



Valuation Consulting
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Approach to Valuation Fundamentals

- **Identify the asset in question**
- **Determine the most appropriate valuation methodology**
- **Quantify the likely value**



Identify the Asset in Question

- **A single or group of patents?**

Patents don't travel in a vacuum

- **Workforce**
- **Know How**



Methods of Valuation

Market Based

- **Comparable market transactions**

Cost Based

- **Historical or replacement cost**

Income Approach

- **Future economic benefits**



Income Approach

DCF

- ***Establish the Cashflows***
- ***Establish the Useful Life of the Asset***
- ***Establish the Discount Rate***



HOW MUCH?
(CASHFLOWS)



Royalties Foregone/Relief From Royalty

- **Estimates future royalty stream**
- **Basic premise sale & lease-back**
- **Royalty equivalent to excess profit component**
- **Facilitates comparison with Royalty Rates of similar intellectual property in marketplace**



Calculating the Royalty Rate

Special Factors

- **Relative dominance of the brand, patent etc**
- **Geographical area covered**
- **Probable level of continuing sales**
- **Do not always accept ‘market rates’ ‘industry norms’ as gospel**



Royalties Foregone/Relief From Royalty

Problems

- **May undervalue the Asset**

- **Comparable**

may be out of date

lack of detailed information

Is it Really Comparable



**HOW LONG FOR?
(TIME PERIODS)**



Useful Life

- **Physical life**
- **Functional life**
- **Technological life**
- **Economic life**
- **Legal life**



AT WHAT RISK?

(COST OF CAPITAL)



The Discount or Capitalisation Rate

Derive the appropriate cost of capital

- **Risk free profile**
- **Risk factors**



The Discount or Capitalisation Rate

Risk Free Profile

- **CAPM**

Government Bonds – but which Government

The Beta

Equity Premium



The Discount or Capitalisation Rate

Risk Factors

- **Numerous but include**

Country Risk

Economic Risk

Regulatory Risk

