

IP-Backed Lending

A Case Study in Due Diligence and IP Valuation

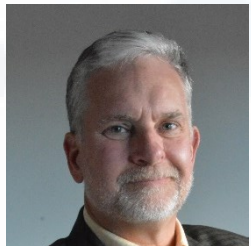
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20+ Years of Creating Value within the Patent System

Who Am I?



Certified Patent Valuation Analyst

Financing IP directly for 9 years
30%+ IRR on 15+ loans.

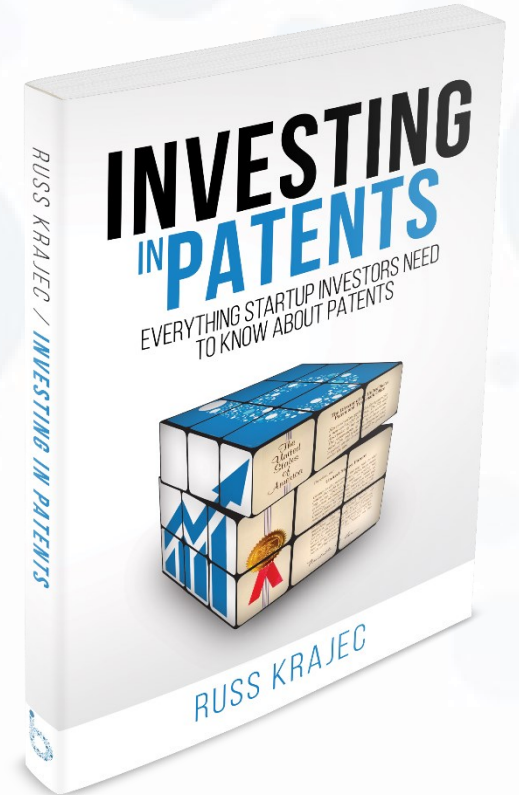
Author of “Investing in Patents.”

Certified Patent Value Analyst.

Practicing patent attorney for 20+ years – 800+ patents drafted.

IAM’s Top 300 Patent Strategists many years running.

Host of the “PatentMyths” podcast.



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Bluelron has been financing patents since 2015

Automed, Inc (Agtech) – Ongoing investment - IRR 169%

Lucan Technologies, Inc. (Electronic Devices) – Liquidation exit – IRR 11.5%

Colorado CodeCraft, Inc. (Software) – Successful exit by acquisition – IRR 53%

National Family Support, LLC (Financial Services) – Ongoing investment – IRR 237%

Dregalla Medical Technologies/Lucina BioTech, Inc. (Medical Device) – Ongoing investment – IRR 37.6%

Novum Concepts Ltd (Medical Software) – Ongoing investment

Endonovo Electroceuticals, Inc. (Medical Device) – Liquidation exit

Pest Notify, Inc. (Pest Control Products) – Successful exit by repurchase – IRR 1483%

FlowH, Inc.(Calendar Software) – Liquidation exit

PixAI Technology AB / Chronophant (Insurance Technology) – Liquidation exit

Frontier Water Systems, Inc. (Industrial Water Treatment) – Successful exit by repurchase – IRR 124%

Smart Phase Change Products, LLC (Construction Technologies) – Liquidation exit

Infinity Heart Valves, LLC (Medical Device) – Liquidation exit

Tetrapod, Inc / Chatbox (Software) – Successful exit by repurchase – IRR 442%

Innovative Organics, Inc (Organic Soil Treatment) – Liquidation exit

VITY, Inc (Influencer Marketing) – Liquidation exit – IRR 22%

Track record: 9 Year IRR of over 30%

Bluelron Proprietary



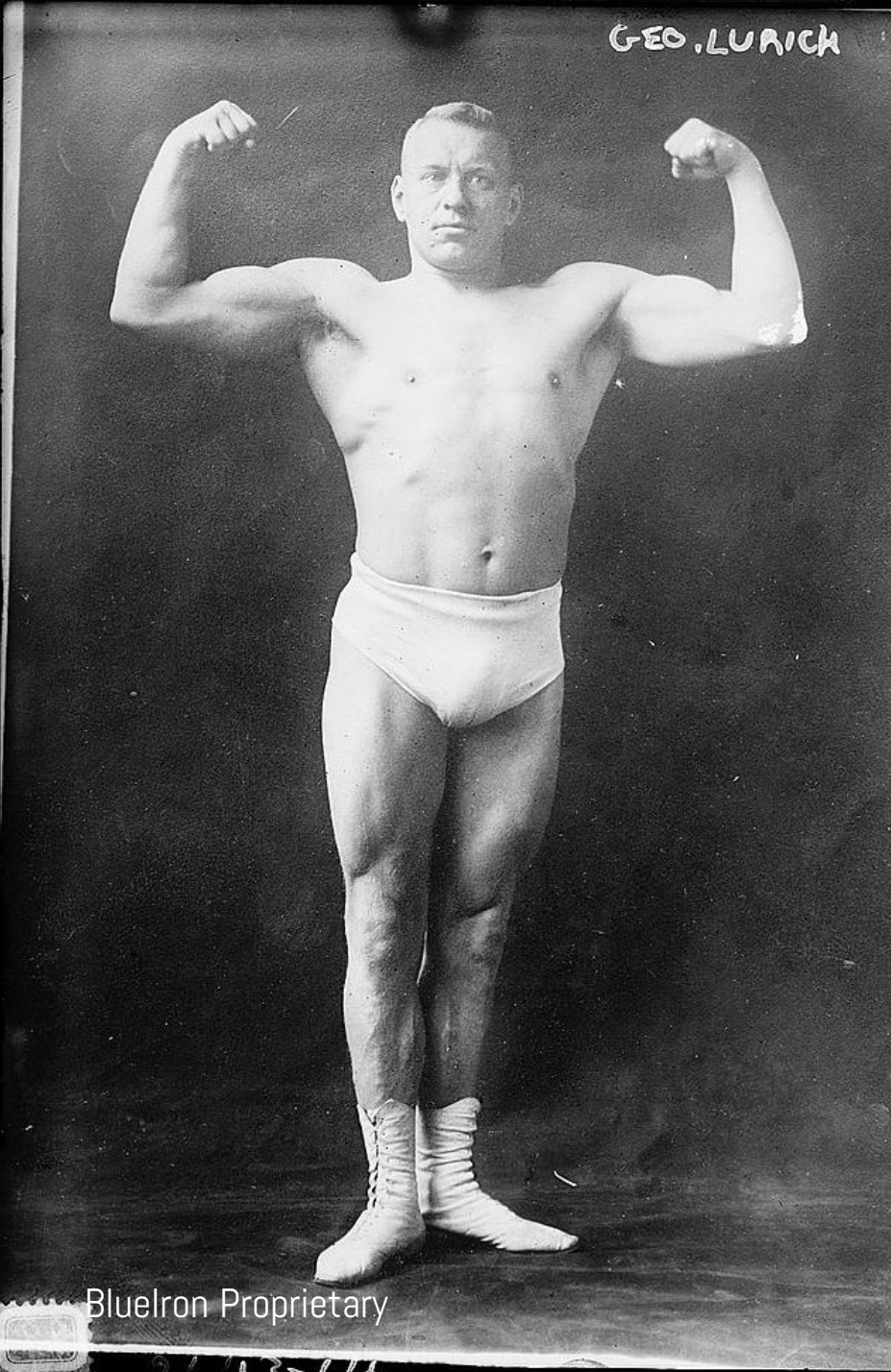
Russ Krajec, Founder, Bluelron

- Patent attorney, author of “Investing in Patents”
- Certified Patent Valuation Analyst
- Investor with 30%+ IRR from over 15 IP-backed investments



Jack Phillips, Venture Partner, Bluelron

- Former US Navy intelligence officer
- Technology and Startup investor



IP-Backed Loans are Same as Equity Investing – Only Better

High-yield return, plus equity kicker in the form of warrants.

Massive downside protection.

Favorable workout environment to lender.

IP collateral creates incentives for successful workout, if needed.

Loan Structure: Convertible Note with IP as Collateral

Interest-bearing loan that pays back quarterly.

Optional conversion to equity at **Lender's Option.**

Top of cap table with direct access to IP in a default.

IP-Lending and IP Valuation

IP valuation is all about one thing:
REVENUE.

IP valuation is also about scenarios, not
about a “number.”

- Patents are not fungible.
- IP’s valuation today may not be the same tomorrow.

Our diligence is two staged: company finances and IP valuation

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What is Ivani?

Ivani is a Home Automation IoT company.

Ivani's Sensify™ is a patented customer firmware that adds valuable capabilities to existing "smart home" technology without adding new hardware.

Ivani's Fortune 100 partners deploy Sensify™ to convert their one-off device sales into recurring SaaS revenue.

Ivani turns a one-off sale of a lightbulb into a SaaS subscription.

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What is Ivani? Sensing technology.

Ivani's Product

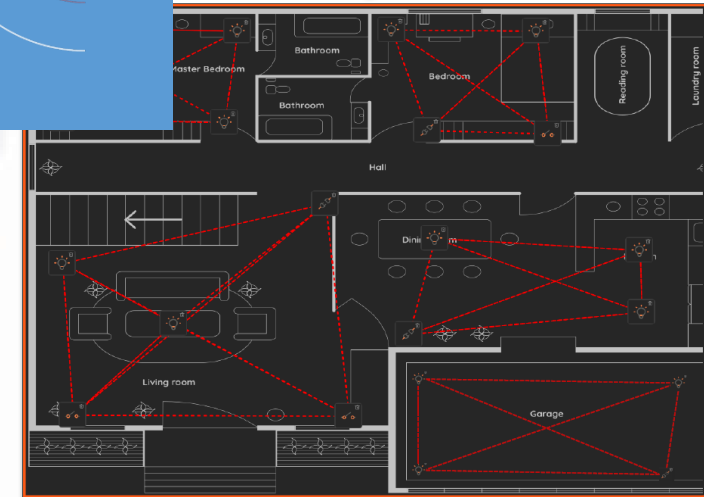
Converts in-home devices into sensors for: alarms, automatic controllers, and more



A person's body disrupts the signal between wireless devices in a home or business.

The existing "meshes" of devices are *already installed*, waiting for Ivani's software.

No new hardware to install.



IVANI®

Converts Hardware Sales into SaaS Revenue

How Is It Used?

Senses people in a room by monitoring RF signals between existing electronic devices.

Initial beachhead markets



Auto lighting control



Home security



Smart thermostat optimization

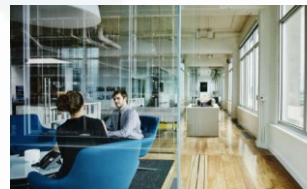
Future markets



Senior living activity data



Security



Occupant safety data



Space utilization data



Guest experience

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Valuable IP?



INVENTION RATING CHECKLIST

This rating system is explained in Russ Krajec's book "Investing In Patents", available at InvestingInPatents.com. Additional information on these topics can be found at BlueIronIP.com.

PATENT WORTHINESS

Could you get a patent and would it be enforceable? If the invention is not detectable, try reforming the invention so that it could be. Likewise, adjust the focus of the invention to read on the right actor. Remember that you cannot enforce your patent against your customer, only your competitor.

Score NOVELTY

- 5 New scientific phenomena are applied (less than 1%, 10,000,000 trials)
- 4 Improvement uses science that is new to the industry or technology (4%, up to 10,000 trials)
- 3 Applies engineering knowledge from other industries or technologies (18%, up to 1000 trials)
- 2 Solution not well known in industry, requires creative thinking (45%, up to 100 trials)
- 1 Obvious, routine solution (32%, less than 10 trials)

Score DETECTABILITY

- 5 Detectable through casual inspection/competitor advertising
- 4 Detectable through inference based on observation
- 3 Detectable through targeted investigation and experimentation
- 2 Detectable through experimentation by subject matter experts
- 1 Undetectable without specific knowledge about implementation

Score ACTOR ANALYSIS

- 5 One actor who is a direct competitor and has deep pockets
- 4 One actor who does not compete, but has deep pockets
- 3 One actor who is a customer, but had deep pockets
- 2 Two actors, one is a deep pocketed competitor
- 1 Two or more actors, all of which are customers or a single actor who is immune to litigation

INVESTING IN PATENTS

EVERYTHING STARTUP INVESTORS AND THEIR CEOs NEED TO KNOW



DESIGN AROUND ANALYSIS

Compare the invention against the best alternative design. The best alternative can be a product in the market, or how you might design a product to compete with the invention. **There ALWAYS is an alternative to your design.**

Score COMPARISON OF INVENTION TO BEST DESIGN AROUND ALTERNATIVE

- 5 Invention has 10x performance advantage over best alternative
- 4 Invention has 4x performance advantage over best alternative
- 3 Best design around alternative is missing important features of invention
- 2 Best design around alternative is equivalent to invention in cost/performance
- 1 Best design around alternative is superior in cost/performance to invention

Score TRUE ECONOMIC ADVANTAGE OF INVENTION

- 5 Invention has economic advantage over alternative of 10x or greater
- 4 Invention has economic advantage over alternative of 4x
- 3 Invention has economic advantage over alternative of 2x
- 2 Invention has economic advantage over alternative of 1.5x
- 1 Invention has no economic advantage over alternative

INTERNAL BUSINESS VALUE

How well does the invention fit in your existing product line.

Score ALIGNMENT TO INTERNAL BUSINESS PLAN

- 5 The invention is committed to ship
- 4 The invention is likely to ship in the next product cycle
- 3 Resources devoted to implementation

EXTERNAL BUSINESS VALUE

This section examines how well the invention fits into **competitor's** product lines, as well as the outbound licensing potential and applicability to industry standards. This is where patents have a multiplying effect to make your company truly valuable.

Score COMPETITOR'S PRODUCT FIT

- 5 Addresses direct need of competitor's product and fits in competitor's strategy

New Scientific Phenomena – But Runs on Existing Hardware

Ivani's Technology:

What was previously “noise” in wireless communications is now “signal.”

Innovative Product: Harnessed a previously unused scientific phenomena.

Broad Use Cases: Initial deployment is in the vast residential market, with many other large commercial applications to follow.

Put Into Practical Use: Ivani’s Sensify firmware runs on *existing hardware* already deployed in the tens of millions of devices.

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Well-run, Well-managed Bootstrapped Company

Ivani The Company

Founded 2014 in St. Louis, MO.

Bootstrapped \$19.3M investment to date (\$16.3M equity/\$3M debt).

14 Employees (including fractional CFO).

91+ Granted Patents with 24 Pending.

Signed License Agreement with Major Industry Partner (10,000,000 users).

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Ivani's Team Has Life-Long Bonds



Herb King

- Lead equity investor.
- Proven innovator, executive, and investor.
- Founder and former CEO of King Innovation (acquired by Power Products, a Sentinel Capital portfolio company).



John Wootton

- Former CTO, DRS Technologies.
- Principal, Wootton Enterprises.
- 1999 Missouri Inventor of the Year.



Justin McKinney, co-founder and CEO

- Experienced business leader, entrepreneur, innovator
- Co-inventor on 60+ patents
- BA, Principia College; MBA, Washington University (St. Louis)



Matt Wootton, co-founder and CTO

- Experienced engineer and technologist.
- Co-inventor on 100+ patents.
- BA, Franklin W. Olin College of Engineering; MBA, Walden University

Experienced leaders.

- Seasoned company operators.
- Successful exits.
- Deep technology expertise.
- Family owned/family run.

Self-funded (\$19.3M invested).

- Prudently managed.
- Long-term focus.

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Great Revenue Starts with 10,000,000 Users

Large Scale Licensing Partnership



Ivani's first Licensing Partner has 10,000,000 users and an installed base of 80,000,000 devices.

Licensing Partner **already paid over \$5,000,000** initial payment as part of license.

Licensing Partner plans deployment in Q3 2024, with first recurring revenue to Ivani in Q4 2024.

License agreement is revenue share with a minimum payment per customer.

Note: Licensing Partner has publicly announced Ivani's functionality for their products, but not (yet) publicly announced Ivani as their technology partner. Hence, their name remains confidential.

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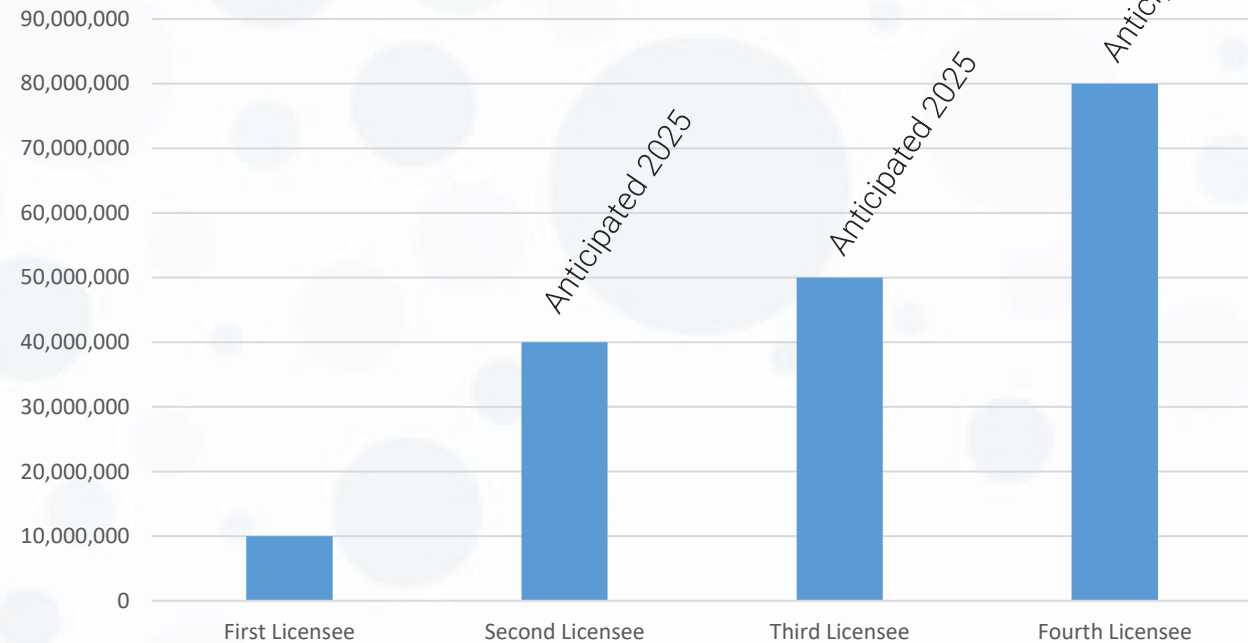
Billion Dollar Company Valuation Potential

Next Group of Licensees are Even Bigger

These potential licensees have **already performed** proof of concept testing on **their hardware**.



Number of Existing Installed Users by Licensee



First license activation by a customer puts Ivani at **\$500M valuation** in 5 years.



Ivani's Projected Financials

Scenarios Modeled for Loan Underwriting:

Baseline:

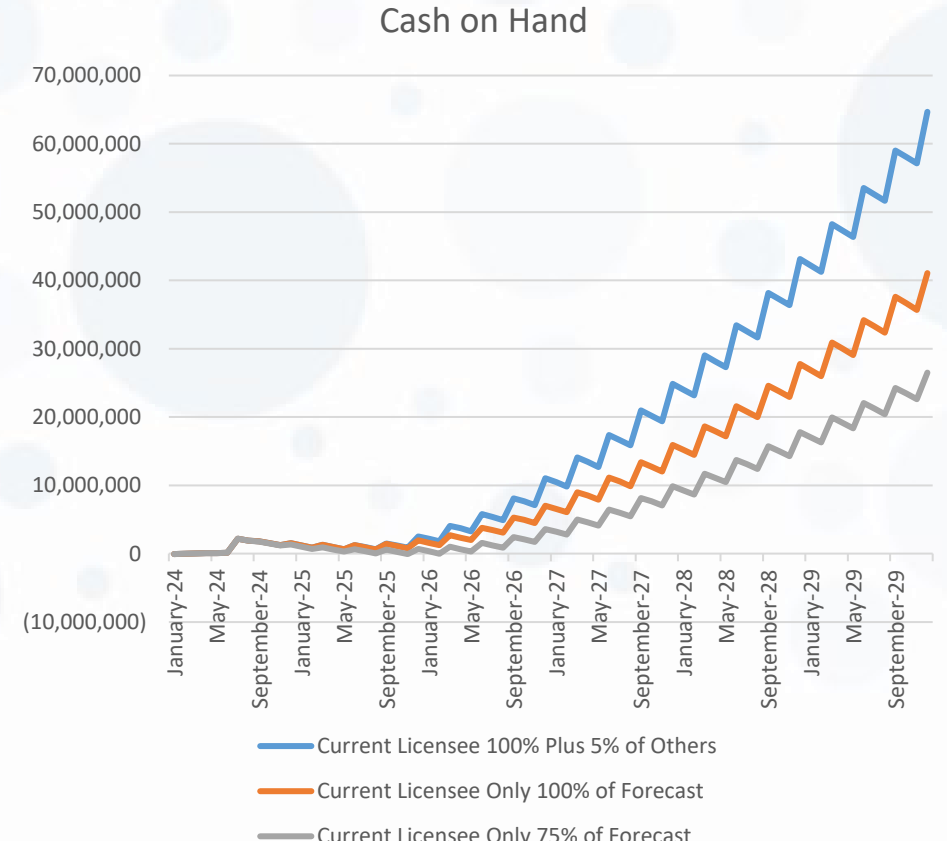
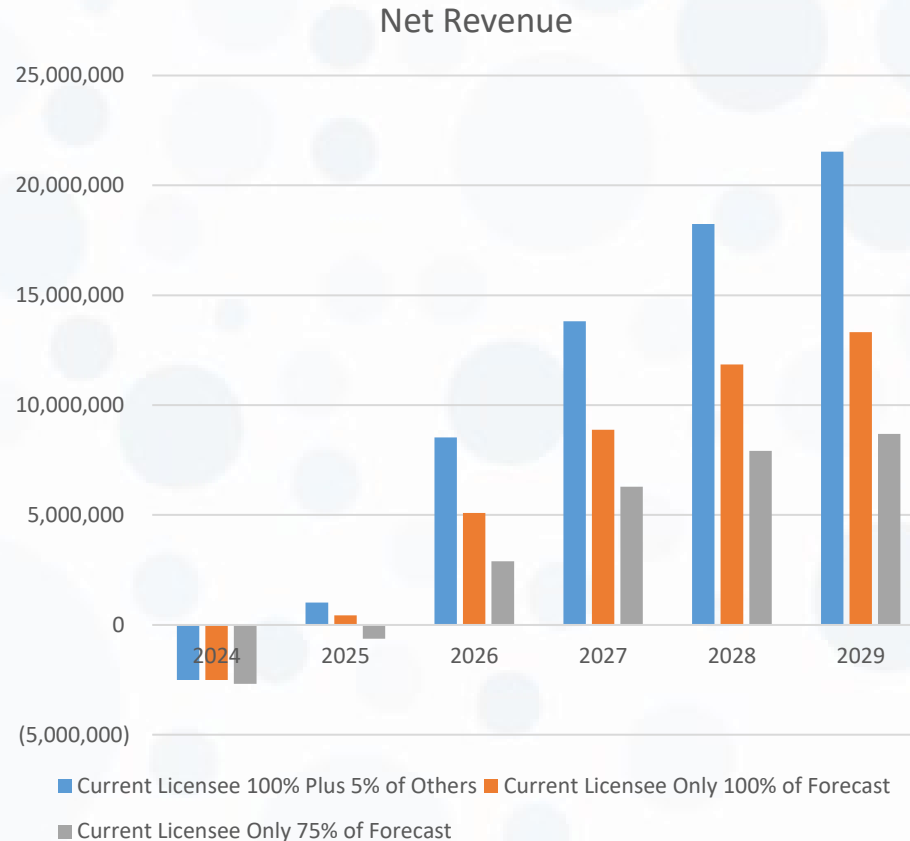
- Current licensee delivers at 100% projected revenue.
- At least 5% of deals in pipeline materialize.

Mid-low probability:

- Current licensee delivers at 100% projected revenue.
- No other partnerships materialize.

Low probability:

- Current licensee delivers at 75% of forecast.



Stress Test to Understand Issues



Things We Like About Ivani

First mover advantage with compelling technology.

“New” technology that runs on **existing hardware**.

Low barrier to entry for Fortune 100 companies.

Already licensed to Fortune 100 company with 10,000,000 users – and **potential 170,000,000 existing users** with other licensees.

Family-run company with prudent, long-term outlook.

Enormous IP portfolio with many options for monetization.

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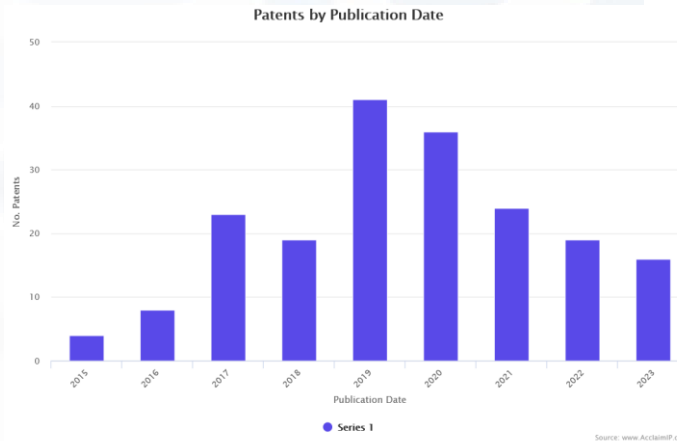


Our Collateral: Patents

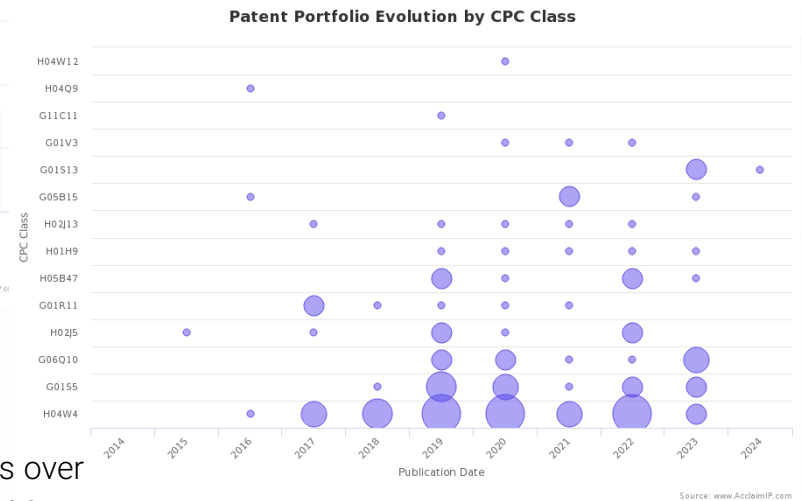
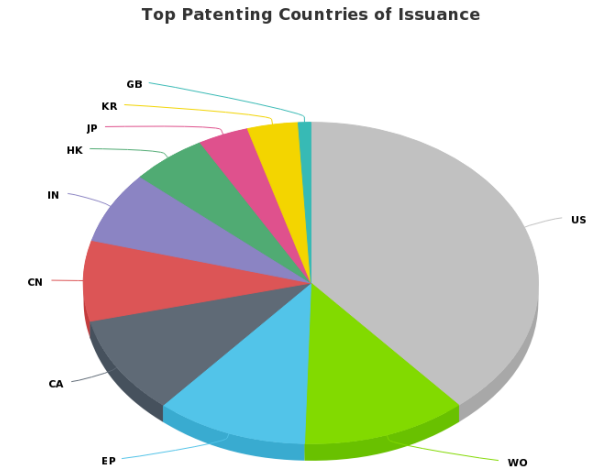
Our Collateral: World-Class IP Portfolio

What makes this IP portfolio valuable?

- 91+ Issued Patents with 24 Pending.
- Strong, focused IP in many CPC classes.
- Excellent US and International coverage.
- **Documented Evidence of Use for infringed patents.**
- Open continuation applications in many families.
- Portfolio developed over 8+ years with plenty of remaining patent term for future licensing.
- **Many potential IP buyers have already completed proof of concept with Ivani's technology.**



Excellent US and International coverage.



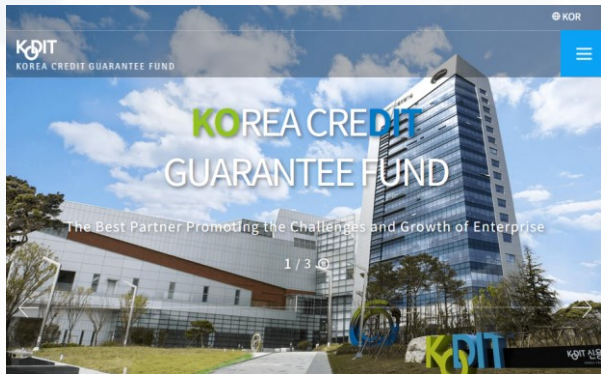
Portfolio evolution shows many filings over many years and many classes covered.

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Same Rating Tool Used to Underwrite \$2B IP-Backed Loans

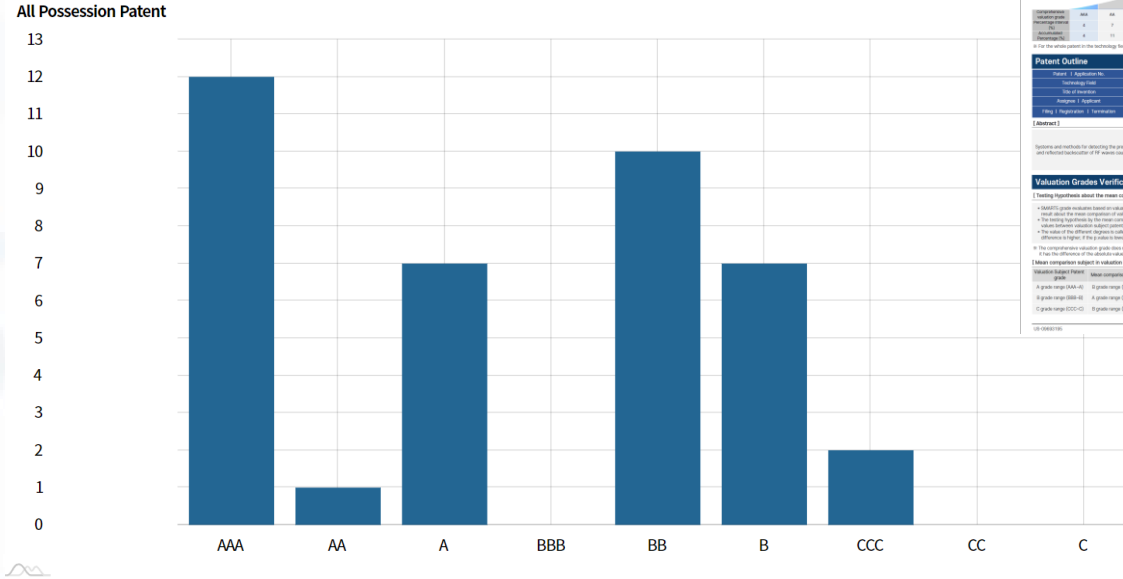
AAA Rated Portfolio by SMART5



Bluelron Proprietary

South Korea's Korea Credit Guarantee Fund (KODIT) uses SMART5 as their Primary Patent Valuation Tool for \$2B+ of IP-backed loans.

AAA Rating is Top 4% of All Patents



Evaluation of 39 of Ivani's US patents as rated by KIPA's SMART5.

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Valuation Tool Used by HSBC-UK for IP-Backed Loans

One
Valuation
Method:
\$123M



Inngot's Analysis:
Relief from Royalty valuation
method: \$123M (preliminary value).

- Estimates value of IP if that IP had to be licensed rather than owned.
- This value used by HSBC-UK for underwriting IP-backed loans.
- Inngot's analysis also used by NatWest to underwrite IP-backed loans in the UK.



IP Valuation

Contribution to income:
(Relief from royalty method)

Value of investment made:
(Cost amortisation method)

Sector averages:
(Market comparison method)

Orderly Disposal Value

Valuation currency:

Status of this IP value

Reference: PWTM-VBOZ-MRIY-YWJW
Date Issued: 26/06/2024 1:41 pm
Version: 3

The current status of this valuation is: AMBER - Awaiting moderation

Based on forecast:	\$123,575,000
Based on sector average growth rate:	\$7,841,000
Downside disposal estimate:	Not Calculated
Current net value:	\$8,052,000
In 2 years, inc. planned investment:	\$9,359,000
In 2 years, exc. planned investment:	\$7,074,000
Typical pre-money company IP value found:	Not Available

Reference: PWTM-VBOZ-MRIY-YWJW
Date Issued: 26/06/2024 1:41 pm
Version: 3

The current status of this valuation is: AMBER - Awaiting moderation

Financial Forecast
Projected performance data entered for this innovation only (may not be representative of the whole business)

	Year 1	Year 2	Year 3	Year 4	Year 5
ESTIMATE OF TURNOVER	\$2,306,537	29,872,807	56,097,783	70,965,887	77,846,058
DIRECT OPERATING COSTS	\$911,202	1,463,202	2,003,202	2,243,202	2,243,202
R&D DEVELOPMENT COSTS	\$2,302,734	2,497,734	3,127,734	3,247,734	3,314,734
CONTRACTED OR RECURRING INCOME	100%	90%	80%	70%	60%
LICENSED INCOME	100%	100%	100%	100%	100%

■ Historical data ■ User estimate ■ Projections calculated by Sollomon

This IP is believed to have a lifespan of 15 years
 It is estimated that the maximum annual revenue will be achieved in 10 years
 These figures do assume further external investment is provided (over and above re-investment of profits)
 The estimated level of further investment needed to realise these figures is \$4,000,000
 The main area of expenditure is Staff



Existing Infringement is a Key Factor in Valuation

Others are Infringing Ivani's Patents



Infringement is a “storehouse of value.”

- Documented infringement can be used to obtain license agreements from other operating companies.
- Infringement lawsuits can look back **six years** for royalties.
- Infringed patents can be sold to enforcement entities or litigated directly.

146 products have shown infringement on 40 of Ivani's patents (using automated infringement tools.)

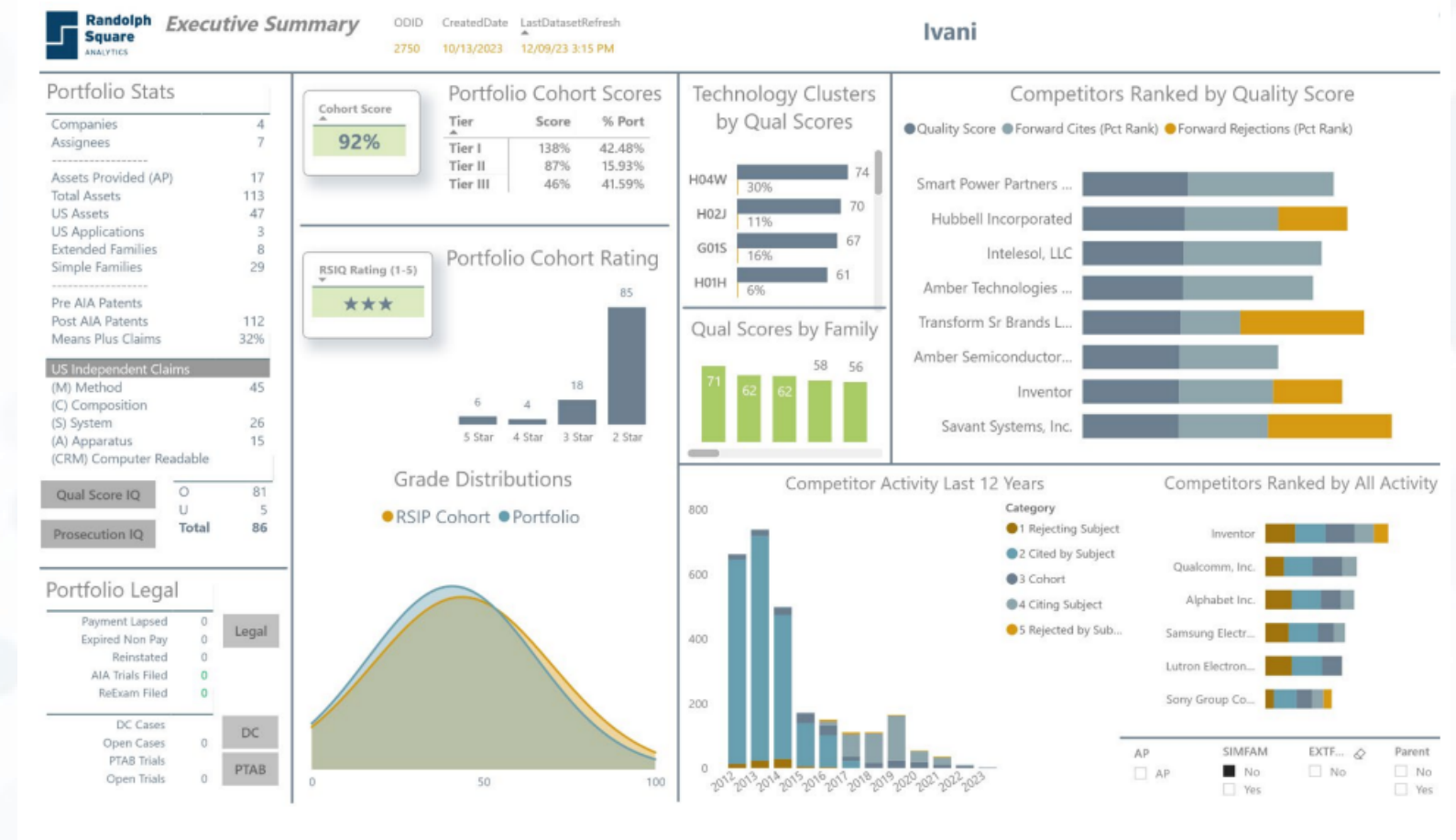
Note that further manual analysis is required prior to actual litigation.

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Internal Tools are Far, Far Better than Publicly Available Ones

Litigation
Financing
Entities
Have
Fantastic
Tools



Early Innovation Pays Dividends

Ivani's History: "Non-Core" Patents

2014 – Began as a hardware controller technology. Integrations to Legrand devices.



Developed many hardware-centric patents that are now infringed by many manufacturers of 'smart' switches and controllers.



Documented Evidence of Use (EoU):

- "Smart" switches from multiple vendors
- "Smart" controllers from multiple vendors.

Estimated \$30-50M recovery if these patents were enforced today.

Estimates validated by two patent enforcement entities.



Ivani's "Core" Patents

\$80M+ Licensing Potential

In 2020, Ivani began focusing on "Sensing as a Service" software offering on other manufacturer's devices.

Ivani began porting their software onto other manufacturer's devices.

Proof of concept, compatibility testing, performance testing complete or underway with large brands.

Current licensing model open Ivani's software to be delivered to **170,000,000 existing users**.



Note: Each of these brands has seen the Ivani portfolio and tested Ivani's software.

Each are potential purchasers of just the patents or the whole company.

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IP Monetization is Not Trivial, But has Multiple Possibilities

IP Valuation Depends on Recovery Scenario

In an unlikely default/recovery scenario, we have several monetization options to recover our loan value – and much more.

We have 4% loan to value ratio – or 25 times collateral coverage on our \$4M loan.

Scenario 1: “Fire sale” of IP assets to existing licensee, industry consortium, or enforcement entities.

- Estimated \$20M using patent broker.
- 6-24 months to liquidate.

Scenario 2: Enforcement of “non-core” IP against documented infringers.

- 12-18 month licensing/litigation campaign with enforcement partner.
- Recovery \$30-50M.

Scenario 3: Enforcement/licensing of “core” IP to licensees in pipeline.

- 6-60 month licensing campaign with licensing agent.
- Potential \$80M+ royalties.

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Patent Valuation Based on Many Scenarios Validated by Outside Sources

What is the “Real” Patent Value?

Inngot valuation (used by HSBC-UK and NatWest for underwriting IP-backed loans): **\$123M**

SMART5 analysis (used by Korea Credit Guarantee Fund (KODIT) for underwriting IP-backed loans): **AAA Rating**

“Fire sale” fast liquidation estimate: **\$20M+** (validated by patent brokers).

Recovery of enforcement of non-core “hardware patents” based on existing infringement: **\$30-50M** (validated by two patent enforcement entities).

Estimated long-term licensing of core patents: **\$80M+** (validated by patent licensing entities).

Our analysis: there are multiple routes to recover the \$4M loan value with very high confidence.

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That Much Collateral? That Doesn't Seem Right...

Why Would Ivani Pledge So Much Collateral?

Ivani has an enormous incentive to pay back our loan.

Bluelron requires all assets of the company.

- Industry standard terms for any senior secured debt.
- Collateral gives us the most options to repay our investors.
- *Bluelron does not require a personal guarantee.*

Ivani will move heaven and earth to be successful (and make their loan payments).

- Both families have their wealth tied up in Ivani.
- They recognize the current value of the IP – and its potential value.

Doing partial collateral does not make practical sense.

- The IP has far more valuable together than separately.

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Why Does Ivani Want Our IP-Backed Loan?

Our Loan Gives Ivani Options

Our loan gets Ivani to profitability without additional capital.

- Our loan is about ***half the cost of capital*** of venture/angel money (mid-teens vs 35-50% for VC/angel).
- Our loan is non-dilutive, which is important for family-run companies.

Our loan gives Ivani negotiating power with Venture Capital – and the option to walk away.

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Key Covenants and Downside Scenarios

Key Covenants

- Cash covenant: 6m forward interest + 3m capex (OPEX) with alternative of current assets greater than 1.5x current liabilities plus 12m interest.
- Revenue covenant: 75% of forecasted revenue
- R&D and CAPEX: no greater than 110% of forecast without lender consent, items exceeding threshold will require consent.
- Others: restrictions and limitations of use of proceeds, additional indebtedness, no distributions or dividends, no company sales or acquisitions.
- Monthly financial reporting
- Maintenance of collateral
- Interest reserve: 12 months interest held by BlueIron.
- Other than reporting, maintenance, and interest reserves, covenants kick in at year one.

Downside Scenarios

- Most likely downside is related to timing of partnerships.
- Expenses scale with new customers and would be scaled back depending on partnership timing.
- Staffing is increased in response to revenue increases.
- Because partnerships take a large engineering effort for proof of concepts, some partnerships may be delayed.

Modelled scenarios for underwriting are:

- Current licenses at 75% of projected revenue (low probability)
- Current licenses at 100% of projected revenue with no additional partnerships (medium low probability)
- Current licenses at 100% of projected revenue and at least 5% of revenue realized from other partnerships (baseline scenario)

THIS LIST IS NOT AN EXHAUSTIVE LIST OF ALL RISKS WHICH THE COMPANY MAY FACE

Key Risks

- Imani relies on third parties to sell their software to customers.
- Imani may enter various additional partnerships with current licensors, or these partnerships may take longer than expected.
- Product launches are dependent on partners, and delays are out of Imani's control.
- Imani is based in the United States and may struggle to hire and retain human capital.
- Partners may replace Imani's technology in the future and/or seek to commercialize Imani's IP.
- There is no guarantee that any consumer care sales training and awareness efforts will be successful.
- There is no guarantee that Imani supports any sale proceeds during the term of the contracts and/or such proceeds are a measure of current market performance of IANI.
- Imani is structured as an LLC, as a result the benefits of Imani may accrue only to members and not the company.
- Imani is currently comprised of two sales. There is no guarantee dispute resolution processes will be efficient and/or timely.
- Management and advisors are related. Justin Blumstein is the son of Mark King and Matthew Blumstein is the son of John Blumstein.
- If Blumstein converts Iani to equity, there is no guarantee that Iani software is sold and/or that if Iani becomes a public company that a liquid market exists allowing Blumstein to sell off and/or hedge the position.
- A portion of the proceeds of the loan may be used to repay member loans made to the company during the interim period between signing and funding along with payment of salaries for management. There is no guarantee such members would support the company in the future should such default an obligations to Blumstein.

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Accredited / Qualified Investors Only

What's In It for Investors?

Investment Amount:	\$4.0M
IRR to Investors:	14% for 12 months, then variable over SOFR.
Return on Warrants, Recovery:	50/50 split with BlueIron after 14% IRR hurdle . Potential upside in excess of 30% IRR.
Management Fee:	None. BlueIron receives admin fees, credit spread, and participation on warrants or recovery (if default).

Please Request Investor Deck if Interested

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Deep Industry Expertise, Plus Extensive Outreach

Why BlueIron?

Track record of patent-related financing and valuation.

Access to IP enforcement, liquidation, and sourcing markets.

Deal sourcing engine with monthly outreach to 10,000+ patent owners.

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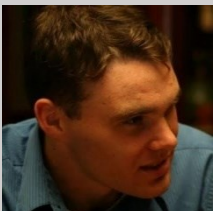
Ivani: A De-Risked Investment

IP Valuation from in
multiple scenarios,
validated by multiple
sources.



Russ Krajec, Founder, Bluelron

- Patent attorney, author of "Investing in Patents"
- Certified Patent Valuation Analyst
- Investor with 30%+ IRR from over 15 IP-backed investments



Jack Phillips, Venture Partner, Bluelron

- Former US Navy intelligence officer
- Technology and Startup investor

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