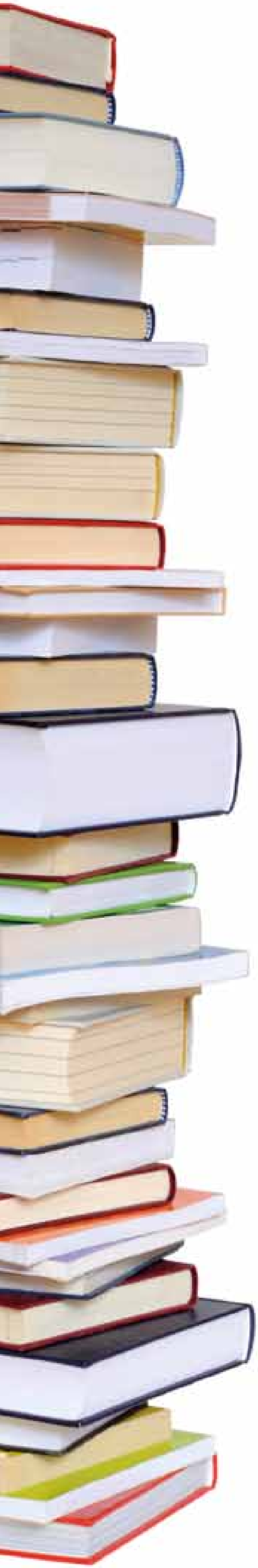

The value of your intellectual property

When to assess it and how

Intellectual property (IP) assets are often engines of business growth and value creation in the TMT sector. Here we look at some cases when estimating this value is important, and a selection of relevant valuation methods.

Why and when to value intangibles

This list is by no means exhaustive, but it shows the wide range of situations that may require a valuation.

- **Business expansion strategies** may include organic growth, partnering, acquisitions, licensing, etc. The IP assets of either partner may be part of the transaction and will affect its value.
- **Legal and tax business structuring:** as a business grows, the protection of IP assets and efficient structuring may require intragroup transactions of the assets, which in turn will require supporting valuations.
- **Strategic investment decisions** may be based on investment analysis applied to IP assets or portfolios of such assets.

How to value intangibles

While the broad principles of valuing intangibles are similar to valuing other assets, intangibles have economic characteristics that lead to more complex application of valuation methods:

- The relationship between cost and value is often weak (large fixed costs of development and uncertain returns).
- Value is scalable (and returns to scale may be increasing): the same asset may have a different value when used by a large business compared to a small one.
- Non-scarcity: if an intangible asset is transferred to a buyer, it may still be used by the seller.
- Value can be eroded quickly (e.g. through IP infringement) – protecting it through legal means, such as insurance, is important.

The most usual approaches used in valuing intangibles are income methods. They aim to isolate the income generated by intangible assets and discount it at a risk-adjusted rate.

- **Premium profits/cost savings:** based on discounting future profits or cost savings generated by an intangible asset (e.g. brands, process technologies)
- **Excess earnings:** based on discounting future profits in excess of normal returns on all other assets used in earning the income stream (e.g. customer contracts)
- **Relief from royalty:** based on discounting future royalty savings achieved by not in-licensing the asset (e.g. brands, patents)
- **Real options:** techniques derived from the valuation of financial instruments and applied to cases where several decision points and contingent scenarios are possible (e.g. pharmaceutical compounds)

Market and cost-based valuation methods are also relevant in specific cases:

- **Real options:** techniques derived from the valuation of financial instruments and applied to cases where several decision points and contingent scenarios are possible (e.g. pharmaceutical compounds)
- **Replacement cost:** relevant for intangible assets that can be replaced relatively quickly with assets of equivalent functionality assets (e.g. internally developed software packages).
- **Market values:** relevant for assets that are transacted individually (e.g. domain names, certain customer databases, software packages).

Conclusions

An IP valuation, just like a business valuation, cannot be performed in a vacuum. However, when linked to a clearly defined business need, and to a realistic set of assumptions and forecasts, it can be a valuable supporting tool in business strategy.

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