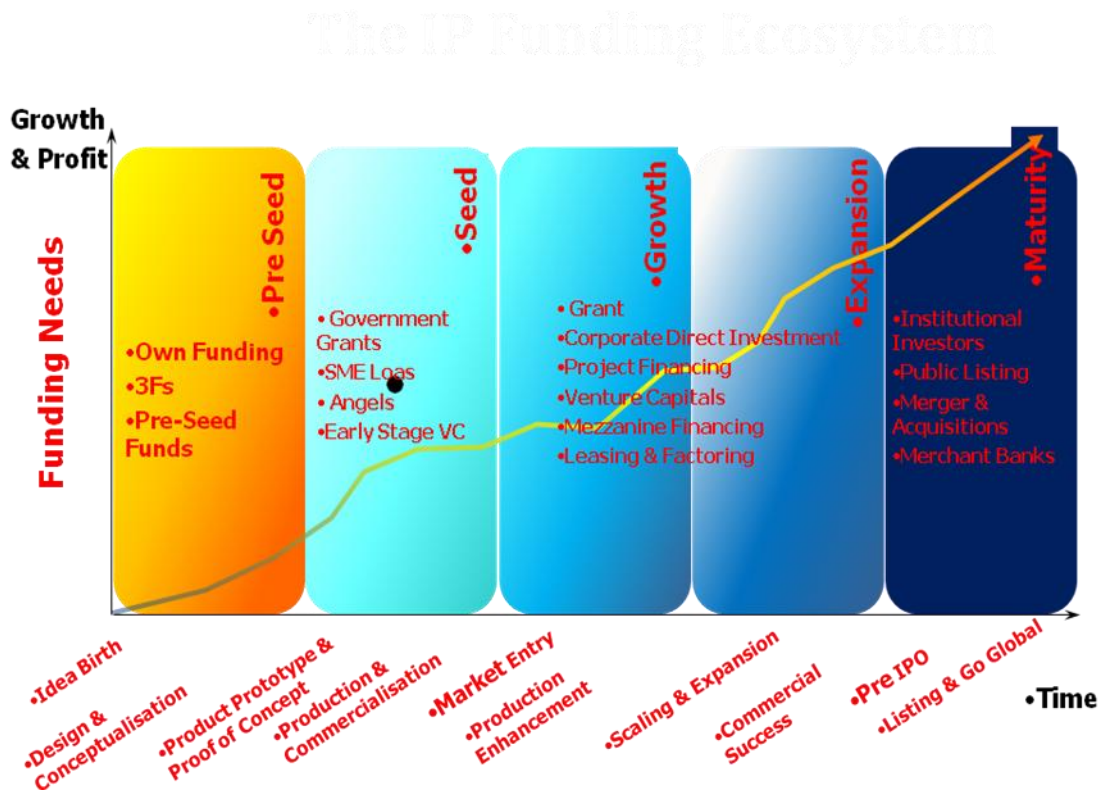


IP FINANCE

Owners of IP assets can raise money to fund the development and commercialisation of their IP assets through a multitude of channels. The funding ecosystem summarises the funding options available to IP owners in different stages of development of their IP assets, from birth of an idea to development and eventual commercialisation of the ideas

Diagram 2.5.1 summarise the IP Funding ecosystem

IP FUNDING ECOSYSTEM



There are basically three sources of funding for IP Owners, namely government grant, equity financing and debts financing.

(A) Grant Financing

The contributions of IP based entrepreneurship (or technopreneurship) in spurring economic growth, creating high income jobs and new industries which generating high returns are widely acknowledged.

To encourage the development of technopreneurship, many governments have come out with grant and financial incentive scheme for development and commercialisation of IP assets. The grant scheme aim to provide generous low cost fundings to qualified technopreneur to kick start their ventures.

The sources of grant in Malaysia are:-

- ❑ Matrade
- ❑ Malaysian Biotechnology Centre
- ❑ Malaysia Technology Development Centre
- ❑ Mimos Berhad
- ❑ Ministry of Science, Technology and Innovation
- ❑ Ministry of Entrepreneur and Co-operative Development
- ❑ Small and Medium Industries Development Corporation
- ❑ Multimedia Development Corporation (MDeC)
- ❑ Cradle

These fund providers are mandated by the government to offer different types of grants to IP owners in different phases of IP development, namely from creation, commercialisation to market enlargement of their IP assets

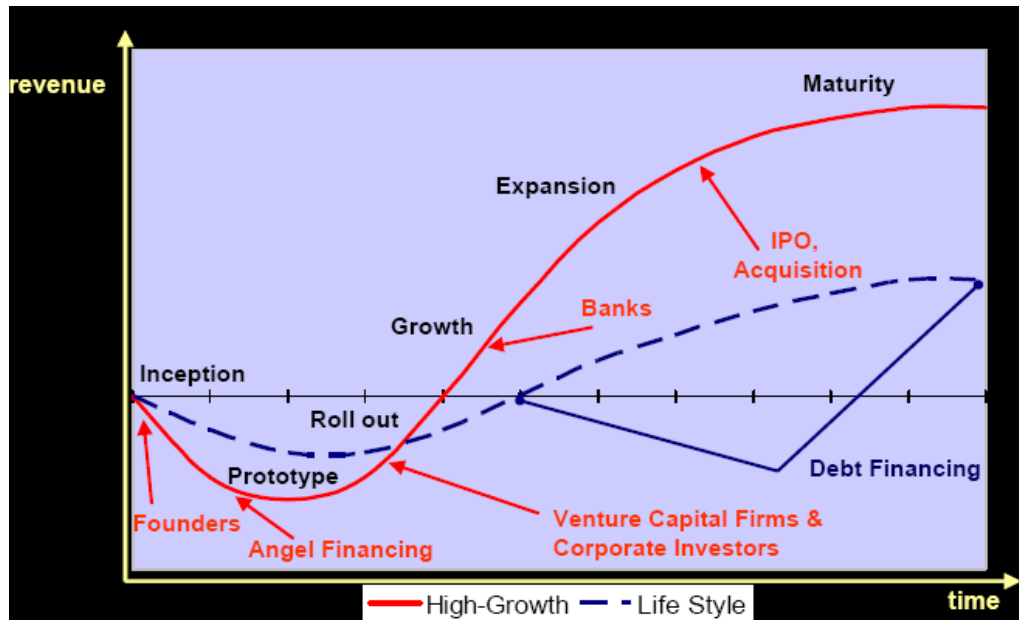
Amongst the keys things to look at in applying for IP Grant are:-

- ❑ Focus of the grant
- ❑ Eligibility
- ❑ Percentage of funding
- ❑ The unwritten rules (what can be claimed, the fine print, when to incur etc)
- ❑ How to maximise your amount
- ❑ How to shorten your time

(B) Debt Financing

IP Owners can also avail themselves to debt financing as a source of funding to finance the development of their IP based business ventures. In certain jurisdiction like US and China, IP assets can be used as collateral to secure loan from banks. However, as banks are generally more risk adverse, debt financing are more common at the later stage of IP development, usually at the growth stage of a IP based business venture as illustrated by Diagram 2.5.2 below.

Diagram 2.5.2



Source: TEN3COACH

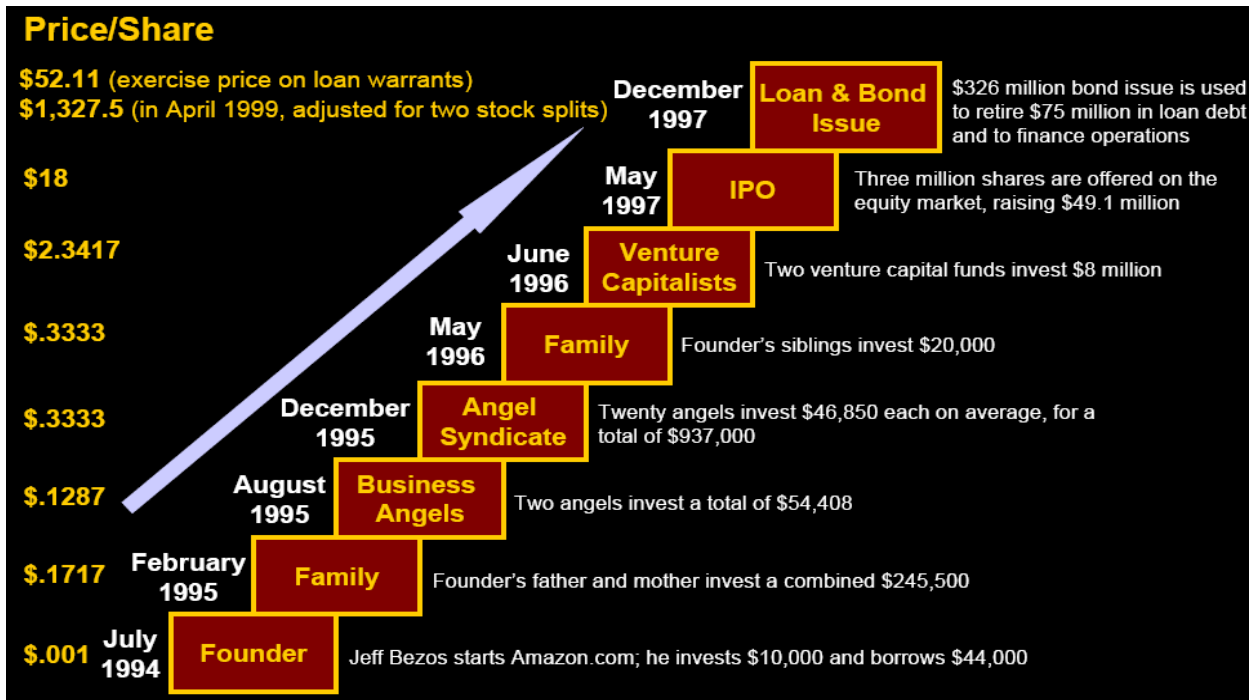
(C) Equity Financing

Another important source of financing of IP based business ventures is equity investment from angels, venture capital or private equity players.

Angles are affluent individuals who invest in seed or early start ups, venture capital provides equity funding to early stage technopreneur ventures while private equity back established enterprise using a combination of debt and equity.

Venture capital bridges IP owners and technopreneurs with the much need start up capitals and business know how in a combination which is capable of great value and wealth creation. Spectacularly successful companies like Amazon and Google are made possible by venture capital investment. Diagram 2.5.3 summarises how huge wealth was created by Venture Capital investment in the case of Amazon.com

Diagram 2.5.3



Source: TEN3COACH

IP Friendly Stock Exchanges

IP Based Enterprises can also raise funding from the general public by listing their IP holding companies in some of IP friendly stock exchanges in the region. The quantitative and qualitative criteria for IPO in Malaysia, Singapore and Hong Kong are summarised as follows:-

1. Quantitative Criteria

Singapore	Hong Kong	Malaysia
Main board	Main board	Main board
Pre Tax Profit > \$7.5 million over 3 years and > \$1 million in each year	> HK\$50 million in the last 3 years with > HK\$20 million in the latest year	Pre Tax profit > RM20 million for 3 - 5 years, RM6 million for latest year
Pre Tax Profit > \$10 million for latest 1 - 2 years	Market Cap of > HK\$200 million	Market Cap of > RM500 million

Singapore	Hong Kong	Malaysia
Second Board	Second Board	Second Board
No quantitative criteria	Positive cashflow	No quantitative criteria
Engage a sponsor	>HK\$20 million cash flow in the latest 2 years	Engage a sponsor

2. Qualitative Criteria

STRENGTH AND INTEGRITY OF PROMOTERS & MANAGEMENT

Strong background & experience.

BUSINESS MODEL

Unique features / competitive edge over competitors.

BUSINESS PROSPECTS

R&D CAPABILITIES

INTELLECTUAL CAPITAL

STRATEGY & EXECUTION

CONFLICT OF INTERESTS

There are many advantages as well as considerations for IP Based Ventures to raise funds through public listings. The Pros and Cons of public listings can be summarised as follows:-

Advantages

- Access to capital - for growth & expansion, retiring existing debts, corporate marketing and development, acquisition capital and corporate diversity
- Correct Valuation – share price
- Compensation – to attract & retain talented employees via performance based incentive
- Brand Value – prestige, image and publicity
- Merger & Acquisitions - expansion
- Exit Strategy – offering reward & financial freedom for the founders & employees

Considerations

- Disclosure of information – public disclosure eg shareholding pattern, quarterly & annual financial statement, profile of directors, etc.
- Decision take time – BOD approval
- Cost of IPO – one time expenditure
- Complication of operation