



Strategic Patent Valuation for Maximizing Potential Value

Getting the Most Value Out of Your IP Investment

Methods and Benefits of Patent Valuation

Many inventors and companies wait until they have a granted patent in hand before finally asking themselves the question, “So now what?” From lean tech startups to Fortune 100 heavy hitters, patents are granted each week in the US and abroad with questions like, what exactly are the patents good for, how much are the patents worth, and how can any value be realized? If you have invested time and money in your intellectual property (IP), these are undoubtedly the right questions to ask. The answer may be found in patent valuation.

In a historical context, patent valuation was a tool used in determining damages in the case of patent infringement. The implied value of the patent was the incremental value of the patent in a

product or service that used the technology without a license. A judge may use simple calculations provided by each side to determine proportional advantages conveyed by the novel invention, times the number of units sold, times the price (or sometime, profit margin) of the good or service and viola, you have the damages in dollars.

Today's IP marketplace is quite a bit different from the days of old. Instead of waiting for a massive company to infringe the patent claims unknowingly or willfully, savvy inventors and companies are taking a proactive approach, appealing to the innovation minded CEO or CTO to secure a license to a patent in advance of incorporating the invention into their offerings. In that case, how do you determine the value of the patent, a priori of any infringement?

Modern patent valuation techniques are designed to fill this exact need. Instead of measuring the size of the proverbial stick to bring down on infringers, you weigh the size of the carrot you can offer to future partners. In this context, patent valuation becomes an instrumental business tool to determine the sort of negotiating power you hold in your IP portfolio and what price you should hold out for in a M&A scenario.

Moreover, a robust patent valuation will also serve a key decision making tool. The best patent valuations today model the value of a patent license in several key markets. This allows the holder of the asset to determine which markets are most valuable. Insight into the value of the technology in different markets can lead you down lucrative paths that were unforeseen.

Valuation of IP assets may also serve as a key tool for financial analysis. When considering fundraising, asset based lending or other types of monetization, IP valuation provides a yard stick as to the expectation of value, and potential return on investment for generating or acquiring the IP.

The Future of IP Valuation

Traditionally, IP valuation has been practiced by sophisticated analysts who gather market data, assess the technical strengths of the patents, quantify the risks associated with monetization, and calculating a simulated licensing value over the useful life of the patents. The next generation of IP valuation increasing relies on robotic process automation (RPA) to increase the speed and

accuracy of patent valuation by using custom software robots to automate the workflow of gathering market data, assessing the patent portfolio, and comparing the subject portfolio to other transactions to generate a value range based on an artificial intelligence algorithm.

It is likely that in the near future, IP companies will use custom built software robots to automate the workflow of patent monetization, itself. This transformation will take the heavy lifting of searching for prospective buyers and developing a licensing deal largely out of the hands of humans. Instead, RPA will develop a targeted outreach to develop relationships with high probability buyers, looping humans only when success is all but guaranteed.

How Does IP Generate Value?



There are many ways to derive value from intellectual property. The practice of generating income from an IP portfolio is called monetization. In order to estimate the potential income that may be generated by monetizing an IP portfolio, a methodology that models the income streams over time must be used. Therefore, to determine the value of an IP portfolio using a given monetization path, the value must be assessed using value model methodology consistent with the assumption of that monetization path.

Specifically, a few of the potential monetization paths for a given IP portfolio include the following:

- **Operating on the claimed technology of the IP** – the most direct way of monetizing an intellectual property assets is by operating on the claimed technology. The claimed technology may be, for example, product improvements which may support a premium sale to customers, efficient business processes that may lower costs, or unique business models which provide of competitive advantage to the patent owner. Operating on the claimed technology of the IP depends on competitive business processes and unforeseeable market conditions, tempering the value with a considerable amount of risk. As the value is extracted through sales to individual customers, this method of monetization also requires the most effort to effectively facilitate by the asset holder.
- **Patent Licensing Income** – One common path to monetizing IP is by licensing the IP (patents, trade secrets, knowhow) to a licensee to generate royalty payments collected by the licensor over a term. In exchange for the royalty payments, the licensee may sell products and services that utilize the technology taught by the IP portfolio. This may be desirable to the licensee by giving them, for example, a competitive advantage that may allow them to, for example, increase sales, increase prices, lower costs, attract more investment, etc. In such a transaction, the licensor retains ownership of the intellectual property, and may still be able transfer, sell, and/or operate on the technology claimed by the subject IP.
- **Patent Litigation Damages Income** – Another path to monetizing IP is asserting the patent portfolio against a party suspected to be infringing the patent. Patent infringement is the commission of a prohibited act with respect to a patented invention without permission from the patent holder. Permission may typically be granted in the form of a license. The definition of patent infringement may vary by jurisdiction, but it typically includes using or selling the patented invention. Only granted patents may be considered for the purpose of patent infringement litigation, as ungranted patent applications do not convey rights to the claimed technology. If a party is found to be guilty of infringement, the court may assess damages to the prosecuting party, requiring the infringing party to pay

a lumpsum or per-unit-sold royalty to the patent holder. In cases where the evidence of infringement is substantial, or the effects of litigation on the business are substantially negative, the prosecution and defense may agree to a settlement outside of the courts.

- **Patent Sale** – Patents, like other assets, may be bought and sold on the open market for a price that is agreed upon by both the seller and the buyer. Buyers in such transactions may wish to derive value from the patents via relief from royalty if the patent claims relate to their business operations, or they may wish to exercise any of the other monetization paths for the IP portfolio. The seller may wish to use the proceeds of the sale for business operations, or in some cases may be liquidating all assets of a financial entity.
- **Liquidation Value** – Patent liquidation is a type of patent sale. The liquidation value approach assumes a worse-case scenario of asset sales, that is, a sale in the event of a bankruptcy event forcing liquidation of all assets. Liquidation value is only an appropriate estimate of value given a bankruptcy sale of the assets, e.g. ownership of the subject portfolio belongs to a business filing for Chapter 11 or Chapter 7 bankruptcy. In such a scenario, the insolvent company performs or hires a liquidator to perform due diligence on the intellectual property. The liquidation value of an IP portfolio will be its lowest assessment, as the assets and seller are considered “distressed,” i.e., in an unfavorable negotiation position.
- **Asset Based Lending** – Asset-based lending is any kind of lending secured by an asset. In such a model, the patents are used as collateral for a loan to the patent owner. If the loan is not repaid, the asset is taken by the lender. Asset-based lending is usually done when the normal routes of raising funds is not possible, such as the capital markets (selling bonds to investors) and normal unsecured or mortgage secured bank.

The above list of paths to monetizing IP portfolios is by no means exhaustive. It does, however, give an overview of the most common paths of deriving value from such assets, which thereby informs the process of estimating the value through a mathematical model.

Each of the paths imply various strengths and weaknesses, which may be accurately described as trade-offs between expediently deriving monetary value from the patents and maintaining

control of the patents. For example, by *operating on the claimed technology of the IP*, the patent owner retains all rights to the patents. However, receiving monetary reward will require successfully selling a product or service to customers, thus the value will be derived through tens, hundreds, thousands, or even millions of successive smaller transactions, increasing the risk for the patent holder. *Patent Litigation* has the potential to provide monetary rewards to the patent owner in a relatively expedient manner, however, this method carries the implicit risk that external parties (e.g. the defendants) may or may not be infringing the claimed technology, the presiding authority of the litigation may or may not find the infringing party guilty of infringement, and if found guilty, the infringing party may or may not have sufficient funds to pay the damages in full. *Patent Licensing Income* may require the patent holder to attract on a single licensee to begin deriving value from the IP, however, to do so they must grant the right to operate on the claimed technology to the licensee over the term, and implicitly take on the risk that the licensee may not generate sufficient revenues to pay the royalty. *Patent sale* allows the total value of the IP portfolio to be transferred to seller in a single transaction, however, the seller loses all rights to pursue any other paths to monetization (without specific considerations from the buyer allowing them to do so). *Asset Based Lending* may provide rapid monetary value to the patent owner and maintain control over the patents given that the loan is repaid, but allows the lender to retain ownership of the patents in the event the loan is delinquent.

Strategies for Enhancing Value

Simply put, enhancing the value of IP means demonstrating compelling evidence that the IP can generate additional income using one of the above strategies. For example, if competitors are likely currently infringing your patents, the best approach is to execute an evidence of use (EOU) study to compare competitor's products, services, and methods to your patented technology.



Commonly, these types of EOU searches are performed by experienced IP professionals. Increasingly, firms like ipCapital Group are using robotic process automation to augment EOU searches, by gathering more comprehensive data sets using customize WebCrawler and allowing the search to be automatically iterated over time to detect any new evidence of use art for consideration.

Beyond EOU, the most surefire way to enhance the value of an IP portfolio is by expanding it with new filings, continuations, and trade secrets. At one level, patents expire in a fixed time frame, making the value depreciate as the technology reaches its end of life. At another level, growth of the portfolio overtime indicates an innovation strategy that can achieve value multiples over a static bundle of technology assets.

The Moving Target of Technology Value

Changes in the environment of intellectually property rights have caused shifts in the value of patents that are important to consider. For example, changes in the legal casework of IP rights,

such as *Alice Corp. v. CLS Bank International*, may change the patent eligibility requirements, making previously granted patents risk for invalidation. Thus, in order to truly understand the value of IP, one must consider the claimed technology in light of events-based pressures which may effect enforcement of the IP rights.

Changes in the Supreme Court are just one of many event-based factors that affect the value of patents. Perhaps the most profound constraint on value is the size of target market. Patents directed at rapidly growing industries, well established cornerstones of the economy, or innovative new ideas with a massive potential market are more likely to see high valuations that incremental improves in small to medium industries. To maximize value, the most important consideration is aligning the portfolio with the largest possible market.

One way of realigning a patent portfolio with a high-growth market is by filing a considerable amount a provisional patent applications directly focused on serving that market. By combining this proactive filing strategy and signaling the pivot to the market with press releases, the company that holds the portfolio can demonstrate a profitable trajectory for the IP portfolio.

Aside from the size of the total market to which the IP is directed, the appetite of the potential buyer will have the next greatest impact on value. While many companies see the intrinsic value of strategic technology acquisition, there are many prominent companies who abhor any innovations which might be considered “Not Invented Here”. By gaining an understanding of potential acquirers tastes, preferences, negotiation strategies, and M&A activity, it may be possible to ensure I high probability of success.

Conclusions

There is much to be gained but understanding the value of your IP, from the most lucrative markets where the IP could be monetized, to the specific risks that effect the value. Truly, one of the first steps to getting value out of a patent or technology portfolio is having a clear vision of the quantitative, numerical value therein. It is likely that no inventor or company could realistically discover these for themselves without a long history of objective IP monetization experience.

That is why more often than not, IP is valued by a third party, who can bring both the experience of hundreds of successful IP deals and an unbiased scrutiny of the technical details. This fresh perspective has proven time and time again to reveal profit centers previously unforeseen, by force of knowledge, experience, dedicated research, and ultimately detachment from the outcome. Moreover, the patent marketplace is a living ecosystem with both natural and invasive species, and the valuation experts role is much like the role of naturalist in a rainforest – identifying the pattern of behavior and the function that it serves, to understand how changes in the environment will cause changes in studied subject, and to devise a strategy that will help the subject proliferate – or bring the most value to – its surroundings.



ABOUT IPCAPITAL GROUP

Innovation and IP Consulting. Maximizing results.

ipCapital Group (ipCG) is an intellectual property (IP) and innovation consulting firm, in business since 1998.

ipCG has delivered over 850 successful innovation and IP engagements, including to over 15% of the Fortune 500, in a wide range of industries.

Our interdisciplinary team of consultants and advisors are focused on maximizing our clients' financial results. We combine our world-class human capital with our proprietary tools and methodologies around innovation, invention, and IP.

To best achieve their business objectives, ipCG is flexible in how ipCG partners with clients in engagements such as:

- Management consulting
- Innovation & invention programs
- Monetization strategy & execution
- Software for managing IP & innovation

Vision: ipCG aspires to be a pioneer in the field of innovation and IP, thereby giving our clients an unparalleled advantage in their diverse businesses. Today, ipCG is pivoting to use AI in everything we do to become more accurate and deliver faster results.

Mission: ipCG is focused on maximizing financial results for our wide range of clients. We combine our world-class, interdisciplinary team with our proprietary tools and methodologies around innovation, invention, and IP. We are flexible in how we partner with clients to best achieve their business objectives.

ABOUT THE AUTHORS



John Cronin

Chairman and Managing Director, ipCapital Group

John Cronin is Managing Director and Chairman of ipCapital Group, Inc. ("ipCG"), an intellectual property consulting firm. Mr. Cronin founded ipCG in 1998.

ipCG represents the largest IP strategy consulting team in the world. Capitalizing on a lifelong study of creative and inventive thinking processes, business strategy development, and transaction negotiations, Mr. Cronin has created a unique consulting ipCapital System™ Methodology. This methodology includes powerful data-driven IP Strategy processes which lead to a full Intellectual Asset Management program (IAM). This program provides ipCG clients with unique IP Creation Services for invention extraction, creation, and documentation, along with world-class IP Valuation, licensing and transaction processes. The ipCapital System Methodology provides for extraction and documentation of inventions, identifying opportunity and risk, driving transactions to completion, and creating significant market value from IP.

Mr. Cronin has worked with over 750 companies and approximately 15% of the Fortune 500, hundreds of mid-size companies and hundreds of startups and governmental laboratories. Over the years, he has become a respected thought leader among executives who wish to align business issues with IP and translate strategies into actionable financial results. Mr. Cronin has inspired and trained thousands of engineers and scientists in the best practices of "how to invent."

Prior to forming ipCG, Mr. Cronin spent over 17 years at IBM and became its top inventor with over 100 patents and 150 patent publications. He created and ran the IBM Patent Factory, which was essential in helping IBM become number one in US patents and lead the team that contributed to the startup and success of IBM's licensing program.

Mr. Cronin is also on the Board of Directors of Imaware. He holds a B.S. (E.E.), an M.S. (E.E), and a B.A. degree in Psychology from the University of Vermont.

Contact Info :

E: jcronin@ipCG.com

T: +1 (802) 859-7800 x210

M: +1 (802) 238-9854



Seth Cronin

Manager, ipCapital Group

Seth Cronin began inventing at an early age, filing his [first patent](#) at age 14, assigned to S.C. Johnson.

Seth continued to pursue intellectual property through university, working part time for the prior art research firm Article One Partners. After earning a B.Sci. (Economics) from Northeastern University in 2013 Seth joined ipCapital Group.

He has since drafted hundreds of patent disclosures in diverse technologies including wearable devices, medical devices, food products, home automation, real estate, 3D printing, cannabis/botanical extraction, industrial carbon sequestration, advanced materials, and others.

Additionally, Seth has led dozens of successful consulting engagements including patent analytics, patent valuation, trade secret protection programs, ipStory for investors, freedom to operate, and more for clients ranging from tech startups to Fortune 500 companies. In each engagement he strives to combine quantitative analysis with qualitative knowledge of inventing and intellectual property strategy.

Seth is an inventor of over 70 published patents and applications.

Contact Info:

E: scronin@ipcg.com

T: +1 (802) 859-7800 x290

M: +1 (802) 578-3362