EverEdge
UNLOCK YOUR EDGE

Presentation to RIMS NZ and PI

Digital Asset Theft and Leakage

Australia / New Zealand / Singapore

Today.

1. What are intangible assets & why they are important
2. How Digital Assets Create Value
3. Digital Assets & Risk

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EverEdge is an **intangible asset specialist.**

Offices in Singapore, Sydney, Auckland.
12 years > 1000+ engagements.
Net Promoter Score: +63% > industry benchmark: -22%
Return on Client Fees: +10X
Ranked top IP strategist globally for last 8 years.
Clients: Fortune 100, major investors, SMEs, R&D institutes, governments.

EVEREDGE
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We help companies & capital providers to:

Identify Intangible Assets → Identify & Reduce Risk → Assess & Value → Unlock Value

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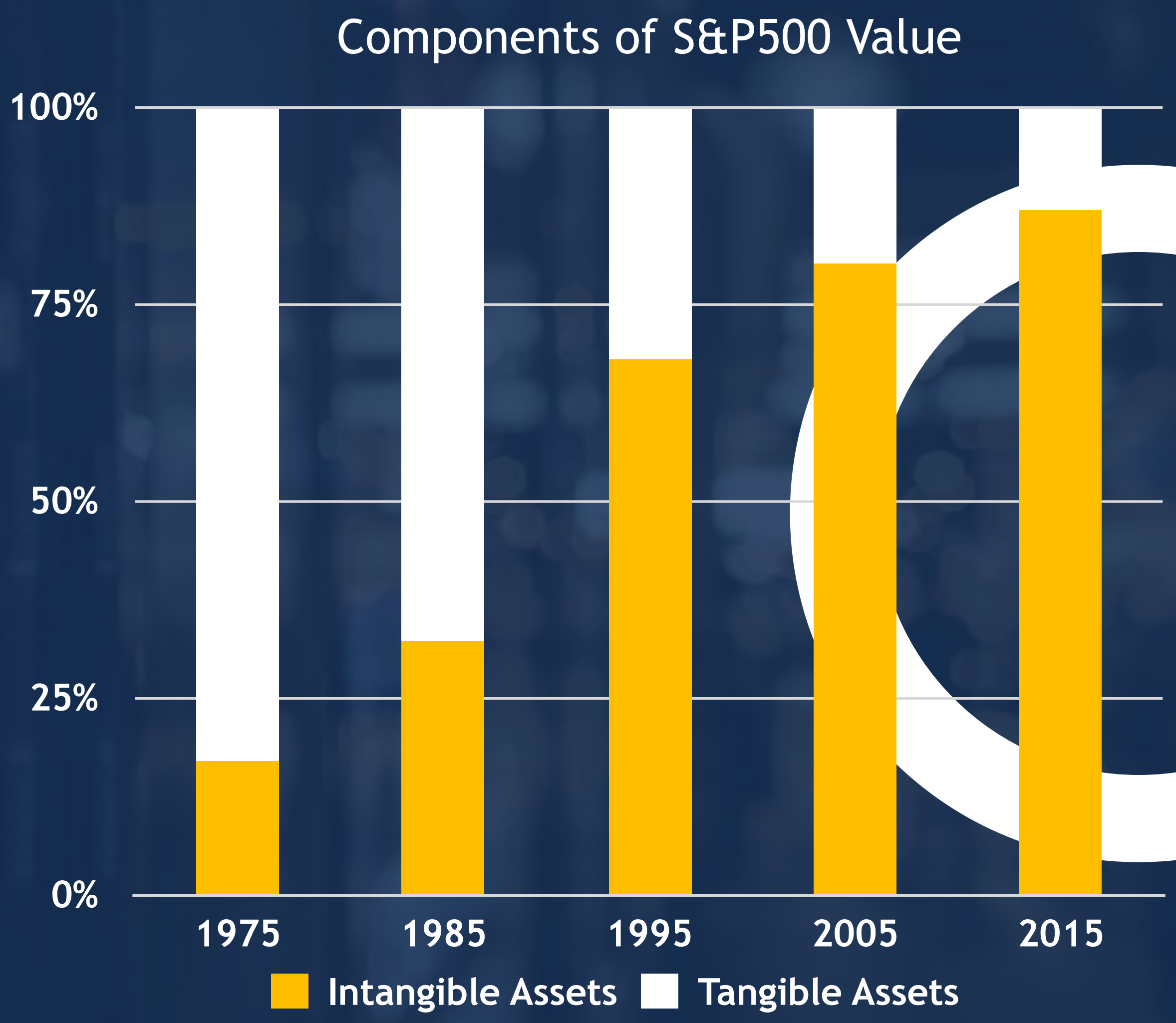
The Most Valuable Assets Aren't On the Balance Sheet

Australia / New Zealand / Singapore

In 1975 intangible assets accounted for 17% of corporate value.

Today it is 87%.



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Intangible assets are everywhere.

They are the primary drivers of company performance.

Confidential Information	Coca-Cola, WD-40	Brand	
Systems & Processes	SIEMENS	Regulatory Approvals	Roche, Pfizer
Data	Google, facebook	Content	THE BEATLES, MARVEL
Patents	intel, IBM	Design	PRADA
Software Code	SAP	Internet Assets	
Geographic Marks		Networks & Relationships	BOEING, Alibaba.com

Most businesses have valuable intangible assets.

Example: small manufacturers / tech companies

Confidential Info
- Trade Secrets
- Pricing Strategies

Brands
- Registered TMs
- Product Names

Data
- Customer Lists
- Bill of Materials

Designs & Inventions
- Patents
- Plans & Schematics

Know How
- Systems & Processes
- Industrial Know How

Content
- Advertisements
- Collateral

Internet Presence
- Domain Names
- Websites

Software Code
- Machine code
- Databases

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Canon
EOS DIGITAL
EOS DIGITAL

Irony: most companies, capital providers & advisors focus on **fixed assets.**

Track chairs, laptops, plant & equipment.

Gap between **company accounts** & **reality** of value, growth & risk.

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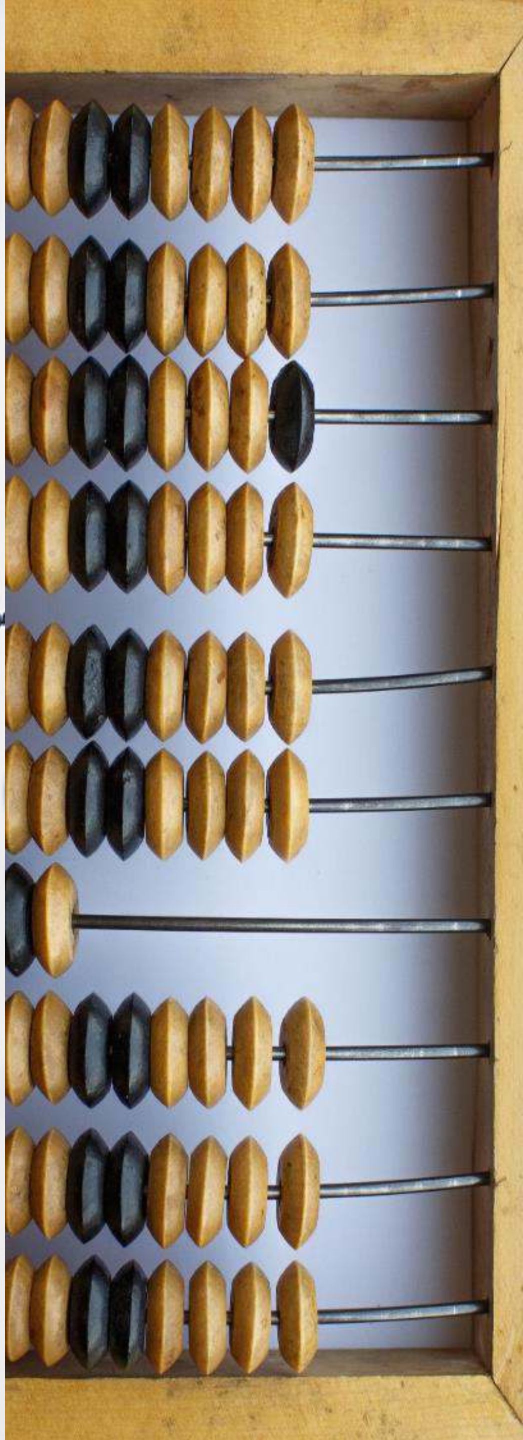
Accounting treatment of Intangible Assets:



“Accounting is the language of business”
- Warren Buffett

Capital Flows

Accounting Standards

Company Reporting

Regulatory Framework

Risk

Management Behaviour

The result - many c-suites and boards **do not understand:**

Intangible assets they **own**
Extent of **risks**
Impact on financial results
How to unlock **value**

Digital Assets:
How They Can Create Value

Australia / New Zealand / Singapore

If 87% of assets are now intangible…

When a CEO wants to improve performance which assets **really** move the needle?

When an investor invests in a company what are they **really** deploying capital into?

When a bank lends money what is it **really** secured against?

What are the **real** risks the company is exposed to?

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Software Code	Windows, SAP	Internet Assets	Instagram, Twitter
Geographic Marks		Networks & Relationships	BOEING, Alibaba.com

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Case Study. Financial Services Company

Intangible Assets: Exit Value Driver

Situation

- Company exit > i-bank adopts conventional “4x EBITDA style valuation”.

What we did…

- Identified valuable intangible asset not on Balance Sheet nor recognized in sale process
- Prepared Intangible Asset Story > highlighted value of data
- Targeted buyers who would pay for data not operating company
- Company purchased by strategic buyer for data

Outcome: Sold client company for 32x EBITDA

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Case Study. Travel Company

Intangible Assets: Strategic Lever

Situation

- Client entering 50:50 Joint Venture valued at $50M, both parties contributing $25M in cash.
- Client also contributing valuable intangible assets.
- Question: what was the value of the intangible assets?

What we did…

- Developed valuation model > led to counter-party agreeing that intangible assets were highly valuable.

Outcome: Saved client US$22M in cash

Case Study.

Hardware Infrastructure Co.

Intangible Assets: Capital Raise Driver

Situation

- Client developed disruptive data centre technology > needed $100M+ for initial build.
- Big 4 Accounting Firm valued at $40M pre-money > raise not viable.

What we did...

- EverEdge recognised critical importance of intangibles > completed comprehensive valuation at $200M.
- Valuation accepted by major i-bank > underpinning raise.

Outcome: Client raised $400M Equity & $750M Debt

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The Economist
Theresa May v Brussels
Ten years on: banking after the crisis
South Korea's unfinished revolution
Biology, but without the cells
The world's most valuable resource
Data and the new rules of competition
amazon
Google
f

The Balance Sheet is Meaningless for Data

Situation

- Caesar’s Entertainment > p/e & hedge fund backed
- Group failed to perform post GFC > bankruptcy
- Hedge fund took control of otherwise ignored asset: 30 years of gambling data
- Not recorded on the balance sheet
- Creditors sued. Question: how much was the data worth?

Data valued at $1b. Highest value asset in group.

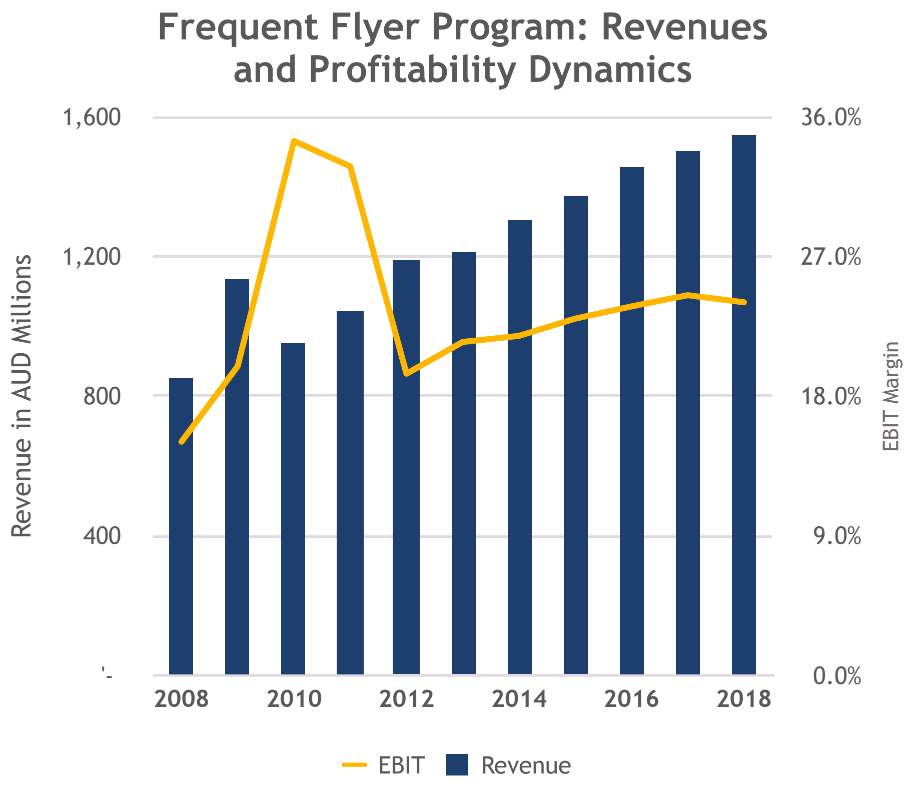

QANTAS
Spirit of Australia
VH-QAN
DREAMLINER

Qantas: average EBIT margin of ~24% cf. 4.5% for rest of Group

Qantas has been trying to grow its loyalty division into a unit that can generate stable earnings to counterweight its exposure to the notoriously volatile business of aviation. The strategy has resulted in a strong and stable cash flows and improved profit margins[3]

Financial benefits:

- Revenues generated from the loyalty program segment increased at a CAGR of ~7% during the period '09 - '18. cf. CAGR of ~1% for Qantas as a whole.
- As a % of total revenue, Frequent Flyer segment revenue increased from 5.4% in 2009 to 9.1% in 2018
- Qantas Frequent Flyer generates more revenue per passenger than any other airline loyalty program.
- Qantas' profitability has been driven by the Frequent Flyer Segment. Qantas Frequent Flyer recorded an average EBIT margin of ~24% during 2009 - 2018, compared to a 4.5% EBIT margin for the whole company.
- Qantas has >35% market share in Australia of credit card spend on a co-branded card[7]



Source: Based on company's Annual Reports

See Appendix for sources.

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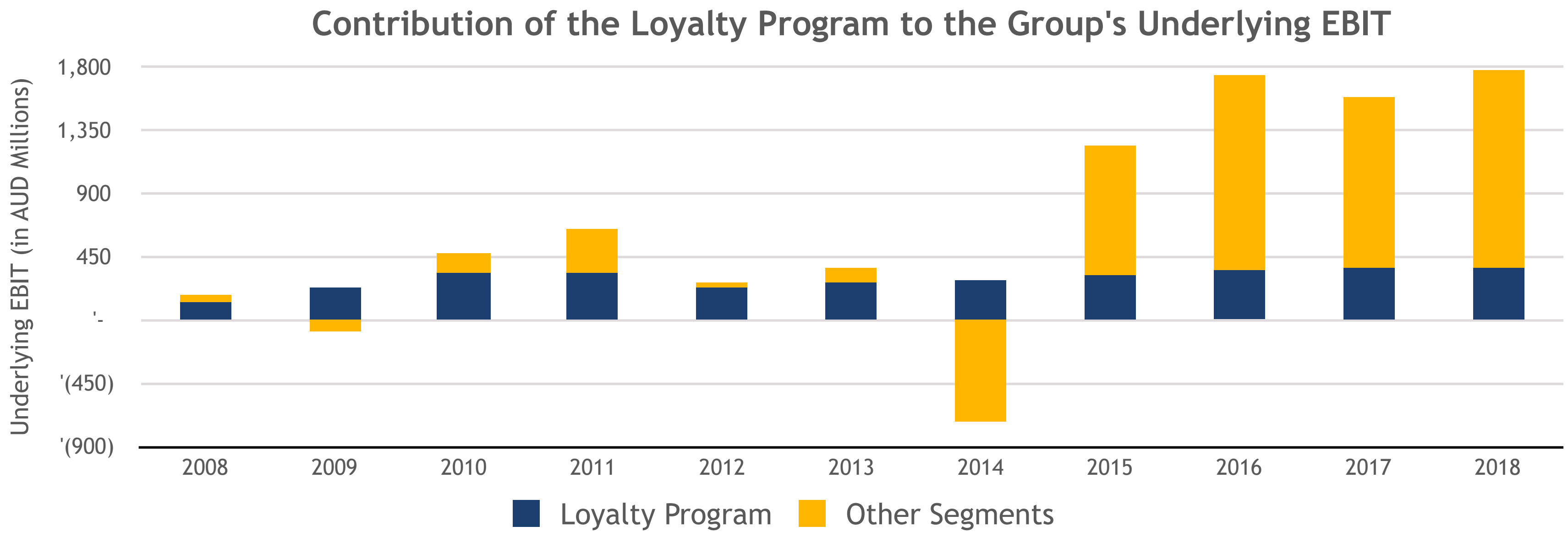
Qantas Loyalty: Major Driver of Underlying Group EBITDA

Qantas' loyalty business reported consistent earnings growth since 2012 and generates steady income that smooths out the cyclical nature of aviation.

- As illustrated below, over the past 11 years, the company's underlying EBIT has been supported by a stable base of revenue from its loyalty business.
- Qantas' Loyalty program recorded an average EBIT margin of ~24% 2008 - 2018, compared to a 4.5% EBIT margin for the whole Group
- Qantas expects the loyalty program's earnings to almost double by 2022 (AU$ 600M by 2022)[10]

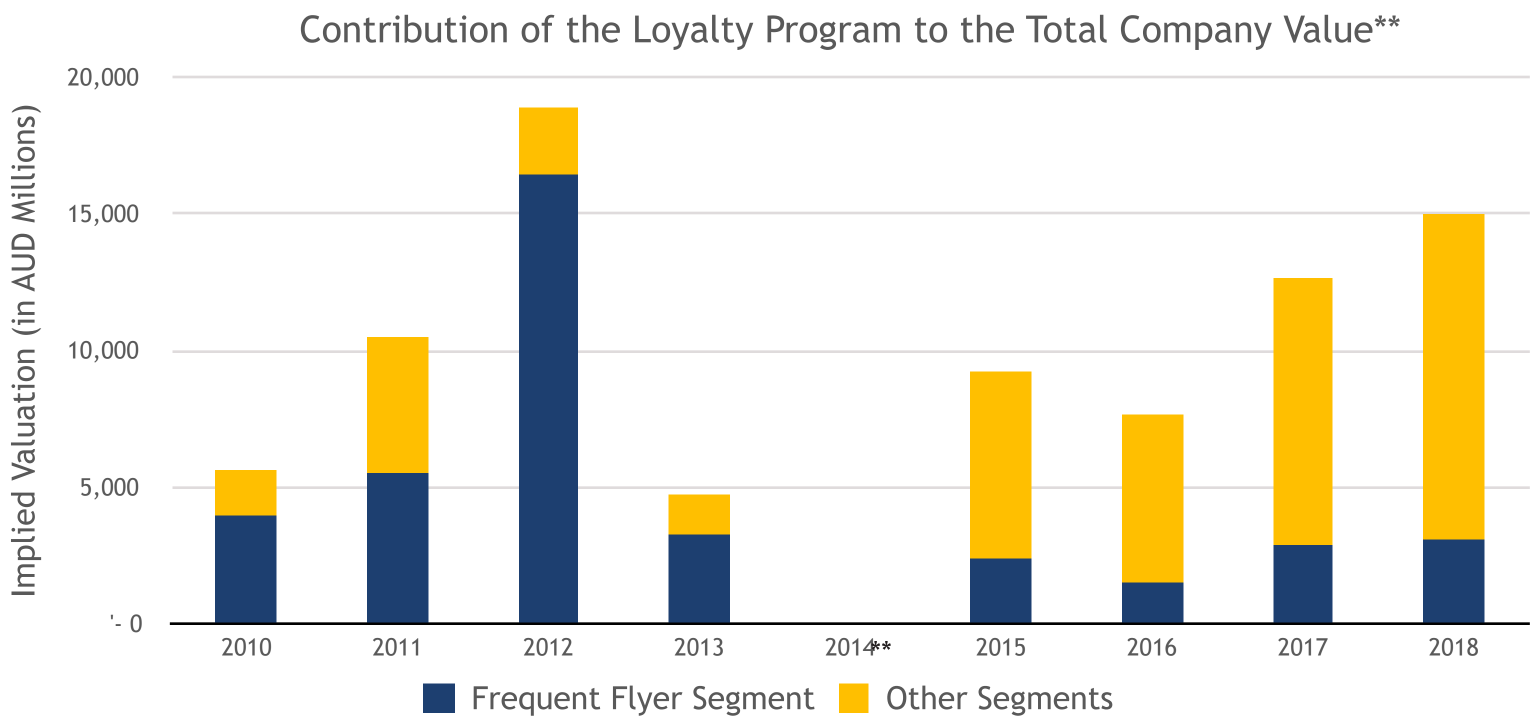


Source: Underlying EBIT based on Qantas Annual Reports (2008-2018)

Qantas Loyalty - Significant Contributor to Total Company Value

EverEdge estimated the contribution of the Qantas' Loyalty Program to the implied valuation for the whole company.

- The implied valuation was estimated based on the EV/EBIT multiples for the whole company during the period 2010-2018*.



Source: Underlying EBIT based on Qantas annual Reports (2010-2018)
*The EV/EBIT multiples for each year are obtained from www.ycharts.com
**The Implied Valuation for 2014 is not meaningful – the company reported a negative EBIT

Please note: this chart uses the underlying EBIT to derive the implied valuation, while the EV/EBIT multiples are based on the statutory EBIT. The underlying EBIT was used because Qantas is using this metric in its annual reports to show the profitability of the Loyalty segment, so by using the underlying EBIT we can directly compare the profitability for each of the company's segments.

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Intangible Asset Risk
What risks do we need to manage?

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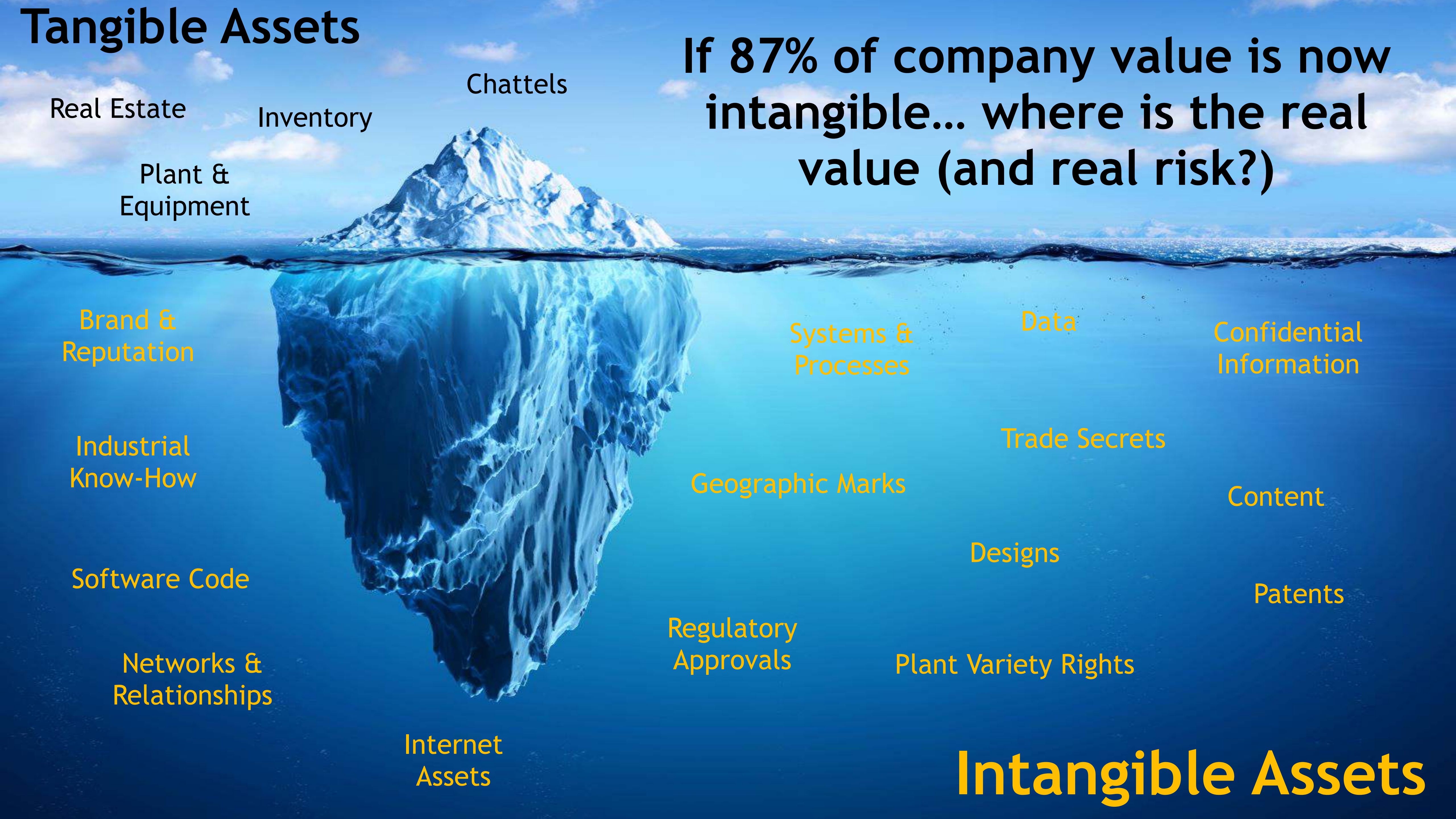
Tangible Assets
If 87% of company value is now intangible… where is the real value (and real risk?)
Chattels
Real Estate
Inventory
Plant & Equipment
Brand & Reputation
Systems & Processes
Data
Confidential Information
Industrial Know-How
Trade Secrets
Geographic Marks
Content
Software Code
Designs
Patents
Regulatory Approvals
Networks & Relationships
Plant Variety Rights
Internet Assets
Intangible Assets

Top 5 Intangible Asset Risks

Leakage or theft of critical confidential information (Cyber)

Cannot prove ownership of key assets (chain of title)

Hazardous use of open source code software

Do not own brand or brand infringement

Threatened or actual IP litigation

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Risk 1:
Most companies constantly leak key intangible assets

Three primary leaks

- Customers
- Suppliers
- Employees

Result: competitive edge erosion, margin pressure and ultimately massive value loss

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Case Study. Leakage of Confidential Info

Co. Leaks Critical Assets - Creates Key Competitor

Situation

- Company developed world leading new product category.
- Unable to keep up with demand - outsourced software development to external supplier providing full details of code and confidential information.

Outcome

- Supplier delivered code on time, budget then shut down.
- Reappeared 6 months later as competitor utilising intangible assets to springboard ahead of former client.

Supplier grabbed majority market share. Direct cost $150M

Risk 2:
8 out of 10 companies cannot prove they own their intangible assets

Unlike tangible assets, intangible assets are hard to inventory, are not registered, and do not appear in B/S or P&L

Joint R&D, contractors, supply agreements, employee disputes, restructures all lead to chain of title issues

Chain of Title Sinks Investment

Situation

- High growth fintech company raising $36M+ Series C at $US120M+ pre-money.
- Investment documentation included standard warranty “you own all your assets”, investors asked co “prove it”.

Outcome

- Co founders never bothered to track chain of title, unable to prove they owned core software.

$36M deal collapsed > co failed

Risk 3:
Software ate the world… and 80% of all software code is open source

Three key open source risks

- Who owns the code?
- Malicious code
- Toxic license terms

Case Study.

Hazardous Open Source Code

P/E Misses Key Due Diligence Risk

Situation

- Private Equity firm committed to invest into high growth industrial company. But key asset is actually software.
- Conventional due diligence detected no material risks.

Outcome

- Audit of software code revealed extensive use of open source code software.
- Substantial licensing issues and cyber liability in co's core asset.

P/E has invested $100M into co with major risks

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Risk 4:
Half the companies we see do not own their brand or have major brand risks

Poor trademark strategy or changes in market, product or geographic coverage lead to no or poor protection

Trademarks are like real estate: the best sites are normally owned by someone else

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Company Building Brand It Does Not Own

Situation

- Fast growing company, investing $1.5M each month in marketing to build its brand and customer base.
- Planning to leverage brand into offshore markets.

Outcome

- Basic research identified that trademark filed by patent attorney does not provide effective protection.
- Another company has superior rights to brand in US market.

Co spent over $36M on brand it does not own

Risk 5:
FTO Risk - threatened or actual IP litigation

Massive growth in IP litigation in US and EU over last decade. More successful you become, more likely to be sued

Consequences include injunctions, product seizure or recall, massive litigation costs & damages

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Case Study. Patent Litigation

Patent litigation Results in Forced Acquisition

Situation

- Award winning hardware company > never analysed intangible asset risk or developed own shield.
- VC firms invested > no intangible asset due diligence.
- Law firm signed off supply agreement by which company indemnified Fortune 100 customer for IP infringement.

Outcome

- Offshore competitor sued customer > who called on indemnity.
- Competitor "we will sue you out of existence or acquire you."

Sold for 1/3 of value. $100M loss to investors

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Relationship of Intangible Asset Risk to Cyber Security

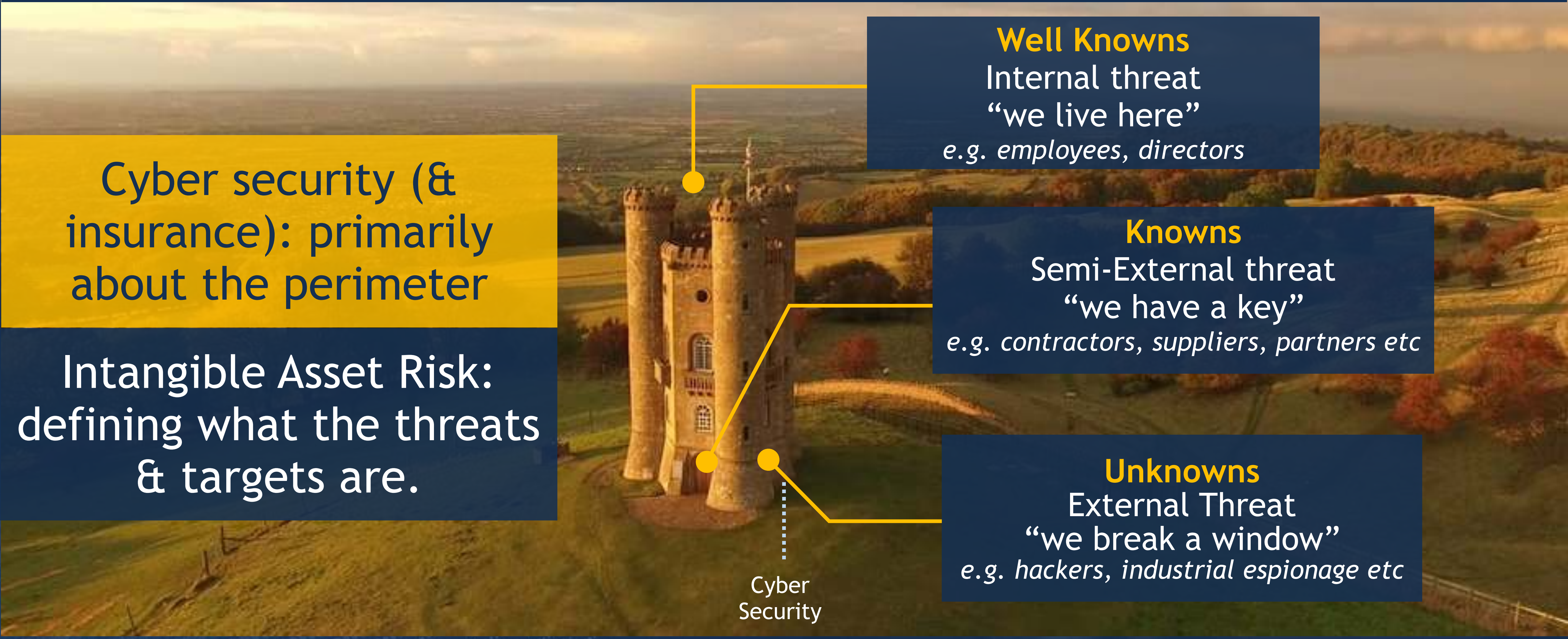
Cyber security (& insurance): primarily about the perimeter

Intangible Asset Risk: defining what the threats & targets are.

Well Knowns
Internal threat
"we live here"
e.g. employees, directors

Knowns
Semi-External threat
"we have a key"
e.g. contractors, suppliers, partners etc

Unknowns
External Threat
"we break a window"
e.g. hackers, industrial espionage etc



… The real prize is not your cash

But your valuable intangible assets…

Summary:
What Now?

Australia / New Zealand / Singapore

What should companies do?

Directors & officers have a fiduciary obligation to manage <u>all</u> assets & risks, <u>including</u> intangible assets.

1. Ensure co has identified core intangible assets.
2. Has an independent strategy to protect, manage & exploit them.
3. Identified key intangible asset Risks.
4. Has a clear strategy to manage & mitigate these risks.

Massive migration of value and risk.

But typically not reflected in accounts.

Now primary driver of company performance (and risk).

Trend not going back.

IAM300 – 8 times ranked Top 300 IP Strategist Globally - Intellectual Asset Magazine 2013 - 2020
Winner – IP Strategist of the Year, United Kingdom 2014
Winner – IP Advisory Firm of the Year, NZ 2014
Winner - Best Commercialization of IP - NZ International Business Awards 2012
Winner - Outstanding IP Leader - IP Focus Awards, Shanghai, China 2012

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