

VALUATION OF INTELLECTUAL PROPERTY:

Some of the common methods are suggested below:

Valuation and its types:

Cost approach

This approach could usefully be adopted when there is no similar IP for comparison and the technology is in the infancy stage. The cost approach is a valuation based on amount of cost required to reproduce or redevelop the same IP or the amount already spent on the development of the said IP. Key components such as labour hours and level of expertise, equipment and tool time as well as opportunity cost have to be taken into consideration.

Market approach

This approach could usefully be adopted in a situation where the technology is mature and there is already an active market for such technology. Key factors for this approach are existence of active markets, prices of comparable assets, access to price information at which assets are exchanged and other transactions that reflect market values. IP is valued by referring to prices obtained for comparable assets in recent market transactions and terms thereof.

Cash flow approach

Cash flow approach has several variations which are listed below:

a) Relief from Royalty

The value of the IP for this method is basically upon the capitalized value of the royalties after tax that the company would be relieved of as a result of being the owner of the IP.

b) Excess Profit

This is a method of IP valuation by calculating the projected new Nett Tangible Asset (NTA) of the company as a result of the company possessing the new IP and deducting the prevailing NTA of the company prior to such acquisition. The difference will represent the potential value of the IP.

c) Capitalization of Earnings

This method however, is applicable only when the entity has the IP as its sole intangible asset and this method applies a suitable multiple to a business' earnings for deriving capitalized value and later deducting it from the current value of financial and physical assets (NTA) to yield a total value for all the intangible assets.

d) Net Present Value of Incremental Cash Flows

This method values the IP by determining the present value of cash flows generated by the IP over its useful life.

e) **Gross Profit Differentials**

This method determines the value of the IP based on the difference between the gross profit before and after the acquisition of the IP.

f) **Cost Saving Method**

This method values the IP by calculating the net present value of the cost saving that the business expects to make as a result of owning the IP.

Other types of valuation methods

Besides the above, the methods below can also be used in specific situations according to prevailing market conditions and trends.

Brand Strength

Brand strength is measured by mapping the brand against key performance factors such as market share, leadership, stability, globalization as well as scope of IP protection. This approach normally applies to IP with established brand names.

Real Options

This approach is valuable when there is a big uncertainty about the future and the ability of the management to react correctly to future changes. By building proper exit strategies and decision capabilities, real option model is capable to capture the value of managerial flexibility. Real options approach is typically preferred for valuing start-up companies, technology ventures and other highly risky assets.

Time-based and Flexibility Method

It is always advisable to adopt several valuation methodologies for determining the fair value of the IP. This method determines the IP value using discounted cash flow factoring for the time value of money, factoring for risk of cash flow and also based on Decision Tree Analysis methods. For example, depending on the availability of certain information, a combination of the cost based approach and the market approach would help in determining the realistic value of the IP.

Conclusion

We should adopt a realistic approach when valuing the IP. It should not put an unrealistically high value which might discourage potential investors. It should instead strive for a win-win situation.

RAJESH HAZRA

Bsc, LLM,(Intellectual Property and Arbitration)

PG Diploma in Business Administration

PG Diploma in Personnel Management