The ever-changing IP monetisation marketplace for PAEs

Entities whose business strategy is centred on IP monetisation are operating in an industry that is undergoing rapid transformation and controlled growth

By **Peter D Holden, George Park** and **Anupama Jain**

Despite the naysayers, the momentum created from seminal IP deals such as Round Rock Research and Nortel has remained strong, resulting in continued growth in licensing revenues and patent sales. We have also seen continued inflows of private (non-corporate) capital into the IP ecosystem, put to work in a plethora of ways, from the financing of public shells via reverse merger through to the formation of dedicated IP funds and even to the creation and strengthening of sovereign wealth funds from Asia. Whatever euphemism is used to describe the resultant IP monetisation entities – patent trolls, non-practising entities (NPEs) or patent assertion entities (PAEs – this term is used henceforth) – there is no doubt that they are an important and growing part of the IP ecosystem, not only in the United States but increasingly in Asia and Europe. In 2012 they represented over 50% of patent suits in the United States, and they now deploy significant amounts of capital and employ ever-increasing numbers of highly qualified personnel.

We are seeing an increased volume and quality of patent offerings from major global corporations and research centres, which are now more willing to collaborate with PAEs, whether openly or surreptitiously. Corresponding to the increase in the supply of available intellectual property, this article discusses a significant in-flow of private and public capital to support monetisation efforts as well as a maturing pool of serial performers, currently on their second or third generational cycle of managing PAEs and thus armed with a track record to approach capital markets and raise larger amounts of funding.

Notwithstanding this upswing in activities, the PAE community faces several significant challenges to sustain the current level of growth, and – especially considering the constant state of change – it is hard to predict what the PAE landscape will look like 12 months from now. There is, however, an increased recognition from leaders in the PAE community that the costs, complexity and legal uncertainty of litigation are increasing at the same time as margins are decreasing. This pattern is forcing behavioural and structural changes on the part of the PAEs, from seeking more nuanced strategies for enforcement to demonstrating a greater willingness to seek early returns through a more collaborative than combative style. There is a clear flight to quality by the more established PAEs, acquiring larger, deeper, broader portfolios, putting more and higher-quality patents in suits (and having even more in reserve) with much better financing. The better-managed PAEs operating at this level will prevail and prosper. On the other hand, there is no doubt in our minds that at the bottom of the market, the pursuit of punitive/extortion-type suits will decline, and there will be a good deal of consolidation between PAE operators at this level, as they seek to create scale and pool capital.

As this correction continues – which is a normal and healthy part of an industry growing up – there will be a healthy 'secondaries' market in which the better-staffed and funded PAEs will buy or take control over the worthwhile litigation 'books' of ailing, under-funding or under-exploited PAEs. The holy grail of PAEs, whether public or private, is that no quarterly earnings report or financial year is ever dependent upon a single settlement, sales event or outcome. For this, there must be mutual funds of holdings across different technologies and markets, different counterparties, different strategies for monetisation and even different monetisation teams in order to diversify income streams and manage risk accordingly.

The legitimisation of IP monetisation via the public markets

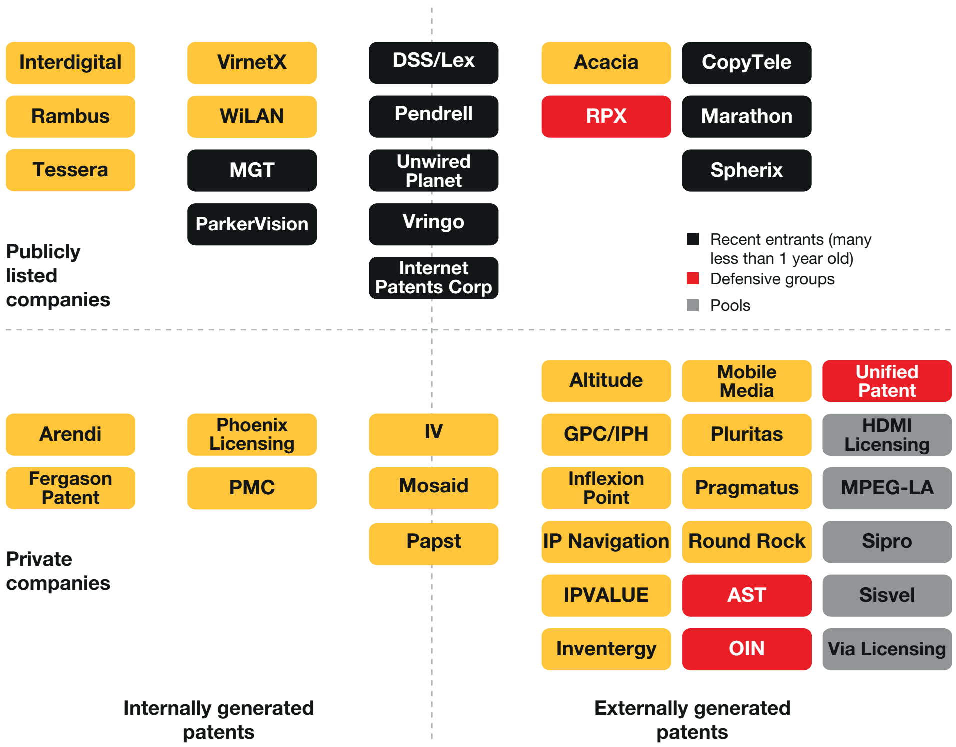
Figure 1 provides an illustrative breakdown of selected entities in the patent monetisation ecosystem, categorising such entities by whether they are publicly listed or private and whether, broadly speaking, the foundational intellectual property was internally generated or acquired externally.

Until recently, when speaking of public IP companies, we were often referring to a first generation of technology development corporations that generated their own intellectual property as an offshoot of product development activities; these companies included Interdigital, Tessera, WiLAN and Mosaid. They blazed a trail in terms of delivering sizeable returns to shareholders and succeeded in raising additional capital through secondary offerings.

As licensing programmes based on their core intellectual property have been winding down, the continued success of these companies will be determined by their ability to expand beyond their core technical areas of competence (eg, wireless and semiconductor) into new markets such as med-tech or light-emitting diodes, as well as to develop the required skills to effectively acquire new intellectual property, without unacceptable decreases in revenues.

The last year saw the rise of repurposed public shell companies specifically fashioned to monetise portfolios of patents acquired or brought into the public company in some structured finance arrangement or reverse merger. Many of these transactions were driven by hedge funds and private equity funds in New York, fast becoming a centre for IP financing. In some situations the public shell companies are dormant or underperforming operating companies; in others, they are clean, capitalised over-the-counter bulletin board shells which, with the newly acquired intellectual property,

Figure 1. **Illustrative ecosystem of patent monetisation entities**



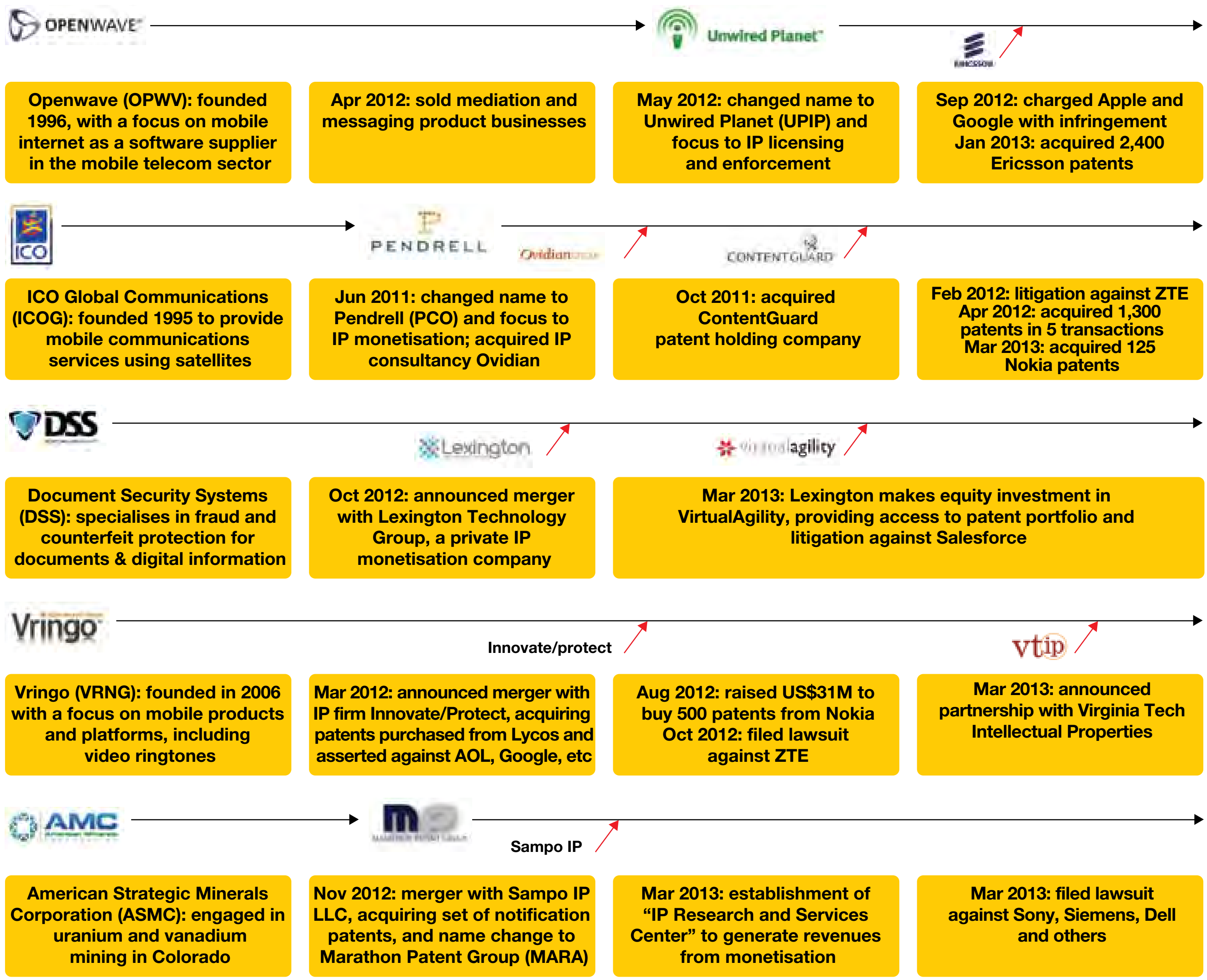
Not comprehensive, subject to change

wait for uplift on the stock or formal listing back onto NASDAQ once revenues become forthcoming. Figure 2 highlights some of the more prominent transactions of this type in the last 12 to 18 months.

Patent holders invited to participate in these ventures need to look carefully at the distribution waterfalls for such arrangements, since while the public market story is compelling, the high cost of this capital is often less understood in terms of actual distributions received by the founding management teams net of investors' return of capital, hurdle rates of 5% to 10% and sizeable warrant packages. For every success story (eg, VirnetX), there are many others that are still waiting to generate revenues and achieve aspired results.

This repurposed public vehicle model, however, does provide the management team with much more liquidity than if it were to seek private venture or debt funding, and it provides public investors with an entry point into IP monetisation, serving as a demonstration that Wall Street is taking intellectual property more seriously as an uncorrelated alternative asset in its own right. However, in several cases, these public vehicles simply do

Figure 2. **The reverse merger phenomenon and the rise of public IP companies**

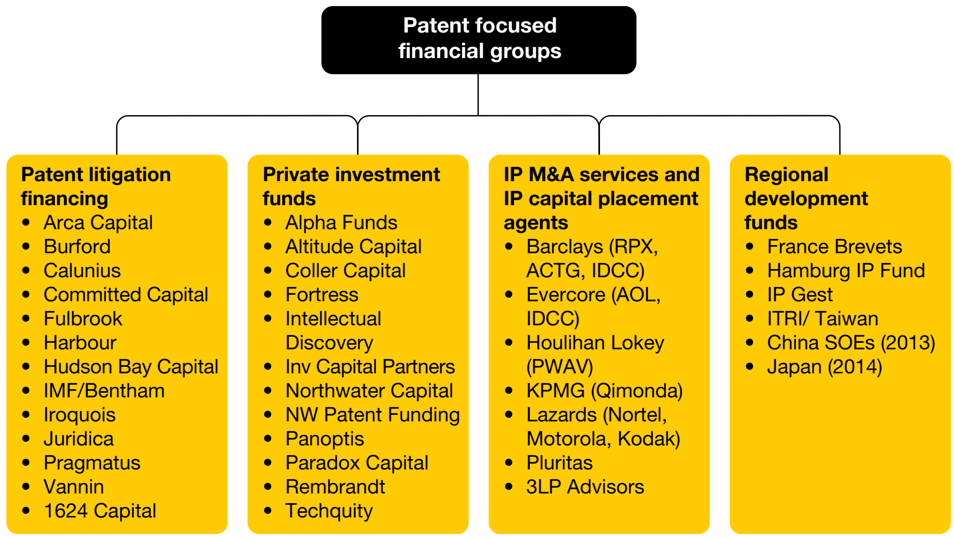


not have enough intellectual property ('one-trick pony' syndrome), capital or management resources to ensure long-term growth or sustainability, and may be dependent on the fact that future revenues need to be recycled back into the company to make such acquisitions – Vringo's acquisition of Nokia patents, for example – to provide this growth. If such revenue is not forthcoming, the company risks sinking in a perfect storm of falling stock price, no visibility on near-term revenues and no cash reserves to sustain licensing efforts or acquire new intellectual property to provide a 'growth story' to shareholders. This is covered more generally in the next section.

The increased flows of risk capital into the IP ecosystem

Over and above the increased buying of intellectual property between operating companies, as well as by public IP companies such as Acacia, Interdigital, Vringo and Tessera that have capital resources on the balance sheet or the ability to raise capital on the secondary public markets, 2012 was a banner year for the consolidation of a whole community of capital providers to support IP monetisation. Figure 3 provides an illustrative breakdown of the various categories of IP capital provider. By number of entities, the most populous are

Figure 3. **Increased availability of IP funding via financial entities**



Not comprehensive, subject to change

those entities that provide project-based financing, where the capital is not invested 'blind', but rather focused on a very specific investment proposal made by a prospective team or buyer. These entities include multi-strategy hedge funds, angel networks, law firms and existing PAEs looking to expand on their current holdings. A second category of financial provider is the dedicated IP funds or captive private equity funds that have a fixed allocation from their total capital raise to make towards IP investments. These range from established investors such as Intellectual Ventures to newcomers such as Hudson Bay, Iroquois and Juridica.

We have also seen the rapid rise of IP M&A and capital advisory services and placement agents to help find buyers/investors in large IP divestitures, as well as to advise management teams attempting to raise their first or follow-on funds or to obtain reverse merger financing of public shells; again, New York has become a leading locale for this activity.

A final source of capital – which is often difficult to quantify and may take the form of low or zero-cost loans as well as dedicated pools of managed capital – is government funding, almost exclusively by entities in Asia and Europe. The motives for providing such funding are varied, but generally address one or more of the following drivers:

- Provide risk capital and expertise to support regional IP monetisation initiatives from local companies, universities and research centres.
- Provide a collective purchasing capability, again with a seasoned IP team selected for the purpose, to acquire world-class IP which is then seeded to local companies to reduce the 'tax' imposed on them by foreign patent holders, especially with international expansion in mind.
- Stimulate a marketplace for IP trading in the local country or as a claim on becoming an IP hub for Asia, Europe, etc.

Previous efforts have failed badly because of political interference in the IP funds' investment goals, choice of an inexperienced management team, lack of quality deal flow and the absence of mechanisms (post-acquisition) to disseminate the intellectual property to worthwhile licensees. It is very clear, however, that Chinese/Hong Kong, Singaporean, Taiwanese, Korean and Japanese sovereign and regional funds continue to see an IP investment capability as critical to their growth.

It is worth noting a concern from several PAEs that with this influx of new capital from these many different sources, there can be increased competition for premier IP offerings, over and above the normal competition that PAEs can expect from sophisticated sellers. A way to mitigate this, which has been limited to date because PAEs are usually very private and secretive with each other, is to collaborate and syndicate acquisitions, especially on the larger transactions of US$100 million and greater. We are seeing encouraging signs of this in 2013, and hopefully this trend will continue.

IP monetisation failures analysis

Over the last few years, we have been asked to help ongoing IP licensing teams, programmes or special purpose vehicles, often by providing new capital to sustain the licensing programmes through litigation or to help manage litigation activities and expenses, complete reverse engineering (which is always more costly than expected), or get through some other execution challenge. Through this process, we have seen the same set of fundamental challenges arise – these are summarised in Table 1. In most situations, the problems arise from inexperienced management underestimating the cost, complexity and uncertainty involved in managing a privately funded licensing programme. Very often, the fortunes of the licensing programme rest too much on one or two critical settlements, rather than having enough

Table 1. **Commonly recurring reasons why monetisation programmes fail**

Failure mode/risks	Mitigation solutions
First-time GP team /lack of investment experience	• Programmes need IP teams with 10+ years of IP monetisation experience as a for-profit business, including expertise in IP management, IP licensing or sales and, increasingly, IP finance. • Teams should have ability to handle complex transactions as they scale: portfolio management.
Lack of follow-on capital/dry powder	• Several project funds have underestimated the costs of monetisation and have had to terminate or liquidate holdings. • Programmes need to have sufficient funds to manage the entire lifecycle costs of investments, including sufficient reserves for follow-on. Management needs to exercise extreme caution in pricing assets, plus much more care and attention in partnering with outside law firms.
One-trick pony licensing programmes	• The fall-out rate of patents in suit is very high. An alarming number of licensing discussions do not have enough depth and breadth to go the distance beyond early quick wins. • There may be a limited number of patents in suit, but supporting patents and follow-on patents in the suit is becoming more important in licensing discussions, as is the pedigree of the patents.
All or nothing mentality tenacity	• Sustainable licensing programmes are ones where pragmatism and early settlements go hand in hand with tenacity to see a particular suit through to the end. Sometimes, you also have to walk away.
High operating costs and diligence delays	• IP due diligence is complex, requiring multiple technical, legal, financial, investment and market/business inputs. Many funds do not have the experience, processes or tools in place to efficiently evaluate opportunities, leading to cost overruns and delays. • Management needs to build risk management and an execution bias towards diligence, along with the ability to say no quickly.

redundancy and spread of outcomes, across multiple counterparties and with different ways of monetising the assets to offset this risk. Other key factors that warrant further detail include the following:

- Immature/non-important intellectual property – though it may seem obvious, we have seen too many licensing programmes fully financed and staffed with intellectual property which simply is not commercially important enough to realise significant return, never mind return founder's capital. This may be because the intellectual property relates to technologies which are not yet established in the marketplace, requiring many years for the technology to be successfully deployed and to thus offer meaningful royalty potential, assuming that this happens at all. A second problem is that the technical solution provided by the intellectual property may not be an important part of the value chain of a product, component or service. It is very hard to justify authorising a licensing programme where the risk-adjusted addressable market is less than US$250 million (net of encumbrances, liens and other risks), and indeed, we do not normally engage with a patent portfolio unless the addressable market is US$1 billion or more. In some situations – such as organic light-emitting diode or mobile payments – the demand for intellectual property may be extremely high, even though the actual marketplace is still nascent, but this is quite unusual.
- Uncritical reliance on the contingent law firm – selecting a top plaintiff law firm to represent the team in litigation provides strong validation for the case. While necessary, it is not sufficient. Notwithstanding careful cash-flow management, time management, policing of senior partners to get the necessary time and attention, and ensuring that incentives are aligned, it is also critical that the patent holder or in-house team oversee project management and pursue broader business goals, including considering quick settlements to support early returns on capital and closing down programmes quickly when prospects of success become questionable.
- Perceived or real lack of dry powder for contingencies – defendants in PAE suits will carefully review the finances of the PAE to better understand their cash reserves and capability to last out protracted licensing discussions. PAEs should carefully plan for contingencies and weighted outcomes from multiple suits (some will settle early, some will lose, some will be delayed through re-exam and other tactics, and some may go all the way through trial and appeals), and develop realistic budgets. A healthy balance sheet, strong licensing team and tier-1 litigation counsel are also clearly important in establishing the conviction, capability and capital to be seen as a serious counterparty.

Table 2a. **Some challenges to PAEs engaged in litigation**

Increased (tacit) negative sentiment towards certain PAEs
Greater challenge to prove essentiality (and justify corresponding royalty rates) of allegedly standards-essential patents
Increased scrutiny on damages models
Greater difficulty to claim past damages on expired patents
Higher bar for PAEs to claim 'domestic industry' in International Trade Commission when acquiring assets of operating companies
Increased difficulty in upholding sub-licence rights to assert granted to PAEs (standing issues)
Increased challenge to get an injunction

Table 2b. **Some operational and business consequences of the above challenges**

Law firms backing away from fully contingent/partially contingent arrangements
Average time to settlement increasing
Reduced settlement amounts
Increased costs of litigation and need for greater reserve/contingency allocations
Increased failure rate of single-patent suits
Increased uncertainty on licensing outcomes
Reduced margins on licensing programmes

A 'higher bar' for PAEs engaged in litigation

Whether it is changing sentiments in the district courts or simply the pure number of PAE-driven suits that is creating a strain on the system and heightened exposure, a repeated concern from PAEs, whether private or public, is that the 'bar' on lawsuits is getting higher while the gross margins from litigation are decreasing. Table 2a summarises some emerging legal and structural challenges that PAEs face in growing their licensing businesses, and Table 2b highlights some of the operational and business consequences of these changes. Some of these challenges apply to all patent litigations and others appear to specifically address PAEs.

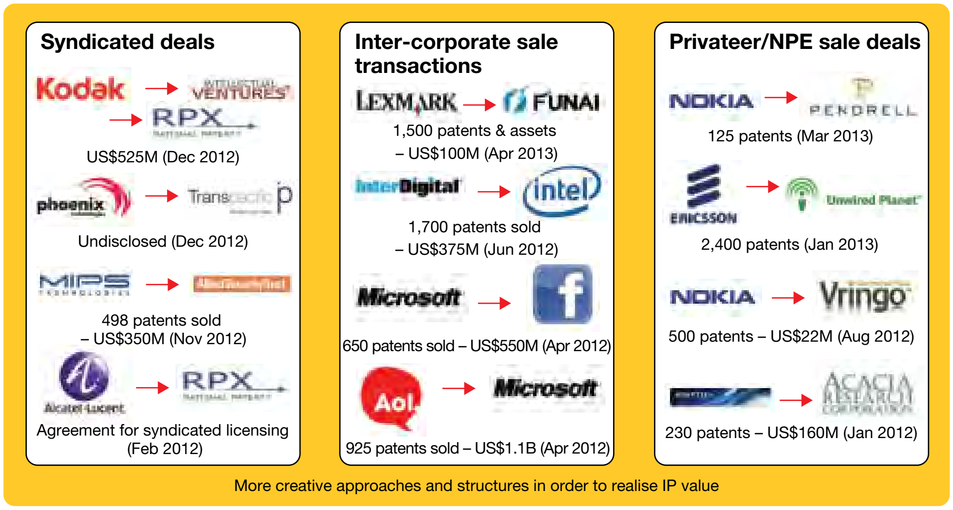
Mitigating factors for PAEs and retooling for growth

Despite the above challenges, perceived or real, what is clear is that the PAE community is not static. Rather, it is adapting dynamically to these developments, though we believe there will be some correction to the breakneck roll-out of reverse merger/public IP companies and a decline at the low end of the market focused on single-play and extortion-based litigations (and the departure of the discretionary sources of capital that financed these). We also believe that we are starting to see the roll-up of under-performing licensing programmes to create a critical mass of intellectual property, spread risks and pool management resources.

As well as greater creativity on the types of partnership and structures of IP monetisation (see further below), we also see top PAEs recalibrating their businesses to diversify portfolios, reduce uncertainty, share costs and behaviourally change the way in which they manage licensing programmes. Some of the key trends we have seen include the following as the PAE industry continues to evolve:

- Flight to quality – PAEs are buying larger, deeper portfolios and putting more patents in suit, as well as holding a deeper pool of back-up patents for licensing and sale.
- Greater focus on pedigree – PAEs are increasing attention to the R&D leadership and history of the patents to show good standing, importance of the intellectual property and the time and money that went into generating the patents.
- Better financed – through public vehicles as well as private investments, PAEs are becoming better financed, with deeper reserves of capital to sustain larger acquisitions and manage more licensing programmes in parallel.
- Revenue diversification – PAEs are achieving a steady state of more

Figure 4. **More creative, diverse strategies by patent holders**



predictable aggregate returns by leveraging different revenue streams (eg, paid-up licences, running royalties, lump-sum payments from patent sales), each with their own risk characteristics and timelines/returns profiles and with greater attention to the downside protection of investments.

- Portfolio diversification – PAEs are investing across different technologies and markets in order to provide sector diversification.
- Scaling through partnership – as well as a core in-house team and favoured litigation counsel, PAEs will begin to back different IP monetisation teams to provide additional operational scale and to take advantage of new perspectives and access points in the IP ecosystem.
- Syndication – in order to spread capital risk as well as access larger opportunities which may not have been possible otherwise, PAEs are beginning to explore co-investment and syndicated transactions, as well as pooling portfolios in critical new areas such as mobile payments.
- Global outreach – most PAE activity is currently centred in the United States, but other geographies will become an increasingly important part of a PAE's portfolio mix – whether it be litigation via German or UK courts, or sale of patents to new buyers in China, Korea and Taiwan. Given the extensive restructuring and bankruptcies in Europe and Japan of late, these locales have become increasingly important sources of deal flow for IP capital providers.
- IP secondaries – PAEs are also acquiring ongoing licensing programmes on a secondary distressed basis from teams that either have run out of money or are underperforming and require additional support. This is a powerful way of achieving non-organic growth and it is our view that a sizeable number of such secondary opportunities will be available in the next 12 months as the PAE community consolidates.
- Increased financial and investment sophistication – setting up special-purpose vehicles which are tax efficient (including offshore options) and negotiating preferred returns and hurdle rates to better reflect the true cost of capital committed are critical components of managing IP investments and make a huge impact on the investment performance of PAEs.

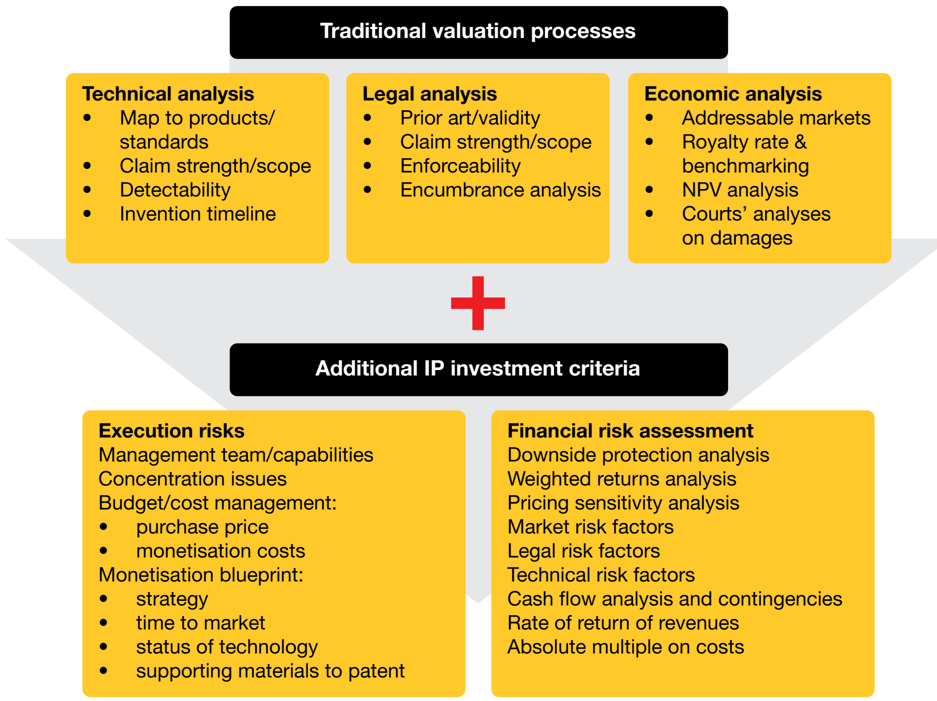
PAEs fortunate enough to have capital, scale and diversified investments and revenue streams will be well positioned for growth and – equally important – more able to adapt to the changing litigation landscape and fortunes of the IP marketplace.

More creative modes and partnerships for IP monetisation

Patent holders are considering more and more creative ways of commercialising their intellectual property that simply would not have been contemplated even three years ago, certainly not to the scale we are seeing. Figure 4 highlights some of these deals.

With regard to inter-corporate patent sales, there have been transactions where the motives for the deal were clearly focused on liquidity for corporations that are distressed, undergoing restructuring or looking to divest assets which are non-core or non-competitive. Examples include Interdigital's sale of 1,700 patents to Intel in June 2012 for US$375 million in order to meet shareholders' expectations on revenue growth and to implement a share buy-back programme, as well as Lexmark's sale to Funai of 1,500 patents plus technology assets, reflecting the changing dynamic of the consumer printing industry away from highly commoditised ink-jet printing towards higher-margin laser printing and document image services businesses. For Funai, experienced in large-volume, low-margin manufacturing and with sophisticated marketing channels in Asia, where the ink-jet printing market is stable, the deal represents a significant opportunity to acquire seminal IP and technology assets at a very attractive price. Microsoft's landmark US$550 million sale

Figure 5. **A higher bar on valuation by financial players**



of 650 patents to Facebook in April 2012, by contrast, was not necessarily solely based on liquidity considerations, but could have resulted from the strategic alignment between the two companies. This could have been only part of a broad-reaching partnership, details of which will be probably never fully revealed.

The last 18 months have also seen corporations more and more willing to sell to PAEs – suffice to say that the privateer model is alive and kicking. Vringo's acquisition of 500 Nokia patents in August 2012, Unwired Planet's acquisition of 2,400 patents from Ericsson in early 2013 and Pendrell's acquisition of 125 Nokia memory patents in March 2013 are prominent examples of these. For these publicly listed PAEs, such acquisitions provide highly sought-after scale and growth, building off their initial licensing successes with their founding IP portfolios. For the corporations, it is a way of providing not just liquidity, but also off-balance sheet capital, management resources and additional leverage to their portfolios which may not have been available if they attempted to commercialise the patents in-house.

We have also seen several prominent syndicated IP acquisition deals in the last year, in which a single entity provides a collective purchasing capability for multiple 'members', which then receive defensive rights to the acquired patents. Allied Security Trust, in a much expanded role to what it has undertaken traditionally, acted on behalf of multiple corporate members – most notably ARM Holdings, which essentially underwrote the transaction – facilitating a complex transaction to acquire close to 500 patents for US$350 million from MIPs, with the operating business and a smaller subset of assets being sold to Imagination Technologies of the United Kingdom. Likewise, in what will probably go down as one of the most surprising and unlikely partnerships in 2012, Intellectual Ventures pooled capital resources and members' capital with those of RPX to acquire a significant number of assets from Kodak for US$525 million. Finally, Transpacific IP's facilitation of the acquisition of Phoenix Technologies' BIOS portfolio to a syndicate of Taiwanese corporations which make most of the world's laptops and PCs not only made strategic sense, but also broke new ground as the first known case where Asian companies (alone) took the initiative to collaborate to take potentially incendiary assets off the marketplace via a trusted third party and manager, in the form of Transpacific IP.

Notwithstanding the increased scrutiny from the antitrust authorities concerning the nature of these pooled capital alliances, there is no doubt that such syndications will continue to be serious and viable buyers in the marketplace for the foreseeable future. As prominent companies such as Alcatel-Lucent, Qimonda, ST Ericsson and Renesas publicly announce restructuring, debt financing and bankruptcy, it is safe to assume that there is a valuable role for these entities in the marketplace, providing liquidity options to these distressed companies and amounts of capital that were perhaps unattainable from single corporate buyers.

Finally, mention should be made of the large multi-strategy funds showing interest in leveraging intellectual property in the form of asset-backed loans. This has been well covered in earlier *IAM* articles ("IP debt: the new monetisation option", by Joseph Jennings, May/June 2013, issue 59). Such deals could be considered as an investment strategy in themselves (as recently announced by Fortress, delivering debt-like returns in the 10% to 15% range, with first capital back from monetising the secured intellectual property in a default situation) or as more creative ways of financing the M&A transaction in the first place, especially as the cost of capital is expected to significantly increase over the next two to three years. Large buy-out funds have been much more aware and sensitive to the fact that an acquiree company's intellectual property may be exhausted by the master licence agreements held by the acquiring company, and some acquirees may be looking at creative ways to divest their assets and leverage these financially in some way prior to the formalisation of any acquisition.

As the IP marketplace becomes more competitive, IP investors will need to be able to handle not only straightforward IP asset purchases ('directs'), but increasingly in order to attract the best-quality assets and people, more complex and creative 'structured' transactions, whether co-ownership, joint ventures, IP M&A carve-outs, patent pools, syndicated deals, catch-and-release corporate partnerships or synthetic royalty and income partnerships.

A final word on realised value and returns – an investor's perspective

Financial investors are often more sensitive to the rate of return of capital (IRR) than to the absolute multiple on capital invested (ROI). In practice, this means that investors require reassurance on when they will receive their principal capital back and then the profile of returns thereafter. Typically, funds are looking to achieve a gross IRR of 20% or more; from a returns point of view, this is the equivalent of getting a 2.5x multiple on total costs (on a running or cash-on-cash basis) over a five-year period. Interestingly enough, a 20% IRR may also be achieved by returning just a 1.75x return on capital in three years, lending to the argument that quick settlements – even if value is left on the table – and patent sales are important strategies for down-side protecting investments and still achieving acceptable returns for investors.

What is as important to investors, as alluded to earlier, is much more visibility on properly characterising the risks in an investment and more metered analysis on the returns scenarios, as well as ways of mitigating these uncertainties should things go wrong.

It is worthwhile pointing out from an investor perspective the following criticisms directed at PAE management teams, in no particular order:

- Difficulties in drawing down pledged or committed capital from other investors.
- Lack of financial skills in the management team.
- Unrealistic returns expectations.
- Poor communication/characterisations of risks.
- Poor cash-flow management and oversight of external consultants and law firms.
- Choice of wrong management team to run the PAE (eg, too risk adverse, too risk seeking, corporate licensing experience but not entrepreneurial enough).
- No portfolio management experience where multiple projects are being run in parallel.

The latter point is interesting because investors expect PAE managers to be much more proactive in managing licensing projects than perhaps they are used to – this includes a triage approach of closing down licensing discussions more quickly, selling off less critical patents, cutting costs as much as possible and settling earlier to get returns back more quickly. Investors will also pay special attention to whether interests are aligned with the PAE management teams in terms of compensation, incentives and commitment to the full programme to guard against the turnover of personnel, and especially leadership.

A huge part of investor diligence will be focused on two factors:

- Proper pricing of the assets, including understanding total programme costs and returns.
- Execution strategy, capability and risk.

As Figure 5 shows, this requires PAEs to repurpose traditional valuation models and include additional emphasis on discount factors to take into account operational challenges such as management credentials, IP monetisation strategy (ensuring no dependency on a single strategy or outcome for success), time to revenues and quality of claims charts and supporting materials. It also requires much more sophisticated approaches incorporating legal, technical and market risks into the financial returns models.

With increased financing and support from the private equity and hedge fund communities, and the increased demands placed on PAEs as public entities, PAEs have been forced to become much more investment savvy and disciplined in evaluating risks and uncertainties, pricing assets and calculating weighted (risk-adjusted) returns. This has also precipitated the emergence of a new support community of investment bankers, financial advisers and consultants that specialise in IP financing. All of these, we feel, are very positive developments in the evolution of intellectual property as an investment-grade asset class. iam

Peter D Holden is senior vice president, investments and acquisitions, at IPVALUE. **George Park** is director of business development and **Anupama Jain** is a licensing associate with the firm

The contents of this paper represent the views of the authors and do not reflect the opinions or positions of IPVALUE or its clients

Action plan

New trends are emerging around the operation of patent assertion entities (PAEs) that will have a significant effect on the sector over the coming years:

- Intellectual property has become a viable, investment-grade asset that is attracting significant inflows of new capital by a new population of capital providers via both public and private vehicles.
- The extent to which the reverse merger phenomenon of repurposing intellectual property into public vehicles can survive beyond quick wins and scale up to create annuities and sustainable revenues remains to be seen.
- We now see a new generation of IP monetisation management teams with demonstrable track records showing repeatable returns. Like venture capital, such 'serial performers' will be much sought out by capital providers.
- There are, and will continue to be, legislative and structural challenges to PAEs, with inevitable corrections and consolidations in the marketplace. However, the better funded and managed PAEs are already retooling and adjusting to these developments in order to ensure sustained growth.