Column
IP VC

Written by
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Tech transfer and financial markets

Technology transfer is one way of delivering innovative technology to a great many people. The issue is how it can best be encouraged

In order to get a high-volume tech transfer market running, investment capital is vital. In the past, we have had to ask where we can get the money from. Luckily, these days, the question is not necessary. Financial institutions are currently interested in investing in tech transfer or, in other words, in participating in the cash streams associated with tech transfer deals. Whether this continues, however, depends on the success of the vehicles currently under trial.

Selling of patent portfolios or licence contract portfolios

This has happened occasionally. For a bank or an investor it is an alternative to shares and bonds. If the licence contracts are all in place and cash flows exist, the risk is limited, probably below that of shares, but certainly above that of bonds. Such a product can be absorbed by the financial market. Prices can be found and the average return is higher than for bonds. (It would be difficult to sell licence contracts that do not yet exist. The risk associated with this is generally too high for the financial markets. We then get into some form of venture investment. This, however, is the realm of closed venture funds.)

For what kind of patents can this be a financial vehicle? Well, let us recall some fundamentals. Most patents are crap. Quite a few are granted, but only some 10% are exploited. The same number again could potentially be exploited if the tech transfer market were better developed. About 80% to 90% of the patents belong to industry, blue-chips and SMEs. In the past, they tended to keep their patents for themselves, sticking to the traditional monopoly strategy (which is not a bad thing).

Nowadays, the so-called open paradigm has opened up the cupboards of some companies. They are granting licences to many patents from their portfolios. As a consequence, many licence contracts exist and the royalty streams have risen to US$100 billion. Selling the future royalty streams in exchange for instant cash can always be an option. Thus, the potential for this kind of vehicle should be considerable.

Will it stimulate tech transfer? To an extent, I would say. It brings in instant cash that can be reinvested in R&D or patent exploitation. The problem, however, is this vehicle only builds up on existing contracts. It does not in itself fund the efforts of tech transfer.

Technology transfer funds

A technology transfer fund's aim is to close technology transfer deals. These funds currently raise on the order of Euros 20 million per fund. As far as I know, there are only a few technology transfer funds around, at least in Europe. The vehicle is rather new.

With the help of the raised funds, technology projects, protected by patents, are acquired and bound by contracts. This takes some money. More money is used to improve the technology and the patents involved in order to increase the chances of having a technology transfer deal closed. Again money is needed for the considerable marketing efforts involved with the technology transfer deal.

Having spent all this money and where a deal can successfully be closed, the fund will receive parts of the ongoing cash streams, ie, part of the sale price or part of the future royalties. This has to refinance all expenses incurred and include a reasonable profit.

For what kind of patents do funds work? All university patents can be checked for exploitability. Only some will be successful, but it is still worth it. Also, companies can open their patent portfolios for exploitation efforts financed by the fund. This will cost them almost nothing. As companies own lots of patents, the potential is enormous.

However, in order for a patent to interest a fund, its estimated value combined with the resulting technology would probably have to be, if not Euros 1 million, then at least Euros 300,000. Otherwise, the fund's profit share would not cover all the expenses it incurs. Furthermore, the successful deals have to refinance the unsuccessful ones. So technology transfer funds can only take care of quite interesting patents; in other words, the minority.

Will these funds stimulate tech transfer? Definitely yes, this is their purpose. So, to me, technology transfer funds are a very convincing concept. I sincerely hope they will be successful.

Auctions

Patents can be sold in an auction. If a high-tech company goes bust, this is what can happen to its patents. Such auctions generally take place by mail with interested parties involved.

Recently, we have seen live auctions for patents. Two have taken place so far, one in San Francisco and the other in New York, both organised by Ocean Tomo.

A live auction is certainly an event. But does it work for tech transfer? It seems a difficult way to me. You need at least two parties interested in buying a patent to have some kind of auction. These are generally not easy to find. Often you are lucky to find one. Nevertheless, I wish these auctions a lot of success.

For what kind of patents can auctions be of use? Obviously, only for the best of the best, because you need several parties interested in bidding. This is rare. Will they stimulate tech transfer? The volume of patents sold in an auction will probably remain limited. Therefore, the funds raised in auctions will remain limited. Also, the money is not necessarily destined to be used for tech transfer. Therefore, it seems to me that auctions will not have a major impact on the tech transfer market.

That said, the next auction – organised by IPA – is to take place on 15th May in Munich. I will be there.

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