

Group Discussion Session

CASE STUDY 2 - FINLAND



Group Discussion Session (**GROUP 1**)
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

1. *Does XZS Ltd perform all the functions regarding DEMPE of the Group's IP?*

1. Functions performed ?

- Development : Ireland
- Enhancement : according to what we have : Finland but global operating entites
- Maintenance : both
- Protection : Irish company because purchased the license and has the business model
- Exploitation : Finland and other operating entities

2. Royalty paid ? Is it in line with the global strategy ?

Group Discussion Session (**GROUP 2**)
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

1. *Does XZS Ltd perform all the functions regarding DEMPE of the Group's IP?*

DEMP

Customer Projects

Hard to control the risks related to the IP derived from these customer projects from Ireland

E

Exploitation since its consulting services close to the customer the risk is more a operational than a strategic risk

To get a good conclusion we need to better understand the business model and the concrete risks that drive the profitability

Group Discussion Session **(GROUP 3)**
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

1. *Does XZS Ltd perform all the functions regarding DEMPE of the Group's IP?*
 - Can Ireland control the risk?
 - Not all the functions in Ireland? What are the people in Ireland doing? What decisions are made in Ireland?
 - Is there proof that Ireland is involved in the development?
 - Who does the enhancement? Local company?
 - Protection probably in Ireland
 - Maintenance Ireland
 - Exploitation local entity

Group Discussion Session (**GROUP 1**)
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QUESTIONS/ISSUES FOR GROUP DISCUSSION

2. *Are the local XZeus entities, such as XZeusFin, (legal or beneficial) owners of any intangibles or performing any DEMPE functions of intangibles?*

See Question 1

Group Discussion Session (**GROUP 2**)
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

2. *Are the local XZeus entities, such as XZeusFin, (legal or beneficial) owners of any intangibles or performing any DEMPE functions of intangibles?*

Technology

E

Exploitation since its consulting services are close to the customer the risk is more an operational than a strategic risk

Customer List and possibly local technology IP controlled by Fin

Brand

E

We assume that the customer experience drives the value of the brand therefore Fin would be economical owner for the local market

Group Discussion Session **(GROUP 3)**
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

2. *Are the local XZeus entities, such as XZeusFin, (legal or beneficial) owners of any intangibles or performing any DEMPE functions of intangibles?*

- Legal owner Ireland
- Beneficial owner?
- Own IP created by the own employees
- Exploitation in local market
- Enhancement?

Group Discussion Session (GROUP 1)
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

3. *How valuable is XZS's IP?*

It depends on what is in the IP?

2 different views :

- How valuable is it for each kind of service if performed in the company that uses the IP, and how it needs to use it ?
- It depends on the market share of operating entities? Reasoning like a franchise . Compare the operating margin of the operating entities

Group Discussion Session (**GROUP 2**)
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

3. *How valuable is XZS's IP?*

Customized Solutions

In this business model we understand the customer relationship to drive the value

so technology and brand are less valuable

Purely based on the groups TP Approach

No DCF Data

At least in Finland not growing exponentially

Multiple of the Profits 1 B

Group Discussion Session (GROUP 3)
CASE STUDY 2 - FINLAND

QUESTIONS/ISSUES FOR GROUP DISCUSSION

3. *How valuable is XZS's IP?*

There seems to be some IP in Ireland

Cost sharing agreement?

If we don't pay to Ireland, to whom should we pay?

Does local entity use IP created from other group entities?

Group Discussion Session (**GROUP 1**)
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**QUESTIONS/ISSUES
FOR GROUP DISCUSSION**

4. Which TP method(s) could be applicable for the royalty transaction under IPLA?
- A. Could royalty rate of 8.5% under the IPLA be at arm's length?
 - B. Could royalty rate determined by TNMM in IPLA be at arm's length?
- A. We don't know**
B. If Profit Split, no relevance for TNMM

Group Discussion Session (GROUP 2)
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QUESTIONS/ISSUES FOR GROUP DISCUSSION

4. Which TP method(s) could be applicable for the royalty transaction under IPLA?
- Could royalty rate of 8.5% under the IPLA be at arm's length?
 - Could royalty rate determined by TNMM in IPLA be at arm's length?

This model treats the “entrepreneurial entity in FIN” as limited risk

The TP Model does not align with the economic incentives

8.5% probably not at arms length depends on market, business model etc.

Royalty rate based on TNMM is not applicable to this business model

Integrate TNMM and Royalty *based on Cup or financial valuation techniques* in the PSM

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Group Discussion Session **(GROUP 3)**
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QUESTIONS/ISSUES FOR GROUP DISCUSSION

4. Which TP method(s) could be applicable for the royalty transaction under IPLA?
- Could royalty rate of 8.5% under the IPLA be at arm's length?
 - Could royalty rate determined by TNMM in IPLA be at arm's length?
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- It depends on the comparables
 - It depends on the DEMPE functions
 - How do you benchmark unique IP?
 - TNMM for the MRP not the royalty
 - Its not arms length that you pay more than 60 percent of your profit to Ireland when you reach the groups profit margin of 15 percent
 - Residual profit split, TNMM for routine profit
 - Cost sharing agreement?

Group Discussion Session (GROUP 1)
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QUESTIONS/ISSUES FOR GROUP DISCUSSION

5. *Is the remuneration of the local operating XZeus entities for the services provided under the IPSA at arm's length?*

- Depends on the range and the comparables, but the range of comparables could be really wide
- In this case, no
- What about AI? It could impact the remuneration of the local operating entity

Group Discussion Session (GROUP 2)
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QUESTIONS/ISSUES FOR GROUP DISCUSSION

5. *Is the remuneration of the local operating XZeus entities for the services provided under the IPSA at arm's length?*

Based on the DEMPE Functions Cost Plus is probably the wrong method

Group Discussion Session (**GROUP 3**)
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QUESTIONS/ISSUES FOR GROUP DISCUSSION

5. *Is the remuneration of the local operating XZeus entities for the services provided under the IPISA at arm's length?*

- If its really contract development
- How is the higher remuneration for India justified?
- 7 percent seems too low for RnD