Reasons to value your intellectual property

Back in the industrial age, tangible assets like plant and equipment were the secret to building substantial company value. But in today's businesses, it's the way you harness and multiply know-how, not manpower, that makes the difference. The recent Hargreaves Review highlighted that UK company spending on intangibles now far outstrips expenditure on tangible assets – by £137bn to £104bn in 2008. What's more, the Government estimates that **£65bn** of this figure was accounted for by investment in developing or acquiring intellectual property (IP).

Companies make these investments in order to build shareholder value, which is often achieved by way of an exit. However, a business sale is just one of the many contexts in which it can be beneficial to understand what your IP and intangibles are worth. Here are our "top six".

1. **Better business management**
   Like any other form of company property, IP and intangible assets need to be managed in order to achieve their potential.
   Clearly, the first step is to understand what your business owns. But then, to justify committing time and resource to these assets, you also need to have a way of determining what they contribute to your business.
   An IP valuation expresses this contribution in terms of financial value, which is a measure that every board can understand (it will also help your shareholders to see what returns are being generated on investments that are off-balance sheet).

2. **More effective exploitation**
   Smarter use of IP can help your bottom line and your top line. For example:
   - Have you considered licensing your technology to reach new markets (a trade estimated to be worth £600bn a year globally)?
   - Do you have under-utilised assets you could sell?
   - Would your offering benefit from complementary products, services or technologies?

   All of these transactions will involve a degree of negotiation: if you don't have a starting point for IP value, it is hard to know whether you have agreed a fair price.
   (If you are considering licensing your IP, you might like to choose a "relief from royalty" method for valuation, as it should also give you insights into the prevailing rates paid in your sector.)

3. **Saving money**
   Your IP has potential to save your business money. It can form the basis for claiming R&D Tax Credits, and be packaged in ways that are highly tax-efficient.
   However, it can also cost you too much. You could be spending money developing IP that is not likely to deliver a worthwhile return; paying to protect IP you have no plans to use; or spending money on protection you don't need.
   Once you know what your assets are worth, you can make informed decisions about what to do with them, and how much to invest in them.

4. **Aiding collaboration**
   If you're participating in a collaborative project with one or more other organisations, how do you estimate the contribution made by the "legacy IP" you bring to the table?
   Do you have a basis for agreeing what your respective future contributions will be worth? And how do you work out the potential of what you're co-creating?
   Obtaining an independent and impartial view of IP value can help you reach an agreement that is fair to all parties.

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5. **Obtaining funding**
   IP is often crucial when obtaining equity investment. Investors need to know what you own and how it contributes value to your business (for example, by creating barriers to entry or freedom to operate).
   IP is also an important consideration in grant funded initiatives, especially for R&D funding where new IP is generally expected to result from the funding provided.
   For lending, too, intangible assets like customer contracts are essential to give banks confidence that you can meet your obligations. Some specialist funders will take a security charge over IP so that you can borrow against it directly.
   IP is even helping large organisations to address critical issues such as pension funding.
   A valuation can tell you what the level of value present in your IP may be, so that you can make an informed assessment of your funding options.

6. **Realising your business's true value at sale**
   Intangible assets typically account for up to 75% of the value attributed to quoted companies. Moreover, they're often the assets that make your business a desirable purchase – your brand and its reputation, your customer relationships and contacts, the know-how embedded in your products and services. But how does a privately owned company assess the value represented by its investment in intangibles?
   If you want to get the right price for your business – you'll want to know, and bring out, the value that *doesn't* appear on your balance sheet.

While IP valuation is a fairly specialist business, there are a number of companies, including Inngot, that can help you determine what your IP and intangibles may be worth.

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