

# Medici™ Application Software for Valuing IP Deals

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Calculated Risks.

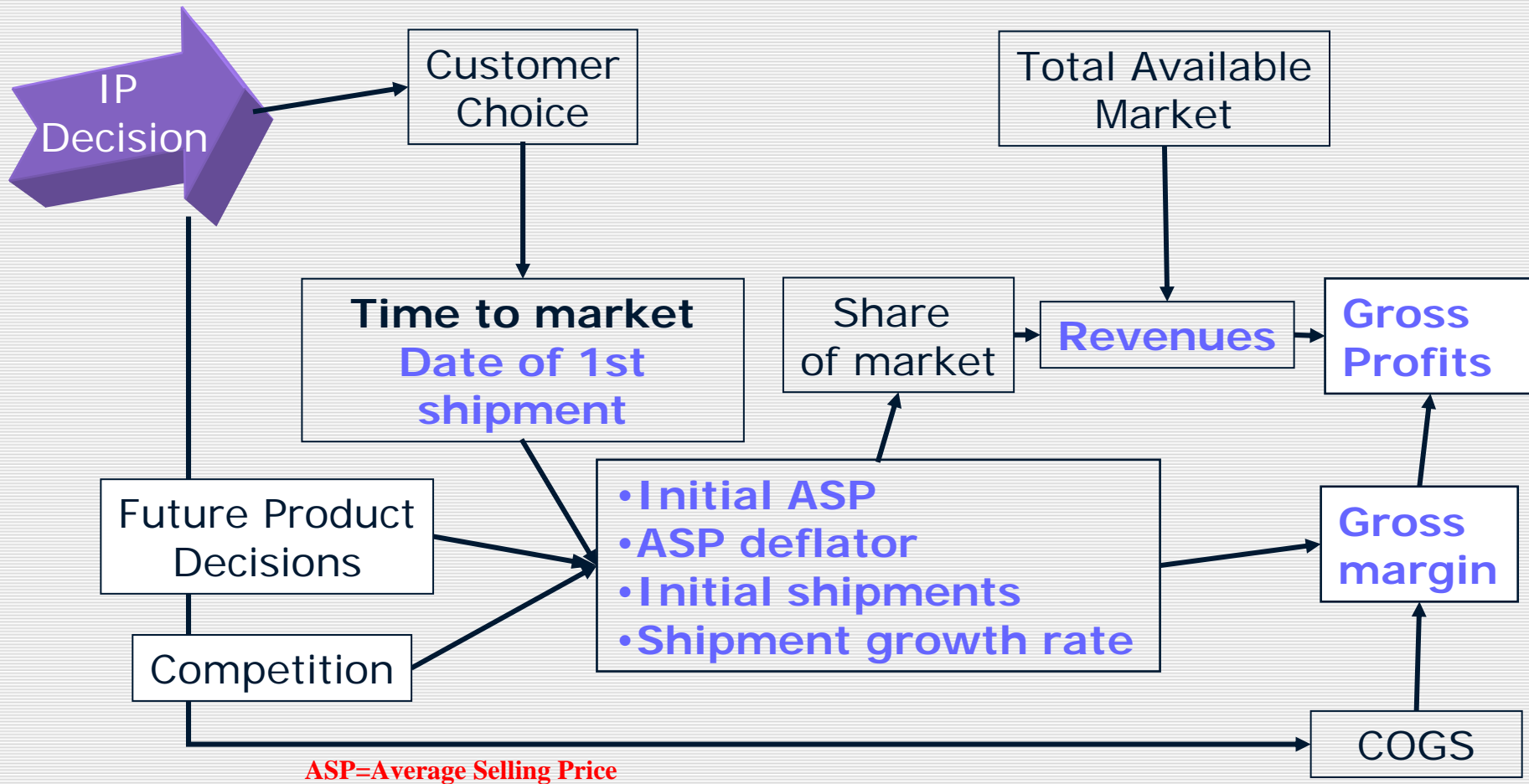
# The Medici Family

- ◆ **Botticelli: Adoration of the Magi**
  - ❑ Shows the Medici family
  - ❑ Merchant Princes
- ◆ **The Medici were the “Kleiner-Perkins” of Renaissance Italy!**



# Account for your competitive environment and the

(Blue indicates specific Medici™ inputs or computations)



# Enter Part information

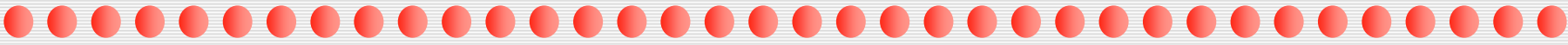
The screenshot shows a software window titled "Part Information" with a menu bar containing "File", "Go To Baseline Scenario", and "Help". The main content area is divided into several sections:

- Part Information:** A text field for "Part Name" containing "Giga-PHY".
- Scenario Probabilities (%):** A diagram on the left shows "Scenario Probabilities" branching into three scenarios, each with a corresponding input field:
  - Optimistic: 25.00
  - Baseline: 50.00
  - Pessimistic: 25.00
- Forecast Specification:** A series of input fields and dropdown menus:
  - Period Duration: Half-Yearly (dropdown)
  - Average Selling Price (ASP) Entry Mode: ASP over all periods (dropdown)
  - Shipment Data Entry Mode: Shipments over all periods (dropdown)
  - Date of first shipment (MM/DD/YYYY): 1/1/00
  - Annual Discount Rate (%): 15.00

At the bottom of the window is a button labeled "Go To Baseline Scenario for this Part".

◆ A "part" is the generic name of any product to be shipped

# Enter market forecasts



◆ Define each part that is now planned to use the target IP

◆ Great time saving feature!

**Part Pessimistic Scenario**

File Go To Baseline Scenario Go To Optimistic Scenario Go To Part Information Save This Part Results Help

**Part Pessimistic Scenario**

Part Name **Giga-PHY**

Units Product Time Horizon

Periods	Half-Yearly	1	2	3	4	5	6
Dates		1/1/00	7/1/00	1/1/01	7/1/01	1/1/02	7/1/02
Shipment Growth Rate	%/Period						
Shipments	MU	0.05	0.05	0.06	0.06	0.07	0.07
Average Selling Price (ASP) Deflator	%/Period						
Average Selling Price (ASP)	\$/U	15.00	13.88	12.83	11.87	10.98	10.16
Gross Profit Margin for this Product	%	40.00	40.00	40.00	40.00	40.00	40.00

# Review scenario results

The screenshot shows a software window titled "Scenario Results" with a menu bar containing "File", "GoTo Sales Details", and "Help". The main content area displays the following information:

**Part Name:** Giga-PHY

**Scenario Probabilities:**

- Optimistic: 25%
- Baseline: 50%
- Pessimistic: 25%

	NPV (\$M)	Cumulative Units Sold (MU)
Optimistic	57.22	11.57
Baseline	31.95	7.44
Pessimistic	1.31	0.36

	Unit	Value
Expected NPV	\$M	30.61
Standard Deviation of NPV	\$M	19.81
Expected Number Cumulative Units Sold	MU	6.70
Expected Cumulative Sales	\$M	89.11
Expected Average Selling Price for this part	\$/U	13.30

At the bottom of the window, there are two buttons: "Sales Details" and "Exit Results".

◆ Defines a "typical" product using the target core

# Review expected sales details

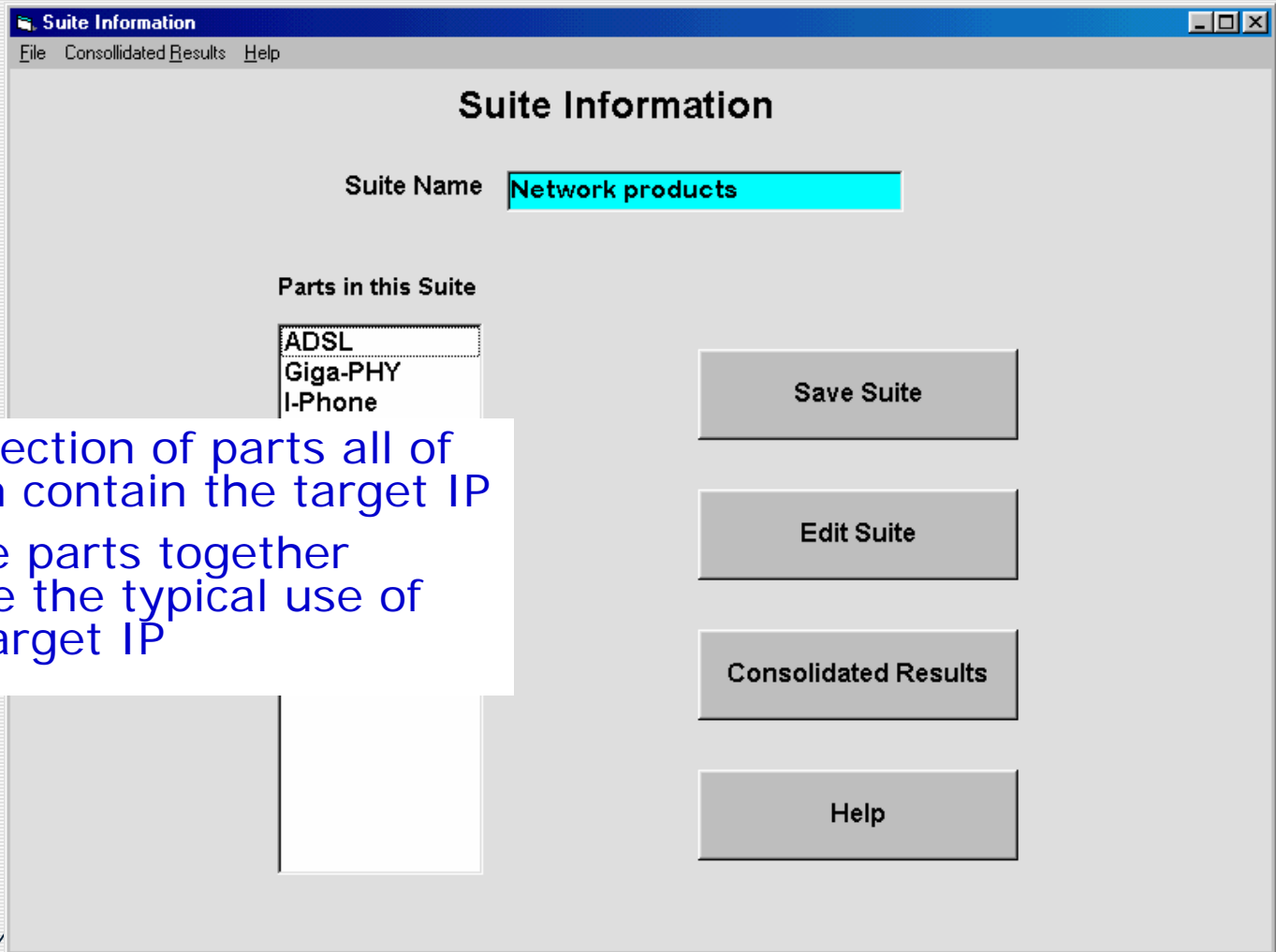
The screenshot shows a software window titled "Sales Details" with a menu bar containing "File", "GoTo Scenario Results", and "Help". The main content area displays "Sales Details" for "Part Name Giga-PHY". Below this, there is a table with columns for "Unit", "Product Time Horizon" (1-6), and rows for "Expected Shipments", "Expected Sales", "Expected Avg. Selling price", and "Expected Gross Margin". The table data is as follows:

Periods	Unit	Product Time Horizon					
		1	2	3	4	5	6
Dates		1/1/00	7/1/00	1/1/01	7/1/01	1/1/02	7/1/02
Expected Shipments	MU	0.89	0.96	1.05	1.15	1.26	1.39
Expected Sales	\$M	13.31	13.82	14.35	15.09	15.87	16.69
Expected Avg. Selling price	\$/U	15.00	14.34	13.71	13.12	12.54	12.00
Expected Gross Margin	%	45.00	45.00	45.00	45.00	45.00	45.00

At the bottom of the window, there are two buttons: "Scenario Results" and "Exit Results".

◆ Displays the expected values over the scenarios, by period, for key forecast parameters

# Define a suite of parts using target IP



- ◆ A collection of parts all of which contain the target IP
- ◆ These parts together define the typical use of the target IP

# Statistically consolidate

The screenshot shows a software window titled "Consolidated Scenario Results" with a menu bar (File, Report, Help). The main content area displays the "Suite Name" as "Network products". Below this is a table with the following columns: Part #, Name, NPV, Std Dev of NPV, Expected Cumulative Units sold, and Expected Initial ASP. The table data is as follows:

Part #	Name	NPV	Std Dev of NPV	Expected Cumulative Units sold	Expected Initial ASP
		\$M	\$M	MU	\$
Part 1	ADSL	37.50	32.29	3.31	38.35
Part 2	Giga-PHY	30.61	19.81	6.70	13.30
Part 3	I-Phone	10.19	7.72	2.50	11.83
Consolidated		78.30	38.66	12.51	

At the bottom of the window is a "Generate Report" button. A callout box with a blue diamond icon contains the text: "This gives a snapshot of the statistical properties of all the products in a suite".

# Propose a deal structure

◆ Example:  
Traditional  
structure

**Contract Parameters**

File Deal Value Help

Deal Name

Target Core/IP

	Units	Parameter Value
Required Annual Rate of Return	<input type="text" value="%"/>	<input type="text" value="15.00"/>
Contract Length	<input type="text" value="Years"/>	<input type="text" value="5.00"/>
License Acquisition Price	<input type="text" value="\$M"/>	<input type="text" value="7.00"/>
Option Price	<input type="text" value="\$M"/>	<input type="text" value="0.00"/>
Royalty Rate	<input type="text" value="%"/>	<input type="text" value="5.00"/>
Design Fee	<input type="text" value="\$M"/>	<input type="text" value="0.00"/>
Library Fee	<input type="text" value="\$M"/>	<input type="text" value="0.00"/>
Design Lead Time	<input type="text" value="Years"/>	<input type="text" value="0.50"/>
Library Lead Time	<input type="text" value="Years"/>	<input type="text" value="0.25"/>

Expected number of designs per year using Target IP

# Compute a deal's "Benchmark Value"

◆ Contingent claims analysis:

**Deal Value Results**

File Report Help

Deal Name

	Unit	For Licensee	For Licensor
Expected Gross Margin Absent Fees	\$M	<input type="text" value="100.62"/>	
License Acquisition Price or Option Price	\$M	<input type="text" value="-7.00"/>	<input type="text" value="7.00"/>
Expected NPV of Library Fee	\$M	<input type="text" value="0.00"/>	<input type="text" value="0.00"/>
Expected NPV of Design Fees	\$M	<input type="text" value="0.00"/>	<input type="text" value="0.00"/>
Expected NPV of Royalties	\$M	<input type="text" value="-10.73"/>	<input type="text" value="10.73"/>
Net Expected Value of Contract	\$M	<input type="text" value="82.89"/>	<input type="text" value="17.73"/>

◆ This is the "Benchmark" of the deal

# Medici™ transaction design and valuation tool

