

sollomon user guide

Thank you for your interest in **Sollomon**, the IP value indicator from Inngot.
Please take a moment to study this guide before using Sollomon for the first time, especially sections 1-3.

1. What Sollomon offers

Sollomon is a methodology for creating an indicative valuation for your intellectual property and the intangible assets which are related to your products and services – collectively, your “IP”.

Created with specialist input from leading business advisers **Grant Thornton UK LLP**, Sollomon can give you a means to establish what your IP might be worth in a sale or financing scenario. It also helps you understand what royalty rates might be applicable to your IP, should you choose to licence it to other companies.

Sollomon takes an existing Inngot **innovation profile** and combines it with historical and projected financial data you supply. It uses the data you provide to create a long-term view of your IP’s value, applying a “relief from royalty” valuation principle, and then brings this calculation back to a present day estimate using scorecards which factor in the strengths of your IP and your market presence.

Please note: Sollomon is NOT a business valuation. It is an indicative valuation for your IP based on limited information, which may or may not reflect the value achieved in an actual transaction. Your attention is drawn to the Sollomon terms and conditions, which you accept prior to entering any data.

2. The Sollomon Certificate

Once you’ve provided the data shown in section 4 below, your indicative valuation can be calculated and produced as a Sollomon Certificate.

Your valuation appears as a range, together with confirmation of the royalty rate, the Weighted Average Cost of Capital (WACC) applied as a result of Sollomon’s twin scorecards, and the tax rate (which needs to be factored into the calculation processes to arrive at a net value).

YOUR IP VALUE INDICATION	
Your IP value indication is:	£209,000 - £283,000
The current status of your IP value indication is:	AMBER awaiting quality check

HOW SOLLOMON CALCULATED YOUR IP VALUE INDICATION	
Sollomon uses the information you have provided to project cashflow over the life of your IP. It then applies a "relief from royalty" principle and brings the value back to a present day estimate by discounting the cashflow, applying an appropriate tax rate and a weighted cost of capital calculation tailored to your business and IP characteristics.	
The royalty rate most applicable to your activities is:	2.50% - 3.50%
<i>This represents the average level of royalty currently being achieved through technology licensing. It provides the basis for calculating the benefit to the business of having your IP</i>	
For the purposes of deriving a long-term value for the IP, we have assumed an effective tax rate of:	28.00%
The weighted average cost of capital (WACC) applicable to your business is:	50.00%
<i>This calculates the annual cost of money on a blended equity and debt basis, based on the information you have provided</i>	

In addition, your Sollomon Certificate presents all the data you have entered in order to derive the indicative valuation in an easy-to-understand format, under six headings:

- Factors drawn from your Inngot registration
- Factors influencing this value indication (with an accompanying Notes section, highlighting areas which may require further attention)
- Historical expenditure data provided
- Historical performance data provided
- Market data provided
- Projected performance data provided (with any data Inngot has extrapolated shown in blue).

3. Sharing and verifying your Sollomon indicative valuation

Your Sollomon Certificate also contains a Key Code (shown in the top right hand corner). This enables you to share the results with any person you authorise by asking them to visit www.inngot.com/verify and enter the code, their e-mail address and name.

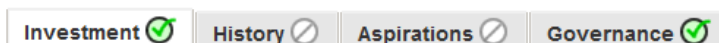
Reference	FAEI-CBIC-JBCH-CBHH
Date Issued	8 Dec 2009 17:22:17 GMT
Version	1

At the top of your valuation screen, you will see a tick-box which determines whether this external verification facility is switched on or off. Inngot tracks details of the viewing parties in the event of any query. You are **not** permitted to pass on a Sollomon indicative valuation other than in its original form.

Each Certificate has a **status**. This will normally be **Green** unless Inngot still has data to verify, in which case it will be **Amber**. In exceptional circumstances Inngot may change the status of a Sollomon indicative valuation to **Red** – see terms and conditions for details. If this happens, you will be notified.

4. How to enter information needed for Sollomon

The Sollomon data gathering process starts from your existing Inngot IP registration. *If you haven't yet registered an innovation profile, or added your full company data so that we can verify it, you must do so before you can use this service.* However, you can complete the valuation process if you are pre-revenue (as long as you are a maximum of two full financial years away from generating first incomes).



Sollomon itself is divided into four sections, and you navigate between them by clicking the named tabs shown above. As you go through the process, each question and section is “ticked” when complete. You can complete the tabs in any order, pause and come back to them as many times as you like before generating your indicative valuation. When the tabs show four ticks, you're ready to “Perform Valuation” using the button at the bottom right of the screen, which takes you to your results via our payment page, where any promotional code you may have can be entered.

To make the process as user-friendly as possible, much of the information captured is entered using radio buttons or drop-down lists. Many data entry fields are only shown if your previous answers have made them relevant.

Although there are a number of questions to answer, most businesses find that the information needed for Sollomon can be readily extracted from existing business plans and historical accounts. As Sollomon is an indicative methodology, you can round up the data to be entered if you wish (though the system accommodates exact numbers if you prefer).

Q10 Development expenditure
Use this section to provide details of any investment needed in order to achieve the performance shown at Q9 above.

10a. Do the figures you have provided include assumptions on a level of external investment (over and above reinvestment of profits) needed to meet this forecast? Yes No

10b. What level of external investment is required over the five years to meet these forecasts?

10c. What is the biggest area of investment for which finance is likely to be needed?

Q11 Commercial lifespan
The value of your IP will vary depending on how long you to your markets.

11a. When do you expect to achieve peak revenues for this IP?

11b. What is the useful life of this IP?

Marketing Subcontracting Staff Capital Equipment

5. Data required for each of the four Sollomon sections

The **investment** section builds up a picture of how much your IP has cost to create or acquire, how you have accounted for this expenditure, and whether you have claimed any R&D tax credits. It contains five questions, not all of which are likely to be applicable to any one business:

- The amount you paid to acquire any IP and its current value shown on your latest balance sheet
- The amount of any expenditure relating to in-house IP development which you've capitalised, and the current value shown on your latest balance sheet
- The amount of internal IP development expenditure you have expensed through your normal profit & loss account (including staff salary costs – these are often the principal item under this heading)
- The amount paid to external suppliers in developing your IP
- The amount of any R&D Tax Credits claimed.

The **history** section looks at the overall trading performance of your company. If you *aren't* generating any revenue yet, the only question you need to answer is how far off you believe first revenues are. If you *are* generating income, the financial data you will need are:

- Turnover, gross profit and EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for your last complete year and up to two years prior if available. This data is for your **whole** business (i.e. not just this IP)
- The percentage of your income attributable to this IP (i.e. 100% if your whole business is dependent on it), and the amount you have spent in your last year on marketing & legal costs and operational costs relating to it.

Sollomon will also ask you to use radio buttons and drop-down menus to indicate:

- Your estimates for the % of income derived from each of the market sectors your IP serves
- The approximate size of your customer base, and how much of your current income is **contracted** (i.e. based on customer orders, not “walk-in” business)
- Whether you are generating any income from outside the UK, and if so, what proportion of your turnover these “export sales” contribute
- Whether you license your IP to anyone else, and if so, what % of your turnover this contributes.

The **aspirations** section deals with your future projections. The first question captures up to five years' worth of projected turnover relating to your IP, together with your estimated operational costs and marketing & legal costs. Note that for the model to work, this needs to capture the **total sales income** attributable to your innovation – not just the proportion you expect to derive from licensing.

If you have indicated that you are at a distance from revenue, one or more columns will be greyed out. There is also a drop-down list for each year to indicate how much, if any, of your future revenue has already been secured (it is intended to capture the % of present and future income which has actually been contracted – not the proportion you expect to be contracted at some future point!)

If you don't have five years' worth of data, enter three years: Sollomon will extrapolate the remainder.

Q9 Financial forecasts

In this section, enter your projections for turnover, operational and marketing/legal costs. You must enter three consecutive years' worth of data. Use the drop-down menus to indicate what proportion of your anticipated annual income is already contracted or recurring. Years will be greyed out if you have already indicated there is no revenue in them.

	Current Year	Year 2	Year 3	Year 4	Year 5
Turnover	225,000	378,000	480,000	623,000	760,000
Operational costs	122,000	180,000	230,000	260,000	300,000
Marketing & legal costs	95,000	135,000	150,000	190,000	220,000
Contracted or recurring income	51-60%	31-40%	1-10%	None	None

The second question asks whether you need external investment to achieve these projections, and if so, the size of the anticipated requirement and what you need it for.

The third question uses drop-down menus to ask how soon you expect peak revenues to be achieved, and what the total anticipated lifespan of this IP is.

Lastly, the **governance** section asks a few key questions about the basis on which staff are employed, your supplier relationships, licensing requirements and IP documentation, all of which only require “yes/no” answers.

6. For further information

If you experience any difficulty using the Sollomon indicative valuation system, we will be happy to help. You can e-mail us via info@inngot.com at any time, or telephone us during office hours on 01235 85 40 85.

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