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Intellectual Property and Intangible Asset Valuation Models: Concepts and Applications

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Abstract

In the contemporary knowledge-driven economy, intellectual property (IP) constitutes a critical component of enterprise value, shifting emphasis from tangible assets to intangible capital such as patents, trademarks, copyrights, trade secrets, and goodwill. The valuation of IP has therefore become a strategic and financial necessity in licensing, mergers and acquisitions, litigation, investment decisions, and financial reporting. This paper examines the principal valuation models applied to intellectual property, including the cost-based, market-based, income-based, relief-from-royalty, and option pricing approaches. It analyses their conceptual foundations, practical applications, and inherent limitations. While cost-based methods focus on historical expenditure, market-based approaches rely on comparable transactions, and income-based techniques estimate the present value of future cash flows. The relief-from-royalty method assesses avoided royalty payments, whereas option models incorporate strategic flexibility under uncertainty. The study concludes that an integrated approach combining legal enforceability, market conditions, and economic forecasting provides the most reliable and commercially defensible valuation outcome.

Keywords - Intellectual Property Valuation; Intangible Assets; Discounted Cash Flow; Relief-from-Royalty; Commercialisation.

I. INTRODUCTION

Intellectual Property rights have become a significant asset in the new economic order. The assets in the 1600s were considered more of a physical inventory asset. Bucking this trend, businesses now value intellectual property assets and goodwill. This shift from industrial to information economies has shifted the economic value to rely on trademarks, patents, trade secrets, and other forms of intellectual property to strengthen market position.

Intellectual Property valuation refers to the systematic process of estimating the monetary value of intellectual properties, such as patents, trademarks, copyrights, trade secrets, and other forms. This process may be conducted in isolation or as part of a broader company valuation process.¹⁶⁵ In commercialization, understanding the value of intellectual property is essential for licensing, assignment, and mergers & acquisitions. It matters in assistance: in funding and investment, startups and innovators may use intellectual property as collateral to secure loans or attract venture. In litigation, it helps in calculating damages or royalties owed. Moreover, in financial

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¹⁶⁵Chris Walton, JD; IP Valuation: IP Valuation Starter Guide; (last visited on Nov 11,2025, 2:12PM);<https://etonvs.com/valuation/intellectual-property-valuation/>.

reporting, Intellectual Property valuations help in compliance with accounting standards and to present financial statements to stakeholders.¹⁶⁶

There are different economic models used to estimate the value of intellectual property assets. The valuation model is based on the goals, concerns, and other variables of the party developing the valuation. The most common methods are cost-based, income-based, market-based, the relief from royalty method, and option models.

In the case of *Polaroid Corp. v Eastman Kodak Co. (1985)*¹⁶⁷ Kodak was found to be infringing Polaroid's instant camera patents and was ordered to pay over USD 900 million in damages. This case remains one of the largest patent infringement awards and demonstrates how the market value of a patent influences the judicial remedies.

II. COST-BASED METHOD:

A cost-based method is based on the value of an intellectual property asset by estimating the cost of the Intellectual Property asset. It determines the value of an intellectual property asset by aggregating the direct expenditure and opportunity cost involved. This method does not incorporate future revenue potentials or evolving market demand. A cost-based method differs from company to company, as different companies incorporate different costs into their model. These valuation models do not provide a true estimate of the asset but are applied in response to specific regulatory requirements. In simple terms, often used for tax and accounting purposes. The model fails to capture the overall impact of legal factors in intangible asset management. Albeit the costs of IP registration and maintenance are included, but ignore issues such as future enforceability, potential disputes, and legal risks. Consequently, provides only a partial view of an asset's true value.¹⁶⁸

III. MARKET-BASED METHOD:

This model estimates value by assessing the market, also known as the transactional method. Through a market-based approach, the intellectual property is compared to similar assets licensed or sold in the market. This method is specifically based on access to reliable market data. Different companies follow different markets as the basis of their valuation. So, valuations differ from company to company. In these markets, it is difficult to identify an appropriate and truly comparable asset. Therefore, they are effective when there is an established marketplace for the asset in question, and are ineffective when there is no clearly defined marketplace relevant to the asset. In essence, an intellectual property asset's value depends not just on the intellectual property itself. But also, on the company's ability to use and protect it. In this method, various factors are considered, such as profitability, exclusivity, geographical location, remaining tenure of protection, purpose, product market fit, and other variables.¹⁶⁹

¹⁶⁶ Oladimeji, Peter, A Primer on IP Valuation (last visited on November 12, 2025, at 5:23PM). Available at SSRN: <https://ssrn.com/abstract=5112001> or <http://dx.doi.org/10.2139/ssrn.5112001>.

¹⁶⁷ *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556 (Fed. Cir. 1986).

¹⁶⁸ IP Valuation ;(last visited on Nov 11,2025, 3:12PM)
; https://www.wipo.int/export/sites/www/sme/en/documents/pdf/IP_panorama_11_learning_points.pdf.

¹⁶⁹ Jeffrey H. Matsuura; An Overview of IP and Intangible Asset Valuation Models; (last visited on Nov 12,2025,8:12PM); <https://files.eric.ed.gov/fulltext/EJ1070348.pdf>.

For instance, brands like Nike and Adidas are two renowned companies with trademark brands related to athletic footwear. Their proprietary shoe designs and brand value can be valued using the market approach by comparing similar assets in the active market.¹⁷⁰

A major drawback in this method is that no two intellectual property assets are truly similar; it is a challenge to prove the compatibility of the intellectual property assets. Furthermore, in emerging industries, it's often hard to prove recent transactions that involve similar intellectual property assets: For instance, in cases of AI solutions, it is difficult to find similar datasets.¹⁷¹

IV. INCOME-BASED METHOD:

This method is considered a widely used method; it estimates the future income generated by the Intellectual Property asset and considers factors like royalty rates, economic lifespan, and expected cash flows. Techniques in this method include the Discounted Cash Flow (DCF) and the Relief-from-Royalty models, both of which are used to calculate the discounted value. In this method, the valuation is primarily based on the royalty revenues of the IP assets in a licensing structure. Basic models can be expanded into models that assess the value of an asset based on the cash flow. Using discounted cash flow, a company can determine the present value of these future cash flows, giving an accurate measure of the Intellectual Property's current worth.¹⁷²

The discounted Cash Flow (DCF) method is commonly used within the income-based approach to value Intellectual Property. So, through this method, it is computed how much income might be generated from the date of valuation to its expiry or exhaustion date. Its strength lies in its quantitative, arithmetic-based approach, which allows for a more objective valuation. For instance, in the case of the valuation of the IP assets of a pharmaceutical company, the potential future profits from a newly patented drug, by estimating the expected sales and associated cash flows. The projected cash flows are discounted using a relevant discount rate to determine the present market value.¹⁷³

However, there are limitations in this method. Different elements need to be taken into account at various stages, which makes applying the method more complex when trying to get accurate results. For instance, in the process of valuation, the tenure is calculated from the time the calculation is conducted, and the discounted rate is then adjusted with inflation, future risks, actual interest, and premiums for potential risks.¹⁷⁴

So, everything considered, it can be stated that the income-based valuation model is similar to the market-based model, and works better when there is reliable information in relation to future income and cash flow. They are more reliable if the asset is similar to existing market products or will enter a clear, established market. Such information is more likely to be available when the asset in question is very similar to one already. Though income-based models are less useful when market information is uncertain or speculative.

¹⁷⁰Oladimeji, Peter, A Primer on IP Valuation (last visited on November 12, 2025,7:45PM). Available at SSRN: <https://ssrn.com/abstract=5112001> or <http://dx.doi.org/10.2139/ssrn.5112001>.

¹⁷¹ Oladimeji, Peter, A Primer on IP Valuation (last visited on November 12, 2025,4:34PM). Available at SSRN: <https://ssrn.com/abstract=5112001> or <http://dx.doi.org/10.2139/ssrn.5112001>.

¹⁷² Ibid.

¹⁷³ IP Valuation ;(last visited on Nov 12,2025,9:00PM)

;https://www.wipo.int/export/sites/www/sme/en/documents/pdf/IP_panorama_11_learning_points.pdf.

¹⁷⁴ Ibid.

V. THE RELIEF FROM ROYALTY METHOD

This method is a refined form of the income-based method, which is widely applied in brand valuation. Mostly used in intellectual property, such as patents and technologies.

In the process of commercializing licensing, royalty rates are commonly agreed upon between a licensor and a licensee. These rates represent the payments made in exchange for the right to use the intellectual property. Under this method, the royalties that a company would have to pay if it did not own the intellectual property are determined. In essence, the ownership of the intellectual property “relieves” the company from paying such royalties.

Thus, the Intellectual Property value here is derived based on the amount of royalty it could generate: a higher potential royalty implies a more valuable asset. Factors that are included are the market size, profitability of the product, and the extent of market size provided by the Intellectual Property. The relief from royalty method is considered practical and realistic, as it directly links IP value to market performance and commercial conditions.

VI. OPTION MODELS:

The option model seeks to assess the economic values of various strategic choices, including the form of intellectual property rights to assert, whether to license the asset, the appropriate pricing of the asset, and the timing of enforcement of associated legal rights. Through the process of combining and comparing, an analytical framework for selecting a commercialization is established. This model is considered effective when the value for the options is stable and not subject to dramatic shifts in value. They are most reliable when the options have defined conditions and cannot be exercised before they mature. In the case of intangible assets, these factors are often hard to fulfil.

VII. CONCLUSION

Intellectual Property valuation has become a strategic deliberation and financial accounting. The measurable and enforceable nature of IP value is increasingly recognized by courts and regulatory bodies. Although the existing models provide relevant estimates, they often overlook the cost of developing, maintaining, and enforcing legal rights. The valuation requires consideration of market conditions, legal rights, and economic potential. An integrated approach that incorporates economic analysis and strategic evaluation yields the most precise and justifiable outcomes.