



DEAL OR NO DEAL?

The valuation of new technology, in order to successfully sell it or acquire it, is notoriously tricky, with a host of factors influencing values. At the most basic level, assessing value should mean subtracting costs from potential revenues. Under this broad umbrella comes a further host of variables, none of which are clear-cut. Indeed, the technology in question may take years to reach the market, or may never reach the market at all.

Complex though they may be, valuations based on costs and revenues are commonly employed and well understood, at least in theory. However, assuming that a 'rational' value can be derived from these inputs, there are still many levels of uncertainty to contend with. If a technology is truly unique, then its value should be purely based on the returns it will generate when used by the licensee or purchaser. However, this is rarely the case as there are generally other substitute technologies or 'me too' products available, in which case the situation becomes competitive. The price paid by the licensee or purchaser is going to be somewhere between the return generated by use of the technology, and the price the licensor or seller is willing to accept.

Even harder to assess are the influences of intrinsic biases. There is an increasing realisation that whilst prices do broadly fluctuate around rational levels, there is a high degree of bias in purchasing decisions. Disproportionate fear of losses, decisions made to avoid regret, overconfidence due to lack of experience, and herding behaviour, are all common examples of influences that lead people away from rational valuations.

Such biases are nothing new. For example, a speculative bubble that grew up following the development of trading links with South America in 1720 is memorably recorded in the book 'Extraordinary Popular Delusions and the Madness of Crowds'. More recently, the same sort of feedback loop created by the vogue for technology stocks led to the sky-high valuations of the dot.com bubble.

It is here that assessing valuation through comparison with similar deals comes into its own. For a potential licensor or seller, evaluation of a market value through comparison with recent deals gives the best possible valuation on what a potential licensee or purchaser may be willing to pay. This can also be used to predict future values through extrapolation of trends. For a potential licensee or purchaser, the market value is what they can expect to pay.

Accurate valuations are difficult as bias always plays a part, which is why many companies turn to third-party valuations. Whilst a valuation based on comparison with similar deals uses objective data, it relies on the choice of a representative set of deals. Third parties bring objectivity and broad market knowledge, as well as performing the extensive searches required to find the comparator deals. When a model is required, a third-party can develop one based on confidentially gathered primary market research with end users and key opinion leaders, which a stakeholder cannot. All of which leads to robust valuations and the best possible understanding of the value of the cards in play.

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