

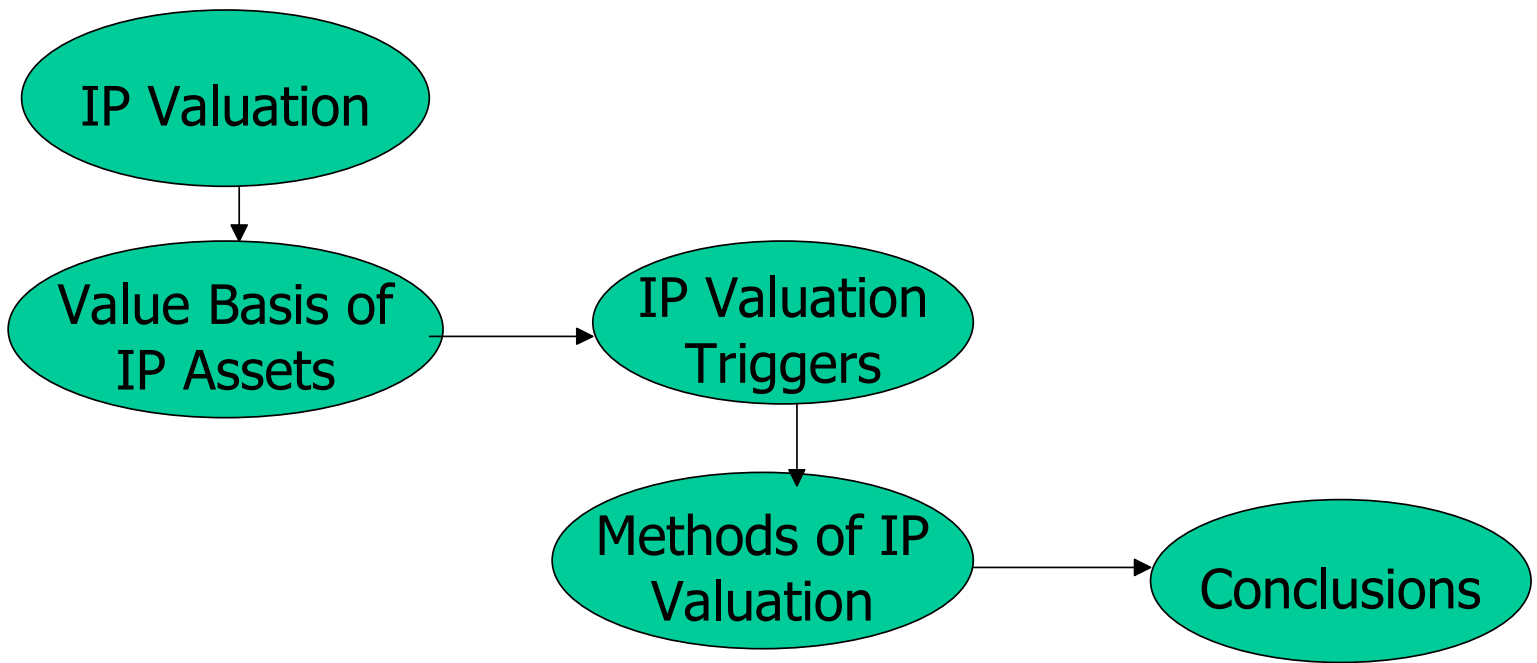
WIPO-WASME Program on  
Practical Intellectual Property Rights  
Issues for Entrepreneurs, Economists,  
Bankers, Lawyers and Accountants

Measurement, a Prerequisite to Manage:  
Valuation of IP

Geneva, May 4, 2004

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# OVERVIEW



# IP VALUATION

- Valuation is a process of determining value or worth of an asset
- Valuation often combines objective and subjective considerations
- IP valuation is a relatively new area
- IP valuation is triggered by various reasons
- IP assets are usually valued at premise of notional market

# IP Valuation cond.

- Final valuation would depend on the following basic premises of value
  - Value in exchange: worth of the underlying IP asset in terms of its capacity to be exchanged in terms of money
  - Value in continued use: worth of the underlying IP asset to its owner on the basis that it continues to generate income to the owner

# IP Valuation cond.

- Acquisition value: strategic potential of the underlying IP asset e.g uses in M & A
- Value in place: worth of the underlying IP asset as it is. i.e. the said IP asset is not in current use in the production of income

# Value Basis of IP Assets

- Traditionally IP assets were treated as Goodwill
  - Goodwill=the amount paid for a business in excess of the fair value of its identifiable net assets at the date of acquisition (see Peguin dictionary of accounting)
- Advent of knowledge economy and high market value of companies as opposed to book value enhanced interest on value of IP

# Value Basis of IP Assets contd.

<u>Company</u> Value <u>total</u>	IP & IA <u>as % of</u>
• Disney Walt Hldg. Co.	89%
• Heinz H J Co.	82%
• Johnson & Johnson	86%
• Merck & Co. Inc.	82%
• Microsoft Corp.	95%

- Source: Russell L Parr, Intangible assets dominates hidden corporate value p.g. 78 (1999)

# Value Basis of IP Assets contd.

- Top seven brands 2003,

– Coca-cola	USD 70.45
– Microsoft	USD 65.17
– IBM	USD 51.77
– GE	USD 42.34
– Intel	USD 31.11
– Nokia	USD 29.44
– Disney	USD 28.04
- Source: BusinessWeek Online  
[http://www.businessweek.com/magazine/content/03\\_31/b3844013](http://www.businessweek.com/magazine/content/03_31/b3844013)



# Value Basis of IP Assets contd.

- IP assets have distinctive characteristics which makes it possible to value them separately from other intangible assets
- These characteristics include
  - Independently identifiable
  - Legally protected and enforced
  - Transferable
  - Economic life

# Value Basis of IP Assets contd.

- Factors influencing value of IP assets
  - High price
    - Large potential market
    - Strong IPR (well written claim)
    - Exclusive license
    - Stage of technology (e.g. invention near commercialization stage)
    - Option on leveraging

# Value Basis of IP Assets contd.

- Low price
  - Non-exclusive license
  - Huge investments needed
  - Still far from commercialization (needs further development)
  - No option for sub-licenses

# IP Valuation Triggers

- Enterprises need to formulate a strategy which would make IP assets more profitable
- IP valuation is imperative in facilitating decision making process on strategy to pursue
- Such strategy is also known as IP assets valuation triggers

# IP Valuation Triggers contd.

- These include
  - Sale or Purchase of IP Assets
  - Licensing
  - Merger & Acquisition
  - Cost saving
  - IP asset donation
  - Joint venture arrangements/strategic alliances
  - Financing

# Methods of IP Assets Valuation

- Basic Methods
  - Cost Approach: Estimates the value of underlying IP asset basing on historical cost incurred in developing the asset
    - Replacement cost
    - Reproduction cost

# Methods of IP assets Valuation cond.

- Market Approach (sales comparison approach):
  - Based on the value of similar or comparable assets that have been exchanged, at arm's length, in active market
  - second variant uses standard industrial royalty rates

# Methods of IP assets Valuation cond.

- Income Approach: Based on the income-producing capability of underlying IP asset
  - Seeks to establish the net present value (hence use of discounted cashflow)
  - Decision tree analysis (DTA)-based on an underlying DCF analysis and moves further to take into consideration flexibility available.



# Methods of IP assets Valuation cond.

- New Methods
  - Option Pricing Theory (based on Black-Scholes option valuation model)
  - Econometric patent valuation
    - Renewal data based methods (use patent renewal data as a way of measuring the patentees assessment of a patents worth)
    - Stock market based methods (linking stock market values to values of IPRs held by a company)

# Applicability of IP Valuation Methods

	Trade Secrets	Copyright	Patents	Trademarks
Cost Approach	X	X		
Market Approach		X		X
Income Approach		X	X	X
Real Options			X	
Econometr ic Models			X	

# Conclusion

- Companies are more keen in leveraging their IP assets
- To maximize IP asset benefits one need to establish value of underlying IP asset
- Useful IP valuation methods exist
- IP valuation is still and evolving field

# Conclusion

- Thank you for your kind attention.