



## REALIZING VALUE FROM YOUR IP ASSETS

With the market for intellectual property heating up and some uncertainty as to what next year's IPO market may bring, the timing could be right to explore the often understated value in your portfolio companies' intellectual property (IP).

This is an opportune time to extract value from the monetization of intellectual property. Strategic purchases of patent portfolios are grabbing headlines with regularity, such as:

- Purchase of Motorola Mobility for \$12.5 billion by Google, primarily to obtain 14,600 granted patents and 6,700 pending patents.
- Purchase of Nortel Network's patent portfolio for \$4.5 billion by several companies, including Apple, Microsoft and Research in Motion.
- Companies such as Interdigital, Polaroid and Xerox seeking to realize billions from a sale of their patented assets.

**Is this the time to realize value from IP? Below are some options to consider:**

### FOR A HIGH GROWTH PLATFORM COMPANY

There may be intellectual property within your high performing platform companies that could provide value to sectors outside your companies' areas of strategic interest. Harvesting this untapped value can be accretive for your returns and fund performance.

### FOR A STABLE, LOW GROWTH OR TROUBLED PORTFOLIO COMPANY

You may find the time is not right to exit a portfolio company experiencing sub-par operating results. However, there may still be value in its intellectual property that can be extracted in the short term. Whether it's underutilized patents, trade secrets and processes, trademarks and rights to intellectual property outside of the company's area of focus, a monetization of these types of assets can enhance returns and generate cash despite middling operating performance.

## CASE STUDIES

### MONETIZING TRADE SECRETS

FTI Consulting was retained by a large private equity firm to undertake inventory of the intellectual property (IP) assets at a select number of its portfolio companies. During the inventory process of the IP assets at one of the portfolio companies, our professionals identified certain manufacturing processes of substantial value that we recommended should be protected and managed as trade secrets. We worked with the company and its counsel to protect and ultimately license these trade secrets for several million dollars, which was paid over a number of years to unrelated companies in non-competitive industries.

### VALUING TANGIBLE AND INTANGIBLE ASSETS

Our team is currently assisting a client to evaluate the purchase of a Japanese manufacturer and distributor of food additives (Target Company). In addition to its manufacturing facilities, the Target Company has significant IP assets, including trademarks and patents. In particular, our client requested that we estimate the value of the Target Company's patent portfolio, focusing initially on certain product lines using publicly available information and later relying upon the target's proprietary data. During the course of this project, we have worked closely with our client's mergers and acquisitions team, which relied upon our analysis in determining the value of the intangible assets. These efforts constituted the largest share of the offered purchase price.

### HOW WE CAN HELP

FTI Consulting professionals have the requisite skills and experience, and successful track records to help organizations manage and extract value from intellectual property. We have an international practice devoted to realizing value from intellectual property through services, such as:

- Monetization strategies and best practices related to (a) purchasing or otherwise acquiring IP; (b) managing and protecting IP and; (c) extracting value from IP
- Performing IP inventories designed to identify various kinds of IP within your organization so it can be optimally managed for monetization
- Valuing IP assets for purchase, sale or licensing transactions
- Performing IP due diligence, including valuing the IP of a business for potential merger, acquisition or disposition
- Valuation of IP serving or potentially serving as collateral
- Valuation and strategy consulting relating to maximizing the value of IP in bankruptcy situations
- IP valuation and management training
- Purchase price allocations for GAAP and tax reporting
- Fair value and market value determination for compliance and regulatory purposes
- GAAP carrying value and impairment reviews

Our professionals have worked extensively with many private equity firms offering a variety of these services. We believe IP-related services may be particularly helpful to private equity firms in these challenging economic times due to their ability to increase investment value and return cash to your investors.

## SOME FREQUENTLY ASKED QUESTIONS:

**Q.** What does it mean to monetize IP assets?

**A.** *Intangible assets are well established as a primary source of unusually high levels of return on assets or sales, what economists refer to as "excess profits". One of the attractive aspects of legally protected intangible assets, also referred to as IP assets, is that they are highly exploitable. This means that the asset can often be used in a variety of profitable ways both within and outside an organization. Because IP assets can be valuable in several ways, they are often referred to as having a "spectrum of value". Monetizing IP is the process of maximizing the value from your IP assets by effectively using those assets within and outside of your organization.*

**Q.** Which industries typically have more IP assets that can be monetized?

**A.** *Industries with substantial investments in patented technology, trade secrets and marketing assets, such as trademarks and trade names are more likely to have IP assets that can be monetized. For instance, companies in life sciences, such as medical devices, biotech and pharmaceuticals; high technology companies in various areas, including aerospace, telecom, computers, semiconductors and other electronic devices; and companies with strong consumer and business-to-business trademarks and trade names are likely to have significant amounts of IP assets that can be monetized.*

*However, companies in other "low tech" industries may also have important IP assets that can be leveraged to increase business value and cash flow.*

**Q.** Are there indicators that my company is likely to have important IP assets?

**A.** *There are indicators that a company has important intellectual property. Examples include:*

- *Consistently superior returns on sales or assets.*
- *Unique competitive advantages, such as superior manufacturing processes, trade secrets, supply chain efficiencies or distribution advantages.*
- *Identifiable intangibles and goodwill in purchase and sale transactions or internally developed.*
- *A history of relatively significant investments in technology, manufacturing processes, business processes, software or marketing assets.*
- *Internally developed or customized machinery and equipment, processes, formulas or business methods.*

**Q.** How do I determine if my companies have valuable IP assets?

**A.** *Some IP assets are quite easy to identify. For instance patents, patent applications, trademarks, trade names and brands are typically simple and straightforward to identify as they should already be recognized as vital assets in your companies.*

*Other IP assets, such as trade secrets, processes or innovative software can be more challenging to identify. Typically these assets are identified by developing an understanding of the sources of your company's competitive advantages, either through interviews or by analyzing areas of substantial corporate investment.*

**Q.** If I monetize IP assets, am I essentially diminishing the future value of my company?

**A.** *On the contrary, by fully utilizing your IP assets, you are increasing the cash flows to your organization and consequently enhancing its value by realizing cash flows your business would otherwise not have or by accelerating cash flows. Exploiting the spectrum of value of your IP assets may also provide financial flexibility. For instance, you can sell the underlying company and put aside the royalty-bearing licenses for a separate sale or an alternative use. Of course, care must be taken as to the commitments made regarding IP assets so as not to imprudently restrict your company's ability to operate in the future.*

**Q.** How can FTI Consulting help us monetize our IP assets?

**A.** *FTI Consulting can help you monetize your IP assets in a variety of ways. For many of our clients who are unsure about the size and composition of their IP asset portfolio, a good place to start is taking an inventory of your IP assets. We are often willing to invest with our clients to accomplish this important baseline task. Contact us to learn how FTI Consulting can potentially share the costs and risks associated with IP monetization.*

**Please consider reaching out to us to assess the potential for intellectual property value extraction in your portfolio companies.**

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