



Intellectual
Property
Office

IP Finance Toolkit

Summary

“Banking on IP? The role of intellectual property and intangible assets in facilitating business finance”¹ report was published October 2013. The report sought to examine how effectively SMEs are able to use their intellectual property assets to secure the finance they need for their business’s growth. It highlighted barriers faced by IP-rich businesses seeking debt finance.

In March 2014 the Intellectual Property Office (IPO) published “Banking on IP, An Active Response”². This summarised the IPO’s conclusions and set out the actions it intended to take to address some of the barriers highlighted in the original report.

One of those actions was the development of tools or a framework to support a better dialogue between businesses and financial services professionals. The tools will help businesses to articulate the IP they have, how it is secured and how it supports the future cash flow of the business.

This toolkit has been developed with that aim. It is geared to:

- Help lenders and businesses talk the same language;
- Encourage and guide businesses to document their IP assets ahead of any application for finance;
- Help businesses to develop more effective IP management and commercialisation strategies; and
- Raise awareness of the wide variety of finance options available for IP-rich businesses.

We hope you find this guidance useful and would encourage you to work through it in advance of any discussions with potential lenders. We would also encourage potential lenders to use this guidance to understand potential value that intellectual property assets may have to a business seeking debt finance.

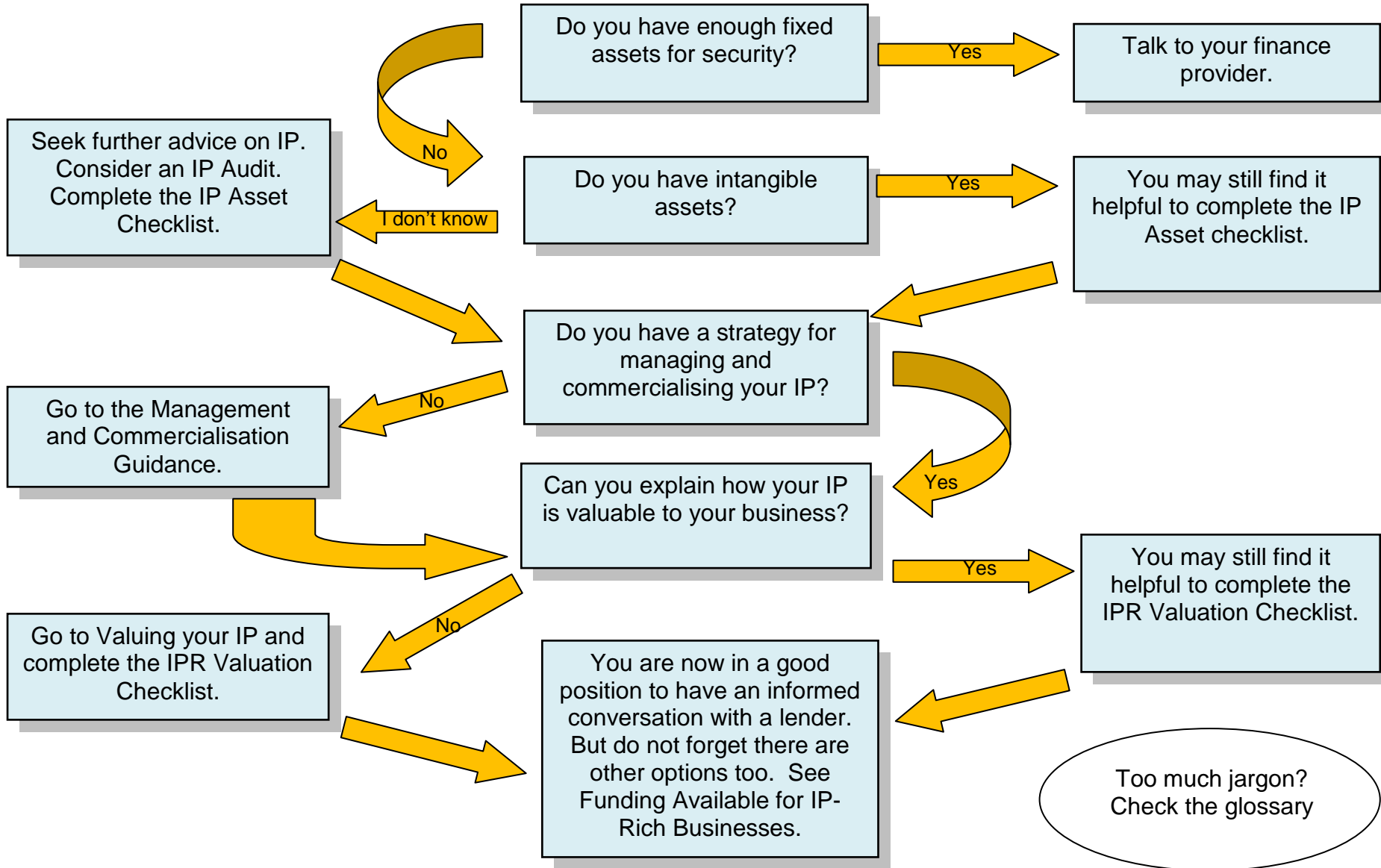
¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312008/ipresearch-bankingip.pdf

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312038/ipresearch-bankingip-2014.pdf

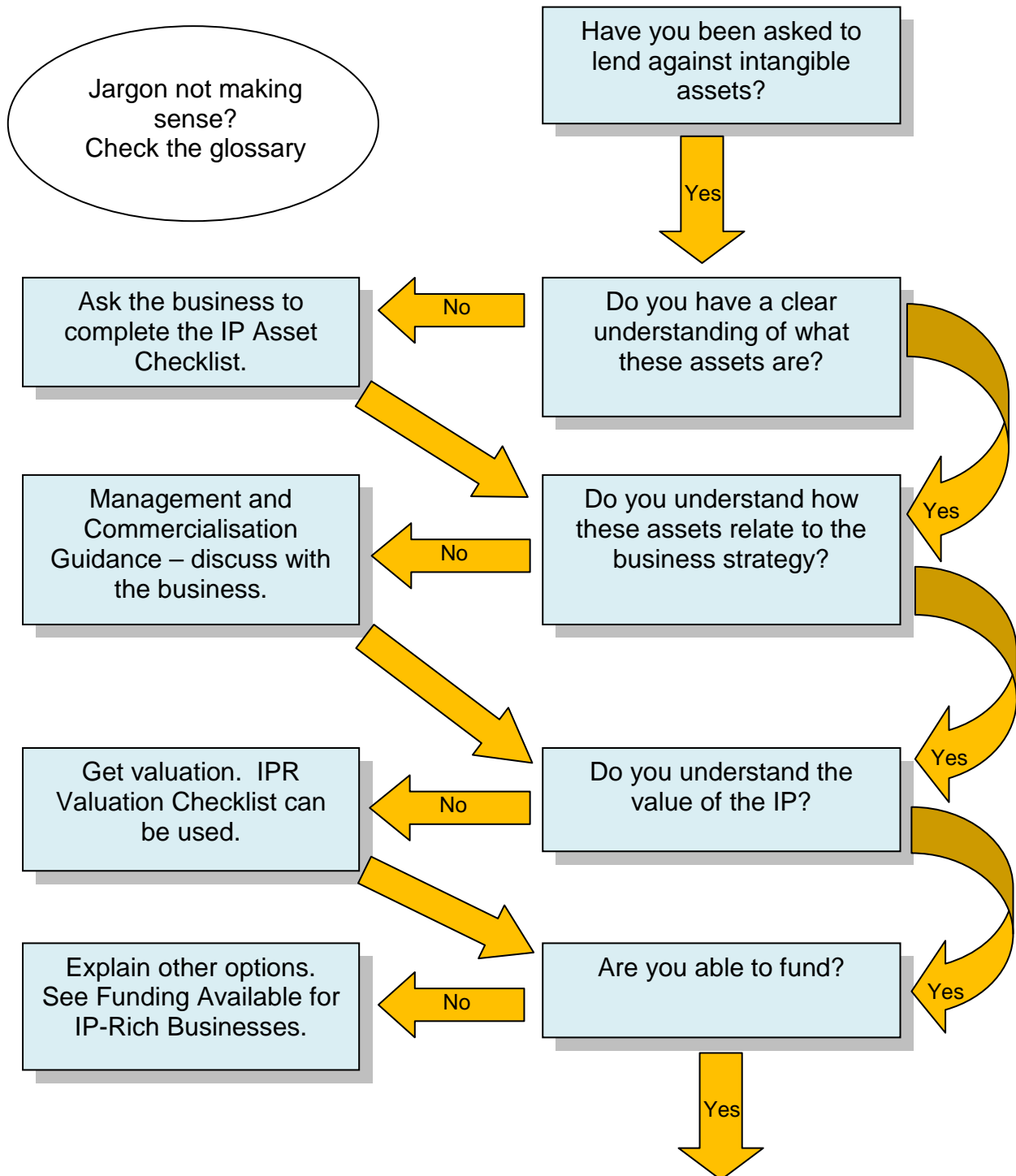
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1 Businesses looking for finance



2 Bank/financial institution approached by IP-rich Businesses



3 IP Management and Commercialisation Strategy

Introduction

An effective IP Management and Commercialisation strategy will help a business define the IP assets they own and demonstrate how they intend to protect and exploit those assets on a commercial basis and integrate them into their wider business strategy.

It should include an overview of the business, breakdown of IP relevant to the business (not all areas of IP will be relevant to every business), IP management (external and internal) along with an action plan detailing how the IP assets will be commercialised.

The development of an IP Management and Commercialisation Strategy is an essential starting point should you wish to raise finance from your IP assets. The information below should help you produce a comprehensive strategy detailing your business background, IP assets including registered and unregistered IP rights, IP risks including third party threats, points to consider in respect of a licence and an assessment as to how you are managing the IP assets within your business.

It is also recommended that you complete the “IP Assets Checklist” on page 10, using the information contained within your IP Management and Commercialisation Strategy. This checklist will assist in demonstrating your IP assets and the benefits they bring to your business during any discussions you may have with potential lenders. To assist with completion, information on the following pages has been cross-referenced to specific columns within the checklist.

You should also consider valuing your IP assets. This will allow you to demonstrate to potential lenders the value held in them – for more information on valuing your IP assets refer to the Valuing Your IP guidance at Section 4.

If you are considering finance to grow your business and would like further information regarding the different types of funding available it is recommended that you refer to the Funding available for IP-Rich Businesses at Section 5.

Routes to Commercialisation

As you read the following sections consider how you are going to use the information to commercialise your IP assets and ensure they are contributing to the growth of your business. Some points to take into account are:

- Identify how/where the IP strategy aligns with and benefits the general business strategy over the short to medium term;
- Identify if and where the IP could be enhanced to support income/funding;
- Identify if there is any other use for the IP to generate income/funding
- Identify potential weaknesses and threats which might impact on the value of the IP and IP strategy in the context of the short to medium term business plan;
- Identify suitable options for exploiting the business’s IP, again to fit with the overall business plan, e.g. by licensing and/or enforcing and/or using the IP to attract and reassure investors and business partners.

Any potential strategy should include:-

1. The business context

- Identify the nature of the business and the key features of the business plan, in particular the features by which the business intends to differentiate over its competitors including an analysis of potential competitors and market (size and value) for the product/service.
- Include financial history (preferably three years) covering assets, cash flow, balance sheet (profit and loss), debtors/creditors, asset liability, income & expense of directors, use of loans/funds, fixed and variable costs, growth rate.
- Also include basic company information, such as:-
 - Date established, nature of business;
 - Number of employees;
 - Size of company;
 - Company structure, biography of management (potential lenders find it useful to know the background of the people they are investing in) ;
 - Number/Quality of clients.

2. Type of IP Right (UK and International) {Ref 1 & 2}

- Identify IP assets including IP rights held within the business on a UK and International basis. This should include registered and unregistered rights along with copyright, technical know-how, trade secrets and confidential information. Below is a guide as to what should be considered:-
 - Granted patents and pending patent applications;
 - Registered trade marks and trade mark applications;
 - Registered designs and design applications;
 - Unregistered trade mark rights;
 - Unregistered trade mark rights, including trading names and branding;
 - Domain names;
 - Potentially patentable inventions;
 - Potentially registrable trade marks;
 - Potentially registrable designs;
 - Technical know-how;
 - Other forms of confidential information, including trade secrets and other commercial information, client lists;
 - (Unregistered) design rights;
 - Potential sources of copyright (e.g. databases, websites, promotional materials, product information, internal documentation);
 - IP-relevant contracts (e.g. licences, franchises, joint venture agreements, material transfer agreements);
 - Known or likely sources of other IP rights, e.g. database rights, semiconductor topography rights, plant variety rights.

3. IP Risks including third party threats {Ref 3, 4 & 5}

- Identify potential IP risks and consider what action can be taken to minimise them. In particular consider :-

- Third party IPRs (that may impact on your own IP rights);
 - Ownership issues surrounding the IPRs identified in (2) above;
 - Infringements of those rights;
 - Trade mark non-use issues;
 - Competition and potential acquirers of IP.
- Also consider potential financial issues relevant to the IP assets, for example financial (including tax) aspects of the ownership or licensing structure; the role of the holding business, if applicable; the country/countries in which the assets are held and any charges over the IPRs.

4. Licensing {Ref 6}

- Consider whether your IP may be licensed out to a third party or whether you need to license in IP in order to develop your own product and service. Other points to consider are:-
- What IP is being licensed? The nature of the right: is it a patent, trade mark, design or copyright? If the right has been registered, how long will it last?
 - Potential benefits licensing could bring to your business;
 - If you are the licensor consider the return for granting the licence and the value of your IP;
 - How much are your IP rights worth? (This can make or break a deal. Understanding the value of the rights and being able to justify that value will bring success in negotiations);
 - How will the IP be used and who will use it? Will a right be used in a specific sector? Will the owner be able to license the IP to other sectors?
 - The terms and conditions on which the IP is licensed; the payment structure? The duration of the license? Are there termination clauses?
 - What are the risks and how they can be mitigated against?
 - Will enforcing or defending the right including through litigation be the licensor's or licensee's responsibility?

5. IP management {Ref 7 & 8}

- Consider how your IP is managed both internally and externally and what practices and procedures you have in place for doing this. For example:
- Use of confidentiality (non-disclosure) agreements;
 - Ownership safeguards, in particular contractual terms in agreements with contractors, consultants, licensees and other partners; job descriptions for key staff; terms for non-employee directors; appropriate transfers of IP both within the organisation and externally;
 - Capturing and recording know-how and other confidential information;
 - Capturing and recording unregistrable IP such as design right, copyright and unregistrable or not-yet-registrable trade marks;
 - Capturing and recording evidence of use of trade marks (this is useful if you need to provide evidence of prior use in a dispute);
 - Capturing and evaluating potentially registrable IP (patentable inventions; registrable designs and trade marks);

- Prioritisation of registrable and registered IPRs, in light of the business plan, and implementation of registration and exploitation tactics to match;
- Infringement clearance procedures, in particular for new projects such as the adoption of a new trade mark, the development or launch of a new product or the initiation of a joint venture with a third party;
- More general awareness of relevant third party IPRs, for example use of watching searches or “landscape” searches;
- Taking expert advice on IP-relevant contracts and, where appropriate, their registration;
- Publication clearance procedures, to avoid loss of protectable IP;
- Maintaining up to date proprietor, licensee and contact details for registered IPRs, including domain names;
- Marking – for example flagging application and registration numbers on product literature; use of the TM, ® and © symbols;
- Improving staff awareness of IP issues and policies;
- Regular reviews of IP rights and strategies including life cycle of IP and associated products, in particular in light of developments in the business plan.

IP Asset Checklist

This checklist has been devised to help you realise your IP assets and the benefits they bring to your business during any discussions you may have with potential lenders.

Each column in the following table has been cross-referenced back to a particular heading within the above section to help with completion.

Description of Assets	Type of IP Right	Do you own the IPR? <small>{Ref 3}</small>	Is it UK/EU wide? <small>{Ref 3}</small>	Is the IPR new or modification of an existing IPR? <small>{Ref 3}</small>	Registration Fee Status <small>{Ref 3}</small>	Is the IPR subject to any legal disputes? <small>{Ref 3}</small>	Licensed in/out? <small>{Ref 4}</small>	Any buy-in of other IPR to take this forward? <small>{Ref 5}</small>

What benefits does the IPR bring to your business?	{Ref 1}	Can the IP be enhanced to gain funding?	{Ref 1}	Is there any other use for the IP to generate funding?	{Ref 1}	Do you have historic revenue?	{Ref 2}	What is the size of the potential market?	{Ref 2}	What is the value of the potential market?	{Ref 2}	What is the life cycle of the product?	{Ref 6}

4 Valuing your Intellectual Property

About this guidance

This section is designed to help businesses conducting transactions involving Intellectual Property Rights (IPRs) arrive at a valuation for the IPRs. It:

- will help you understand the value of your IPRs;
- describes the common methods of valuing IPR;
- provides an easy-to-complete checklist, in scorecard form, which you can use to assess the value of IPRs in your transaction.

There is no easy or foolproof way to value IPR and it can become complicated. This section will take a little time to read through, but it will take you a long way towards being able to make an informed decision about the value of your IPRs.

It will provide you with an overview of the different methods of valuing IP assets and includes a checklist on page 17, for you to undertake a valuation of the IP within your business. This valuation will provide valuable insight into the potential value of your IP assets and provide a basis for an independent, professional valuation of those assets.

In order to effectively value your IP it is recommended that you first develop an IP Management and Commercialisation strategy. Guidance for the development of this is available at Section 3.

Information within this section and the IP Management and Commercialisation strategy section has been cross-referenced to help with completion of the IPR Valuation Checklist.

If you are considering finance to grow your business and would like further information regarding the different types of funding available it is recommended that you refer to the Funding available for IP-Rich Businesses at Section 5.

Why place a value on your Intellectual Property?

There are many good reasons why businesses should audit and seek to value their IP assets. IP is vitally important to businesses. Some still do not recognise the fact that their trade marks, designs, and other IP assets are as valuable as their plant, premises or stock. For many businesses, IP constitutes their single most valuable asset and could be used as a lever to secure finance for growth.

IP valuation improves the accuracy of a business's worth. IP assets form collateral; they can also be bought, licensed and sold. Knowing how much each trade mark, patent or design is worth alone and as part of the whole, helps businesses with their valuation (funding, transactions, joint ventures, mergers and acquisitions, bankruptcy).

In business transactions, parties must know the value of IP assets if they are to be traded. If bankruptcy or reorganisation occurs, assessment of the business's value is required and this should include the value of IP assets and the assessment of the impact of proposed reorganisation plans.

If IP assets are to be used for raising finance then an accurate valuation will be required to demonstrate to the lender the value, how it is secured and supports the future cash flow of the business.

Valuing the intangible

Discerning the value of IP is not an easy task. How much is a brand name worth after years of marketing? Does a patent protect a high value unique selling point of a product or is it redundant? A well known brand or a vital patent can be the life blood of a business and losing IP protection for these can drastically reduce its value.

Not all IP is valuable, unless they help to create, maintain or increase cash flow they may have no real value. Moreover, intellectual property rights change in value for a variety of reasons. A patent may for example begin its life as a unique solution to a problem, but in time, other solutions to the problem may be found thus reducing its worth. Alternatively, with successful marketing of an effective product a great patent can become a world beater. Trade marks generally gain value as they become better known.

The value of IPRs depends on the circumstances at the given time and place. It is important to look at the nature of the intellectual property right, the purpose for which they will be used, the potential market for them and their competitors.

IP valuation methodologies

There are a number of ways to value IP rights. They all have their limitations and no method is appropriate in every case. The stage of development of the IPRs, the availability of information and the aim of the valuation all have a bearing on the method used. Three useful examples are listed here.

1. The Cost method {Ref 9, 10 & 11}

This valuation is based on the costs incurred in developing or creating an IP right, or what it might cost to recreate or develop a similar product or service; it does not take into consideration the current economic value of a product.

Costs usually included are:

- Labour,
- Materials and equipment,
- Research and development,
- Creating a prototype,
- Testing and trials,
- Regulatory approval and certification,
- Registering the IP,
- Overheads for utilities, accommodation and support staff.

This method assumes that a potential buyer can avoid these costs by buying the IPR. Valuable benefits may be:

- **Time:** by purchasing the right from the seller, the buyer will not waste time researching and developing their form of IP;
- **Expenditure:** if attempting to recreate their own IP, the buyer would spend at least this much;
- **Success:** a buyer may not be successful in developing the IP;
- **Protection:** a buyer may not be able to protect their IP, and may well be infringing on others.

This method of valuing intellectual property assets lends itself to an overall assessment when purchasing a business, and the consideration of assets when they are at an early stage in their development. However, the emphasis on costs, rather than profit, can skew the figures so that market potential is not fully recognised. This method does not take account of future value, and therefore misses out on a standard by which value is traditionally calculated.

2. The Market Value method

Understanding the value of a product based on its recent track record in the market place may be a more reliable way of establishing the market value of an intellectual property right. Assessing the sale or licensing of similar products in the market may provide a good litmus test as to the value of a right.

Market valuations of intellectual property rights provide a good estimate. The problem with this method is that it can be very hard to find published data on IP transactions, they are often confidential; moreover IP transactions are hard to generalise, there are sources of data for various sectors, but they tend to provide a wide range of figures for sales and licences which are only broadly comparable.

Few transactions are sufficiently similar to allow a valid comparison. Arrangements may differ in terms of exclusivity, payment structure, any technical/other support provided, territory, economic climate and market conditions. No two deals are the same.

This method is unlikely to be used to value patents. That is because the value of a patent depends on its novelty; and that novelty means there is unlikely to be comparable information.

That said, this method is objective and it can provide a realistic analysis of value based on a right's worth as perceived by both owners and their consumers. This method can be useful for researching the high, low and mean royalty rates paid in any given market sector. In negotiating a licence agreement for example, an agreed industry acceptable range may form the basis of a discussion.

3. The Income or Economic Benefit method {Ref 12 & 13}

This method focuses on the revenue intellectual property rights may generate in the future. It considers both the future income, which a right may generate during its economic life, and the costs of generating that income. Risk and financial costs are factored into the equation; the end result is described as the 'Net Present Value' or NPV.

This method allows a buyer to consider investment based on whether the NPV is positive or negative.

Although the NPV is a useful, easy-to-use tool, it should be remembered that the income or economic benefit method of valuation is based on an assessment of likely future events rather than past performance.

Difficulties with this method include:

- It is difficult to estimate the economic life of the IPRs;
- It is difficult to estimate the income over several years;
- Factors such as the strength of the IPR, the size of the potential market, the nature of the competition, changes in the economic climate and the cost of registering, enforcing and defending the IPR need to be taken into account.

The way in which the IPR is exploited, the costs involved, the time it will take to get to market and the risks involved along the way will vary from business to business. Other things to consider are income which may be generated from other factors e.g. the skill of the business's staff.

Uncertainties about the future mean that it is unrealistic to project income for more than 4 or 5 years. Trying to estimate the income for early stage technology is very difficult.

A sub method of the income or economic benefit method is the **relief from royalties method**. This method assesses IP royalties. It is based on an assessment of what royalty costs a business is avoiding by virtue of owning the IP right.

The bottom line:

Valuation of intellectual property rights is incredibly important. It reveals the viability of rights. It enables owners to design coherent strategies and it underpins the purpose of intellectual property: to achieve success in the market.

Valuation Checklist

The following IPR Valuation Checklist sets out some of the factors you need to take into account when valuing IPRs. It has been designed to help you analyse whether you are in a strong or a weak bargaining position and to consider how you might improve your position. To help with completion, the questions in the first column have been cross-referenced back to parts of this section.

Feel free to add more factors to the checklist. You should answer each question in the second column.

Some of the questions may not be relevant to you or to the IPR. Please ignore those.

The final column is for suggestions as to how you might improve the position if you have a low score. If you take steps to improve the position you can recalculate the scores.

IPR VALUATION CHECKLIST

The following table has been devised to help you realise the value of your IP rights ready for any discussions you may have with a potential lender.

The table has been cross-referenced back to the above guidelines to help with completion.

The IPRs:

The proposed transaction:

The parties:

Business:

Bank:

QUESTION	ANSWER	POSSIBLE STEPS TO BE TAKEN TO IMPROVE THE POSITION
What benefits does the IPR bring to your business?		
a) Does the IP allow your business to: <ul style="list-style-type: none"> • Generate current revenues? • Generate future revenues? • Create, maintain or increase cash flow? • Increase sales? • Price your products at a premium? • Reduce production costs? {Ref. 1} <ul style="list-style-type: none"> • Increase the speed of production? • Improve the quality of your 		

<p>products?</p> <p>{Ref. 2}</p> <ul style="list-style-type: none"> • Create customer following? <p>{Ref. 3}</p> <ul style="list-style-type: none"> • Avoid or reduce development costs? <p>{Ref. 4}</p> <ul style="list-style-type: none"> • Increase or maintain market share by creating a barrier to competition? <p>{Ref. 5}</p> <ul style="list-style-type: none"> • Can the IP be enhanced to gain funding? <p>{Ref. 6}</p> <ul style="list-style-type: none"> • Is there any other use for the IP to generate income? 		
<p>If your business has existing licences, what benefits do they bring?</p>		
<ul style="list-style-type: none"> • Do they generate revenue? • How much? • Are the terms of those licences commercially sound? • Are they exclusive/non-exclusive? • What are the threats? • Can they support the application for finance? 		

The Nature and Strength of the IP		
Is the IP in the early stages of development/close to market/on the market?		
Does the IPR give the owner a monopoly, (as with patents, trade marks and registered designs) rather than just a right to prevent copying?		
Does the IPR give the owner a wide monopoly?		
Is the IP new, or a modification of existing IPR?		
If it is a modification, is it vital to the operation of the product?		
Is the IPR dependent on earlier IPR?		
Has the IP been kept confidential?		
Does the business own the IP and the IPR?		
Does the business have the right to license the IP and/or the IPR?		
If the IP can be registered, has it been registered? (Ask this question for each relevant territory)		

If the IP is registered, will it expire soon?		
If it is about to expire, can it be renewed?		
Is the IP and or IPR likely to be challenged?		
If it is likely to be challenged, can it be easily defended?		
Does the business have sufficient resources to resist any challenge?		
Can competitors design around the IP?		
Is the IPR the subject of a legal dispute?		
If the IPR is infringed, will it be difficult or expensive to stop the infringement?		Example: Consider obtaining insurance cover
The Potential Market		
Is there a market for the products protected by the IPRs?		
What is the product's unique selling point?		
What is the nature of the market?		
What is the size of the market?		
What is the value of the market?		
Where is the market?		
How much are customers prepared to pay?		
What is the potential market share?		

Does the business have skills, technology, geographic or market presence or financial resources to get the product to market?		
Will the business have to buy-in expertise or other IPR in order to get the product to market?		
Does the business have access to funding?		
What is the life cycle of the product?		
The Competition		
Does the IPR create a barrier for competitors?		
Can competitors easily work round the IPR?		
How long will it take to work round the IPR?		
How much might it cost to work round the IPR?		
How much interest is there in the product from competitors?		
Further Development and Investment		
How much will the business have to spend before the product is ready for market and attracting customers?		
How long will it take to be ready for market and to attract customers?		

What are the risks of the development not being successful?		
What are the risks of competitors getting to market first?		
The Economic Life of the IPRs		
How likely is technological change which will make the product obsolete?		
How likely are changes in legislation which will make the product obsolete?		
Are production costs likely to increase substantially?		
For how long might market share increase?		
Financial Information		
Can the existing business support the level of lending?		
Where will the money be spent?		

5 Funding Available for IP-Rich Businesses

Introduction

As the “Banking on IP?” report notes; SMEs’ first port of call for finance is often a bank. Figures quoted in the report show that 40% of SMEs seek a loan and 35% seek an overdraft. Only 1-2% of these businesses try to get equity funding. It is likely then that potential sources of funding are untapped.

The Banking on IP response identified that one of the problems businesses faced was how they might identify financing options available to them.

Funding available

The following types of funding are in addition to the normal funding available via bank loans or family and friends.

Debt Finance

Asset-based lending

Asset based lending is finance which is secured by assets, such as plant and machinery, stock and property.

Invoice financing is the most common form of asset based lending and in most cases acts to support business to manage their cash flow, bridging the gap between the delivery of goods or services by a business and the payment from its customer.

Businesses typically use this type of finance to fund their working capital and those that are experiencing high growth find invoice finance flexible as the borrowing grows alongside the sales ledger.

The bank will provide an advance that represents a percentage of the amount invoiced which depending on the business, the sector and the payment profile will generally range from 70-90%.

Creative England Business Loan Fund

The Business Loan Fund is intended to stimulate business growth and development in creative and digital Small, Medium-sized Enterprises (SMEs).

It supports businesses who are experiencing difficulties in accessing finance because of high levels of risk or uncertainty around the outcome of projects. It is targeted at businesses who can demonstrate high-growth potential and who want to make a step in their development.

In line with the Regional Growth Fund objective, this funding is only available to those businesses based in the North of England, the East & West Midlands and the South West.

A total of £1.5 million is available. This is distributed as secured loans of £60,000 to £150,000 for single projects. The maximum loan available is 50% of the total project costs.

Applicants need to show that the balance of the project costs (50%) will be provided as either a contribution from their own resources or from third parties. As well as a desire and ability to grow through the delivery of high-quality, commercially astute projects which result in the creation and safeguarding of full-time jobs (with a minimum of a 12 month contract). All funds are subject to the availability of funding and are discretionary interest-free loans.

Mezzanine

This type of funding combines elements of debt financing and equity investment and is often described as a “hybrid” or “halfway house”. Basically, in addition to receiving fees and interest on the loan, the provider also benefits from a share of the upside when the borrowing business achieves its growth objectives.

The downside is that lenders usually want a high return on their money so this type of finance can be aggressively priced as there is little or no collateral.

Peer- to-Peer lending

Peer-to-peer lending, also known as person-to-person lending is another form of crowdfunding and is the practice of lending money to unrelated individuals without going through a traditional financial intermediary such as a bank. This lending takes place online on peer-to-peer lending business’s websites using various different lending platforms and credit checking tools.

Most of these loans are unsecured personal loans. They are made to an individual rather than a business. Other forms of peer-to-peer lending include student loans, payday loans, as well as secured business loans, leasing and factoring.

Pension led

Pension led funding uses the business owner’s accrued pension funds to invest in their own companies.

It provides funding without having to give a personal guarantee to a lender and can provide protection for business assets held within the pension scheme.

Pension led funding can utilise IP (if available) as a new asset to secure these funds.

Once the IP value has been established, the Pension’s trustees agree to buy some, or all, of the IP assets from the business, or loan money to the business secured against the IP.

Once the business receives a cash sum, it begins making lease payments back to the pension scheme.

Start-up Loans

This is a Government funded scheme that provides support to young people to help them start up their own business.

The scheme provides loans and mentoring support to applicants in England aged 18-30 who would not normally be able to access traditional forms of finance for a lack of track record or assets.

The average loan value is £4,500, repaid over a term of 12-60 months.

Every business that receives funding will be assigned a mentor who is on hand to help the business succeed.

Equity Finance

Angel Investing

Angel investors are affluent individuals who provide capital for a business start-up usually in exchange for convertible debt or equity ownership. While banks may avoid the perceived high risk of creative businesses, angels are concerned with growing their stake and the likelihood of making a good return on their investment.

Angel investors commonly invest stakes as low as £10,000. While they may be happy to wait longer for the “exit” when they take their return on investment, they are usually looking for businesses that offer a ten-times return, so that at exit, that initial £10,000 stake would be worth £100,000.

Angels frequently invest through organised networks and formal syndicates or they may invest on their own or with a number of fellow investors on a deal by deal basis. They may also be accessed through accelerator programmes or incubators. In most cases Angels like to invest through meeting entrepreneurs at live pitching events or showcasing events.

Business Angel Co-Investment Fund

The Business Angel CoFund is able to make initial equity investments of between £100,000 and £1 million in to small, high-growth-potential businesses alongside syndicates of business angels.

The fund invests in businesses across the UK and will consider proposals for businesses at all stages of development and in most sectors, provided they qualify as an SME.

Proposals to the Angel CoFund may only be made by business angel syndicates. Individual businesses seeking investment are not eligible to apply directly and should first look for an investment syndicate.

Venture Capital

This is a type of equity finance where an investment would be made in return for a share of equity.

Businesses who obtain venture capital do so because they have developed a product or service that has market potential but are restricted on time to push this forward without obtaining an injection of cash.

When using this method of funding, businesses not only get an injection of cash, they also receive expert help in business growth. This can help them realise their potential when it comes to promoting their product/service.

Grant Funding

Catalysts

Run jointly by Innovate UK and the Research Council as a form of research and development funding which focuses on a specific priority area and aims to help take projects from research to as close to commercial viability as possible.

The Catalyst model supports projects in priority areas where the UK research base has a leading position and where there is clear commercial potential. Three levels of funding are usually available, varying according to how close a project is to commercialisation, with applicants able to join at any phase.

Catalyst funding is offered through an ongoing competition. Individual businesses (and academics where supported) and a combination of businesses and academics, have the opportunity to propose projects which will create new knowledge and future products, processes and services.

Collaborative Research & Development

Collaborative research and development is another scheme run by Innovate UK and encourages businesses and researchers to work together on innovative projects in strategically important areas of science, engineering and technology – from which successful new products, processes and services can emerge, contributing to business and economic growth.

By co-funding projects involving partnerships between businesses and between business and academia, collaborative research and development can reduce financial and technical risk and encourage knowledge exchange, supply chain development and parallel working on complex challenges.

Frequent competitions are held, in a wide range of areas covering specific technical or community challenges.

Enterprise Investment Scheme (EIS)

This scheme gives entrepreneurs the opportunity to offer investors in the business access to tax breaks, as long as they pay tax in the UK.

This scheme can offer up to 30% tax relief to investors.

Angel investors in particular can gain both income tax and capital gains tax relief to investors who subscribe for eligible shares in small unquoted businesses that qualify under the scheme.

Before approaching investors to seek investment, the Entrepreneur must first gain approval from HMRC that their business qualifies for EIS investment, via the completion of an application form.

Growth Vouchers

The Growth Voucher programme helps companies find and pay for professional strategic advice. After applying, businesses will be randomly chosen to get a voucher of up to £2,000.

This can be used to pay for up to half of the cost of advice on:

- finance and cash flow,
- recruiting and developing staff,
- improving leadership and management skills,
- marketing, attracting and keeping customers,
- making the most of digital technology

IC Tomorrow

IC Tomorrow is an Innovate UK programme that stimulates innovation and economic growth in the digital sector by breaking down barriers and opening doors for a new generation of entrepreneurs. It serves as a hub for digital innovation, connecting start-ups and SMEs with leading commercial partners and investors through funded contests, events and strategic matchmaking opportunities.

The network supports innovation across a variety of industry sectors including music, film, fashion, publishing, TV, education, games, culture, sport, advertising, healthcare and finance.

A range of funded contests are run across the digital and creative sectors. These contests are run in collaboration with leading partners who help to set relevant challenges that will encourage innovation in new digital applications or services.

A variety of events such as pitching sessions and facilitated strategic matchmaking opportunities are also hosted by IC Tomorrow. These offer leading businesses and content owners the opportunity to meet innovative digital start-ups and entrepreneurs with new applications and services that will help to drive innovation in their sectors.

Innovation Vouchers

Innovation Vouchers are run by Innovate UK and are designed to encourage businesses to look outside their current network for new knowledge that can help them to grow and develop. Start-ups and SMEs from across the UK can apply for these vouchers.

A grant of up to £5,000 is available to businesses to work with a supplier (such as an IP professional) for the first time and is used to pay for knowledge or technology transfer from that supplier.

An Innovation Voucher should stimulate a business to explore obtaining new knowledge, enhancing its ability to develop innovative products, processes and services and explore new markets.

The scheme is open to micro and SMEs only. There is an upper limit of approximately £165k for all state aid provided to any one business over a three-year period.

Launchpads

Launchpads is another scheme run by Innovate UK and help technology-themed clusters of young, early-stage businesses to develop and grow in specific locations around the UK.

These Launchpads act as catalysts for businesses with exciting and innovative projects to share knowledge, develop their entrepreneurial skills and attract further investment to bring their ideas to market.

Launchpads help to develop and strengthen clusters of innovative businesses in specific sectors and geographical locations. They support the development of clusters by:

- creating opportunities for SMEs (often including those that are not yet revenue earning) through funding for innovative projects.
- working with others in the cluster to provide a programme of business support (including coaching and mentoring) that will help the businesses to develop solid growth strategies and to access finance.
- providing a letter of intent to fund projects; businesses can use it to attract new private sector investment, because they will probably need to raise other forms of finance (including debt or equity-based solutions), either to match the grant or to support later scale-up plans.

Launchpad competitions are open to SMEs that:

- are in the cluster
- plan to start up in the cluster
- move into the cluster
- collaborate with a business already in the cluster.

Seed Enterprise Investment Scheme (SEIS)

This is designed to help small, early-stage businesses raise equity finance by offering a range of tax reliefs to encourage individual investors to purchase new shares in them.

Maximum investment: £100,000, Maximum tax relief: 50% or £150,000, Investment period: Minimum of three years, Restrictions: To qualify, businesses must have fewer than 25 employees and less than £200,000 in assets.

This is a Government backed scheme and was introduced as a way to promote new enterprise and boost economic growth in the UK.

Small Business Research Initiative (SBRI)

The SBRI is a well established process run by Innovate UK, offering excellent opportunities for businesses, especially SMEs, to develop and demonstrate technology to public bodies.

Successful businesses gain a lead customer for their innovative solutions and retain their IP rights. They receive a contract for the full cost of demonstrating the feasibility of their technology and the offer of subsequent funding for prototype development.

The scheme is particularly beneficial for early-stage and SMEs.

SMART

The SMART initiative is specifically aimed at SMEs, offering various funding opportunities to assist research and development in the areas of science, engineering and technology.

There are three types of grant available:

- Proof of Market – for initial planning, market research and testing. Duration – up to 9 months. Maximum grant - £25,000. Funding proportion – up to 60% of total project costs.
- Proof of Concept – for technical feasibility studies, basic testing and prototyping. Duration – up to 18 months. Maximum grant - £100,000. Funding proportion – up to 60% of total project costs.
- Prototype Development – for trials and demonstrations. Duration – up to 2 years. Maximum grant - £250,000. Funding proportion – up to 35% of total project costs for medium enterprises; up to 45% for small and micro enterprises.

Investment Funding

Business Growth Fund

The Business Growth Fund, with £2.5bn of capital, is a major new equity investor for growing businesses.

They deal with management teams with a good track record, a proven business model and a desire to grow.

Initially, an investment of £2m-£10m of growth capital is made for a minor equity stake and a seat on the board. The funding can be offered for up to 10 years.

Funding is given to privately owned, profitable businesses who typically have a turnover of £5m-£100m.

Applications for investment funding are made via the website and can be used for:

- acquiring a supply-chain or competitor,
- enabling expansion of the business,
- sales and marketing or
- product development.

MeWe Trading CIC

This is the investment arm of MeWe360 which combines a not-for-profit development house, MeWe Foundation, with a commercial investment arm (MeWe Trading CIC). They provide access to funding for selected creative entrepreneurs via their £1 million business incubator and venture fund.

They have two types of membership at incubator level:

- Incubator – for those looking for an intensive package of support to grow their business and possibly work towards selection into the next level, Incubator Plus
- Incubator Plus – those selected into this level will have the opportunity to pitch for investment from the £1 million investment fund.

Membership is by selection only.

The Aspire Fund

The objective of the fund is to increase the number of successful women-led businesses within the UK, ensuring that those with real potential to succeed are not held back through a lack of growth capital and investor interest.

This matches up to 50% investment into women-led businesses in the UK, to help attract investors into SMEs by cutting their risk.

The fund makes investments on equal terms to other private investors. It does not make grants and any investment made by the fund will need to be backed by an equity stake in the business being invested in. It may also include Preference Shares or debt as part of the overall deal.

Minimum investment: £100,000, Maximum investment: £1m, Funding available: £12.5m

This is a Government supported fund managed by Capital for Enterprise Ltd (CfEL).

Mixed Funding

Crowdfunding

Crowdfunding enables individuals and businesses to lend to SMEs for a specific project.

Investors in a crowd funding platform commonly receive a non-monetary return, i.e. a finished product.

The source is low risk, as creating crowd fund campaigns are free and there are no repayment obligations.

While an investor may be able to create a pitch for a potential audience of millions, so do thousands of other projects. Crowd funding websites will also take a set percentage of all donations to a project, meaning the investor will need to raise more funding than originally anticipated to meet targets.

There are two variations of crowd funding:

- Debit crowd funding - is when investors lend money to a business, who then repays the investor on a regular basis. The business has to pay their debts before taking any profits and if the business went under then debtors would get paid first. This is a lower risk form of investment than equity.
- Equity crowd funding - is when investors buy shares in a business and become part owners. They make a return on their investment either by being paid a dividend or by selling their shares at a later date, i.e. when the business value has increased. The board of the company will decide whether to pay a dividend and how much and if and when to sell the business, so this tends to be a higher risk form of investment as there is no guarantee of amounts or timescales for returns. Equity investments should have higher returns than debit investments, to compensate for this higher level of risk.

UK Innovation Investment Fund (UKIIF)

The UK Innovation Investment Fund is a venture capital fund that aims to drive economic growth and create highly skilled jobs by investing in innovative businesses where there are significant growth opportunities.

This fund is specifically geared to invest in technology-based businesses in sectors such as digital technologies, life sciences, clean technology and advanced manufacturing.

There has been £159 million committed into underlying funds, capable of making £2.2 billion of investment capital available to businesses.

6 Making the right choice

No single source of finance is suitable for every business in every situation. Each has advantages and disadvantages.

When seeking finance to develop and exploit a novel idea, innovators will need to consider all available options, then select a package of options that is most appropriate. Sometimes there is no choice but, where there is a choice, the decision can affect the chances of commercial success and the ultimate reward for the innovator. However an important thing to remember, when seeking external finance, is that all investors or lenders place particular emphasis on the “management stake”, whether in cash or “sweat”.

Innovators and others associated with the exploitation of any innovative ideas should consider each option in turn before deciding how to proceed. Before making any move, they should also ensure that their intellectual property is protected and that they have written a credible Business Plan.

Internal Funding

Advantages

- Good source of funds for businesses who are established and profitable.
- Could be attractive if you have rich friends or relatives.
- Redundancy payments may provide short-term investment funds.
- Could be a good way to grow your savings, if you are confident of success.

Disadvantages

- A failed business venture could leave you much worse off.
- Friends and relatives might feel unduly pressurised or resentful.
- You could lose valuable friendships.
- Not a good idea for a high-risk business venture.

Client-Funded Developments

Advantages

- A good client can bring practical help as well as funding.
- Collaboration could create a ready market for your product development.
- Collaboration could reduce the product development cost and timescale.
- A large partner may help to protect your intellectual property.

Disadvantages

- Working with some clients can slow progress due to business procedures.
- You may stimulate competitive activity or lose control of intellectual property.
- You could lose overall control of your project.

- Your client may want to divert the development away from your chosen markets.

Business Loans

Advantages

- Easy to obtain when a business has assets that can be used as security.
- Business retains equity and all profits generated from the development project.
- Can be very attractive when the risk of failure is judged to be very small.

Disadvantages

- Often only practical when innovator can offer assets as security.
- There is a risk of losing key assets (home, patents, machinery) if your business fails.
- Set up and interest charges may add substantially to overall cost of loan.
- Bank does not share any of the financial risks associated with the development.

R&D Grants

Advantages

- Some grants come with a few strings attached and are a real bonus.
- Winning a grant or an award often attracts publicity and other investors.
- Successful completion of projects should make it easier to obtain other grants.
- Grants for collaborative research can generate useful business partnerships.

Disadvantages

- Considerable effort may be needed to complete some application forms.
- The deadlines for some grant applications may not fit in with your project timescale.
- An unsatisfactory collaborative programme may bring more trouble than it is worth.
- The awarding body may want to steer the development in a different direction.

Business Angels

Advantages

- Good business angels will bring both practical help as well as finance.
- The level of investment is usually right for an early-stage start up business.
- Satisfactory progress will often trigger further investment later.
- The financial risk is shared with the business angel(s).

Disadvantages

- It can take a considerable time to find an investor interested in your project.
- Business angels will only invest if there is a good chance of a high reward.
- A business angel may try to “interfere” with the direction of the business development.
- Without care a business angel may secure a disproportionately high shareholding.

Venture Capital Funds

Advantages

- Usually the best source of finance for medium/large investments (over about £300k).
- Businesses with good prospects will usually attract venture capital funds.
- An experienced venture capital investor can assist with the business development.
- The financial risk is shared with the venture capital organisation(s).

Disadvantages

- Venture capitalists are rarely interested in small investments with early-stage businesses.
- The level of “due diligence” associated with obtaining venture capital may be considerable.
- Venture capitalists are very experienced at maximising the value of their investment.
- Some venture capitalists have a narrow business focus and an early exit strategy.

Going Public

Advantages

- Attractive for businesses with good growth prospects but insufficient cash flow.

- It enables the innovator/business to realise the value of intellectual assets as cash.
- Enhances awareness of innovation and provides added credibility.
- Allows shares in the business to be traded freely.

Disadvantages

- Usually a major undertaking that requires a lot of management effort.
- Cost of professional advisers and underwriters can be substantial.
- Directors must disclose any information that could affect share price.
- There is potential loss of control, if shareholders don't like the way the business is run.
- Risk that required funding will not be raised.
- Public dissemination of information which may be useful to competitors, suppliers and customers.

7 IP and Business - Glossary of Terms

Assignment: A permanent transfer of ownership of an intellectual property right (IPR), such as a patent, trade mark, design or copyright, from one party (the assignor) to another party (the assignee). Consequently, the assignee becomes the new owner of the IPR. IP assignments transfer the title of the IPR and therefore assignments reflect an equivalent process for intangible assets as selling agreements do for tangible assets.

Challenge: The fact that IPR has been registered does not mean that it is not open to challenge. Whether or not the IPR is able to withstand any challenge will affect its value.

Claim: This is the scope of the invention being protected and must properly describe the invention.

Collaboration: Organisations may want to work together to develop new products and services. This can be achieved by the licensor and licensee agreeing terms and conditions by negotiating if IP may be “licensed-out” or “licensed-in”.

Confidentiality: If you disclose a patentable invention before you have applied for a patent you may not be able to obtain a patent and your invention may be worthless. Know-how which has not been kept confidential and which is available from other sources will not be as valuable as know-how which you have kept confidential.

Copyright: Protects books, art, music, websites, photographs, software, databases, films and print, radio and television broadcasts and promotional material.

Design: Protects the overall visual appearance of any industrial or handicraft item. It is legally defined as being the appearance of the whole or parts of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture or materials of the product or ornamentation. A design is automatically protected for 10 years after the design was first sold or 15 years after it was created – whichever is earliest (**unregistered design right**). A design can also be **registered** for better protection.

Economic life of the IPR: The economic life of IPRs is the period during which they generate income. The economic life of IPR is rarely the same as its “legal life”, i.e. the length of time for which the IPR exists.

Exclusivity: The IP owner or licensee is the only person or company permitted to undertake certain activities.

Franchising: Franchising is a way of systematically sharing IP with others to distribute goods or services; the franchisor owns the IP rights and the franchisee pays a fee or regular royalties to use them. This is another form of licensing.

Infringement: An action that contravenes the rights granted to an IP owner or licensee. Generally this involves using the IP right without permission.

Intangible Assets: An asset that is not physical in nature. Intellectual property (items such as patents, trade marks, copyrights and designs), business methods, goodwill and brand recognition are all common intangible assets in today's marketplace.

Intellectual Property: Any form of original creation of the mind. While an idea is not intellectual property, the expression of that idea in, for example, a book or an invention is. Intellectual property can be bought or sold.

Intellectual Property Rights (IPR): There are four main types of IP rights which you can use to protect your inventions, brands or creations (patents, trade marks, designs and copyright).

Know-how: Any form of technical information or assistance relating to the manufacture or placing into operation of products. It also means any practical knowledge, techniques, and skill that are required to achieve some practical end. It is considered an intangible property in which rights may be bought and sold.

Licence Agreement: This defines the terms under which a resource or property, such as patents, trade marks and copyright, are licensed by one party to another, either without restriction or subject to a limitation on term.

Licensed-In: This is where a company wants to use another company's IP to develop their own business and products.

Licensed-Out: This is where a company gives permission to another company or organisation to use their IP in return for a reward, financial or other benefits in kind or a combination of both.

Licensing: A licence gives permission to do something that, without the licence, would be an infringement of IPRs. The person granting the licence is usually called the licensor, and the person receiving the licence is usually called the licensee. (There may be more than one licensor or more than one licensee in a licence agreement). Licensing intellectual property is important to all sorts of businesses. Companies can derive significant income from licensing and licensing can offer flexibility in the way a business develops.

Non-Disclosure Agreement (NDA): This is a legally binding document which records the conditions under which you disclose or share information in confidence. This could be a document in its own right or be part of another agreement, i.e. an employment contract. You should use an NDA if you are an inventor wishing to discuss your patentable invention, before developing a new product with partners, before getting backing prior to launching products or in your employment contracts.

Non-exclusive Licence: Allows the licensor to grant further licences to new licensees in the original licensee's territory.

Novelty: You can only get a patent for an invention that is new.

Patents: Protect new inventions and cover how products work, what they do, how they do it, what they are made of and how they are made.

Registered Design: Is a legal right which protects the overall visual appearance of a product or a part of a product in the country or countries within which it is registered.

Registered Rights: IP rights that require a positive act from the owner to apply for the right. These are patents and trade marks. This contrasts with automatic rights, such as copyright. Designs can be registered or unregistered.

Renewed: Once a patent, trade mark or design is granted a renewal fee must be paid for it to remain valid.

Searching: A means of checking databases to see if a patent, design or trade mark pre-exists or if a similar right has been challenged in the past.

Sole Licence: Allows only the licensor and licensee to sell the licensed products in the licensed territory.

Trade marks: A trade mark distinguishes the goods and services of one trade from those of another. This could be for a business name, a product or a service. The trade mark could be made up of words, logos or a combination of both and can even be sound or action based. Many people refer to their trade mark as their brand or badge of origin.

Trade secrets: Can be an important part of your business. The law of confidentiality protects trade secrets. To keep trade secrets protected, you must establish that the information is confidential, and ensure that anyone you tell about it signs a non-disclosure agreement (NDA). If they then tell anyone about it, this is a breach of confidence and you can take legal action against them.

8 Creative Finance Network – Glossary of Terms

Base Rate: The key interest rate set by the Bank of England. It is the overnight interest rate that it charges to banks for lending to them. The base rate – and expectations about how the base rate will change in the future – directly affect the interest rates at which banks are willing to lend money in sterling.

Bill: A debt security - or more simply an IOU. It is very similar to a bond, but has a maturity of less than one year when first issued.

Bond: A debt security, or more simply, an IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. They can be issued by companies, banks or governments to raise money. Banks and investors buy and trade bonds.

Business Angels: Business angels are individuals who make equity investments in high-growth businesses. Some invest on their own, some as part of a syndicate.

Business Plan: This sets out what the business is about and its potential future. It is important to include IP in a business plan in order to manage and protect IP from the very beginning of a business, through to growth and expansion, all the way to exiting a business. The inclusion of IP assets may increase the value of a business.

Capital: For investors, it refers to their stock of wealth, which can be put to work in order to earn income. For companies, it typically refers to sources of financing such as newly issued shares.

Capital Budgeting: Is the planning process used to determine whether an organisation's long term investments such as new products or research development projects, are worth the funding of cash through the firm's capitalization structure (debt, equity or retained earnings). It is the process of allocating resources for major capital or investment, expenditures.

Capital Gain: If you purchase 1,000 shares at £1 each and eventually sell them for £10 each, you have made a capital gain of £9,000.

Corporation Tax: Corporation tax is paid by UK companies on their profits.

Credit Rating: The assessment given to debts and borrowers by a ratings agency according to their safety from an investment standpoint – based on their creditworthiness, or the ability of the company that is borrowing to repay. Ratings range from AAA (strong credit position) down to D (very poor credit position and probably not a good investment). Ratings of BBB or higher are considered "investment grade".

Crowdfunding: The practice of funding a project or venture by raising contributions from a large number of people, typically via the internet.

Debt Factoring: Debt factoring involves selling invoices to a third party (a factor) which pays an advance – typically 85% – on all approved invoices. The factor will then work on behalf of the business – managing the sales ledger and collecting money owed by customers. Once a customer settles an invoice with the factor, the factor will release the remaining balance less their fees.

Default: A default occurs when a borrower has broken the terms of a loan or other debt, for example if a borrower misses a payment.

Derivative: Is a special type of contract that derives its value from the performance of an underlying entity. This underlying entity can be an asset, index or interest rate and is often called the “underlying”. Derivatives can be used for a number of purposes, including insuring against price movements (hedging), increasing exposure to price movements for speculation or getting access to otherwise hard to trade assets or markets.

Discounted Cash Flow: This is a method of valuing a project, company or asset using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values, the sum of all future cash flows, both incoming and outgoing is the net present value, which is taken as the value or price of the cash flows in question.

Distress: A condition where a company cannot meet or has difficulty paying off its financial obligations to its creditors. The chance of financial distress increases when a firm has high fixed costs, illiquid assets, or revenues that are sensitive to economic downturn. This may be followed by **insolvency**.

Dividends: An income payment by a company to its shareholders usually linked to its profits.

Downturn: A negative change in the economy, such as from expansion to recession.

Equity: An ownership stake in the company. Unlike debt, the company does not have to pay back the funders, who will generally acquire voting rights and expect dividends. The main providers of equity finance for SMEs are venture capitalists (VCs), business angels and (for start-ups) friends and family.

Exit: An exit is when either a company owner or investor sells their stake to another investor, to another business or publicly in shares through the stock exchange or on another public market.

Hedge Fund: A private investment fund which uses a range of sophisticated strategies to maximise returns including hedging, leveraging and derivatives trading.

Hedging: This is the practice of using an investment in one market to offset and balance against the risk by using an investment in another market.

Income: Money received, especially on a regular basis and based on an underlying asset or continuing activity.

Insolvency: A situation in which the value of a borrower’s assets is not enough to repay all of its debts. If a borrower can be shown to be insolvent, it normally means they can be declared bankrupt by a court.

Investment Trust: A company quoted on the stock exchange that exists only to invest in other companies.

Invoice Discounting: Invoice discounting is similar to Debt Factoring in the way money is drawn against invoices, but the business retains control over the

administration of the sales ledger. Discounters have strict requirements regarding the quality of sales ledger systems and procedures.

Leveraged Buyout: The acquisition of a company using borrowed funds. The idea is that the debt will be repaid by money raised from the acquired company.

Liquidity: How easy something is to convert into cash. Your current account, for example, is more liquid than your house.

Match Funding: A stipulation set by financiers that recipients of a grant or loan must themselves raise a certain percentage of the capital, generally a sum equal to that being granted.

Maturity: The time period of an investment, at the end of which the finance will cease to exist and is repaid with interest.

Money Markets: Global markets dealing in borrowing and lending on a short-term basis.

Negative Equity: This is when the value of an asset used to secure a loan is less than the outstanding balance on the loan.

Net Present Value: (see Discounted Cash Flow) This is a method of valuing a project, company or asset using the concepts of the time value of money. All future cash flows are estimated and discounted to give their present values, the sum of all future cash flows, both incoming and outgoing is the net present value, which is taken as the value or price of the cash flow in question.

Operating Profit/Loss: The profit or loss a company makes from its principal trading activity and before any exceptional items are taken into account.

Private Equity Fund: An investment fund that specialises in buying up troubled or undervalued companies, reorganising them, and then selling them off at a profit.

Retained earnings: This refers to the portion of net income of a business that is retained by the business rather than distributed to shareholders as dividends.

Return on Investment (ROI): A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

Royalties: This is a usage-based payment made by one party (the “licensee”) to another (the “licensor”) for the right to ongoing use of an asset, sometimes IP. Royalties are typically agreed upon as a percentage of gross or net revenues derived from the use of an asset or a fixed price per unit sold of an item.

Seed Funding: Sometimes known as seed money or seed fund, is a form of securities offering in which an investor purchases part of a business. This is for very early investment and is meant to support the business until it can generate cash of its own. Options for this type of funding include friends and family, angel funding and crowdfunding.

Share Capital: This is the portion of a company’s equity that has been obtained by trading stock to a shareholder for cash.

Supplier Finance: Supplier finance or, as it is sometimes called, reverse factoring is an option for businesses that regularly supply a far larger organisation. Once the buyer has approved the invoice, the payment – less a fee – is made immediately (and ahead of terms) by the financier. This allows the supplier to receive quick payment while allowing the buyer to repay the financier according to the original contract terms.

Tangible Assets: Things that provide security or some other value to their owner. These are solid entities, such as a building, piece of machinery, that are often used as security to secure a loan from a bank.

Toxic Debts: Debts that is very unlikely to be recovered from borrowers.

Venture Capital: Financial capital provided to early-stage, high-potential and growth startup companies. The venture capital fund earns money by owning equity in the companies it invests in.

Working Capital: A measure of a company's ability to make payments due in the next 12 months. It is calculated as the difference between the company's current assets (unsold inventories plus any cash expected to be received over the coming year) minus its current liabilities (what the company owes over the same period). A healthy company should have a positive working capital. A company with negative working capital can experience cash flow problems.

Yield: The return to an investor from buying a bond implied by the bond's current market price. It also indicates the current cost of borrowing in the market for the bond issuer.

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Sources of further information

What is IP: <https://www.gov.uk/government/organisations/intellectual-property-office>

IP Advice: <https://www.gov.uk/seeking-intellectual-property-advice>

IP for Business: <https://www.gov.uk/government/publications/intellectual-property-for-business>

IP for Business: advisors and support:

<https://www.gov.uk/government/publications/ip-for-business-advisers-and-support>

Advice on licensing: <https://www.gov.uk/licensing-intellectual-property>

Advice on valuing your IP: <https://www.gov.uk/valuing-your-intellectual-property>

Advice on funding: <http://www.ipfinance.blogspot.com>

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