



Traders on the floor of the Chicago Board of Trade, courtesy of DayLife and Getty Images

## Show Me The Money

—

A Historical Look at  
Patent Brokerage Transactions  
and What The Future May Entail

# THINKFIRE

Gathering 2.0 Webinar  
September 9, 2008

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– Agenda –

- ***A Simple Study of Patent Brokerage Pricing Levels, 2002-2008***
- Applications for the Findings
- Trends Moving Forward
- Questions

## Let's get started by discussing how we performed our study, and what we found

### – *Our Study* –

#### Methodology

- Document verifiable transactions to establish a record of price levels
- Ignores terminated, suspended, and in-process transactions

#### Summary Statistics

- Overall 2002-2008
- 2008

#### 2008 Statistics

- Overall 2002-2008
- 2008



A trader on the floor of the Chicago Board of Trade, courtesy of NY Post and Getty Images

**Note that this study is based upon patent brokerage transaction data, and the quality of this data will determine the quality of our conclusions**

**– A Caveat –**

- We have a view on public transactions, as well as our own transactions
- We know that many more transactions occur beyond our purview
- We do not know with certainty as to whether our transaction set is biased in any way or whether it is representative of the entire market

**Our database of 254 deals between 2002-2008 indicates a median price per family of \$110,000**

**— Summary Results —**

<b>Factor</b>	<b>Overall</b>
Number of Transactions	254
Total Gross Deal Proceeds	\$519 m
Maximum Cost / Family	\$12 m
Mean Cost / Family	\$0.381 m
Median Cost / Family	\$0.110 m

*Source: ThinkFire transaction database, 2002-2008*

Recall that these statistics describe the mean and median for ALL KNOWN CLOSED TRANSACTIONS



For best results, we should understand how our planned transaction(s) fit into the set

**Our database of 90 deals from 2008 indicates a median price per family of \$160,000, or 45% above the median for the overall set**

**— Summary Results —**

<b>Factor</b>	<b>Overall</b>	<b>2008</b>
Number of Transactions	254	90
Total Gross Deal Proceeds	\$519 m	\$66.75 m
Maximum Cost / Family	\$12 m	\$6.50 m
Mean Cost / Family	\$0.381 m	\$0.320 m
Median Cost / Family	\$0.110 m	\$0.160 m

*Source: ThinkFire transaction database, 2008*

## A simple statistical analysis of the transactions contained in the database finds the following distribution of prices

### — Valuation Implications/ Family —

Percentile	Overall Price / Family (M USD)
90%	\$0.725
80%	\$0.330
70%	\$0.220
60%	\$0.164
50%	\$0.110
40%	\$0.097
30%	\$0.056
20%	\$0.037
10%	\$0.011

Source: ThinkFire Analysis

These figures can be used as multiples:

- Measure of **relative valuation** to an underlying financial asset
- Allow for **relative comparisons**



We can attempt to compare any planned transaction(s) vs. the overall set of closed transactions

- Type of technology
- Size of relevant markets
- Etc.

**Looking at the distribution for 2008 year-to-date we see an increased median, but a reduction at the 90<sup>th</sup> percentile due to fewer and less extreme ultra high-end deals**

**— Valuation Implications/ Family —**

Percentile	Overall Price / Family (M USD)	2008 Price / Family (M USD)
90%	\$0.725	\$0.584
80%	\$0.330	\$0.313
70%	\$0.220	\$0.221
60%	\$0.164	\$0.169
50%	\$0.110	\$0.164
40%	\$0.097	\$0.110
30%	\$0.056	\$0.083
20%	\$0.037	\$0.056
10%	\$0.011	\$0.044



Fewer, less extreme ultra-high end deals reported in 2008 year-to-date vs. 2007



Increased median prices

Source: ThinkFire Analysis

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**Those engaged in the divestiture or acquisition of patents require improved guidance in evaluating bids and asks, and in budgeting for acquisition and forecasting divestitures**

**– The Challenge –**

- What is an **appropriate price** for a particular patent lot we are selling?
- What is an **appropriate bid** for a particular patent lot we are selling?
- How much should we **budget for a set of acquisitions**?
- How do we **forecast sales for our divestiture business**?

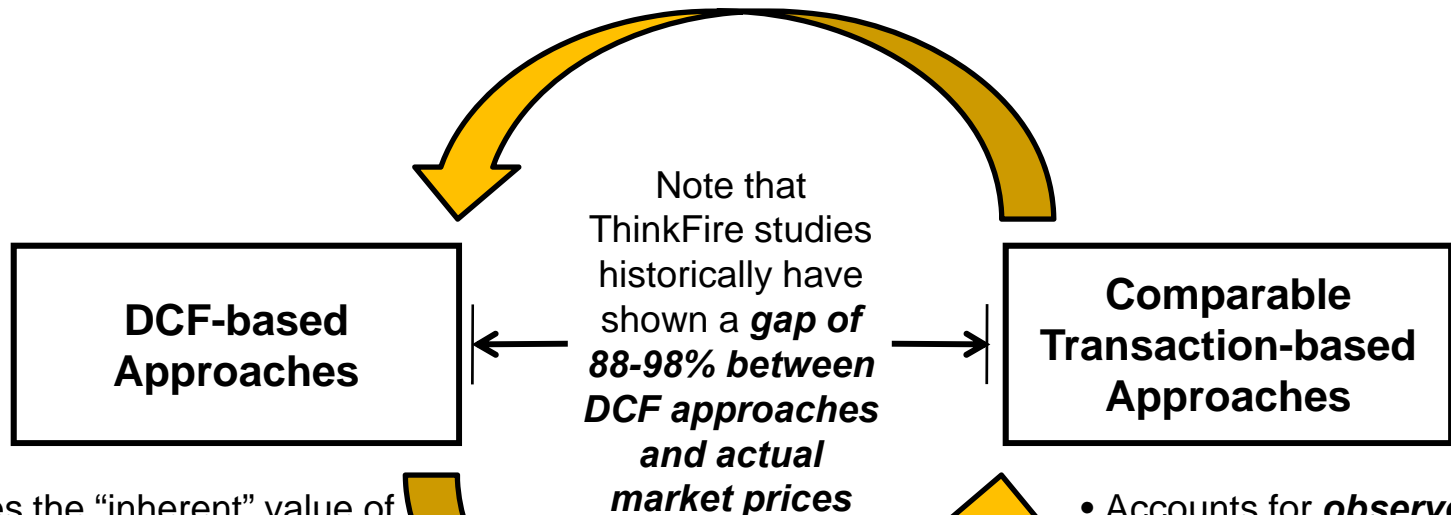


There is a need for guidance in addition to or beyond that provided by typical valuation models based upon Discounted Cash Flow (DCF) analysis

- Helpful in **grounding DCF models in “reality”** to better triangulate on target prices
- Useful in **assessing entire acquisition or divestiture businesses** before detailed analysis of individual patents and DCF are possible

**Comparables are NOT a substitute for DCF, but rather a complement when both are available, and an alternative option when DCF is not practical**

**– DCF and Comparables- Perhaps the 2 Most Popular Valuation Techniques –**



- Measures the “inherent” value of the asset, accounting for the **unique attributes** of each lot
- Requires **detailed technical and legal analysis** of each patent , followed by development of **business case**
- Dependent upon analyst judgments and assumptions

- Accounts for **observed market price levels and buyer/ seller behaviors**
- Requires **knowledge of historical transactions**
- Dependent upon **relevance of historical transactions** to planned transaction(s)

**To successfully use comparables analysis as part of a valuation methodology, one must have an appropriate set of transaction data upon which to build**

**– The Process –**

1. Determine comparable transaction **attributes**:
  - Intrinsic attributes: Technology, related products/ services
  - Formal attributes: Quantity, foreign filings, type of asset(s)
  - Market attributes: Timing, Supply/ demand in the marketplace, circumstances of relevant buyers/ sellers, payment specifications, timing
2. Collect transaction data with relevant attributes
3. Analyze transaction data to select comparable transactions
  - **Normalize** for items not expected to be part of the normal course of business
  - An art not a science- use **judgment**
4. Use selected comparables to **derive implied valuation** range

**To successfully use comparables analysis as part of a valuation methodology, one must have an appropriate set of transaction data upon which to build**

**– The Data –**

- To use **individual deal comparables**:
  - **A few** sufficiently comparable individual transactions
  - **A sufficient understanding of the circumstances** involved in each comparable
- To use **aggregate deal comparables**:
  - A **database** containing a significant quantity of individual transactions
  - An understanding of **how your transaction(s) relate** to those in the database



With these ingredients, one can then consider how one's planned transaction(s) fit into the context of the candidate comparable transactions

- **How is your deal(s) similar** to the candidates?
  - **How is your deal(s) different?**

**Market statistics indicate that a generic portfolio of 25 US issued families should trade within certain ranges, depending upon its relative market-worthiness.**

**— A Simple Hypothetical Case —**

Percentile	Cost / Family (M USD)	US Issued Families	Cost / Portfolio (M USD)
90%	\$0.725	25	\$18.13
80%	\$0.330		\$8.25
70%	\$0.220		\$5.50
60%	\$0.164		\$4.10
50%	\$0.110		\$2.75
40%	\$0.097		\$2.42
30%	\$0.056		\$1.40
20%	\$0.037		\$0.93
10%	\$0.011		\$0.28



A very market-worthy set might typically transact between \$5-9 m



A diluted set might typically transact between \$1-2 m

Source: ThinkFire analysis

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## We see three major classes of trends emerging

### – Trends –

#### Organizational

- Changes in staffing and organizational structure for companies buying or selling patents

#### Process

- Changes in how companies buy and sell patents

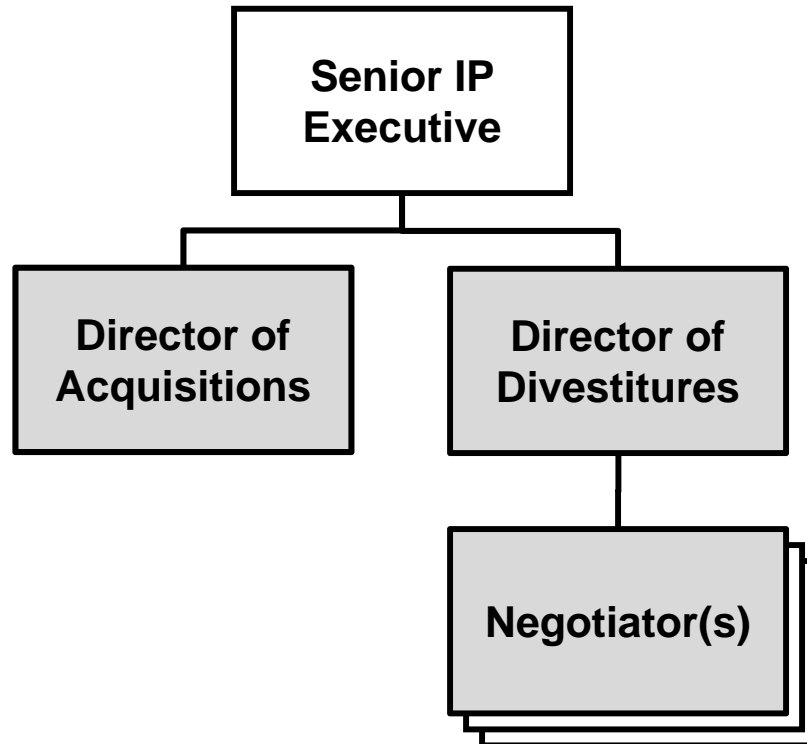
#### Strategic

- Changes in the motivations and rationale for buying or selling patents

**We see large IP organizations increasingly creating dedicated positions responsible for acquisitions and divestitures as the pace and importance of transactions increases**



**– Organizational Trends –**



**We are seeing IP organizations make a number of profound changes in the processes through which they approach patent acquisitions and divestitures**



**– Process Trends –**

**Purposeful Approach**

- Dedicated acquisition budgets
- Dedicated sales forecasts

**Established Acquisition Processes**

- Triage
- Due Diligence
- Approval

**Established Divestiture Processes**

- Lot development
- Clearance
- Sales

**Increased Buyer Sophistication**

- Repeat buyers are becoming increasingly sophisticated in performing due diligence



Alyeska pipeline, courtesy of Greener Magazine

**Lastly, we see a number of strategic shifts occurring which are increasingly driving the increased focus on patent brokerage transactions**



**– Strategic Trends –**

**Competitive Economics**

- Acceptance of the role of IP in competitive cost structure
  - e.g. mobile device industry
  - e.g. Rumored Samsung-SanDisk deal

**Convergence**

- Rising stars (e.g. online leaders, fabless semics, et al)
- Asian manufacturers

**Risk Mitigation**

- NPE investors
- OpCo potential targets
- New types of market participants (Allied Security Trust, RPX Corp)



Courtesy of Wikimedia Commons

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***– Please Feel Free to Contact Us With Any Questions –***



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