Intellectual Property Valuation

Gordon V. Smith
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He has written extensively on a variety of valuation subjects and has lectured in North and South America, Europe and China. Mr. Smith is Chairman of the Advisory Board, Licensing Economics Review, and serves on the Advisory Committee on Intellectual Property, and is an Adjunct Professor at Franklin Pierce Law Center.

An Accredited Senior Appraiser of the American Society of Appraisers, Mr. Smith is also a member of the International Trademark Association and active in committee work with that organization. Other memberships include the Licensing Executives Society.

I. SOME INTRODUCTORY COMMENTS

A. WHAT IS A LICENSE REALLY ABOUT?

B. WE TEND TO LOOK AT IT AS A LEGAL EXERCISE
   1. That is our training - to protect the property interests of our clients
   2. The urge to make the deal just a little bit better

C. BUT IT IS NOT JUST A LEGAL EXERCISE, OR A PHILANTHROPIC ACTIVITY - IT IS A COMMERCIAL TRANSACTION
   1. The objective is to make money - by exploiting intellectual property

D. THE MOST BEAUTIFULLY CRAFTED LICENSE IS A FAILURE UNLESS IT ENABLES COMMERCIAL SUCCESS

E. EXPLOITATION IS INVESTING CAPITAL AND LABOR FOR THE PURPOSE OF EARNING A RETURN
   1. A fundamental law of nature (certainly of business!)

F. LICENSING TRANSACTIONS MUST BE EVALUATED THE SAME WAY THAT WE EVALUATE OTHER COMMERCIAL TRANSACTIONS.

II. BASIC INVESTMENT TRANSACTIONS

A. INVESTMENT FOR A RETURN
   1. Labor and capital invested
   2. Return of and return on

B. BUSINESS PLAN AS SURROGATE
   1. Usually covers all the steps

III. BASIC LICENSE TRANSACTION

A. USE OF INTELLECTUAL PROPERTY IN RETURN FOR CASH, RIGHTS, ETC.
   1. An exchange of rights for cash. This is the basic licensing transaction. We must also remember that both licensor and licensee may have income and expenses associated with the transaction, but not a part of it.
   2. "Bundle of Rights"
   3. Licensing economics - every licensing clause and term has some economic impact on one or both of the parties.
   4. The growing importance of IP
IV. VALUATION AND INVESTMENT FUNDAMENTALS

A. THE BUSINESS ENTERPRISE

Every business enterprise, large or small, is comprised of three elements: monetary assets, tangible assets, and intangible assets.

1. The Balance Sheet View

Some prefer to look at a business enterprise in terms of an accounting balance sheet. In that structure, intangible assets usually do not appear but would, if they were included, be part of the asset side along with current assets and plant property and equipment. The offsetting entry would be an addition to stockholders' equity on the liability side of the balance sheet which is usually evident in the market value of the common stock of an enterprise exceeding the book value.

B. SPECIFIC ELEMENTS OF THE BUSINESS ENTERPRISE

1. Monetary Assets

Monetary assets comprise inventories, cash investments, work in process, accounts receivable, less current liabilities. Some refer to this asset as "net working capital".

2. Tangible Assets

These assets include land, buildings, machinery and equipment, mineral reserves, and the like.

3. Intangible Assets

Included in this category is computer software, assembled workforce, patents, trademarks, copyrights, proprietary technology, customers, favorable contracts, and goodwill.

C. INTANGIBLE ASSETS

1. Rights
   a. Contractual

2. Relationships
   a. Non-Contractual

3. Intellectual Property

4. Undefined
   a. Goodwill
   b. Elements of a Going Concern
D. BUSINESS ENTERPRISE CHARACTERISTICS

1. The business enterprise is a portfolio of assets - analogous to an investment portfolio.

2. Important Characteristics of Risk, Financing, and Liquidity
   a. Monetary Assets
      Monetary assets tend to be liquid and versatile, can often be financed with debt, and are relatively low-risk assets to own, requiring a relatively low rate of return on investment.
   b. Tangible Assets
      Tangible assets can be either general or special purpose, with a corresponding range of liquidity. Debt financing is usually available for general purpose tangibles, and return rates approximate mortgage or corporate bond rates.
   c. Intangible Assets
      Intangible assets tend to be non-liquid, with a very narrow market, and command the highest rates of return because of their increased risk and their degree of specialization.

E. ESSENTIAL RELATIONSHIP OF EARNINGS AND VALUE

There is an essential and very important concept which relates the value of a business enterprise to the value of its underlying assets. If a business is persistently not earning an adequate return on the value of its underlying assets, the value of the enterprise is best realized in a disposal of those assets in some form of liquidation value. As the earnings of the business rise, so does the value of the underlying assets, to a maximum of their replacement cost. Increases in the value of the enterprise after that point result from the creation of new intangible assets or unidentified goodwill.

It is very important to keep this relationship in mind and to continually test the valuation of specific business assets with the value of the business enterprise as a whole. The sum of the parts must be commensurate with the value of the whole.

V. VALUATION CONCEPTS IN LICENSING AND JOINT VENTURE TRANSACTIONS

A. PREMISE OF VALUE

This is an essential specification in the appraisal process and one without which an appraisal assignment cannot proceed. Value does not exist in the abstract and must be addressed within the context of time, place, potential owners, and potential uses. This is often put in the form of a question -- value "to whom and for what purpose?".

1. Cost of Reproduction New

   This refers to the cost, as of the appraisal date, to construct identical property.
2. **Cost of Replacement**

This is the cost that would be incurred to obtain a property with equivalent utility to the subject.

3. **Book Value**

This is sometimes referred to as book cost or net book value and refers to the original cost of an asset reduced by accounting depreciation. Since property accounting practices vary widely and original costs can change markedly over time, this is not really a measure of value, though it is often referred to in those terms.

4. **Fair Market Value**

This is an often misunderstood term and is used synonymously with "market value", "fair value", "true value", or "exchange value" which terms are often found in appraisal literature, the law, and in court decisions.

We utilize two definitions of fair market value, one which embodies the concept of an exchange of property and describes the conditions of that exchange, and another definition which presents fair market value in economic terms as being represented by all future benefits of ownership compressed into a single payment.

**B. THREE COMMONLY ACCEPTED METHODS**

1. **Cost Approach**

The cost approach seeks an indication of asset value by estimating the cost of reproduction or cost of replacement of the asset, less an allowance for loss in value due to physical, functional, and economic causes.

2. **Market Approach**

The market approach seeks an indication of value from the exchanges of comparable property in an active marketplace.

3. **Income Approach**

The income approach seeks to value property by calculating the present value of the future economic benefits of ownership in a capitalization of income process.

**C. COST APPROACH**

The cost approach develops an indication of fair market value by subtracting physical depreciation, and functional and economic obsolescence from cost of reproduction new or cost of replacement of the subject asset.

1. **Cost Approach Applied to Intellectual Property**

   a. **Trended Historical Costs**

   If one can determine, from accounting or other cost records, the amount of costs expended in the development of the intellectual property, together with the date at which those costs were expended, one can develop an indication of the current reproduction cost by the use of price trends for the types of labor and other expenses incurred. One must know something about the derivation of the price
trends used, in order to form an opinion as to whether the result represents reproduction cost or replacement cost.

b. Estimates of Current Cost

An alternative method is to estimate the number of man hours of work effort that would be required by the various skills involved to develop the subject asset using the skills and technology of today. The hourly cost of those various skills, including base salary, benefits, overhead, and the like, are utilized to develop the total current cost.

2. Cost Approach Cautions

Trending historical costs may bring forward the costs of inefficiencies incurred in the original development of the intellectual property. It may also bring forward the costs of outmoded technologies, operating inefficiencies, and will reflect whatever accounting techniques were utilized at the time to record the costs.

One must remember that the objective is to estimate the cost to replace the or functionality of the asset.

D. MARKET APPROACH

There are relatively few instances where the market approach can be utilized for intangible assets and intellectual property. Intangibles are not commonly exchanged free of other assets in arms-length transactions of sufficient number to provide a "market". In addition, the determination of comparability can be quite difficult.

1. The Market Approach as a Check

The market approach can be useful as a check when one is developing an indication of value for intellectual property by another method. If the subject is comparable enough to assets that are sold in the marketplace, value indications by an income or cost approach can be checked against the market prices for similar property which should set the upper limit of value.

E. THE INCOME APPROACH

1. Income Capitalization

The underlying theory behind the income approach is to calculate the present value of a future stream of earnings by a direct capitalization (which assumes that the income will continue unchanged forever) or a technique of calculating the present value of discrete amounts of income to be received in the future (a discounted cash flow process).

In order to utilize this technique one needs to know the: (a) amount of income, (b) the duration of the income, and (c) the amount of risk of achieving it.

This technique can also be used for early stage projects. In this instance, there may be some period of time during which cash flows from the product will be negative (due to development and marketing expenses) and then some period of time of income growth after the product is introduced to the marketplace. Income forecasts are more difficult to quantify in this situation, but the technique can still be used.
2. **Understanding Present Value**
   a. Time value of money concept. ("A bird in the hand..."")
   b. Direct capitalization
   c. Direct capitalization with growth
   d. Discounting

3. **The Impact on Value of Time and Interest Rate**

4. **Applying the Income Approach**
   a. Quantifying the economic advantage - investigate what the IP does to the business - the "but for..." principle - "follow the dollar" benefit.
   b. Quantifying the risk - identify the risk elements - go to the market for risk surrogates.
   c. Quantify the economic remaining life - be alert to the possibility of a transfer of protection between forms of IP.
   d. A simple case - "Relief from Royalty".
   e. A more complex cash flow model. The base case presents the business enterprise value without the benefit of the IP technology, and then we measure the business enterprise value with the technology.

5. **"Water Rights"**
   a. A licensing analogy.

VI. **ROYALTIES**

A. **EXAMINING THE VARIOUS INCOME STREAMS ASSOCIATED WITH IP IN A LICENSING SITUATION**
   1. Applying the cost, market and income approaches.

B. **USING DCF FOR ROYALTY RATE ANALYSIS**
   1. Base case
   2. Introducing the economic benefit
   3. Calculating a royalty
C. APPLYING DCF TO A LICENSE

1. Present value of license clauses
2. Primary and secondary economic drivers
   a. Revenue forecast
3. Licensee base case
4. Measuring the effect of intellectual property on the licensee
5. Calculating the royalty

VII. KEYSTONE PRINCIPLE OF LICENSING ECONOMICS

A. THE ECONOMICS OF THE LICENSEE'S BUSINESS IS CONTROLLING

B. UNLESS YOU'RE DISNEY, MICHAEL JORDAN, OR THE DALLAS COWBOYS
LICENSING ECONOMICS and the VALUATION OF INTELLECTUAL PROPERTY

Franklin Pierce Law Center
Advanced Licensing Institute
July, 1999

LICENSING IS BOTH ART......and......SCIENCE

The Most Beautifully Crafted License is a Failure ... Unless it Enables Commercial Success

BASIC INVESTMENT TRANSACTION

SALES
COGS
OPER. EXP.
TAXES
CAPITAL COSTS
RETURN ON INVESTMENT

BASIC INVESTMENT TRANSACTION

RIGHTS
ROYALTIES
LICENSOR
LICENSEE
LICENSING ECONOMICS

Almost every clause has some economic weight.

Business Enterprise

Balance Sheet View of the Business Enterprise

Elements of the Business Enterprise

MONETARY ASSETS

Net Working Capital
<table>
<thead>
<tr>
<th><strong>Elements of the Business Enterprise</strong></th>
<th><strong>Elements of the Business Enterprise</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tangible Assets</strong></td>
<td><strong>Intangible Assets</strong></td>
</tr>
<tr>
<td>Land, Land Improvements, Buildings</td>
<td>Computer Software, Assembled Workforce,</td>
</tr>
<tr>
<td>Machinery and Equipment, Vehicles</td>
<td>Favorable Contracts, Customer Relationships,</td>
</tr>
<tr>
<td>&quot;Plant, Property and Equipment&quot;</td>
<td>Intellectual Property</td>
</tr>
<tr>
<td></td>
<td>&quot;Goodwill or (ugh!) Going Concern Value&quot;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Intangible Assets</strong></th>
<th><strong>Rights</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights</td>
<td>Leases</td>
</tr>
<tr>
<td>Relationships</td>
<td>Distribution Agreements</td>
</tr>
<tr>
<td>Intellectual Property</td>
<td>Employment Contracts, Covenants</td>
</tr>
<tr>
<td>Undefined Intangibles</td>
<td>Financing Arrangements</td>
</tr>
<tr>
<td></td>
<td>Supply Contracts</td>
</tr>
<tr>
<td></td>
<td>Licenses, Certifications</td>
</tr>
<tr>
<td></td>
<td>Franchises</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Relationships</strong></th>
<th><strong>Intellectual Property</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trained and Assembled Workforce</td>
<td>Proprietary Technology</td>
</tr>
<tr>
<td>Customer Relationships</td>
<td>Trade Secrets</td>
</tr>
<tr>
<td>Distribution Relationships</td>
<td>Know-how</td>
</tr>
<tr>
<td></td>
<td>Patents</td>
</tr>
<tr>
<td></td>
<td>Copyrights</td>
</tr>
<tr>
<td></td>
<td>Trademarks</td>
</tr>
<tr>
<td></td>
<td>Right of Publicity</td>
</tr>
</tbody>
</table>
Proprietary Technology

- Formulas, Recipes, Specifications
- Management, Accounting, Mfg. Procedures
- Formations, Plays, Training programs
- Marketing Strategies
- Artistic Techniques
- Customer Lists, Routes, Demographic Studies
- Job Files, Product test results
- Business Knowledge - Suppliers, Lead times, Cost and pricing data

Undefined Intangibles

- Goodwill

- Elements of a Going Concern ("going concern value")
VALUING A BUSINESS

THE BUSINESS ENTERPRISE (PORTFOLIO)

THE UNDERLYING ASSETS (AS ELEMENTS OF PORTFOLIO)

THE UNDERLYING ASSETS (FOR ALTERNATE USE)

PREMISE OF VALUE

FAIR MARKET VALUE

"The amount at which a property would exchange between a willing buyer and seller, neither under compulsion, each having knowledge of the facts, and with equity to both."

or

"The present value of the future economic benefits of ownership."

VALUATION METHODS

• Cost Approach
• Market Approach
• Income approach

PREMISE OF VALUE

FAIR MARKET VALUE

"The amount at which a property would exchange between a willing buyer and seller, neither under compulsion, each having knowledge of the facts, and with equity to both."

or

"The present value of the future economic benefits of ownership."

COST APPROACH

Cost of Reproduction or Cost of Replacement

Less: Physical Depreciation
Less: Functional Obsolescence
Equals: Replacement Cost Less Depreciation

Less: Economic Obsolescence
Equals: FAIR MARKET VALUE

MARKET APPROACH

Analyze evidence of transactions of:

• Comparable Property
• At Arm’s Length
• Contemporaneous to Appraisal
• In an Active, Public Market
INCOME APPROACH

PRESENT VALUE (direct cap with growth)

DIRECT CAPITALIZATION with GROWTH

\[ PV = \frac{AMOUNT \times (1 + \text{Growth Rate})}{(\text{Rate} - \text{Growth Rate})} \]

Used when we are to receive a constantly growing amount each year into perpetuity

PRESENT VALUE (discounting)

DISCOUNTING

\[ PV = \frac{\text{AMOUNT 1}}{(1 + \text{Rate})} + \frac{\text{AMOUNT 2}}{(1 + \text{Rate})^2} + \frac{\text{AMOUNT 3}}{(1 + \text{Rate})^3} + \ldots \]

Used when we are to receive varying amounts in each period for a finite number of periods.

PRESENT VALUE of $300,000

To be received in:

<table>
<thead>
<tr>
<th>Duration</th>
<th>1 Year</th>
<th>2 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>@ 4%</td>
<td>$288,000</td>
<td>$277,000</td>
<td>$246,000</td>
<td>$201,000</td>
</tr>
<tr>
<td>@ 15%</td>
<td>258,000</td>
<td>223,000</td>
<td>142,000</td>
<td>68,000</td>
</tr>
<tr>
<td>@ 25%</td>
<td>234,000</td>
<td>163,000</td>
<td>87,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

INCOME APPROACH (NPV = PV future benefits..)

\[ \text{NPV} = \text{PV future benefits} \]

"The present value of the future economic benefits of ownership."
QUANTIFYING THE ECONOMIC ADVANTAGE

- Enables the use of lower cost materials
- Enables the use of less material
- Reduces the amount of labor
- Increases speed of production
- Improves quality / reduces defects
- Eliminates or reduces environmental and/or safety hazards
- Results in premium pricing
- Provides economic of scale
- Provides purchasing power
- Relieves the owner of the cost to create

"FOLLOW THE DOLLARS" TO THE ECONOMIC BENEFIT

<table>
<thead>
<tr>
<th>Sales Revenue</th>
<th>Premium Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>Economies of Scale</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>Labor, Mat'l Savings</td>
</tr>
</tbody>
</table>

| Selling, Gen'l & Admin. | Operating Exp. Benefit |
| Pre-tax Profit |
| Taxes |
| Net Income |

INCOME RISK

- WILL WE RECEIVE IT?
- WILL WE RECEIVE IT IN THE EXPECTED AMOUNT?
- WILL WE RECEIVE IT WHEN EXPECTED?
- MUST WE INVEST TO GET IT?
- MUST WE INVEST IN "BIG LUMPS"?
- HOW LONG MUST WE WAIT FOR INCOME TO START?

RATES OF RETURN

- 6.00% - CD's, Treasury Bills
- 5.65% - 30-year Treasury bonds
- 7.00% - 30-year mortgage commitments
- 7.00-8.00% - Corporate bonds
- 8.50% - Prime rate
- 8.00-10.00% - High-yield bonds
- 9.00-10.65% - Large company equities (Treasury plus 4-6%)
- 11.65-13.65% - Small company equities (plus 6-8%)
- 20% - 2nd or 3rd stage venture capital
- 40% - Venture capital, early commercialization
- 50% - Venture capital, early stage

INCOME DURATION (economic life vs. legal...)

ECONOMIC LIFE = the period during which it is profitable to use an asset

MAY OR MAY NOT BE = Legal Life
Physical Life
Technological Life
Depreciable Life

TRANSFER OF VALUE BETWEEN FORMS OF INTELLECTUAL PROPERTY

| Trademark |
| Patent |

FPLC - ALI - 1999
Table 4.11

| TABLE4.11 | USING MULTIVARIATE BAYES
| Discounted Cash Flow Model • Base Case |

<table>
<thead>
<tr>
<th>Sales</th>
<th>$10,000</th>
<th>$11,000</th>
<th>$12,000</th>
<th>$14,000</th>
<th>$15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>4,000</td>
<td>4,060</td>
<td>4,090</td>
<td>5,390</td>
<td>5,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>6,000</td>
<td>6,940</td>
<td>7,910</td>
<td>8,610</td>
<td>10,000</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>1,000</td>
<td>1,300</td>
<td>1,600</td>
<td>2,400</td>
<td>2,000</td>
</tr>
<tr>
<td>Income Before Taxes</td>
<td>5,000</td>
<td>5,640</td>
<td>6,310</td>
<td>6,210</td>
<td>8,000</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>700</td>
<td>850</td>
<td>920</td>
<td>1,040</td>
<td>1,400</td>
</tr>
<tr>
<td>Net Income</td>
<td>4,300</td>
<td>4,790</td>
<td>5,390</td>
<td>5,170</td>
<td>6,600</td>
</tr>
<tr>
<td>Depreciation</td>
<td>100</td>
<td>150</td>
<td>200</td>
<td>250</td>
<td>300</td>
</tr>
<tr>
<td>Additional to WAC</td>
<td>50</td>
<td>75</td>
<td>100</td>
<td>125</td>
<td>150</td>
</tr>
<tr>
<td>Additional to Plant</td>
<td>60</td>
<td>90</td>
<td>120</td>
<td>150</td>
<td>180</td>
</tr>
<tr>
<td>Net Cash Flow</td>
<td>4,290</td>
<td>4,740</td>
<td>5,290</td>
<td>5,020</td>
<td>6,450</td>
</tr>
<tr>
<td>Present Value</td>
<td>2,703</td>
<td>3,100</td>
<td>3,570</td>
<td>3,310</td>
<td>4,580</td>
</tr>
<tr>
<td>Total Present Value</td>
<td>10,290</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6.7

| TABLE6.7 | ICME BEFORE TAXES |

| Financial Impact of License Clauses |

Primary Royalty Stream | $475,000 | $600,000 |
Technology Grantbasics | 95,000 | 60,000 |
Sublicense Royalties | 75,000 | 125,000 |
Administration, auditing, quality control | (90,000) | (10,000) |
Providing technical assistance | (60,000) | (60,000) |
Indemnification - best case | (25,000) | (25,000) |
Indemnification - worst case | (250,000) | (350,000) |

Net Present Value (best case) | $420,000 | $700,000 |
Net Present Value (worst case) | $165,000 | $406,000 |
What royalties have others paid or received?
What is the "industry standard"?


What did it cost to develop the IP?
Set a royalty that will recoup the cost.


What is the economic benefit to the licensee?
What is our proper share?


MARKET APPROACH ROYALTY


INCOME APPROACH ROYALTY


MAYBE !!


YES !!
### Discounted Cash Flow Model - Base Case

**Sales** | $10,000 | $11,000 | $12,000 | $14,000 | $15,000
---|---|---|---|---|---
**Cost of Goods Sold** | 4,300 | 4,400 | 4,900 | 5,900 | 6,000
**Gross Profit** | 5,700 | 6,600 | 7,100 | 8,100 | 9,000
**Operating Expenses** | 3,000 | 3,050 | 3,000 | 3,300 | 3,200
**General & Administrative** | 1,500 | 1,554 | 1,900 | 2,200 | 2,250
**Income Before Taxes** | 2,200 | 2,046 | 2,200 | 2,800 | 2,750
**Income Taxes** | 700 | 615 | 660 | 800 | 785
**Net Income** | $1,500 | $1,431 | $1,540 | $2,000 | $1,965
**Depreciation** | 200 | 200 | 200 | 200 | 200
**Additions to NWC** | 100 | 100 | 100 | 100 | 100
**Additions to Plant** | 50 | 50 | 50 | 50 | 50
**Net Cash Flow** | $1,550 | $1,531 | $1,520 | $2,050 | $1,975
**Present Value** | $751 | $754 | $767 | $836 | $813
**Total Present Value** | $4,451 | 55

### Discounted Cash Flow Model - With Benefit of IP

**Sales** | $10,000 | $11,000 | $12,000 | $14,000 | $15,000
---|---|---|---|---|---
**Cost of Goods Sold** | 4,300 | 4,400 | 4,900 | 5,900 | 6,000
**Gross Profit** | 5,700 | 6,600 | 7,100 | 8,100 | 9,000
**Operating Expenses** | 3,000 | 3,050 | 3,000 | 3,300 | 3,200
**General & Administrative** | 1,500 | 1,554 | 1,900 | 2,200 | 2,250
**Income Before Taxes** | 2,200 | 2,046 | 2,200 | 2,800 | 2,750
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**Present Value** | $751 | $754 | $767 | $836 | $813
**Total Present Value** | $4,451 | 56

### Discounted Cash Flow Model - With Royalty Payment

**Sales** | $10,000 | $11,000 | $12,000 | $14,000 | $15,000
---|---|---|---|---|---
**Cost of Goods Sold** | 4,300 | 4,400 | 4,900 | 5,900 | 6,000
**Gross Profit** | 5,700 | 6,600 | 7,100 | 8,100 | 9,000
**Operating Expenses** | 3,000 | 3,050 | 3,000 | 3,300 | 3,200
**General & Administrative** | 1,500 | 1,554 | 1,900 | 2,200 | 2,250
**Income Before Taxes** | 2,200 | 2,046 | 2,200 | 2,800 | 2,750
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### The Licensing Transaction Is Controlled by the Economics of the Licensee's Business