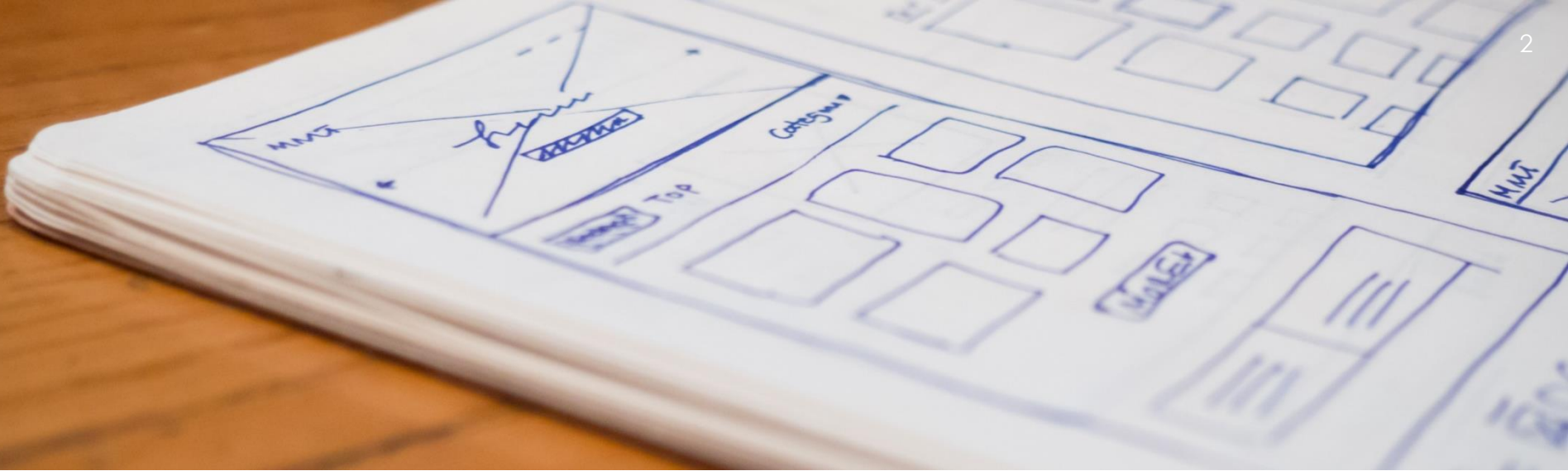




**METIS PARTNERS**  
**WIPO PRESENTATION**  
**17 OCTOBER 2017**

**SESSION 2: THE RELATIONSHIP  
BETWEEN TRADE SECRETS AND  
PATENT PROTECTION WHEN AIMING  
FOR BUSINESS GROWTH**



## AGENDA – TIMESCALES & FORMAT

- ✳ Today's sessions are scheduled to run from 11.45 to 12.30 and from 14.00 to 14.45
- ✳ Interactive sessions – these are intended to be informal discussions, so please participate
- ✳ Questions are welcome at any time, and please tell us if we need to repeat anything



# WHAT ARE WE GOING TO COVER?



1

IMPORTANCE OF TS PROTECTION

2

CHALLENGE IN COLLABORATIONS

3

VALUATION OF PATENTS AND TRADE SECRETS

4

UNDERSTANDING THE VALUE OF TRADE SECRETS

5

KEY TAKEWAYS





# WHY HAVE TRADE SECRETS POLICY IN PLACE?

Policies and procedures can mitigate trade secret “leakage”.

It’s important to have safeguards which prevent trade secret “leakage” from the start:

- ✦ IP ownership and confidentiality **clauses** in employee contracts:
- ✦ **Entry interviews** to delineate new employee’s general know-how from previous employer’s trade secrets
- ✦ **Exit interviews** to remind departing employees of obligations in relation to trade secrets and confidential information;
- ✦ **Referencing in contracts**, particularly in situations where trade secrets become of use in JV, collaboration.

When in doubt... treat it as a trade secret until confirmed otherwise



## CHALLENGE IN GROWING SMEs

- ✪ Collaborations & JVs (including academia)
- ✪ Internationalisation
- ✪ “Sharing” with contract manufacturers (incl licensing)



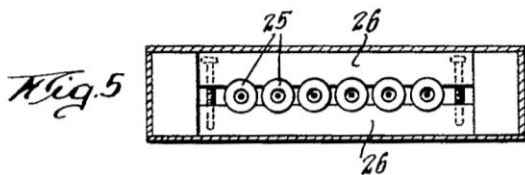
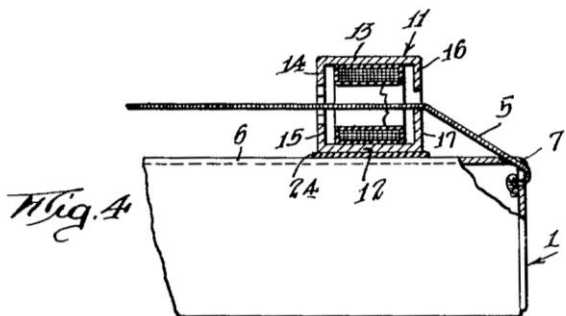
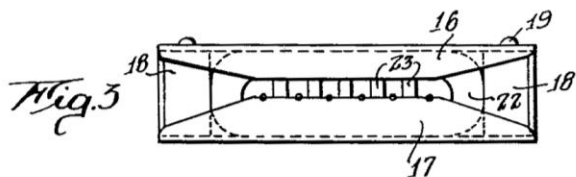
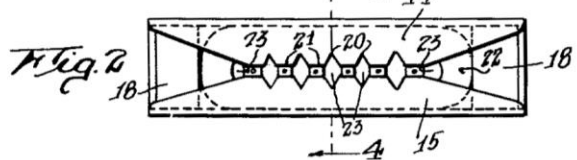
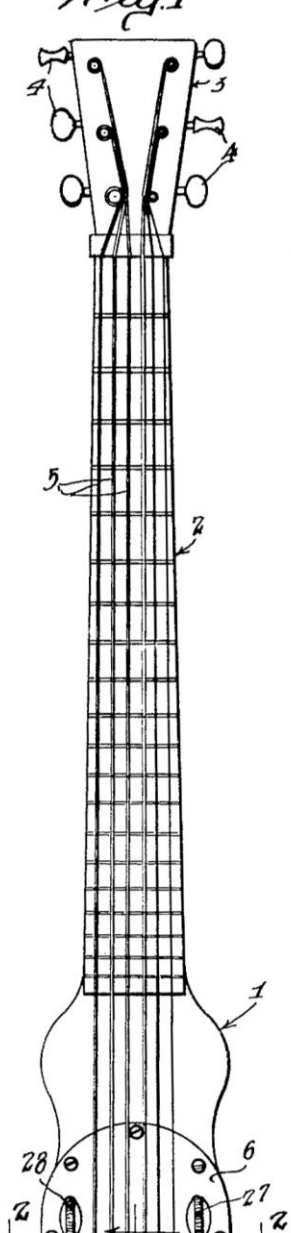
# TRADE SECRETS CAN BE USED AS AN ALTERNATIVE TO PATENTING

Certain industries rely heavily on trade secrets as an approach to protect their IP:

- ✳ Food & beverage (e.g. Coca-Cola, AG Barr)
- ✳ Animal health pharma
- ✳ Software

Why?

- ✳ Cost saving
- ✳ Affords protection for an indefinite duration
- ✳ Does not publicly disclose critical elements
- ✳ Helps circumvent novelty and obviousness (key burdens of patenting)



Inventors

Clauton Orr Kauffman

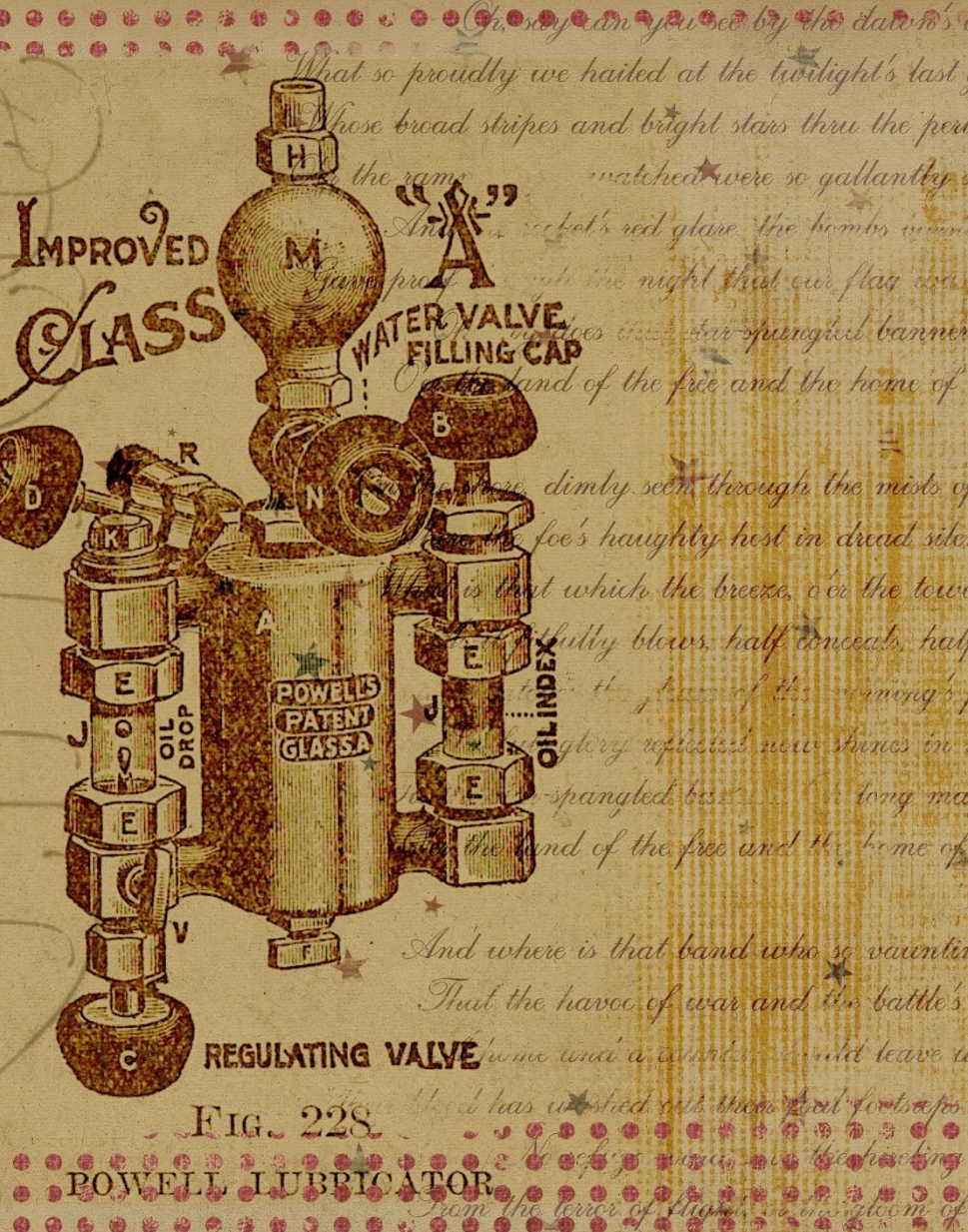


# TRADE SECRETS CAN ALSO BE A <sup>7</sup> TEMPORARY SAFEGUARD IN ADVANCE OF PATENTING

Any company with a patenting strategy should also have an **invention disclosure process** which aims to answer whether:

- ✦ A new innovation has been discovered/created
- ✦ It contributes to the company's competitive advantage
- ✦ It is obvious or novel
- ✦ It can be easily reverse-engineered
- ✦ It will be obsolete in 20 years

Capturing this as a trade secret allows the company to later patent the innovation or choose a more appropriate method of protection.



## TRADE SECRET VALUATION – ITS NOT STRAIGHTFORWARD

Need to establish:

- ✦ Nature & extent of TS
- ✦ Level of protection
- ✦ Importance to the business & competitive advantage offered

We follow a step by step process







## STEP 1: IDENTIFY KEY IP ASSETS

We consider all potential IP assets

### IAS 38 Categories of intangibles:

- ✦ **Technology-related** – patented technologies, trade secrets
- ✦ **Contract-related** – licences, royalties, service contracts
- ✦ **Customer-related** – customer contracts, non-contractual customer relationships
- ✦ **Marketing-related** – trade marks, domain names, non-compete agreements
- ✦ **Art-related** – literary works, film rights, song lyrics

## STEP 2: SELECT APPROPRIATE VALUATION METHODOLOGIES

- ✪ **Cost method** – used for innovative technologies, pre-revenue companies and internally developed software
- ✪ **Market method** – applicable where there is an active market for the IP – not common





## STEP 2 CONT.: INCOME METHODS – MOST COMMONLY USED FOR IP ASSETS

### MEEM:

- ✦ Used for “BIG” (primary or leading) IP assets, often technology, customer contracts and relationships

### Relief from royalty:

- ✦ Commonly used for brands, patents and software, and based on a hypothetical license scenario



## STEP 3: ASSESS THE ECONOMIC USEFUL LIFE (EUL) OF IP NEEDS SECTOR AND CLIENT KNOWLEDGE

### IFRS 3

- ★ IP assets can have **infinite** EUL but subject to annual impairment review
- ★ Requires an **annual** review of IP assets' EUL
- ★ No fixed term provided but EUL determines explicit forecast period

### FRS 102

- ★ All IP assets assumed to have a **finite** useful life and assumes NIL residual value
- ★ Presumption of **10 year** EUL (was 20 years then 5 and now 10) unless **reliable evidence to the contrary** – auditor may argue 10 years is inappropriate for some IP





## STEP 4: SENSE-CHECK

Cross-check all IP valuations to ensure they makes economic sense:

- ✳ **Enterprise value** – is the IP value sensible in terms of the enterprise value
- ✳ **Weighted average return on assets** – check the returns on the business assets and residual goodwill are appropriate for the sector





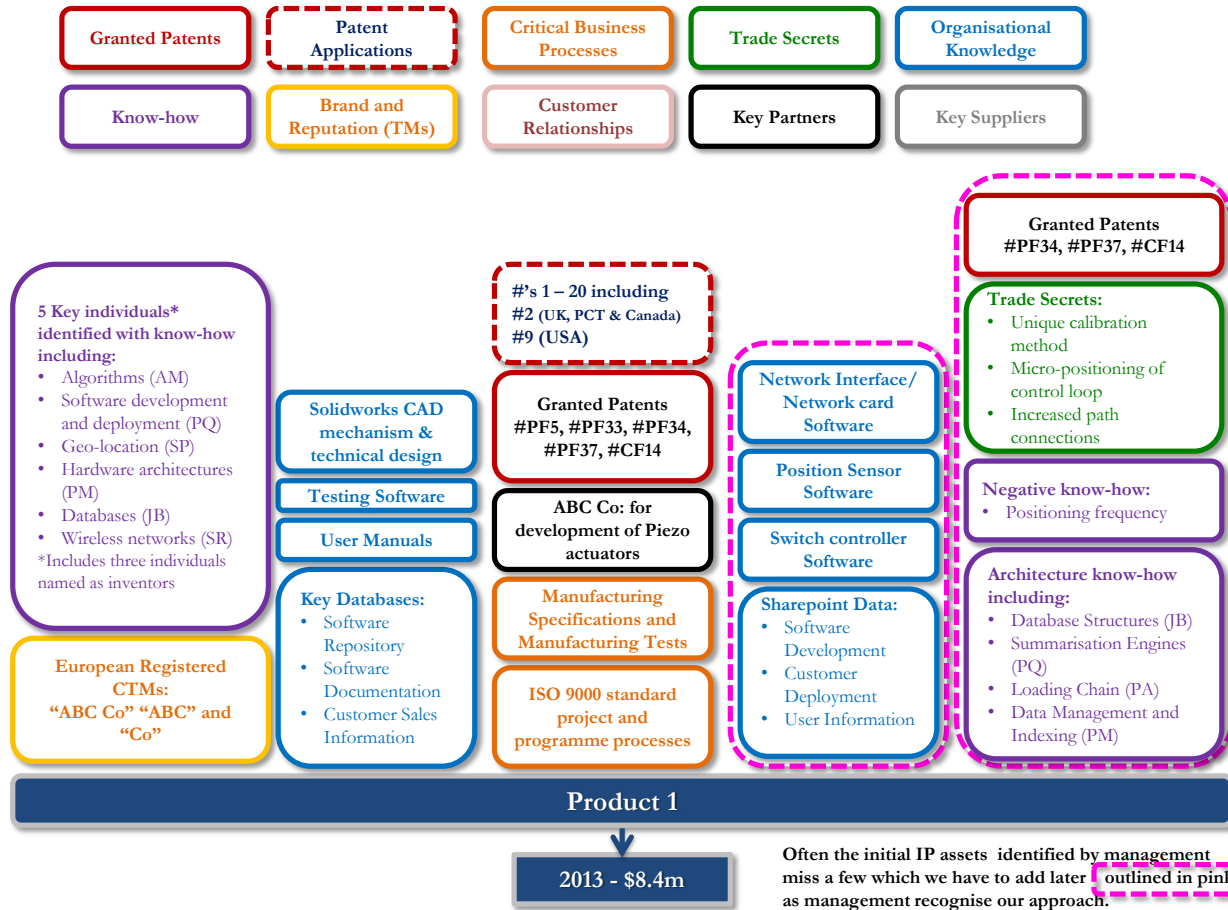
## UNDERSTANDING THE VALUE OF TRADE SECRETS

- ✦ **Investors** – how important, how scalable, how valuable on exit
- ✦ **Banks** – how important, how well protected, how secure, how valuable in insolvency
- ✦ **SMEs** – how to capture & protect, how they contribute to margin / pricing, how to put safeguards in place





# EVEN MANAGEMENT STRUGGLE TO IDENTIFY IP ASSETS AT FIRST



## What an IP Audit reveals!

Often the initial IP assets identified by management miss a few which we have to add later outlined in pink as management recognise our approach.



# KEY TAKEAWAYS – AFTERNOON SESSION



## (1) TRADE SECRETS STRATEGY

Think about how you will create the culture to ensure staff are “bought-in”



## (2) RISKS FOR GROWING SMEs

Trade secrets can potentially be leaked, compromised and consequences could be severe



## (3) VALUATION SUCCESS is NEVER EASY

Think about how they underpin the financials / revenues and contribute to business valuation & exit



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## QUESTIONS?



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