

# Globalview Advisors

Financial Valuation and Advisory Services

Irvine • Los Angeles • Boston • London

## **Panel on IP Valuation** *How Much is it Worth?* *How Much Can You Get?* *How Can You Protect It?*

**Orange County Bar Association (OCBA)**  
**Newport Beach, California**

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**Globalview Advisors LLC**

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# Michael Haghghat, Founder and Managing Director



- Michael is the Founder and Managing Director of Globalview Advisors LLC, an international firm with offices in Irvine, London, Boston, and Los Angeles focusing on valuation of companies and their IP assets. Michael has over 35 years of financial valuation and transaction advisory experience. He has rendered numerous valuations of businesses, intangible assets, and debt and equity instruments for financial and SEC reporting, corporate tax planning, mergers and acquisitions, gift and estate tax planning, litigation support, and restructuring and bankruptcy. In addition, Michael has rendered fairness and solvency opinions in connection with various transactions, and has assisted buyers and sellers of businesses and intellectual property assets with merger and acquisition, and licensing transactions. Beckman Coulter, Broadcom, J.D. Power, Masimo, Newport Corporation, and Teledyne Technologies are some of the marquee names Michael and Globalview have worked with. Michael's experience is international in scope, and in addition to the U.S., includes the U.K., Australia, Belgium, Canada, China, France, Germany, Singapore, South Africa, and various other countries.
- Michael received his MBA from Northrop University in California and his BS in Civil Engineering from Drexel University in Pennsylvania. He is an accredited senior Member of the American Society of Appraisers (ASA) in the business valuation discipline.

# How Much Is It Worth?

- Context matters.
- What is the purpose of the valuation?
  - Transaction negotiations
  - Financial / tax reporting
  - Litigation
  - Financing
  - Other
- What is being valued?
  - Technology or Patents embedded in the technology
  - Brand or Tradename / Trademark
  - Entire business or only its IP
- What is the standard of value?
  - Fair market value for tax reporting
  - Fair value for financial reporting
  - Fair value for statutory purposes
  - Damages for litigation purposes

# Means of Generating Value from IP Holdings

- How to derive value from an IP asset?
  - Direct Cash Flow Generation
    - Direct exploitation of the IP through building products/services/business around it
    - Sale or licensing of the IP
    - Enforcement
  - Defensive Value—Even by not exploiting an IP asset (i.e., by merely owning it), it may be possible to add value, for example, by:
    - Minimizing the negotiating power of customers
    - Offsetting supplier power
    - Mitigating rivalry
    - Raising barriers to entry by competitors
    - Reducing the threat of substitutes

*Source: World Intellectual Property Organization, IP Valuation Module 11*

# IP Related Business Models

- With the increasing importance of IP, there are a variety of different business models that involve IP including:
  - **Traditional IP** (patent and technology) development companies (manufacturers)
  - **Non-Practicing Entities a.k.a. Patent Assertion Entities (hold IP to license)**
    - Licensing agents
    - Litigation finance and investment firms
  - **Patent pools**—formed by operating companies to reduce risk of patent litigation
  - **Intermediaries**
    - Patent brokers and auction houses
    - Online patent and technology exchanges
    - Royalty stream securitization firms
    - Patent-based M&A advisory firms

# Non-Practicing Entities (NPEs)

- **Non-Practicing Entities (NPEs)** are entities that primarily hold an IP portfolio in order to generate licensing or litigation revenues.

- **Publicly traded NPEs** in the U.S. include:

Acacia Research  
Wi-LAN  
RPX

Interdigital  
Unwired Planet  
Marathon

Vringo  
Tessera  
Parkervision

VirnetX  
Rambus  
Pendrell

- As NPEs hold IP but do not “operate” similar to many business enterprises, they can provide useful insights on IP related developments.
- Some NPEs are failed business with little left but patents to enforce against the companies that drove them out of business.

# NPEs: Overview of Sovereign Patent Funds (SPF)

- Sovereign patent funds represent another fairly recent development in the world of IP. SPFs are patent aggregation entities set up with government funding with an intent to further national economic goals. Like NPEs, SPFs have also been subject to criticism by certain parties.
- Examples include:
  - Industrial Technology Research Institute (ITRI) in Taiwan
  - Innovation Network Corporation of Japan (INCJ)
  - France Brevets—France
  - Ruichuan IPR Funds—China
  - IP Bridge—Japan
  - Intellectual Discovery—South Korea

# NPEs: University Foundations

- Wisconsin Alumni Research Foundation (WARF)\*
  - 161 patents granted in 2015
  - More than 1,700 patents in portfolio
  - Since its' founding, WARF has provided \$2.3B in grants to the University of Wisconsin – Madison
  - WARF v. Apple: July, 2017
    - U. of Wisconsin awarded \$506M “\$4.35 apiece for millions of iPads and iPhones”\*\*
- Universities are generally more successful than other NPEs for 1998-2017\*\*\*
  - 47% overall success rate

\*University of Wisconsin News: “WARF, UW-Madison again rank in top 10 universities for patent grants?”  
David Tenenbaum, August 12, 2016

\*\*Joe Mullin, ArsTechnica–July 26, 2017

\*\*\*Pwc: 2018 Litigation Study

# NPEs: Recent Developments

- NPEs are struggling to make money\*
- Contributing factors include:
  - Increased willingness to fight suits by those being sued by NPEs
  - Courts less sympathetic to NPE lawsuits
    - Less likelihood of an injunction to stop selling product with alleged infringement.
    - Potential requirement to reimburse expenses of alleged infringing party (Conversant (a private NPE) lost a case against Apple in the Eastern District of Texas and was ordered by the court to pay costs of just over \$736,000.)
    - Elimination of Rule 84 and Form 18 pleadings, requiring litigants to demonstrate that their claims are plausible (December 2015).
    - Restriction on NPEs' ability to "forum shop" their cases to patent-friendly jurisdictions like the Eastern District of Texas. (TC Heartland, 2017) .

\*Patent Trolls or Patent Elves? Evidence from Publicly-Traded Patent Assertion Entities, (2018) Noel Maurer & Stephen Haber, Working Paper No. 17003, p.13

# IP Portfolio Sales Transactions—Introduction & Examples

- **Operating companies are increasingly recognizing the benefits of holding broad IP portfolios:**
  - Licensing income
  - Reduce risk of lawsuits (by owning patents reduce risk of legal action by NPEs)
  - Defensive value
- **Some examples:**
  - In mid-2011, Nortel Networks Corp., the defunct Canadian telecommunications giant, auctioned off its portfolio of 6,000 patents for \$4.5 billion from a group including Apple and Microsoft.
  - Google purchase of Motorola Mobility for \$12.5 billion. Transaction included 17,000 patents and 7,500 applications plus phone business.
  - In January 2013, Eastman Kodak sold its digital imaging patent portfolio for \$525mm.
  - Acacia Research Corp January 2012 acquisition of ADAPTIX, Inc. and its 4G mobile technology patent assets for \$160mm.

# IP Portfolio Sales Transactions—More Examples

- Microsoft's April 2012 purchase of 800 patents and non-exclusive license to 300 more from AOL Inc. for over \$1.0 billion.
- Intel—three acquisitions in 2012 with over \$500mm paid.
- Nokia sells 500 patents to Vringo in 2012 for \$22M.

# Increasing Importance of IP Licensing

- Firms are increasingly recognizing the value from their IP portfolios
- IBM increased patent licensing royalties from **\$30 million in 1990 to \$1.2 billion in 2017**
  - One-eleventh of IBM's 2017 annual pretax profit (of \$13.9B).
  - Based on IBM profit margins, that would require ~\$16 billion of incremental revenue (~20% of existing global revenues) .
  - In 2017, IBM announced it was its 25th year of leading the US in the number of patent grants with 9,043 issued.
- Still, licensing revenue is **hard to predict** year to year
  - Revenue is often received in chunks from large deals.
  - Licensing revenue of Ericsson (-\$622M), Nokia (-25%) and Microsoft (-25%) dropped in 2016.

\*iam-market.com blog "Top licensors Ericsson, Microsoft and Nokia all see drop in year-on-year patent revenues"

# Example of IP Licensing Operations—AT&T

- AT&T's Intellectual Property arm is the often unheralded, but important organization working behind the scenes to protect and preserve innovations on new-generation applications and enhanced services for businesses and consumers. And, it may be the industry's best kept secret.
- AT&T Intellectual Property is one of the world's largest intellectual property operations, with a heritage of innovation that dates back more than a century to Alexander Graham Bell. AT&T owns one of the strongest patent portfolios in the telecommunications industry and consistently ranks in the top 25 companies each year in obtaining new U.S. patents.
- In addition to building and protecting a large portfolio of intellectual property assets, AT&T Intellectual Property manages a vigorous intellectual property licensing and sales program. AT&T activities include [patent sales](#), [patent licensing](#), [technology licensing](#) and [brand licensing](#).
- AT&T's philosophy is that strong, fair management of intellectual property is critical to fostering continual innovation. Our licensing program is focused on maximizing access to AT&T innovations, while also ensuring that investments in research and innovation are valued fairly and appropriately.

# Measures of IP Importance

- **Revenue and cash flow generation tied to IP**
- Royalties or license fees received
- **Availability of commercially viable alternative**
- Replacement cost of IP including time, expense and level of effort
- Knowledgeable parties
  - Outside IP counsel
  - Internal counsel
  - CIO
  - CTO

# Patent Ranking for Large Patent Portfolios

- Many firms will hold hundreds or even thousands of patents and patent applications. This creates a need to focus IP procedures on most important IP elements. Key considerations include:
  - **Patent life**
  - Priority date of the patents
  - Litigation history
  - International coverage
  - How often a patent is cited
  - **Coverage and breadth of the claims**
  - **Size of the potential market covered**
  - **Ease of design around**
  - Threat of patents ending up being owned by a competitor
  - Potential issues related to patent exhaustion

# Other Factors Impacting Value

- Where does the IP and technology lie on the product life cycle?
- What's the product/technology **roadmap**?
- Will the technology outlive the patents?
- Commercial life of technology **may** or **may not** exceed the life of underlying patents
  - Product architecture may not become obsolete
  - Product trade secret knowledge may extend a technology's competitive advantage
  - New technology and patents within the same architecture may extend the useful commercial life of a product
  - New applications for existing technology extend its useful life
- What is the adoption rate for new technology?
- How do 3rd party patents affect the adoption of new technology?

# IP Valuation Examples

- Financial Reporting
  - Typically, five categories of intangible assets apart from goodwill, some of which are IP assets
  - These include marketing, customer, artistic, contract, and technology-related intangible assets
  - Determine the primary intangible asset (example: technology)
  - Value the technology through a discounted cash flow analysis (known as a multi-period excess earnings method) allowing as an expense an economic return for the use of other assets employed to generate the cash flows

# IP Valuation Examples

- Tax Reporting
  - Example: Tradename valuation
  - Typically valued using a relief from royalty approach
  - Key factors to assess include revenue projections, the projections period, the royalty rate, and the discount rate
- Transaction Negotiations
  - Example: Game changing medical device innovation
  - Valuation model includes an assessment of the size of total available market, percentage impacted by the innovation, competitors' revenues and profits in the segment, ability to generate additional revenues or increase profit margin due to the innovation, and determination of an appropriate royalty rate based on industry standards, and assessment of the above factors

# IP Valuation Examples

- Valuation of lump sum payment or upfront payment plus ongoing (or minimum) royalties based on amount per unit sold or percentage of revenues
- Litigation
  - Reasonable royalty
  - Lost profits

# Royalty Rates—Market Transactions— Commercial Databases

- Royalty Source—[www.royaltysource.com](http://www.royaltysource.com)
- Royaltystat—[www.royaltystat.com](http://www.royaltystat.com)—full documents, good search capability
- Licensing Executives Society surveys
- Licensing Economic Review (Smith & Parr)—[www.ausinc.com](http://www.ausinc.com)
- Financial Valuation Group—[www.fvginternational.com](http://www.fvginternational.com)
- PLX Systems—[www.pl-x.com](http://www.pl-x.com)
- Consor Intellectual Asset Management (Wes Anson)—[www.consor.com](http://www.consor.com)
- IPRA, Inc.—Intellectual Property Research Associates—[www.ipresearch.com](http://www.ipresearch.com)
- ktMINE—[www.ktmine.com](http://www.ktmine.com)
- Licensing Royalty Rates 2008 Edition, Gregory Battersby, Charles Grimes
- Lexis Nexis—SEC Filings

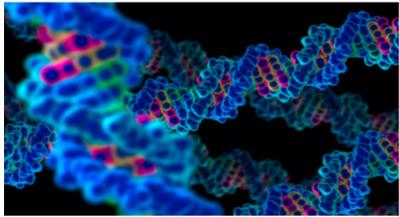
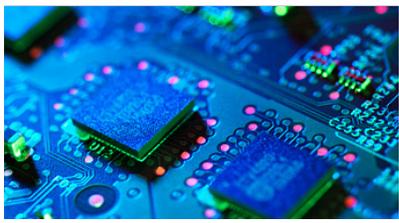
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# Questions