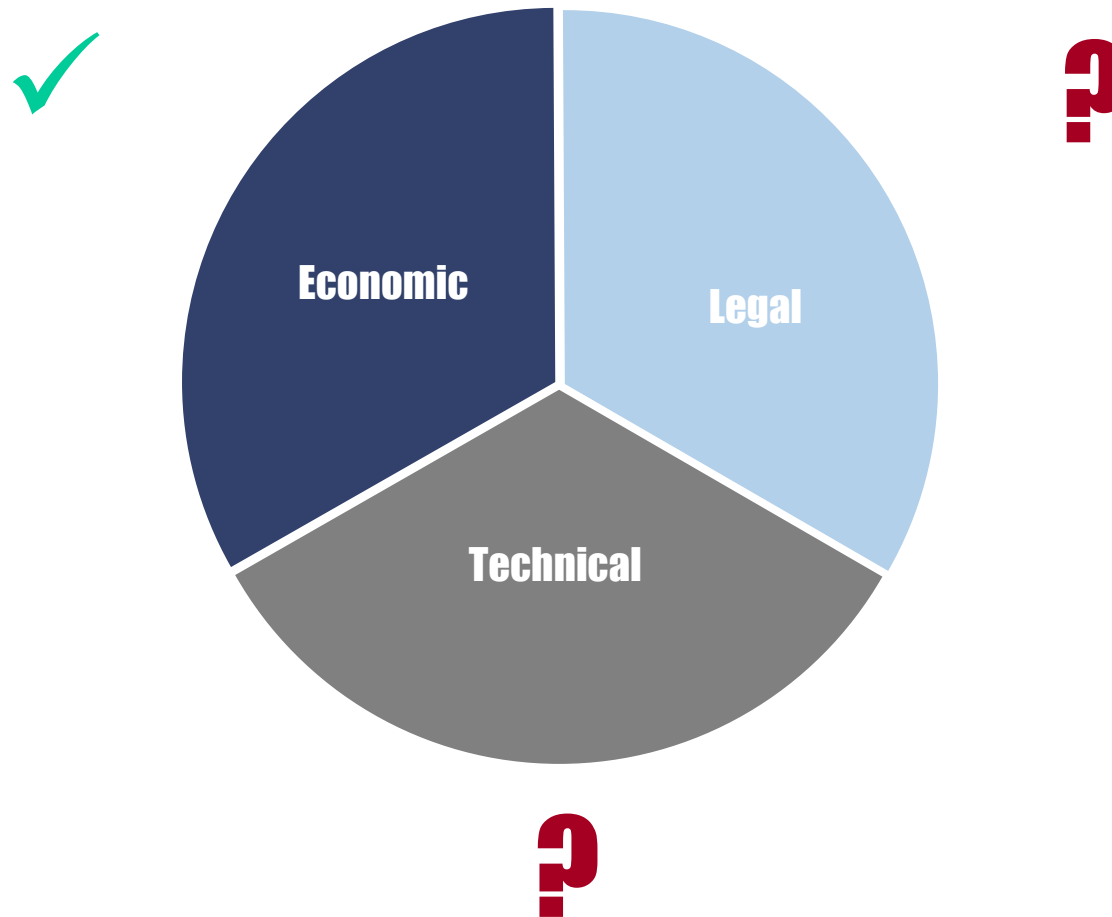
---



# Patent- Evaluation Methods



# Levels for Evaluation



# How to identify IP values?

# Valuable patent = Successful product ?

---



**Football shoe  
with screw-on  
cleats**

**Inventor:  
Adolf Dassler  
1953**

Source: Helden der Vergangenheit

# Valuable patent = Successful product ?



**Plastic plug:**

**Inventor:**

**Artur Fischer**

**1958**

Source: Helden der Vergangenheit

# Valuable patent = Successful product ?

---

## Mercedes S-Class

- Approx. 1000 patents are built in the S-Class
- Approx. 1/3 originate from the own development lab
- 2/3 of the patents und therewith approx. 650 patents are to it-bought and/or licensed

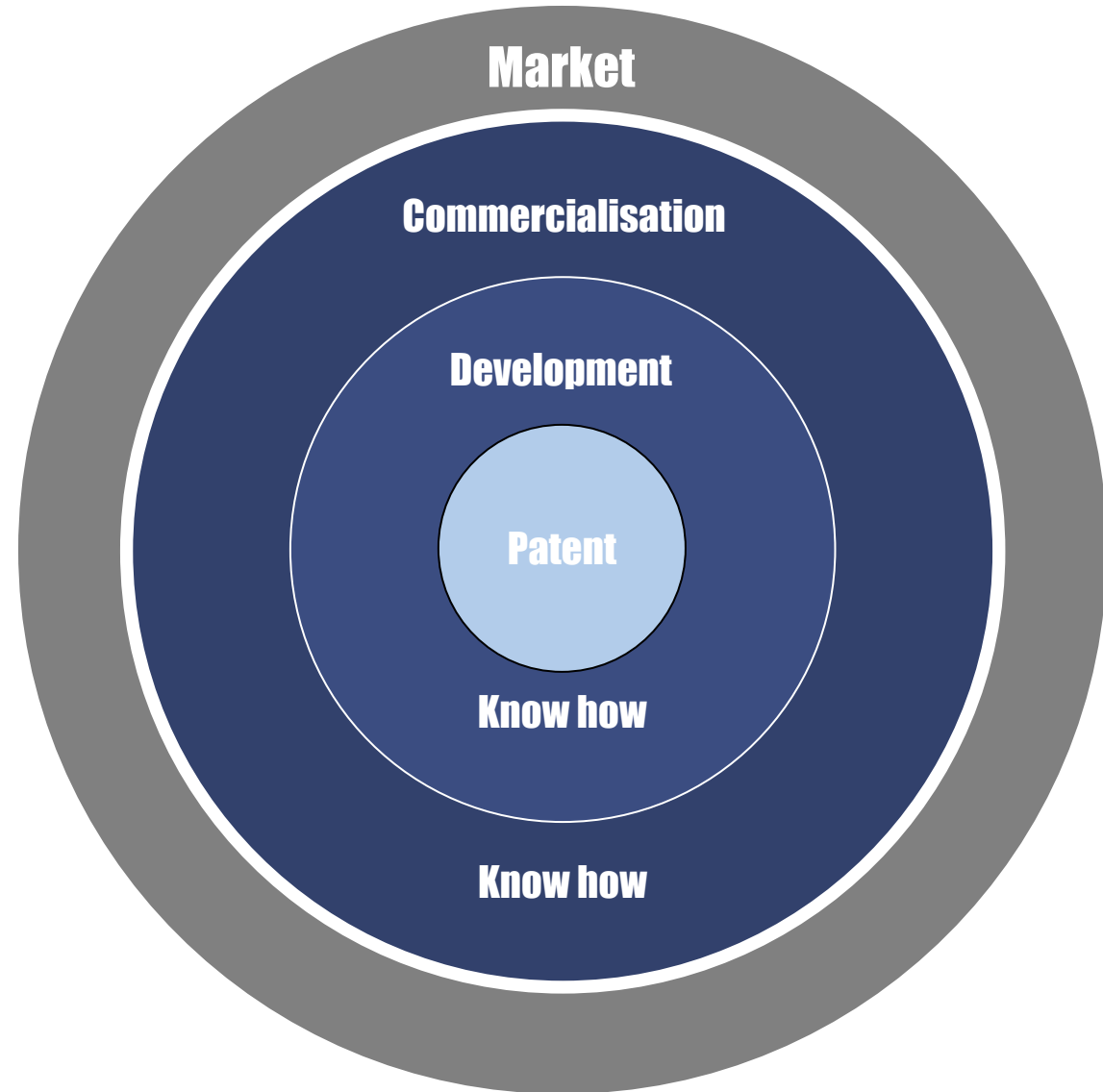
**Target: Technology Leadership through patents!**

## Gillette razor

- Approx. 70 patents are contained in Gillette wet shaver
- Most patents are hidden in the connecting joint between shade and shank!

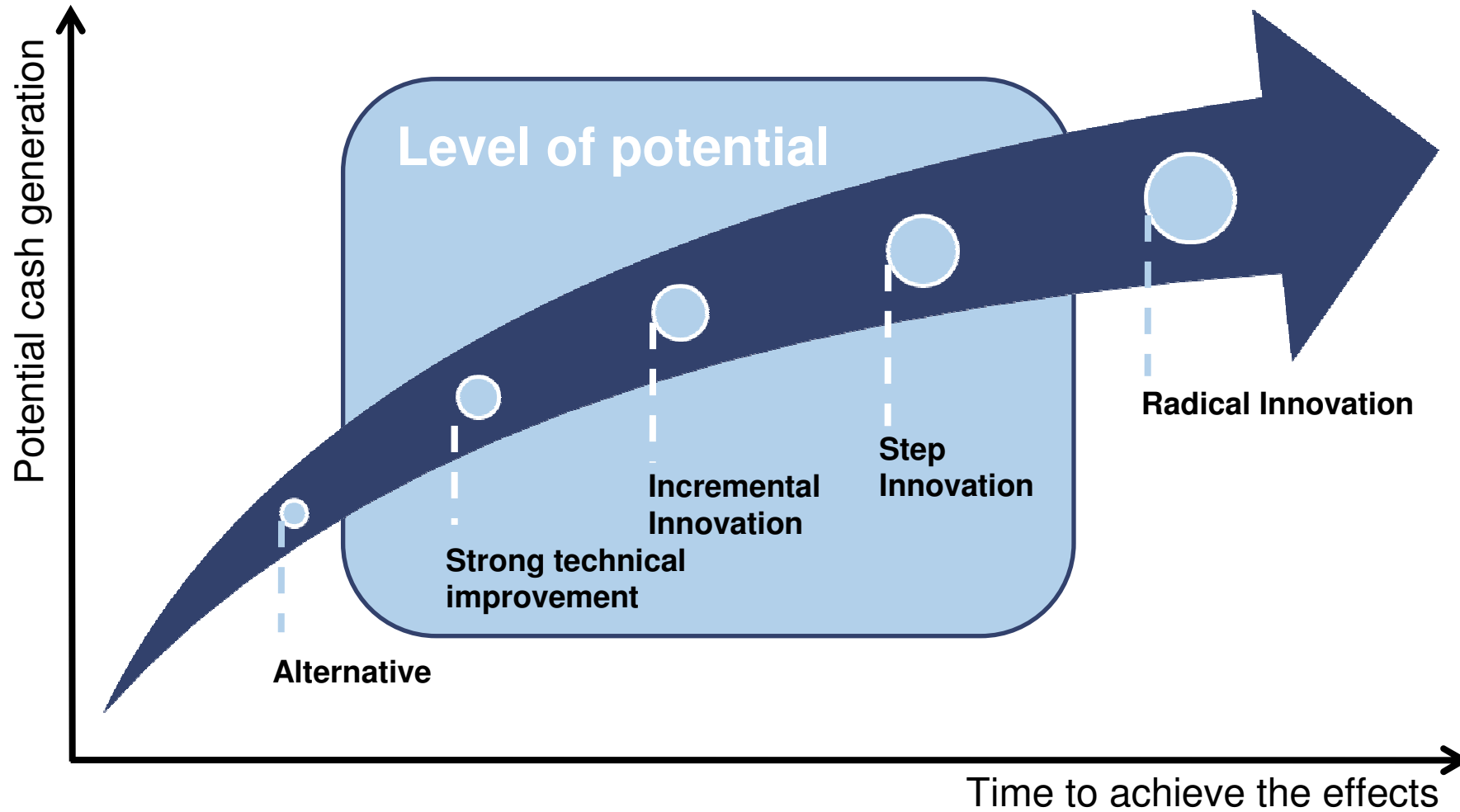
**Intention: Only by the patent monopoly the comparatively high prices for blades, which can be bought in addition, can be required!**

- ➡ **Both examples show, how enterprises can reach competition projections/leads by patents**





# Selecting the Right Technologies





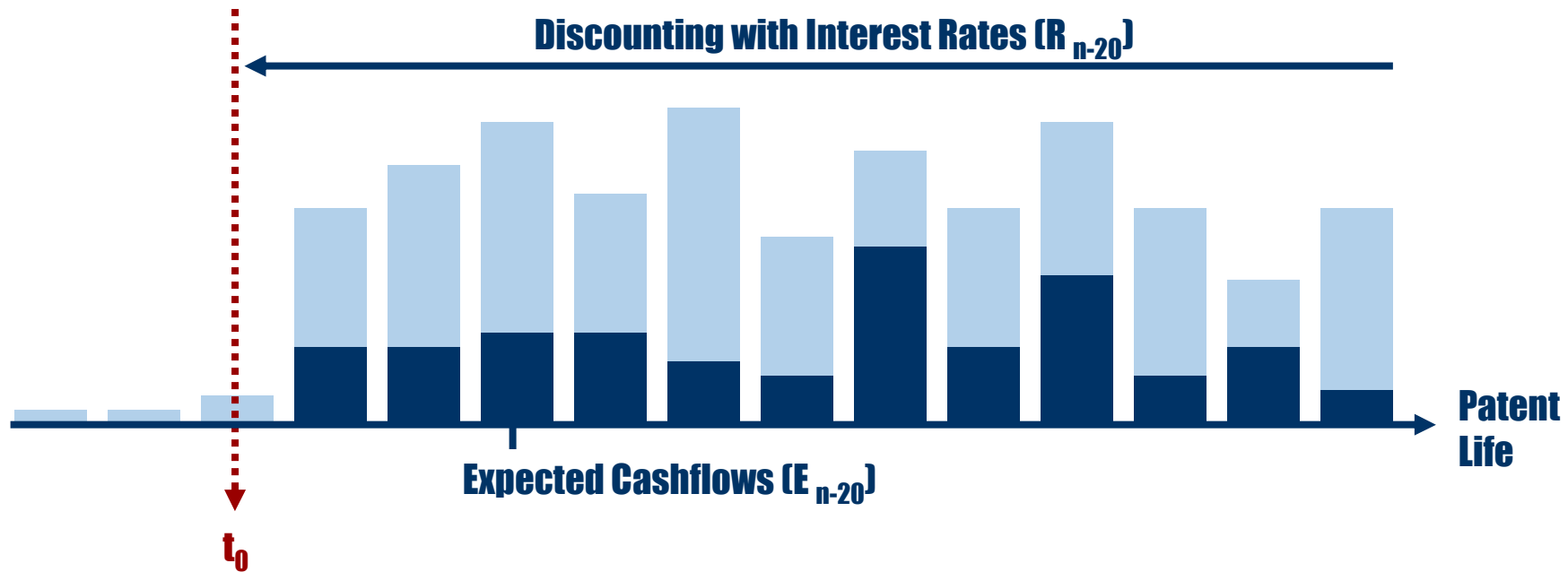
**Thank you very much !**

**IPB**  
**Guido von Scheffer**  
**Managing Director**

**IPB- IP Bewertungs AG**  
Stephansplatz 10  
D - 22359 Hamburg  
Tel.: +49.40. 87 87 90 00  
Mail: [info@ipb-ag.com](mailto:info@ipb-ag.com)

**IP BEWERTUNGS AG (IPB)**

# Annex: Patent- Evaluation | Discounted Cashflow



The Income- Approach (DCF) quantifies cashflow forecasts based on (prognosticated) future income streams of the patent's commercial use. In principle they can be separated into procedures, which quantify either the economic additional receipts or cost savings by the respective patent.

By discounting these future cashflows on  $t_0$  today's value of these future incomes and thus the value of the patent can be calculated.

# Annex: Patent- Evaluation | Market- Approach

With the market Approach the value of the patent is determined on the basis a similar before accomplished transaction:

If a competitor sold a similar patent, it is to be assumed for the own patent might have a similar value.

In real estate evaluation similar procedures were established reliably.



Example:

The red, the white and yellow houses were reconditioned in the year 1995.

The yellow house and the white house were sold for 4 Millions Euro recently.

The red house should be evaluated . . .

# Annex: Value-Indicators by the example of real estates



**Value from Knowledge**

# Annex: Value-Indicators for Patents | Example

1. **Backward Citations**
  2. **Forward Citations**
  3. **Claims**
  4. **Patent-Family**
  5. **Litigations**
- others ...**

## Backward Citations and technical details

**Description** For a Patent-Application it is necessary to cite all other patents and scientific publication.

**Determinates**

- a. Age
- b. Type (Own- / Others)
- c. Citing Person (Applicant / Patent-Office)
- d. Region

...

**Availability** From Date of Grant

**Please Note: One separate indicator does not reflect a significant correlation on patent-values.**

**Empirische Studien:**

Carpenter, M., Cooper, M., Narin, F., 1980, Linkage between Basic Research Literature and Patents, Research Management (March), S. 30-35.

Narin, F., Noma, E., Perry, 1987, Patents as Indicators of Corporate Technological Strength, Research Policy 16, S. 143-155.

Lanjouw, J.O., Schankerman, M., 2000, Characteristics of Patent Litigation: A Window on Competition, CEPR WP 2042.

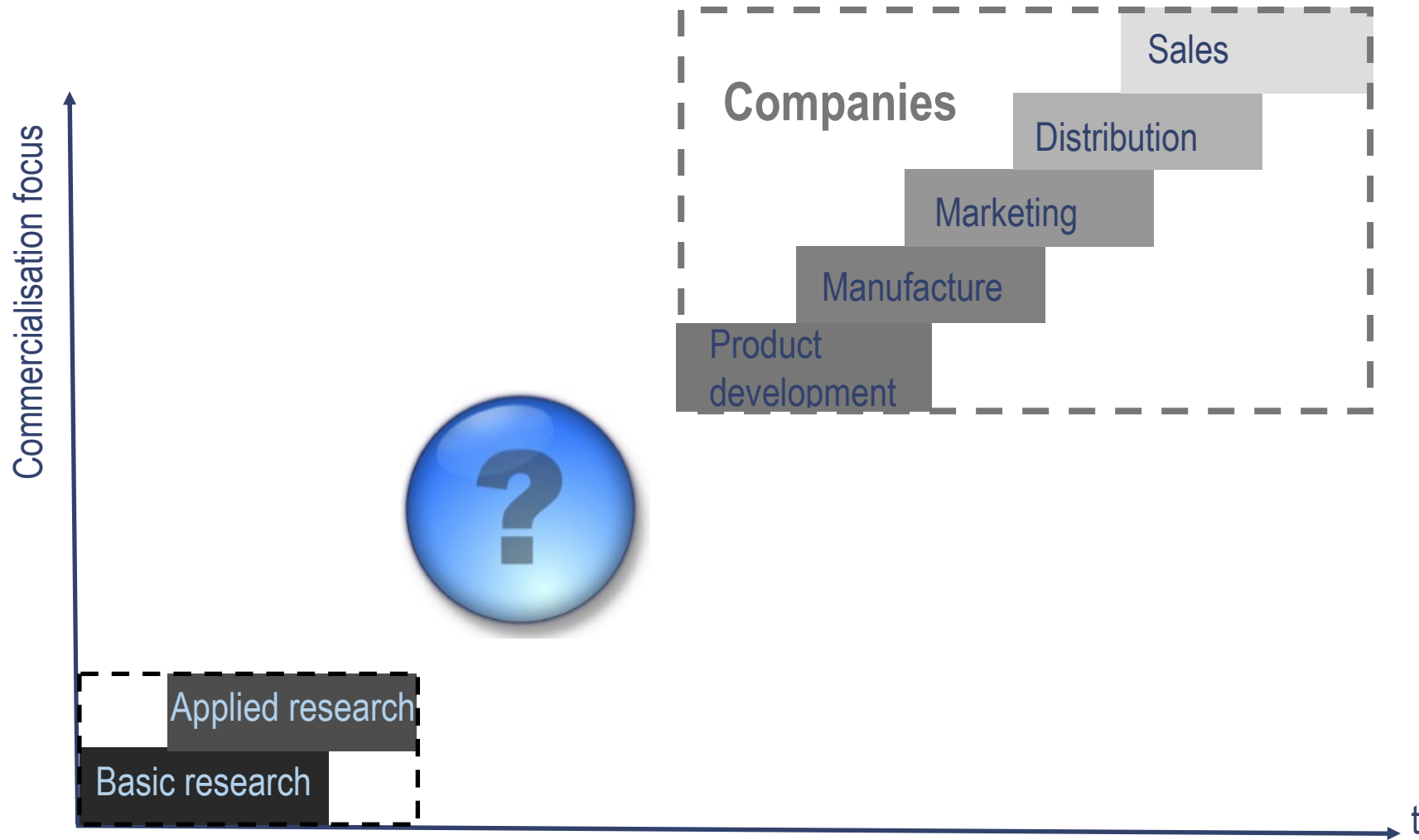
Lanjouw, J.O., Schankerman, M., 1999, The Quality of Ideas: Measuring Innovation with multiple Indicators, NBER 7345.

Harhoff, D., Scherer, F., Vopel, K., 1999, Citations, Family Size, Opposition and the Value of Patent Rights, Munich, Boston, Mannheim, Ludwig-Maximilians-Universität München, Harvard University, ZEW Mannheim.

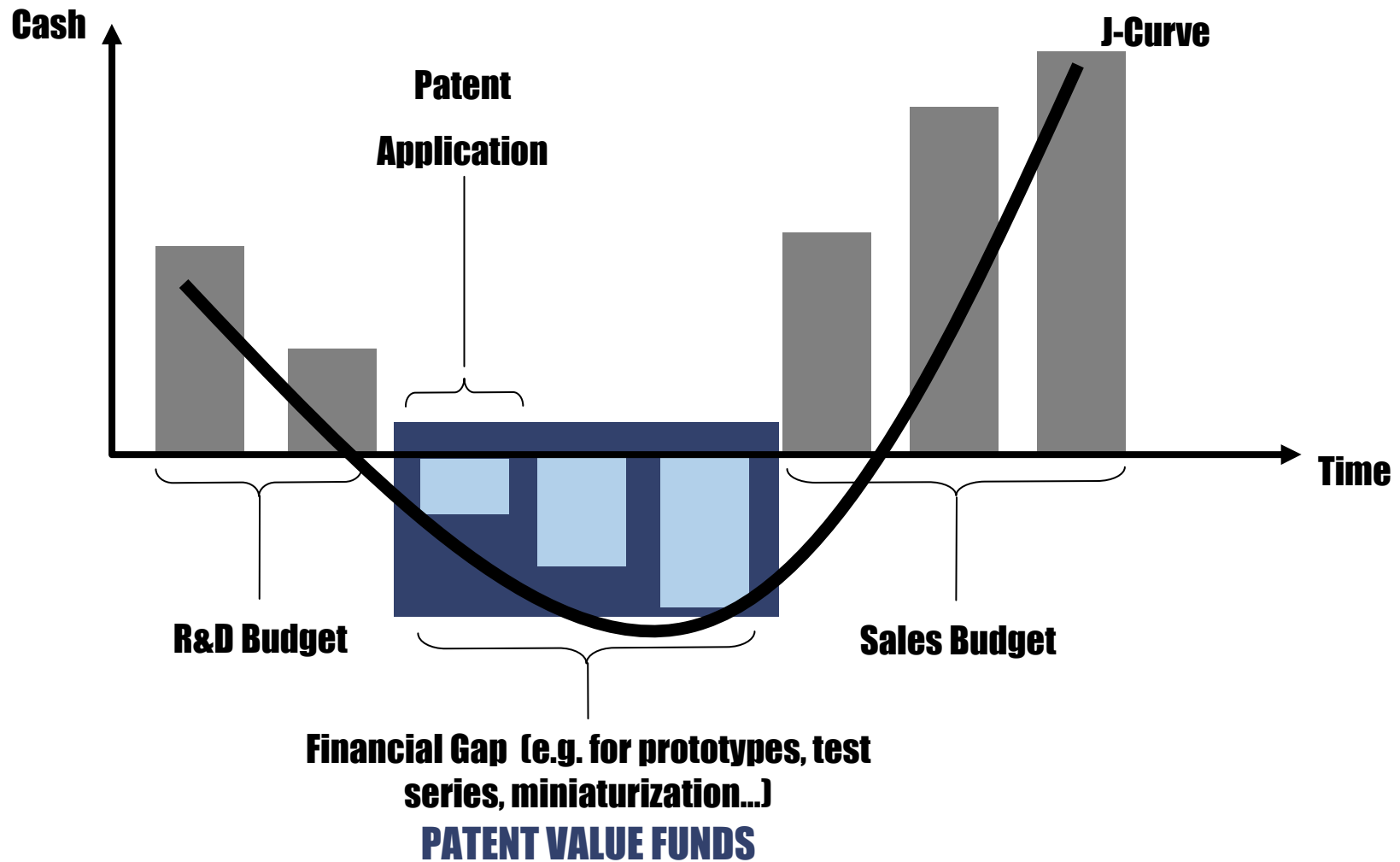
Harhoff, D., Reitzig, M., 2000, Determinants of Opposition against EPO Patent Grants: The Case of Pharmaceuticals and Biotechnology, CEPR WP 3645.

Reitzig, M., 2002, Improving Patent Valuation Methods for Management – Validating New Indicators by Understanding Patenting Strategies, LEFIC WP 2002-9.

# Annex: The technology transfer challenge – the gap

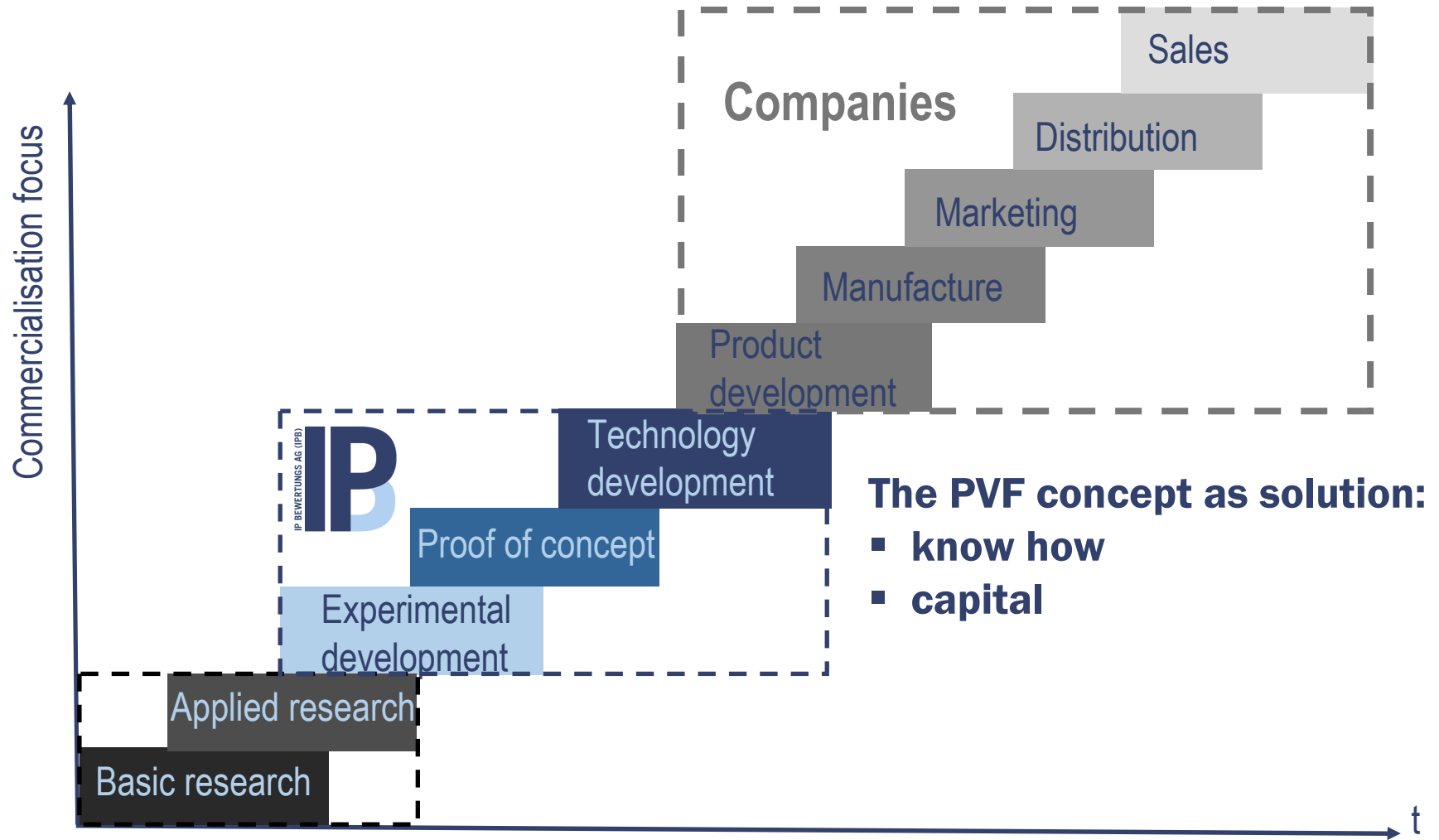


# Annex: Technology transfer – the valley of death

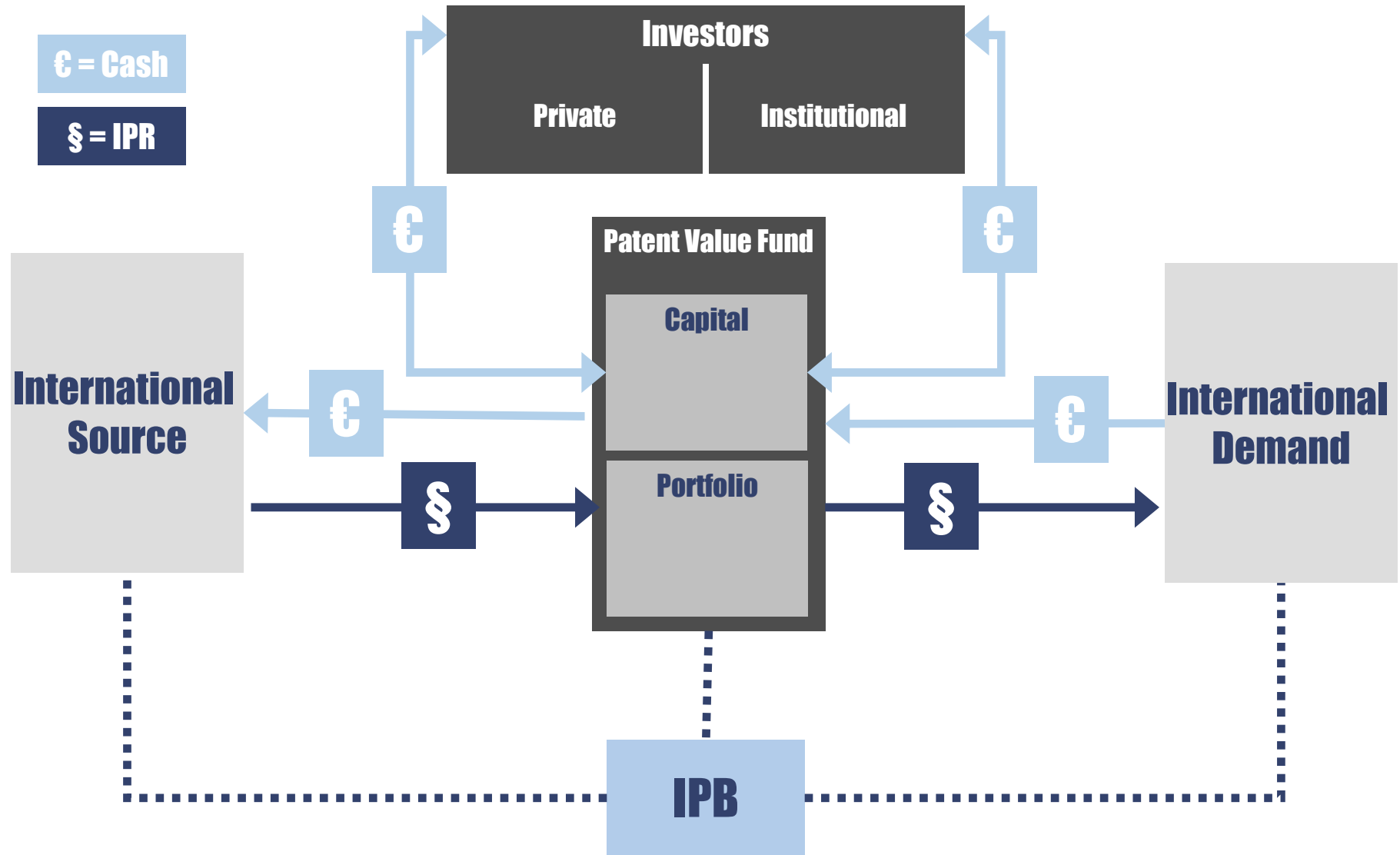




# Annex: The technology transfer challenge – a solution

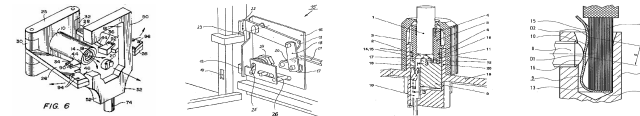


# Annex: Patent Value Fund's scheme



## Advantages of Patent Value Funds From the Patent Holder's Perspective

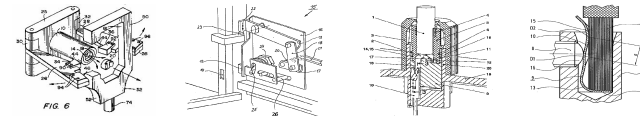
Four success elements:



- 1.** At the time of contract conclusion the seller will receive a premium for exclusivity for the waiting period until the fund is fully placed. The patent owner may definitely keep the premium, even in the unlikely event that the fund placement fails, due to not achieving the minimum volume required. The risk of placement failure is minimized by the fact that a well-known German bank is the responsible partner for the placement.
- 2.** After the fund has been successfully issued the original patent owner receives payment agreed between the parties in the contract. The amounts negotiated are affected by the value and the status of the patents (application, assignation, existence of a prototype).
- 3.** The general idea of the patent value fund is not to separate the patents from the know how. Depending on the status of each project it is common to conclude a development contract e.g. for prototyping or practice-oriented onward developments focused on the commercialization strategy. If possible, the inventor or the inventor's institute is the first choice. Otherwise third parties institutes can be involved.
- 4.** The patent owner participates in the returns that are created through the patent / patent portfolio. The inventor profit share depends on the status of the project. And the risk/return profile of the project. All details are negotiated within the basic contract before the project starts. The profit share will be less, if e.g. an unpublished application is available without a concrete proof of technology or proof of concept. For a granted patent with existing potential licensees and prototype the profit participation will be much higher.

## Advantages of Patent Value Funds From the Licensee's Perspective

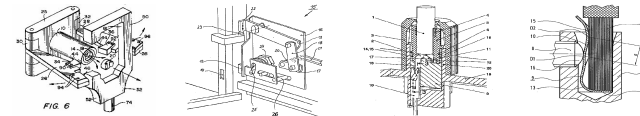
Five advantages:



- 1.** Qualitative, quantitative and legally pre-selected portfolios
- 2.** Reduction of Time-To-Market
- 3.** Reduction of R&D risks
- 4.** Reduction of R&D Investments
- 5.** Synergies in Technology Scouting

## Advantages of Patent Value Funds From the Investor's Perspective

Four advantages:



- 1.** Especially in the growth sector patents constitute the main value drivers of companies. Patent value funds purely invest in these value drivers, i. e. the investor receives an “ASSET DEAL” instead of a “SHARE DEAL” .
- 2.** Risk reduction:
  - The focus on the investment in patent portfolio results in a risk reduction regarding management risk for instance with start-ups.
  - Broad diversification due to small investment per project decreases the overall risk, especially compared to venture capital.
- 3.** Patent value funds provide the opportunity to participate directly in license revenues or other commercialization options.
- 4.** Above-average valuable patents promise above-average high yields.