BASICS ON VALUATION OF INTANGIBLE ASSETS FOR TECHNOLOGY TRANSFER

By Bernabé Zea – ZBM Patents & Trademarks / ZBM Business Connect

It is paradoxical, to say the least, to begin writing an article by downplaying the importance of the topic, or at least playing it down in some stages of the technology transfer process. In many instances, the economic valuation of intangible assets is not necessary, at least not in depth, in the initial phases of the projects, and even in the technology transfer negotiation itself.

Virtually no transfer process is concluded with fixed payments, which would have to be calculated with respect to the real value of the technology, and would require as close a valuation of the asset as possible. Instead, most contracts include milestone clauses and, above all, royalties, which establish the value of the transfer based on the commercial success of the product. In this way, the final price of the transfer is set by the market itself, irrespective of the valuation that may have been made. Moreover, when the technology is acquired by a major company, it will have carried out more precise studies, since it will have more resources than a start-up or a research institution, and also more specific information on its market, on which it will evaluate the project.

This does not imply that you should not have an economic valuation of the invention, as it is sometimes useful. For example, it may be used to convince investors to enter a start-up; or to defend the price of an initial payment in licensing, although generally for the latter it may be sufficient to show the costs incurred in bringing the invention to the stage of development reached at the time of transfer.

It should also be borne in mind that there are different ways of valuing an intangible asset, which may lead to completely different results. Basically there are methods based on three different approaches:

1. Revenue: measures the potential revenue that can be derived from a patent, i.e. the value of the asset is made up of the various cash flows generated by it, whether in the form of projects, licences or services.

2. Costs: defines the replacement cost of the value of the asset. In other words, it determines the value of a patent based on the costs that would be necessary to develop and patent the invention or a similar one, either internally or externally.

3. Market: compares the asset with a similar asset that has been marketed and whose value is known. This approach is quite accurate and is often very useful when the determination of input parameters is difficult due to a high degree of uncertainty. But this method requires an active market, a comparable exchange of assets between two independent parties and sufficient access to information on the transaction price. Thus, the main problem in applying this approach is that there are usually no comparable assets or that the details of the associated licence contract are not known.

As can be seen, the values obtained can be very different. Thus, an asset that has no real market value, because it is not practicable to sell it, would have a value obtained by the cost method, which could be high, while the values obtained by the other methods would be minimal.

Generally, unless values with a certain bias are needed to increase or decrease the value of the asset, all three methods are usually used as far as possible to make valuations and then averaged to obtain fair values. Therefore, the method(s) to be used should be stipulated before the asset value is calculated, depending on the purpose of the valuation, the information available and the particular asset to be valued.

In short, before making an investment to value intangible assets, the company should analyse whether the information to be obtained will be useful. In particular, in the case of start-ups, whose resources are usually limited, they should consider dedicating resources to other aspects of greater interest, such as the best protection of their IP, in order to overcome a possible due diligence associated with a financing round or the negotiation of an agreement with a large company. If you do not have a good asset to transfer, in practice its potential value will not even be discussed.