Intangible Assets: How to find the Serpents before they find you
EverEdge is an intangible asset specialist.

Offices in Singapore, Sydney, Auckland.

12 years > 900+ engagements.

Return on Client Fees: 10X

Ranked top IP strategist globally for last 7 years.

Clients: Fortune 100, major investors, SMEs, R&D institutes, governments.
We help companies & capital providers to:

- Identify Intangible Assets
- Identify & Reduce Risk
- Assess & Value
- Unlock Value
Selected Clients
1. The Great Economic Inversion
In 1975 intangible assets accounted for 17% of corporate value. Today it is 87%.
Intangible assets also known as...

Intangible assets drive:
1. margins
2. market share
Intangible assets are everywhere.

They are the primary drivers of company performance.
Most businesses have valuable intangible assets.

Example: small manufacturer.
Irony: most companies, capital providers & advisors focus on **fixed assets**.

Track chairs, laptops, plant & equipment.

Few connect value creation to primary driver: **intangible assets**.
The Balance Sheet is No Guide

Nortel enters bankruptcy in 2009

Various business units and tangible assets sold: $3.2 billion

Last asset to be sold: 6000 patents.

On Balance Sheet for $31 million.

Highest market estimate: $1 billion.

Sold for $4.5 billion.

145X value on balance sheet.

Patents worth more than value of ENTIRE company.
The result - many c-suites, boards, capital providers & advisors do not understand:

<table>
<thead>
<tr>
<th>Intangible assets they own</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of risks</td>
</tr>
<tr>
<td>Impact on financial results</td>
</tr>
<tr>
<td>How to unlock value</td>
</tr>
</tbody>
</table>
1. Does your organization have a register of intangible assets?
1. Does your organization have a register of intangible assets?

No 69%
Intangible Assets Drive Value
Intangible Assets Drive Exit Value

**Situation**
- Company owner selling after 30 years, i-bank 4x EBITDA valuation
- EverEdge identified highly valuable intangible asset (data) not on Balance Sheet or recognised in sale process.

**EverEdge Engagement**
- Prepared Intangible Asset Story highlighting value of data
- Targeted buyers who would pay for data not operating company
- Co purchased by strategic buyer for data

**Sold company for 32x EBITDA**
Valuation Critical to JV Formation

**Situation**
- Client entering into major JV, both parties contributing intangible assets, balance in cash.
- Question: what is the relative value of the intangible assets?

**Engagement**
- EverEdge developed valuation model that on review both parties agreed valued intangible assets of client substantially more than counter party.

© Copyright EverEdge Global 2019. Confidential.
Situation

- Client developed disruptive technology for data centres > needed to raise 100’s of millions for build out
- Big 4 Accounting Firm valued at $40M > raise not viable

EverEdge Engagement

- EverEdge recognised critical importance of intangibles > completed comprehensive valuation at $200M
- Valuation accepted by major i-bank, underpinning raise.

CLIENT OUTCOME: Valuation

Raised $400M at $200M pre-money
Intangible assets are the only lever that moves EV beyond cash flow multiples.

Fixed assets & cash drive “mechanistic” portion of enterprise value.

Intangible asset risks can reduce or destroy value.
2. Do you think current business valuation techniques capture the true value of intangible assets?
2. Do you think current business valuation techniques capture the true value of intangible assets?

No 82%
Intangible Assets Drive Risk
If 87% of company value & virtually all earnings growth derive from intangible assets then...

Intangible Assets are now a **major source of company risk**.
FBI charges former Apple employee with stealing trade secrets from self-driving car project

The employee was allegedly trying to get a job at Alibaba-backed Xiaopeng Motors
By Sean O'Kane | @sokane1 | Jul 10, 2018, 5:19pm EDT

NotPetya aftermath: Companies lost hundreds of millions

The infamous NotPetya ransomware attack, which started in Ukraine on June

US jury slaps $940 million fine on TCS, Tata America International Corp in trade secret case

PTI | Updated: Apr 16, 2016, 07:18 PM IST

In One Tweet, Kylie Jenner Wiped Out $1.3 Billion of Snap’s Market Value

By Justin VanSant

- Kylie Jenner tweets she hasn’t been using the app lately
- Users pile on with feedback that echoes Wall Street concerns

Cost of 2013 Target Data Breach Nears $300 Million

With Latest Settlement, the Cost of the 2013 Target Data Breach Nears $300 Million

Cochlear ordered to pay $268 million in U.S. patents lawsuit, plans to appeal
Yet in 900+ client engagements only 1 company noted intangible asset risk on their Risk Register.

8 hour Director’s course on risk, 100 page course book, delivered by Big 4 Firm: no mention of intangible asset risk.
Risk 1:
Most companies constantly leak key intangible assets.

Three primary leaks:
1. customers
2. suppliers
3. employees

Result: competitive edge erosion, margin pressure and ultimately massive value loss.
Case Study: Risk 1: Leakage of Confidential Information

Company leaks critical assets - creates key competitor

| Industry | Hardware |

**Situation**
- Company developed world leading new product category.
- Unable to keep up with demand outsourced software development to external supplier.
- Provided full details of code and key confidential information.

**Outcome**
- Supplier delivered code on time, budget then shut down.
- Reappeared 6 months later as competitor utilising intangible assets to spring board ahead of former client.

Supplier grabbed majority market share. Direct cost $150M.
Risk 2:
8 out of 10 companies cannot prove they own their intangible assets.

Unlike tangible assets, intangible assets are hard to inventory, are not registered and do not appear in B/S or P&L.

Joint R&D, contractors, supply agreements, employee disputes, restructures all lead to chain of title issues.
Case Study: Risk 2: Chain of Title

**Chain of Title Sinks Company**

**Industry**
Software

**Situation**
- Promising start up, raised $10M+ Series B at $US50M+ pre-money
- Conventional due diligence detected no material risks
- Post investment EverEdge asked to evaluate intangible assets

**Outcome**
- Interviews revealed co does not own fundamental software code > developed by CTO at previous employer (competitor)

**Investors suffered $10M loss**
Risk 3: Half the companies we see do not own their brand or have major brand risks.

Poor trademark strategy or changes in market, product or geographic coverage lead to no or poor protection.

Trademarks are like real estate: the best sites are normally owned by someone else.
Case Study: Risk 3: Brand Risk

Company Building Brand It Does Not Own

**Situation**
- Fast growing company, investing $1.5M each month in marketing to build its brand and customer base.
- Planning to leverage brand into offshore markets.

**Outcome**
- Basic research identified that trademark filed by patent attorney does not provide effective protection.
- Another company has superior rights to brand in US market.

Co has spent over $36M on brand it does not own
Risk 4: Software ate the world... and **80%** of all software code is **open source**.

Three key open source risks:
1. Who owns the code?
2. Toxic license terms
3. Malicious code
**Case Study: Risk 4: Hazardous Open Source Code**

**P/E misses key due diligence risk**

**Situation**
- Private Equity firm committed to invest into high growth industrial company. But key asset is actually software.
- Conventional due diligence detected no material risks.

**Outcome**
- Audit of software code revealed extensive use of open source code software.
- Substantial licensing issues and cyber liability in co’s core asset.

**Industry**
Major industrial company

**P/E has invested $100M into co with major risks**
Risk 5: FTO Risk - threatened or actual IP litigation.

Massive growth in IP litigation in US and EU over last decade. More successful you become, more likely to be sued.

Consequences include injunctions, product seizure or recall, massive litigation costs & damages.
Case Study: Risk 5: Patent Litigation

Patent litigation Results in Forced Acquisition

**Situation**
- Award winning hardware company > never analysed intangible asset risk or developed own shield
- VC firms invested > no intangible asset due diligence
- Law firm signed off supply agreement by which company indemnified Fortune 100 customer for IP infringement

**Outcome**
- Offshore competitor sued customer > who called on indemnity.
- Competitor “we will sue you out of existence or acquire you.”

Sold to competitor for 1/3 of value. $100M loss to investors.
3. Has your organization ever lost important confidential information via an employee, supplier or customer?
3. Has your organization ever lost important confidential information via an employee, supplier or customer?

Yes 55%  Unsure 25%
Case Study: Intangible Asset Risk Audit & Assessment

Client:
- $5B+ multi-national, operations in 50+ countries, 20%+ global market share.
- Engaged by General Counsel, reporting to CEO and Board of Directors.
Client Needs

- What are our intangible assets?
- How are we managing them?
- How do we benchmark relative to peers?
- What are our primary intangible asset risks?
- How significant are they?
- What strategies should we implement to manage or mitigate these risks?

- Important engagement was objective and data driven not subjective.
Stress ~ Risk...
<table>
<thead>
<tr>
<th>Distress</th>
<th>Vs</th>
<th>Eustress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Causes anxiety or concern</td>
<td></td>
<td>Motivates, focuses energy</td>
</tr>
<tr>
<td>Can be short- or long-term</td>
<td></td>
<td>Is short-term</td>
</tr>
<tr>
<td>Is perceived as outside of our coping abilities</td>
<td></td>
<td>Is perceived as within our coping abilities</td>
</tr>
<tr>
<td>Feels unpleasant</td>
<td></td>
<td>Feels exciting</td>
</tr>
<tr>
<td>Decreases performance</td>
<td></td>
<td>Improves performance</td>
</tr>
<tr>
<td>Can lead to mental and physical problems</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Initially, innovation is high risk, and requires substantial investment. This results in low revenue and % profit margins. However, with market adoption, revenues increase until they plateau. % Margin and market share follow growth, but slows as new products are introduced into the market. The risk profile also reduces rapidly.
DisRisk  Vs  EuRisk

- Reactionary
- Restricts Growth
- Manages Problems
- Downside Focused
- Business as Usual
- Reason Why Not
- Challenging the Old
- Looks Back
- Asks the Wrong Questions
- Tangible Focused
- Cost Reduction
- Risk adverse
- See Risks as adverse
- Tell you what you know
- Compliance driven

- Proactive
- Generates Growth
- Develops Opportunities
- Upside Focused
- Innovative
- Reason Why
- Creating the New
- Looks Forward
- Asks the Right Questions
- Intangible Driven
- Revenue/Value Creation
- Risk takers/makers
- See Risks as Opportunities
- Tell you what you don’t know
- Creative thinkers

© Copyright EverEdge Global 2019. Confidential.
Innovation through Risk

DisRisk

↓

Threat

↓

Potential Loss

↓

Profit

↓

ROI

EuRisk

↓

Opportunity

↓

Growth

↓

Profit

↓

ROI

© Copyright EverEdge Global 2019. Confidential.
Your DisRisk = Others’ Opportunity
4. Summary
What questions should I ask?

- What intangible assets does your company own? Are they being proactively managed?
- Does your company have an Intangible Asset strategy? Does it align with business, R&D and exit / capital raising strategy?
- Are you comfortable with your company’s level and management of Intangible Asset risk?
- Are we taking enough risk? Is it Tactical or Strategic?
- Is the value of your intangible assets reflected in how external parties value your business?
- Do your advisors benefit from their own advice?
- Have they commercialised products & services?
What should companies & boards do?

Identify key intangible assets.

Develop a strategy to protect, manage and exploit them.

Identify key intangible asset DisRisks & EuRisks.

Develop a strategy to manage, mitigate and monetise these risks.

Directors & Officers have a fiduciary obligation to manage all assets & risks, including intangible assets.

© Copyright EverEdge Global 2019. Confidential.
Email marketing@everedgeglobal.com for an EverEdge Insights™ briefing paper on Intangible Asset Risk.

IAM300 - 7 of the Top 300 IP Strategist Globally - Intellectual Asset Magazine 2007 - 2018
Winner - IP Strategist of the Year, United Kingdom 2014
Winner - IP Advisory Firm of the Year, NZ 2014
Winner - Best Commercialization of IP - NZ International Business Awards 2012
Winner - Outstanding IP Leader - IP Focus Awards, Shanghai, China 2012

michael@everedgeglobal.com
www.everedgeglobal.com

USA / UK / Australia / Singapore / New Zealand