Dansk Institut for Immaterialretsuddannelse

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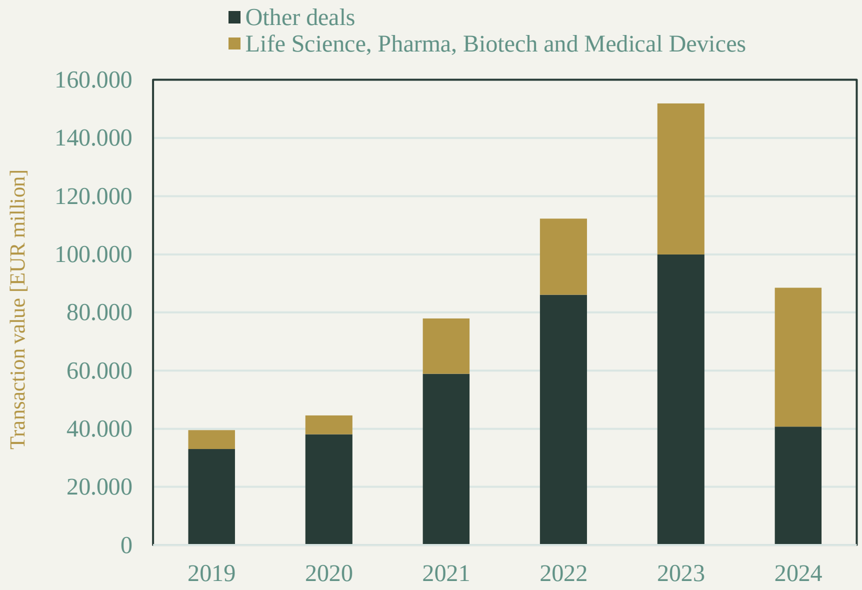
IPR-driven M&A:
A perspective from a Danish lawyer
with Dan Moalem

Agenda

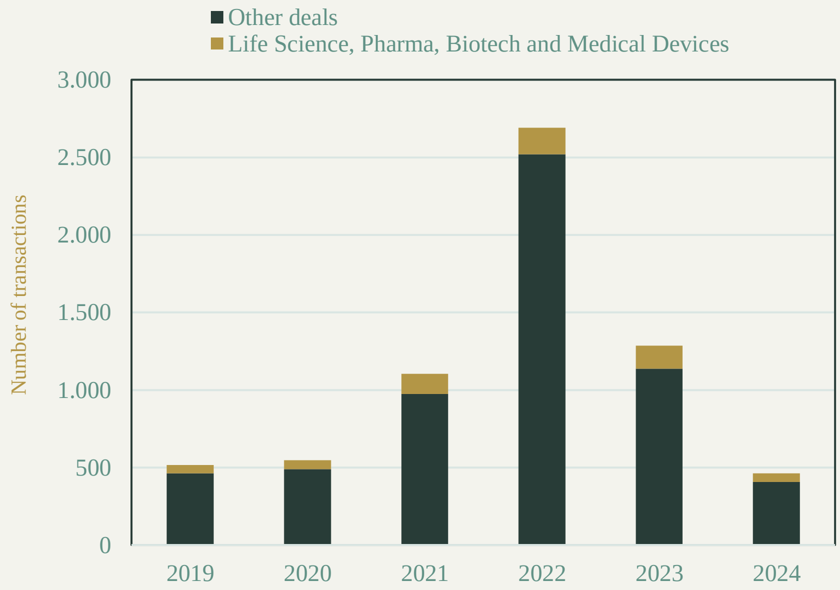
1. M&A Transaction Statistics
2. IPR-Focused Transactions
3. Main Reasons for IPR-Driven M&A Transactions
4. IPR-Driven Transaction Structures
5. Legal Attention Points in IPR Transactions
6. Typical Warranties in IPR Transactions
7. Typical Exclusions from W&I Insurance in IPR Transactions

Transaction Statistics | Overview of Transaction Value and Volume in Denmark

Transaction Value: Denmark



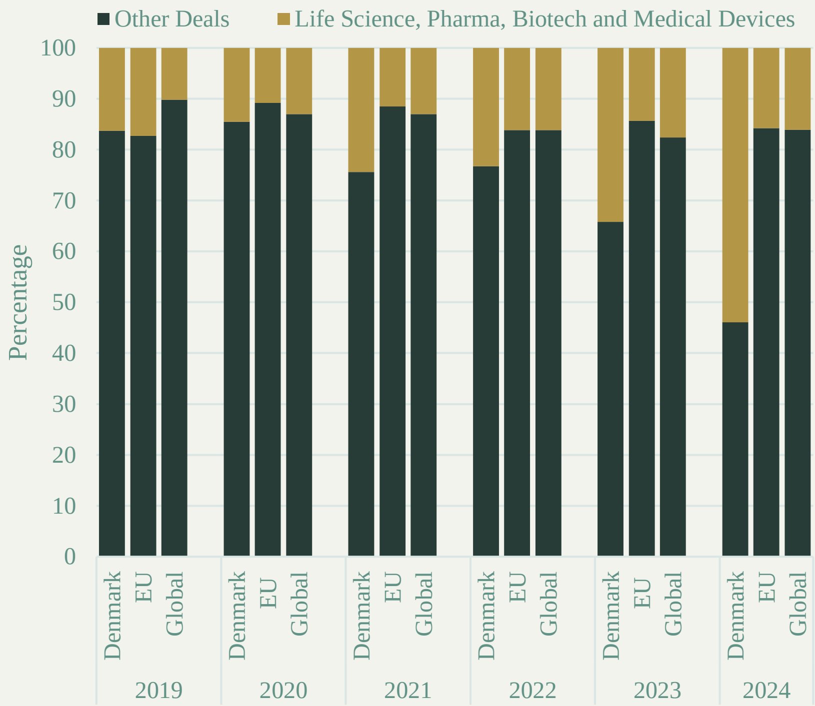
Transaction Volume: Denmark



* Statistics derived from Mergermarket data segmented by agricultural/animal biotechnology, biotechnology production equipment, biotechnology related research, industrial biotechnology, drug development, drug manufacture, drug supply, medical equipment & services for seller, buyer and target located in Denmark

Transaction Statistics | Relative Transaction Value and Volume in Global, EU and Denmark

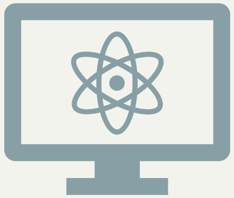
Transaction Value



Transaction Volume

* Statistics derived from Mergermarket data segmented by agricultural/animal biotechnology, biotechnology production equipment, biotechnology related research, industrial biotechnology, drug development, drug manufacture, drug supply, medical equipment & services

Common characteristics of IPR-driven M&A transactions:



Acquisition of IPR assets

- E.g. patents, trademarks, copyrights, and licences

Acquisition of non-cash-positive companies with primary IPR assets under development

- “Cash-burner companies”
- E.g. companies at pre-clinical trial stages

IPR-Focused Transactions | Main Reasons for IPR-driven M&A Transactions

Why acquire IPR through M&A?

- To acquire IPR for existing portfolio
- To start new business areas
- To acquire (production) capacity for existing IPR portfolio
- To acquire market share
- To acquire talent

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IPR-Focused Transactions | IPR-Driven Transaction Structures

1 – Share Purchase

- Purchase of all shares
- May include prior carve-out of IPR to a new company
- No taxation is due if shares are sold by a Danish com-pany
- Special Danish tax regime relative to milestone paymen ts/earn-outs (“periodic payments ”, *løbende ydelser*)

2 – Asset Purchase

- Purchase of assets
- E.g. patents or facilities
- New taxation value equal to the acquistition sum for the purchaser
- Taxable income for the seller
- Tax suicide to move IPR assets out of Denmark due to exit taxation, policy trends, etc.

3 – Minority Investment

- Typically, subscription for a minority equity stake
- No taxation consi-derations in rela-tion to subscrip-tion

4 – Joint Venture

- Formal collaboration between companies
- Taxation depends on the structure, e.g. joint ownership and I/S are not considered separate taxable entities

5 – Licence Agreement

- Use of IPR without ownership, can be exclusive
- Licensor income is subject to taxation
- Intragroup income generated based upon IPR needs to be valued and distributed ac-cording to DEMPE* princip les (**Development, Enhancement, Main tenance, Protection, Exploitation*)

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Legal Due Diligence | Legal Attention Points in IPR Transactions (1/2)

In patent-focused IPR transactions, conducting a comprehensive scientific due diligence is essential.

The legal due diligence process for IPR-focused transactions will often focus on the following attention points.

Ownership

- Legal ownership
- Potential co-owners and joint ownership
- Chain of title and registrations
- Territorial scope of patent rights
- Remaining duration of rights
- Maintenance and enforcement
- Liens, encumbrances or claims

Residual Rights

- Limitations or restrictions on residual rights
- Value of residual rights, earn-out, royalty payment, etc.,
- Transferability and enforcement, change of control clauses
- Contractual clarity
- Impact on future exits and business plans, attractiveness of the company
- Consent requirements

Legal Due Diligence | Legal Attention Points in IPR Transactions (2/2)

Compliance and regulatory

- Compliance with relevant laws and regulations in relation to clinical trials
- Export control issues and compliance with international IP laws
- Industry-specific regulations
- Anti-Trust
- Insurance, including IP infringement insurance
- Employee Knowledge Transfer

Licences

- Critical IPR not owned by the company
- Termination and change of control clauses
- Exclusivity, sublicencing, and field of use restrictions
- Commercialisation requirements from universities
- Financial obligations (e.g. royalties)
- Assignment
- Renegotiation of licences, adequacy of terms

W&I Insurance | Typical Warranties in IPR Transactions

Requirements for obtaining W&I insurance on IPR guarantees:

- ***Due diligence***
- ***Accurate disclosures***
- ***Robust IPR management***

Ownership of IPR	The target owns all relevant IPR, including IPR created by employees
Inbound / Outbound Licences	All licences are valid and within the rights of the licensor
Validity and Enforcement	The IPR is valid and enforceable
Non-Infringement	The IPR does not infringe on third-party rights
Open Source	The IPR is proprietary and is not based on open source-software
Sufficiency of IPR	The IPR is sufficient for the operation of the company

W&I Insurance | Typical Exclusions from W&I Insurance in IPR Transactions

Disclosed Matters

IPR issues known at the time of the transaction and specific indemnities

Forward-Looking Statements

Speculative or forward-looking warranties, e.g. future validity of patents

Underlying Legality

IPR-based activities that are illegal or non-compliant with regulations

Secondary Tax Liabilities

Loss of deferred tax asserts and transfer pricing

Consequential Damages

Indirect or consequential damages, e.g. loss of profit

Freelancers' Obligations

Liabilities arising from third-party freelancers

***NB:* The specific W&I insurance coverage can vary significantly depending on the particularities of the transaction**

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Thank you.

Appendix 1: Tax Considerations Continued | Attention Points and Out-Flagging of IPR

Typical Tax Attention Points

1. Choice between asset or share deal (taxable/tax exempt transfer), including sell-side pre-deal carve-outs/reorganisations. Tax efficient carve-out models available relative to **patents and knowhow** (more difficult with other forms of IPR such as copyright (software), trademarks)

2. Special Danish tax regime relative to milestone payments/earn-outs ("periodic payments", *løbende ydelser*)

3. Tax Amortisation Benefit (TAB), including step-up in depreciation values in asset deals

4. Transfer Pricing, including DEMPE * functions

*** DEMPE:** People functions necessary to extract value from IPR (Development, Enhancement, Maintenance, Protection, Exploitation) – for TP purposes, must be remunerated separately from the "naked" IPR ownership

"Out-Flagging" of IPR? – Be Careful!

1. In the past, common to consider transferring IPR cross-border, both in order to centralise IPR ownership in multinational enterprises, and for tax purposes. Various tax purposes, including:
    1. Lower effective tax rate on returns on IPR, either due to a low general rate, or due to special incentives ("patent box regimes")
    2. Ownership jurisdictions with superior tax treaty network to counter withholding tax on IPR licence fees

2. Increasingly unattractive for a number of reasons:
    1. *Exit taxation* on market value of IPR → high upfront cost of transfer, tax dispute risk due to uncertainty of IPR value (mandatory DAC6 reporting on "hard-to-value intangibles")
    2. *Controlled Foreign Corporation-rules*: many low-tax IPR companies will be subject to mandatory taxation in parent company jurisdiction (e.g. Denmark)
    3. *DEMPE functions* often difficult to maintain in low-tax jurisdictions (exceptions: Switzerland, certain "patent box" countries e.g. Belgium)
    4. *Policy trend*: Decreasing tax attractiveness of patent box regimes

3. **Conclusion: Cross-border transfer of IPR often unattractive for tax purposes. Exceptions exist. Concrete analysis necessary.**

Appendix 2: Tax Considerations Continued | Possibility of Tax-Neutral Carve-Out for patents and knowhow

Carve-out case: Buyer wants to buy only certain assets out of target – e.g. certain patents and/or knowhow – not all assets. Carve-out necessary.

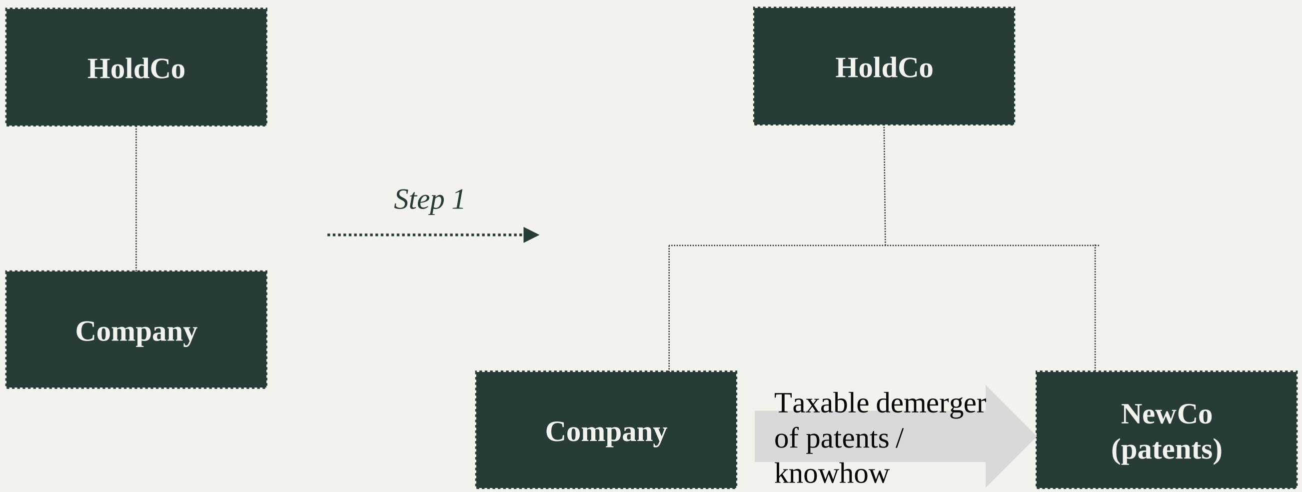
1. Two possibilities:

   a) Asset sale of the patents/knowhow – can be tax inefficient

   b) Sell-side pre-deal carve-out of patent rights / knowhow into a new company and sale of the shares of the new company (variations exist) – can be structured tax neutrally

Tax-neutral Carve-out

Step 1: Taxable reorganization within the Seller's Danish group (mandatory tax consolidation of involved companies) – example here: taxable demerger of subsidiary



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Appendix 3: Tax Considerations Continued | Possibility of Tax-Neutral Carve-Out for Patents

Company will be taxed as having sold the patent rights to NewCo and NewCo as having acquired the patent rights on market terms.

HoldCo, Company and NewCo are subject to mandatory joint taxation.

NewCo will immediately fully depreciate the patent rights / knowhow for tax purposes (only possible for patent rights and knowhow). The depreciation is at least equal to the taxable gain of the Company for the transfer of patent rights, which in a joint taxation group means that the total taxable income from the demerger is zero, and no tax is due.

Step 2: HoldCo sells the shares of NewCo to buyer. The proceeds from the share sale are tax exempt