Current economic aspects of IP in Hungary

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Why Intellectual Capital matters more than ever …

1. More developed market economy – increasing competition

2. Economic crisis

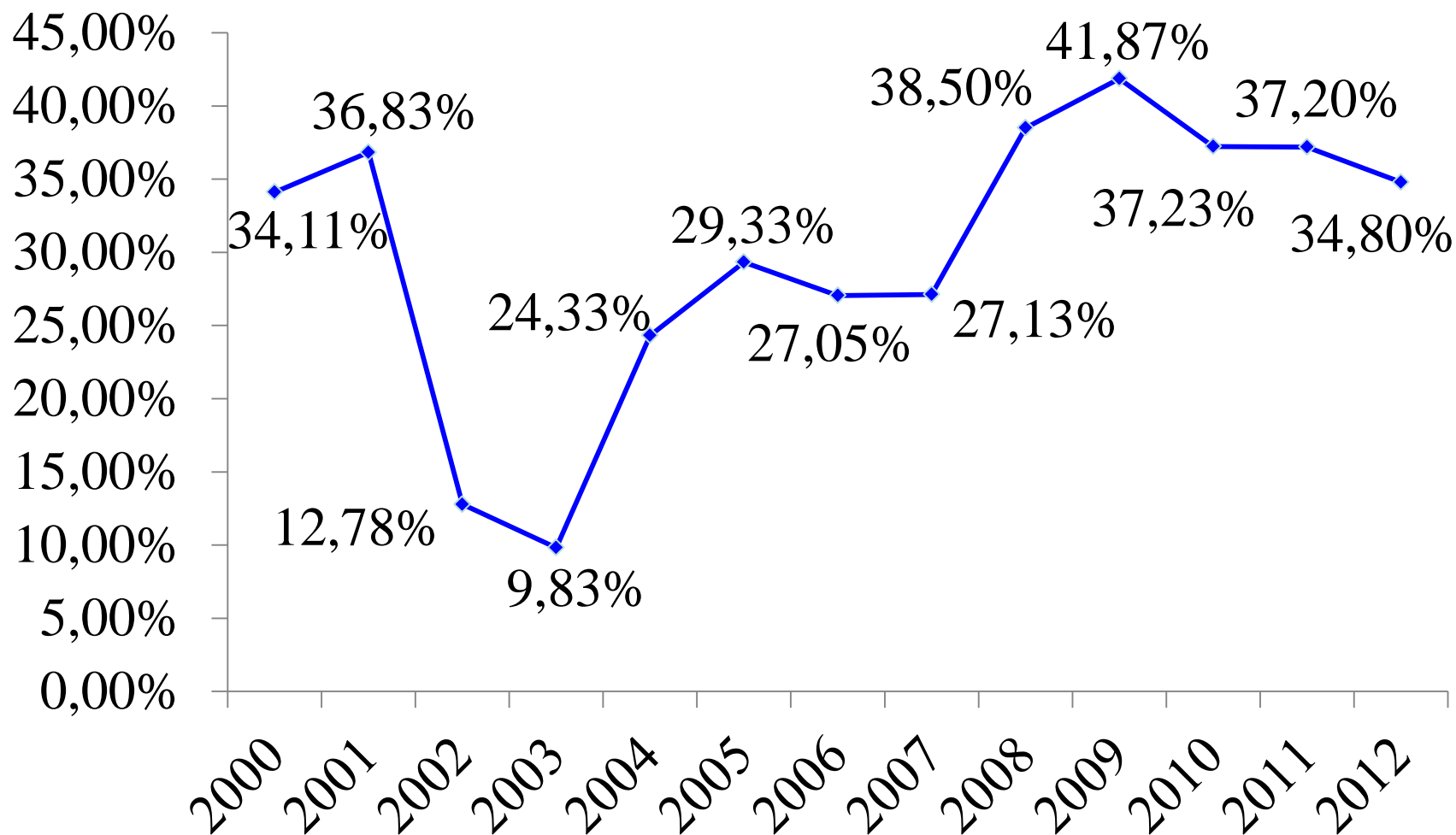3. Self-created IC getting valuable and more so more important

Off-balance sheet assets – historical overview

Book value to market value ratio in the US

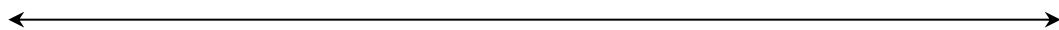|	
1978	95%
1988	**28%**
2002	**< 20%**

Source: Personnel Today, 2002

Book value/market value for US firms
- after crisis markets

Source: Based on Damodaran (2013)

Book value vs intrinsic value - theory
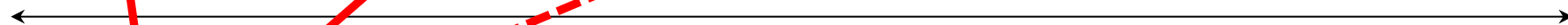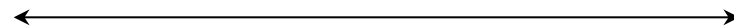
Fair value for all assets

← ──────────────────────────────────── →

Fair value for assets in balance sheet

← ──────────────────── →
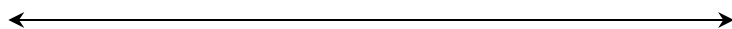
Book value of assets   **Added value of business**

← ────────── →   ← ──────────────── →

Balance

← ── →

Total value of firm

IP
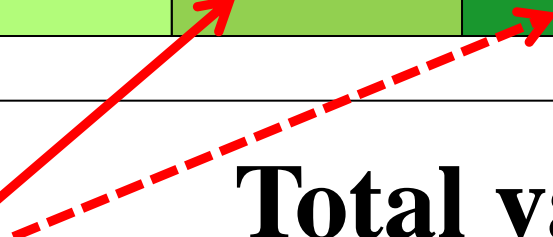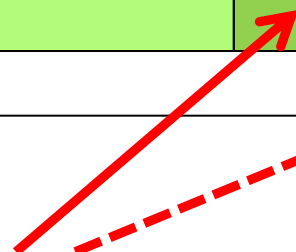
How to measure value?

Accounting view	Business view
History oriented	Targets the future
Builds on documents	Uses expectations
Minimum value	Expected value
Aims to inform outsiders	Info to management and owners

An extended balance sheet

Accounting balance

Off-balance sheet „assets"

Current assests

Invested assests

Assets not shown

Quasi assets

Liabilities

Equity

Equity not shown

Liabilities not shown
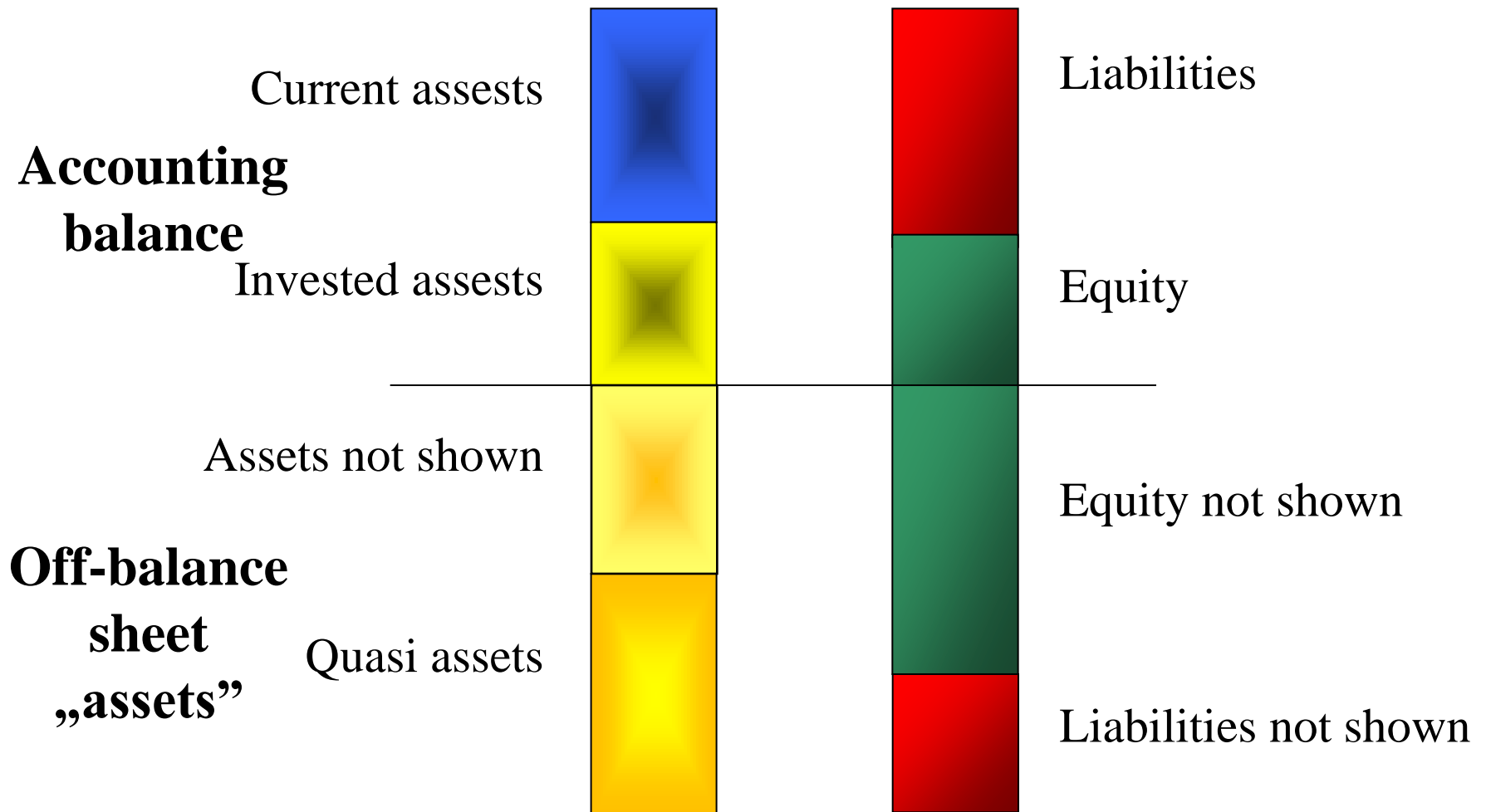
Grouping off-balance sheet assets

Business risk →

|	**Ownable**	**Only managable**
Organisation linked	brands, transferable contracts	supply contracts, documented knowledge
Human resource linked	– (playing rights)	personal contacts, not documented knowledge

The role of Intellectual Property Rights

1. Turn not documented into documented knowledge.
2. Turn just managable assets into transferable ones.
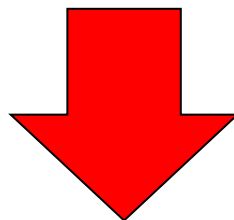
Less risky, more liquide
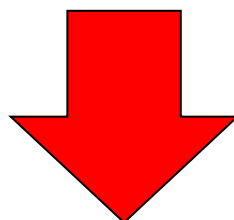
More valuable

What is the value of a given IP?

We have to clearify:

- **What?**

IP: Patents, Trademarks, Industrial designs / Registered Design Rights / Designs, Copyrights

- **When?**

Now, in case of sucess, in case of default

- **For whom?**

Owner, creditor, portential buyers

Why lenders would not accept IP as collateral?

Value for owners in case of success (or most likely case)

Value for lenders (or third party) in case of default

Value of IP in case of default

■ If default caused by issue strongly linked to IP:

$$\textbf{Value(IP)} \approx \textbf{0}$$

■ In any other case:

$$\textbf{Value(IP) = Value for third party}$$

How to value a trademark? – Recent Hungarian case study 1.

A dispute among owners of a trademark made one of them to leave the jointly owned firm that used the TM. The parties want to have the firm and TM in the same hands.

What is the fair compensation to pay?

How to value a trademark? – Recent Hungarian case study 2.

- Owner leaving:

  Value(IP)=V(Firm with IP) – V(Firm w/o IP)

- The remaining owners:

  Value(IP)=Sum of historical costs to build IP

- Consensus:

  Value(IP)=Loss in value if IP would be gone

  Replacement is an option, but needs time.

  (Not a one-time cost.)

Summing up

1. Intellectual capital is gaining importance.
2. IP is less risky then Intellectual Capital in general.
3. Collateral value of IP depends on the risk of default linked to IP.
4. The adequate valuation method for an IP depends on the characteristics of the given case. Not standardisable.

THANK YOU FOR YOUR ATTENTION

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