



Intellectual Property Valuation Report

XXXXXXXXXXXX Private Limited

CIN: U72900KAXXXXXXXXXXX418





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Company Background

XXXXX Private Limited (“Company”) is a semiconductor IP company based in Bengaluru. It is led by a team of engineers who have a passion for trans-formative work in Pre-silicon products focusing on delivering Mixed-signal solutions in Power Management and Hi-speed IOs.

The Company delivers confidential Application Specific Intellectual Property (IP) and Integrated Circuits (IC) in USB Type-C Ecosystem especially in the areas of Power Delivery and Datapath.

The Company is an active contributor of USB Implementers’ Forum standards and delivering latest USB Type-C Ecosystem solutions.

The Company has recently been acquired by XXX Semiconductor Technologies¹.

Intellectual Property subject to Valuation (“IPs”)

At present, the Company has a IP Portfolio comprising of 10 granted Indian Patents, 21 granted US Patents, 33 patent applications in India & US, 1 Indian Trademark application, 4 registered Indian copyrights and 1 domain name (“IP”), details of which are provided in Annexure 1.

The above mentioned IPs are licensed by the Company to various customers, including but not limited to many billion dollar multinational companies for delivering USB Type-C Ecosystem of IPs for Smartphones, Notebooks and accessories on fast charging and high-speed data transfers. The Company generates revenues by charging license fee/ royalty for licensing its IPs to the customers and for the support fee it provides against support fee.

Purpose of the present Valuation Exercise

The Company wishes to undertake the valuation of its abovesaid IP to ascertain its fair market value in order to allocate appropriate purchase consideration paid/ payable by XXXX Technologies to the Company’s IP.

¹ <https://inc42.com/buzz/XXXXXX-systems-for-inr-183-cr/>



USB Technology Background

A. USB Technology

USB, or Universal Serial Bus is a data interface used with computers enabling the computer to send and receive data as well as providing power to some peripherals like disc drives, Flash memory sticks and the like so that separate power sources are not needed for each item.

USB provides a very simple and effective means of providing connectivity, and as a result it is nowadays found on everything from personal computers and laptops, to peripheral devices, mobile phones, cameras, flash memory sticks, back up hard-drives and very many other devices.

USB versions have evolved over the years with improved performance: USB 1.0 had a maximum speed of 12 Mbps, which increased to 480 Mbps for USB 2.0 and greater than 5 Gbit/s in USB 3.0

B. USB CONNECTORS AND USB TYPE C

The USB system has a series of different connectors - the largest is the Type A USB connector, but there are also mini and micro versions as well as A and B types. A new Type C connector has now been introduced to provide the performance needed for the latest version of USB, which is on its way to becoming the industry standard.

USB Type A, the main and first connector being asymmetric it was difficult to insert properly. Now, USB-C is the latest version

of the USB standard is immediately recognizable, because unlike the older USB-A, it has an oval shape – a rectangle with its corner smoothed into a curve, making the connector symmetrical and easy to use.

By default, a USB-C cable plugged into a USB 3.1 port can transfer 10 GB of data per second while USB 3.2 can transfer 20 GB per second.

C. USB IF (IMPLEMENTERS FORUM)

In order to develop and manage the USB specifications, an organization called the USB Implementers Forum (USB IF) was set up.

The USB-IF provides many functions in terms of the maintenance of the existing standards, but more importantly in terms of the ongoing development of the USB interface to meet the ever increasing needs of the industry and the vast number of users around the globe. In addition to this the forum also publicizes and markets the standard to ensure its continued adoption. A further function of the forum is to provide a compliance programme to ensure that products meet the standard and are able to interoperate.



Financial Information

The following figures have been obtained from the audited financial statements of the Company for the preceding 3 financial years shared with us, which show a steady increase in revenue of the Company from licensing its IP and related support services.

(INR Thousands)

Particulars	FY 2023-24	FY 2022-23	FY 2021-22	FY 2020-21
Revenue From Operations	2,76,825	1,99,717	1,10,226	50,133
Other Income	1,606	1,166	500	1,403
Total Revenue	2,78,431	2,00,883	1,10,726	51,536
Expenses				
Employee Benefit Expenses	1,63,647	88,847	56,285	27,925
Other Expenses	95,243	64,278	45,523	25,992
Total Expenses	2,58,890	1,53,125	1,01,808	53,917
EBITDA	19,541	47,758	8,918	(2,381)
Depreciation & Amortization	57,366	37,221	6,715	3,344
Finance Costs	1,761	4,830	1,934	1,207
Profit before Tax	(39,586)	5,707	269	(6,932)
Tax Costs	(612)	9,491	(1,207)	(969)
Profit/ Loss after Tax	(38,974)	(3,784)	1,476	(5,963)

Valuation of Intellectual Property

Selection of appropriate Valuation Approach

The Organization for Economic Co-operation and Development (“OECD”), the International Valuation Standards Council (IVSC), ICAI Valuation Standard 302 - Intangible Assets issued by The Institute of Chartered Accountants of India as well as various accounting bodies recognize the following three main valuation approaches for intangible assets² –

1. Market Approach:

In this approach, the appraiser compares the asset with similar items that have been sold or listed for sale in the appropriate primary and secondary markets using the selected premise of value. For example, the appraiser might use empirical marketing data from a public source to develop future revenue forecast assuming best case conditions to develop a projected income stream for use in determining the value of a Company being considered for acquisition.

The market approach shall be adopted only if adequate information is available about the comparable intangible asset from a recent transaction and there are instances of orderly transactions that can be compared with the intangible asset to be valued.

² “Illustrative Example of Intangible Asset Valuation”, The Canadian Institute of Chartered Business Valuators, OECD TP WP6, <<https://www.oecd.org/tax/transfer-pricing/47426115.pdf>>, Valuation of intangible assets”, International Valuation

2. Income Approach:

In this method, value of the Intellectual Property is determined by reference to present value of income, cash flows or cost savings generated by the asset.

The value of an intangible asset under the Income Approach is the present value of the income expected or costs saved by the owner of the intangible asset either through owned operations or licensing of the intangible asset. The income so determined is adjusted with any related expenses pertaining to the maintenance or enhancement of the intangible asset. The projected net cash flows are then discounted to present value using a risk-adjusted discount rate.

The Income Approach is commonly used for valuation of self developed IPs such as technology, brand name, trademarks, customer relations, etc.

Common valuation methods used under Income Approach are as under:

- a. Relief-from-royalty-method;
- b. Multi-period Excess Earnings Method (MEEM);
- c. With-and-Without method or premium profit method;
- d. Greenfield method; and
- e. Distributor method

Standards, <<https://www.oecd.org/tax/transfer-pricing/46366914.pdf>; IVS 105 & IVS 210

3. Cost Approach:

Where there exist no identifiable revenue streams, the cost approach estimates the fair value of an asset by approximating its depreciated replacement cost, which would include all costs necessary to construct a similar asset of equivalent utility at prices applicable at the time of reconstruction.

While there is no 'right' or universally accepted approach to determine the fair value of intangible assets, fair value measurement requires professional judgment to develop assumptions and estimates and depends on the actual facts and circumstances of the transaction.

Different estimates of fair value may be both justifiable and reasonable. Consequently, two different parties valuing the same intangible asset are not likely to arrive at the same result.

However, there do exist certain guidelines on which approach may suit and guidelines prescribed by the ICAI Valuation Standard 302³. on Intangible Assets states that any of the three approaches may be applied subject to valuation of intangible assets. However, they do prescribe certain best practices.

Suitability of Selected Approach

As stated above, the Market Approach is best suited where adequate information is available about the comparable intangible asset from a

recent transaction and there are instances of orderly transactions that can be compared with the intangible asset to be valued. In the present case, the said information is not readily available. Accordingly, the market approach cannot be used for the present

The Cost Approach is generally used when –

- it would be possible for market participants to recreate an intangible asset of similar utility to the subject asset,
- there are no legal protections (eg, patents, trademarks) or other barriers to entry (eg trade secrets) preventing market participants from recreating an asset of similar utility or profiting from such a recreated asset, and
- the intangible asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately.

This method may be used most commonly in acquired third-party software, internally developed and internally used software, or assembled workforce i.e. IPs that generally do not generate revenue.

In the present case, the IPs under consideration are the core IP portfolio of the Company which are licensed to the customers on non-exclusive and non-sublicensable basis, to generate revenue through license fee, royalty and support fee.

Accordingly, the Relief from Royalty Method under the Income Approach seems most suitable for the present exercise.

³ <https://resource.cdn.icai.org/51432vsb41162.pdf> Page 86



Assumptions

For the purpose of the present valuation exercise, the following assumptions have been made:

- The IPs have a useful economic life of 10 years.
- The IPs, if the same were to be licensed exclusively from third parties with unfettered rights to further sublicense, would command atleast 28% of the net income generated by the Company as royalty.
- Present effective Income Tax Rate for companies is 25.17%.
- The Company has plans to develop its own products in the future.
- The Financial Projections shared by the Company are realistic.
- Cost of Equity

Particulars	%
Risk Free Rate	6.97%
Equity Risk Premium	7.18%
Market Rate of Return (Rm)	14.15%
Industry Beta	1.57
Cost of Equity (Ke)	18.25%

Valuation of the Intellectual Property under Relief from Royalty Method

1. Under this method, the IP is valued as per the following formula

$$FV = PV(r) \sum_{t=0}^t [\text{Revenue} \times \text{Royalty} (1 - \text{tax})]$$

Where,

Revenue = Expected revenue to be generated by the intangible assets being valued

t = remaining useful life of the intangible assets

r = discount rate

Royalty= Expected Royalty as a % of Revenue



Valuation of IP under Relief from Royalty Method

							(INR)
Particulars	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Royalty Revenue Income	55,36,49,068	83,19,66,772	1,07,96,15,683	1,40,35,00,387	1,68,42,00,465	2,02,10,40,558	2,42,52,48,669
Profit margin (PBT) on royalty income	15,50,21,739	23,29,50,696	30,22,92,391	39,29,80,108	47,15,76,130	56,58,91,356	67,90,69,627
Tax Adjustment Benefits	3,90,18,972	5,86,33,690	7,60,86,995	9,89,13,093	11,86,95,712	14,24,34,854	17,09,21,825
Post Tax Royalty Savings	11,60,02,767	17,43,17,006	22,62,05,396	29,40,67,015	35,28,80,418	42,34,56,502	50,81,47,802
			(INR)				
Particulars	2031-32	2032-33	2033-34				
Royalty Revenue Income	2,91,02,98,403	3,20,13,28,243	3,44,14,27,862				
Profit margin (PBT) on royalty income	81,48,83,553	89,63,71,908	96,35,99,801				
Tax Adjustment Benefits	20,51,06,190	22,56,16,809	24,25,38,070				
Post Tax Royalty Savings	60,97,77,363	67,07,55,099	72,10,61,731				

Present Value of Royalty Savings for Next 10 Years (INR)

Valuation of IP (INR) 1,41,74,02,377



Valuation Certificate

In view of the above stated analysis and due diligence, of the Intellectual Property of the Company, further based upon the information as available from the Financial Statements of the Company, we hereby certify that based on a conservative note, the valuation of the IP of the Company as per Relief From Royalty Method under Income Approach can be placed at INR 141.74 Crores (Rupees One Hundred and Forty One Crore and Seventy Four Lakhs Only).

For **IIPRD**

Executed by: Mr. Tarun Khurana

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Disclaimer

1. The information provided in this report is largely based on the information provided by the Company.
2. Database and information sources that are produced by the Company are believed to be reliable by IIPRD.
3. While IIPRD has used the best resources for the work of software valuation, IIPRD disclaims all warranty as to the accuracy, completeness or adequacy of such information.
4. We also wish to state that the Valuation is limited to the present time and does not apply after lapse of considerable time and may change with the passage of time.