



IP PRAGMATICS

Common Issues in Commercialising IP – Sub-licensing & financial terms

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LES BENELUX

<https://ip-pragmatics.com>



Speaker



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Director, Licensing & IP Transactions:

- >20 years commercial experience
- Large corporate, VC and commercialization of university IP
- >15 years IP transaction experience:
 - High value out and in-licensing
 - IP-centric divestment and acquisition
 - Start-ups
 - JDAs, JV's, Public-Private Partnerships



Company overview

- **Management consultancy specialising in scientific technologies and IP**
 - Headquartered in London, office in Edinburgh, subsidiary in Sydney
 - Public and private sector clients in over 20 countries
 - 17 FTEs with technical, IP and commercial expertise
 - Track record in commercialisation, innovation strategy and policy for over 2 decades

Pragmatic \Prag*mat''ic\
N. 1. One skilled in affairs.
Adj. 1: concerned with practical matters;
2: guided by practical experience and observation rather than theory; "a hardheaded appraisal of our position"

Source: Webster's Revised Unabridged Dictionary

London

Edinburgh

Sydney

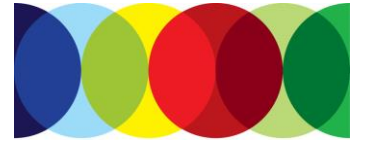
New York

Chicago

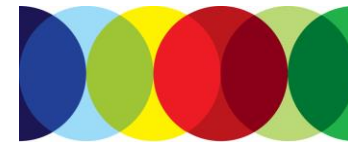
Basel

Tokyo

When does sub-licensing become important?



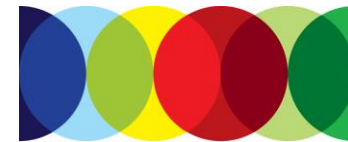
- Significant time and focus spent on terms and conditions for the licensee
- But what if the licensee isn't going to take the IP to the market and will look to sub-licence?
- The value of the asset will have changed from the time the main/head licence was signed
- Are everyone's interests aligned?



Sub-licence...or not?



- Can simply “turn off” sublicensing
- But watch out for grant clause language: “have made”, “have sold” – imply ability to sub-licence
- Particular issues raised with “have made”
- Sub-licensing only with exclusive licences?

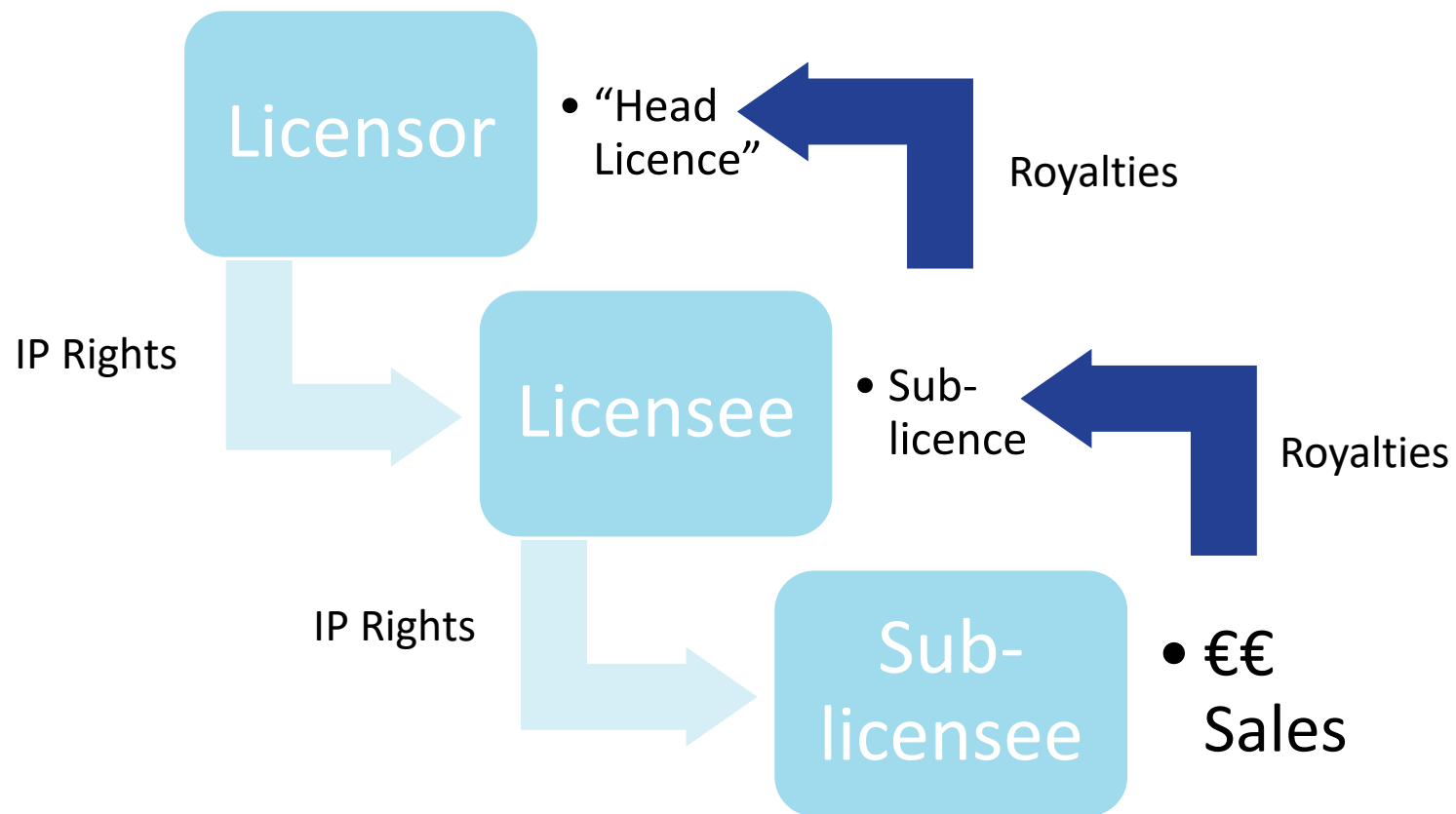


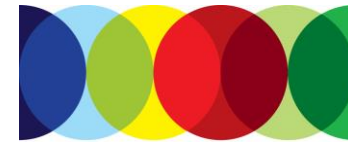
Collecting royalties

- Head licence may contain financial terms e.g. net sales royalties, signature fee, milestone payments, annual fees, etc.
- How do these translate to the sub-licence?



Who collects sub-licence income?

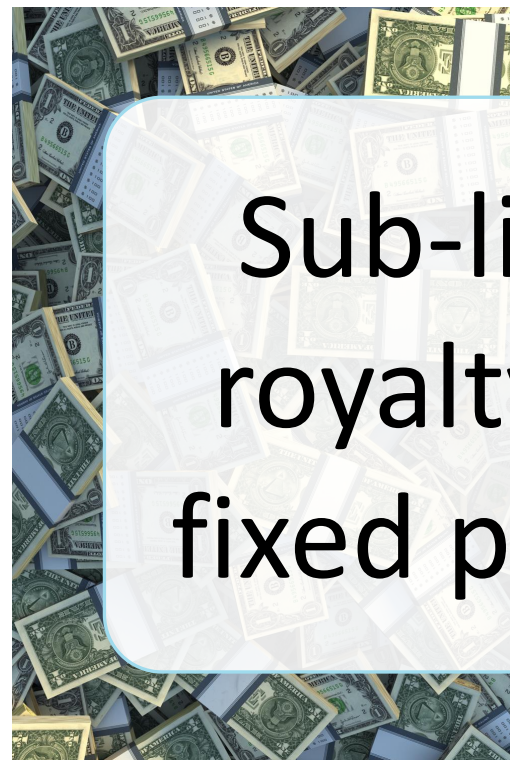




Two main approaches



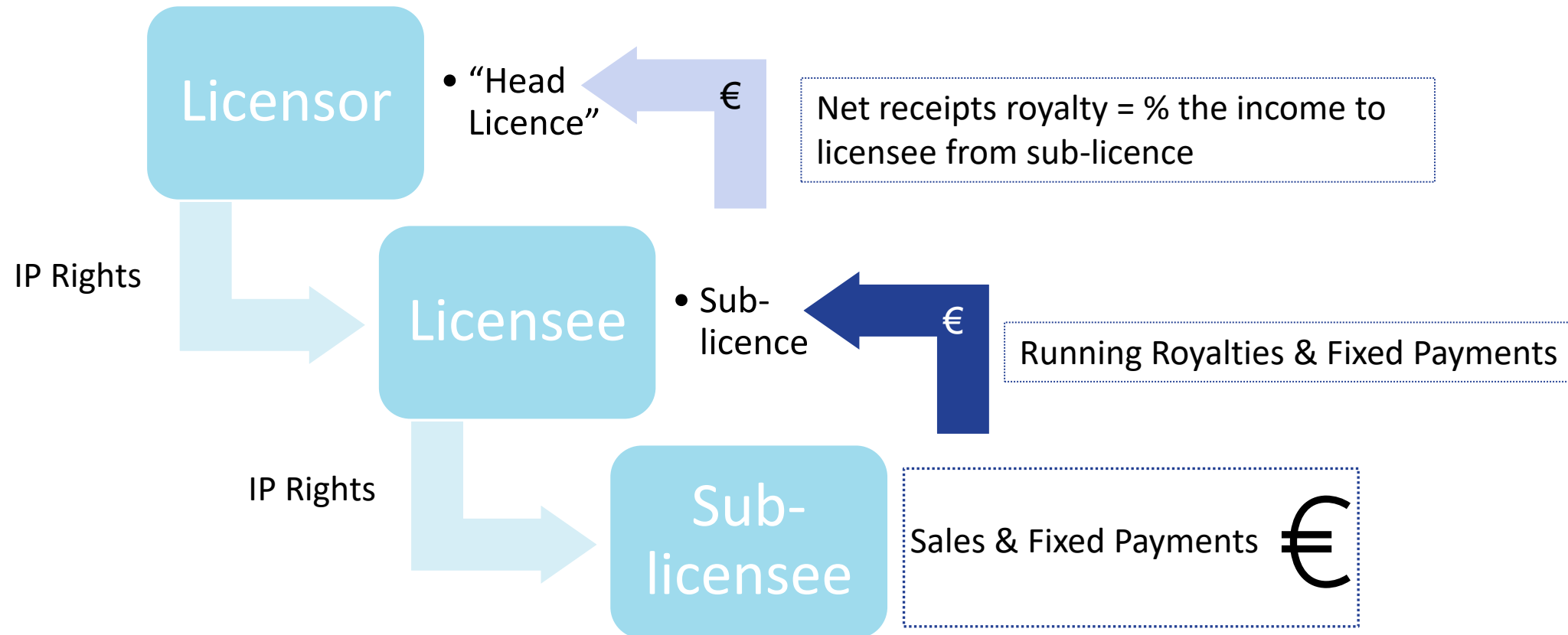
**Net receipts
royalty**



**Sub-licensee
royalty + % of
fixed payments**



Net receipts royalty approach





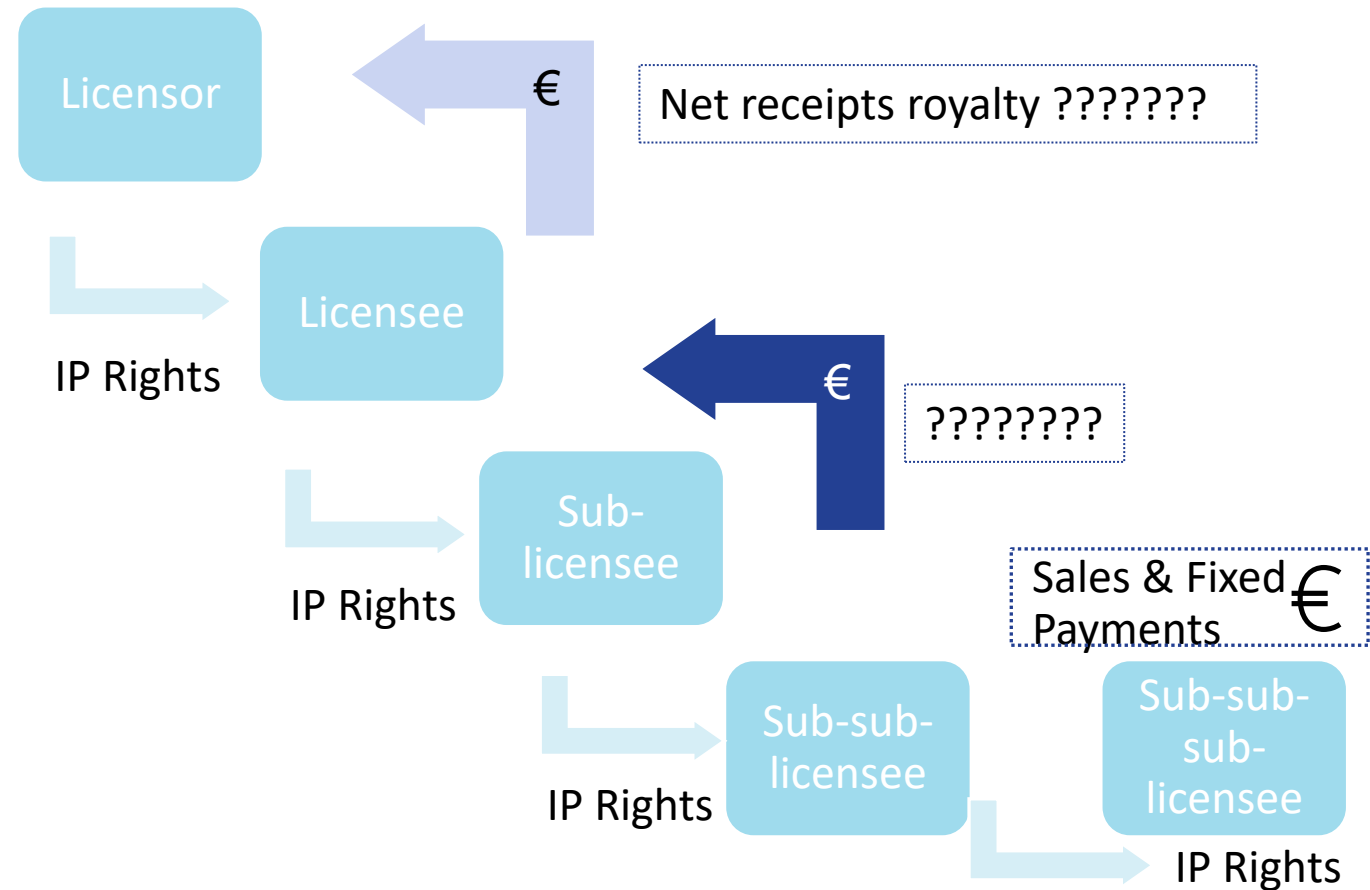
Net receipts royalty

- Take percentage royalty of all sub-licence income regardless of source
 - E.g. net receipts royalty = **10%**; licensee negotiates sub-licence with **€1m** milestone and **7%** royalties. Sub-licensee reaches milestone and makes sales of €40m. Income to licensee is **€1m + €2.8M**; return to licensor is **€100,000 + €280,000**
 - Is this approach affected by certain types of deal?



Net receipts further considerations (1)

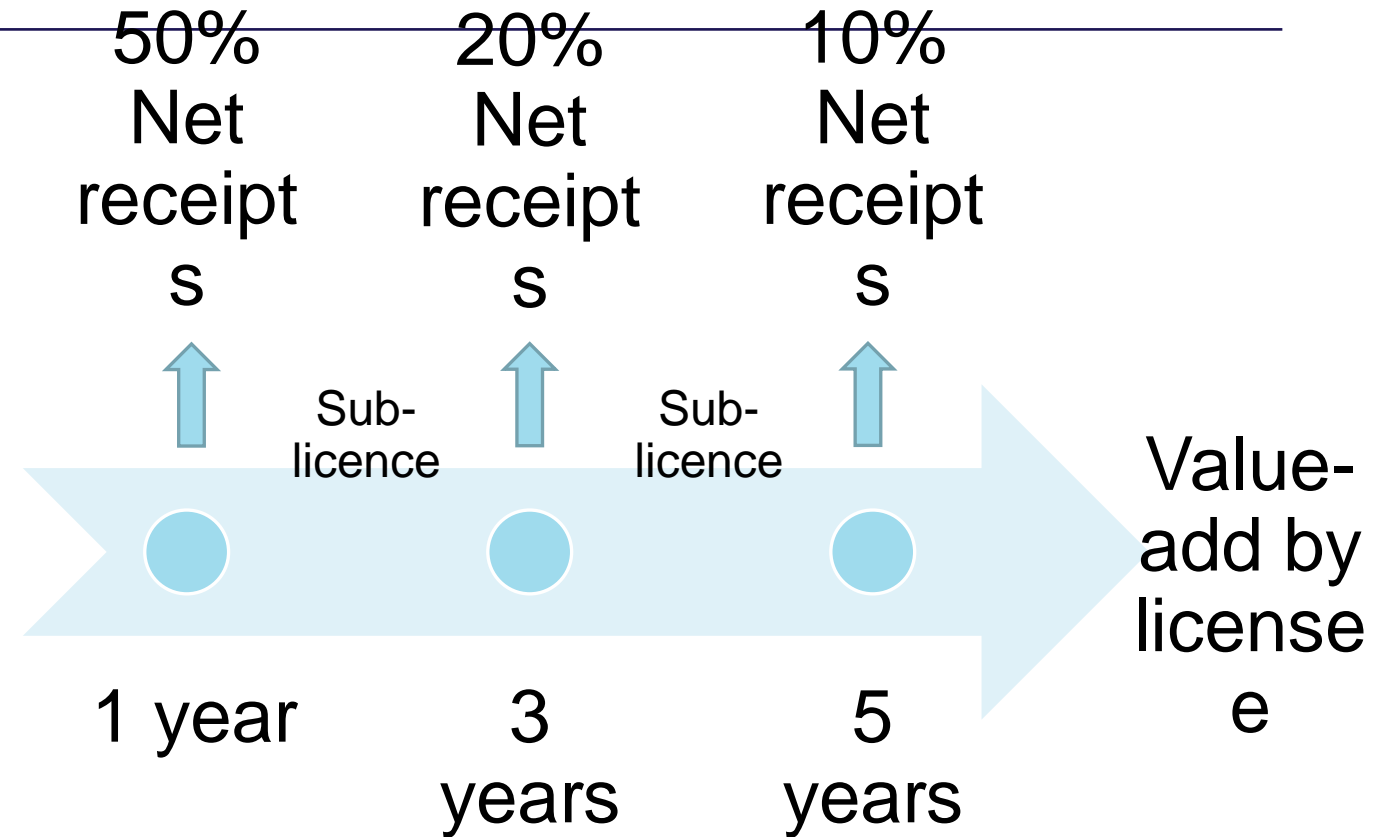
- Tiers of sub-licensing

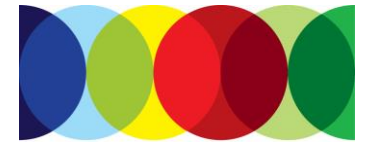




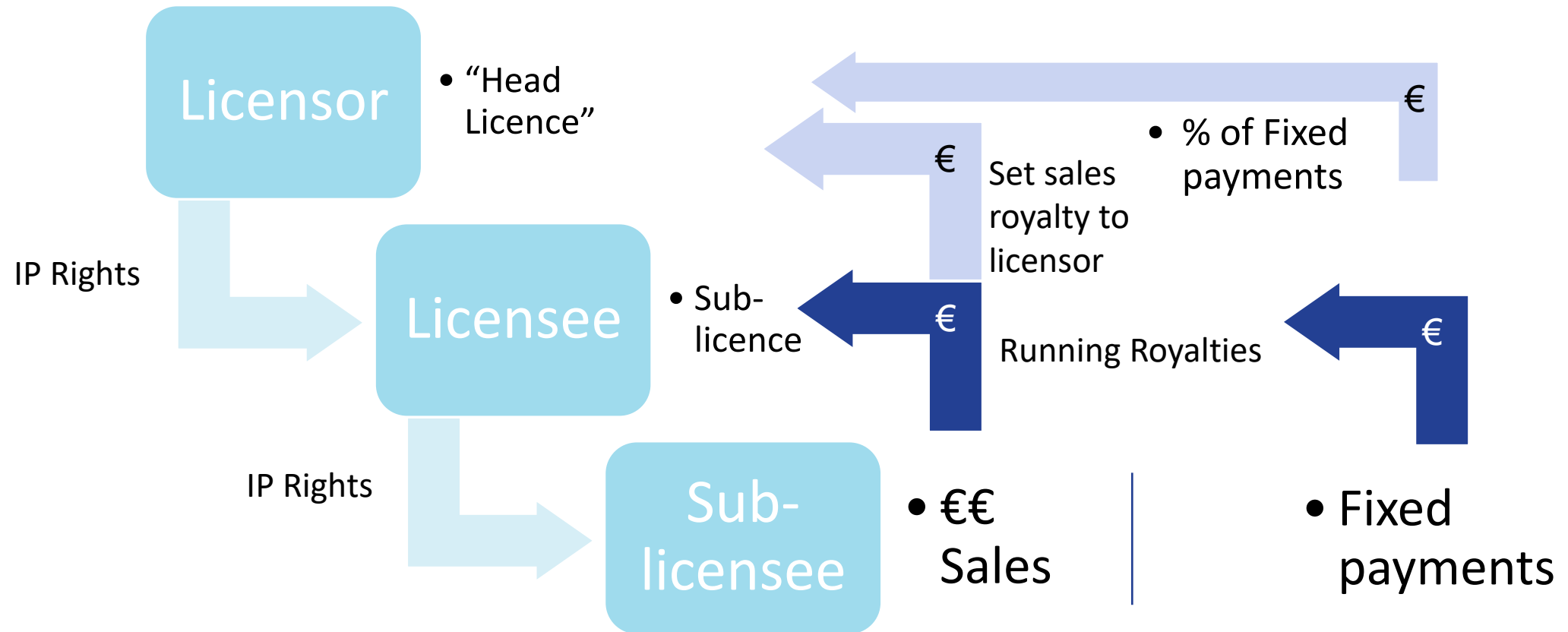
Net receipts further considerations (2)

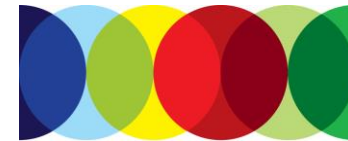
- Timing of the sub-licence
 - Net receipts % assumes significant value-add by licensee
 - Consider tier-down to prevent technology “flipping”
 - E.g. 50% if sub-licensed within 12 months, 20% if sub-licensed between 1-2 years, 10% thereafter





Sub-licensee royalty approach





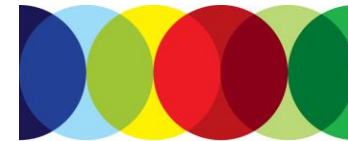
Sub-licensee royalty approach

- Royalties on sales and fixed payments handled differently:
 - E.g. fixed payments royalty = **10%**, sub-licensee royalty is **4%**; licensee negotiates sub-licence with **€1m** milestone and **7%** royalties. Sub-licensee hits milestone and makes sales of **€40m**. Income to licensee is **€1m + €2.8M**; return to licensor is **€100,000 + £1.6M**
 - Key question – can the licensee obtain a high enough net sales royalty in its sub-licence? E.g. in this example, more than half of net sales royalties received by licensee go back to licensor!

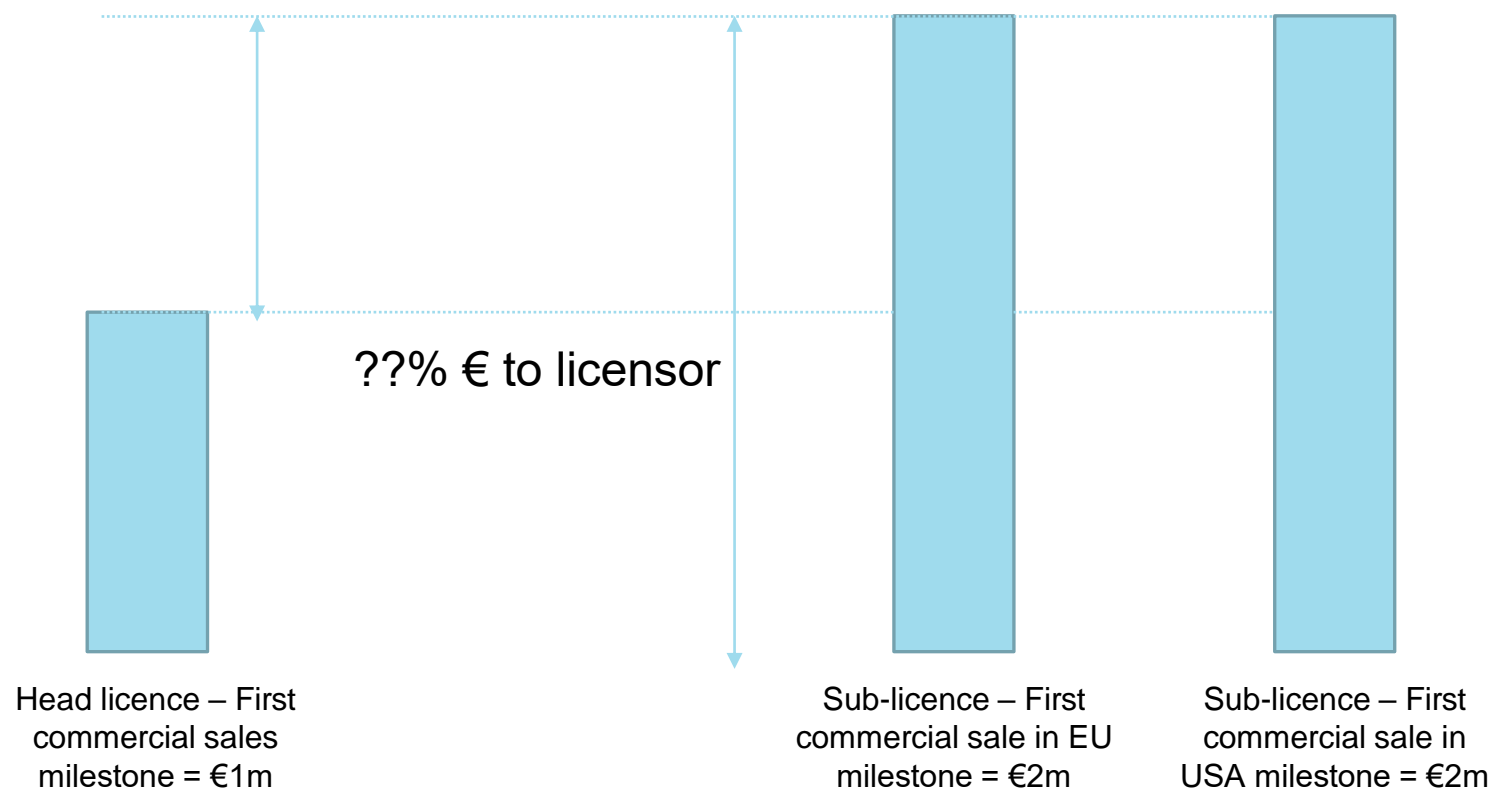


Sub licensee royalty

- A Net Sales royalty applies to whoever makes the sales
- Setting this royalty
 - The same as the licensee net sales royalty?
- Also set percentage of fixed payments
 - How to match against milestones in head licence?



Sub-licensee royalty fixed payments



Sub-licensee royalty and net receipts comparison



Net receipts	Sub-licensee royalty
Simple to calculate	Involves separate calculations for different sub-licence income streams
Gives licensee flexibility on sub-licence deal terms	Can make sub-licence uneconomic
Vulnerable to certain deal types	Surety on royalties from sales
Vulnerable to multiple sub-licence tiers	Unaffected by sub-licence tiers

Levels of control – not just financial

01

Restrict who
can be a sub-
licensee

02

Control the
number of
tiers of sub-
licensing

03

Flow T&C
through

04

Require that
licensee shows
copies of sub-
licence



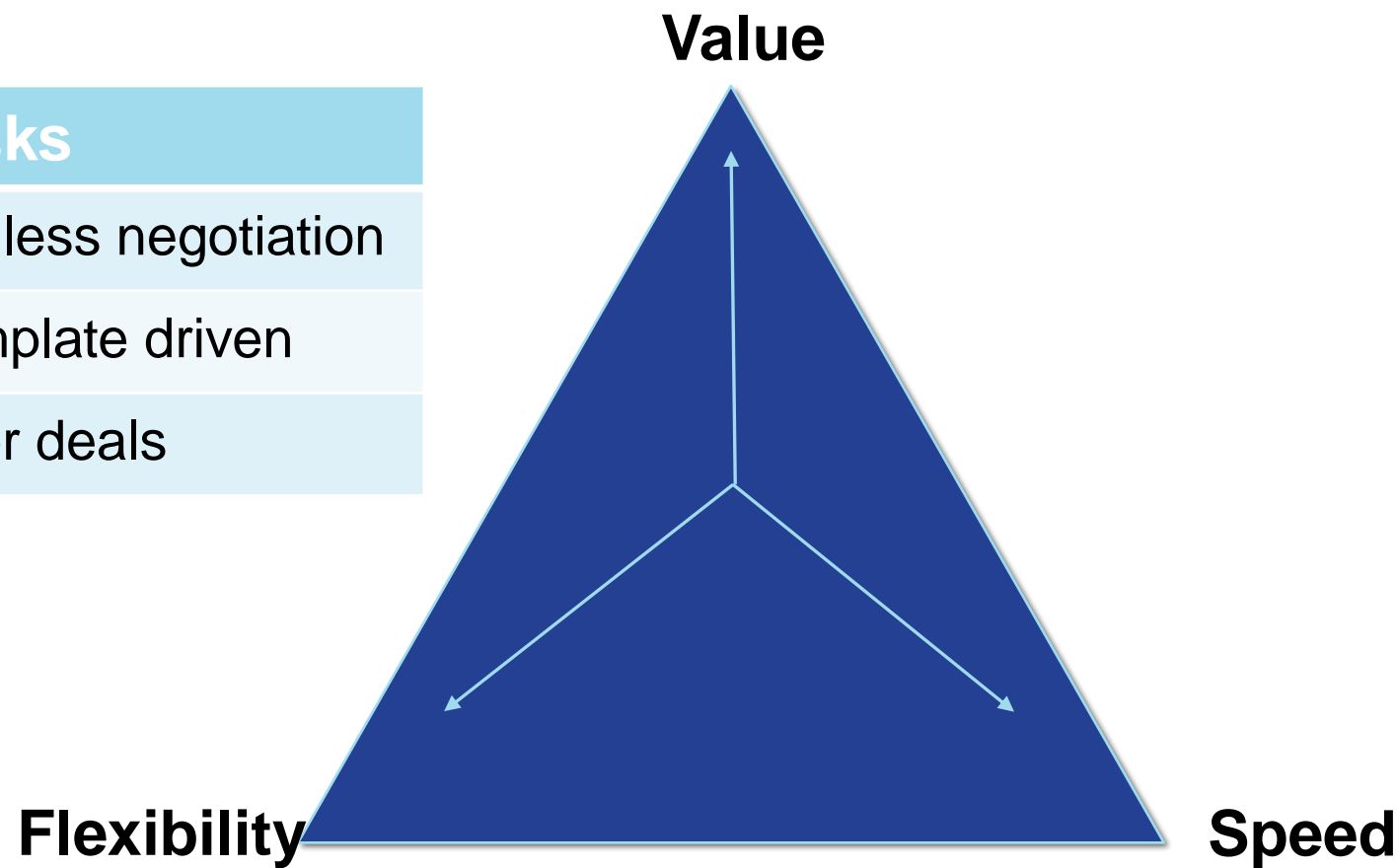
Termination

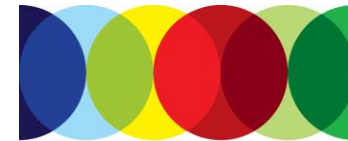
- What happens if a sub-licensee breaches the agreement?
- If the head licence is terminated – what happens to the sub-licences?
- Opt-in/opt-out/tail out – particular consideration for software/EULA



Sub-licensing Strategy?

Value	Flexibility	Speed	Risks
✓	✓	✗	Endless negotiation
✓	✗	✓	Template driven
✗	✓	✓	Poor deals





Key points on sub-licensing



LICENCE INCOME CAN BE
SIGNIFICANTLY AFFECTED BY SUB-
LICENCE TERMS



CAN BE COMPLEX TO WORK OUT
HOW TO COLLECT INCOME FROM
SUB-LICENSEES



CONSIDER AN APPROPRIATE LEVEL OF
CONTROL

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