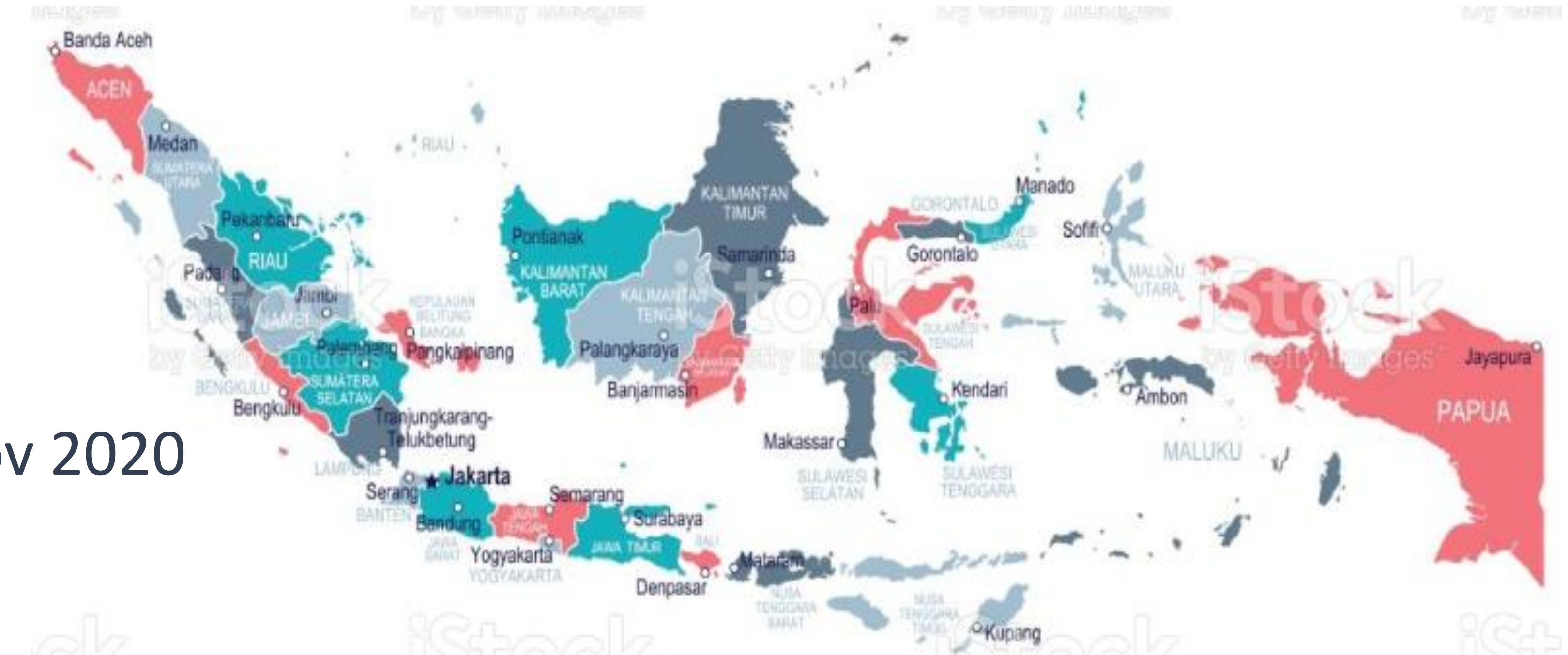
Intellectual Property as a Tool for financing Innovation &

Tech Transfer

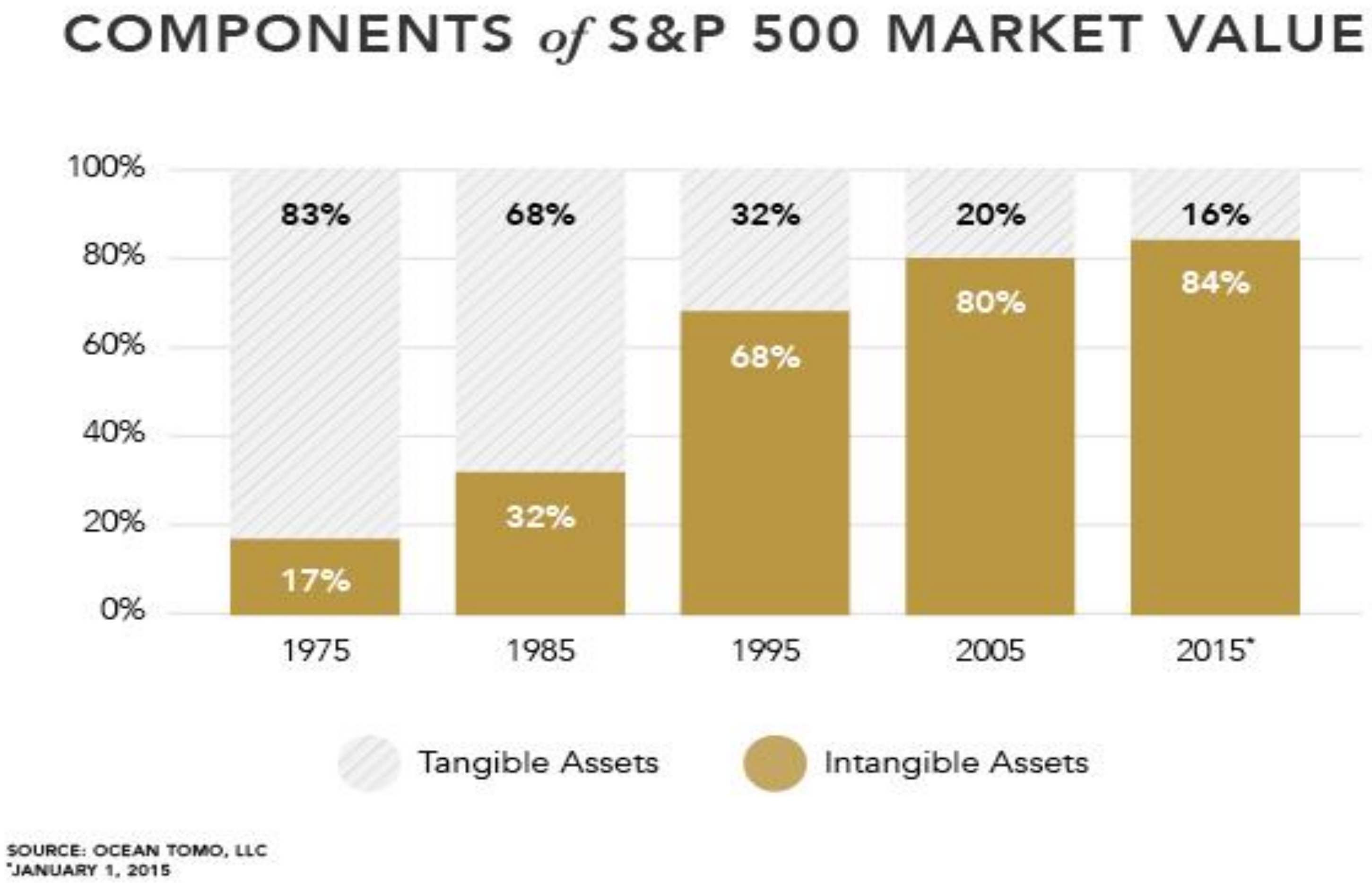


Nov 2020

KyungJin Hyung
dukehyung@gmail.com

Finance

Innovation primarily hinges upon Intangible Asset



IPR is increasingly important even for Startups

- Securing innovation in the form of intellectual property right (IPR) is crucial because:

  - Strong IP driven competition is on the rise

  - IPR provides legitimate sense for biz development & cooperation

  - It helps communication among different entities domestically and abroad
- When we say above, IPR should be the object of financing.
- However, bank lending which is major source of financing is heavily driven by Collateral that is based on tangible assets (Well Established Practice)
- Thus, Policy Leaders stresses the importance of IP Financing in which banks should take Intellectual Property Right as collateral

Challenges in IP Financing

- Beauty is in the eyes of beholder, however, Technology Value is in the hands of users as well as in the expertise of valuator <NOT One Value>
- IP Value is not detachable from the Business Entity using it

  (If the revenue model is not based on NPE
- IP value is dynamic rather than static due to technology life-cycle

  (Pledge Value diminishes often not in line with accounting practice of amortization, and hard to predict its speed)
- Lack of Secondary Market : The lender holding the IP right as security for repayment has no way to sell <After three years Only 10% can be resold, less than 3% maintains same price>
- Relying on Patent Lawyer and other experts is costly and onerous

  → Secured IP may turn out to be useless because the Value of IP right might be entirely contingent on other related IPs (Thicket)
- Difficulty in dealing with the effect of Infringement Leakage

Market needs Discipline and Sensible Institutional Support Mechanism

- Korea has quite a long history of practicing 'Technology Financing' which is not same as 'IP Financing' (Since 2005)
- Technology Financing is financing technology ventures and Technology SMEs based on Technology Business Value or Tech/Biz Rating (Which can replace Credit Rating)
- IP itself should be strong enough to be the independent source of financing <Less than 3%>

✓Essential Patent / Roadblock Patent / Core Patents

✓World Class Brand : Coca Cola

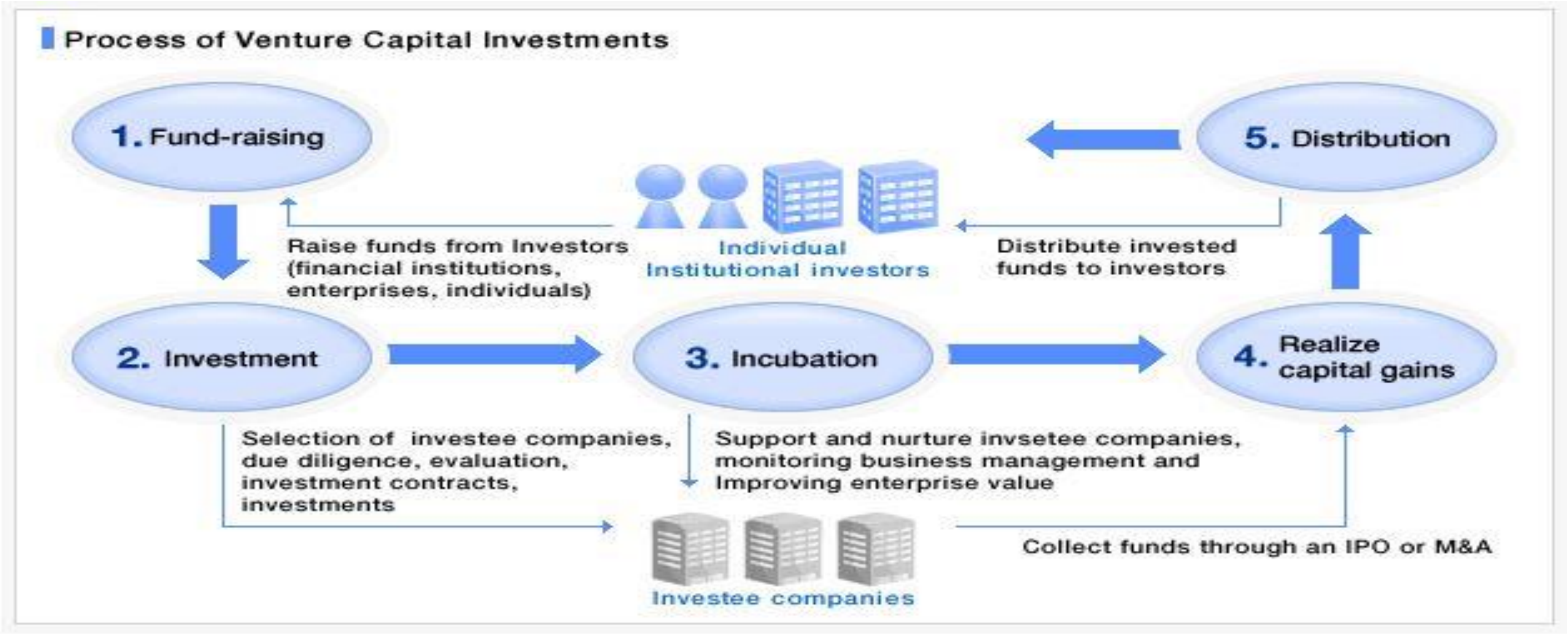
→Secured IP may turn out to be useless because the Value of UP right might be entirely contingent on other related IPs (Thicket)

→ IP Financing Practice is costly

Korea's Recent Approach

- Strong Policy Drive to engage Private Sector by reducing the risks & cost
- Leading Commercial Banks to be familiar with Technology Financing first (Obliging Banks to accept Tech/Biz Certificate from KOTEC & other Market Institutions (Technology Credit Bureau))
- Established Common Infrastructure, Technology Data Bureau, under Bankers' Association to provide Technology Analysis (Understandable by Bankers)
- Fund of Funds Scheme for Invention Capitals Integrating highly fragmented small IP transaction intermediaries into one IP Exchange (Open Market) to secure Critical Mass of Demand and Supply (Use of Market-based Valuation)
- Support Valuation Cost for Startups & SMEs (KIPO) for IP-backed lending
- Reinforcing SMART3.1 to Reduce Preliminary Valuation Costs

Quite a few leaders also believe VC investment can be the alternative source for funding IP-backed innovation & Business Development



Process of Venture Capital Investments

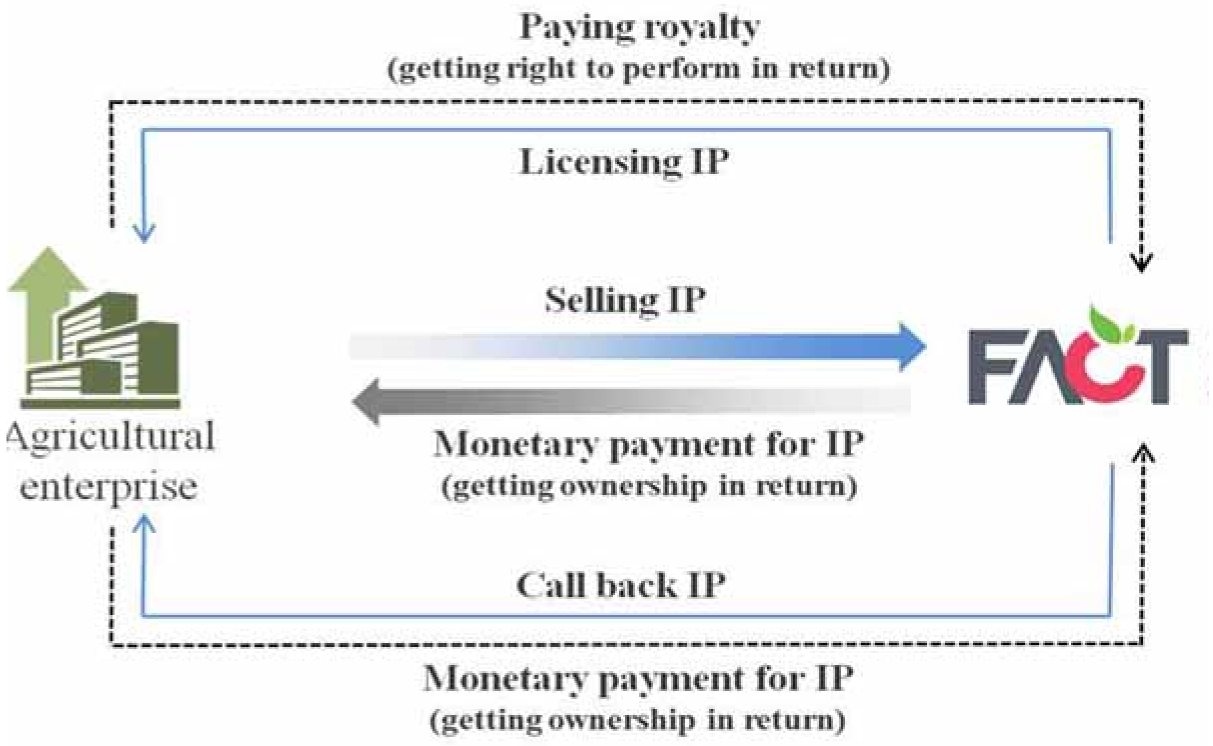
Source : Pros and Cons of ICO v.s. Venture Capital Applicature, Apr 22, 2018

- Above all, one thing we really need to understand is IP Financing is Cash-flow based lending or investment, Not asset-backed lending

- Sale & License Back is basic form
- Only after we secure stable cash-flow based lending practice in the market,

- Sale & Profit Sharing or IP-backed Equity Investment (with Call/Put Option) could be explorable

- Valuation: Discount Cash Flow analysis
- Between VCs & Banks
- Grants should go to early stage startups with no visible cash flow yet



KILIMANJARO
environnement

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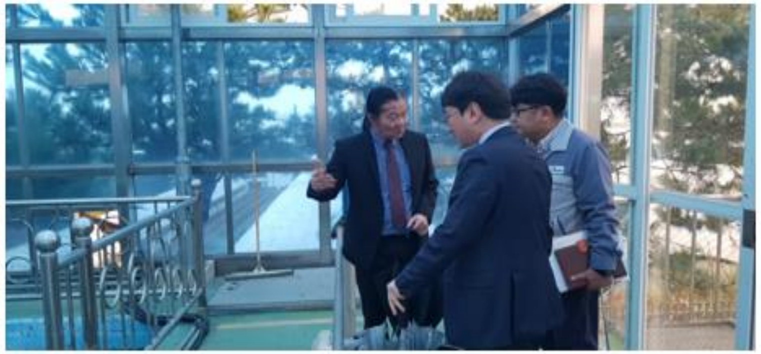
HYBRID
AERATOR

MODULUSTECH



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Thank You!