

Tilleke & Gibbins

TECHNOLOGY ACQUISITIONS – AN ASIAN BUYER'S PERSPECTIVE

BY most accounts and as supported in numerous reports and surveys by global accountancy and legal firms, in 2010 Asian companies consistently outpaced Western competitors in having both the confidence and the cash to acquire innovative technologies. The global economic slowdown of the past two years has narrowed the playing field considerably and has allowed fiscally sound Asian companies to shop for the intellectual property they need to enhance their competitiveness, transition to higher-value product manufacturing and diversify into new areas of expected growth.

Expanding innovation is regularly cited as a key priority in most emerging markets in Asia. This has resulted in governments ramping up their support of companies by way of outright R&D expenditure increases or through less conspicuous, but equally effective, tax incentives for technology-focused institutions. The economic slowdown's leveling of the playing field, coupled with near universal acceptance of the need for advancements in areas such as food efficiency and security, new energy and improved healthcare systems, has seen a dramatic increase in the number and scale of Asian acquisitions. Some examples:

- Mitsubishi Rayon Co acquires Lucite International Group (chemicals)
- Kirin Holdings acquires National Foods (food)
- Petronas acquires Italy's Selenia (lubricants)
- Japan's Takeda Pharmaceuticals acquires U.S. Millennium Pharmaceuticals (pharmaceuticals)
- Daiichi Sankyo acquires India's Ranbaxy Laboratories (pharmaceuticals)
- Indonesia's Bumi Resources acquires Australia's Herald Resources (mining)
- Shanda Games of China takes over San Francisco-based Mochi Media (online gaming)
- Commercial Bank of China acquires Thailand's ACL Bank (banking)
- Thailand's PTT Plc acquires the gasoline station Jet from Conoco Philips Inc. (energy)
- Haier Group acquires a 20% stake in New Zealand's Fisher & Paykel (white goods)
- Thai Union Frozen Products acquires U.K.'s John West (canning)
- Geely China acquires Volvo (automotive)
- Dainippon of Japan buys U.S. drug firm Sepracor (pharmaceuticals)
- India's Bharti Airtel takes over African telecoms giant Zain (telecommunications)

PROJECTED INCREASE IN ASIAN TECH ACQUISITIONS

Deal flow is up. Projections for increased tech acquisitions in 2011 by Asian buyers are consistent both in cross-border and domestic deals. Finance Asia and Ipsos project a 76%

increase in 2010 level cross-border outbound M&A from Asia Pacific acquirers for 2011 and a 73% increase in terms of intra-Asia Pacific M&A. Volume and deal size in the region saw a significant slump in 2008 and early 2009. Markets were boosted later in 2009 after a series of Chinese monetary and fiscal stimulus measures were announced. Deal value is also catching up with deal volume as Asian acquirers are buying larger than ever before. Several sources cite Asian deal values accounting for more than 70% of global deal activity in the fourth quarter of 2009.

SHOPPING LIST

With natural resources being of primary interest to the Chinese, regionally there are a host of intellectual property-intensive targets being taken up by Asian buyers. Financial services, consumer retail businesses (particularly food, beverages and healthcare businesses), manufacturing process technology, material sciences, telecommunications, pharmaceuticals and plant science businesses all appear frequently on Asian shopping lists.

THE ASIAN BUYER

Many of the CEOs of today's Asian technology buyers likely cut their corporate acquisition teeth more than ten years ago when their companies were targets of Western buyers or partner collaborators. Many of the lessons learned then still resonate with them now and their structure of an acquisition of an intellectual property-focused target will follow closely along similar Western formats.

When purchasing technology, Asian buyers focus primarily on identifying the technology to a degree sufficient to confirm that it fits the needs of the company. Of next importance is the investigation into the seller's ownership of the assets. The "deal fever" that afflicted so many Western companies in the late 1980s and 1990s—when Asian markets began to open up more substantially to foreign investors (as particularly true in China)—and resulted in poorly investigated infringements has not infected Asian buyers. Probably because Asian companies are used to dealing with intellectual property infringements, they tend to devote a significant amount of due diligence time and resources into confirming that the target does not infringe and that others are not infringing the target.

Our advice in terms of intellectual property acquisitions in Asia is that you are going to find the process not so very different from other experiences. However, there are several areas of concern which, if left unsettled or underconsidered, will likely cause difficulties for you in the future. This is not a job that should be left up entirely to



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your corporate M&A lawyers back home. You need local advice, on the ground, here in Asia.

IDENTIFYING THE TECHNOLOGY

A Western seller should be able to describe the technology in enough detail for an Asian buyer to understand it fully. This can be a simple step if the target technology is a product, but if it is a process for the formulation of something or a process for effecting some desired result, then the description may be

more complicated, especially if the process is a trade secret kept in the heads of a small reference group of key employees or inventors or in an operator's manual that the seller may not want to share until the deal is completed. The parties to a transaction can address this problem by entering into a nondisclosure agreement, but this has limitations and Western parties may consider this insufficient protection against unauthorized disclosure should the deal not proceed and they are forced to litigate the breach in an Asian courtroom to obtain a local injunction. Here, local counsel have a critical role to play in explaining to Asian buyers the consequences of breach as well as explaining seller consequences on incorrect or insufficient explanation.

CONFIRMING OWNERSHIP

Determining whether the seller actually owns the technology under consideration normally requires several meetings between the parties, including ones with relevant technicians, to understand how the technology was developed. These meetings are often useful means by which to develop a good working relationship between Asian buyers and Western sellers. Asian buyers will want to know how the technology was developed, by whom, when, and with whose funds. Prospective buyers also want to learn whether any public funds were involved in the R&D, particularly in the United States, which has very specific federal government guidelines on march-in rights and U.S. manufacturing obligations for inventions patented from federally-funded research.

With a number of recent high-profile cases in China and India of former employees of Western sellers peddling their know-how and trade secrets to unsuspecting Asian acquirers of their previous companies, be prepared for requests for copies of employment agreement confidentiality restrictions and covenants not to compete.

IP DUE DILIGENCE EXPECTATIONS

Asian buyers frequently request sellers to provide invention disclosure forms, patentability opinions, file wrappers, prior art searches, validity analysis reports, freedom-to-operate opinions, clearance opinions and increasingly, patent maps. With more and more patent crowding, this type of information is now considered near standard in Western tech-centric companies and Asian buyers know this. Patent maps are highly sought after by Asian buyers in order to look at patent families and the interactions between patents in a similar industry to help them decide whether what's for sale is something they want to buy. Patent mapping is a skill currently best provided by Western intellectual property experts and involves understanding the science, being able to see



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business opportunities, and requiring a sound knowledge of patent law. Asian buyers know that this valuable information is obtainable in the West and they seek it out. This information allows buyers to identify further acquisition targets, patent cross-licensing targets, and future competitive threats that may not have turned up through more traditional due diligence.

POST-COMPLETION ISSUES - IP ASSIGNMENT RECORDAL

After the acquisition agreement is signed, buyers will likely still look to sellers for assistance. The intellectual property that has now been assigned must be communicated to the relevant trademark offices and patent offices so that these authorities can update their records to show the details of the new owner. Asian buyers often press for tight assignment recordal deadlines as they will have long been preparing for and expecting a near immediate takeover of the business. Recordals are important to effect quickly in case the new owner needs to enforce its rights against infringers. Until the new owner is clearly identified in the trademark office and patent office records, fast and effective enforcement will not be possible in Asia.

Any conditions subsequent in the acquisition agreement, such as existing license termination/novation, settlement of disputes with third parties or response to patent examiner office actions, will likely also be a priority for the buyer.

PROSPECTS

During the past two years, market fluctuations across the globe have forced companies to realign traditional strengths with future growth aspirations. Technology and its accompanying intellectual property is seen by most governments and businesses as the logical bridge to get from the old to the new. Asian companies are making this arguably quantum leap by acquiring Western technologies that are now up for sale. With Asia Pacific serving currently as the engine driving an anticipated global recovery, we expect to see continued increases in technology acquisitions to play an important role in the turnaround. ■

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