

IP Valuation of a Company: Verses of a Necessity

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Any business or startup should value its intellectual property (IP) because it can give it a competitive edge and boost sales. Trademarks, patents, copyrights, trade secrets, and other intangible assets are examples of IP. However, businesses must carry out IP valuations to effectively harness the value of IP. This article will examine the usefulness of IP valuation and how a company or startup can profit from it.

To start, a company's intangible assets can be identified and valued using IP valuation. When making business decisions, such as estimating the worth of a potential merger or acquisition or obtaining funding, this knowledge can help. For instance, a firm can raise more money from investors interested in the technology if it has a strong portfolio of patents.

Additionally, methods for safeguarding and profiting from a company's IP assets can be developed using IP value. Companies can create plans for licensing their IP, forming partnerships, or selling their IP by recognizing the worth of their IP. This may contribute to the creation of new revenue streams and commercial prospects. For instance, if a business holds a patent with significant retail value, it could license the invention to other companies in exchange for royalties.

Identification of potential hazards of infringement is another advantage of IP value. Companies can establish if they have the resources to defend their intellectual property in court by evaluating the value of their IP assets. Doing this will protect the company's intellectual property and expensive lawsuits may be avoided. Additionally, suppose a business recognizes possible risks of infringement. In that case, it can take action to reduce those risks, such as by signing licensing agreements or filing a lawsuit to defend its IP rights.

In addition, IP valuation can help spot chances for innovation and expansion. Companies can identify any gaps in their IP portfolio and take action to close them through innovation or acquisition by evaluating the value of their IP assets. By doing so, businesses can develop new goods and services, increase their income, and keep their competitive edge.

Finally, IP valuation can help estimate a company's value for merger and acquisition purposes. Particularly in sectors where technology and innovation are crucial, IP assets can significantly impact a company's value. Companies can assess the worth of their intellectual property assets and how much it adds to their overall value by undertaking an IP valuation. The corporation can then use this information to bargain for a reasonable price during a merger or acquisition.

But instead, IP valuation can also assist businesses and startups in identifying potential hazards related to their IP assets. For instance, a business could unknowingly violate the intellectual property rights of another business. Companies can detect possible risks of IP infringement and take action to reduce those risks before they become an issue by valuing their IP assets.

The ability of IP valuation to assist businesses and startups in creating efficient IP management plans is another advantage. Companies can better determine which assets are more valuable and should be prioritized by pricing their IP assets. This can assist businesses in making strategic choices on managing their IP portfolios, including which assets to invest in and which to license or sell.

The issue of value is complicated when it comes to intellectual property. Numerous elements need to be considered, such as the kind of IP, the stage of development, the potential market, and others. As a result, there is no easy solution to the question of how much IP is worth. However, there are a lot of tools available that can aid with this procedure.

First, the World Intellectual Property Organization (WIPO) provides resources and information to assist you in determining the value of your intellectual property. Their website lists three main approaches to IP valuation, including:

- **The income method:** values IP on the economic income it is expected to generate. This method is best to use when the IP creates a positive cash flow that can be estimated with some reliability.
- **The market method:** compares the actual price paid for transferring rights to a similar IP asset under comparable circumstances.
- **The cost method:** establishes the value of an IP asset by calculating the cost of similar IP assets.

The evaluation's goal and the company's maturity level significantly determine which valuation approach to utilize. Implementing the Income Approach typically fails for the typical beginning company since there is no relevant history of cash flows or projections of future cash flows. Additionally, the Market Approach rarely succeeds because it is challenging to find transactions

for technology equivalent to that covered by the IP portfolio of a new company. Given the new company's infancy, the Cost Approach frequently offers the most precise valuation of its IP portfolio.

A startup firm should gather and quantify the expenditures incurred to build the IP portfolio to estimate the cost required to replace or recreate it. The startup business should evaluate the price of its R&D activities, taking into account the time and salaries of the inventors, the materials, machinery, and equipment used to develop the IP portfolio, other capital investments, contracted third-party services, and the costs related to patents in the US and other countries, including both legal fees and patent office fees.

Since the Cost Approach only considers expenses incurred and ignores gains anticipated from using the IP portfolio, the valuation will frequently appear cheap to a new company. A Market Approach or Income Approach may be more appropriate over time if the company has a track record of cash flow and demonstrates the real potential for market penetration for its products and services, allowing for higher valuations. The founders can reduce the dilution cost of venture financing by relying on debt financing up to the business's cash flow, which supports reliance on the Income Approach.

IP valuation is a crucial tool for businesses and startups trying to manage their intellectual property assets. Companies can identify potential revenue streams, draw in investors, see potential hazards, create efficient IP management methods, and safeguard their IP assets by valuing their intellectual property. As a result, each business or startup's IP management strategy should include IP value.

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