

EIP

EPO-EUIPO report: Patents and trademarks improve likelihood of start-ups securing funding

On 17th October 2023 the European Patent Office (EPO) and the European Union Intellectual Property Office (EUIPO) published a report on a joint study into the impact patents and trademarks can have on the financial success of European start-ups. The report concludes that there is a strong correlation between the use of IP rights and growth performance. Key findings in the report include:

- 29% of European start-ups have filed for registered IP rights, though there are significant differences between industry sectors
- Start-ups increasingly make use of IP rights as they grow
- Filing patent and trademark applications in the seed or early growth stage is associated with a higher likelihood of subsequent VC funding
- The filing of European patent and trademark applications via the EPO and the EUIPO is associated with an even higher likelihood of success in subsequent VC funding rounds
- The filing of patent and/or trademark applications is associated with a more than twice as high likelihood of a successful exit for investors

The study based these findings by first identifying companies listed in Crunchbase and having a base in Europe. Given that Crunchbase is a major source of funding information, we believe that it is reasonable to state that the study is weighted towards start-ups that are looking for funding, and therefore these findings appear to be significant for any start-

up looking to do likewise.

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According to the report, patent and trademark applications especially make a difference in the early growth stages of a start-up company, with companies in the Series A/Series B financing stage having a 6.4 times higher likelihood of getting funding after filing for patent protection, 4.3 times higher likelihood of funding after filing for trademark protection and an impressive 10.2 times increase in funding likelihood after filing for both patent and trademark protection.

The study also sheds light on the impact patents and trademarks have on having a successful exit for investors through either an IPO or by acquisition. To assess how well IPRs act as a predictor of a successful exit for a company the Cox proportional hazards model was used to evaluate the occurrence of a successful exit at a given point in time. The filing of trademark applications was associated with an increase of the odds of successful exit by a factor of 2.1, while the filing of patent applications was associated with a factor of 2.4, and the greatest increase, a factor of 3.2, was found for the combined filing of trademark and patent applications.

While the correlation found in the study between the use of IP rights and growth performance of European start-up companies appears strong, the report does not identify why that correlation exists. With regard to filing for patent protection, this may suggest that a start-up company is more innovative than average. With regard to filing for trademark protection, this may suggest that a start-up company was at least close to marketing. Maybe the use of IP rights simply suggests that a start-up company is well-managed.

Filing for patent and/or trademark protection should always be done to fulfil a strategic purpose. While it may not impress an investor to state that the reason for filing for patent and/or trademark protection was to improve the chance of getting funding, it does appear evident from the report that start-up companies looking for funding should be making a strategic assessment of whether or not, based on their own business model, to apply for IP rights before embarking on any funding round.