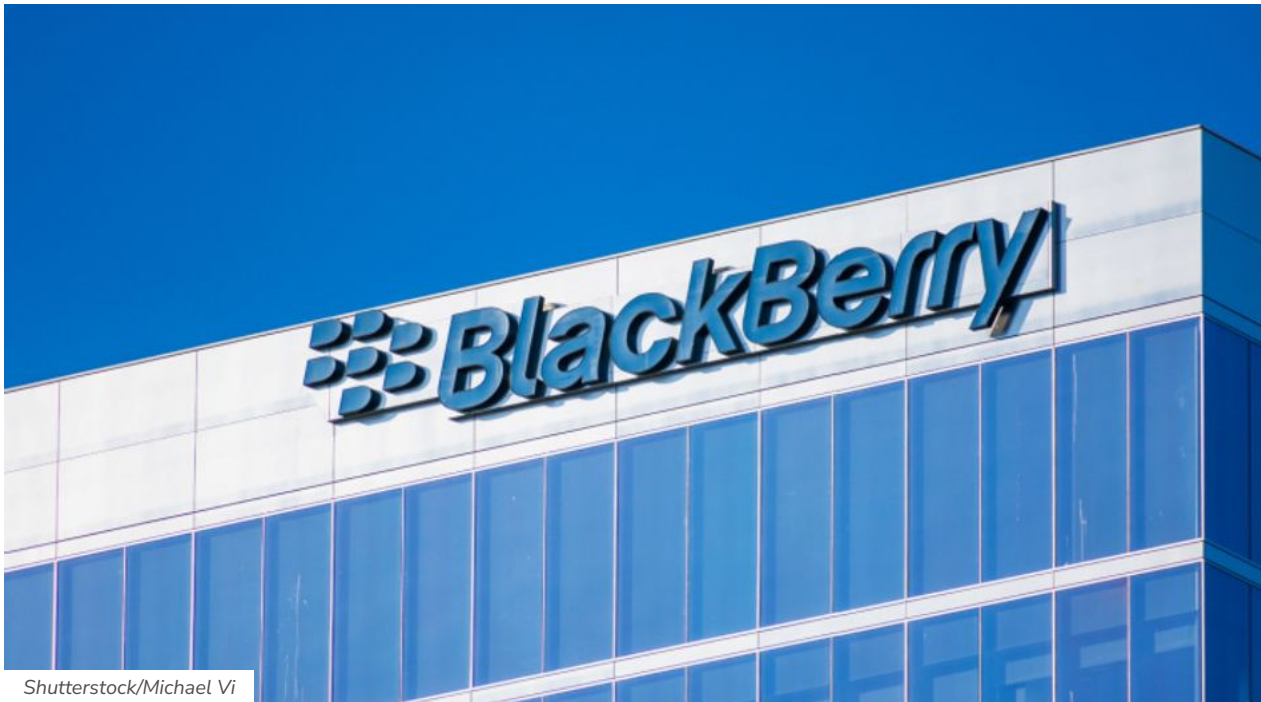


New BlackBerry portfolio buyers have pedigree – but clock is ticking

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Days after BlackBerry announced that a Key Patent Innovations subsidiary was buying 32,000 of its patents for \$200 million plus back-end royalty sharing, we surveyed patent monetisation professionals who agree the price point is more in line with the portfolio's value. But the consensus is that BlackBerry's revenue-share of the profits won't come close to the \$700 million cap that the Canadian company touted in its announcement of the deal.

While the buyer has done well to talk the seller down on the ask price (former buyer Catapult IP Innovations was paying \$600 million) the reality is the portfolio is vastly encumbered and has not got enough life left to ensure that the return-on-investment reaches the typical three- to five-times that many IP investors seek when they put their money to work.

However, the portfolio certainly has value in it, and the folks behind Malikie Innovations (a Key Patent Innovations subsidiary) have an impressive licensing pedigree. Should the deal earn regulatory approval from the Canadian and US governments, then the portfolio will be in good hands with Key Patent.

"We are very excited about this investment," states Angela Quinlan, managing director of Key Patent. "We have no comment beyond that at this stage."

About the buyer

BlackBerry announced that Malikie had already received financial backing from a lead US investment firm with more than \$30 billion assets under management. IAM understands that Centerbridge Partners is backing the deal.

Centerbridge has a strong connection to Key Patent Innovations and was one of the investors who backed Key Patent's 2020 purchase of **1,400 global patents from Osram**, a German lighting company. Key Patent ran a subsidiary, Pictiva Displays, to license the portfolio. Quinlan monetised the patents with support from Jaspar IP, a licensing business run by Paul Seaman, Paul Riley, and Kapu Kumar.

Riley and Seaman both also sit on Key Patent's board of directors. IAM understands the pair works with Centerbridge on its IP investments.

They have a connection to former BlackBerry patents covering USB charging technology. BlackBerry sold the USB charging portfolio in 2015 to Fundamental Innovation Systems International, a company backed by Centerbridge. The Jaspar IP team helped to license that USB portfolio.

Seaman, Riley, Kumar and Quinlan, Key Patent's managing director, are all former licensing executives at IPValue Management. Quinlan also previously spent a year at Atlantic IP Services, first as its subsidiary Solas OLED's licensing executive and then as the main company's the vice president of licensing and acquisitions. Before that she spent five years as senior patent counsel at Longitude Licensing, an IPValue NPE.

This team has the patent monetisation chops and financial backing to make magic with the BlackBerry portfolio.

However, there's a lot of work to do in a short window of time.

Tricky mathematics

Assuming it clears the regulatory hurdle, **Malikie agreed to pay \$170 million** at closing and another \$30 million within three years for 32,000 BlackBerry patents and applications covering mobile devices, messaging and wireless networking. The back-end royalty sharing agreement promises BlackBerry:

- 8% (aka \$40 million) of the first \$500 million in profits;
- 15% (\$37.5 million) of the next \$250 million;
- 30% (\$75 million) of the next \$250 million; and
- 50% of further profits (up to \$547.5 million – due to \$700 million cap on revenue-sharing).

One issue to keep in mind is that any large IP owner looking at maintaining a 32,000-patent portfolio will spend tens of millions of dollars on maintenance fees. There are expensive overhead costs to run an assertion programme, including staff salaries and the costs of outside professionals for consulting, reverse engineering, litigation counsel, and more. If Key Patent's source of funding for the acquisition is from debt capital, then the costs of the loan and interest are another factor. If equity financing is backing the deal, the investors will be due a guaranteed return.

Such a large endeavour could easily amount to \$30 million to \$40 million per year in expenses and all of this is money due before BlackBerry sees a dime under the revenue-sharing agreement.

Because BlackBerry's partnership with the Marconi platforms Avanci and Telety have already widely licensed out the portfolio into the mobile and automotive markets, the people at Key Patent will have to enter new markets to squeeze money out of the portfolio. Those may include: consumer electronics; enterprise software; gaming and gambling; cybersecurity and browser technology; point-of-sale terminals; digital signage display companies; and other IoT segments.

But the time and effort to enter so-called "green field" markets is longer and riskier than battle-tested licensing programmes. The licensor will need time to get the patents vetted, polish-up old claim charts or assemble new ones, battle to see whether the rights can survive validity challenges, and to build up a stable of comparable licences to prove the worth to new licensees.

As it all plays out, the time continues to tick on the BlackBerry portfolio. Keen observers point out that eight years is the average time left on the patents. This is not enough to get the typical three to five-time return on investment that many IP investors seek when they put money into a patent deal. Here, it will be more realistic to expect to double the investment.

This also means BlackBerry will not see as much from its revenue-sharing agreement as it may like.

A recent article on Seeking Alpha concluded that **BlackBerry will face a "tall task"** to reach the \$700 million cap on the royalty sharing agreement. It said that the patent portfolio needs to generate at least \$2.1 billion if BlackBerry is to get a \$700 million share of the profits. But if you look at the historical financial results which BlackBerry obtained from its portfolio, and considering its earnings power will degrade over time, it's reasonable to expect \$275 million per year from it, said the article.

Therefore, it would take eight years for BlackBerry to get its revenue-sharing cap fully paid. But news reports have estimated that half of BlackBerry's portfolio will expire by 2027 – meaning there's four years of full monetisation left in it. All of this analysis has not considered the costs of the licensing programme which must come out first before BlackBerry shares in profits. "In the best-case scenario, I believe this deal will bring \$400-\$450 million in total over the next few years," the Seeking Alpha article concluded.

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