IP valuation case study

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Hungarian Patent Office

National Seminar on IP Valuation for Technology Transfer
Budapest, 28 October 2010

Case study:
Valuation of *„Research Microscope Technology”*

Client:

Hungarian research institute

Specialisation:

Optical and microscopy equipment + software development

Technology market:

Cutting-edge brain research and pharmaceutical development

Potential products using the technology:

Custom built laser scanning microscopes + software

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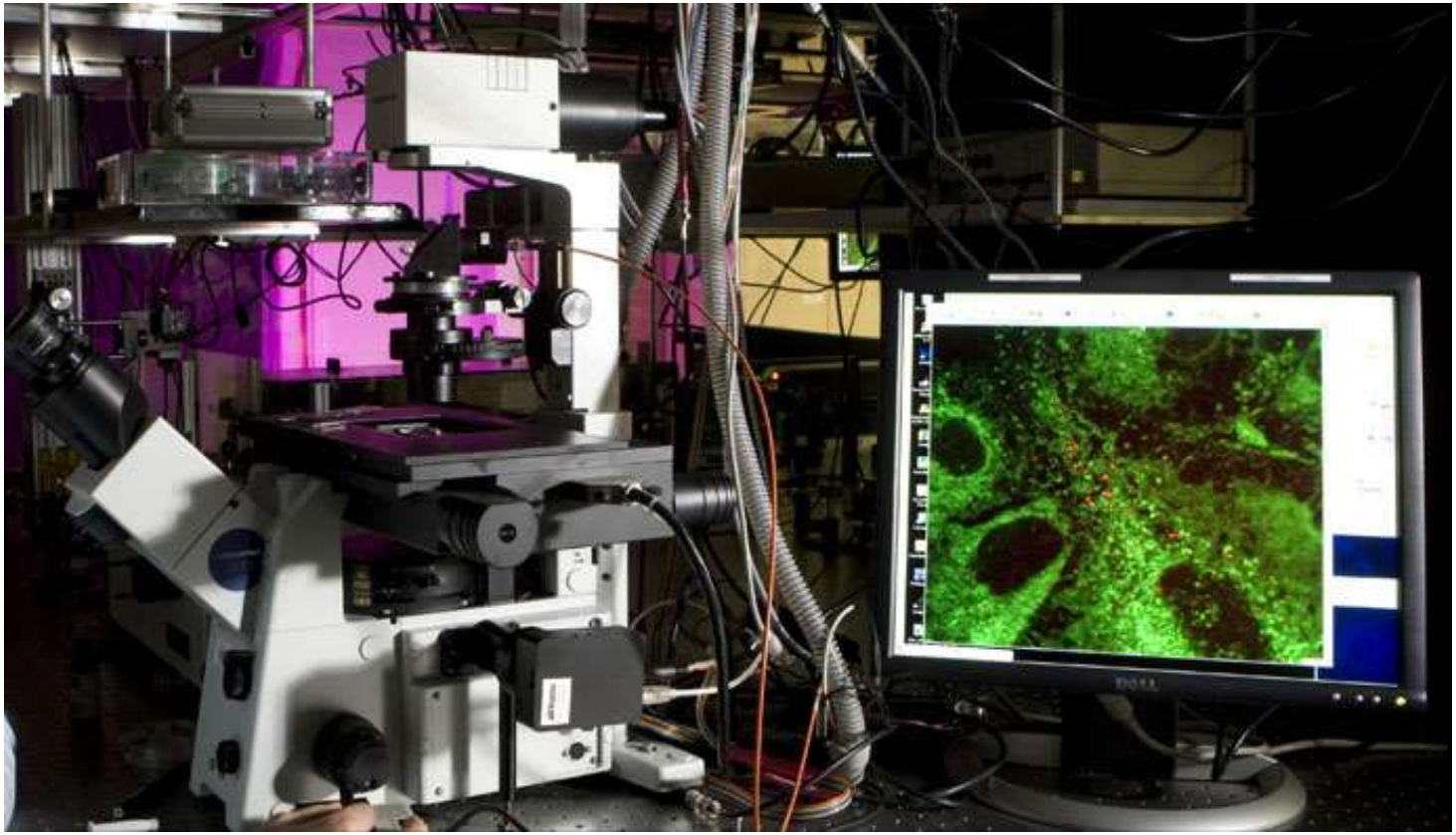
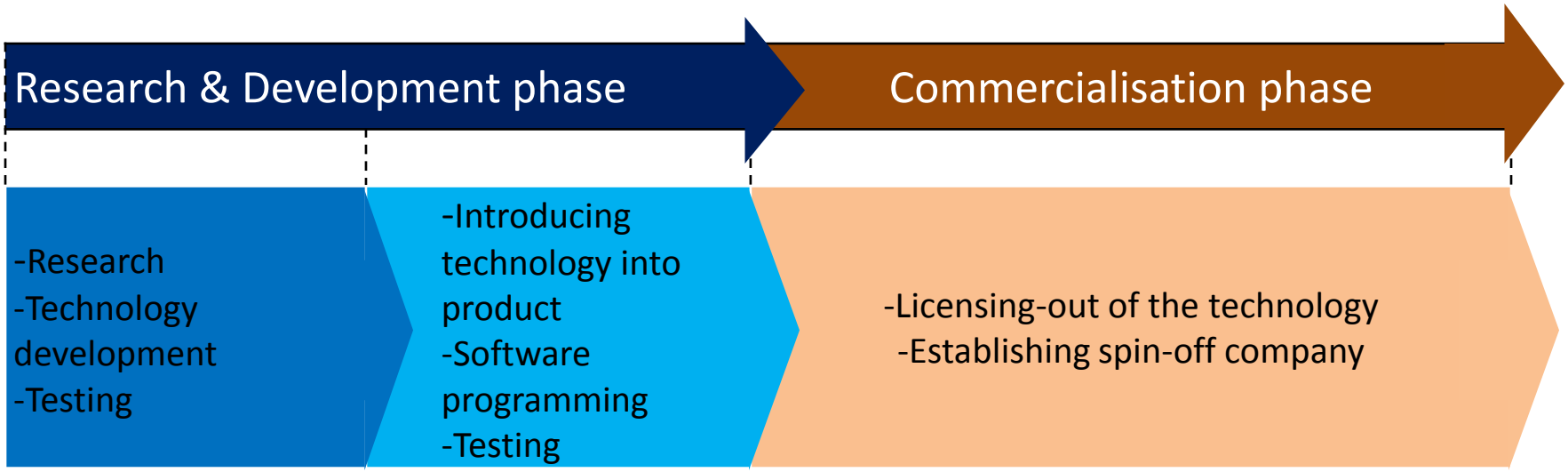


„Research microscope technology”

- Patented technology and associated know-how/trade secrets
- Technology was already fully developed and demonstrated
- Operational prototypes existed
- ….but technology was not integrated into any microscope products



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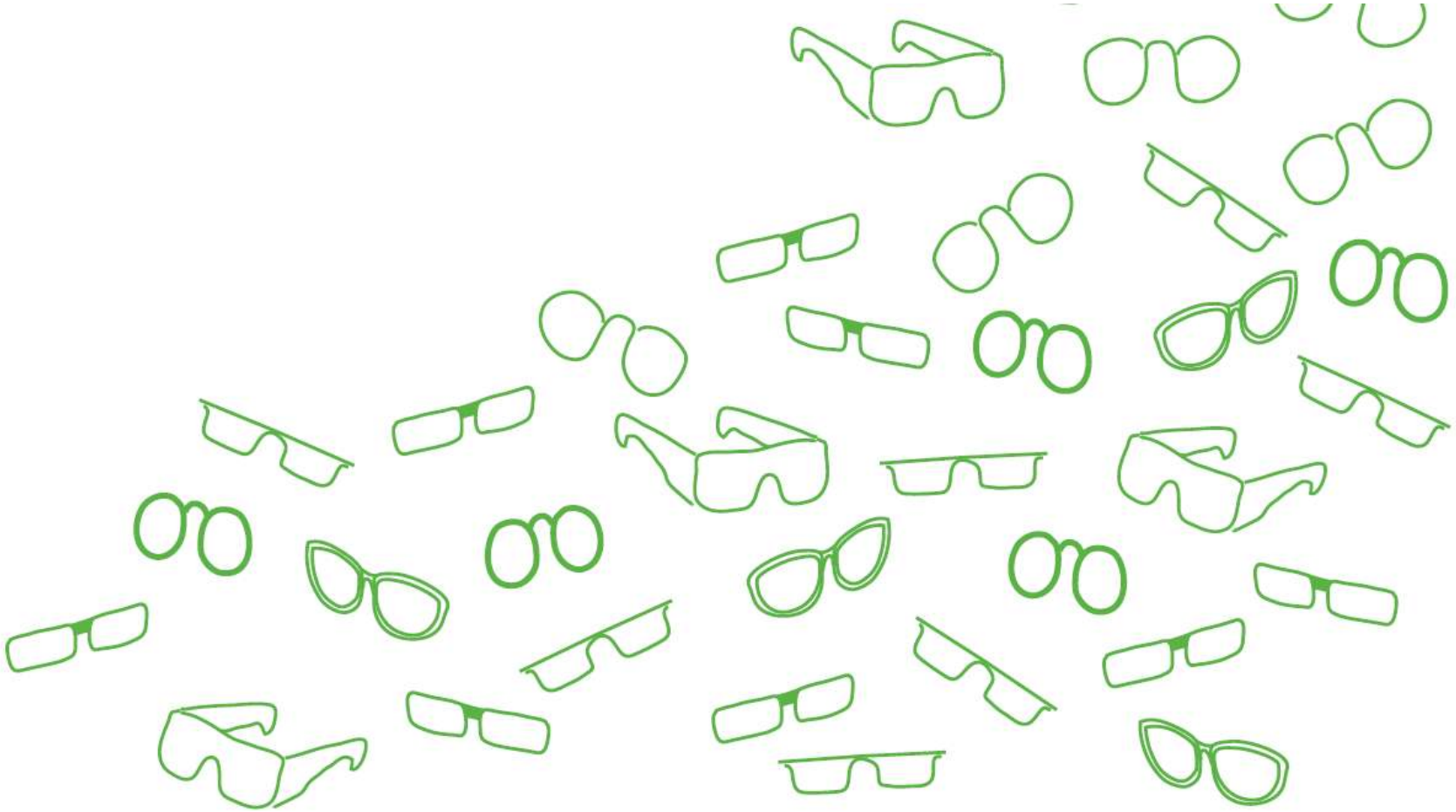
Reasons
for conducting the
IP valuation



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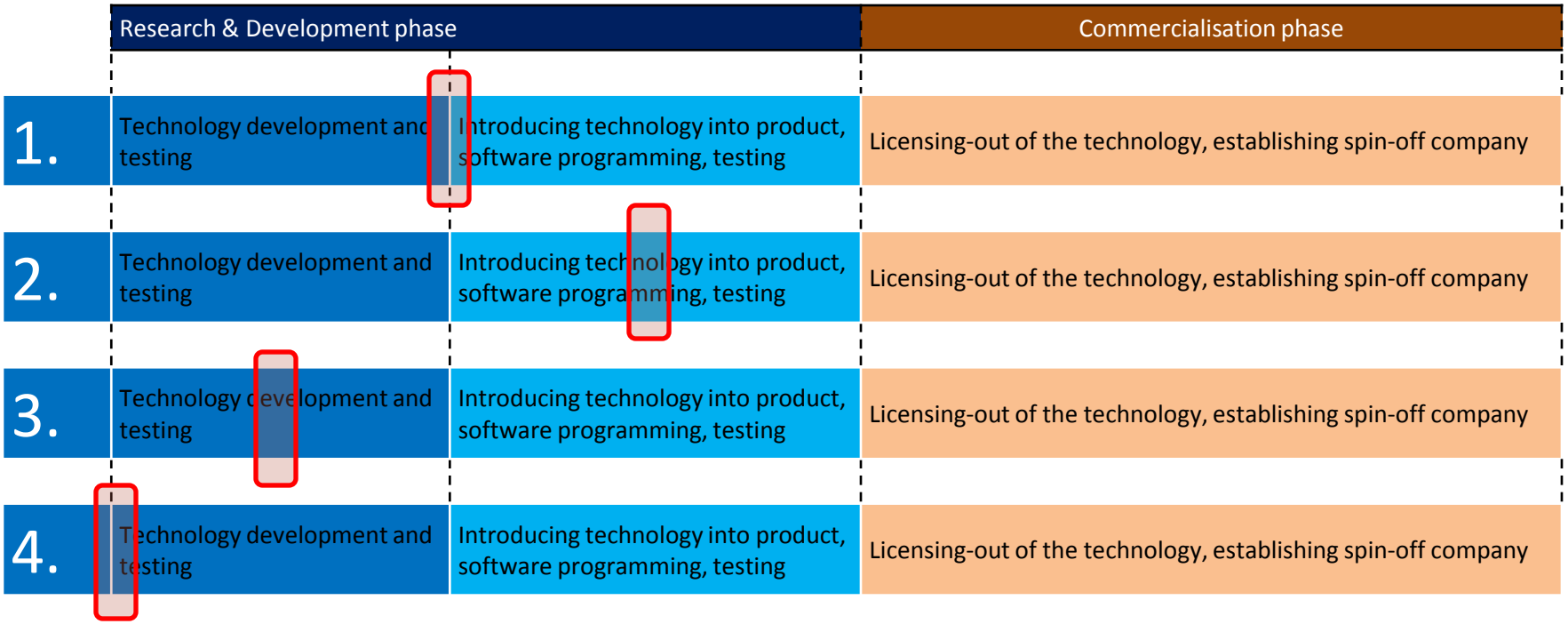
i. Decision-making (management)

- Specfic portfolio management decisions
- Resource allocation decisions
- Support the decision to further invest into prototyping, testing



ii. Decision-making (licensing)

- Is licensing-out worthwhile?
- Acceptable terms and conditions for licensing agreement
- Benchmark value for use in negotiations

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iii. Communication

- Communicating the significance of IP to potential partners, licensees
- Independent opinion about value

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iV. Value Creation

- Identifying key uncertainties surrounding the technology
- Adding value to IP assets before negotiating with potential license partners

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Challenge:

How do we assess the value of technology / intellectual property?

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Choosing the appropriate IP valuation methods

The valuer must consider a number of key aspects:

What exactly is the IP asset being valued?	
What will the valuation results be used for?	
Client (For whom is the valuation being done?)	
Valuer (Who is doing the valuation?)	
The date of the valuation	
Information available and accuracy of information / available sources	

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Commonly used IP asset valuation approaches

quantitative

Assessment of the monetary value of IP

- Cost Based approaches
- Market Based approches
- Income Based approaches
- (Option pricing based approaches)

qualitative

Analysis of IP based on factors which influence it's value.

- Value driver based approaches

Cost based approaches

The cost to create IP asset = IP value

Calculation of costs incurred in the development of;

- the IP asset under valuation,
- a similar IP asset in-house, or
- a similar IP asset externally.

Result: IP value in EURO / $ / HUF

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Market based approaches

Price of comparable IP traded between parties = IP asset value

Comparison with prices achieved in recent comparable transactions

Result: IP value in EURO / $ / HUF

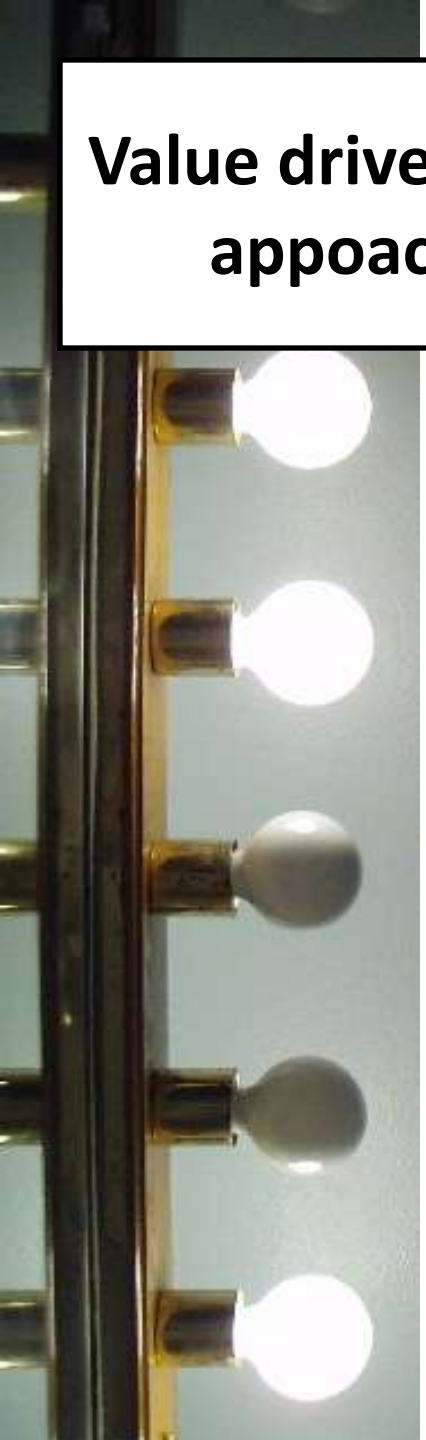
Income based approaches

Future income from IP asset

= IP asset value

Estimating the potential future income from IP asset and associated risks

Result: IP value in EURO / $ / HUF



Value driver based appoaches

Scoring of IP based on the quality of related factors

Provides a value guide through scoring of different factors related to the IP.

These factors or "value drivers" can influence the value of the IP asset both positively and negatively .

Result: IP value displayed as a score

Choosing the appropriate IP valuation methods

"Qualitative analysis using value drivers" method + Discounted cash flow (DCF) method = Robust valuation

What exactly is the IP asset being valued?	
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Our working group

- Inventor, project team leader
- Technology / industrial property professional
- Legal professional
- Market professional

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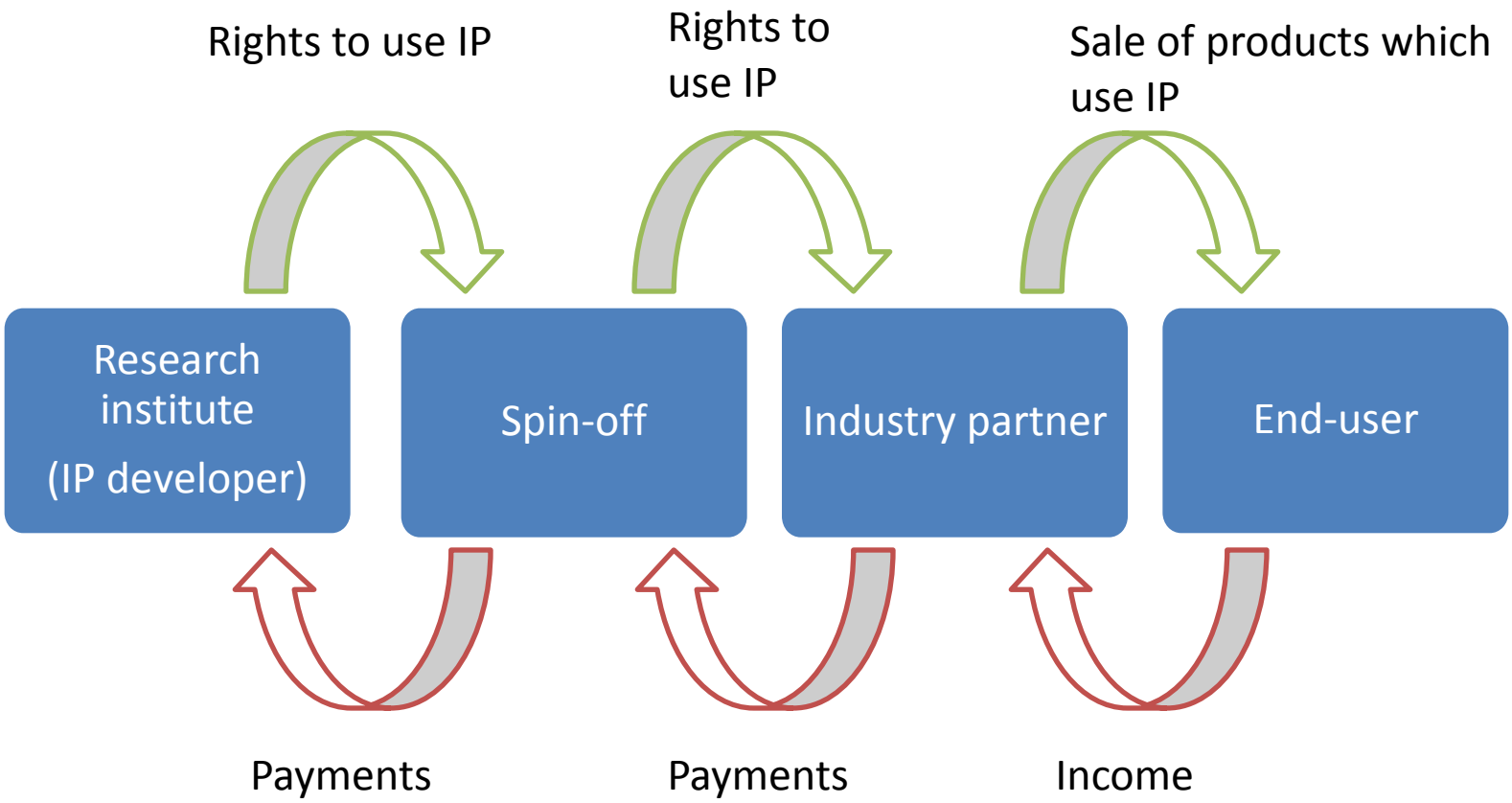
Model commercialisation scenario



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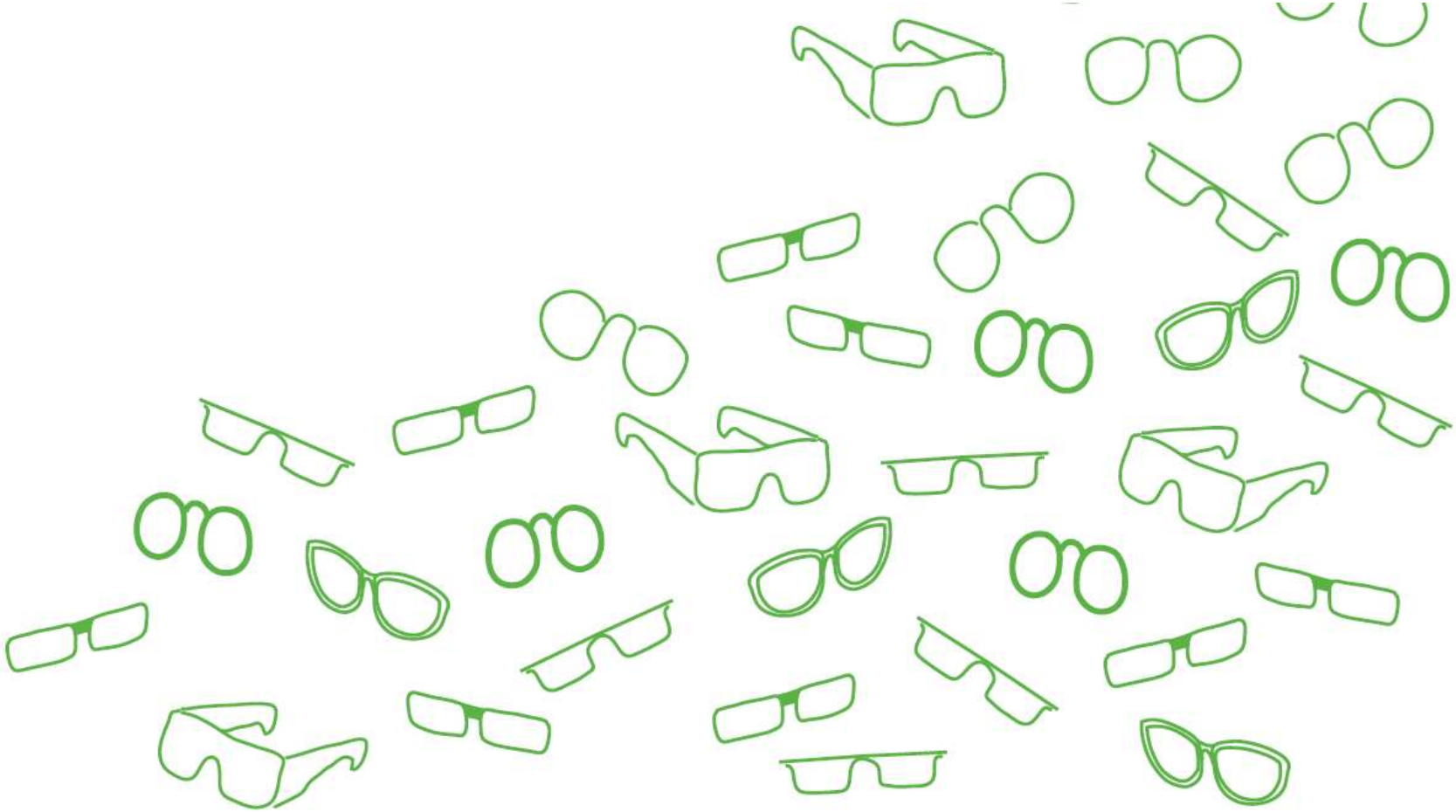
“Qualitative analysis using value drivers” method



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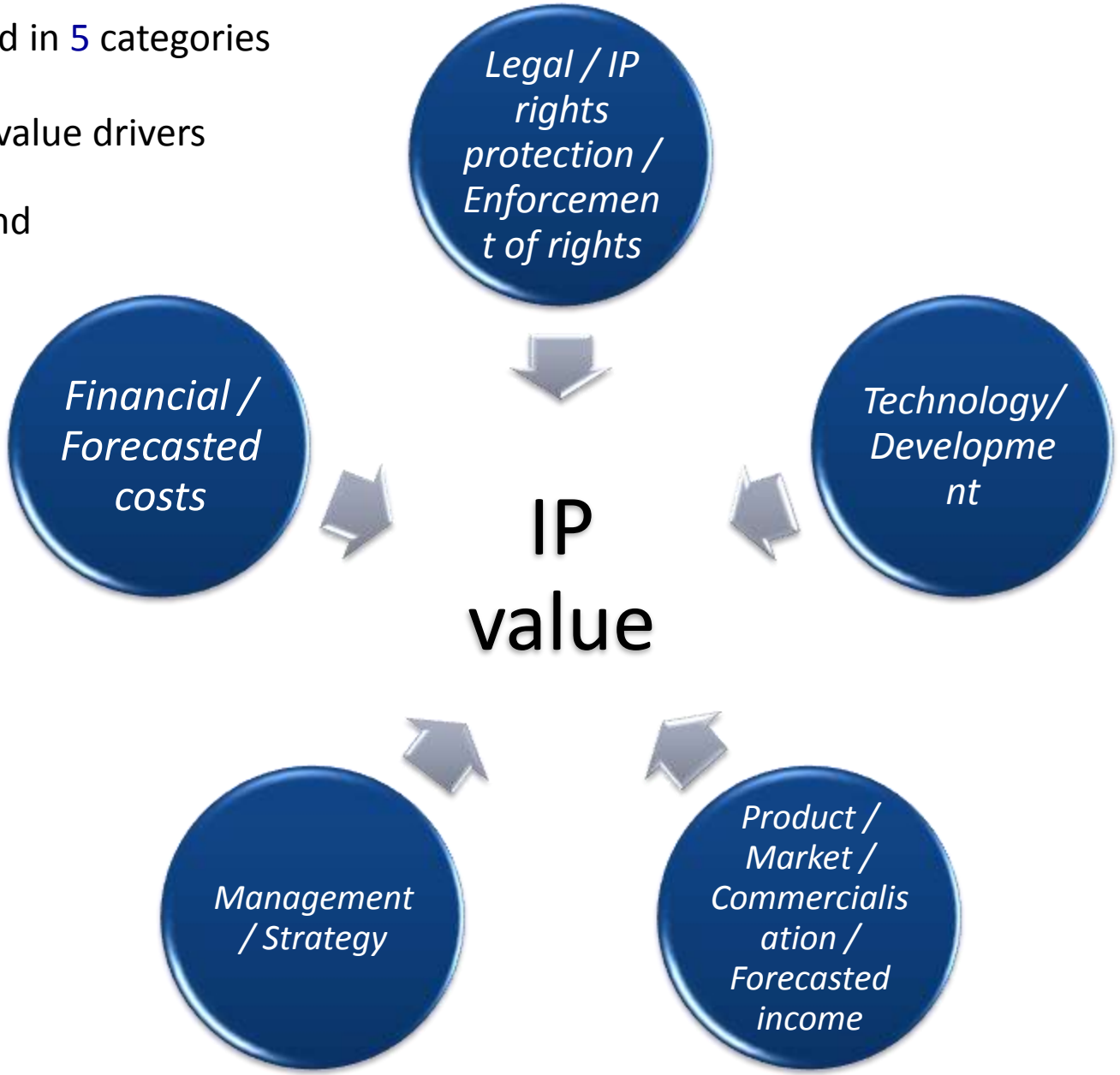
- ≈50 value drivers identified in 5 categories
- Analysed and scored the value drivers
- Identified **uncertainties** and **opportunities**



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Results:

“Qualitative analysis using value drivers” method

- Uncertainty-opportunity “profile”
- Analysis and scoring of 50 value drivers
- Uncertainty – opportunity matrix

- *Indicates issues that should be addressed*
- *Highlight uncertainties which could pose a problem in the development and commercialisation of the technology*
- *Identify opportunities that could be further elaborated*

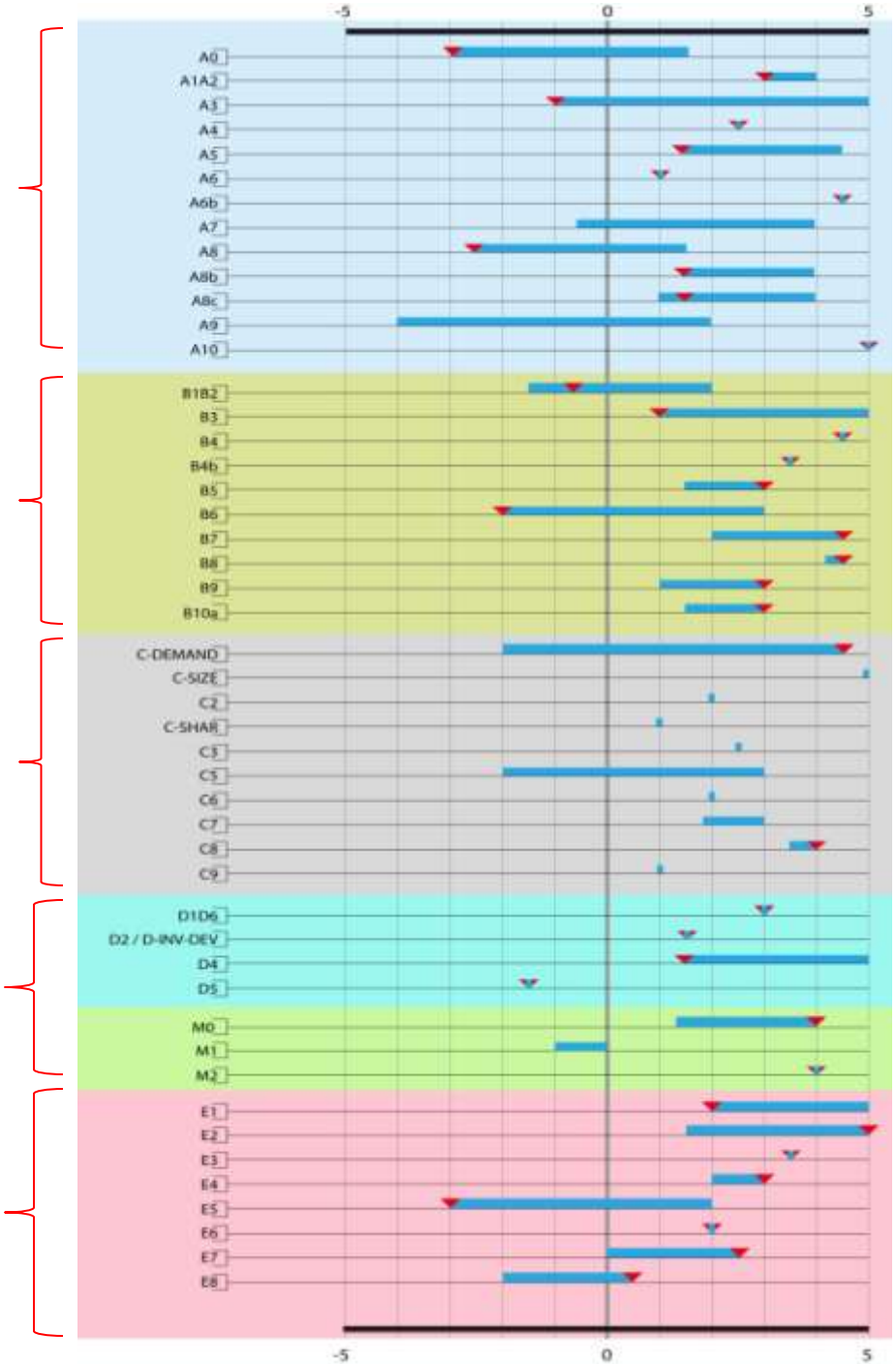
Legal / IP rights protection

Technology/Development

Product / Market / Commercialisation

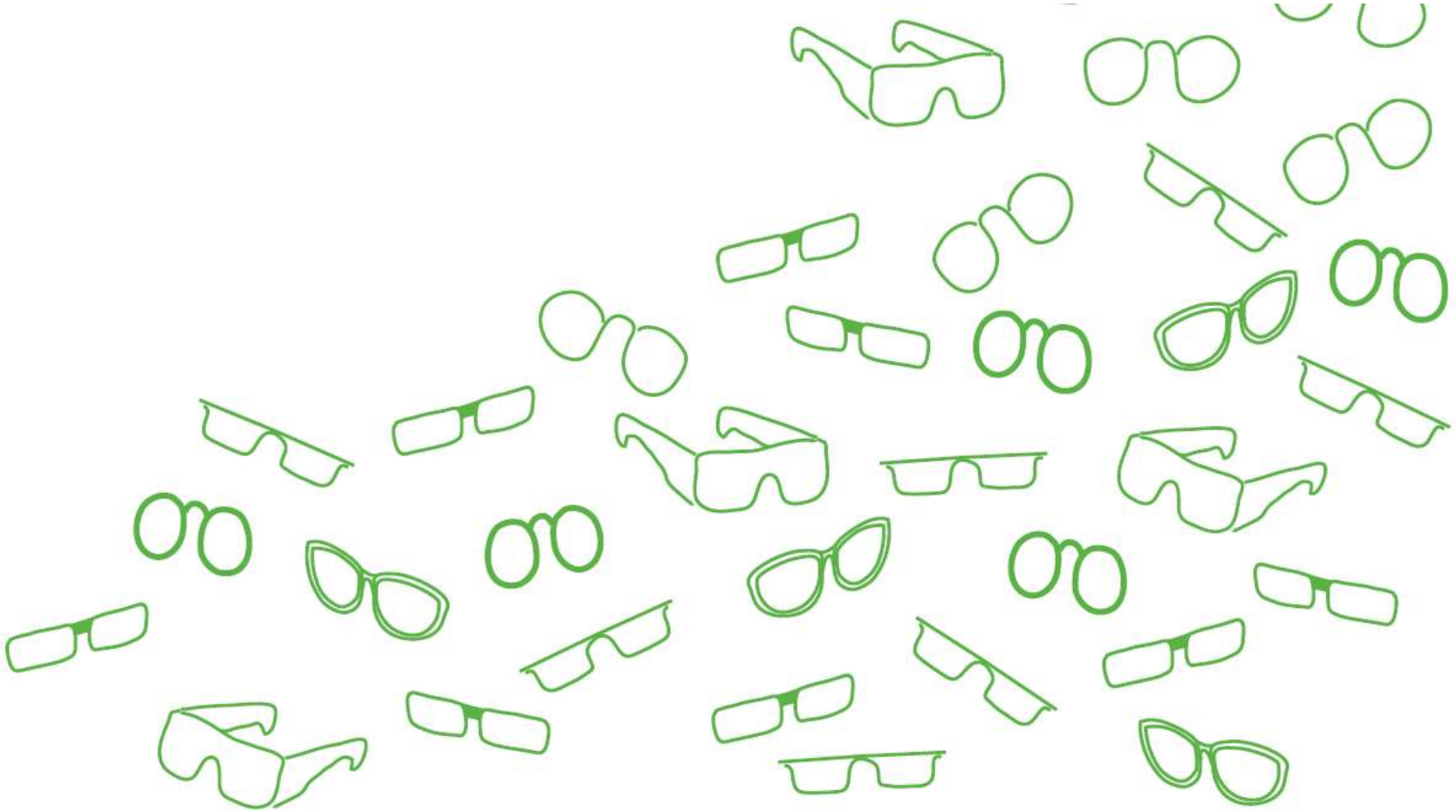
Financial

Management / Strategy



Scoring of factors

Discounted cash flow (DCF) method



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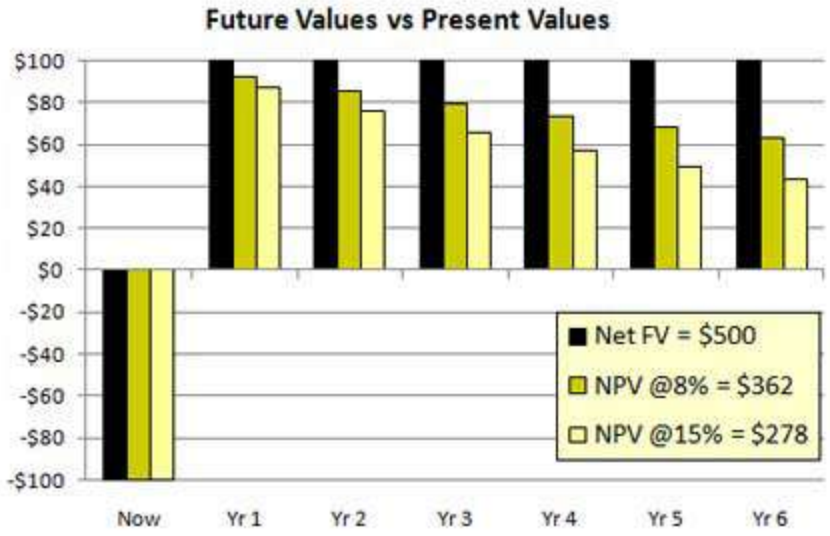
- Determined the potential cash flow from the technology using the model commercialisation scenario
- Discounted the future cash flow using appropriate discount rate related to the perceived level of risk



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Results:

Discounted cash flow (DCF) method

- Model commercialisation scenario
- Key data about forecasted costs
- Forecasted income information
- IP asset value in Euros /HUF

- *Projections of future costs of IP asset*
- *Projections of future income from IP asset*
- *Estimations of development and commercialisation risks*

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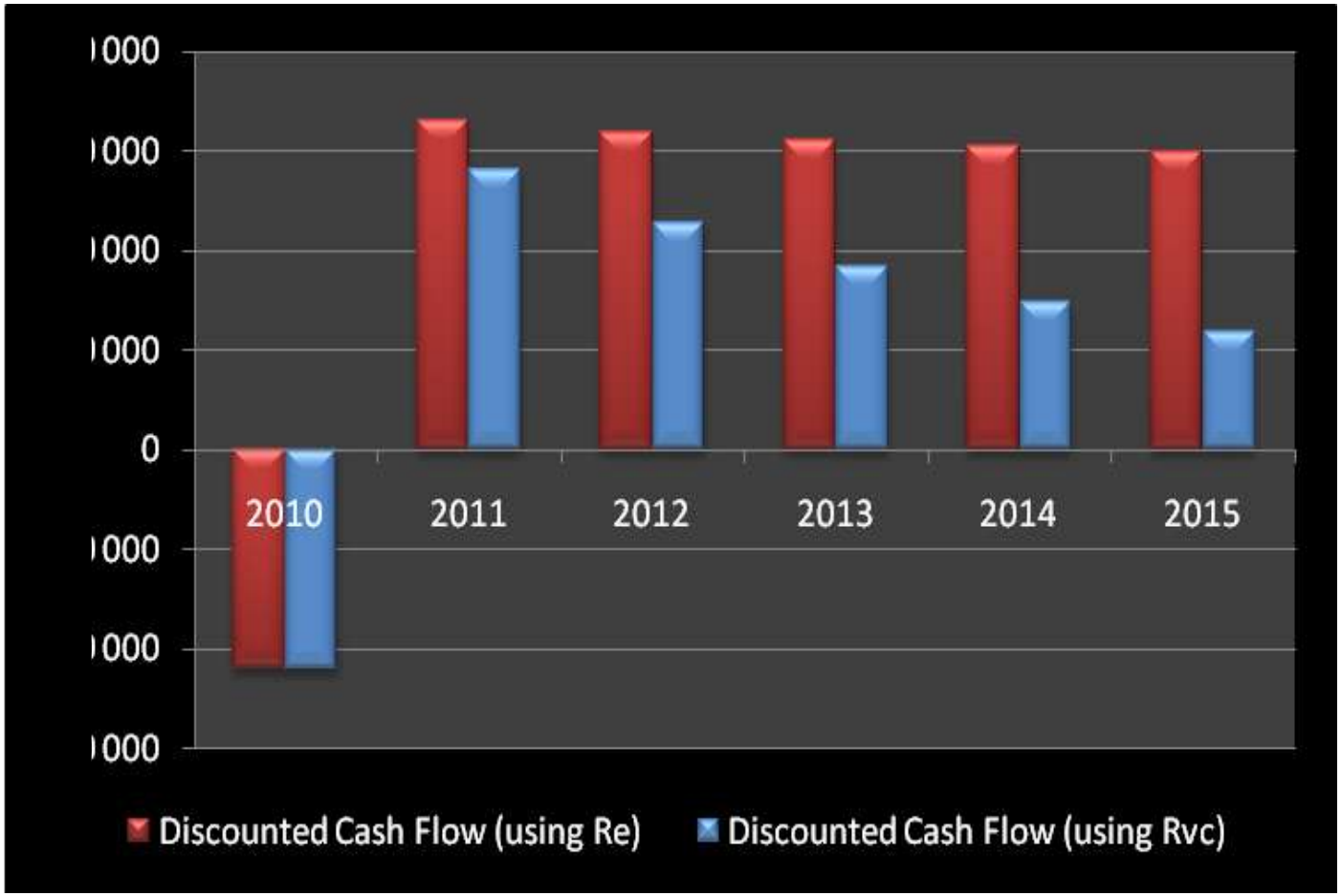
Graphical results of discounted cash flow method



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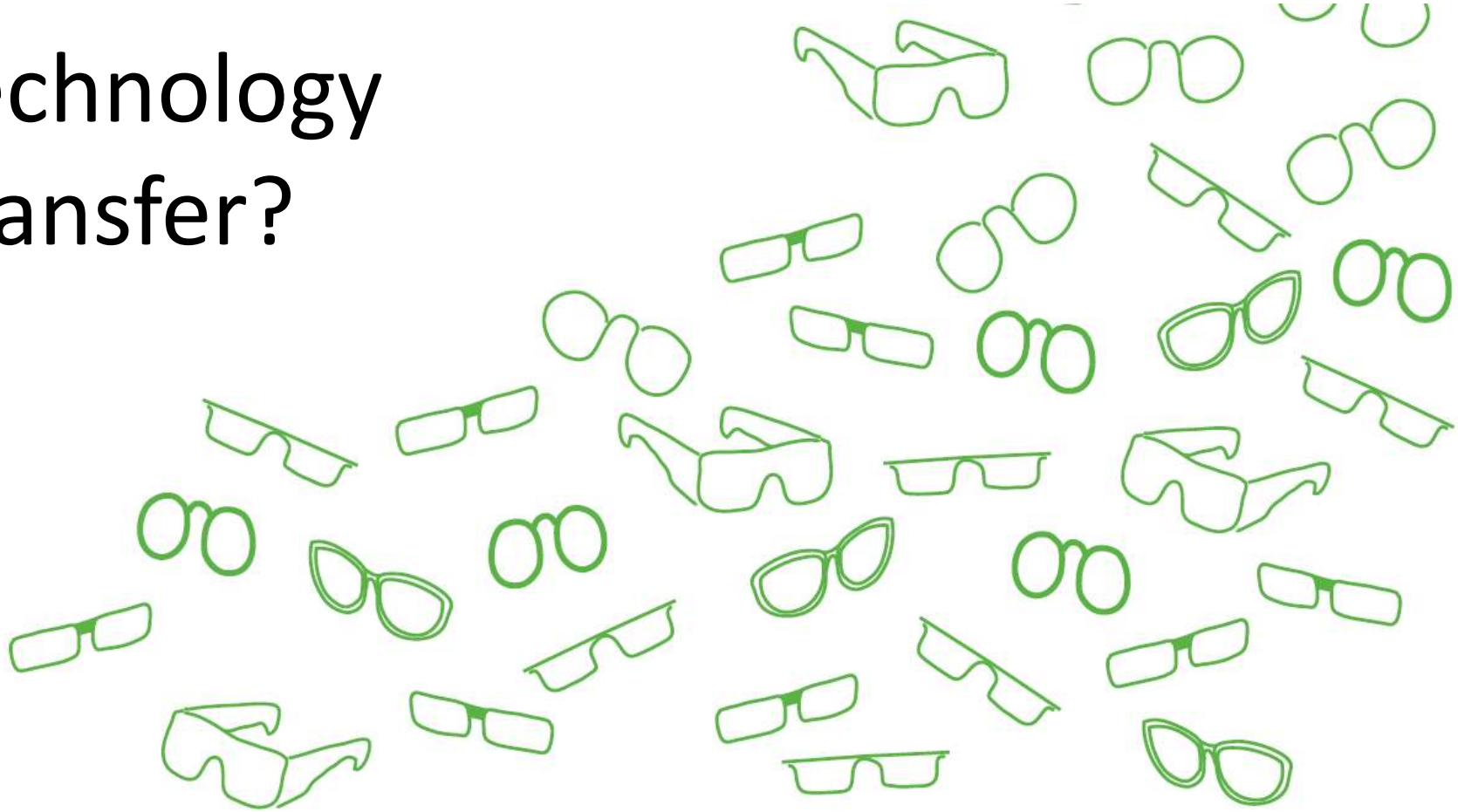
How did the IP valuation facilitate successful technology transfer?



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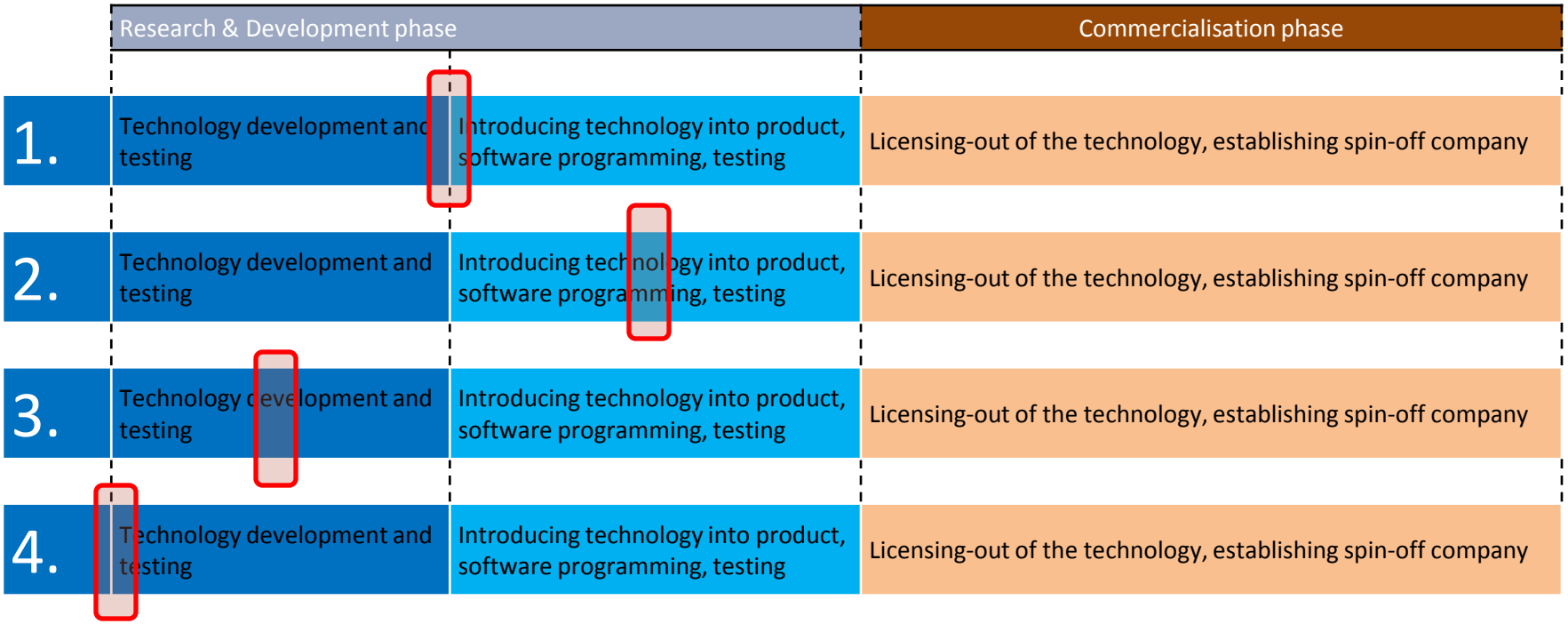

i. Decision-making (management)

- Specific portfolio management decisions
- Resource allocation decisions
- Support the decision to further invest into prototyping, testing

Results supported the decision to further invest into the technology

Results supported the decision to go ahead with licensing activity

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ii. Decision-making (licensing)

- Is licensing-out worthwhile?
- Acceptable terms and conditions for licensing agreement
- Benchmark value for use in negotiations

The valuation created a viable commercialisation scenario

Results provided data about potential partners

Monetary results gave benchmark values for future license negotiations

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iii. Communication

- Communicating the significance of IP to potential partners, licensees
- Independent opinion about value

The results will be used to communicate the significance of the technology to potential partners

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iV. Value Creation

- Identifying key uncertainties surrounding the technology
- Adding value to IP assets before negotiating with potential license partners

- Highlighted uncertainties related to the technology, which could have been potential hurdles during license negotiations
- Management team were able to isolate and remove a number of uncertainties
- The value of the IP was increased

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The optimisation of the technology transfer process towards value creation can lead to more successful transfers and increased income from IP assets

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Thank you

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Useful links

Hungarian Patent Office website:

www.mszh.hu (Hungarian), www.hpo.hu (English)

IPScore® software launch page:

http://www.epo.org/patents/patent-information/business/valuation/ipscore.html

United Kingdon Intellectual Property Office IP Healthcheck:

http://www.ipo.gov.uk/iprpricebooklet.pdf

WIPO IP Panorama:

http://www.wipo.int/sme/en/multimedia/

IP Valuation Forum:

http://ipvaluation.hpo.hu/

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