The Winners of Failed Patent Reform

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Last Wednesday night, patent reform was effectively killed ([source](#)). And given upcoming mid-term elections, it is unlikely that efforts will get rebooted anytime soon. This is a significant **surprise** to many as patent reform had largely been a bipartisan effort and was seen as an easy win for politicians. (I put the word **surprise** in bold because it is perhaps the single most important word in investing... **wherever there is surprise, there is opportunity.)**

A natural question follows every surprise: who benefits most?

In this case, the answer is clear: Intellectual Property holding companies. In the short to intermediate term, this news completely eliminates the biggest fear surrounding the sector: political risk. Any investor that believed a significant impairment to future earnings was coming has to completely rethink their position. In the longer term, a failure to enact patent reform implies the IP holding companies are in a significantly stronger political position than the market previously believed (some insight [here](#)). And this makes me think any future legislation will have little impact to the patent enforcement / patent licensing business model going forward.

This surprise opens a window of investment opportunity as the market begins to re-rate sector risk. And because lower risk equals higher multiples and higher stock prices, I believe the following companies are positioned to outperform the market over the coming months:

IDCC, RMBS, TSRA, ACTG, VHC, VRNG, IMI, COPY, ROVI, RPXC - [click here to view my valuation spreadsheet](#).

There are a few companies on this list that are of particular interest to me: IDCC, TSRA, VRNG, and COPY (patent holding companies) and RPXC (SaaS patent risk management). Perhaps I'll do a write-up on each in a future Buyside Note. In the meantime, those angry over the death of patent reform would be well served to consider a new spin on an old maxim:

If you can't beat 'em, buy 'em.