STRONG FORCE

INSIGHTS

The Value of Durable Patent Moats

and How IP Category Leaders Use Them



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AI has entered a phase of deeper interplay with the rest of the economy, with huge profit zones at stake; but AI is more likely to destroy an old competitive moat than provide a new one.

In two white papers,[1] we explored how AI is simultaneously: (1) setting the stage for new architectures and systems that will reshape many industries and (2) accelerating competitive forces, destroying the competitive moats throughout industry, and forcing leaders and investors to seek durable alternatives. We proposed a solution: businesses can adopt closed-loop, agentic architectures and systems to unlock large performance gains and acquire foundational patents to wrap them with a durable moat.

Below we turn to what durable patent moats can mean for enterprise valuations and how true IP category leaders use a full playbook to "merchandise" their categories and maximize value.

The Moat is the Linchpin of Company Value

Ultimately, every business valuation boils down to modeling the expected value of a future stream of cash, discounted for risk and time; however, a given stream of revenue can have radically different economic value depending on whether a business has a durable competitive moat protecting it from competition.

Without a moat, today's revenues may attract competitors who replicate the offering, undercut prices, and erode margins, making future cash flows uncertain and requiring continual reinvestment just to maintain market position. AI is dramatically compressing the timing cycle for this kind of competitor entry across all industries.

1 White papers: The Great Rearchitecture and Competitive Strategy in the Era of Applied AI

With a durable moat, a business has a stronger ability to preserve market share, sustain pricing power, and generate predictable cash flows over time—making the same current revenue stream worth substantially more to investors. The critical factor is not how much revenue a business generates today, but how much of that revenue it can defend tomorrow.

As AI dramatically reduces the time and cost required to replicate products and services, we believe the durability of a company's competitive advantage will become the single most important determinant of its long-term value—more important than its revenue or its current growth rate.

Ironically, the abundance of powerful artificial intelligence makes it a poor source of differentiation. As the old moats become weaker, the scarce alternatives sharply increase in value. Certain foundational patents are a strong candidate to provide durable moats for effective adopters of Applied AI architectures and systems.

Illustration and Examples

A simple way to illustrate the value of a moat is to compare two businesses generating roughly the same revenue but with very different ability to defend their profits. Imagine two companies, each generating $100 million in annual revenue:

ILLUSTRATIVE VALUATION: COMPANY A VS. COMPANY B

	COMPANY A: NO DURABLE MOAT	COMPANY B: STRONG DURABLE MOAT
Annual revenue	$100M	**$100M**
Operating margin	8%	**25%**
Annual operating profit	$8M	**$25M**
Illustrative valuation multiple	10× profit	**20× profit**
Business value	**$80M**	**$500M**

Company A faces competitors that can replicate its offering and force prices down. Company B has a durable advantage—such as protected intellectual property, switching costs, or powerful network effects—that

helps it sustain higher margins and makes its future earnings more predictable.

A real-world comparison is Microsoft versus Ford Motor Company. Microsoft sells software and cloud services with recurring revenue, high margins and significant customer switching costs; Ford operates in a capital-intensive industry with manufacturing costs, cyclical demand and intense competition. Investors therefore tend to value Microsoft's earnings at a substantially higher multiple than Ford's, reflecting different expectations for growth, profitability and durability—not simply the amount of revenue each company generates.

EXAMPLE: MICROSOFT VS. FORD

VALUATION METRIC	MICROSOFT	FORD
Business model	**Software and cloud**	Automobiles
Price-to-sales multiple	**~12×**	~0.26×
Illustrative value of $10B in annual revenue	**$120B**	**$2.6B**

The implication: at these multiples, the market values a dollar of Microsoft's revenue at roughly 46 times as much as a dollar of Ford's revenue. This reflects differences in margins, growth prospects and the expected durability of future cash flows, among other factors, all of which depend on the strength of the competitive moat.[2]

A key point to note is that a durable competitive advantage can increase company value twice: by protecting the profits earned on each dollar of revenue and by increasing the number of years investors expect those profits to persist. These combined effects translate to much higher multiples.

Using the Patent Moat to Merchandise a Category

Traditional approaches to valuing patents ignore the large impact of a competitive moat and focus instead on projected royalty streams. This is an artifact of the fact that valuation professionals mainly serve secondary patent markets, where typically

2 Of course, capital intensity is another factor, so the difference in value is not purely attributable to the competitive moat.

older patents are purchased for enforcement and non-exclusive licensing.

While we agree that royalty generation is a valuable part of the playbook for a patent owner, we believe licensing is best deployed last in the sequence, after a business fully capitalizes on other advantages:

01

Operating Exclusivity

Sustaining differentiation of AI-driven product lines with a durable competitive moat (positively impacts market share, margins, and multiples)

02

Bargaining Leverage

Using IP as a strong bargaining chip: in alliances that structure industry positions and/or determine profit share; negotiation of permission to operate with other IP holders; collateralized borrowing; and more

03

Multiple Enhancement

In private or public equity, coupling powerful IP with companies to raise multiples

04

Revenue Expansion

Using IP as a basis for equity or profit share in alliances and/or royalty generation (extends profit participation beyond the scope of product lines)

The Playbook for Patent Value Creation

The most effective businesses build strong patent moats to deter competitor entry. Strong patent leaders do not need to continuously litigate. They regularly inform the largest customers and channels of their positions and include robust patent license fees as a pricing component in their offerings.[3] The message diffuses through the value chain as customers and channels pass IP costs upstream to their suppliers or downstream to their own customers. Customers also demand protective contract terms, such as indemnification against patent infringement claims and warranties of non-infringement that highlight the risk of

3 A classic example was the 5% patent royalty Qualcomm charged on the price of a smartphone, which was in addition to the price for its chip.

ignoring the patents. Eventually, prospective competitor offerings can't even clear basic legal diligence hurdles of VCs or corporate IP groups.

Once the company's own moat is well-defined, a business can use patents as a negotiating lever to structure the rest of an ecosystem, such as by obtaining favorable terms with suppliers or establishing joint ventures or alliances with other players in a value chain. After these strategic uses are in place, the balance of a body of patent rights can be used to generate royalties.

Note that venture and private equity players can activate all of these effects by pairing patents with portfolio companies to increase company valuations.

Illustration of the Impact of a Patent Moat on Company Value

Details vary by industry, but for any business that is generating revenue, using a patent moat to defend margins and market share has the potential to create a large impact on company value. Market leaders with strong patents consistently achieve superior operating margins.[4] Many also add very high-margin licensing revenue. To illustrate, if two companies each generate $500 million in annual revenue, but one has a patent estate that allows it to sustain higher growth and better margins, along with some licensing revenue, the valuation impact is large.

4 Patents and Supra-Competitive Prices: Evidence From Consumer Products (2026); Gaétan de Rassenfosse and Ling Zhou · Journal of Empirical Legal Studies. The authors linked 2,778 patents to 825 consumer products, tracked prices for up to eight years, and examined what happened when patent protection expired. They found that product prices fell by 8–10% following patent expiry, with larger declines for more important patents. Studies by others in semiconductors and manufacturing showed similar effects. The effects are even larger in some industries (e.g., pharma) and in cases of strong patents (as indicated by various measures of quality). Patents are also positively correlated with various metrics of startup success.

EXAMPLE: ILLUSTRATIVE VALUATION WITH AND WITHOUT A PATENT MOAT

	NO PATENT MOAT	PATENT MOAT
REVENUE BUILD		
Core product revenue	$500M	**$500M**
Patent licensing revenue	—	**$25M**
Total revenue	**$500M**	**$525M**
GROWTH		
Core revenue growth (share gain, pricing power)	3%	**8%**
Licensing revenue growth	—	**50%**
Blended revenue growth	3%	**10%**
Expected added growth from new products (Yrs 2–5)	~1%	**~4%**
PROFITABILITY		
Core operating margin	10%	**18%**
Licensing operating margin	—	**~85%**
Blended operating margin	10%	**~21%**
Annual operating profit	**$50M**	**$111M**
VALUATION		
Valuation multiple	15×	**23×**
Illustrative company value	**$750M**	**~$2.6B**

Illustrative Valuation With and Without a Patent Moat

In the illustrated case, even with modest assumptions about impacts on growth, margins, and revenue, the patent moat more than triples company value. Over the 10-year protection period (half of a full patent

life), the additional $60+ million in annual operating profit amounts to $610 million in cumulative incremental operating profit, before taxes, discounting, and the modest costs of maintaining or enforcing the patents.

Our experience is that the impact of patents on margins and market share varies by market stage. In the emerging/growth phase, while ecosystem business structures are still forming and share is up for grabs, true category leaders can establish near-monopoly positions around very high-margin offerings and negotiate large equity or revenue share positions in alliances, JVs, distribution partnerships and other transactions. Later, as the market matures, the base for licensing expands, setting the stage for the licensing part of the playbook.

Applied AI

Applied AI promises the reshaping of existing categories and the formation of new ones. Just taking off now, it is an excellent environment for the IP playbook. Industry leaders are forecasting that revenue streams in applied AI will eventually be measured in tens of trillions. We believe that foundational patents on keystone architectures and systems of Applied AI can provide scarce, durable moats for strategic players. Success in even a small fraction of the sector could generate enormous enterprise value for buyers.

The Author

Charles Cella is Co-Founder of Strong Force Innovation Portfolios. With a background in physics, game theory and intellectual property, he is a respected strategist and the most prolific inventor of US AI patent filings since 2019. In the mid-2010s, Strong Force was the first and most comprehensive mover in innovating and patenting applied AI architectures and systems that reflect the deep interplay of AI with the other most important systems and workflows of the economy. Its 1,000 patents (generated by an inventive team that includes multiple top AI inventors) extend to industrial, financial, transportation, value chain, energy, health care and other use cases. These are available to provide durable competitive moats for players who are seeking to capitalize on the next era of AI.

