



# TRIANGLE

V e n t u r e C a p i t a l G r o u p

New uses of IP and  
need for valuation

A Venture Capital Perspective on  
Patent Valuation  
and new Regulations

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Patentanwalt Dr. Malte Koellner

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## Agenda

- venture capital basics
- (new?) uses of IP
- need for valuation
- new regulations

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## Venture Capital Basics



Investment

Growth period (3-7 years)

Exit

buy 30% shares

for 1 Mio. €

sell 30 % shares

for 5 Mio. €

rate of failure > 50%

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## (new?) uses of IP (1/5)

from the perspective of a company seeking capital

- ✓ increase the value of the company
- ✓ make your business case / business plan sound
  - key factors for investment decisions:
    - management
    - product, market
    - IP
- ✓ Prove uniqueness of the technology

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## (new?) uses of IP (2/5)

### quality of IP

- > influences risk evaluation
- > influences adequate discount rate
- > influences net present value of the company

### strong IP

- > reduced risk
- > increased value of the company



## (new?) uses of IP (3/5)

### Venture Capital perspective

- ✓ securing an investment
  - generally:
    - investment to finance growth, receive shares
    - shares supported by business model
    - business model supported by IP
  - seldom:
    - investment secured by IP directly (e.g. liquidation preference)



## (new?) uses of IP (4/5)

### use during the holding period

- ✓ good patent applications significantly increase the turnover 2-3 years later
- ✓ -> build a high quality patent portfolio
- ✓ patent management improves the return of a company
- ✓ -> install patent management

### common use:

- ✓ block others from entering the market / Build monopolies / protect USPs
  - ✓ protect a competitive advantage
  - ✓ use in negotiations
  - ✓ use as marketing instrument
  - ✓ strengthen the market position
  - ✓ build partnerships, franchising
- use for generating return
- ✓ licensing
  - ✓ file patent infringement suits and claim damages ("stick licensing"), in particular in Germany

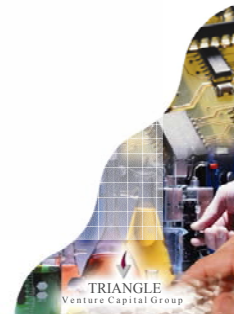


## (new?) uses of IP (5/5)

### use towards an exit

#### strategic use

- ✓ become visible even with low turnover
- ✓ trigger a merger or acquisition using IP
  - file a patent infringement suit, settle it by acquisition
  - buy a competitor to get hold of his IP
    - in order to prepare an IPO or trade sale



## need for valuation (1/2)

### Quantitative valuation of patents or IP

- ✓ plays no major role in investment decisions or transactions in the venture capital or private equity industry as far as investments in running companies are concerned
- ✓ Valuation takes place on the level of the company as an entity
- ✓ The present fair market value of the company is determined
- ✓ The quantitative financial valuation of patents (not the company) comes in when the patents alone are to be sold / acquired, e.g. in case of failure of a company, when the remaining assets are sold
  - selling of patents as assets is often performed with the help of intermediaries
- ✓ It will less be the case when separate business units are sold or spun-off



## need for valuation (2/2)

### Qualitative valuation of patents or IP

- ✓ IP due diligence
- ✓ crucial for the investment decision or transactions
- ✓ often make-or-break
- ✓ regularly used for patent portfolio management



## new regulations

### computer implemented inventions

- ✓ major impact on venture capital investments in the software industry
- ✓ without patents on computer implemented inventions there will be
  - fewer investments and thus
  - less employment in this sector
- ✓ CII patents are good for small enterprises, start-ups, etc.
  - they help to build companies

### Community patent

- ✓ An efficient community patent would be highly appreciated by the venture capital industry

### Community patent court

- ✓ unified patent infringement suits for the entire European Union



## Contact Information

### Speaker

Patentanwalt Dr. Malte Köllner  
Triangle Venture Capital Group  
Management GmbH  
Marktstrasse 65  
D-68789 St. Leon-Rot  
Germany  
Tel: +49 (0) 6251 800 83-0  
Fax: +49 (0) 6251 800 83-9  
[www.triangle-venture.com](http://www.triangle-venture.com)

Dr. Malte Köllner  
[koe@triangle-venture.com](mailto:koe@triangle-venture.com)

