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INTELLECTUAL PROPERTY CONSIDERATIONS IN MERGERS AND ACQUISITIONS



ARTICLE SERIES

Intellectual property rights (IPRs) can be very valuable assets and ought to be considered, like other proprietary rights, in merger and acquisition transactions.

For instance, some of the most valuable IPRs include the Google and Microsoft trademarks valued at \$44.3bn and \$44.28bn respectively.[1]

Furthermore, with a number of technology start-ups being acquired, there is the possibility that they would have a portfolio of patents or copyright that would cover their software and products and these may form the most valuable assets of the target companies.

Consequently, the determination of the value of IPRs is vital as it helps the parties reach an agreement on the consideration to be paid by the buyer/acquirer.

Taking into contemplation how critical IPRs are, it becomes necessary to consider certain key issues that must be addressed and steps that must be taken by the parties to effectively transfer IPRs during a merger or acquisition. These include:

1. CONDUCT DUE DILIGENCE

Conducting a due diligence exercise in a merger or acquisition transaction is crucial. The first step is to identify the IPRs that are to be transferred as part of the transaction.

This is because the target company may have other intellectual property which, it does not own but has used under a licensing or franchising arrangement.

In addition to information regarding the existing IPRs which the target may have provided, an independent search should be conducted to confirm whether there are any other IPRs which may have been omitted and to confirm the ownership and status of the IPRs.

The buyer/acquirer should then request for information on the status of the identified IPRs including ownership and validity.

Information regarding any threatened or pending litigation or claims should also be obtained. The nature of the claims or potential damages should be assessed as this may have an effect on the future exploitation of the IPRs and serve as a basis for determining the value of the transaction.

2. REVIEW ALL EXISTING IP RELATED AGREEMENTS

After identifying the IPRs, it is vital to obtain and review all IP related agreements for terms or conditions that would impact the transaction or the exploitation of the IPRs.

Some of the relevant agreements are Licensing Agreements, Deeds of Assignment, Co-existence Agreements, Settlement Agreements and Distribution Agreements.

Some of the terms and clauses to look out for include those relating to change of control, assignability, exclusivity, rights to enhancements and improvements, scope of use, jurisdictional limits and the right to sub-license.

[1] Forbes (2019) The 10 Most Valuable Trademarks. Available from: <https://www.forbes.com/pictures/eidl45jl/the-10-most-valuable-trademarks-2/#88f651766aea> [Accessed on 1st October 2019].

3. OBTAIN WARRANTIES AND INDEMNITIES

In a merger or acquisition, the acquirer should, as a way of protecting its interests, obtain certain IPR-related warranties and/or indemnities from the seller. These warranties/indemnities should include the following:

- That the seller is the owner of the IPRs;*
- That all renewal and maintenance fees have been paid;*
- That the IPRs are valid and subsisting;*
- That the IPR does not infringe any third party's rights;*
- That there are no rights that have been created in respect of the IPRs (e.g. licences) that could interfere with the buyer's enjoyment of the IPR.*

4. DRAFT AGREEMENTS FOR THE TRANSFER OF INTELLECTUAL PROPERTY RIGHTS

To effect and properly evidence the transfer of the IPRs, proper documentation such as Deeds of Assignment and Licences should be drafted and executed by the parties. It is important to do this in good time, especially if one of the parties will cease to exist after the transaction and may no longer be able to sign the relevant documents.

In drafting the agreements, it is important to consider whether the target is required to obtain consent from any third party for the transfer of any IPR.

If this is the case, then the acquirer should require the target to represent in the agreement that all required consents have been obtained and also undertake to indemnify the acquirer in the event that the representation is false.

In addition, once the agreements have been executed, they should be filed at the relevant Registries.

CONCLUSION

Intellectual Property Rights are some of the most valuable property rights that an organisation may hold.

When contemplating a merger or acquisition, it is vital to proceed carefully with respect to the IPRs. Failure to do this may lead to the undervaluing or overvaluing of the IPRs.

As such, it is advisable for parties to a merger or acquisition involving the transfer of IPRs to seek the assistance of experienced intellectual property lawyers at every step of the transaction.

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Contact us at:

4th Floor, Marble House,
1 Kingsway Road, Falomo Ikoyi,
Lagos, Nigeria

Telephone: (+234-1) 4617321-3, 2793367-8, 7406533,

E-mail: lagos@aelex.com

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click below



@aelexpartners