

## Raising finance using IP assets: *Results of a recent European study*

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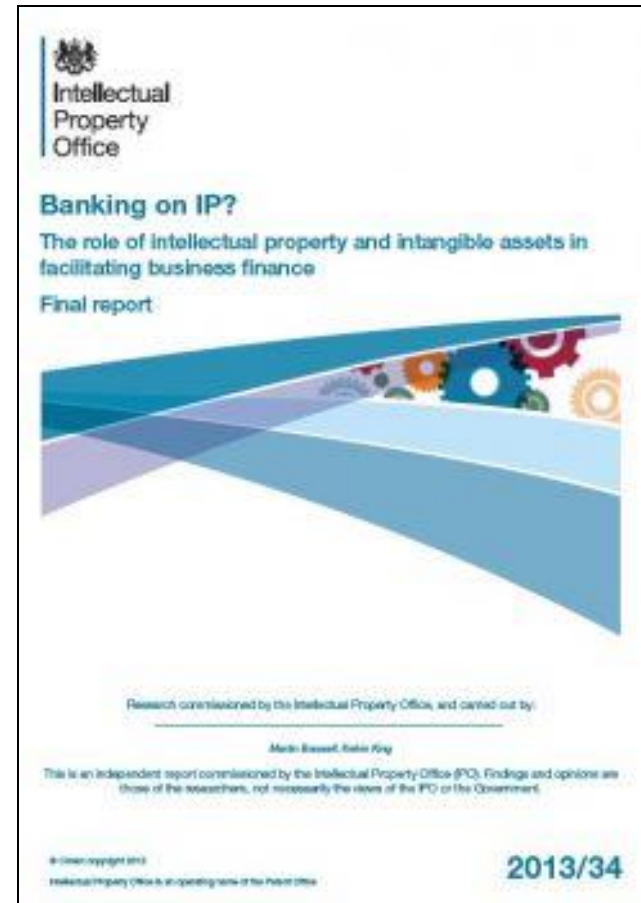
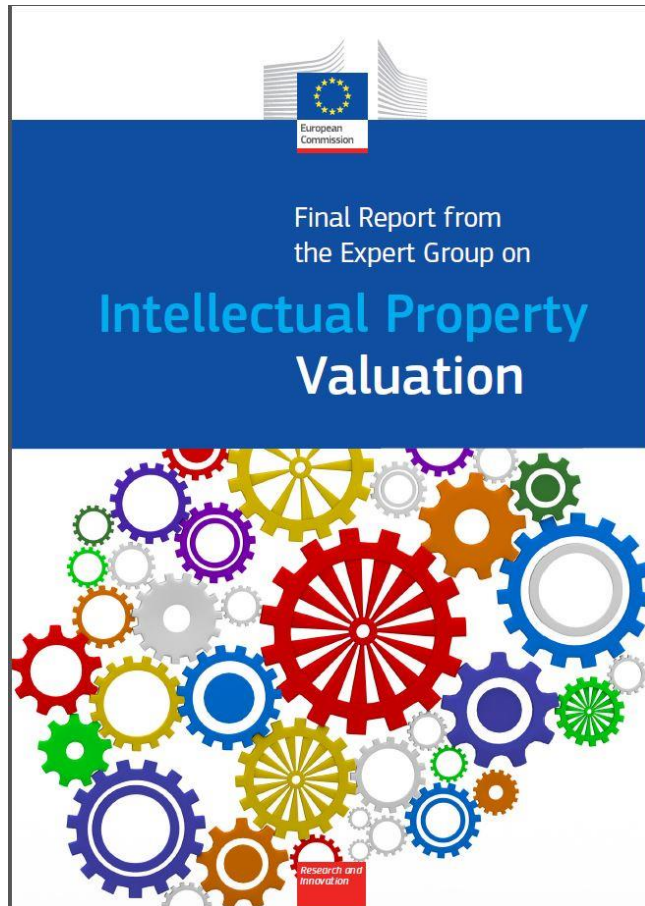
# Specific economic aspects:

- Raising finance using IP
  - IP as an asset in equity financing.
  - IP as collateral for loans.
- IP valuation as an enabling process.

# Imagine the „big picture“

- IP rich enterprises looking for capital will approach financiers.
- IP is valued.
- IP is accepted as an asset in the accounts of an enterprise.
- IP assets are accepted as collateral by banks.

# Recent studies





# Raising finance

Innovative and creative enterprises require capital to invest into the development and provision of products and services.

For sustainable enterprise growth, finance needs to be:

- Readily available.
- Low cost.

# Financing options for SMEs

- Equity finance (investment)
  - Financier invests in a company.
  - Financier receives an equity stake of the company.
- Debt finance (bank loans)
  - Asset based loans: where businesses borrow against the value of assets.
  - Assets used as collateral.

# Raising finance

Raising finance for innovative and creative enterprises is too difficult and too expensive.

- Banks have reduced lending to enterprises due to banking crisis.
- Investors are more sensitive to risk.



# Intellectual Property

- Innovative and creative SMEs invest more in intangibles (including IP) than in fixed or physical assets.
- Some of this IP is significant in generating income (eg trademarks, patents).





# Intellectual Property

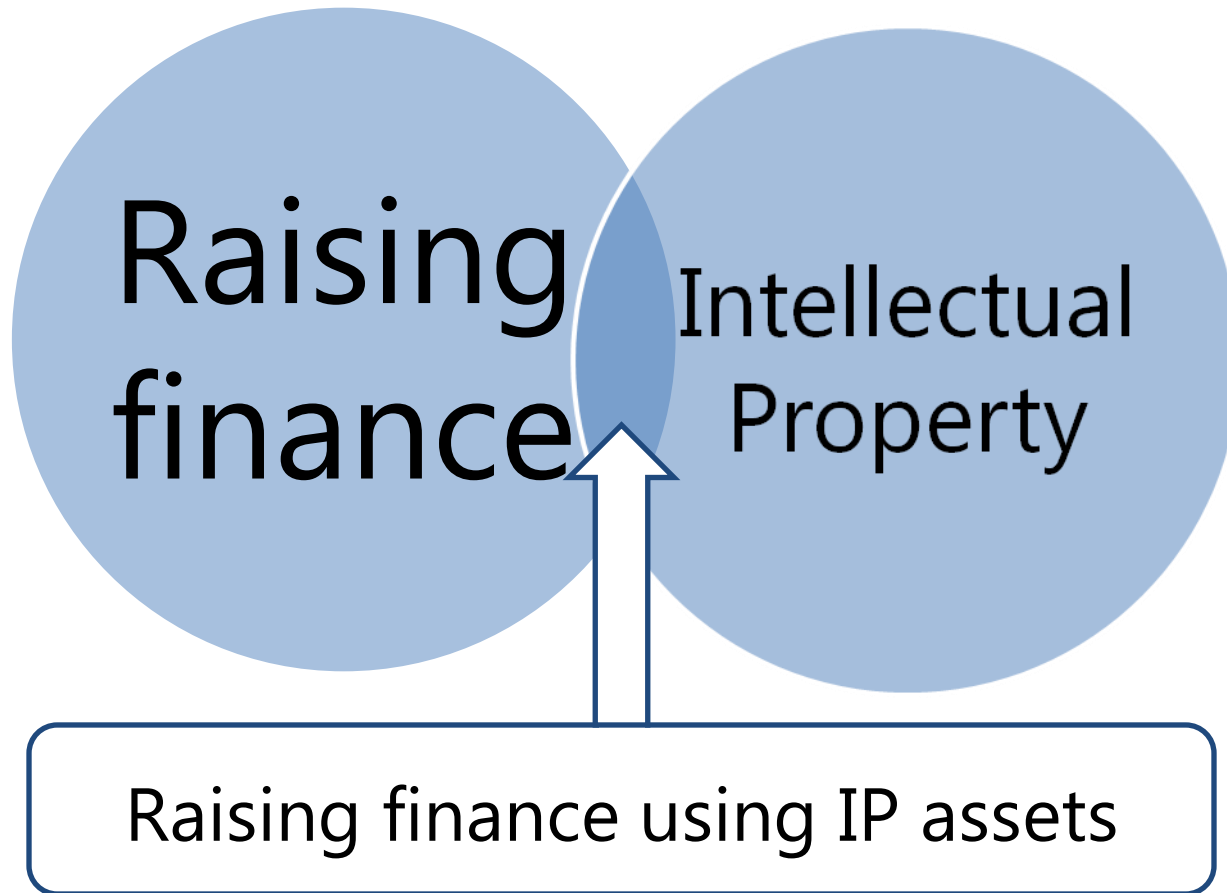
- Businesses with innovation and growth potential often have no revenue, no trading history and few tangible assets.
- Often have a valuable IP portfolio, including IP protected by patents, trademarks and designs.

# IP as an „asset“

In many respects an IP asset is similar to a tangible assets.

- Result of investment activity.
- Expected future economic benefits.
- Identifiable.
- Separable.
- Transferable.

# A missed opportunity?

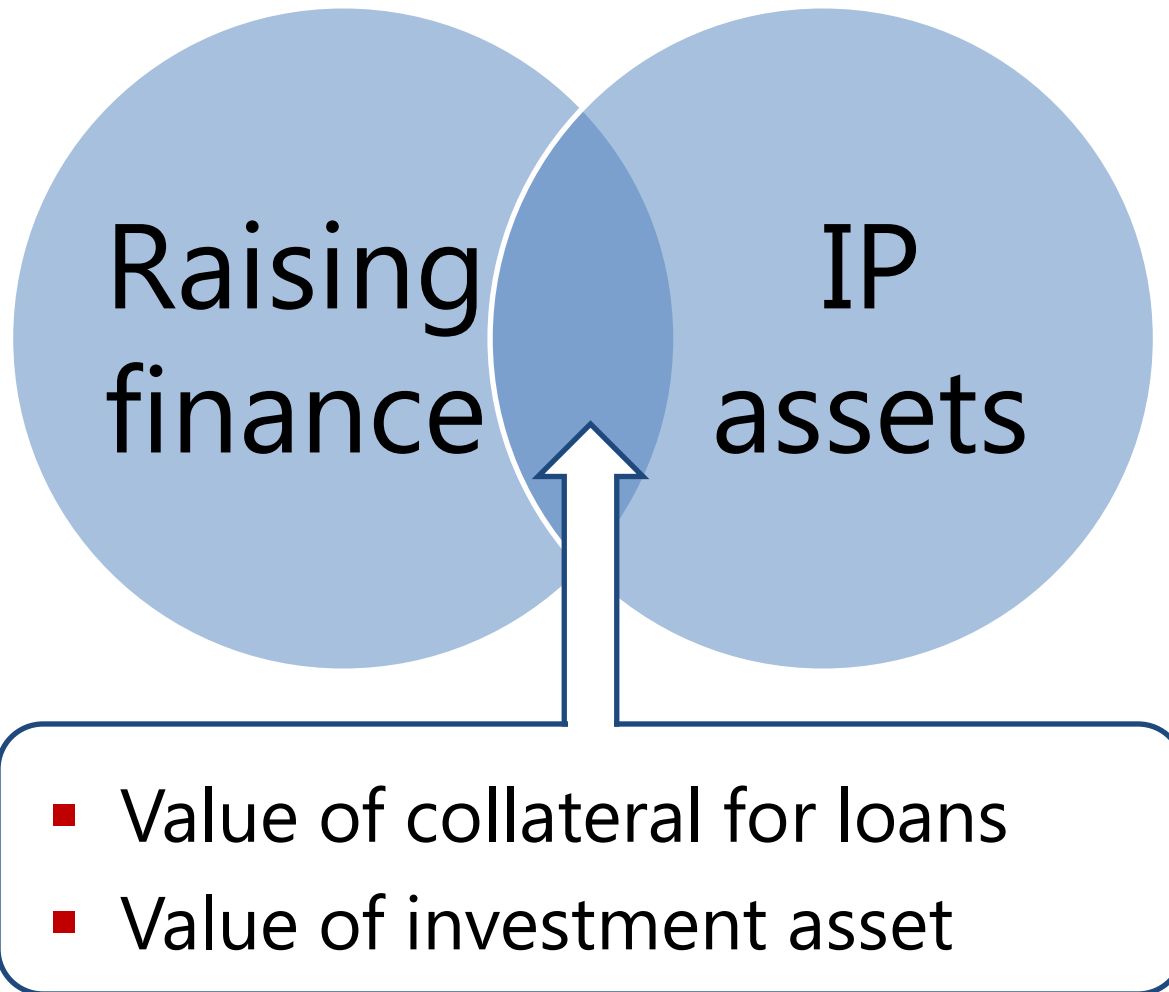


# Can owning valuable IP help enterprises raise finance?

How can enterprises better  
use their IP assets to raise  
finance?

# A note about IP valuation

# An IP value is needed



# IP valuation

The systematic assessment and analysis of the value of an IP asset (eg patent, trademark)

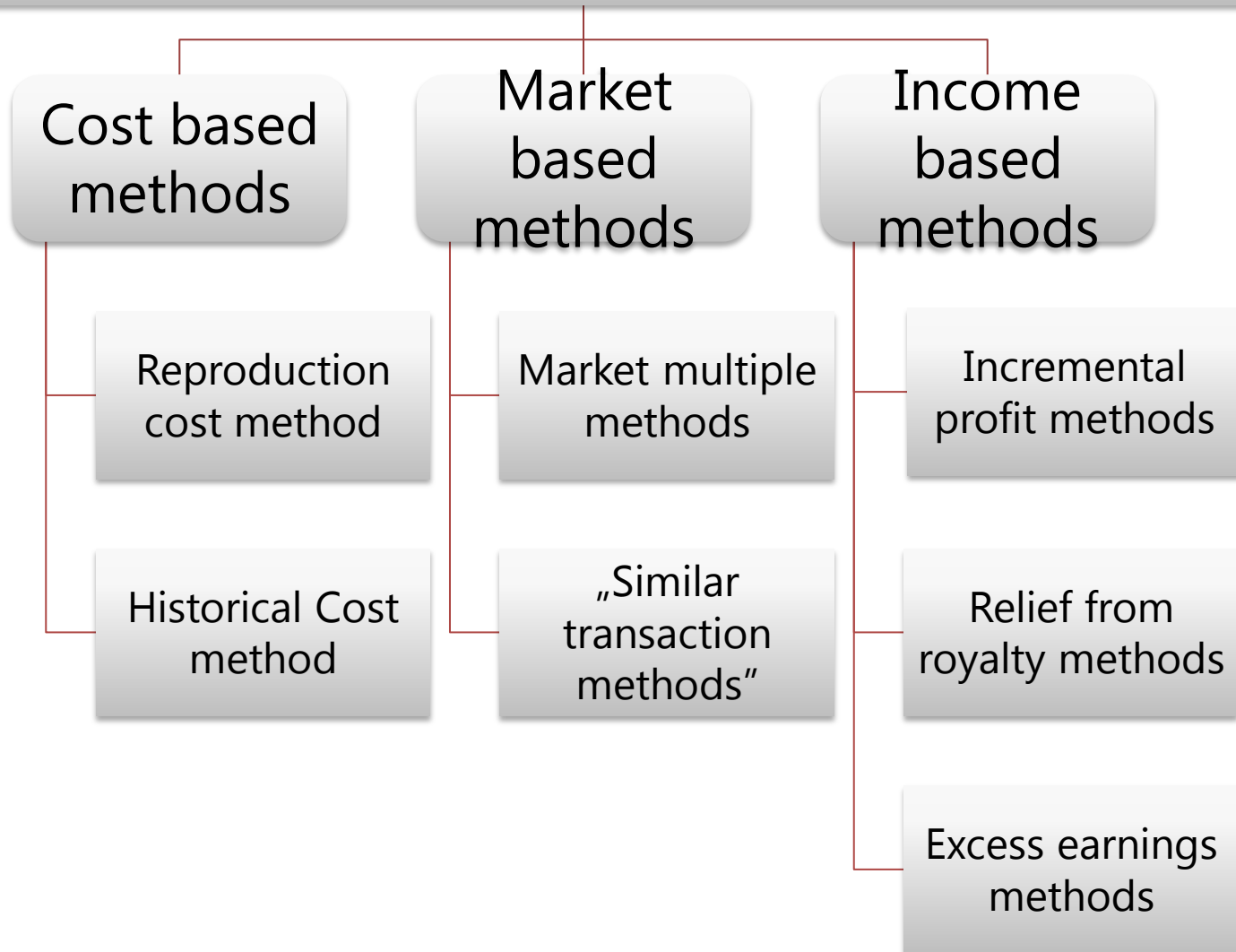
- Management-oriented causes
- Enterprise-related causes and causes under company law
- Transfer-oriented causes
- Conflict-oriented causes
- Finance- and accounting-oriented causes



# IP valuation methods

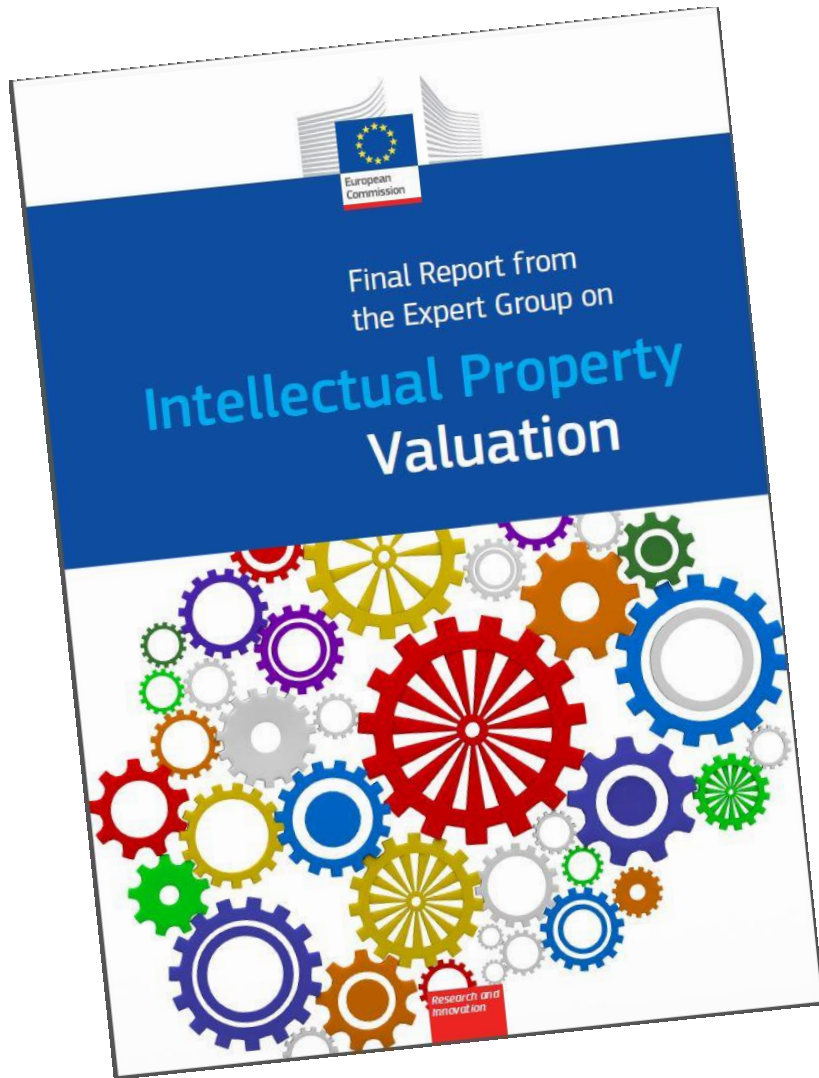
- **Qualitative approaches** provide a value guide through the rating or scoring of IP assets based on factors that are considered to be proxies for IP value.
- **Quantitative approaches** calculate IP value in money under a specific context and at a specific time.

# Quantitative IP valuation approaches



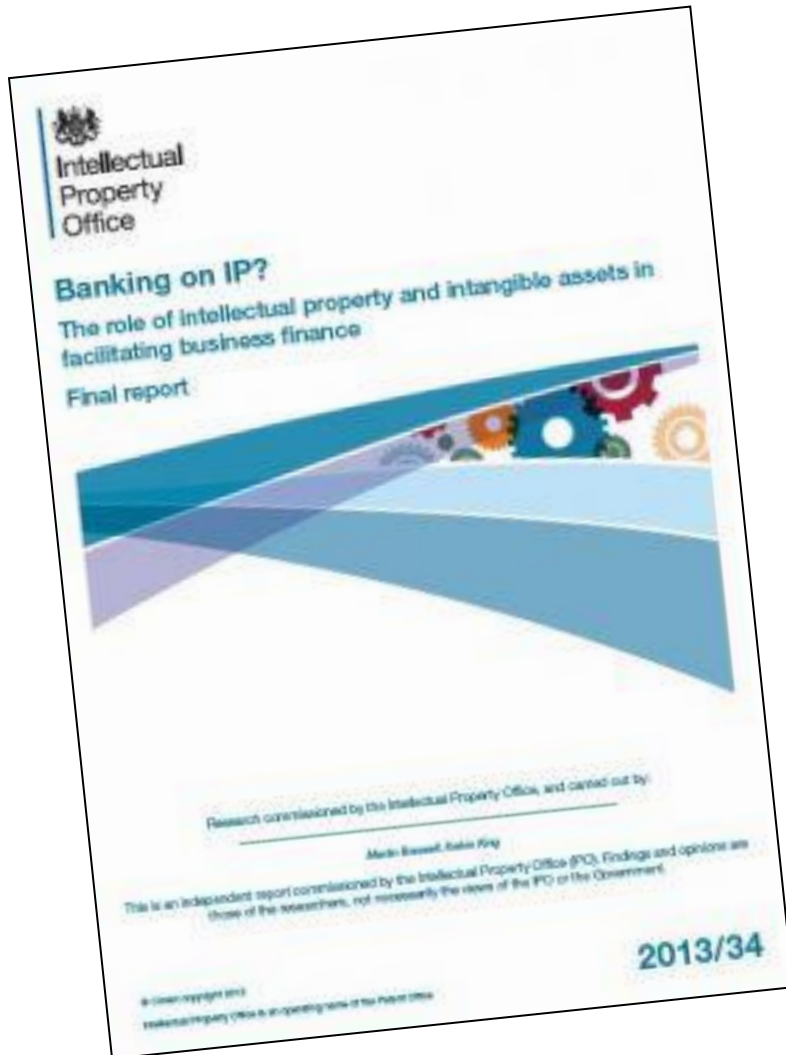
# 2013: New research into raising finance using IP assets

# EU Commission Expert Group Report: „IP valuation“



- EU Commission initiative.
- IP valuation focus.
- Significant section on raising finance.

# UK IPO publication: „Banking on IP?“



- Commissioned by UK Intellectual Property Office.
- Business finance focus.
- Section on IP valuation.

# EU Expert Group on IP valuation (2013)

# Reason for Expert Group

*„Market actors consider the problem of evaluating IP as the greatest barrier to IP transactions.“*

# Expert Group mandate

- Review existing practice of IP valuation in raising finance using IP.
- Identify barriers preventing IP being (better) used to raise finance.
- Consider barriers to having clear and transparent, generally accepted valuation methods.
- Recommend improvements in order to remove or reduce barriers.



# Expert Group knowledge base

12 Expert Group members from:

- IP valuation service providers.
- Accounting profession.
- Legal profession.
- Academia.
- Equity investment sector.

# Primary research:

- A Europe-wide survey was conducted 40 contacts in 3 sectors: Industry, Finance and Service Providers.
- Financing institutions (debt and equity) consulted directly in the UK, Netherlands, Sweden, Germany and Hungary.
- Experts' own experience in the field.

# Findings of the EU Expert Group

# About equity finance and IP

- Equity investors typically invest into companies and not into IP assets.
- Considering IP by itself has not been necessary within the investment decision process (other factors are considered by investors).
- Developed IP assets are not included in the balance sheet of enterprises.

- BUT *indirectly* investors they are investing in the success of IP exploitation.
- „IP that provides competitive advantage act as a necessary (though not in themselves a sufficient) precondition for investment.“

# How does IP affect investment decisions?

- „Equity investors will verify the information presented to them – but many note that when it comes to IP, this is often unsatisfactory.”
- The actual value of IP assets per se is rarely considered important.
  - accounting and reporting constraints.
- As a result investors institutions do not generally have IP valuation capacity.

# About debt finance and IP

- General consensus: IP is too risky to be used as collateral for traditional loans.
- Lending policy across Europe is heavily influenced by the need for banks to be safe.
- Successful IP-backed lending models do exist.
- Some loan products under development at smaller banks.
- Interest from smaller, innovative banks.

# How does IP affect loan decisions?

- IP seldom features formally in mainstream lending applications at present.
- IP is featuring in areas of credit decision making, but not generally in a systematic way.
- As a result financial institutions do not generally have IP valuation capacity.



# Barriers preventing IP being (better) used to raise finance

# Insufficient communication

- Financiers are not IP literate („speak different language”).
- The availability of information about the IP is insufficient.
- Often difficult to communicate the value of IP to investor or bank.
- IP is not on the balance sheet.

# IP has limited liquidity

- In case of failure, IP is difficult to sell to recover sums owing.
- No robust secondary market for IP to ensure appropriate and accessible liquidation.
- IP value can change within a short amount of time (eg IP can have a limited shelf life).
- Financiers do not have the knowledge to „store“ or „sell“ IP.

# High administrative costs of IP based lending

- Pre-qualification, due-diligence and risk assessment is relatively expensive on a small scale.
- The costs may be higher as financiers have little expertise with IP as an asset.

# Financiers' insufficient understanding of IP value

- High risk perception attributed to IP assets.
- Insufficient confidence in managing the particular risk profiles associated with these assets.
- Financiers need to gain confidence in managing the particular risk profiles associated with IP.

# Insufficient knowledge about IP valuation

- IP valuation could provide solutions.

BUT

- Financiers and SMEs have insufficient knowledge of IP valuation methods and processes.
- IP valuations are not trusted.

- Insufficient communication
- IP has limited liquidity
- High administrative costs of IP based lending
- Financiers' insufficient understanding of IP value
- Insufficient knowledge about IP valuation

# Recommendations for policy actions



# Small steps towards a big picture!

- Building a common language.
- Building trust in IP valuations and valuers.
- IP valuation guidance for financiers and SMEs.
- Reducing the cost of valuation and financing.
- Reducing risk of raising finance using IP.

# Expert Group recommendations

1. A data source containing data on IP transactions (for IP valuers).
2. An organization to oversee the IP valuation practice.
3. A loan guarantee scheme for banks to facilitate IP secured lending.
4. Introduction of an additional reporting section in company accounts for IP.

# 1. A data source for the IP valuation profession

- Income and market based methods require reliable data (eg market royalty rates).
- Will enhance the credibility of IP valuations by improving valuation information availability.
  - Increase number of valuers.
  - increase the quality of IP valuations.
  - decrease the cost of IP valuations.

# Expected outcomes of initiative

- Will support IP asset-based lending decisions by
  - lowering the transaction risks for potential market participants.
  - Boosting confidence to value IP.

## 2. An independent, neutral IP valuation body

„Similarly to other professions, a single set of qualifications with respect to education level and work experience, a continuing education curriculum, standards of practice and ethics, and a code of conduct.“

# Expected outcomes of initiative

- Increase transparency of IP valuations through dissemination of methods and standards.
- Increase number of IP valuation professionals through education.
- Increase trust towards valuation professionals.
- Increase trust between stakeholders.

### 3. Encouraging banks to lend using IP as collateral

„The scheme provides a risk guarantee to banks in cases where a business with a viable business plan is unable to raise finance because they cannot offer (tangible) security for their debt.”

# Expected outcomes of initiative

- Reduce banks' risk of lending to innovative and creative SMEs.
- Increase the borrower base – more innovative and creative SMEs would become eligible for loans.
- Provide cheaper loans through the use of secured lending instead of unsecured lending.
- Build IP valuation knowledge and capacity at lending institutions.



# 4. Include IP in accounts within additional section

- Introduction of an additional IP reporting section incorporating information and data about IP and IPRs as a section of a company's financial statements.
- „Businesses wishing to articulate this more clearly, for example to communicate value to investors, need to undertake separate reporting.”

# Expected outcomes of initiative

- Providing structured, relevant and transparent information about IP value to financiers.
- A step closer to including internally generated IP in balance sheet.

# Recommendations of UK study:

„A ‘resource toolkit’ aimed at helping SMEs, lenders and other financiers to make more effective use of the value IP and intangibles represent within businesses.”

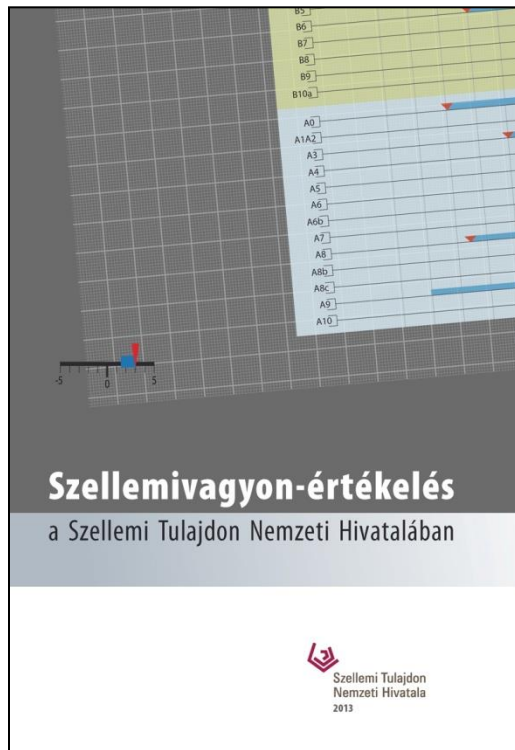
# A response from UK Intellectual Property Office to UK study

- „Initiate the development of tools or a framework to support a better dialogue between businesses and financial services professionals.“
- „Work to enable the development of markets for trading IP so that value can be better established (eg. trading platforms for assets, or for licences).“
- „Measures to boost confidence in the use of IP as collateral: An insurance model for IP which can be used to effectively separate business risk from IP risk for lenders.“

# The present...

- IP based financing in its infancy in 2013.
- Such financing is likely in next 5-10 years when IP valuation activity, IP liquidity prospects and trust in IP valuation improves.
- Important steps have been taken by EU, international and national organisations.

# More information about IP valuation



2013 publication:

Intellectual Property Valuation at  
the Hungarian Intellectual Property  
Office

<http://ipvaluation.hipo.gov.hu/>

# Our collaborations



Hungarian Intellectual  
Property Office



HIPAVILON

HUNGARIAN  
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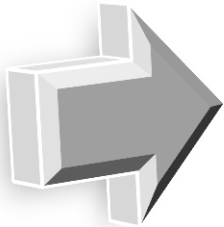
- Innovative + creative SMEs
- Research Institutes
- Technology transfer offices
- IP Intermediaries
- National IP offices
- EEN

# „Supporting SMEs to use IP to achieve business goals“



## **Identify and „capture“ IP**

- ✓ IP audit
- ✓ Novelty search service



## **Protect IP**

- ✓ IP strategy development
- ✓ Freedom to operate search
- ✓ Connect with IP attorneys, IP lawyers



## **Exploit IP**

- ✓ IP intelligence services
- ✓ Partner search
- ✓ IP valuation services



# More information:

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