

Patent Valuation and Vodka

Let's say that we are trying to value ten patents owned by a privately-held company. Let's suppose that this company just completed a capital raise in which the entire company was valued at \$10 million. Let's suppose that this company was in the business of making, marketing and selling vodka. Let's further suppose that this company only had three intangible assets – 10 patents, management and brand equity.

One way of determining the value of the patents would be to apportion the \$10 million company value across the three asset classes. Let's say that we believe that management deserves to be apportioned with 20% of the value of the company. (Considerations that I would use in apportioning company value to management is something that I speak about during the CPVA training and possibly the topic of a future article / post.) Perhaps, next we would try to determine how much of the \$10 million company value should be apportioned to brand equity.

Here is the tie-in to vodka. If the demand for the product was solely a function of brand equity and not at all a function of the distinctive nature or functional attributes of the product, then one would have to suppose that all (or nearly all) of the remaining company value would have to be attributable to brand equity and none (or almost none) of the remaining company value would have to be apportioned to the patents. This seems to be the case with vodka and other consumables for which customers cannot distinguish one product from competing products in blind taste tests.

So, perhaps we would apportion, at most, 5% of the value of the company to the patents. Thus, the patent portfolio would be worth \$500,000.

One possible exception to this notion could arise if the patents enabled the vodka company to produce at lower costs (and detection of infringement was reasonably practical). In this scenario, maybe more apportionment would have to be directed to the patents. However, I think the connection between patent value and the inability of customers to distinguish one product from another is worthy of consideration

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