# IP FOR BUSINESS PLANS AND INVESTOR MEETINGS

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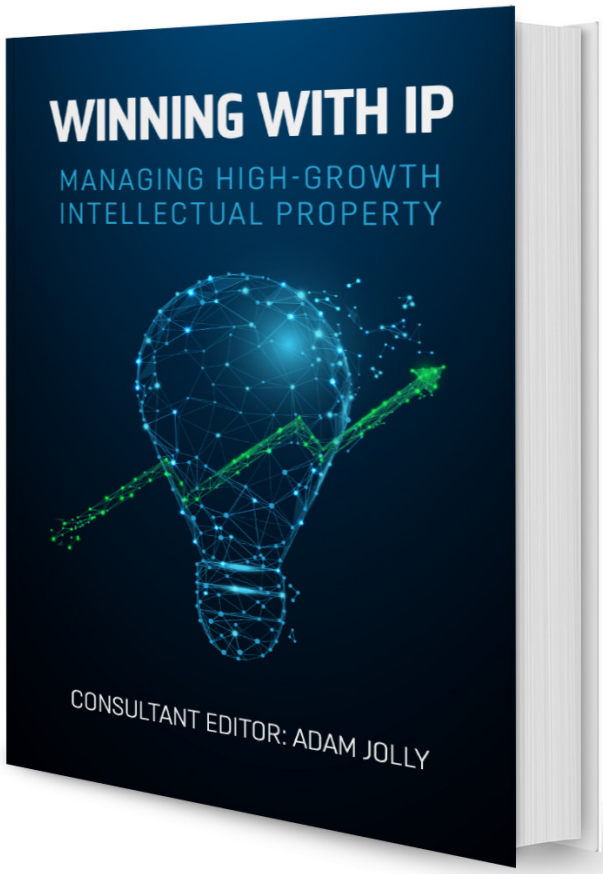
**In a book inspired by the EPO's and LESI's High Growth Enterprise Taskforce, Christian Heubeck at Weickmann & Weickmann says that investors and funders will expect start-ups to answer three questions about their IP**

The story of a successful start-up almost always begins with a good idea. This idea develops into a feasible concept for implementing the idea in a new product or service. Even if at this early stage usually no prototype has been built or source code has been written, an essential asset of the new enterprise has already been created: its IP.

IP is one of the key factors for the success of start-ups. Mistakes in the early stages of a business can often only be corrected, if at all, with a great effort and high costs. Company founders should therefore ask themselves right from the start whether, and if so in what form, IP can be protected. In this way, counterfeiting can be prevented and valuable competitive advantages can be achieved. This is particularly true when it comes to competitive advantage in respect of established market participants, who already benefit from well-developed networks and sales structures, as well as a solid capital base.

For technical inventions, protection by a patent and, in some countries, by a utility model (eg, France, Germany, Spain, Italy, Poland and Ireland), are the primary options. Aesthetic creations or designs can be protected by unregistered or registered designs or 3D trademarks. Trademark rights can be registered for company signs, such as the company name, a product name or a logo.

For some ideas in Germany, Europe and most other countries, the legislator has unfortunately not provided for property rights. For example, ideas from finance, insurance, consulting or other business ideas for non-technical services cannot be covered by any of the above IP rights. Here it is still necessary to keep such ideas secret as long as possible and to make the best possible use of the

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Growth is ever more centred on IP. Drawing on the knowledge and experience of 20 top-level IP performers, including the innovation team at the European Patent Office, this book gives a series of insights and lessons into how IP inspires and fuels growth of 10 percent, 20 percent, 50 percent and more, not just this year, but next year and into the future. It discusses how entrepreneurs, innovators and executives can source the right ideas, how they can create intellectual assets that their users value and how they can be ready to negotiate high-level deals.

resulting time advantage over competitors.

In many cases, the examination of which form of property right is to be chosen for a specific idea and whether the idea is protectable by an property right at all can be more complicated than it may initially appear. However, the decision is an important basis for the IP strategy of a company. Often, various creative aspects of an idea interact with each other, which can only be effectively protected by a combination of different IP rights. While the first step in the development of a business idea can often be taken by the founders themselves without assistance or further advice from external sources, the next step usually requires external expertise in specific business areas and usually initial investment in legal advice. However, once the options for property rights are sorted out and the first property rights have been filed, a decisive milestone has been reached, which allows the new business to confidently present the new idea to the outside world, find partners and investors, and convince the market to support its new products and services.

In the following, a guideline for the preparation of a business plan or for an investor meeting will be outlined from an IP point of view. Let's imagine that a first business idea has become a project and the project eventually even a new business. First talks with possible sponsors, investors or the submission of a business plan are lined up. For this purpose, the following questions in particular should have been clarified in advance.

## Is freedom to operate available?

It must be clarified whether your products or services interfere with the IP rights of competitors. Regardless of how innovative or unique the items or processes offered by a start-up are, if known technologies are used or developed further, it must always be expected that the technology forming the basis may itself be subject to IP rights. In extreme cases, a competitor may, on the basis of its own patent or utility model, completely block the business operations of a start-up which has not taken this property right into account. Therefore it is advisable new businesses draw up an opinion on its freedom to operate (FTO) at an early stage. Knowing that an established company has filed or already protected a new e-cigarette, a start-up can look for ways to circumvent these IP rights or possibilities for co-operation and licensing. In extreme cases, a product may have to be discarded and a new product line may have to be developed. In any case, knowing about third party IP rights at an early stage saves costs and time.

In our experience, an FTO assessment is a great advantage in every investor meeting. Without one, besides the development of workaround solutions, an alternative approach may be obtaining licenses to a third party's IP, which can often be a quick and sometimes relatively cheap option. Also worth mentioning is the possibility of purchasing a relevant third party's IP, although, due to limited resources, this usually expensive option is not available to most start-ups.

## Start-up rights

Besides the consideration of third party property rights, the establishment of own property rights is of course of vital importance.

Technical aspects of a business idea can be protected by a patent, in some countries also by a utility model, as long as they have not been made public. With a term of up to 20 years, which in many countries can be extended by up to five years by means of supplementary protection certificates (SPCs) and patent-term extensions for active pharmaceutical ingredients, patents represent the most concrete form of protection, which is therefore of particular interest to investors.

However, since a patent is an examined property right, a process in Europe which usually takes no less than two to three years, it is a long, sometimes difficult, and expensive way to obtain a property right. Furthermore, there is no guarantee that even if the examination procedure is successful and a patent is granted, the originally claimed subject matter can ultimately be protected. Often,

significant restrictions must be accepted at this point.

Almost the same requirements, novelty and inventive step, apply in Germany to utility models. They are granted without substantive examination for a maximum term of ten years. Their validity is only examined in infringement or cancellation proceedings.

The rights which can be derived from both property rights are identical. As a rule, it can be recommended to file a patent application initially. Should it become necessary to have a property right at the time of a pending application, from which action can be taken against third parties, a utility model can be branched off in Germany, whether a patent application has been filed nationally, in Europe or internationally under the Patent Co-operation Treaty.

As for all IP rights, the chosen patent strategy depends on the available budget. Strategically, it is often advantageous for newly established European businesses to file a patent application in English to secure an effective date, as well as a priority right for the claimed subject matter. Filing in English, instead of German, French or other languages, can save translation costs if the subject matter of the application is to be pursued in the English-speaking world later.

This first application can be filed with or without payment of fees. Even without payment of fees, an effective date is ensured and the priority of the application can be claimed by a subsequent application within twelve months. If fees are paid, a search report can be obtained within twelve months, the results of which can be considered in the subsequent application.

A PCT application should be chosen for the subsequent application. Since the national/regional phases are initiated 30/31 months after the priority date, significant costs, such as translation or the parallel conduct of several national examination proceedings can be delayed. For start-ups, it is valuable time that can be used to find partners or investors or, if necessary, to readjust the strategy.

The filing of a patent application has other advantages. By publishing it, the idea becomes prior art. This makes it more difficult for competing companies to apply for a patent for the respective subject matter themselves or to block the start-up.

Due to Covid-19, a strong increase in patent applications in pharmaceuticals and diagnostics was observed in the first half of 2020. Due to long development times in these sectors, as well as the possibility of extending the term of a patent, such as the SPC, in our experience, a patent is always the IP right of choice for these start-ups.

To the large number of start-ups in apps and software, the internet of things (IoT) is being added as a high-tech business area and Industry 4.0 (4IR) has arrived in the development departments of global enterprises and traditional medium-sized companies, as well as on the start-up scene. This boom in innovation has led to rapidly increasing demand for patent protection: according to a recent study by the EPO and the Handelsblatt Research Institute, the number of patent applications in the field of smart autonomous objects has increased by 54 percent in the last three years alone, showing a growth rate that is many times higher than in other branches of technology.

Contrary to the perception that 'our ideas are not patentable, we only make software', our experience shows that inventions in the field of IoT can usually be protected by patents in a particularly simple and comprehensive manner. Similarly, 4IR algorithms are classic examples of patentable software or computer-implemented inventions.

While on the regular internet of information and data, many ideas are not accessible to patent protection because of their exclusively virtual nature, IoT interacts with the real world and captures, for example: the position, movement, temperature and other parameters of real objects; transfers data between objects; organizes, sorts, analyses, controls or monitors tangible objects, installations or structures on the basis of the captured data, bringing it within the technical reference required for patent protection.

Against this background, software algorithms for user interfaces, sensor evaluation, data transmission protocols, neural networks or intelligent learning are not excluded from patent protection. In order to answer the question of whether an algorithm or a software idea is patentable, the following simple three-step test has proven to be useful for start-ups:

- In a first step, the core of the idea is put into words as briefly and precisely as possible. What does my software do? What effect should it achieve?
- In the second step, everything that is known to the person skilled in the art, ie, that belongs to the state of the art, is subtracted from this core, so that the really new part of the idea remains or becomes recognizable. What exactly makes the new software different from known programs?
- In the third step, everything that is not technical, such as business ideas, shapes and colour schemes or non-technical data content, such as personal, financial or travel data, is deducted. After the third logical subtraction, the technical remainder forms the basis for a software patent. Due to its technical nature, this remainder is not per se excluded from patentability.

Besides patents and utility models other, IP rights such as trademarks and designs may be of great importance for start-ups, in particular if their ideas are located in the non-technical sector. If the IP budget allows, a combination of different types of IP rights often offers the most advantages and the highest level of protection.

**Ownership of inventions**

These IP rights will be of secondary importance for a start-up unless their ownership is clarified. Often initial ideas or inventions are created without a contractual basis in the founding team. In most cases, no company or start-up exists at this time. The inventors should already agree in writing at this early stage to whom the property rights belong. Other inventions arise in the course of a co-operation or employment relationship with an institution, such as a university, and are often transferred directly to the institution by law or on the basis of co-operation agreements. In this case, negotiations should be initiated with the institution at an early stage in order to obtain ownership of the property rights. Legal regulations, for example, regarding the Employee Invention Act in Germany or open source must also be observed. In general, it should be ensured that the IP of employees, external developers and/or founders is transferred to the start-up. Corresponding regulations or transfers should always be documented in writing through signed contracts. In the event that an employee leaves the company, it must be ensured that IP generated during their employment remains in the company or belongs to the company. In our experience, appropriate IP clauses in contracts are essential for every investor.

In this context the importance of non-disclosure agreements (NDAs) has to be stressed. The consistent use of NDAs as part of contracts with employees, suppliers, customers, shareholders and anyone else who receives confidential information is the basis for protecting the trade and business secrets of start-ups that have not yet developed any other IP. NDAs are particularly important for start-ups, as they often have to disclose their ideas to third parties at an early stage before filing their own IP rights in order to obtain the required financing.

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