



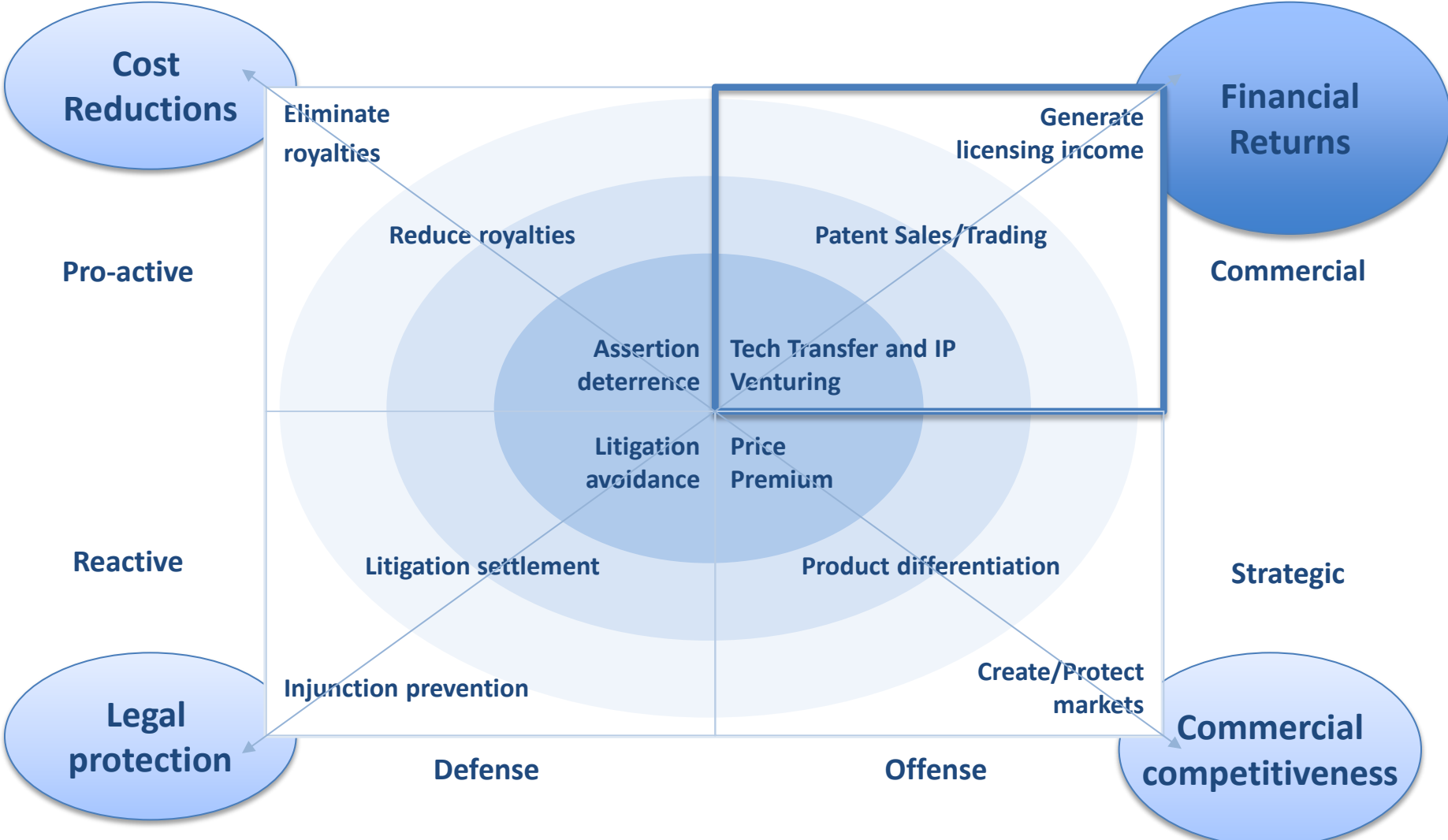
IP VALUE

A (Risk-Adjusted) Investor Perspective
On IP Valuation & Value Extraction

Peter D. Holden
SVP, Investments & Acquisitions

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Different forms of IP “Value” and the focus of the Investment Community



* Does not include intangible benefits such as enhanced enterprise value in M&A discussions, or Investor Relations or PR value

- **Evolution of IP as an uncorrelated Asset**

- Financial Sector’s Interest was previously limited to securitizations of patent portfolio royalty streams and IP asset-backed loans (collateralizations)
- IP has increased in profile recently in driving the enterprise value of M&A transactions and in distressed sales and bankruptcies
- We now see significant growth in the rise of risk capital to support the monetization of IP as an uncorrelated, liquid asset in its own right.

- **IP has started to achieve critical scale as an Investment-grade asset class**

- Litigation by NPEs is now 40% all of suits in the USA in 2011 (WSJ– Nov 12, 2012)
- High Profile Patent Purchases by NPEs (Acacia, Coller, - \$100 MM + Investments)
- Next generation of IP monetization companies & IP teams with impressive track records
- Licensing revenue is growing significantly year to year (sustainable growth)
- Significant year-on-year increase in the secondary trading of IP in terms of \$\$ & Volume

- **IP offers Investors Diversification :**

- Private equity-like returns can be generated even when financial markets are not conducive to traditional exits (“Income” vs. capital gains is key for leading alt. asset investors)
- High-margin returns are possible whilst also providing downside protection

Drivers for Increased Focus on IP Investing



Market Trends & Drivers

IP Market / Investment Opportunity

Internal –Increased C-Level attention to leverage IP

Higher quality offerings into marketplace than ever before

External Shareholder activism of US public vehicles

Divestiture of IP to create additional value (e.g. Motorola, IDC)

Liquidation of failed public vehicles / Increased IP driven M&A

Total enterprise value = Value of IP (e.g. Kodak, Nortel)

Recognition of IP as a key differentiator for future success

Increased litigation to preserve market share, margins etc.

Impressive performance of IP-driven Businesses in downturn

Demonstrable, sustainable returns, better benchmarking

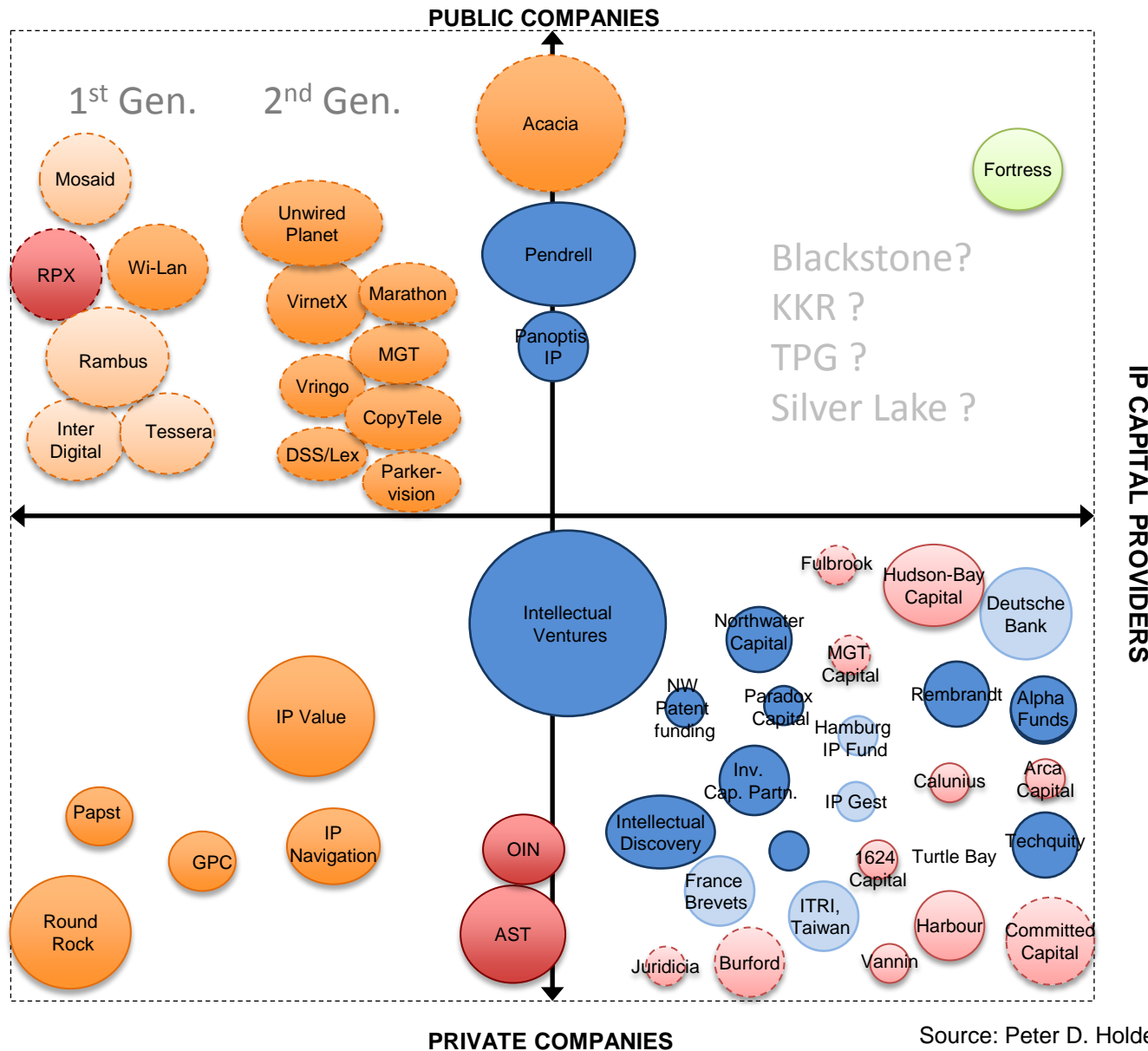
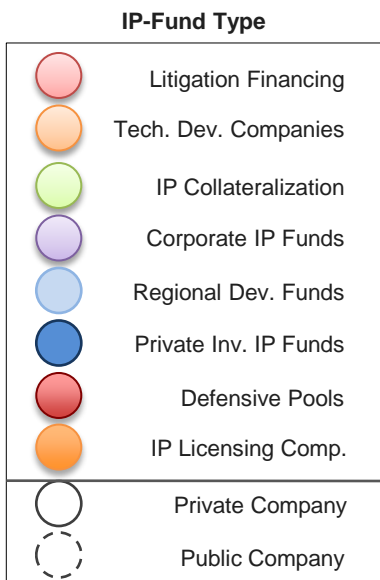
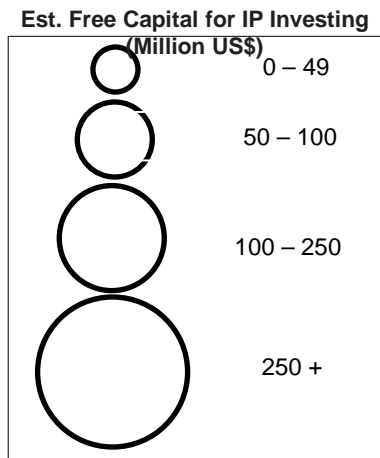
Increased Attention from Asia Funds and Wall Street

Increased supply of risk capital (see overleaf)

Intellectual Property has become an investment-grade asset class.

An Illustrative View of the IP Marketplace by Funding

Growing access to different flavors of “non-corporate” capital



Despite the negative perceptions of NPE's and private investment syndicates, operating Companies (even the most virtuous) are selling IP to these entities in unprecedented numbers

- **Liquidity - Need short-term cash**
 - NPEs and other private investors starting to offer more competitive pricing
- **Financial Discipline in JVs**
 - Much more IRR/ROI disciplined; better cost control
 - Seen as “neutral capital” in sponsored spin-outs and stalking horse bids
- **Risk Distribution**
 - Leveraging off balance-sheet risk capital to share risks and rewards
- **Bandwidth and Expertise**
 - Provide additional resources and capability to in-house IP monetization efforts
- **Clean Hands**
 - Use NPEs and law firms to tax corporations or cause market disruption without direct involvement
 - Finance third-party litigation anonymously

A Higher Bar on Valuation

Traditional Valuation Processes

Technical Analysis

- Map to products/standards
- Claim strength / scope
- Detectability
- Invention timeline

Legal Analysis

- Prior art / validity
- Claim strength / scope
- Enforceability
- Encumbrance analysis

Economic Analysis

- Addressable markets
- Royalty rate / unit
- NPV analysis
- Benchmarking



Additional IP Investment Criteria

Execution Risks

- Management team / capabilities
- Concentration issues
- Budget / cost management
 - sunken R&D / purchase price
 - monetization costs
- Monetization blueprint
 - strategy
 - time to market
 - status of technology
 - supporting materials to patent

Weighted Returns (principal capital returned)

- Returns methodology
 - value-added
 - cost savings
- Financial Risk – Discount factor
 - legal risk
 - technical risk
 - market risk
- Cash on cash returns (IRR)
- IP value added – leverage (ROI)

- **Continued inflows of private capital (ie non corporate) into the IP eco-system**
 - Increased funding from Alternative Asset Funds as long as IPO/M&A markets flat (could be cyclical phenomena or sustained growth)
 - Increased funding from China, Korea and Taiwan:
 - Finance acquisitions (“leap-frog” in-house organic R&D capabilities) – non-linear growth for China
 - Finance alias litigations via US based vehicles, etc.
- **Flight to quality to offset increased costs, risks and timelines to revenues**
 - More patents in suit, better pedigree, more syndication in larger deals
 - Reduced hit-rate for punitive suits (cost arbitrage) at low-end of the market
 - Demise of “extortion” type NPE suits as US /International courts look to curtail exponential rise of NPEs
 - NPEs that will growth have increased focus on fewer, better quality suits
- **Beyond single litigation financing – “portfolios” and mutual funds of holdings**
 - Consolidation – smaller NPEs merging to (1) create scale and diversity and (2) increased capital resources
- **Mixed Strategies for monetization –**
 - More nuanced strategies to enforcement
 - Sales, paid up licenses for downside protection or expedited returns
- **Shifting focus from origination to execution**
 - Shift in time allocation from deal-sourcing to execution and oversight
 - More sophisticated investment and portfolio management processes
 - Improved risk management, pricing and returns analysis