

Executive Summary

Problem

Recent developments in the technology industry (e.g. smart phone/tablet) show an increase in lawsuits related to intellectual property/patent violation and a consequent increase in acquisition announcements relative to target companies who own substantial intellectual property and patents. It is indeed possible to observe a new competitive practice that consists of suing the companies issuing new products with the aim of postponing the cash flow generated by the product and of obtaining a compensation for existing intellectual property. This attitude has a strong impact on profits, given the short product life cycle that characterizes this industry. Therefore, the risk of being sued or of having to pay a fixed cost for intellectual property force larger companies to acquire patent-rich corporations. Hence, it seems the case that an acquisition is to be favored over the payment of technology license fees, given the latest trends.

There is no clear evidence that IP-/patent-motivated acquisitions have a significant impact on stock price performance of the bidding firm. This paper aims at verifying this point, especially in terms of value creation from these deals, paying special attention to intangible assets (i.e. intellectual property/intellectual capital/patents).

Hypothesis

The null hypothesis assumes that abnormal returns for bidder companies acquiring intellectual property-/patent-rich targets are the same as those generated by acquisitions with different aims. Consequently, if the null hypothesis can be rejected, acquisitions aimed at intellectual property/patent rights should generate less (or more) value disruption for bidder companies.

Methodology and Approach

First, the concept of intellectual capital is described in detailed, followed by an overview of the different valuation approaches for intangible assets. After clarifying what counts as intangible assets and their relevance in modern technology companies, the thesis will address the impact of expensing intangible assets as operating instead of capital expenses and its implications for valuation purposes.

In the empirical part of the thesis, an event study following the methodology of DeLong (2001) will be developed to examine the effects on the share prices of the bidding firms acquiring intellectual property-/patent-rich targets. To test the hypothesis, two sets of types of acquisition needed to be identified. The first one consists only of intellectual property-/patent-driven acquisitions, the second one contains “normal” acquisition motivated by e.g. expected cost savings, increased or accelerated revenue growth or entry opportunities into new markets.

Results

We find that statistically there is no difference measurable in the returns of IP-/patent-motivated acquisitions to otherwise motivated deals for the bidding firms.

Changing the interval for the parameter estimation of the market model, the estimation period, did not change the results significantly.

Conclusion

The null hypothesis cannot be rejected, leading to the conclusion that statistically there is no difference measurable in the returns of IP-/patent-motivated acquisitions to otherwise motivated deals for the bidding firms.

The recent increase in lawsuits between technology giants regarding intellectual property and patent infringements and the hypothesis that this might lead to an increase in acquisitions of intellectual capital-rich target companies to prevent similar future lawsuits still cannot be completely denied. There is no statistical evidence that IP-/patent-motivated acquisitions generate more or less value disruption for bidder companies than otherwise motivated acquisitions. Since the data set is biased in that it includes only some of the biggest technology companies, it is not possible to draw inferences about the industry as a whole and state that generally IP-/patent-motivated acquisitions will not perform differently than otherwise motivated deals. Including small- and middle-sized bidder companies could alter the results. The results simply could not show any statistical evidence that these kinds of deals generate measurable improvements in stock price performance for the bidding companies than any other motivated acquisitions.