INTELLECTUAL PROPERTY & VALUATION

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An Overview of the Economic Valuation of Intellectual Property Assets

1. Introduction

We currently live in an era where the most valuable assets of a corporation may never be seen, touched, or physically inspected. Patents governing life-saving pharmaceutical compounds, trademarks representing decades of consumer trust, software architectures powering digital economies, and trade secrets encoding proprietary processes have displaced machinery, land, and buildings as the primary reservoirs of corporate wealth. This paradigm shift from a tangible to an intangible dominated economic order has created one of the most consequential yet least understood challenges in modern finance and law: how to reliably determine the monetary value of intellectual property?

The question is not merely academic as Intellectual property (IP) valuation now lies at the heart of mergers and acquisitions, tax planning and transfer pricing disputes, licensing negotiations, debt and equity financing, litigation damages determination, and the strategic management of corporate innovation portfolios. Getting it right carries enormous consequences while getting it wrong can distort financial statements, mislead investors, trigger regulatory scrutiny, and misallocate resources in ways that undermine innovation itself.

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According to the World Intellectual Property Organization (WIPO) and its partnership with Luiss Business School, global intangible investment reached USD 7.6 trillion in 2024, growing at a compound annual rate of approximately 4.1 per cent since 2008, more than three times the growth rate of tangible investment over the same period.[2] Meanwhile, estimates from Brand Finance suggest that the total global value of intangible assets has surpassed USD 80 trillion as of 2024.[3] In the United States alone, intangible assets, including IP, now constitute approximately 90 per cent of the value of companies in the S&P 500, reflecting a structural and irreversible transformation of capitalism itself.[4]

This article provides a brief analysis of the economic valuation of IP assets. It examines the conceptual foundations that distinguish IP from other asset classes, surveys the principal methodologies through which IP is valued and identifies the unique challenges that make IP valuation technically demanding.

2. Defining Intellectual Property in Economic Terms

Intellectual property, in its broadest sense, denotes a category of legally enforceable rights granted over the products of human intellect and creativity. These rights include patents, trademarks, copyright, industrial designs, and trade secrets, each arising under distinct legal regimes but sharing a common economic characteristic of conferring upon rightsholders the exclusive authority to exploit a defined form of knowledge or creative expression within a specified territory and for a given duration.[5]

From an economic standpoint, IP assets possess several distinctive features that both define their value and complicate their measurement. First, IP is non-rivalrous in consumption, the use of a patented invention by one party does not diminish its availability for simultaneous use by the rights-holder or a licensee. Second, IP can be simultaneously deployed across multiple markets and geographies, enabling a degree of scalability that tangible assets cannot replicate. Third, the value of IP is fundamentally relational as it inheres not in the idea

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2 See, World Intellectual Property Organization (WIPO) and Luiss Business School, *World Intangible Investment Highlights 2025* (WIPO, Geneva 2025) available at <https://www.wipo.int/web-publications/world-intangible-investment-highlights-2025> accessed on 17 February 2026.

3 See, WIPO, 'Intangible Assets and IP' (WIPO, 2024) available at <https://www.wipo.int/en/web/intangible-assets> accessed 17 February 2026.

4 *Ibid.*

5 See, Franklin Okoro, 'Intellectual Property Commercialization in the Digital Age: Monetizing Intellectual Property Assets' available at<https://spaajibade.com/wp-content/uploads/2025/05/Intellectual-Property-Commercialization-in-the-Digital.pdf> accessed on 17th February 2026.

itself, but in the legal right to exclude others from exploiting it, and in the commercial applications that right enables.[6]

As Sharma and Kumar observe in the *Oxford Handbook of Intellectual Property Research*, IP assets have an "independent identity, economic life, and value" that distinguish them from broader categories of intangible assets such as goodwill or reputational capital.[7] Unlike goodwill, which typically cannot be recognised as a standalone asset on a balance sheet, IP is by definition legally separable from the entity that owns it, as it can be sold, licensed, pledged as collateral, or transferred independently. This separability is foundational to its economic valuation, since it implies that IP can in principle be transacted on the open market, providing (at least theoretically) a basis for market-referenced pricing.

2.1 The Dual Lifespan of IP Assets

A crucial distinction that runs through all IP valuation analysis is the difference between the legal life and the economic life of an asset. The legal life of a patent is fixed at twenty years from the filing date. A trademark, by contrast, can be renewed indefinitely so long as it remains in use and the registration fees are paid. Copyright subsists for the life of the author plus seventy years in most jurisdictions adhering to the Berne Convention.[8]

Economic life, however, can either operate for a shorter period, or in some cases, longer than the legal life of the asset. A pharmaceutical patent may generate significant revenues for the period of market exclusivity but face dramatic value erosion once competitors enter the market upon expiry of the underlying legal protection it enjoyed. In another case, a software patent may be rendered economically obsolete within a few years, by technological disruption, even while the legal right formally subsists. On the flipside, the economic life of the asset may last longer than the legal life, providing opportunities for monetization long after the legal protection of such asset has expired. The Royal Institution of Chartered Surveyors (RICS), in its professional standards on the valuation of intellectual property rights, explicitly recognises this divergence, noting that "the useful economic life of a brand can

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6 See, Wikipedia, 'Intellectual Property Valuation' (Wikipedia, November 2025) available at <https://en.wikipedia.org/wiki/Intellectual_property_valuation> accessed 17 February 2026.

7 See, Dilip Sharma and Abhijeet Kumar, 'Methods for Intellectual Property Valuation' available at <https://doi.org/10.1093/oso/9780198826743.003.0039> accessed on 17 February 2026.

8 Berne Convention for the Protection of Literary and Artistic Works (adopted 9 September 1886, revised at Paris 24 July 1971) 828 UNTS 221.

exceed the life cycle of branded products" while other forms of tech-IP may experience rapid obsolescence.[9]

This tension between legal duration and economic relevance is one reason why IP valuation cannot be reduced to a mechanical formulae. A rigorous valuation must assess the likely period over which an asset will generate economically meaningful returns, taking into account technological evolution, competitive dynamics, regulatory risk, and the strategic behaviour of market participants.

2.2 IP in the Knowledge Economy: Macroeconomic Significance

The macroeconomic significance of IP assets has grown dramatically since the late twentieth century, driven by the shift from industrial production to innovation-intensive, knowledge-based economic activity. The United States Department of Commerce reported that IP-intensive industries accounted for 38.2 per cent of US GDP in 2014, an increase from 34.8 per cent in 2010.[10] A 2019 European Union report similarly estimated that IP-rights-intensive industries contributed 45 per cent of EU GDP and supported 38.9 per cent of employment, directly or indirectly.[11]

Cross-border payments for the use of IP exceeded USD 1 trillion in 2023, more than doubling since 2010 and growing at an average compound annual rate of approximately 5.5 per cent between 2010 and 2022.[12] These figures reflect not only the commercial value of IP in global trade but also the growing complexity of IP ownership structures, with multinational corporations increasingly holding, licensing, and monetising IP through intragroup arrangements that span multiple jurisdictions. WIPO has emphasised that intangible assets now represent a substantial share of enterprise value in a knowledge-driven economy, and that unlocking their financial potential is critical to fostering innovation and economic growth,

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9 See, Royal Institution of Chartered Surveyors (RICS), *Valuation of Intellectual Property Rights* (RICS Professional Standard, IP19, Global) available at <https://www.rics.org/content/dam/ricsglobal/documents/standards/Valuation%20of%20intellectual%20property%20rights_rebrand_approved.pdf> accessed on 17 February 2026.

10 See, Dilip Sharma and Abhijeet Kumar, 'Methods for Intellectual Property Valuation' available at <https://doi.org/10.1093/oso/9780198826743.003.0039> accessed on 17 February 2026.

11 *Ibid.*

12 See, Claire Rousseau, Davide Bonaglia and Sacha Wunsch-Vincent (WIPO), 'International Trade in Ideas, Know-How and Intellectual Property Surpasses 1 Trillion in 2023' (WIPO, 2025) available at <https://www.wipo.int/en/web/global-innovation-index/w/blogs/2025/international-trade> accessed 17 February 2026.

particularly in small and medium enterprises that may otherwise be capital-constrained despite holding valuable IP.[13]

3. The Three Principal Approaches to IP Valuation

Valuation theory identifies three foundational approaches applicable across asset classes: the *cost approach*, the market (or comparative) *approach*, and the *income approach*. Each rests on a distinct economic premise, and each has particular strengths and limitations when applied to the unique characteristics of intellectual property. In practice, experienced valuers often deploy multiple approaches and triangulate across their results in order to arrive at a defensible estimate of value.[14]

3.1 The Cost Approach

The cost approach estimates the value of an IP asset by reference to the cost of creating or replicating it. In its simplest formulation, this involves aggregating all expenditures, including research and development costs, legal fees, registration costs, labour costs, and any allocable overheads incurred in bringing the IP into existence. A distinction is conventionally drawn between the historical cost (what was actually spent) and the replacement cost (what it would cost today to create an equivalent asset), with the latter generally preferred as a basis for valuation since it reflects current market conditions.

Once the gross cost is established, adjustments are made to account for technical obsolescence, functional obsolescence, and economic obsolescence, factors that may have eroded the utility or commercial relevance of the asset since its creation. For example, a software system developed at significant cost five years ago may have depreciated substantially in economic value if newer technologies have rendered it partially redundant, even if it continues to function as designed.[15]

The cost approach has the advantage of relative transparency and computational tractability and is particularly suited to early-stage or pre-revenue IP where there is no income stream

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13 See, WIPO, 'Intellectual Property Finance' (WIPO) available at <https://www.wipo.int/en/web/ip-financing> accessed 17 February 2026.

14 See, Redwood Valuation, 'Intellectual Property Valuation: Methods and Approaches for Strategic Decision-Making' (July 2025) available at <https://www.redwoodvaluation.com/blog/intellectual-property-valuation-methods-and-approaches-for-strategic-decision-making> accessed 17 February 2026.

15 See, Harald Wirtlz, 'Valuation of Intellectual Property: A Review of Approaches and Methods' available at <https://www.researchgate.net/publication/266482751_Valuation_of_Intellectual_Property_A_Review_of_Approaches_and_Methods> accessed 17 February 2026.

to capitalise and no comparable market transactions to reference. However, its fundamental limitation is theoretical, i.e., cost is not value. The expenditure required to develop an IP asset may bear no rational relationship to the economic benefit it will generate.

3.2 The Market Approach

The market approach, grounded in the economic principle of competition and equilibrium, this valuation methodology estimates the value of IP by reference to the prices at which comparable assets have exchanged hands between willing buyers and willing sellers in arm's-length transactions. In an efficient market, the price of a comparable asset provides the most direct evidence of value because it reflects the collective judgment of informed market participants.[16]

In practice, the market approach as applied to IP takes two primary forms. The first involves analysis of comparable licensing transactions: if a similar patent in the same technology field has been licensed at a royalty rate of 3 per cent of net sales for instance, this may serve as a benchmark for valuing the subject patent's income stream. The second involves analysis of comparable asset sales: if similar trademarks or brand portfolios have changed hands at multiples of two- or three-times annual revenue, this may provide a market-derived valuation anchor.

The principal limitation of the market approach is the relative scarcity and opacity of IP transactions. Unlike real property, where extensive market data is publicly available, IP transactions are frequently confidential. Licensing terms are typically subject to non-disclosure agreements, and the terms of IP sales in the context of mergers or acquisitions are often reported only in aggregate rather than on an asset-by-asset basis. Furthermore, IP assets are unique as a given patent covers a particular invention, and no two patents are precisely comparable which makes the identification of truly comparable transactions methodologically challenging.[17]

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[16] See, Wikipedia, 'Intellectual Property Valuation' (Wikipedia, November 2025) available at <https://en.wikipedia.org/wiki/Intellectual_property_valuation> accessed 17 February 2026.

[17] See, Harald Wirltz, 'Valuation of Intellectual Property: A Review of Approaches and Methods' available at <https://www.researchgate.net/publication/266482751_Valuation_of_Intellectual_Property_A_Review_of_Approaches_and_Methods> accessed 17 February 2026.

3.3 **The Income Approach**

The income approach is widely regarded as the most theoretically rigorous and practically prevalent method of IP valuation, particularly for commercialised assets with an established or projectable revenue history. Its underlying premise is that the value of an IP asset is equal to the present value of the future economic benefits it is expected to generate over its useful economic life.[18]

The dominant technique within the income approach is the Discounted Cash Flow (DCF) method. The valuer forecasts the cash flows attributable to the IP asset over its economic life, whether these take the form of incremental revenues, cost savings, or royalty income, and discounts them back to a present value using a risk-adjusted discount rate that reflects the time value of money and the specific risks associated with the asset.[19] The resulting figure represents the economic value of the IP as of the valuation date.

A particularly influential sub-method is the Relief from Royalty (RfR) method, which estimates the value of an IP asset by determining the notional royalty that the owner avoids paying because it owns, rather than licences, the asset. This notional royalty stream is then capitalised using appropriate discount rates to arrive at a present value. The RfR method has significant advantages: it is relatively transparent, ties the valuation to observable market data on royalty rates, and is widely accepted by tax authorities and courts.[20] The RICS professional standard endorses the use of multiple income-based methods as cross-checks where appropriate.[21]

A more sophisticated variant draws on real options theory. Rather than treating IP development as a single deterministic investment, real options analysis models the decision tree of choices available to the IP owner, whether to license, develop, enforce, or abandon the asset at various future points and assigns probabilistic values to each outcome. This approach is particularly suited to early-stage patents and R&D pipelines where the future

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18 See, Chris Walton, 'IP Valuation: How to Value Intellectual Property' (15 October 2025) available at <https://etonvs.com/valuation/intellectual-property-valuation/>accessed 17 February 2026.

19 *Ibid*.

20 See, Redwood Valuation, 'Intellectual Property Valuation: Methods and Approaches for Strategic Decision-Making' (July 2025) available at <https://www.redwoodvaluation.com/blog/intellectual-property-valuation-methods-and-approaches-for-strategic-decision-making> accessed 17 February 2026.

21 See, Royal Institution of Chartered Surveyors (RICS), Valuation of Intellectual Property Rights (RICS Professional Standard, IP19, Global) available at <https://www.rics.org/content/dam/ricsglobal/documents/standards/Valuation%20of%20intellectual%20property%20rights_rebrand_approved.pdf> accessed on 17 February 2026.

commercial pathway is highly uncertain, and where the optionality of IP ownership is itself a source of value.[22]

4. Challenges and Complexities in IP Valuation

4.1 Subjectivity and the Limits of Comparability

Perhaps the most fundamental challenge in IP valuation is the subjectivity inherent in almost every aspect of the exercise. Unlike real property, where comparable sales data may be publicly accessible and properties share broadly similar physical characteristics, IP assets are unique. No two patents cover the same invention; no two trademarks represent the same brand equity built over the same history in the same markets. The identification of "comparables", a process central to both the market approach and to the derivation of royalty rates under the RfR method, therefore, involves substantial professional judgment and can produce wide variations in value conclusions among different valuers examining the same asset.[23]

This subjectivity is compounded by the confidentiality of most IP transactions. Licensing agreements are almost invariably subject to non-disclosure obligations, meaning that the royalty rate databases that underpin market-referenced valuations are necessarily incomplete. Where data is available, for example, from court proceedings in patent infringement disputes, or from regulatory disclosures associated with mergers, the circumstances of the reported transaction may be sufficiently unusual as to render straightforward comparisons methodologically questionable.[24]

4.2 Technological Obsolescence and Market Uncertainty

The pace of technological change poses major challenges for IP valuers, particularly in high-technology sectors such as artificial intelligence, biotechnology, and digital platforms. A patent granted today may protect an invention that is rendered economically redundant within a few years by a superior technology, even while the legal right formally subsists for the full

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22 See, Jefferey Matsuura, 'An Overview of Intellectual Property and Intangible Asset Valuation Models' in available at <https://files.eric.ed.gov/fulltext/EJ1070348.pdf> accessed 17 February 2026.

23 See, Harald Wirtlz, 'Valuation of Intellectual Property: A Review of Approaches and Methods' available at <https://www.researchgate.net/publication/266482751_Valuation_of_Intellectual_Property_A_Review_of_Approaches_and_Methods> accessed 17 February 2026.

24 See, Dilip Sharma and Abhijeet Kumar, 'Methods for Intellectual Property Valuation', *Handbook of Intellectual Property Research: Lenses, Methods, and Perspectives* (OUP 2021) available at <https://doi.org/10.1093/oso/9780198826743.003.0039> accessed on 17 February 2026.

twenty-year term. Conversely, an IP asset that appears peripheral today may prove strategically pivotal tomorrow if market conditions shift, as has occurred, for example, with standard-essential patents (SEPs) in the mobile communications industry.[25]

The WIPO Finance Dialogue of 2025 highlighted the difficulty that financial institutions continue to experience in assessing IP-backed financing arrangements, precisely because of the uncertainty surrounding IP value trajectories. As Nicolas Konialidis of the IVSC emphasised at that forum, "valuation is not a checklist, it is the application of sound professional judgment."[26]

4.3 **The Accounting Blind Spot**

A structural challenge identified by accounting scholars and market practitioners alike is what might be described as the "accounting blind spot" in IP reporting. Due to the fact that IAS 38 restricts the recognition of most internally generated IP, financial statements routinely fail to reflect the true economic value of a company's IP portfolio. This gap between book value and market value has widened significantly as the economy has shifted toward intangibles.[27]

Ian Bishop, Head of Accounting at Roche, has publicly described how equity analysts simply "disregard reported intangible figures and insert their own valuations", an acknowledgment that the formal accounting framework has lost much of its utility as a guide to IP value. Sandra Peters of the CFA Institute has observed that addressing this problem requires better and more granular disclosures, noting that, "the challenge is that we can't break through this communication problem until we have better disclosures."[28] China has moved to partially address this gap by requiring IPO candidates to disclose detailed IP-related information in their prospectuses, a practice that facilitates more informed assessments by market participants and lenders.[29]

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25 See, Harald Wirltz, 'Valuation of Intellectual Property: A Review of Approaches and Methods' available at <https://www.researchgate.net/publication/266482751_Valuation_of_Intellectual_Property_A_Review_of_Approaches_and_Methods> accessed 17 February 2026.

26 See, WIPO, 'Recap of WIPO's IP Finance Dialogue 2025: The Value of Intangible Assets' (WIPO, 2025) available at <https://www.wipo.int/en/web/ip-financing/w/news/2025/recap-value-of-intangible-assets> accessed 17 February 2026.

27 See, PKF International, 'An In-Depth Guide to IAS 38: How to Account for Intangible Assets Under IFRS for Listed Businesses' (25 February 2025) available at <https://www.pkf-l.com/insights/depth-guide-to-ias-38-intangible-assets-under-ifrs-listed-businesses/> accessed 17 February 2026.

28 *Ibid*, (n25).

29 See, WIPO, 'Recap of WIPO's IP Finance Dialogue 2025: The Value of Intangible Assets' (WIPO, 2025) available at <https://www.wipo.int/en/web/ip-financing/w/news/2025/recap-value-of-intangible-assets> accessed 17 February 2026.

4.4 Transfer Pricing and Jurisdictional Complexity

The valuation of IP in the context of international corporate group structures raises additional complexities, particularly in the field of transfer pricing. Where a multinational enterprise transfers IP or the rights to use IP, between related entities in different jurisdictions, the price at which that transfer is recorded for tax purposes must reflect what unrelated parties would have agreed in arm's-length conditions. Tax authorities in different jurisdictions may dispute the valuation adopted by the corporate group, leading to costly litigation and the risk of double taxation.[30] WIPO has identified transfer pricing as one of several reliability challenges affecting balance-of-payments data on IP charges, noting that firms frequently transfer IP between subsidiaries in ways that reflect tax optimisation rather than genuine commercial valuations.[31]

5. Conclusion

The valuation of intellectual property assets has evolved from a niche technical exercise into a central pillar of modern economic and legal analysis, reflecting the transformation of the global economy toward intangible asset dominance. As this article has demonstrated, while the cost, market, and income approaches provide structured frameworks for estimating value, none offers a complete or universally reliable solution when applied to assets whose worth is inherently contingent and context-specific.

The unique characteristics of IP, including its non-rivalrous nature, legal exclusivity, scalability, and susceptibility to rapid technological change, render its valuation an exercise in informed judgment rather than mechanical calculation. This is further complicated by persistent structural limitations, including the scarcity of comparable market data, the uncertainty surrounding economic life, and the inadequacies of financial reporting frameworks that fail to capture internally generated value.

In practical terms, this means IP valuation must be approached as an interdisciplinary function, situated at the intersection of law, finance, economics, and business strategy. For corporate actors, this necessitates the development of internal valuation capabilities and more transparent disclosure practices. For regulators and standard setters, it reinforces the

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30 See, APEC, Intellectual Property (IP) Valuation Manual: A Preliminary Guide (Asia-Pacific Economic Cooperation, 2018) available at <https://www.apec.org/docs/default-source/Publications/2018/4/IP-Valuation-Manual/218_CTI_IP-Valuation-Manual.pdf> accessed 17 February 2026.

31 *Ibid*, (n11).

need to examine existing frameworks in order to better align accounting recognition with economic reality. For legal practitioners, it reinforces the importance of a nuanced understanding of valuation methodologies in advising on transactions, disputes, and compliance obligations.

Ultimately, as intangible assets continue to define competition and enterprise value, the ability to accurately identify, measure, and communicate the worth of intellectual property assets will remain not only a technical necessity but a strategic imperative in the architecture of contemporary commerce.

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