



Association of University Technology Managers®
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University Patent License Valuation

(Webinar -- Intermediate Level)

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Course Outline:

1. Creating Value Today!
2. Measuring Value
3. Sharing Value
4. Special Issues for startups

1: Creating Value

A collaboration between licensor and licensee

An IP license has many clauses.

Which one will have the biggest impact on the value of the license?

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Which one will have the biggest impact on the value of the license?

The name of the licensee.

A colleague from another university TTO calls you:

“One of our researchers is spinning out a company. He’s spoken to VCs who like his idea. He wants to license his IP. He asked me for a Term Sheet.”

“I quoted 5% equity and 6% royalty. The VCs say I’m way above what your university asks for. Is that true?”

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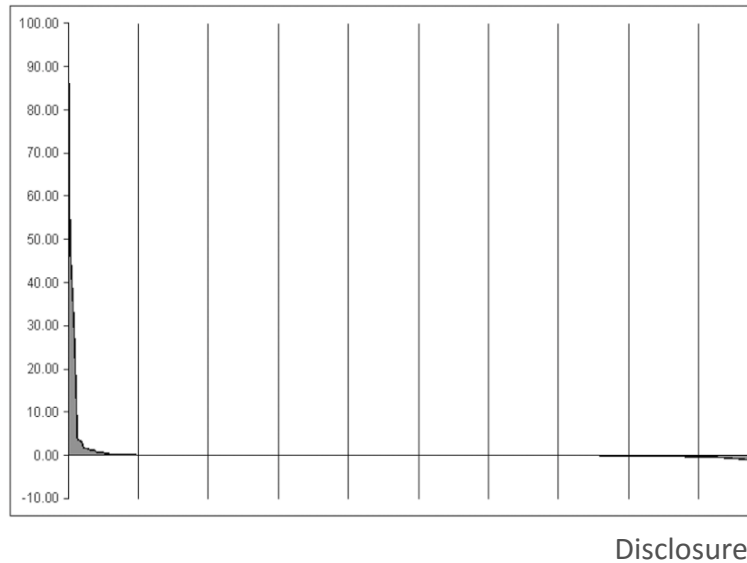
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Your method should be consistent, but every deal is different.

First, qualify the licensee;
then, understand their business model;
then propose terms.

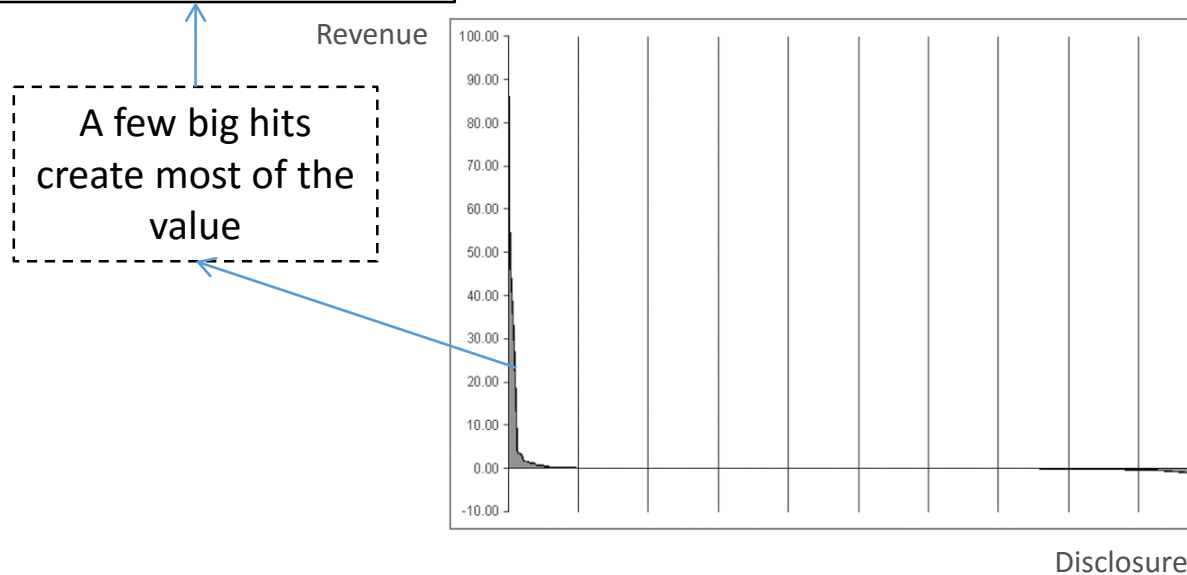
The long tail of IP values: What does it tell us?



McMaster University FY97 to FY06, Net Revenues/Disclosure over Disclosures, Max revenue=100

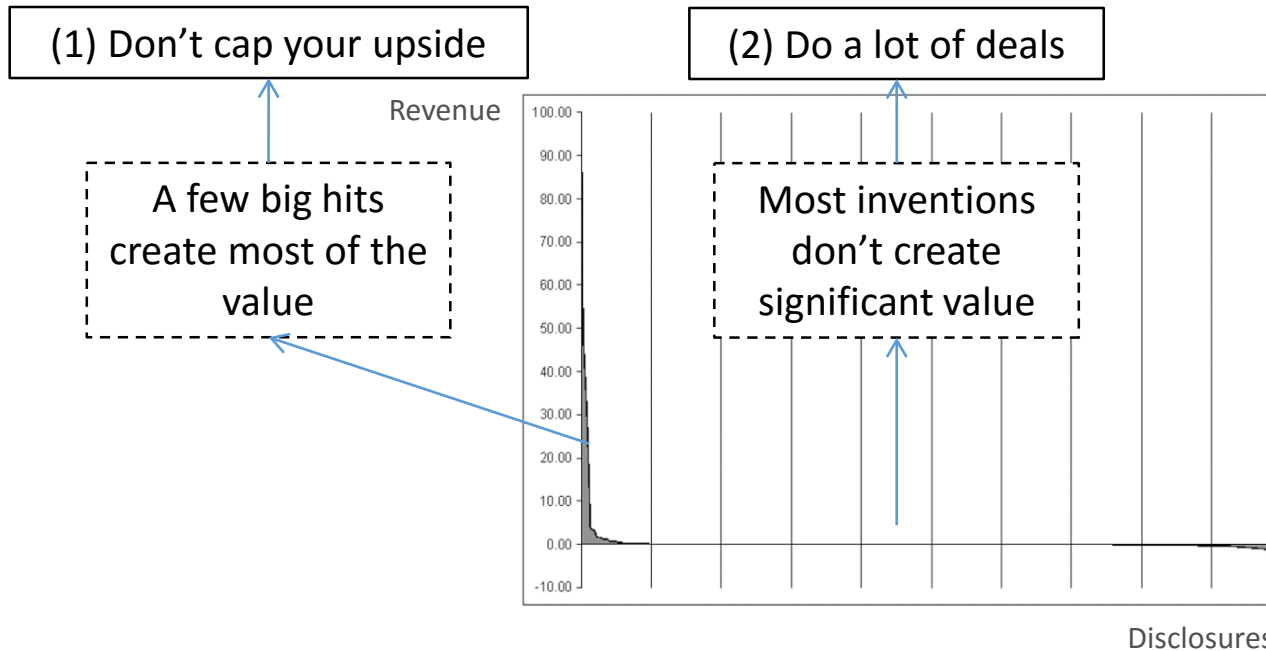
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(1) Don't cap your upside



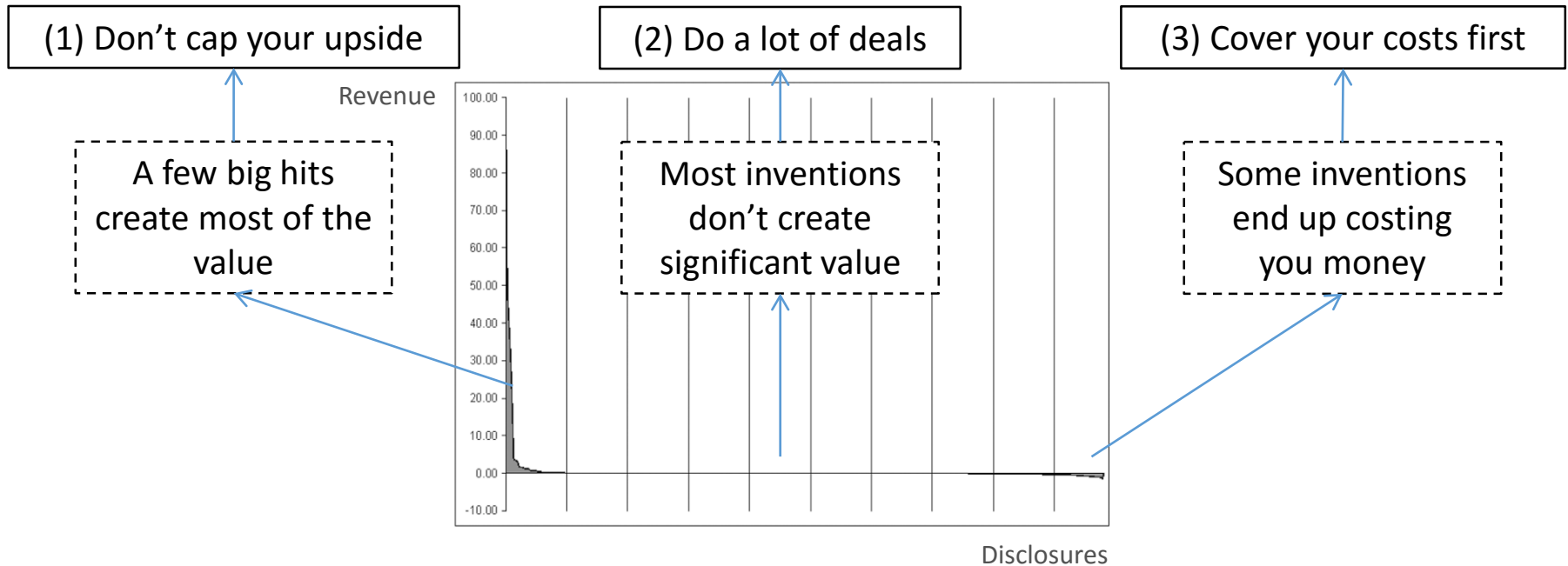
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Value of University IP – To the University:

- Helps achieve the public impact of university inventions
- Attracts research sponsors
- Secures freedom to continue research
- Attracts entrepreneurial faculty and students
- Attracts employers for graduating students
- May serve regional development charter
- Oh yes... also makes money for the university?

Value of University IP – to the Licensee:

- IP blocks competition – can improve market share, product features, cost
- Proof-of-concept by University reduces risk and development time
- Future support from university researchers
- The university's name adds prestige and credibility
- Training and collaboration for licensee's staff
- Often a key to raising money for startups

Before you negotiate the license: Six steps to understand the licensee's business model

1. Understand the product in the way the licensee's customer does
2. Understand the market and competition
3. Understand the business model
 - How is the licensee going to finance the business?
 - What is the product value and how will the licensee capture it?
4. How important is this business to the licensee?
5. How important is your IP to the business? For what?
 - Customer value or blocking competition?
 - New product, new market, new product feature, lower cost?
6. What are the planned success milestones?
 - (= accomplishments that reduce future business risk)

What affects value in *patent litigation*? The Georgia Pacific Factors*

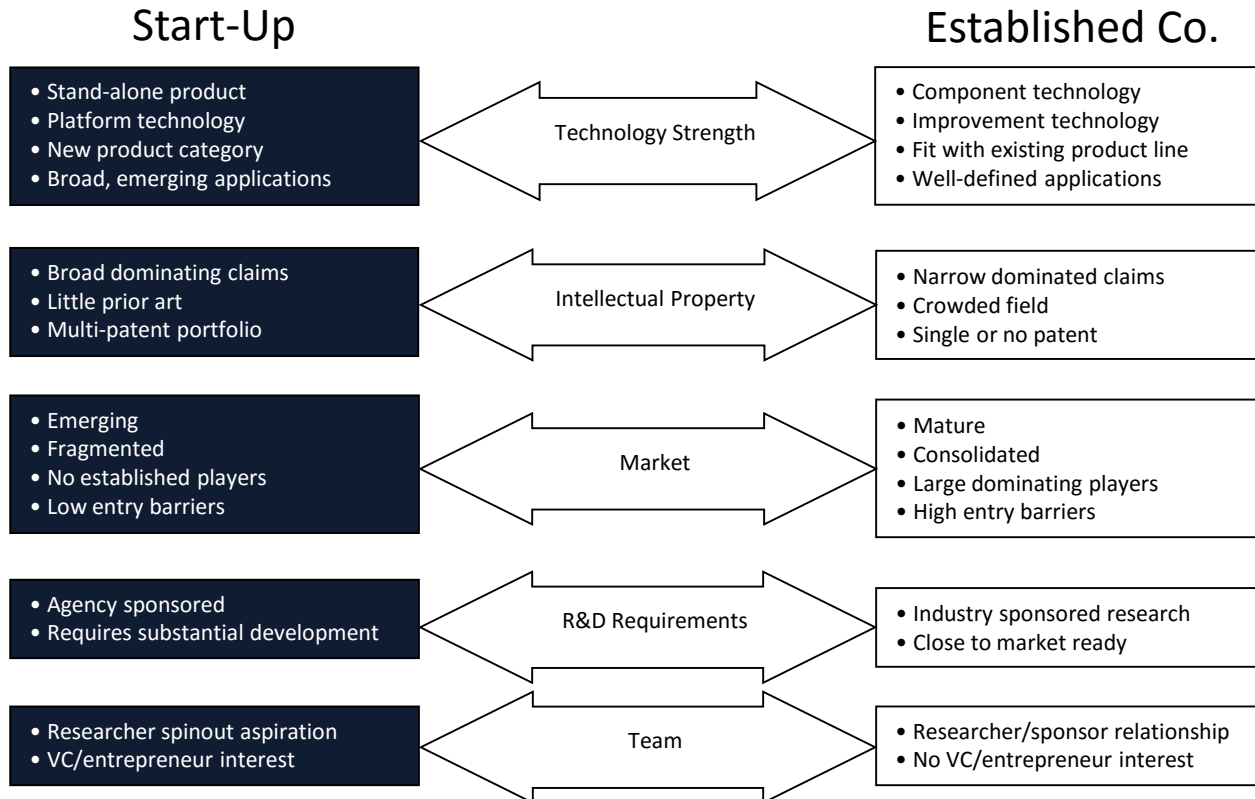
1. Royalties previously received by licensor for similar IP.
2. Royalties previously paid by licensee for similar IP.
3. Exclusivity and other field restrictions.
4. Licensor's choice of licensees to preserve monopoly.
5. Relationship between parties (competitors vs. partners).
6. Convoyed sales.
7. Duration and terms of license.
8. Profitability, commercial success of product.
9. Value of IP over prior solution.
10. Contribution of IP to the value of the product.
11. Extent of infringement.
12. Customary profit or selling price in that business.
13. Unique contributions of licensee.
14. Expert opinion.
15. Likely friendly license terms.

*Federal Court patent infringement decision in *Georgia-Pacific Corp. v. United States Plywood Corp.* (SDNY 1970)

Many factors affect the value of a potential license

- Stage of Development (conceptual, prototype, in vitro/vivo, clinical)
- Plans for continued internal development
- Sponsor interests
- Ownership status
- Stand-alone IP, platform or portfolio
- Identifiable product opportunity
- Licensability of the technology:
 - Business opportunity
 - Enforceable patent
 - Availability of licensing support from research team

License Pathway: Start-Up or Established Company?



Running royalties = Royalty Rate x Royalty base
What should your “royalty base” be?

Your IP is a formula to make an industrial chemical.

Licensee will sell the chemical and also sell products
manufactured using the chemical.

Licensee wants the royalty base to be the manufacturing cost of
the chemical that they produce.

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Your royalty base should be the value that your licensee’s customer receives

Royalty base:

Value that your licensee's customer receives:

Licensee's Net Sales (\$) is usually the best measure – what the licensee's customer is willing to pay for the value delivered.

Unit Sales or other proxies are sometimes used as Royalty Base.

How about licensee profit? Costs?

Sales of the “portion that includes the licensor's IP”?

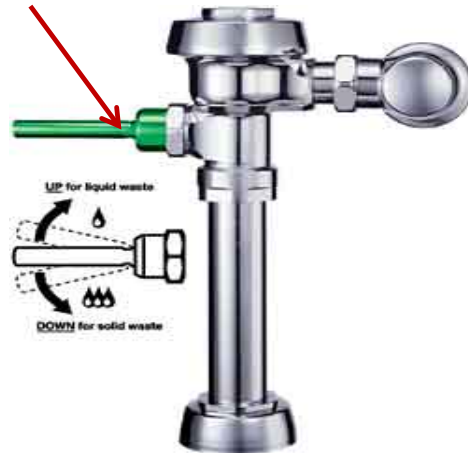
Adjustments for “Combination products”?

Royalty Base: Are these “Combination Products”?

Sloan Valve vs. Zurn Industries:

Plantronics vs. Aliph:

Licensed item (2-way valve)



Licensed item (earbud)

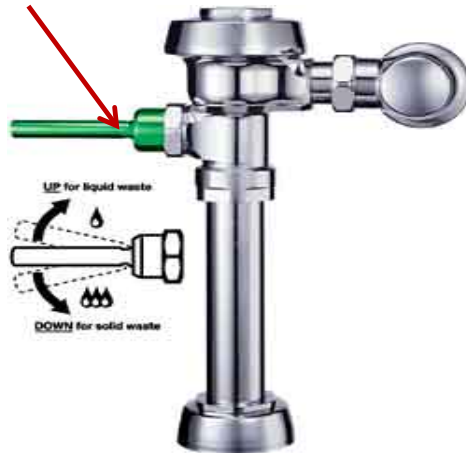


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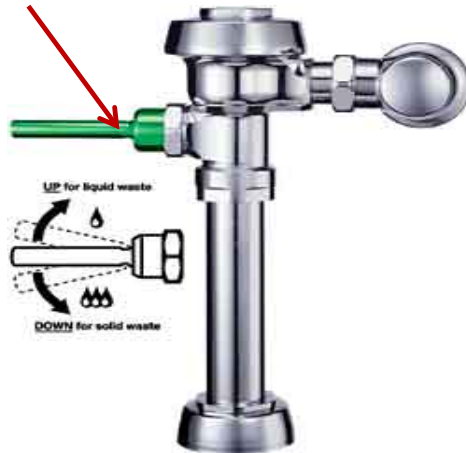
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Licensed item (2-way valve)



2-way valve is an additional, optional feature. Main unit should not be included in Royalty Base

Licensed item (earbud)



Bluetooth module has no utility by itself. It should be included in Royalty Base

A collaborative, value-creating valuation process

1. Qualify the licensee;
2. Agree on revenue and profit model;
3. Agree on critical success factors (Diligence);
4. Agree on contribution of the IP to the value delivered by the licensee;
5. Propose & negotiate terms that share the agreed value.

Join us next time for Segment #2!

1. Creating Value Today!
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4. Special Issues for startups