How valuable is your Intellectual Property?
IP breakfast seminar
Agenda

• Why value intellectual property (“IP”)?

• What is IP?

• How can you value your IP?

• How can you get the most out of your IP?

• How can you protect your IP?
Why value IP?

- Lending / licensing (media)
- Fundraising (pharma)
- Transactional context
- Corporate restructuring
- Accounting
- Understanding value creation / internal decision making

Thinking about what you can do with your IP is more important than value of IP itself!
What is IP?

**Intellectual Property**

- Intellectual Property is a catch-all term to describe a variety of different legal rights.
- Broadly, these rights attach to types of information or ideas, and how they are expressed.
- Multiple types of IP rights can attach to a single product or expression of an idea, as there are overlaps between the different forms of IP.
- IP rights can be split into two groups – registered and unregistered rights.

**Registered Rights**

- Patents
- Registered trade marks
- Registered designs
- Domain names (quasi-IP)

**Unregistered Rights**

- Copyright and database rights
- Unregistered design rights
- Unregistered trade marks
- Confidential information
Example: Mobile Applications

- Trade mark (e.g. logo)
- Copyright (e.g. source code)
- Patent (e.g. surge pricing algorithm in US)
- Registered Design (e.g. user interface)
- Confidential Information (e.g. pricing)
- Database rights (e.g. in location data collected)
How can you value your IP?

Incubation

Cost Approach

Value estimate

reproduction / replacement cost-adjusted for depreciation and obsolescence

Expansion

Income Approach

Value estimate

present value of earnings attributable to the asset or costs avoided as a result of owning the asset

Maturity / Exit

Growth lifecycle
How can you value your IP (incubation / expansion)?

Cost approach

- Used where the income from an asset cannot be reliably estimated
- Typically applied to value technology, R&D, software / databases and workforce
- What would the cost to replace the asset be / how much would it cost to reproduce the asset?
- Do we need to adjust for the obsolescence of the asset in question, when compared with the asset in the market? Identification & quantification of obsolescence is key!
- All related costs should be factored in including labour, materials, etc...
- Need to consider opportunity cost and strategic premium of getting the IP

**Pros**

<table>
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<th>Appropriately for intangibles not generating cash flows, but...</th>
<th>Fails to capture expected returns of the asset</th>
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<tbody>
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<td>Easy to implement, but...</td>
<td>Data not always readily available</td>
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**Cons**
How can you value your IP (expansion / maturity)?

Income approach – Relief from Royalty

- Measures the benefit of owning intellectual property as the “relief” from the royalty expense that would otherwise be incurred by licensing the asset from a third party
- Common methodology adopted to value patented/unpatented technology and trade names in B2C

Revenue stream for an asset → Royalty rate → Tax adjustment → Discount factor → Net present value

- Revenue stream must be aligned with IP cash flows and useful life
- What is the appropriate royalty rate? Qualitative analysis is key!
- What is the appropriate discount rate? Specific risks of an asset should be assessed.

### Pros

- Easy to implement, but...
- Captures expected future returns to the owner

### Cons

- Judgement is required in royalty rate selection
**How can you value your IP (expansion / maturity)?**

*Income approach – Residual earnings*

- Common methodology adopted to value the most important IP in a company
- Revenue stream must be aligned with IP cash flows and useful life
- What level of profitability do they generate and what are the assets (tangible and intangible) which contribute to its generation?
- What is the appropriate discount rate?

<table>
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<th>Pros</th>
<th>Cons</th>
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<td>Captures expected future returns to the owner</td>
<td>Difficult to implement</td>
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**Net present value**
Understanding value creation

Growth lifecycle:

- **Incubation**
  - From idea to seed
    - Being agile with your business
    - Using mentors to develop the business
    - Raising money using angel or VC investors

- **Expansion**
  - Early stage
    - Attracting and retaining talent
    - Scaling your product
    - Investors who can bring value
  - Growth
    - International expansion
    - Market expansion
    - Exit readiness

- **Maturity / Exit**
  - Maturity
    - IPO
    - Acquisitions
    - Compliance
Maximising value – Incentivising management

Overview
- Most effective management incentive plans (MIPs) are those that allow management to become owners in the business – management and shareholders interests are aligned!
- Effective shift in mind set from employee to shareholder.
- Payments to management based on shareholder value created.
- Forensic approach to current and potential future value of the business supports effective MIP design.

Key attractions
- Don’t need an exit strategy – MIP can be based around binary milestones!
- Tax efficient MIPs can be designed to fit HMRC approved schemes (i.e. EMI).
- Attractive mechanism to retain and reward key people – particularly early stage businesses where cash flow can be tight!

Illustration – Binary milestones

Start-up – Initial idea
Business angel
1st round funding - VC
2nd round funding - PE

Shareholder value

Time

Valuation key – Don’t give too much away!

What are the key value drivers?
How can you protect your IP?

IP Strategy

- Important to develop an IP strategy that is specific to your business – consider where the key value in your business lies, and how best to protect this.

Registration

- Consider registering certain types of IP – patents, trade marks and designs.

- However, you should consider the cost of doing so, and in respect of patents and designs in particular, is the time and cost justified in the context of the IP being protected (for example, will the market and the technology have moved on in the two years it might take to achieve the full protection of a patent).

- Register domain names as soon as possible – this is usually a cost effective protection.
How can you protect your IP?

Practical steps to protect IP other than registration

• Ensure IP isn’t created in the course of employment / another engagement, or using any employer materials.
• Contracts with employees, contractors, suppliers, customers and partners should all form part of the IP strategy of your business, and are equally important as ‘hard’ IP protections. All applicable contracts should make clear IP is assigned and belongs to the relevant business.
• Document your work, and identify the date and who contributed to the creation of it – try and maintain an audit trail where possible.
• Use non-disclosure agreements when disclosing details of ideas or innovations to external consultants or potential financial partners.
• Where practical, include notices regarding the ownership of IP when publishing material.
• Ensure that you are compliant with the scope of any licences that your business relies upon, and review the scope of any licences that you have granted to your IP.
• Maintain the distinctiveness of your IP, and be aware of infringing the IP rights of others.
Thank you! Questions?

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The Programme

5 MBA’s – consultants for a succinct project
8 Wednesday afternoons – approx: 100 hours
Meet your consultants 4 times
Final presentation and report - 22nd March
Apply by 7th December 2016
To apply

Email Sandy Purewal
s.purewal@bham.ac.uk

Deadline for application: 7th December 2016
Sofia Hansrod – Academic Enterprise Manager

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The team supports enterprise activities at the University; we advise and work with:

- Academics considering commercialisation of their research;
- Entrepreneurs and academic teams developing new companies;
- Young high-tech companies as they grow.
Innovation Competition 2016/17

Have you collaborated with the University of Birmingham?

The Enterprising Birmingham Innovation Competition has been designed to highlight and reward researchers who have identified a commercial or innovation opportunity, based on their research and have the drive and vision to transform their innovation into a commercial project.

1. Most Innovative Idea (for researchers who have an idea with commercial potential)
   First Prize £20,000 investment
   Runners Up Prizes £2,000
   (Closing date for initial expression of interest 9 December 2016)

2. Most Innovative Collaboration
   Would you like to win a prize of £5,000 to develop your collaboration?
   This category rewards academics (and their collaboration partners) who have identified a innovation opportunity based on their research and have delivered their innovation into a company/organisation, yielding demonstrable benefits.
Interested in applying?
Email: Sofia Hansrod – Academic Enterprise Manager
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Deadline: Monday 9th January 2017
University of Birmingham Business Club
Breakfast Briefing

Jessica Gillingham
D-Coded Insights,
Insights Executive
Want to learn more about facial expressions, emotions and personality?

by D-Coded Insights Ltd

£200

December 14th 2016
- 10am - 5pm
- Advantage House, Lichfield.
1. Faces

What to expect:
- Dr Paul Ekman
- Facial Action Coding System (FACS)
- Micro and Macro Expressions
- How to spot a liar in the workplace!
- Application!
2. Emotions

What to expect:
- 7 Universal emotions
- Brain Areas
- Media Validation Testing Service
- Mehrabian’s Pleasure Arousal Dominance Analysis
- Application!
3. Personology

‘Personology’ - the assessment of an individual’s character/personality from their physical appearance (primarily the face)

What to expect:
- Naomi Tickle
- Check Yourself Out!
- Application!
Come Along!

- Learn more about the science behind D-Coded Insight’s services!
- APPLY your new found knowledge to your business or industry!

14th December 2016
10am - 5pm
Advantage House, Lichfield

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BioBrum 2017

What is it?

A life science event

- Free to attend for selected companies!
- Featuring talks, networking opportunities plus a potential high-value prize!

Who do we want?

Pre-revenue, life sciences companies in need of laboratory space and business development advice

When is it?

16th February 2017

What do we require?

Expression of interest by e-mail

An application form will be released by return

The selected companies will be informed by mid-January

Preview visits to the BioHub can be pre-arranged with Dr Ewa to ensure compatibility
BiobBrum 2017

The talks
Will focus on;

- Intellectual property
  What it is, how to value it and how to protect it
- Finance
  Readiness for investment, sources of finance
- Helpful networks
  The power of professional networks
- Inspiration
  The story of a real start-up entrepreneur

The programme
Will provide;

- Practical advice
- Stimulating ideas
- Funding options

Featuring;
- IP specialists
- Finance gurus
- Inspirational entrepreneur

Presentations from BioIndustry Association and OBN
BioBrum 2017

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2017 Breakfast Briefings

Themes and dates for 2017 tbc

Workshops:

• Family Business Workshop: Succession Planning (1 March)

  A workshop designed to address some of the key issues facing Family Businesses in particular, namely, succession planning and financing.
Thank you to our speakers and for your attention