



# 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 U.S. and abroad, raising questions to their owners 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 patents, these are undoubtedly the right questions to ask. The answers may be found in patent valuation.

In a historical context, patent valuation was a tool used to determine damages in cases of patent infringement. The implied value of a patent was the incremental value of the claimed invention in a product or service that used the technology without a license. A judge in a patent litigation may use data provided by the defendant and plaintiff to come to a final determination for the apportionment of value the patented invention has of the product or service in the case and then multiply this apportionment percentage by the price (or, sometimes, profit margin) and then multiply it by the units sold to come up with a final damages assessment.

Today's Intellectual Property (IP) marketplace is quite a bit different from the days of old. Instead of waiting for a large company to infringe the patent claims (either unknowingly or willfully), savvy inventors and companies are taking a proactive approach, appealing to the innovation-minded CEO or CTO of a potential user of the IP to secure a license to a patent in advance of incorporating the invention into their offerings. But, in this case, how do you determine the value of the patent, a priori of infringement?

Modern patent valuation techniques are designed to fill this exact need, providing a method of valuing patents without an infringement case. 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 related to your IP portfolio and helps determine what price you should hold out for to extract a license or further to determine the value of your IP portfolio for a potential merger or acquisition.

Moreover, a robust patent valuation can be used as a key decision-making tool. The best patent valuations today model the value of a patent license in several of the key markets in which the patents may claim a technological benefit. A patent on secure communications, for example, may be valuable in military, healthcare, finance, and other sectors of the economy. These valuation models allow the holder of the patents to determine which markets are most valuable. Gaining insight into the value of the technology in different markets may actually lead you to understand unique lucrative monetization paths that were previously 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 same way a real estate appraisal may be needed to value a real property before taking out a home equity loan, a patent (intellectual property) valuation may be needed to determine potential value. This potential value could be used, for instance, before securing an asset-based loan that uses patents as collateral.

## **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 calculate a simulated licensing value over the useful life of the patents. The next generation of IP valuation will increasingly rely on robotic process automation (RPA) of the valuation method to increase the speed and accuracy of patent valuation. Examples of using RPA may include using custom software robots to automate the workflow of gathering market data, assessing the patent portfolio, automatically comparing the subject portfolio to other transactions, and automatically generating a value range. These next generation IP valuations programs would use artificial intelligence algorithms that become trained on hundreds of use cases.

It is likely that in the near future, IP valuation models will use custom built software robots to automate the workflow of patent monetization itself. This transformation will take on the heavy lifting of searching for prospective licensees and developing a licensing deal, without using human involvement. AI assisted RPA will develop a targeted outreach to develop relationships with high probability licensees, getting humans in the loop 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 a valuation methodology consistent with the assumptions of that monetization path.

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

### Monetization Paths

- **Operating on the claimed technology (using your own patents on your own products or services)** – The most direct way of monetizing intellectual property is by selling products or services related to the technology. The patents provide a temporary monopoly (20 years) on product improvements. Assuming the improvements are valuable, a customer

may be willing to pay a premium price for the product, and the patents will prevent competitors from copying the product. Similarly, a patent may provide a temporary monopoly on an efficient business process that may lower costs, or may be used to create unique business models which provide competitive advantage to the user of the IP. However, it should be noted that this path to monetization exposes the patent owner to all the typical risks associated with running a business, such as market conditions, customer demand, supply-side risk, management, and labor, to name a few. Since the value is extracted through sales to individual customers, this method of monetization also requires the most effort 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 claimed 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 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 use of 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 making, 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 are not possible, such as the capital markets (selling bonds to investors) and normal unsecured or mortgage secured bank loans.

### Other Paths to Value

- **Leveraging Use of the IP for M&A** – One of the most strategic uses of IP is to increase the negotiation leverage in a merger or acquisition. Patents and trade secrets demonstrate that the seller has proprietary technology, meaning the acquirer cannot simply shop elsewhere and get access to the same advantages.
- **Leveraging Use of the IP for enhancing valuation for financing** - Patents are also a great way to signal a premium valuation for financing events, such as seed rounds and IPOs.

Potential investors can investigate the public patent portfolio and evaluate the strength of the claims, as well as the potential value to the market.

- **Leveraging Use of the IP for shareholder value (brand)** - IP can also be used as a strategic branding tool, which can provide confidence to shareholders. Shareholders may have more confidence in the company’s ability to innovate and protect innovations.
- **Leveraging Use of the IP for marketing** - IP may also be used as a competitive marketing strategy. Customers may view a “Patented Technology” as a unique differentiator for selecting one brand of products over another.

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 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.

The other paths to value also convey notable tradeoffs. For example, *Leveraging Use of the IP for M&A* can provide significant payout to the seller, however, they may have to forfeit control of the business and any future cashflow associated. *Leveraging Use of the IP for enhancing valuation for financing* may increase the company's valuation in some markets, offering favorable share value, however, some investors may view IP as needless costs, especially in low-margin industries. *Leveraging Use of the IP for shareholder value (brand)*, similarly, will greatly depend on the shareholders appetite for IP, and potential aversion to fees associated with the patent process. *Leveraging Use of the IP for marketing* may invite competitors to closely examine the patent portfolio and figure out ways of “inventing around” or “inventing on top” of the patents.

## **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 there is a high probability competitors are currently infringing your patents, the best approach is to perform 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 and some are using robotic process automation to augment EOU searches by gathering more comprehensive data sets using custom WebCrawlers and allowing the search to be automatically iterated over time to detect any new EOU in the public record for consideration.

Beyond EOU, the most surefire way to enhance the value of an IP portfolio is by expanding the IP Portfolio with new filings, continuations, and trade secrets. This can increase the value of the portfolio in at least two ways. First, it expands the life of the IP Portfolio as patents expire in a fixed time frame (20 years from date of filing in the US), making the value depreciate as the technology reaches its end of life and enters into the public domain. Second, it grows the size of the IP portfolio overtime, which can indicate a growing “innovation strategy” (e.g., you continue to innovate in your market) which can add to value, many times achieving multiples over a static bundle of technology assets.

## The Moving Target of Technology Value

Changes in the environment of intellectual 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 at-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 affect 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 the 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 than incremental improvements 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 of provisional patent applications which directly focus 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 a potential acquirer’s tastes, preferences, negotiation strategies, and M&A activity, it may be possible to ensure a higher probability of success.

## Conclusions

There is much strategic knowledge to be gained by understanding the value of your IP, beyond a simple expected price range. This knowledge extends from the most lucrative markets where the IP could be monetized, to the specific risks that affect 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, and the specific assumptions that must be considered in order to calculate that value. By understanding how patent valuation operates, you can strategically align your portfolio for the highest possible valuation. 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 naturalists 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.



*Thank You for Reading*

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## 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 1000 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.

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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.

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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.S. (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 engagements he strives to combine quantitative analysis with qualitative knowledge of inventing and intellectual property strategy.

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