

Valorization & Valuation
of IP assets
- the ABC Candy case

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IP assets

-First, to enhance value – Valorization–

Move from IP rights to IP Assets

-Second, to estimate value –Valuation–

IP rights valuation \neq IP asset valuation

Valorization

From ideas to assets

From knowledge to GDP

Research

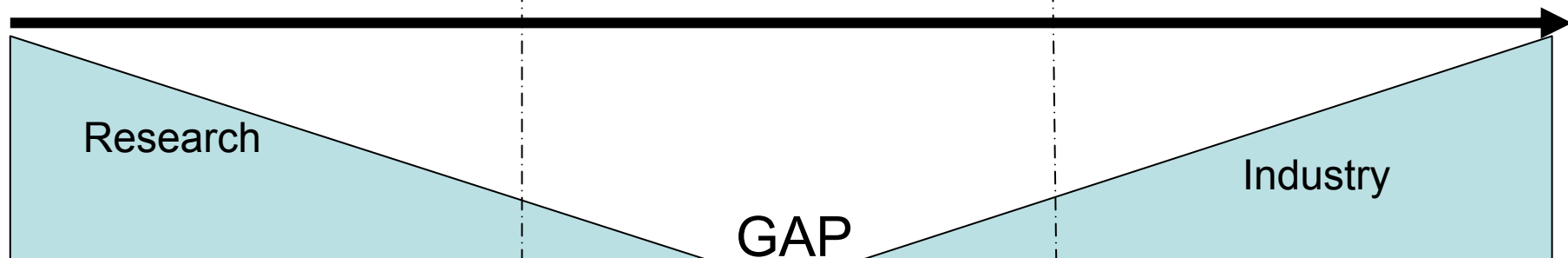
Creative work undertaken on a systematic basis in order to increase the stock of knowledge

Development

Use of stock of knowledge to devise new applications, prior to commercialization

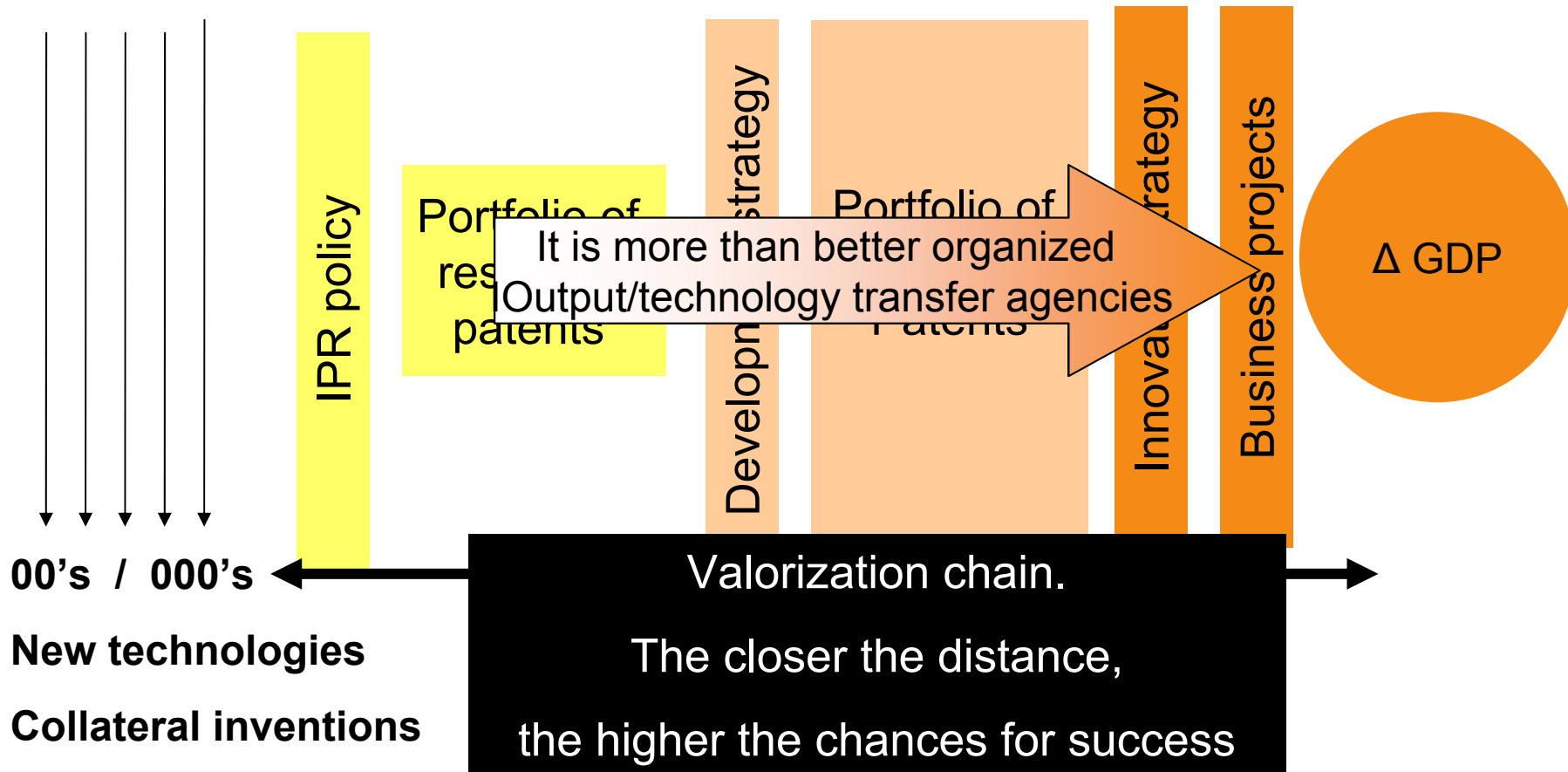
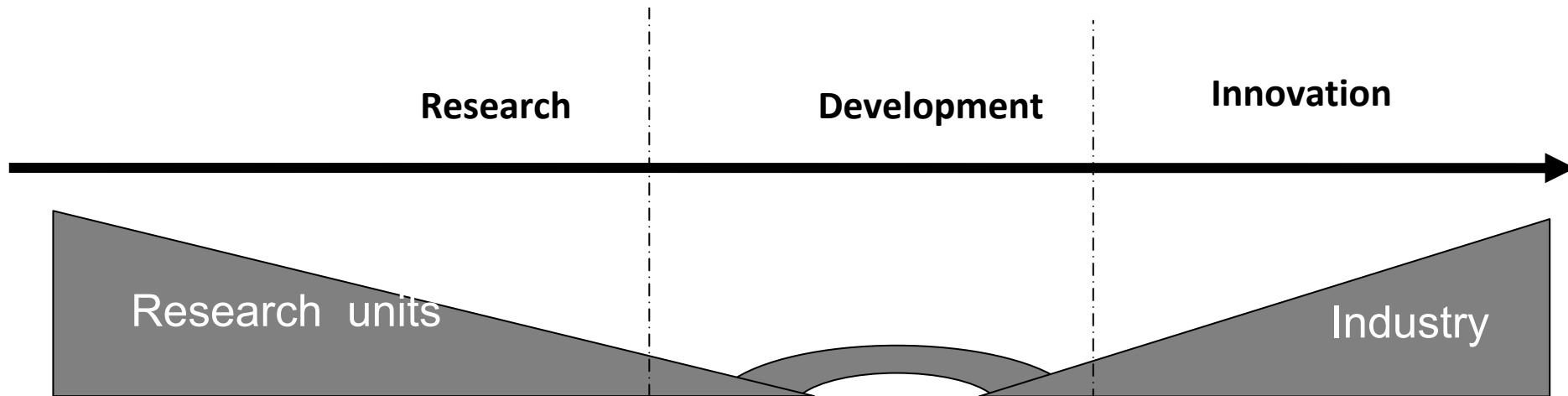
Innovation

Implementation of a new or significantly improved product, process, marketing method, or new organizational method



The European paradox

EIT (European Institute of Innovation and technology) KIC's (Knowledge and Innovation Communities)



Who does what?

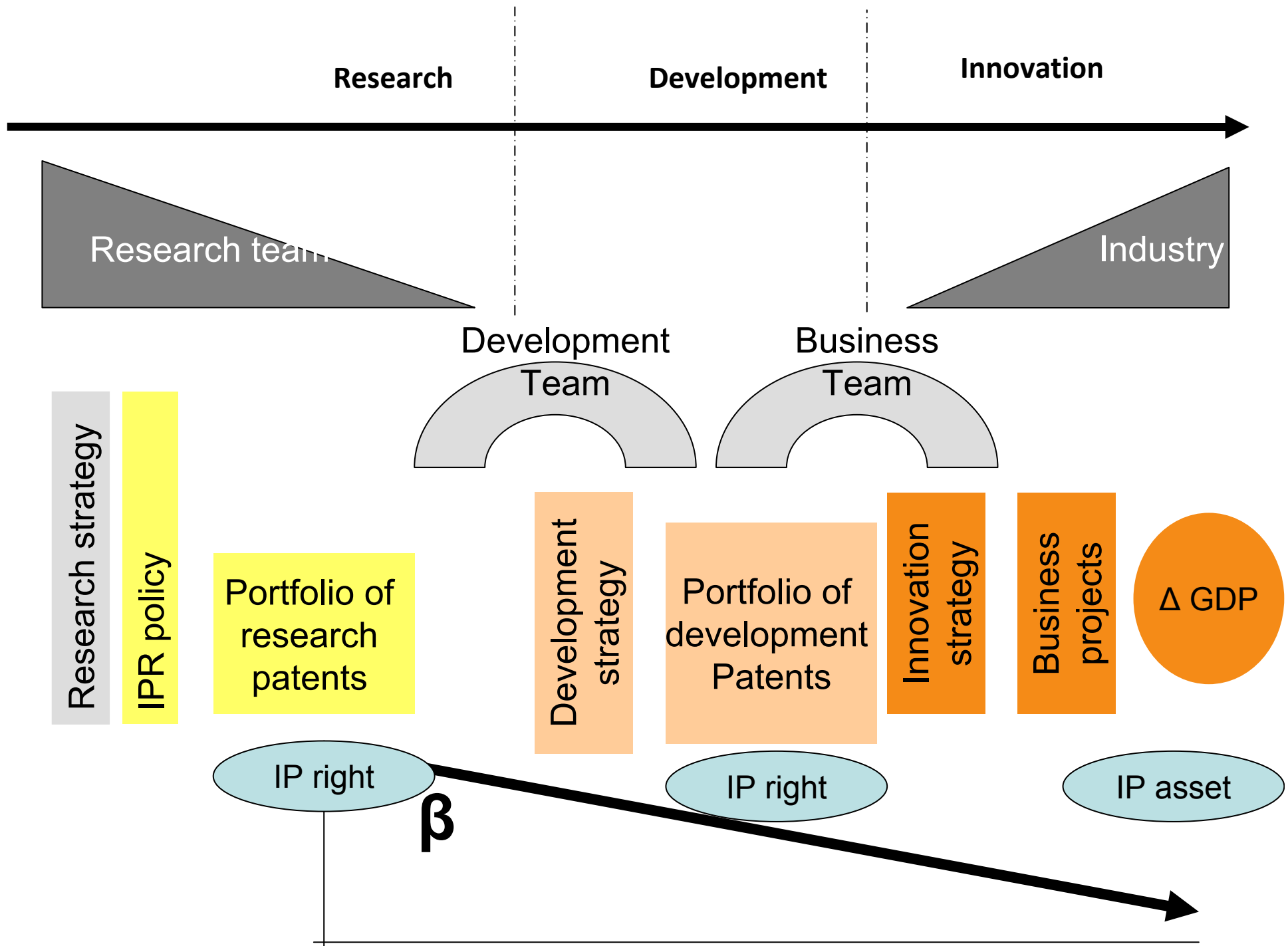
Do researchers become entrepreneurs?

Analyze the success ratios of spin-offs, start ups...

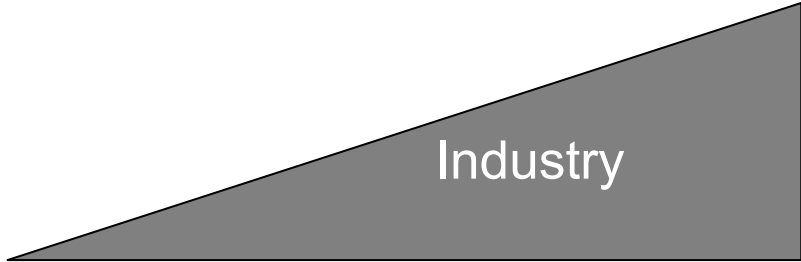
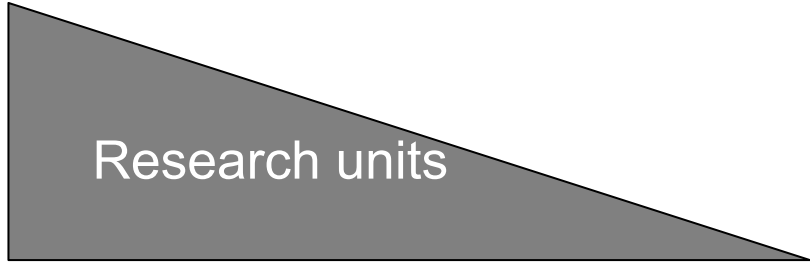
Do entrepreneurs become researchers?

...

Do we need professional teams to advance along the valorization chain?



Valuation



Valorization chain

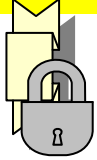


Organize ownership according to
Cost Contribution Arrangements

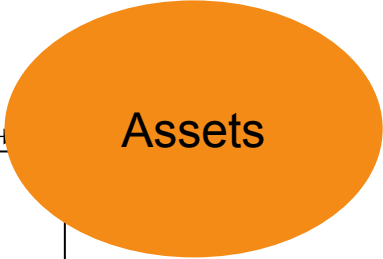
+

Talent Contribution Arrangements

Rights
(Patents, TM
Copyrights...)



Valuation of licenses according to profit split method



International Valuation Standards (2011)

Income Approach methods
under IVS 210 Intangible Assets

Income Approach

- Relief-from-royalty method**
- Premium profits method**
- Excess earnings method**

Cost Approach



**Transfer Pricing
Guidelines for
Multinational
Enterprises and Tax
Administrations**

New 2010TPG-

For intangibles is under revision
(2013 target)

Focus on Transactional Profit
methods:

-Transactional net Margin Method
(TNMM). Based on excess net
margins.

- Profit split method

So, value of IP is estimated
according to residual analysis /
Profit split method.

“ABC Candy” case

How to estimate a hypothetical royalty rate in case of damages?

How to estimate a real license rate?

IVS 210 – C25

Two methods can be used to derive a hypothetical royalty rate:

1- Based on **market royalty rates** for comparable or similar transactions.
Prerequisite: existence of comparable **intangible assets** licensed at arm's length on a regular basis

2- Based on a **split of profits** that would be paid in an arm's length transaction by a willing licensee to a willing licensor

“market” royalty rates...

Industry	Royalty Rates							
	0%- <5%	5%- <10%	10%- <15%	15%- <20%	20%- <25%	25%- <30%	30% & over	Average %
Apparel	60%	40%						4.00%
Automotive/parts	83%	17%						1.92%
Biotechnology	50%	17%	25%	4%				6.96%
Communications	44%	11%	11%	11%	22%			8.18%
Computers	50%		25%					10.75%
Computer Software	18%	27%	18%	9%	9%		18%	12.00%
Consumer Products	63%	25%	13%					4.34%
Copyrights and Trademarks		40%	40%					10.60%
Distribution	40%	60%						5.15%
Drugs	13%	88%						6.84%
Electronics	30%	50%	10%	10%				6.60%
Entertainment	18%	9%	14%	27%	18%			15.50%
Food	45%	45%	9%					5.47%
Hospitality/Leisure	29%	71%						4.43%
Industrial Products	40%	42%	13%	2%			2%	6.43%
Medical/Medical Products	32%	33%	19%	8%	3%	2%	4%	8.33%
Services	50%	17%	33%					5.79%
Toys & Games		25%	25%	25%	25%			13.13%



C-27 Royalty rates can often vary significantly in the market for apparently similar assets. It is therefore prudent to benchmark the assumed royalty input by reference to the operating margin that a typical operator would require from sales generated from use of the asset.

ABC Candy plans to enter into a new market

- Create a new local subsidiary

- License out functions with market average margins and keep in-house the functions where superior value is created.

ABC Candy executes 4 functions:

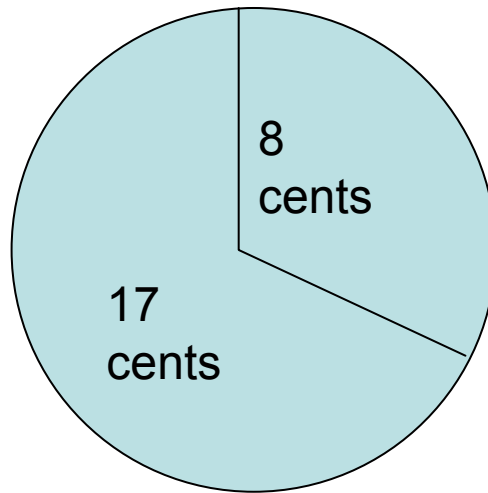
- Product R&D
- Marketing + Communication
- Production
- Distribution

ABC Candy is a highly profitable, differentiated business.

Sells each candy for 1 € with an operating margin per unit of 25 cents

According to its analytical accounting, the operating margins of the production and distribution functions per unit is 8 cents

Profit split of
the
25cents/unit
“cake”



Questions:

-Should ABC Candy sign with a local licensee executing manufacturing and distribution functions at a royalty rate of 17 cents/ unit with a sale price of 1 Euro?

More than 17 cents? Less than 17 cents?

-In case of an infringement by a local counterfeiter in the new market, should ABC Candy accept damages based on an hypothetical license at a rate of 17 cents /unit? 17% of sale price of the infringer?

8cents/unit? 25 cents/unit?

- What would be the sense of using the 5,47% rate shown on the list?