



Intellectual Property Valuation in Practice Symposium

Budapest, 27th–28th November 2008

Welcome Speech by Dr. Miklós Bendzsel

Ladies and Gentlemen, Dear guests,

It gives me great pleasure to welcome you, speakers and participants alike, to the Hungarian Patent Office for the first in a series of international symposia related to the valuation of Intellectual Property.

No institution devoted to innovation, and innovation support can omit this trend of growing commercial importance of intellectual property, and thus the increased urge to integrate them into the business strategy and manage similarly to any strategic business asset of the enterprises. The Hungarian Patent Office has special long standing fostering attitude in this field both on the national as well as on international stages.

Responding to the needs captured of innovative enterprises, the Hungarian Patent Office has developed and introduced a wide portfolio of inevitable value added intellectual property services, which help the IP related managerial decision making and portfolio management to established and emerging business actors alike.



Hungarian Patent Office for Innovation Support

- Patent services
 - Novelty Search
 - Novelty Search with preliminary Patentability Report,
 - Preliminary Patentability Report,
 - Validity Search, and Freedom to Operate (FTO) search

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- Technology intensive stakeholders are supported by patent services, like Novelty Search with, or without preliminary Patentability Report, Preliminary Patentability Report, Validity Search, and Freedom to Operate (FTO) search.
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Hungarian Patent Office for Innovation Support

- Trademark services
 - Novelty Search,
 - Simplified Trademark Filtering,
 - Trademark Search,
 - Trademark Monitoring,
 - CETMOS Regional Trademark Similarity Search

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- Market and brand building activity of stakeholders are supported via „Simplified Trademark Filtering”, „Trademark Search”, and „Trademark Monitoring” services. CETMOS – a Regional Trademark Similarity Search service is also available for Hungary and can be searched by the users wanting to enter into the Central-Eastern European region.



Hungarian Patent Office for Innovation Support

- Copyright service
 - Voluntary register of works

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- The creative industry is served by the provision of the „Voluntary register of works” service.



Hungarian Patent Office for Innovation Support

- Co-operational activities
 - World Intellectual Property Organization,
 - European Patent Office,
 - Office for Harmonization in the Internal Market,
 - Other regional bilateral joint activities

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International co-operation in innovation support is another major focus of our Office, to enrich national initiatives and create a synergy effect of services. This way, strong bilateral and

multilateral action programs are run in co-operation with the World Intellectual Property Organization, the European Patent Office and the Office for Harmonization in the Internal Market.



Hungarian Patent Office for Innovation Support

- EC Projects
 - IP4INNO, 
 - IP-BASE, 
 - e-MAGE, e-MARKS 
- National initiatives
 - National Board Against Counterfeiting

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Strong commitment is made to contribute to the Lisbon agenda, by taking leading positions in action programmes called to life by the European Commission:

- IP4INNO is a train the trainer program for educating multipliers at innovation support agencies.
- IP-Base at the same time directly targets end users, with special focus on SMEs active within certain industries, also increasing the enforcement culture of market actors.
- The E-mage and E-marks projects are developing and leveraging a unique trademark and design similarity search service, which combines the merits of information and intelligent database technology to help brand building and enforcement of rights.
- Strong co-operation is being developed between the Hungarian Patent Office and the Enterprise Europe Network, the innovation supporting agent co-ordinated and managed by the European Commission.

The Hungarian Patent Office also reached a further third step, reaching from awareness raising, through the realisation of actions fostering the integration of IP to the business strategy, to fostering enforcement of rights. Similarly to Great Britain, France, Switzerland, and other progressive societies we have launched the National Board Against Counterfeiting in Hungary.



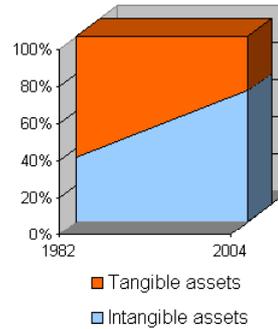
IP Valuation Volume of Need

IP as Business Asset

Share of intangible assets has increased by 35% in company value in the last 3 decades

Source: Kaplan and Norton, 2004.

Capital structure of US firms between 1982 and 2004

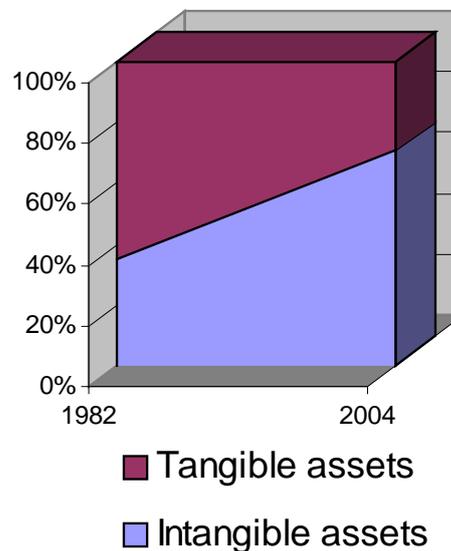


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In the last fifteen (15) years there has been a marked increase in the amount of innovation intensive organisations which have become leaders through the effective creation, extraction and leveraging of their IP through efficient IP management.

Studies show, that tangible assets accounted for only about twenty five percent (25%) of the market value of US firms in 2002, suggesting that intangible assets (of which intellectual property is a part) accounted for the remaining 75%, in contrast to 1982, when only 40% of market value was accounted for by intangibles, as pointed out by Kaplan and Norton.

Capital structure of US firms between 1982 and 2004



Intellectual Property in the forms of patentable technology, legally protectable trademarks and designs, copyright and others have increasingly become the most important assets, not only for many of the worlds largest companies, but also for small and medium enterprises, research centres and academic institutions. Very often, an organisation's sole asset is their IP.

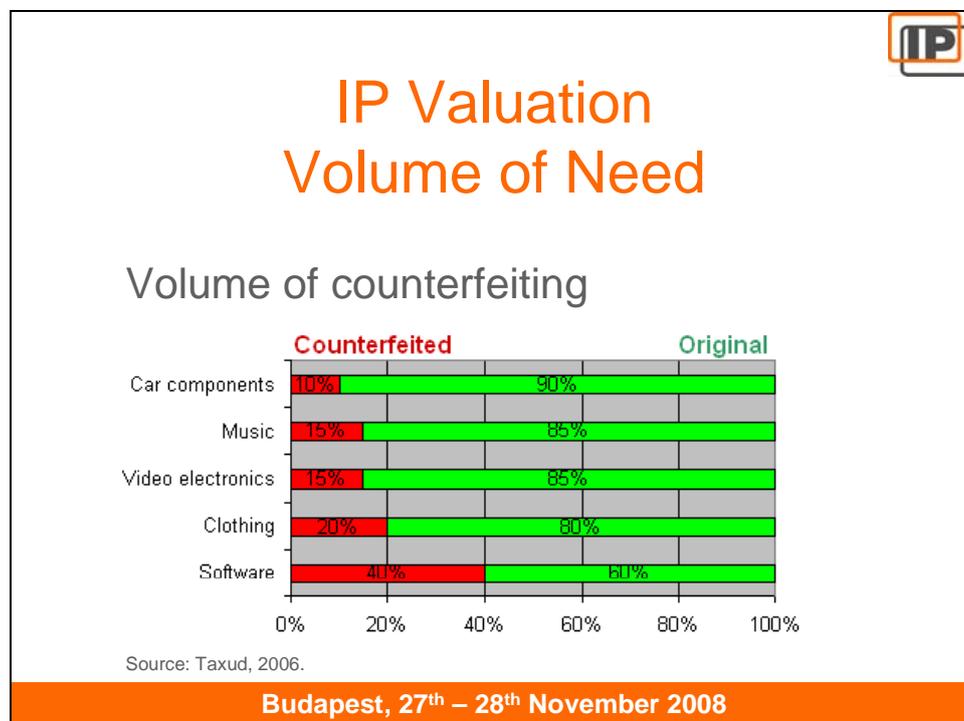
In the United Kingdom, eight percent (8%) of the GDP originates from the creative industries.

In the field of trademarks valuation there are different methods available, some good, some not so good. Even in this field the valuation, methodology is undergoing development. We must, however, take note that the valuation of patentable technology is far more complex. Why? While with the valuation of trademarks, an already existing market demand behind the brand or goodwill is measured, with patentable technologies a not yet existing product or service and a non-existent market is being predicted.

Here at the Hungarian Patent Office, we have a clear focus on the valuation of technology. In the last three years we have studied a number of methods available to valuers and decision makers. There is a solid base of robust methodology that forms a toolbox in different areas and scenarios. *But we have not reached the pinnacle of this profession. There is a real need for a practical toolbox for the valuation of patents and patentable technologies.*

The requirements for IP valuation technology Toolbox are rigidity and flexibility. There has to be a common solid foundation on which we can build buildings, but each must be a different size and shape to fulfil different users' needs. This methodology must give adaptive answers to each and all of the possible valuation uses and circumstances.

To accomplish this seemingly impossible task we must listen and be sensitive to the needs of those users who will be in contact with these methods; the technology intensive enterprises, and investors, keep our ears open for the needs of those public institutions who are involved with the allocation of funding for the advancement of technology development and commercialisation, be in tune with the needs of those who value damages in cases of IP infringement and could potentially use such methods to support court decisions in cases of loss of earnings and the size of compensation and penalties.



Just to help you imagine the extent of the need mentioned latest, let me show you the estimation on the volume of infringement on the slide.

This growing role of IP based assets in generating new value poses a number of major challenges for the corporate sector, governments and to society: *how to evaluate the contribution of IP and how to maximise its potential?*

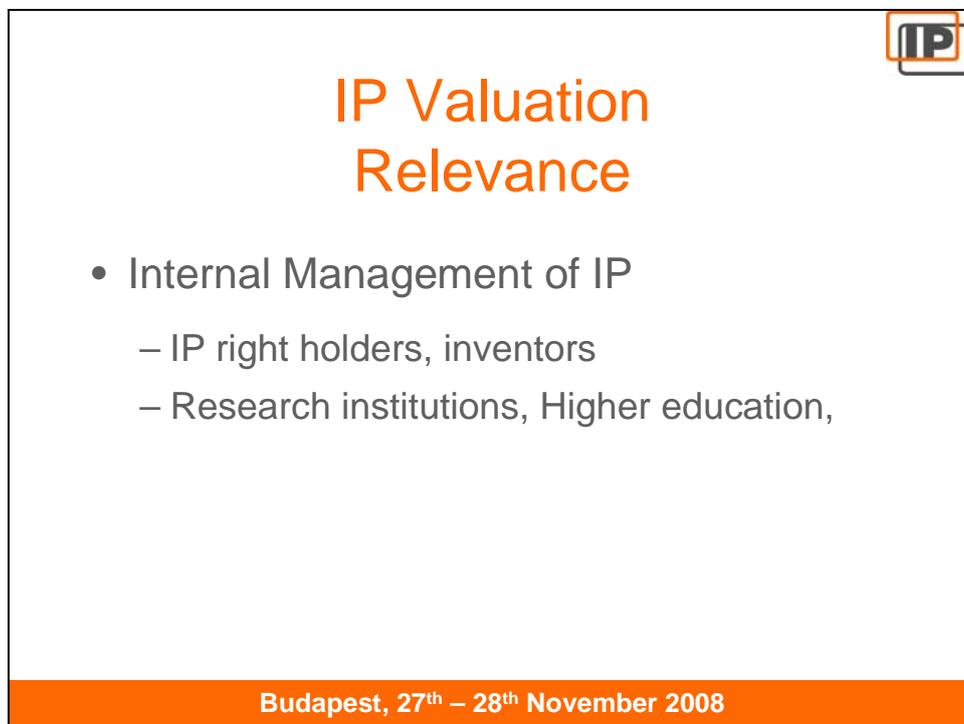
As the title of this event suggests, IP valuation is a practical issue. We are surrounded by innovative activity; technological innovation is taking place, as we speak, at small and medium enterprises, large corporations, research institutes and centres of academic excellence.

Intellectual Property, in the form of patentable technology, is increasingly managed as an asset. Proper and efficient assessment of its value is increasingly necessary by a diverse and expanding range of stakeholders. We have invited many of these stakeholders here today to present and to listen. *We are especially pleased that so many of you have kindly accepted our invitation to join our event!*

In some way or another we are all linked in this innovation chain. Each one of us is here to gather practical knowledge to fulfil expectations and to further own professional goals. The primary aim of this symposium is to transfer knowledge between stakeholders for mutual understanding and professional development. The goal of this initiative is to promote dialogue between our stakeholder organisations in order to better understand the issues surrounding innovation and intellectual property valuation.

What are these issues? Why is IP valuation such a relevant and timely topic for our symposium?

Please allow me to illustrate with a few examples some areas where there is, *or could be*, a high demand for accurate and efficient IP valuation:



The slide features a white background with a thin black border. In the top right corner, there is a small logo consisting of the letters 'IP' in white inside a black square, which is itself inside a larger white square with a black border. The main title 'IP Valuation Relevance' is centered in a large, bold, orange font. Below the title is a bulleted list with two items: 'Internal Management of IP' and 'Research institutions, Higher education,'. The bottom of the slide is a solid orange horizontal bar containing the text 'Budapest, 27th – 28th November 2008' in white.

IP Valuation Relevance

- Internal Management of IP
 - IP right holders, inventors
 - Research institutions, Higher education,

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Let us concentrate on the **internal management** of IP first!

IP right-holders, individuals and organisations that develop technology, innovate and conduct research and development wish to know the value of their projects and the possible return on their investments. They must be sure that the time and effort invested matches and exceeds the possible gains. *There is a demand, even a thirst for this knowledge.* IP valuation facilitates cost effective decision-making at a managerial level and helps to understand and deal with the risks involved in technology development. From an innovative organisation's perspective, therefore, IP valuation can be an effective tool to improve short-term resource allocation and long-term investment strategies, to improve external communication with various partners and when attracting investment.

Research institutions. IP valuation techniques can be successfully used for portfolio management, efficient decision-making and creating spin-off enterprises. Spin-offs, a relatively new phenomenon in the Hungarian innovation system, and who's numbers have started to increase from academic institutions and research institutes in recent years are examples of potential users of IP valuation.

For these users, it is of up most importance that they have made **optimal use of allocated government funding**. It is important in the winning of further funding, so that within a PPP framework they may involve private sector funding within their research. In addition it is important that the account of universities also feature IP components with the relevant weighting. Valorisation of IP facilitates the making of efficient decisions to efficiently allocate often-scarce resources to the protection and businesslike management of IP portfolios.



IP Valuation Relevance

- Transactions
 - Mergers and acquisitions,
 - Joint ventures,
 - Licensing
 - Funding bodies



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Let us take a second glance at **business transactions**, where Intellectual property has to be addressed.

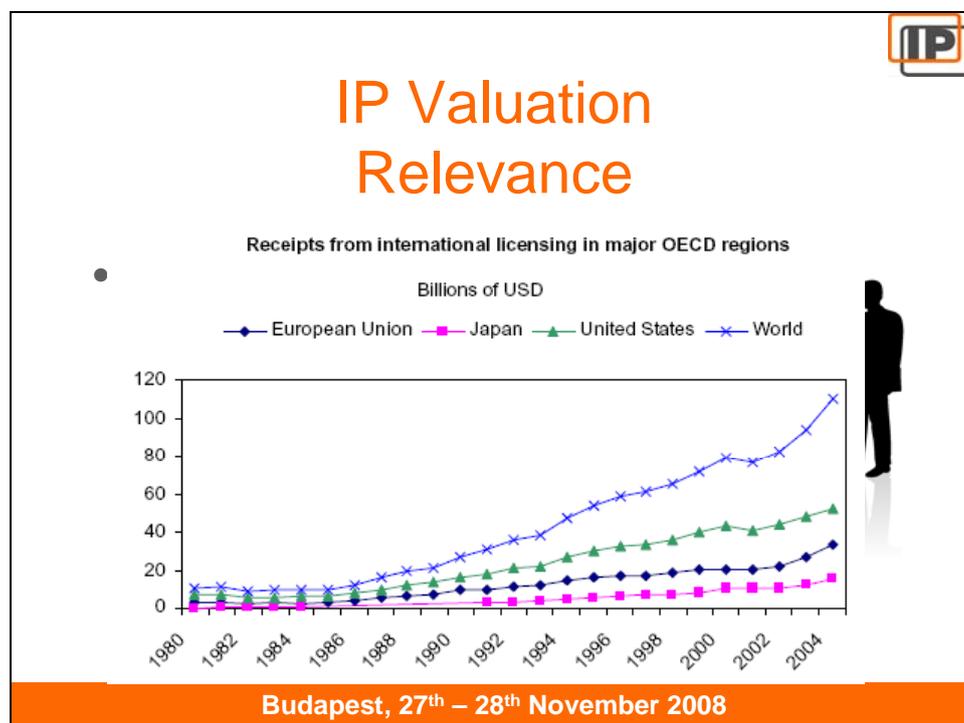
The formation of a technology intensive company, especially within a spin-off scenario calls for the inclusion of IP within the financial structure of the company as **contribution-in-kind**. IP valuation can bridge the abyss between the present value of capital and the future

potential of technology, this way clarifying the allocation of shares within the enterprise. The same positive effect of IP valuation could be observed in the cases of capital increase within a company.

As IP is becoming a major component of company value, with cases surrounding of innovation intensive companies, systematic and accurate IP valuation is required for buying or selling an enterprise, establishing **joint ventures**, and executing **mergers and acquisitions**. In such transactions, each party will need to know the value of IP assets being bought or sold as part of the company.

The purchase, sale or **licensing** of IP also requires accurate valuation to determine prices, royalties and fees. When negotiating an IP license contract, both parties must be clear about the values involved. Often, a due diligence report is required outlining the details of the IP being purchased, sold or licensed. This will include elements of IP valuation. Buyers and licensees often underestimate the importance of IP due diligence. Accordingly, IP due diligence is often addressed inadequately or in a last-minute manner. Not surprisingly, there are numerous cases in which an oversight in IP matters has caused the buyer's or the seller's position to be seriously compromised.

To help you estimate the extent of application of IP valuation, please let me point out, that global licence revenues has multiplied about 8 times in the last 30 years. IBM Corporation., which started to more actively manage its IPR in the late 1990s and averaged more than 3000 US patent grants a year between 2000 – 2004, received more than one billion US dollars in annual revenues from licensing royalties and sales of IPR; about half of these revenues came from licensing.



To **finance** their **development activity and commercialisation** plans, many innovation intensive companies seek funding from a diverse range of investors. Financing from other often-larger companies, joint ventures, venture capital, and other investors are important for

the developers of IP. Government grants for innovation are also key to financing innovative projects. Investors and financial analysts value patents to assess the value of innovation intensive projects and firms as a basis for their investment decisions and recommendations. Through using IP valuation techniques investors may optimise investment and lending portfolios by investing even better in line with risk.

These **funding organisations**, whether public or private, must ensure the return on their investment through selecting only appropriate projects and minimising risk as much as possible. *Often, a company's IP is the reason for investment.* When making decisions about possible investment and the associated risks, the value and commercial viability of the IP belonging to the benefactor must be clear.

In the first session of the symposium we hope to learn about scenarios where IP valuation can be a great benefit to these different organisations.



IP Valuation Relevance

- Taxation and Accounting
 - Tax optimisation,
 - Solvency matters,
 - Capturing IP

- Methodology overview



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In today's globalised economy, when even a start-up enterprise must think about at least a regional if not a global market exploitation, one has to plan ahead for the possibilities and options deriving from having multiple branch offices and the **tax optimisation** possibilities thereof. Today, there are organisations whose core activity is IP management, making profit from the IP assets of companies globally. This gives the opportunity for tax optimisation for companies.

Start-up enterprises dealing with the commercialisation of the result of applied research that is almost market ready are usually under funded. For them, good tax planning could help to **increase solvency**.

Innovation intensive companies are practically business enterprises that capture value from technology and sell the recognised value to investors and consumers on the market.

Lets see how the accounting standards reflect this phenomenon:

Current accounting standards in most countries do not capture intangible assets including patents. In order to be reported as an asset in financial statements, an item is required to meet several criteria. First, it must meet the definition of an asset and offer probable future economic benefits. In addition, it must satisfy three criteria namely **measurability**, relevance and **reliability**. In other words, an item lacking reasonably reliable measurement cannot be recorded as an asset in a financial statement, which leaves out most of intangible assets. The introduction and standardisation of IP valuation methods also offers possibilities for the harmonisation and meeting of market and legislators' needs.

Methodology

Certainly there is a growing body of methodology, used by industry, consultancy and investment professionals.

The goal of this afternoon's session is to reflect on the best practices and recent advances in the methods used by stakeholders to assess the value of their IP.

By studying the existing schools of thought, we have seen that the journey is not even close to the end. Our aim is to develop a solid and robust methodological toolbox which may be used effectively in different valuation scenarios and areas. How can present and future IP valuation methods and services provide for such needs? The results are forthcoming...

Expectations



IP Valuation Expectations

- Short-Mid Terms
 - Toolbox,
 - Series of international symposias,
 - Panel on IP Valuation
 - EU-initiative



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The event which we are hosting today is the first in a series of four international symposia on the topic of IP valuation. We are pleased to be able to have the Austrian Patent Office,

National Board of Patents and Registration of Finland and the United Kingdom Intellectual Property Office as our partners in this initiative. We would like to thank them for their efforts and organisational assistance. We hope that this event and the resulting stakeholder forum will be a solid platform for exchanging experiences as well as developing good and best practices. This is turn will be build on in the subsequent symposia taking place in Finland, Austria and the United Kingdom.

In addition to initiating a panel in this professional field and increasing cooperation, the symposium series has another goal. We are calling for further cooperation amongst the stakeholders to make IP valuation a professional issue to discuss experiences, issues and to solve problems and in the medium term into an EU initiative. We will work hard, together with our partner offices and stakeholder representatives to ensure that the symposia series will lead to an EU tender in this field. The development, introduction, application and dissemination of such a standardised methodology is of such great importance to European innovation, for states, regions and the European Commission.

In addition to developing a service for the market we must not forget when assessing the use of the methodology that its value to organisations who allocate funds on European, regional and national levels. Imagine, with the use of such a tool, if we could optimise the allocation of every tenth Euro out of the 40 billion to be spent between 2007 -2013, we could better utilise 4 billion Euros. This could be considered equal as finding the same amount of resources. And please do not forget about the additional benefit of the increased profit making abilities of those projects having been scanned by technology and IP valuation and thus selected, which also accounts for the application of the system in the fund allocation decision making process.

Additionally to supporting fund allocation decision making, other uses of IP valuation methods for other government stakeholders is also highly relevant:

- Enforcement could be enhanced and the courts could receive a significant scientifically based method which would be indispensable in support of their work with infringement cases.
- An indisputably existing effect of the use of IP valuation methods can contribute to the whitening of the economy, which is difficult to evaluate at the present time.

One practical result will be the production of a Guide on Intellectual Property Valuation, aimed towards a professional audience. The Guide will aim to have the practicality of a handbook linked together with a solid, precise scientific basis. The aim is to standardise and disseminate methodological knowledge for use by different stakeholders in different situations.



Intellectual Property Valuation in Practice Symposium

- Speakers:
 - 17 from 7 countries,
- Participants:
 - 81 from 16 countries



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We are especially pleased to be able to host such an event in Budapest, where alongside taking positive steps professionally we will have the opportunity to introduce the dynamic and unique Hungarian IP and innovation environment.

17 speakers contribute from 7 countries to the success of the symposium, of which 12 are international experts - coming from Switzerland, Germany, United Kingdom, Austria, and Finland, accompanied by 5 professionals from Hungary. 16 European countries came together today to discuss and share ideas, and thoughts.

Please use this unique opportunity for networking. Coffee breaks and the evening reception in a lovely atmosphere in the castle district of Budapest will offer a pleasant background for building new and refreshing existing professional relations.



Country	Representative
Hungary	61
Austria	2
Finland	2
Poland	2
Slovenia	2
Czech Republic	1
EPO	1
Estonia	1
France	1
Greece	1
Luxembourg	1
Portugal	1
Romania	1
Spain	1
The Netherlands	1
Turkey	1
United Kingdom	1



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- Thank you for your kind attention!
- Wishing you a fruitful discussion.



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For our international guests, we hope that your stay in Budapest will be memorable. Here at the Office we hope that we can fulfil the expectations of the participants and presenters alike. Our colleagues are available to help you with professional and organisational matters and they are at your disposal on both days of the symposium.

In turbulent times, the use of IP valuation could increase confidence in sectors where there is a downturn. Registered IP, such as patents, are a risk management tool. The valuation of IP thereof is an enhanced business tool which helps to reduce investment risk which is particularly important in hard times when investors are especially risk averse. This way we can say that the use of IP valuation methodology can **increase the willingness to invest and to regain confidence in technology advancement.**

I would like to express my sincere hopes that this two (2) day symposium will contribute to bridging the turbulent financial situation and provide new impetus for business.

Thank you for attending, Please let me wish you a fruitful professional discussion.