

# Patent Monetization and M&A Transactions: A Match Made in Heaven

**Richard M. Assmus**

Partner

+1 312 701 8623

rassmus@mayerbrown.com

**Michael J. Word**

Partner

+1 312 701 7355

mword@mayerbrown

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## Today's Presenters



**Richard M. Assmus**  
Partner

Richard is a member of the Intellectual Property, Brand Management and Litigation practice and co-leads the firm's Technology & IP Transactions practice. Rich has a balanced intellectual property transactional and litigation practice. He is also closely involved in strategic IP agreements, intellectual property due diligence, technology, content and trademark licensing, brand management, copyright counseling, and advertising counseling. Richard utilizes his background in science and mathematics in connection with complex patent litigation and technology matters.



**Michael J. Word**  
Partner

Michael is a partner in the Intellectual Property practice who focuses on patent litigation and dispute resolution in a variety of forums, including district court litigation, arbitration, and practice before the Patent Trials and Appeals Board (PTAB). Michael also advises clients on their intellectual property development and protection strategies and helps them to monetize their patent portfolios. Michael has advanced degrees in electrical and computer engineering, and focuses his practice on high-tech applications, including cloud computing, semiconductor devices, and wireless communications and sensors.

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**PART 1**

# What Is “Patent Monetization” and Why Is It Important?

# What is Patent Monetization?

- With respect to IP, “monetization” is a general term for **generating revenue** from a company’s IP portfolio
  - Distinct from “securitization” of IP assets, although securitization of IP assets may form part of a company’s monetization strategy
- We will be focusing on patents (as opposed to trademarks, copyrights, or trade secrets) because they are the form of IP most often used in connection with a company’s IP monetization strategy
  - Patents are a right to exclude others from practicing the claimed invention, not a right to practice
- Companies monetize their patents in several ways:
  - Licensing patents
  - Selling patents
  - Non-standard forms of monetization (securitization of royalties, using as collateral for debt)

## How Does a Company Go About Monetizing its Patents?

- **Step 1: Analysis** – Understand the Company Patent Portfolio
- **Step 2: Planning** – Determine the Available Options for Monetization
- **Step 3: Implementation** – Carry Out the Monetization Strategy

# How Does a Company Go About Monetizing its Patents?

- **Step 1: Analyze and Understand the Company Patent Portfolio**
  - Most important step – requires gaining a thorough and detailed understanding of the company's patent portfolio.
  - How do the patents relate to the company's products/services?
    - Do the patents relate to core or non-core products/services?
    - Is the company still selling those products/services, or might it in the future?
    - Do the patents cover alternatives to the company's products/services?
    - What aspects of the products/services do the patents cover (essential versus tangential)?
  - How do the patents relate to third-party products/services?
    - Are any patents already being licensed (either alone, or as part of a bundled license or cross-license)?
    - Are there any patents that are infringed (or potentially infringed) by third parties?
    - Have any patents been the subject of cease and desist or licensing demands?
    - Do the third-party products/services covered by the patent overlap with those of the company?

# How Does a Company Go About Monetizing its Patents?

- **Step 1: Analyze and Understand the Company Patent Portfolio (cont'd)**
  - Which patents and patent families are still “active”?
    - Are any patents expired, for example for failure to pay maintenance fees?
    - Are there still pending patent applications in the family?
    - Which jurisdictions are covered?
  - Which patents are subject to ongoing legal obligations?
    - Are any patents serving as loan collateral and/or are they covered by security interests?
    - Are any patents the subject of broader licensing agreements or cross-licensing agreements?
    - Any other limits on the ability to enforce, license, or sell?



# How Does a Company Go About Monetizing its Patents?

- Step 1: Analyze and Understand the Company Patent Portfolio:
- **Step 2: Determine the Available Options for Monetization**
  - Which patents are candidates for sale or divestiture?
    - Patents that cover core product lines and services may not be options for sale
    - Patents that cover old product lines or alternative product lines may still be needed to block third-parties from encroaching on a company's existing lines of business
    - Patents may still be useful for defensive / deterrent purposes, even if they don't relate to a company's product lines (for example, patents that cover a competitor's product line in another space)
  - Which patents are candidates for licensing?
    - Even if a patent is a candidate for sale, a company may want to license the patent instead of selling it
    - Potentially infringed patents are major value drivers and require additional analysis and investigation
  - Which patents are candidates for other forms of monetization?
    - Currently licensed patents may be candidates for securitization



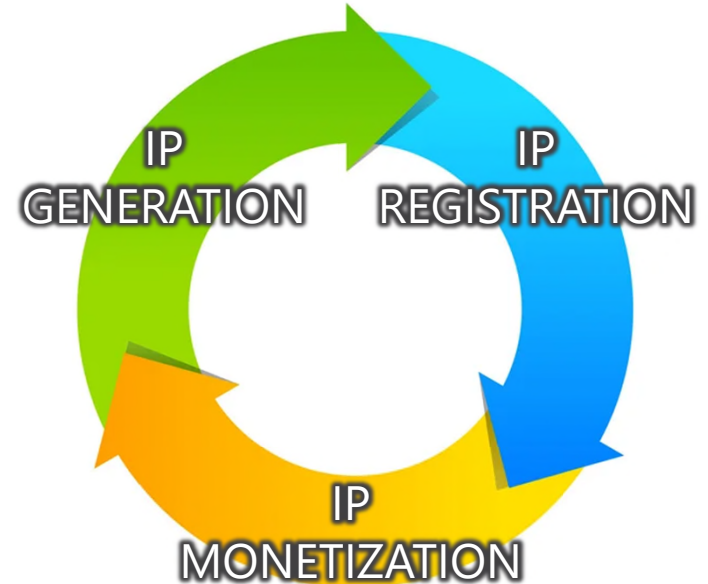
# How Does a Company Go About Monetizing its Patents?

- Step 1: Analyze and Understand the Company Patent Portfolio
- Step 2: Determine the Available Options for Monetization
- **Step 3: Implement the Monetization Strategy**
  - Selling patents
    - List patents with a marketplace or auction house
    - Retain a broker to identify and engage potential buyers
    - Direct outreach to potential buyers
    - Bundling to increase value
  - Licensing patents
    - Direct enforcement and licensing campaign by company following identification of potential licensees
    - Creation of separate entity to undertake licensing efforts
    - Engaging third-parties, such as patent assertion entities

# Why is Patent Monetization Beneficial? (Part 1)

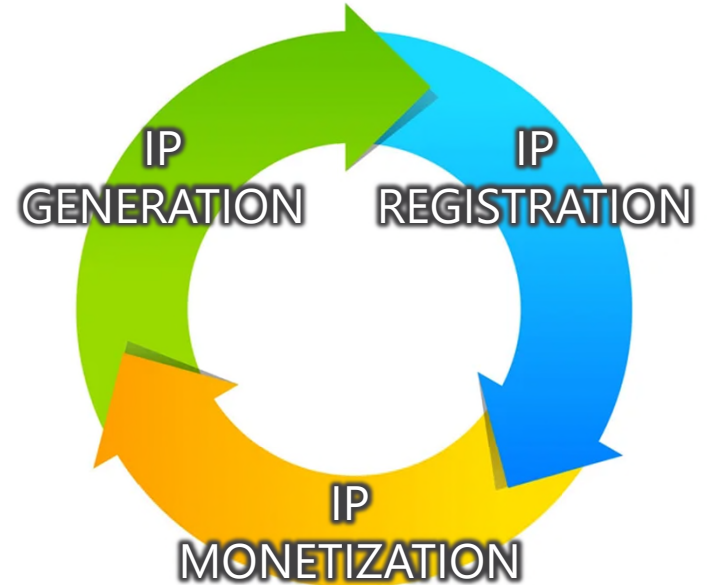
## It is a Part of a Healthy IP Lifecycle

- Without monetization, a company is not getting the most out of its investments in R&D and its patent portfolio
  - Companies have sunk to the cost in both the R&D and obtaining the legal rights
- Monetization helps to turn R&D and IP development into a profit center, instead of just a cost
- Done properly, monetization can help sustain R&D and IP generation, and can also fund other company initiatives



## Why is Patent Monetization Beneficial? (Part 2) Stability During Economic Downturns

- Companies tend to invest in IP generation and registration throughout business cycles
- IP monetization is generally counter-cyclical to the economy
- When traditional revenue streams fall, companies tend to look at ways to extract value from existing assets
- Monetizing IP can provide this alternative revenue stream



# Why is Patent Monetization Beneficial? (Part 3)

## The Amounts at Stake are Substantial

**Intangible Assets  
Now Represent 90  
Percent of the  
Value of the S&P  
500<sup>1</sup>**

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US courts awarded \$4.67 billion in patent damages during 2020<sup>2</sup>

**Patent Licensing Effort Pays  
Dividends for IBM CFO**  
Annual Patent-Licensing Royalties Grow  
3,300% in 10 years to nearly \$1 billion annually<sup>3</sup>

<sup>1</sup> Intangible Asset Market Value Study (<https://www.oceantomo.com/intangible-asset-market-value-study/>)

<sup>2</sup> Patent Litigation Report (<https://hbr.org/2000/01/discovering-new-value-in-intellectual-property>)

<sup>3</sup> Discovering New Value in Intellectual Property (<https://hbr.org/2000/01/discovering-new-value-in-intellectual-property>)

# The Increasing Importance of IP and Patent Monetization



# The Increasing Importance of IP and Patent Monetization

- These industry trends mean that company's patent portfolio and IP strategy will continue to be more of a focus by shareholders and investors
- Because more and more value is in intangible assets, a well-developed IP lifecycle is no longer a "perk," it is an expectation
- Because patent monetization has become more mature, there is now also an expectation that a company will have at least explored patent monetization options as part of their overall IP strategy
- Showing that one or more patents may be infringed by third parties can help demonstrate the value of the patent portfolio and that a company has in place a healthy IP lifecycle and strategy

# So Why Might a Company Not Be Engaging in Patent Monetization?

- Based on our discussion with clients, there are significant “barriers” to patent monetization efforts





## Barriers to Patent Monetization

- **Lack of knowledge** – the company does not have a sufficiently thorough understanding of its patent portfolio to begin a patent monetization effort, or to know what its available options are
- **Lack of time and resources** – the company or business is not able to devote the mindshare of key employees to a patent portfolio analysis
- **Lack of available funds** – the company does not have available funds to undertake a patent portfolio analysis using a third party, or is not able to justify the use of those funds
- **Lack of a valuable patent portfolio** – a company may not have made the necessary investments or implemented the necessary procedures to generate, identify, and register its IP

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**PART 2**

# Synergies Between M&A Transactions and Patent Monetization Efforts

## How Do M&A Transactions Relate to Patent Monetization?

- M&A transactions tend to change the patent monetization “landscape” of a company, creating the need to revisit the patent portfolio and the company’s strategy
- M&A transactions provide the opportunity to get the in-depth information about a company’s patent portfolio so that a party can determine patent monetization opportunities
- M&A transactions create an environment in which the “barriers” to patent monetization are reduced or eliminated

# M&A Transactions Change the Patent Monetization “Landscape” of a Company

- The patent portfolio of the counter-party may not have been monetized, or may not have been properly monetized
- Even if companies have engaged in patent monetization efforts in the past, they will need to revisit this issue because of the new landscape post-transaction
- Combining the businesses of the two entities may result in redundancies that could “free up” patent assets for monetization, or created other opportunities (such as the ability to bundle assets for sale)



# M&A Transactions Can Generate the Information Necessary to Understand Company Patent Portfolios

- M&A transactions typically provide the information needed to develop a patent monetization strategy
- Recall the main questions from Step 1 of the patent monetization process:
  - How do the patents relate to the company's products/services?
  - How do the patents relate to third-party products/services?
  - Which patents and patent families are still "active"?
  - Which patents are subject to ongoing legal obligations?
- **There is a substantial overlap with typical M&A due diligence inquiries**

# M&A Transactions Reduce or Eliminate the “Barriers” to Patent Monetization

- **Lack of knowledge regarding patent portfolios?**
  - Due diligence can provide much of the information needed to understand a company’s patent portfolio, including core v. non-essential patents
- **Lack of time and resources?**
  - Key stakeholders (such as IP counsel and subject matter experts) on both sides of the transaction are engaged
- **Lack of funding?**
  - Work product generated in connection with M&A transactions can help obviate the need to engage third-parties to analyze portfolios, or to devote internal funds to this analysis
- **After the M&A transactions have concluded, these barriers go back up**



**PART 3**

Putting It Into Practice



## Putting it Into Practice – During the Transaction

- **Change your approach to due diligence**
- Make sure your due diligence efforts are getting at information that will help with future monetization efforts instead of just “checking the box”
- Not just:
  - “What are the party’s current and future core products and services, and are those covered by patents?”
- But also:
  - “What products and services are obsolete (or are being discontinued), and what are the relevant patents?”
  - “What business units are obsolete (or are being discontinued), and what are the related patents?”

## Putting it Into Practice – During the Transaction (Cont'd)

- Make sure you are also asking for the following, all of which are “fair game”:
  - ✓ Patent portfolio analyses
  - ✓ Patent infringement analyses
  - ✓ Licensing demands to third parties
  - ✓ Identification of patents directed to key products / product lines / areas of technology
  - ✓ Industry reports, market analyses, competitive analyses

## Putting it Into Practice – During the Transaction (Cont'd)

- As you formulate your IP due diligence questions, keep in mind the information need to obtain a comprehensive understanding of the counter-party's patent portfolio
  - ✓ "Identify all patents / patent applications that cover [CORE PRODUCT FAMILY]"
  - ✓ "Identify all patents / patent applications relating to [DISCONTINUED PRODUCT FAMILY]"
  - ✓ "Identify all patents / patent applications relating to [CORE TECHNOLOGY]"
  - ✓ "Identify all patents / patent applications relating to [ALTERNATIVE TECHNOLOGY]"
  - ✓ "Identify all patents / patent applications that are currently used in the Business of the Company, grouped by business unit"
  - ✓ "List all pending patent applications and issued patents, grouped according to their respect patent families and identify the associated Market"

## Putting it Into Practice – During the Transaction (Cont'd)

- Take full advantage of speaking with business unit leaders and technical leads at the target company to uncover information that is not readily accessible from documents
  - What alternative technologies exist and/or were explored?
  - What technologies are competitors using?
  - What makes the target's products superior to competitor's products and/or provides a competitive advantage
- **Keep in mind – the M&A transaction may be the last time that a buy-side client has access to key individuals with knowledge about the target's IP portfolio**
- Failing to capture this knowledge can place your company at a disadvantage when it comes time to monetize their patents

## Putting it Into Practice – After the Transaction

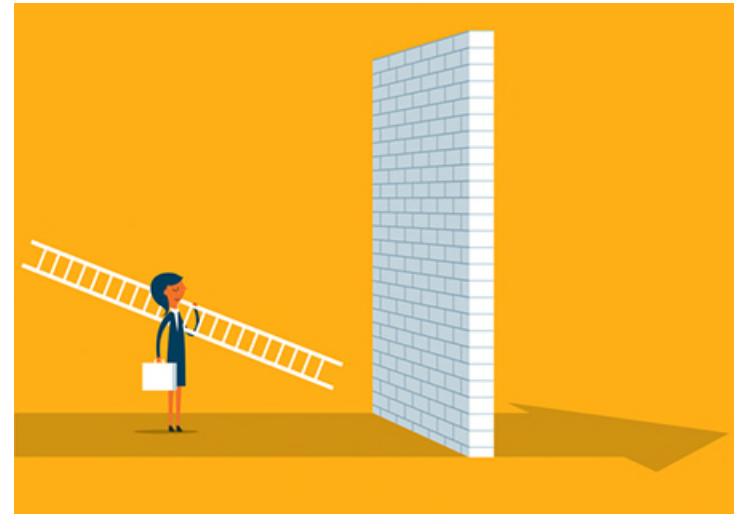
- **Don't just “close the book”!**
- Use the information gathered to develop a monetization strategy (or revisit patent monetization in view of the changed landscape of the company)
  - Capitalize on documents received and work product created as a result of the M&A transaction
  - Seize on momentum from recent deals and take advantage of mindshare from key employees
  - Obtain institutional knowledge about patent portfolios, key patents, targets for licensing / sale of patents, etc., before it is lost because of employee departures or redundancies
  - Identify areas of overlap in the combined business that provide new monetization opportunities
- Even if a deal has long-since closed, it is always a benefit to consider patent monetization
  - Particularly valuable during economic downturns when the company may be looking for alternative sources of revenue or to realize the latent value in their IP portfolios

## Putting it Into Practice – Prior to the Transaction

- Make sure your company has a strategy for generating, capturing, and **monetizing** its IP
  - Don't just focus on your company's core products and technologies, but focus on alternatives and competing markets as well
- Make the effort to identify potential infringers / licensors of patents, which can be used to show significant value to suitors
- Being proactive in these areas will help make the company more attractive to investors and potential suitors

# Key Takeaways: Small Changes Can Lead to Large Benefits for Your Company

- Intellectual property continues to make up larger and larger shares of a company's overall value
- There is an increasing expectation that companies are making efforts to monetize their patent portfolios
- M&A transactions are significant undertakings – make sure you get the most out of them and the work product generated by them
- By making relatively minor changes to how you approach an M&A transaction, you can overcome the barriers to patent monetization efforts and unlock the full potential of the company's patent portfolio







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