



**HOW CAN IP DUE  
DILIGENCE MINIMISE THE  
RISK AND MAXIMISE THE  
VALUE OF AN INVESTMENT?**

[POTTERCLARKSON.COM](http://POTTERCLARKSON.COM)







**Working with investors is at the heart of my practice.**

**Over the years we have developed a proven approach to IP due diligence for the deal flow of technology opportunities. It provides investors with a lens through which they can see where the IP supports or detracts from a business plan.**

It provides an additional depth of insight investors can employ to assess the valuation and to make a more informed decision as to how likely it will be that the company achieves a successful exit.

For us IP due diligence isn't just another box to tick. It is a form of commercial and legal detective work intended to stress test the IP position and underlying strategy against the business plan. It has to be focussed on revealing the hidden risks of IP often long before they have any impact on the company.

It also has to provide both the investor and company with an opportunity to reset the IP strategy before the deal is signed off."

**PETER FINNIE, PARTNER &  
HEAD OF POTTER CLARKSON'S  
SPECIALIST INVESTOR GROUP**





**In the highest growth technology areas like AI, medtech, digital health and life sciences, the vast majority – perhaps significantly more than 90% – of a potential investment's value lies in the intangible assets.**

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While investors have, by definition, a keen eye for an investment opportunity and the finer details of a deal, experience will have repeatedly proved intangible assets won't be adequately disclosed in the company's slide deck or accompanying business plan.

To ascertain how the intangibles fit within the business plan and ultimately the value of the company, you will need to examine much deeper.

When weighing up the risk of a potential investment we always encourage

our investor clients to accept our recalibration of Pareto's (80/20) Rule. If 90% of the value is in the intangible assets, 90% of the risk will be in the intangible assets. This surely means your due diligence should be focussed on the intangible assets.

With so much at stake, you should always invest the time and effort required to examine the intangible assets carefully and thoroughly. Your prudence will always be rewarded by reduced risk and higher potential returns.

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## WHAT ARE THE INTANGIBLES?

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An intangible asset is anything a company owns that isn't physical, or more formally 'an identifiable non-monetary asset without physical substance', and typically includes goodwill, brand and intellectual property (IP). Although you can't see the intangibles, they will contribute the lion's share of a potential investment's ultimate value even though they are difficult to put a value on themselves. When a company is driven by technology and innovation, their value will always lie in its IP even without a formal asset valuation – the value is baked into the price.

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## TACKLING THE INTANGIBLES

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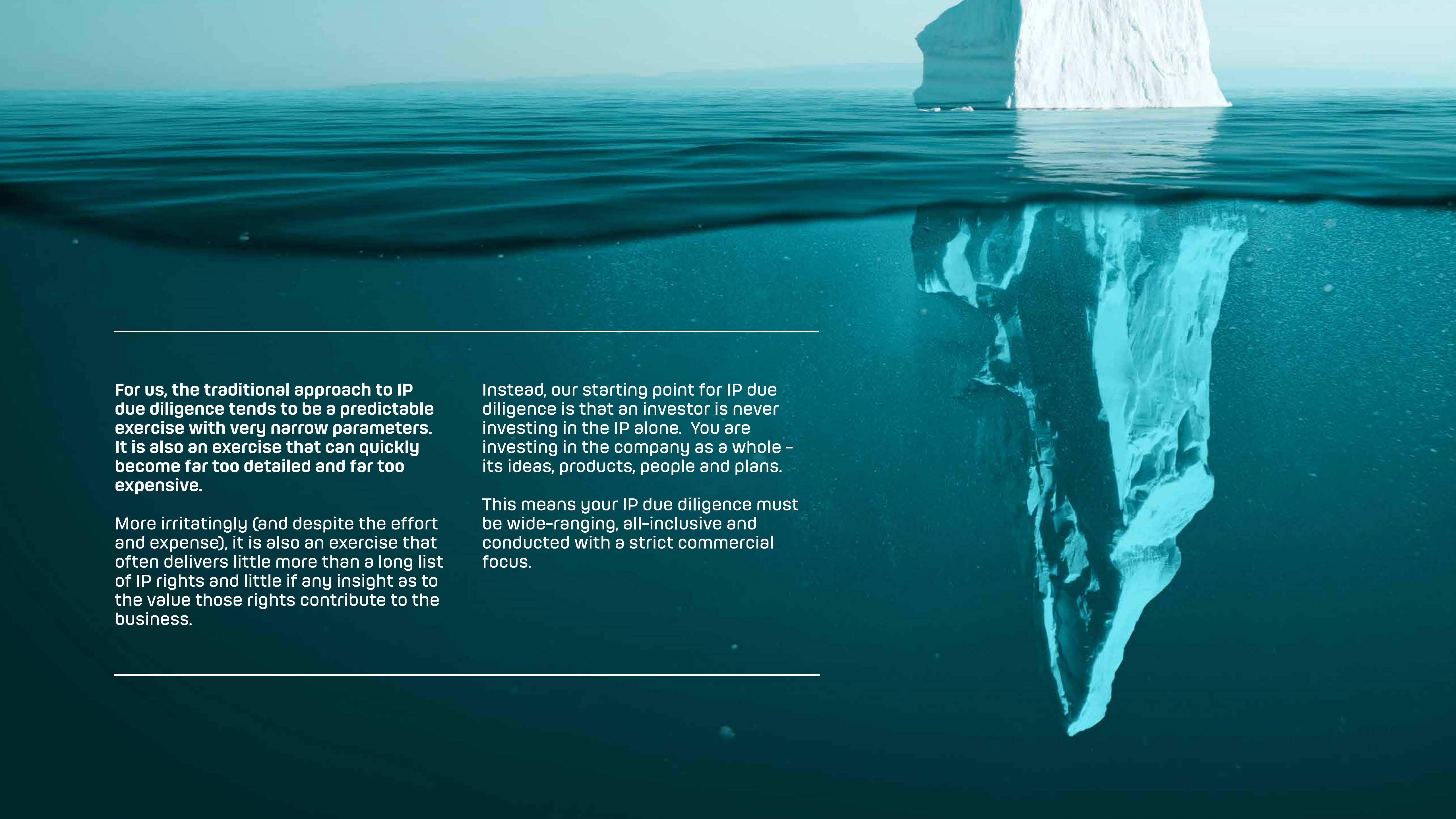
If you think about an investment as being an iceberg, the relatively small bit you can see above the water represents the tangible assets, including the people and the products. Although the tangibles form an important part of the business, the intangible assets often form a much bigger part. They are the bit of the iceberg that lies beneath the surface and includes IP rights such as patents, trade secrets, trade marks and designs.

Although a list of registered IP is usually collated and uploaded to a data room, this will never tell the full story.

Even if you have seen details of the patent portfolio and any IP agreements, can you be sure the company's approach to IP will support its value, operations, and planned growth, not only today but in the future and right up to exit?

**If we return to the iceberg analogy, you need to look below the surface to find out exactly what risks lie beneath.**



A photograph of an iceberg floating in the ocean. The top part of the iceberg is visible above the water, while the much larger, jagged part is submerged below the surface. The water is a deep blue, and the sky is a lighter blue. The iceberg's surface is textured and uneven.

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**For us, the traditional approach to IP due diligence tends to be a predictable exercise with very narrow parameters. It is also an exercise that can quickly become far too detailed and far too expensive.**

More irritatingly (and despite the effort and expense), it is also an exercise that often delivers little more than a long list of IP rights and little if any insight as to the value those rights contribute to the business.

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Instead, our starting point for IP due diligence is that an investor is never investing in the IP alone. You are investing in the company as a whole - its ideas, products, people and plans.

This means your IP due diligence must be wide-ranging, all-inclusive and conducted with a strict commercial focus.



**By the end of the process, you need to know that the company's IP and commercial strategies fit seamlessly and can work in tandem. If this is the case, your investment will have the best chance of success and, more importantly, deliver the level of return you want at exit.**

**Therefore, we don't just sit and examine paperwork in a data room. We spend time with the people behind the company you're interested in. We get to know as much about them and their business as we can, building a complete picture that includes:**

- A detailed review of the company's business plan from an IP perspective (including the technology roadmap)
  - An independent assessment as to whether their IP strategy they have in place to deliver that plan or if a more structured IP strategy needs to be created
  - An independent assessment as to whether the IP they have will support their business plan or if additional or alternative rights need to be applied for
  - A review of the licences, agreements, and other commercial contracts the business has entered into and confirmation these are all current and correct in context of the business plan and their proposed model
- Confirmation of the legal ownership of their IP
  - Confirmation of the way they manage their IP within the company (is it a Board level consideration or is it managed at a lower level?)
  - Confirmation of the way they plan to work with third parties to develop and market the technology, and the impact this may have on their IP strategy (and confirmation the agreements are in place to define/support these relationships)
  - An assessment of their attitude to IP-related risks, including their freedom to operate (FTO) strategy



## We also ask the company how they work with their IP attorneys.

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While this may sound strange, in our experience this is often a critical success factor. As you'll be investing a significant amount of money in the business you need to know if they are a business that merely instructs their advisers or instead collaborates with them.

If it is the former, a change of approach (and even a change of IP attorney) may be worth suggesting. You need to be absolutely sure that as the company moves forward, they are willing to listen to and act upon the best advice so everything is in place to ensure their IP contributes as much as it should to the growth and value of the company.

A true collaboration between a business and its IP attorneys is a recipe for success.

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**When the IP attorney is considered a "trusted advisor", they are aware of the business's commercial aims, and can react quickly to ensure that the IP strategy is fit for purpose.**





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## AS AN INVESTOR, WHAT SHOULD YOU EXPECT FROM IP DUE DILIGENCE?

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The first thing to expect from your due diligence is confirmation the company you are interested in has the level of IP strategy and protection they should at their particular stage of growth.

We would suggest these should be:

### 1. Pre-Seed

They can demonstrate a good understanding of the IP landscape.

They have an outline IP strategy that is part of and aligned with their business plan.

### 2. Seed

They have their initial IP protection in place.

They have conducted a formal review of key elements of their FTO position.

They have implemented and are following their IP strategy.

### 3. Series A+

They have robust IP protection in place.

They are not only executing but regularly reviewing and updating their IP strategy.

They are always investor-ready.

### 4. Exit

All of the above ... on steroids!

However, while the above provides a very practical summary, what you must expect – in fact, bank on – is the guarantee those you entrust with delivering your IP due diligence have the insight, understanding and experience to reveal the hidden details.



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**The following are examples of some of the critical IP-related issues we've uncovered whilst working with investors:**

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One company had massively oversold the importance of their IP in their pitch and business plan. This led to a significant devaluation of the company when the true strength (weakness) of the IP position emerged in IP due diligence.

As a large portion of the company's IP was not related to their current business plan, it was of no apparent value despite the fact it represented a significant ongoing cost to the business.

Existing licences to the company precluded the company from granting sub-licences, thereby blocking a key element of the business plan to expand globally.

As patent licences had already been granted to different companies across several different fields of use, effectively creating an IP holding company with a future revenue stream, it was not apparent how a traditional exit could ever be achieved for the investor.

The opportunity to protect an innovation key to the success of their business plan (and therefore the value of the investment) was missed because the business had no coherent policy for identifying and protecting innovation.

In one investment we discovered that trade secrets were the most valuable IP asset, yet no procedures had been put in place to protect them.

One business' failure to check early on whether their brand assets had been registered and cleared for use led to them finding at the final hurdle that they were completely unable to use their trade marks and they would have to totally rebrand.

As no early novelty searches had been done, the investors were unable to verify the company's exaggerated claim that broad patent protection was achievable and so pulled out of the deal.

Even though one business had had filed several patent applications, they'd been drafted without regard for the business plan. As such they did not support the planned exploitation of the technology and were barely fit for purpose.

As one business had failed to put an ongoing watch of published patent applications or patents by competitors in place, they had no idea that a simple search of their competitors' patents would reveal several serious patent infringement risks. The discovery of these easily identifiable risks not only held up the investment, but it also totally undermined their valuation.



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## WHY SHOULD YOU TALK TO POTTER CLARKSON THE NEXT TIME YOU NEED IP DUE DILIGENCE ON A POTENTIAL INVESTMENT?

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As we have said, our view is traditional IP due diligence is a predictable exercise that burns a lot of time and cash but provides very little insight into how the ideas, products, people and plans you are assessing will perform in the real world.

We've used everything we've learned during the many years we've worked with investors in Europe and North America to devise a different and far more practical approach that dives deep under the iceberg and into the intangibles so we can see exactly what lies beneath the water.

Moreover, our multi-disciplinary team allows us to independently evaluate your potential investment from the perspective of both:

- An experienced attorney who has worked alongside investors and start-ups for many years.

- A specialist IP solicitor with extensive experience in IP-focussed corporate due diligence, commercial agreements (including licences) and uncovering and managing any potential legal disputes.

It is an evaluation that takes a commercial view of the intellectual property and legal framework at the heart of the investment you are considering that will confirm:

- The company has protected the IP required to deliver their business plan
- How well their IP maps to the commercial products/processes
- Who owns any existing and future IP
- Whether there are any FTO considerations you should be aware of
- That when it comes to selling the business, IP will contribute to the valuation of the company rather than put it at risk
- If there are any additional IP-related issues that could impact on a successful investment

**In short, our patent attorneys and IP solicitors will go far beyond the slide deck and IP registers to ensure you have everything you need to make the most informed investment decisions and deliver all this information in a concise, clearly set out report.**





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**However, there are three additional benefits we feel are unique to Potter Clarkson:**

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**1.**

At your request we can host a detailed IP debriefing for the company (and you if you'd like to attend). We'll not only summarise our findings from the due diligence but also provide IP-focused recommendations that will help strengthen the business. To deliver the maximum value, we will also share broader perspectives we've learned from working with similar businesses. This essentially provides the company with a detailed IP to-do list and therefore futureproofs your investment.

**2.**

When there is a crossover of technologies in a target company (for example the use of AI in healthcare or pharma), we always assemble a multi-disciplinary team of attorneys from across our technical departments. They will work closely together in a team led by an experienced lead attorney who'll be chosen depending on the main technological focus of the IP due diligence.

**3.**

If the IP due diligence exercise in question needs broader legal support, we can refer internally to our experienced team of IP solicitors at Potter Clarkson who can advise on a wide range of non-contentious and contentious matters. This adds depth to the IP due diligence process whilst controlling costs and making the due diligence process easier for you to manage.





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## **VerifyiP: The easiest way for investors to conduct comprehensive IP due diligence**

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We have combined all of the experience we've gained from working with investors to create **VerifyiP**.

**VerifyiP** is a fixed price/fixed outcome model that delivers a complete and candid assessment of your potential investment from the perspective of both a patent attorney (or attorneys if there is a crossover of technologies in your target company) and an IP solicitor.

If you would like to learn more about **VerifyiP** please email [consultancy@potterclarkson.com](mailto:consultancy@potterclarkson.com) or request a copy from **our website**.





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