CASE STUDY

Strategic Alternatives Evaluation for RFID Technology

NEVIUM
Intellectual Property Solutions

THE ISSUE

Nevium's Apportion-based IP Valuation Analysis helps growing tech company evaluate strategic alternatives

ISSUES ADDRESSED

Patent Valuation	Technology Valuation
Relief from Royalty	Apportionment Model
Transaction Due Diligence	IP Strategy

THE CHALLENGE

Though it may not look like much at first glance, an emerging technology small enough to fit in the palm of your hand is revolutionizing the healthcare and pharmaceutical industries. Radio-frequency identification (RFID) tags containing electronically stored information accessible from hand-held readers represent the latest and greatest in tracking and identification systems, with applications ranging from inventory management, to pharmaceutical anti-counterfeiting, to wireless device configuration. In the hospital pharmacy setting, RFID automation of manual error-prone tasks can mean the difference between life and death for at-risk patients, leading to a growing demand for this type of tech in safety-related fields.

When a leading innovator of RFID healthcare solutions was approached with a buy-out offer from its largest distributor, its owners and investors faced a harrowing decision—should they cash in now and accept the offer, or forge ahead with development in a growing sector fraught with potential costs and risks? With time travel technology still a ways down the pipeline, the company turned to the next best thing and hired Nevium's financial analysts to forecast the potential futures of these diverging paths.

When the purchase was proposed, the majority of the company's earnings came from the sale and installation of previously developed physical products, such as tags, trays, and controlled temperature cabinets. Though the interested distributor accounted for over 50% of the overall revenue at the time, the company's management and chief investors had the foresight to understand that this wouldn't necessarily be the case for long. With an evolving arsenal of patents, proprietary technologies, trademarks and other brand assets at their disposal, the tech company's IP was poised to play a much greater role in the near future as the company developed new technologies with broader market applications. With the potential for substantial revenue and earnings growth in the foreseeable future, it was vital to make sure that any acquisition being considered adequately reflected the contribution and potential of the company's intellectual property and related intangible assets.

NEVIUM'S SOLUTIONS

Nevium began its analysis by diving headfirst into market research to uncover key trends in the RFID industry. Even within a rapidly growing marketplace, the pharmaceutical segment in particular was surging ahead at a breakneck pace. With a growth rate of 26% per year, that sector alone was expected to account for 20% of the total RFID market by 2025.

If the company could continue to innovate and grow it had the potential to achieve a much larger valuation in the near future. But how much of the company's current and future value was derived from its proprietary intellectual properties? Nevium's apportionment model is an IP valuation tool designed to answer this question. Nevium's IP valuation process involves:

1. Development of a financial forecast and valuation for the entire business;
2. Forecasting product-level financial performance in order to understand the expected future contribution of existing and future products;
3. Identification and bundling of the company's intellectual properties and intangible assets, including patented technologies, brand assets, trade secrets and key

relationships;

4. Apportioning the expected profits from each product group amongst the company’s tangible and intangible assets, including the identified IP assets;
5. Use of a discounted cash flow calculation to value the expected future economic benefits derived from both each identified product group and the future benefits apportioned to each of the company’s assets and resources; and
6. Verifying that the value of the entire business is equal to the total value of all product groups and equal to the total value of all tangible and intangible assets.

OUTCOME

Nevium’s IP valuation apportionment model showed that patented technologies accounted for over 60% of the company’s business value and that brand assets would make a growing contribution in the coming years. In other words, the Company’s technology assets were the largest contributor today, but its efforts to develop relationships, extent its product portfolio and build brand recognition would contribute to a greater total valuation in the near future.

With Nevium’s apportionment analysis providing an idea of what lay ahead if the business were to continue as a going concern, the company turned its focus to evaluating the terms of the existing purchase offer. While it was certainly tempting to be able to realize value immediately and never have to worry about funding future efforts or reaching new customers, taking this path would also mean sacrificing control of their IP and key technologies, as well as potentially tying their hands when it came to any future marketing opportunities—in short, the price had to be right. To better understand the advantages of the deal, Nevium analyzed the value that the distributor could achieve by acquiring the company and discovered that the primary driver of value was synergies and incremental sales of the company’s existing proprietary technology. The current offer was undervaluing future technologies and the company's brand assets.

As a final examination of the company's strategic alternatives, Nevium considered another potential path—ditching the company's physical operations and focusing solely on exploiting its proprietary assets as a licensor. Though it would mean a reduction in control over production aspects and branding, this type of operation would require a much simpler business model and significantly less overhead. Using a top-down approach, Nevium built a new business model for the company assuming a change of strategic direction to a technology development and licensing firm. This business model relied on continued research and development plus execution of licensing agreements, but required little marketing to develop further brand assets.

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Nevium's evaluation of this strategic alternative made it clear that it was the synergy of proprietary technology and brand assets that would allow the company to realize the greatest value going forward. Based on its analysis, Nevium recommended that the company reject the existing acquisition offer and continue to develop their technologies, extend their product portfolio, and build brand awareness. Since receiving Nevium's analysis, the company has been able to exceed its projections, enter new markets and increase its earnings. A bigger and better exit appears to be in this company's future.

CONTACT NEVIUM

For more information regarding Nevium Intellectual Property Solutions, please contact Brian or Doug at –

Nevium Intellectual Property Solutions
858 255 4361 www.nevium.com

Doug Bania, CLP: dougbania@nevium.com

Brian Buss, CFA: brianbuss@nevium.com