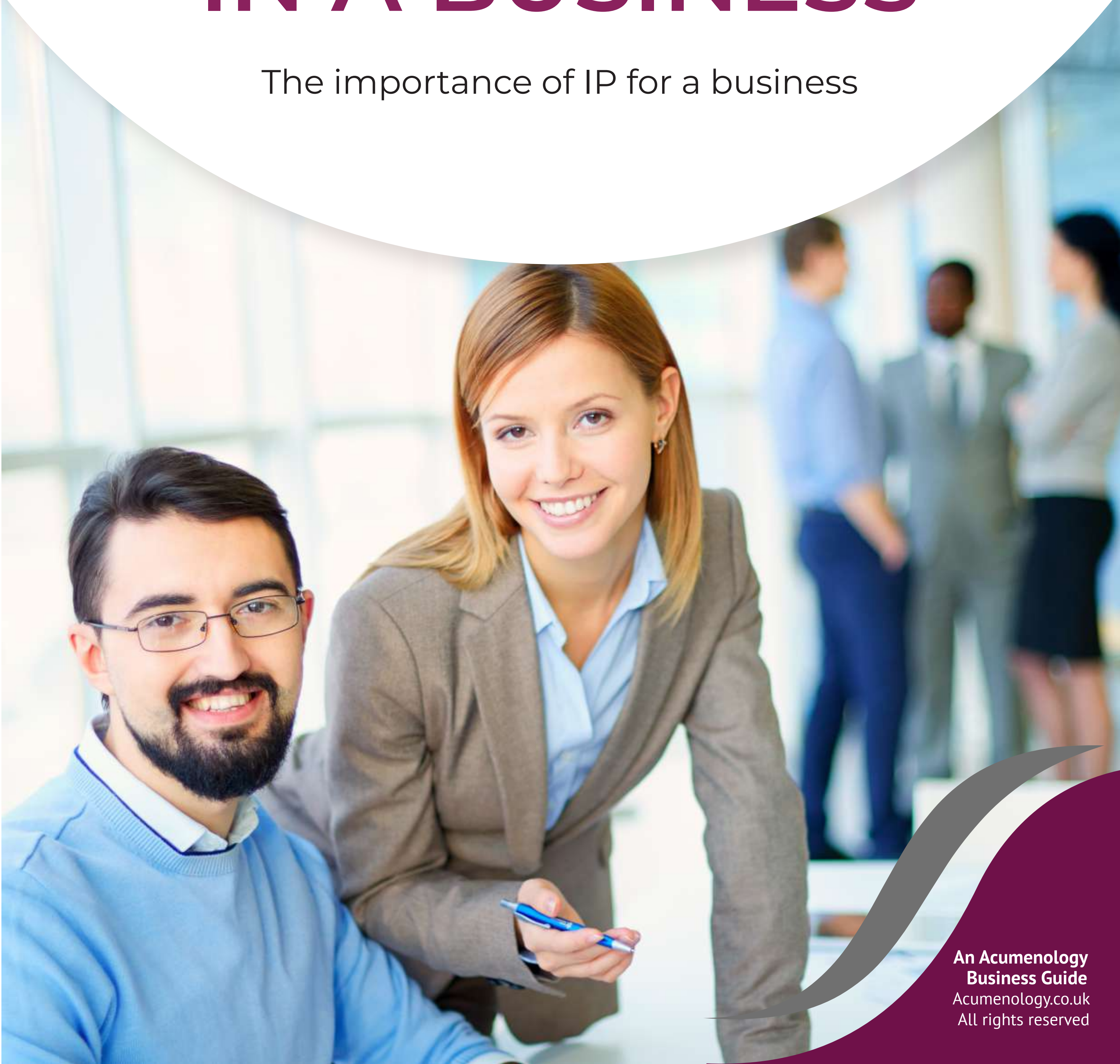
Acumenology

business support

UNDERSTANDING THE VALUE OF IP IN A BUSINESS

The importance of IP for a business



An Acumenology Business Guide
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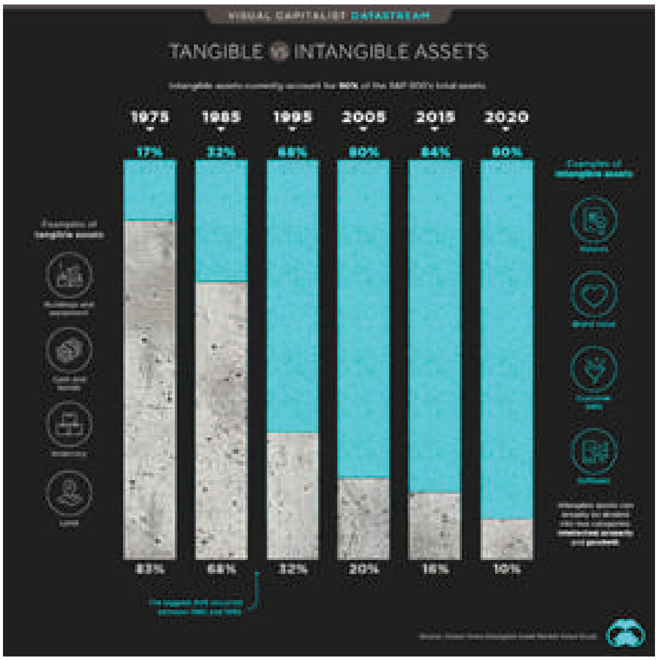
Did you know that around 80-90% of the value of a company lies in its intangible assets?

Unbelievable but true!

This is not an unsubstantiated fact – the 80% figure has been stated by the Intellectual Property Office (IPO), whilst the 90% relates to a report by Ocean Tomo, on the value of intangibles in S&P 500 companies.

As the table below shows the value of intangible assets in 1975 was a mere 17% compared to 90% in 2020. This increase reflects the trend we are all familiar with, that is the move from a manufacturing-based economy towards a more knowledge-based one.



Furthermore, it is likely that for knowledge-based start-ups the intangible value of their business could be as high as 98%.

What are intangible assets?

An intangible asset is an asset that isn't physical in nature but holds long-term value for the business such as a patent, brand, trademark, or copyright.

An intangible asset can be considered either indefinite. For example, a brand name will have value for as long as the company is in business, making it an indefinite intangible asset or, definite.
For example, a copyright or patent is only valuable up to the point that they expire, which means that they're classified as definite intangible assets.

Here are some just examples of intangible assets - how many do you recognise that may apply to your business?

▪ patents	▪ copyright
▪ software/code	▪ marketing rights
▪ databases	▪ licensing
▪ trade secrets	▪ royalty agreement
▪ trademarks	▪ confidentiality agreements
▪ photographic & audio-visual material	▪ customer and supplier relationships

IP and investors

Most start-ups are likely to be raising equity financing at some stage and, since investors are likely to assess potential investment opportunities from an IP perspective, it is important entrepreneurs start the process of identifying and protecting their IP assets before they begin looking for external investment.
Listed below are some of the question's investors are likely to ask.
As you will see there is a lot of work to be done before you start fund raising.

- Have patent rights been put in place for all core inventions, including defensive filings where relevant?
- Has the company or product's brand and/or visual appearance been protected as trademark/design rights in all key jurisdictions?

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- Is the IP's ownership clear and up-to-date; for example, where it has been created by multiple stakeholders or passed from one company to another?
- How crowded is the market and technology space for any new/core inventions – is there a risk of a third-party infringement claim?
- Where does the IP sit in relation to competitor activity – does the portfolio need to be reinforced with additional filings?
- Does additional IP exist in the business that has yet to be protected?
- How do the identified strengths and weaknesses of its IP portfolio impact on a business's value and potential?

Professional IP advice

We strongly recommend getting professional IP advice from the onset.
The most efficient way of assessing the IP position of your business is to commission an independent IP audit.

A list of IP professionals is provided at the end of this guide.

The IP audit

The IP audit is a detailed report on the IP position of your business at a certain date together with recommendations to mitigate identified risks.

It will consist of a review of patents, trademarks, designs and copyright together with a detailed review of contracts, competitor freedom to operate, patent landscape search and open-source licence validation.

A word of warning – solicitors may be able to review and comment on contracts and trademarks but not patents, whilst a patent lawyer will be able to review and comment on patents but not contracts and trademarks.

What should an IP audit cover? Kevin Hanson of Panoramix, an IP specialist operating in UK & US, has listed the following:

- Review of the applicability of any patents already filed.
- Consideration of areas where new patents might be filed.
- Determining whether innovations should be filed as a patent or kept as a trade secret, or a combination of the two.
- Review of current and future brands and development of a brand protection strategy.
- Knock-out search in the UK, EU, US and WIPO for the identified brands.
- Consideration of how best to protect copyright protected works.
- Review of product and digital designs for applicability of registered design protection.
- Review of NDAs, employment agreements, consultancy agreements, service agreements, website terms and condition, privacy policy, collaboration agreements etc from an IP perspective.
- Provision of simple IP contracts, i.e., NDA and IP assignment.
- Generation of an IP statement.
- Competitor patent search for identified competitors (no analysis as part of the audit) possibly also a reverse and forward citation search depending on the number of patents filed by competitors.

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Understanding IP ownership

One of the most important (but frequently misunderstood) issue is around ownership.

It is essential to ensure your company fully owns and controls all of its IP.
Failure to get this right may not only be a costly mistake but it can also seriously jeopardise your fundraising.

Whilst the IP attorney will address this issue in detail, here is some basic information for consideration.

Who owns ‘your’ IP?

It is important to remember that your company will not necessarily own the IP that has been developed just because it has paid for it. The legal position differs vastly depending on who created the work. For example:

Founders: founders may create and develop IP before the incorporation of their company.

They might, for instance, develop brand names, formulate algorithms, register domain names, develop the website, etc.
Any IP created by the founder(s) prior to the incorporation of the company will be owned by the founders, not the company.

Founders also tend not to enter into employment or consultancy agreements with the company for their services.
As a consequence, IP developed by founders during the performance of their services after incorporation of the company will not ordinarily be owned by the company.

This is a complex area and your IP attorney will help clarify any issues.

Employees: the basic rule is that the company will own the IP that its employees develop, provided it is created in the course of his/her employment.
There are exceptions however, and employment agreements should always contain comprehensive provisions to ensure that IP is owned by the company.

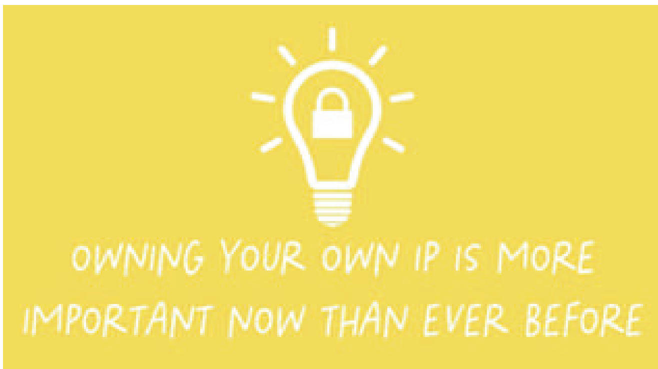
Consultants/contractors: unless there is a written contract in place that transfers ownership, the consultant/contractor will almost always own the IP that they create.
This is a very common issue and often requires the consultant to enter into a written contract to transfer ownership of the rights if such an agreement does not already exist.

Third parties: start-ups are likely to contract with third party companies to help develop their offering (for example, a web-development company, product design specialist, software development provider, etc.).
Even though your company has paid for the services, the third party will own the IP unless there is a contract which provides otherwise.

How to ensure your company (as opposed to its founders or workers) owns its IP

Before you start fund raising, you would need to have started the process of identifying and protecting your IP.

In order to avoid spending time and effort in clawing back the IP the company needs, it is essential to start dealing with these issues at the onset in order to minimise risk later on.



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Here are some simple steps you should take;

1. Keep a written record of who created or helped create the IP important to the company's business and ensure that suitable contracts are in place with each of them;

2. Enter into written IP assignments with each of the founders to transfer ownership of all past IP to the company.

Visit Seedsummit for a free IP Assignment Agreement template

3. Check that the company has entered into written employment agreements / consultancy agreements with each of the founders to ensure all future IP developed is transferred to the company.

If you have not done so make sure you do as soon as possible.

4. Ensure that all employees have signed an employment contract that:
    a. assigns all IP to the company immediately on creation, and
    b. waives all moral rights.

If not, enter into written employment agreements as soon as possible.

5. Ensure that all consultants have signed a consultancy agreement that:
    a. assigns all IP to the company
    b. waives all moral rights.

If not, enter into a written IP assignment or moral rights waiver with the consultant.

6. Check that all third-party companies that have developed products / services
    a. have assigned all IP to the company a
    b. provided a warranty that all moral rights have been waived.

Conclusion

Having understood the value of IP for a business, it is essential founders start the process of identifying and protecting the IP and that they consult the services of a suitable IP lawyer as soon as is practical.

The following list is of a selection of IP Professionals with experience of working on the IPO IP Audits.

Whilst this list is not extensive, you may wish to choose your own or, one that has been recommended.

Please note the logos are hyperlinked

AA THORNTON INTELLECTUAL PROPERTY LAW	GJE
PANORAMIX	inngot
IP TWENTYONE	Keltie
Mathys&Squire	POTTER CLARKSON Intellectual Property Specialists Patent and Trade Mark Attorneys
SLINGSBY PARTNERS	Stephens Scown
withers & rogers Patent and Trade Mark Attorneys	Barker Brettell Intellectual Property

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