



Intangible Assets and IPR Management: Issues & Policies

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The world economy is being characterised by a progressive shift towards high value added, knowledge intensive sectors

Internationalisation of activities has imposed the emergence of **Global Value Chains**, affecting all types of enterprises with an international outlook

With a virtually global market, the development of **adequate networking competences** of the management team can spur the firm's internationalisation process from the very **early stages** of its life

Objective: identify policy recommendations and highlight cost effective, private sector, initiatives enhancing **SMEs participation in Global Value Chains**



KNOWLEDGE INTENSIVE COMPANIES (KICs)

We will focus our attention onto a particular type of SMEs: Knowledge Intensive Companies (KICs). They cover a critical role in:

- strongly affecting employment
- playing an increasingly active part in Global Value Chains: initiators
- KICs can gain great advantages from Global Value Chains through:
 1. higher flexibility
 2. capacity to quickly adapt to the fast changing circumstances
- Their main asset is represented by Intangibles: **research capabilities**, the **technology embedded** and the **provision of IP products**



ISSUES OF CONCERN

Limited managerial experience affecting:

- Intangible assets and IP management
- Establishment and exploitation of international partnerships
- Effective participation to Global Value Chains

Lack of knowledge on the legal available instruments and on their proper use in protecting the IP product

Difficulties in accessing the necessary financial resources for the development and constant upgrade of IP products

Insufficient level of Investor Readiness



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The intangible nature of KICs' assets has important repercussions on the following closely interconnected elements:

Intellectual Property Rights management

- Monitoring of competitive products/technologies/patents
- Correctly employing the legal tools in protecting products/technologies

Investor Readiness

- Being able to clearly outline the business plan fulfilling investors' expectations

Correct evaluation of the idea/product and its market potentials

- Thorough understanding and employment of the most appropriate valuation method

Access to early stage risk finance

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INTELLECTUAL PROPERTY RIGHTS MANAGEMENT

- KICs require attention in the initial stages to assure an adequate **development** and **protection** of their product
- The commercial viability of an **IP product** resides in its actual implementation on the market place requiring:
 - **the management team to correctly manage the intangible asset by employing the legal tools protecting the innovativeness of the idea in order to ensure the exclusive right to its commercially exploitation**
- **IP protection** will augment **early stage investors' interests** in a particular KIC by providing further, strong, **guarantees on future returns on investments**

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INVESTOR READINESS

The ability of illustrating the Business Plan by clearly defining:

- the **technology** behind it, the **IPR** and the **exclusiveness** for the further development and exploitation
- the **market potentials**
- the **commercial opportunities** and the relative **returns** over the short, medium and long terms
- **future development paths**

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INVESTOR READINESS

INVESTOR READINESS can be further divided in:

- **People readiness:** entrepreneurial attitude of the proponent
- **Market readiness:** response fitting market/investor expectations
- **Intellectual Capital Readiness:** know-how/legal capabilities allowing the firm to adequately legally protect the IP ideas/innovations/inventive steps produced



CORRECT EVALUATION OF IP

Valuation Methods:

- *Income based:* multiples of historic profits; evaluation of incremental profits earned; excess profits over and above the required rate of return; relief from royalty
- *Cost based:* cost of reproducing the asset
- *Discounted cash flow:* discounted future cash flows at present value using a weighted average cost of capital
- *Transaction based:* comparisons with similar transactions in the market

Important: insights of the dynamics behind the knowledge evaluation process and comprehension of the technology behind the invention



FINANCIAL RESOURCES – EARLY STAGE RISK FINANCE

Investments in knowledge based enterprises are considered as risky due to:

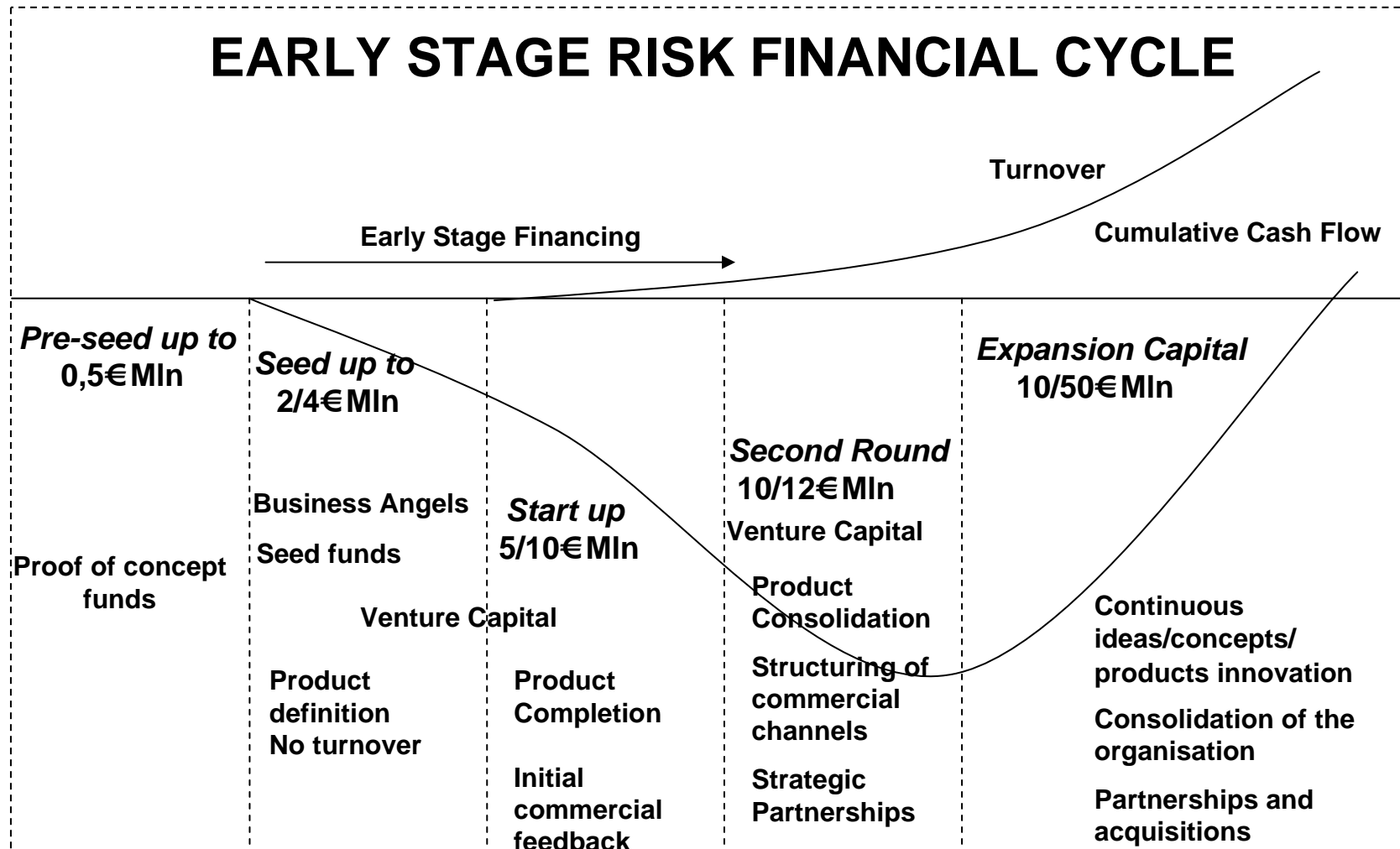
- the intangible nature inherent their activities
- the small sizes of transactions
- perceived high default rates
- lack of an established income stream

Seed capitalists are the most likely to invest in knowledge based enterprises providing **equity finance** for **medium/long-term investments** and **managerial/technical experience** integrating the management Team

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EARLY STAGE RISK FINANCIAL CYCLE





FINANCIAL RESOURCES – EARLY STAGE RISK FINANCE: figures

- BAs in the USA have raised €23 billion in 2005 and have invested in 49,000 KICs; in Europe they have raised €127.117.081 in 2005
- The European Business Angel Network reports that in 2005 there were 211 networks with cumulative investment for €127.117.081, averaging €194.819 per investment
- Over 2001-2005 €193.8 billion of Venture Capital were raised in Europe, with €71.8 billion in 2005 of which €5.1 billion invested in high-techs sectors
- Overall investment in 2005 amounted to €47.0 billion, a 27% rise over the previous year

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PHARMAESTE

- Biotech spin-off from the University of Ferrara
- Research and development of drugs for pain: treatment of pathologies as neuropathic pain
- Medical (biotech) research requires long development times (10-15 years) with high costs (€ 10-15 million): IP protection is thus one of the most decisive factors for the success of a spin-off
- IP protection involves constant monitoring on the state of the art of alternative products and surveys on the IPRs of other pharmaceutical companies

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PHARMAESTE

- The University of Ferrara has given it: 5 patents and as many active principles; 3 full time researchers; 4 researchers on a contract; 3 high levels scientific advisors
- Funding: the company has received €3.2 million from Z-Cube, Quantica SGR, Zernike Meta Ventures, State Street Global Investments
- Financial resources raised for the different development phases:
 1. Phase 1 (toxicity verification) €6 million
 2. Phase 2 (efficacy verification) €12 million
 3. Phase 3 (clinical experimentation) €20 million

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TECHGENIA

- System Technologies division of the Solgenia Group
- It provides companies with web-based services/solutions for improving and better managing their businesses
- It has created partnerships with international high-tech firms, establishing a technological platform of Business Collaboration offering advanced hardware solutions
- Main areas of expertise:
 1. IP Services and Security
 2. IP Voice and Video
 3. IP IDC
- Techgenia is the exclusive distributor for Italy of products for road clustering (internet) and appliance Pagebird (security)



Thanks for your attention

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