Finance and Accounting
Leveraging Intangibles for Technology Success

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The World has Changed!

Tangible Assets: as a Proportion of Total Market Capitalization

Source, World Bank

Woodstock, 1969

Personal Computers

Internet 1995

92%

62%

38%

30%

25%

1950's

1982

1992

2002

2012

Today more than 75% of our economy is underpinned by New Assets
The Rise of Intangible Assets

1945
Economic Drivers

Intangibles
Tangible Assets 80%
Natural Resources
Real Estate
Industrial Plant
Equipment
Inventory

2012
Economic Drivers

Intangibles 80%
Network Applications
Digital Data
Business Processes
Customer Equity
Tangible Assets 20%
Patents
Software
Brands
Trade Marks
The Capital Disconnect
The Starvation Zone

Technology Financing Gap
Capital Markets Breakdown

Venture Capital
1. Poorly Developed in Alberta
2. VC "Success" is selling Alberta innovation to US, China or S Korea for pennies in the dollar

Starvation Zone


Idea Stage → Alpha Stage → Beta Stage → Gamma Stage → Delta Stage

Hundreds of Millions of Dollars Spent Developing Innovation

Billions of Dollars Waiting to Invest in Successful Ventures

Altexa and Federal Government Grants, University Related Funding, Private Angel Investors

Commercial Banks, Institutional Investors, Private Equity

No Banking Zone (Intangible Assets)
The Present Reality: Technology Jail

- 'No Assets Here' Accounting Standards
- Under Capitalized: banks and investors don't want to know
- Management Weakness: Don't know their own value drivers can't get to critical mass
- Predatory Finance Industry
- DANGEROUS
- WARNING: No Change Here
Current System is NOT working

- Over **90%** of technology ventures fail
- **95%** of technology IPOs end up as penny stocks
- Success often comes at the expense of original innovators and early stage investors, who get diluted massively
- Venture capital success = technology sale to US, Chinese or South Korean entities
Step One: **Focus on the ‘Assets’**

Identify, Capitalize Non-traditional assets
Institutions are Starting to Move
Step One: **Focus on the ‘Assets’**

Identify, Capitalize Non-traditional assets

- **R&D Co**
  - Develop the IP
  - \( Value = X \) (normally about $2m)

- Identify and Capitalize Intangible Assets at Historical Cost
New Accounting Standards

• **IAS 38 Intangible Assets** outlines the accounting requirements for intangible assets

• **(IASB)** an asset is a resource that is controlled by the enterprise as a result of past events (for example, purchase or self-creation) and from which future economic benefits (inflows of cash or other assets) are expected.

• **(IAS 38.8)**: An intangible assets is an identifiable non-monetary asset without physical substance.

• **Three critical criteria are:** [IAS 38.8],
  - the asset must meet the GAAP standard of Identifiability
  - the company must demonstrate its control (power to obtain benefits from the asset
  - an expectation of future economic benefits (such as revenues or reduced costs in future).
Identify, Capitalize Your Assets

• IASB, 30 new classes of Intangible assets
• Your Accountant probably won’t help you identify these assets
• Yes, you can write off expenses for tax or SRED purposes and still capitalize your intangible assets
Step Two: Establish Enterprise Value

Highest and Best Use Valuation
Step Three: License Strategy
Highest and Best Use Valuation

License Global Marketing and Sales Rights to Pubco @ Enterprise Value

R&D Co
Retain Ownership of Underlying IP

\[ X \]

Commercial Co, Pubco
\[ 20-50 \times \]

Payment in Shares, Royalties or Cash
Step Four: Structuring for Growth

- Application B Vehicle (new industry)
- Special Marketing Vehicle (European Rights)
- Special Marketing Vehicle (Americas' Rights)
- New Technology
- Turnstile #1 (Annual service fees)
- Turnstile #2 (Dashboard user fees)
- Turnstile #3 (Updates, training fees)
- Turnstile #4 (Database services)
Step Five: Go Public @ Enterprise Value
R&D Co Benefits of New Strategy

- Maximize Value of your Technology
- Minimize Dilution
- Control your own Destiny
- Unimpeded freedom to do more R&D
- Increase your Leverage
- Provide a Legitimate Liquidity Event
Commercialization Benefits of New Strategy

- Enterprise Value = Can fit a large investment into the company
- Strict commercialization Focus
- Reduced conflicts with ‘founders’
- No corporate baggage, Ready to go public
- Lots of equity for new capital, management and JV partners
Recommendations

• Technology Leaders
  • Understand that your technology and other value drivers are assets, start treating them as such

• Accountants, Bookkeepers
  • The asset revolution we’re experiencing at present is not part of your training. Intangibles dominate the economy and need specialized treatment.

• Bankers & Financiers
  • The virtue of assets is they can be used as collateral for debt or equity. It’s time to get up to speed on these new asset classes.