



M05.1-Valuation

TEST

Question 1: What conditions must an IP asset meet in order to be valued?

Question 2: List three basic principles for valuing IP assets.

Question 3: How do we proceed when using comparative valuation methods?

Question 4: When do we use cost valuation methods?

At least 5 answers.

Question 5: Describe the relief from the royalty method and state the formula.

Question 6: Describe the net capitalization method.

Question 7: Specify at least seven IP assets valuation purposes.

Question 8: Specify at least ten documents relevant on the valuation of IP assets.



Question 9: Why are the purpose of the valuation and the scope and quality of documents crucial for the valuation of the IP asset?

Question 10: How can we determine an appropriate license fee for the licensing of the IP asset (LP)?

Question	Points
1	3
2	3
3	6
4	5
5	3
6	1
7	7
8	10
9	2
10	3
Sum	43



Testing Set - Evaluation/Grading Criteria

Clearly state how the module of course's requirements are evaluated.

Grading criteria:

- Participation at the lectures
- Passing the test with 10 questions about the valuation of the IP assets. The test includes the questions from the study material prepared for this module.

Evaluation	%
A	93 - 100
B	85 - 92
C	77 - 84
D	69 - 76
E	61 - 68
FX	less than 68

Correct Answers

Question 1

Correct answer:

- It must be separately identifiable - described, recognizable with tangible evidence of its existence - registration documents, R&D documentation, contracts, license, etc.
- It should have been created at an identifiable point in time.
- It should be capable of being legally enforced and transferred.
- Its income stream should be separately identifiable and isolated from those of other business assets.
- It should be able to be sold independently of other business assets.

Or:

IP assets able to be valued are independently identified, are transferrable, and have an economic useful life.

Question 2

- comparative principle (other correct answers: market principle),
- cost principle,
- income principle (other correct answers: yield principle or revenue principle)



Question 3

1. We identify the relevant market according to the assessed intellectual property.
2. In this market, we obtain all available information on completed transactions.
3. We analyse the information obtained and select only those that are relevant to the subject of the valuation and the purpose of the valuation.
4. Based on the performed analysis, we will select comparable items of intellectual property and performed transactions. Here we define in advance the appropriate comparative characteristics, which depend on the type of valued IP asset, the industry, the degree of its development, the economic aspects of the industry, etc.
5. The comparison itself follows.
6. We formulate conclusions according to the task - we determine the market value of the subject of valuation, the value of the license, the amount of the license fee, etc.

Question 4

Correct answers:

- when the IP asset can be easily reproduced,
- when the economic benefits of that IP asset cannot be accurately quantified,
- IP asset is not used for a long time,
- future use of IP asset in the company activities is not expected,
- IP asset does not have a current market application,
- the company that owns IP asset is in bankrupt,
- valued IP asset is in proceedings before the court with an uncertain result,
- valued IP asset is in proceedings before the patent office with an uncertain result.

Question 5

Relief from Royalty Method is based on the theory that for the right to use IP asset, the user would have to pay a certain price with the consent of the entitled person, if he did not have this right or knowledge. The right to use IP asset is paid an appropriate financial remuneration, usually in the form of royalties, for the duration of the license agreement, or until the end of the useful life of the IP asset.

$$HV = \frac{RV * KZ * LP * PM}{(1 + KD)^t} \quad [€]$$

Where:

HV = annual valuation of IP asset [€],

RV = annual range of revenues in financial terms [€],

LP = license fee [% / 100],

KZ = coefficient of obsolescence / coefficient of appreciation [% / 100],



KD = coefficient of capitalization rate [% / 100],

PM = the share of intangible assets in manufacturing production [% / 100]

t = serial number of the year in which the right will be used.

Question 6

The basis is to:

- determine the length of the period in which the IP asset will be used
- calculation of the amount of net income generated by the use of valued IP asset
- determination the share that falls on the valued IP assets of the company from the generated net income

Or:

It values the IP asset on the basis of the amount of (net) economic income that it is expected to generate, adjusted to its present-day value.

Question 7

Correct answers:

- Non-monetary contribution of the IP asset to the company's share capital (spin-off, spin-out)
- Sale of IP asset
- Purchase of IP asset
- Business transformation (joint ventures, alliances, inter-affiliate transfers – transfer pricing issues)
- Venture investment (angel investors, venture capitalists, private equity)
- Merger and acquisitions
- Corporate valuation for stakeholders
- Pricing
- Back-up for lending
- Licensing (determining fees, up-front payments, royalty rates)
- Enforcement proceedings
- Proceedings under the Bankruptcy and Restructuring Act
- Price negotiation when transferring or transferring rights
- Criminal proceedings – infringement
- Efficient company management
- IP portfolio management
- Damages calculation
- Taxes calculation
- Strategic decisions



Question 8

Correct answers:

- Documents and Certificates from the IP Registration Offices
- Outputs from databases – patent databases, royalty rate databases, etc.
- Searching reports
- Business plan
- Work contracts with the inventors, researchers, etc.
- Author's agreements
- License agreements
- Franchise agreements
- Legal representation agreements
- Contracts with a patent attorney
- Organizational structure
- Internal guidelines
- Organizational rules
- ISO standards
- Documents regarding the management of intellectual property in the company
- Research reports
- Test results
- Improvement status of administrative actions in order to pay a fee to the improver
- Contractual settlement with employees in the case of business solutions
- Confidentiality agreements
- Financial statements
- Accounting outputs - costs, investments, maintenance or administrative fees paid, fees paid by the solver, royalties, legal and patent representation costs
- Projects proposals
- Description of the production process with a focus on the involvement of protected elements
- Technical documentation, prototyping
- Analyses, market research and other materials for development and research prepared by the company in the form of studies
- Implemented trainings, employee training programs

Question 9

The purpose of the valuation and the scope of the documents influence the choice of the valuation method and the value as such. The experts must properly and carefully verify all the submitted documents (especially the business plan, contracts, licence agreement, state of art of the IP, etc.) and consider them to the essence of the IP asset. We must check the legal purity of the IP asset, the legal life of the IP asset, strength and scope of protection, settlement of property rights, market life and economic life of the product. We have to verify the business plan – expected revenues must be verified



on historical data and all discrepancies must be commented. For example: when we use cost valuation methods all identified costs must be supported by real evidence so that they must be examined and verified.

Question 10

One option is to take a market approach and analyse what similar companies charged for similar IP assets in licensing agreements. We can find market-based royalty and licensing data by using royalty rates databases. Then the royalty rate (usually presented as a percentage) can be applied to the projected revenue.

Another way is that when verifying the documents, we identified several license agreements that the company has concluded. Based on these agreements, we can identify the usual license fee for a given company and its subject of business.

It is also possible to use the license database of an expert who values the IP property. The determined license fee must be supported by evidence so that the expert's estimate can be verified.