
# Unwired Planet v Huawei

## A valuation perspective

**FTI Consulting was instructed by Unwired Planet to provide expert evidence in the first FRAND dispute to reach judgment in the English Courts. FTI's team was led by Mark Bezant, supported by Andrew Wynn and Vicky Laws, and their work focussed on the assessment of FRAND royalty rates.**

The recent judgment of Birss J considered in detail how to set FRAND royalty rates for a portfolio of standard essential patents (SEPs). In line with the approach of both valuation experts, Birss J applied the two most common valuation methods for FRAND royalties; he chose comparables as his primary method and relied on the "top down" approach as a cross-check. In this briefing note, the FTI team comment on the Judge's findings on both methods, from a valuation perspective.

The comparables approach sets a royalty by reference to other licences agreed between a willing licensor and a willing licensee, in similar circumstances. When using this approach, the key issues are deciding: (i) which licences are comparable; and (ii) how to scale from one licence to another, to adjust for differences in the patents licensed under each licence. Birss J's rulings on these key issues were substantially consistent with FTI's expert evidence in the case:

1) **It is helpful to look at a wide range of comparables with different licensees.** Rather than trying to find the "best" two or three licences to use as comparables, it is better to review a wider set because "*if a group of comparables are at least potentially as relevant as each other and are not the same, it is not right to elevate a small subset above the others*." [173]

   Further, looking at a wide range of licences reduces the risk of the results being distorted by factors unique to specific licensees. [175]

2) **Licensees who "*need the same kind of licence will be charged the same kind of rate*".** In essence, this means that all licences with mobile handset manufacturers were potentially relevant comparables for the Unwired Planet licence to Huawei. Similarly, there is no reason why a large established implementer should systematically pay lower rates than a smaller or new entrant. [175]

3) ***"For a given set of circumstances there will only be... one FRAND rate."*** [164] Birss J concluded that there is only one set of FRAND terms for two given parties negotiating at a specific point in time and with their knowledge of certain facts. However, that does not mean that a licensor will necessarily agree the same royalty rate with different licensees at the same time, or that FRAND rates agreed by the same parties cannot change over time.

4) **The circumstances of a transaction can make a licence difficult to interpret.** Birss J rejected two licences signed by Unwired Planet as well as the most recent licence between

Ericsson (the Unwired Planet portfolio originated from Ericsson's larger portfolio) and Huawei. Both Unwired Planet licences were rejected because they were part of wider arrangements between the parties and therefore the implied royalty rate was difficult to interpret as a stand-alone rate. [386, 389 and 409]

Birss J rejected the Ericsson-Huawei 2016 licence because the terms were determined by an arbitrator and were not, therefore, evidence of what willing, reasonable business people would agree in a negotiation, meaning that the royalty from this licence was not probative of the value of the portfolio under licence. Birss J explained that a decision from such an arbitration could be of persuasive value, but he did not have access to the arbitral award. [411]

5) **A FRAND licence must eliminate both hold-up[1] and hold-out.[2]** This issue has bearing on the choice of comparables used to assess a FRAND rate. [175]

On hold-up, Birss J relied on evidence that there has been a downward trend in royalty rates since 2013 (attributed to recent case law in the US) when he concluded that the ability for patent holders to practise hold-up has diminished: "[since 2013] *the FRAND undertaking does operate as a practical constraint on a SEP owner's market power, which is what it is intended to do.*" [656]

When choosing appropriate comparable licences, however, Birss J did not interpret this as a reason to disregard licences agreed before 2013. Instead, the potential for hold-up is one of a number of factors when deciding the suitability of the comparable licences available. [462 and 464]

Similarly, with hold-out, Birss J concluded that there is both theoretical and practical evidence that hold-out exists. [665 and 669]

6) **The requirement for the licence to be on "non-discriminatory" terms is not a "*hard edged point*".** A FRAND royalty set by reference to FRAND rates agreed by other licensees seeking the same kind of licence fulfils the "non-discriminatory" requirement of FRAND. It follows that a licensee does not have the right to "*demand the very same rate as has been granted to another licensee*" unless there is evidence that the difference in rates would distort competition. [503]

Although Birss J found that Huawei is similarly situated to Samsung, it was not automatically entitled to pay the same royalty rate.

7) **Patent strength is an appropriate measure to scale comparable licences to the subject licence.** Unwired Planet was not a party to the licences relied on by the Court and so royalty rates from comparable licences were scaled to an Unwired Planet equivalent rate by reference to the relative patent strength of Unwired Planet vis-à-vis the licensor.

When assessing patent strength for a portfolio of any significant size, counting patents in one form or another is inevitable [182], but an allowance for over-declaration should be made, and perhaps a further adjustment for the relative importance of (i) different releases of the standard, and (ii) optional or non-deployed technologies. [321,331]

Birss J found limitations in the patent strength measures used by both technical experts [374], and so the appropriateness of different patent strength measures will likely be contested by SEP holders and implementers in licensing negotiations and disputes.

8) **There is inherent uncertainty in the analysis of comparable licences.** When calculating an implied royalty from a lump sum payment or a cross-licence[3] it is necessary to make a number of assumptions, for example, on relative patent strength or expected sales of the licensee, and this means that the results are inherently uncertain. [195]

As a result, Birss J concluded that excessive mathematical accuracy was not "*productive*". [228]

Further, as Birss J noted, it is unlikely that parties negotiating a licence were overly precise: "[t]*hey were probably thinking in terms of whole numbers of dollars and that was all*." [231]


1 "Hold-up" is the ability of a patent holder to impose non-FRAND licensing conditions once a patent has been declared essential to a standard, because the licensee cannot design around a standard essential patent.

2 "Hold-out" is where an implementer uses the standard essential patents but either refuses to take a licence or delays doing so.

3 A cross-licence between two implementers, Party A and Party B, is effectively two one-way licences: one licence for Party A to use Party B's patents and one licence for Party B to use Party A's patents. Typically, the royalty rate disclosed in such a cross-licence is the net royalty rate from the two one-way licences or the licence includes a lump sum balancing payment.

Birss J also looked to the "top down" approach for setting the FRAND rate. The "top down" approach is based on an aggregate royalty burden for a given standard which is allocated between SEP holders according to their proportionate share of the standard. Huawei relied on early public statements by SEP holders on the aggregate royalty burden for each relevant standard. The proportionate share was determined by an assessment of relative patent strength or contributions to the standard. [178]

In line with Unwired Planet and FTI's approach, Birss J concluded that the "top down" approach should only be used as a cross-check. This is because statements made by SEP holders are "*obviously self-serving... the person making the statement says at the same time that the cake is quite small but they are entitled to a large piece of it.*" [269]

Further "...*putting weight in these statements do[es] not take into account what implementers and SEP holders have actually been content to agree in the intervening years. Compared to public statements, comparable licences are concrete data points, albeit their interpretation can be uncertain and the factors derived from them even more so.*" [270]

We would therefore expect to see a continued focus on comparables in future FRAND disputes.

If you would like to learn more about the Unwired Planet v Huawei judgment from a valuation or licensing perspective please contact Mark Bezant, Andrew Wynn or Vicky Laws.

The redacted judgment can be found here: **http://www.bailii.org/ew/cases/EWHC/Patents/2017/711.html**

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Mark has around 30 years' experience in the valuation of intellectual property rights and the assessment of compensation for infringement of intellectual property rights. Mark has acted as an independent expert or advised in over 60 cases involving intellectual property and licensing disputes in both the UK Courts and international arbitration tribunals, and has testified in over 15 intellectual property disputes. Mark has extensive experience of valuing all types of intellectual property right across a wide range of industries.

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