I P BULLETIN

Vol. V Issue II, JULY-DEC., 2024, Pg. 35-49

INTELLECTUAL PROPERTY MANAGEMENT IN MERGERS AND ACQUISITIONS

- *Vaibhav Sharma*[1] *& Bharat Rakesh Bhardwaj*[2]

ABSTRACT

This research paper explores the multifaceted realm of Intellectual Property (IP) management within the framework of mergers and acquisitions (M&A). In an era characterized by heightened global transactions and technological advancements, businesses increasingly engage in M&A activities to bolster their market presence. However, the integration of IP assets presents unique challenges, necessitating a comprehensive understanding of the legal and strategic intricacies involved.

This paper commences by elucidating the foundational principles of intellectual property, delineating various forms of IP assets, and highlighting their critical role in contemporary business landscapes. It then delves into the significance of robust IP due diligence in M&A transactions, emphasizing its role in risk identification, valuation, and informed decision-making. The paper also outlines best practices and strategies for effective IP management during the M&A process, offering practical guidance on negotiation tactics, contractual frameworks, and post-transaction integration strategies. It explores the delicate balance between safeguarding proprietary rights and fostering collaborative innovation within merged entities.

This research contributes valuable insights to the existing body of knowledge by providing a thorough analysis of Intellectual Property management in the dynamic context of mergers and acquisitions. By navigating the legal intricacies and strategic considerations surrounding IP, businesses and legal practitioners can adeptly address challenges and optimize the value derived

[1] Vaibhav Sharma hold LL.M. degree in IPR Laws from National Law University, Jodhpur in 2023. currently Advocate at Rajasthan High Court and can be reached at adv.vaibhavrajan@gmail.com

[2] Bharat Rakesh Bhardwaj hold LL.M. degree in IPR Laws from National Law University, Jodhpur in 2023. currently Advocate at Rajasthan High Court and can be reached at bharatrbhardwaj@gmail.com.

from M&A transactions.

***KEYWORDS**:* IP due Diligence, Merger & Acquisitions, Intellectual Property, IP Asset & Management, IP Valuation

INTRODUCTION

Due to the prevalence of advanced technology, significant market control, intense competition, and corporate scandals, companies are under immense pressure to demonstrate efficient and effective operations in today's competitive corporate world. This burden is particularly challenging for small businesses, as it can lead to their extinction or difficult survival. To cope with these challenges, companies around the world utilize Merger & Acquisition (M&A) transactions, which enable them to work effectively under pressure and reduce the risk of extinction. M&A also provides companies with the means to address the inevitable situations that occur in the corporate space. The foundation of mergers was established in the late 1990s, and the 21st century has seen a substantial increase in corporate restructuring, with mergers, acquisitions, and amalgamations becoming common in the economy. M&A has become a driving force for organizational stability and potential ability worldwide. Corporate restructuring occurs when a corporation's growth strategies fail in a competitive market. The rise of globalization has intensified M&A activity in the current era.[3]

M&A has become a go-to growth strategy in the corporate world and has resulted in an increase in both creativity and productivity. This approach involves joining forces with companies that share similar interests, enabling swift acquisition of skills and competencies, expanding customer bases, securing funding, overcoming competition, and enhancing profitability.[4] As such, M&A serves a critical role in two ways: Firstly, it enhances multinational companies, and secondly, it provides a viable survival plan for Micro, Small, and Medium Enterprises to generate profits.

A merger is when one or more companies come together to form a new company in order to gain advantages such as economies of scale, market access, increased profits, and survival. According to the Companies Act of 2013[5], a merger is defined as the combining of two or more entities into a single entity and merging their assets and liabilities. In a merger, the entities that are merging cease to exist and instead operate under a new entity, known as the anchor entity. Amalgamation is often used interchangeably with a merger, but it differs in that it can occur through absorption.

---

[3] Kumar, D.N.S. (2007) "*Strategic Acquisition through Value-Based Management: A Case Analysis*", Vol. XXIV, No. 4, Abhigyan, 42.

[4] Jawa, R. (2019), Mergers, Acquisitions and Corporate Restructuring in India: Procedure and Case Studies, New Century Publications, New Delhi.

[5] See Chapter XV of Companies Act, 2013

On the other hand, an acquisition is the process of gaining control over another company's assets or management without merging the two companies.[6]

IP Due Diligence and Mergers & Acquisitions

It's important to note that in the current era, intellectual property (IP) assets are a crucial component of every M&A deal between companies. Therefore, companies consider their IP assets to be valuable assets that must be carefully evaluated before making any strategic decisions related to M&A, in order to avoid potential audits, penalties, or even litigation in the future. Since IP assets are non-physical assets, laws have been put in place to protect them from any unauthorized use. Behind every physical a company may have in market, there lies plethora of underlying IPs wherein the real value of the product and company as an aggregate, exists. Various acts such as the Patents Act of 1970 and the Copyright Act of 1957 have been enacted to govern transactions, IP holder rights, registration, and also provide remedies and damages to protect against infringement of the laws.[7]

In one of recent cases relating to IP rights being classified as assets of a company, the supreme court in *Canara Bank v. N.G. Subbaraya Setty & Anr*[8]*,* noted that it was possible for an IP right (in this case trademark) to be kept as a collateral in lieu of a loan.

It's impossible to deny that every company possesses intangible assets, such as creating designs, utilizing computer software, owning copyrights, possessing trademarks, inventing new product lines, and most importantly, utilizing technology and operating their R&D cells. Therefore, it's crucial to assess the value of a company's or a target firm's assets, earnings, and intellectual property to gain a complete understanding of their worth.

Technology can be divided into two categories based on its assistance: Upstream Technology, that helps in reducing transactional costs while Downstream Technology which aids in the development of new products and services. However, transferring technology knowledge during M&A deals can lead to issues related to Know-how, Know-what, and Know-who.[9]

This is because transferring IP rights is different from transferring physical products, as:

- Knowledge that is exchanged cannot be easily overturned.

---

[6] Singh Mandavi (2009), "*Intellectual Property: The Dominant Force in Future Commercial Transactions Comprising Mergers and Acquisitions",* INJlIP Law 11.

[7] Nishith Desai, Mergers & Acquisitions in India, (May 2021) http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Mergers___Acquisitions_in_India.pdf

[8] (2018) 16 SCC 228

[9] *Supra* note 3

- Accumulating the vital components of knowledge to develop future IPs can be a challenging task.[10]

Mergers enable companies to gain access to pools of intellectual property (IP) assets, which can help in reducing the cost and complexity of litigation. A good example is IBM's acquisition of Daksh eServices in 2004.[11] Daksh eServices was the third-largest Indian call center and back-office service provider, with revenues of $60 million. IBM acquired the company for $150 million, which not only helped them in gaining greater competency but also provided them access to Daksh's copyrighted software and other related intellectual property.

Conducting intellectual property due diligence during any M&A transaction typically offers essential insights into the future benefits, lifespan, ownership rights, and any limitations of the assets, all of which influence their ultimate value.

ISSUES IN CONDUCTING DUE DILIGENCE

The biggest challenge associated with due diligence that precedes any M&A transaction is determining the worth of intellectual property assets, which is more complex than assessing the value of physical assets like real estate. The difficulty lies in valuing intangible objects like IP, which has become increasingly important as intangible assets have grown in significance relative to tangible assets.

To begin with, intangible assets encompass not only traditional IP assets, but also other types of capital such as distributed networks, R&D capabilities, skilled workforce, manufacturing practices, and more. Therefore, these assets should be distinguished and categorized into two types: IP assets and additional intangible capital. IP assets grant their owners the legal right to reap benefits from them, and if an individual IP asset exists, it can be bought and sold separately from the company.

Conversely, additional intangible capital does not provide its owners with a legally enforceable right and cannot be separated from the company. It is argued that additional intangible capital provides a competitive advantage, but assessing its value can be difficult in M&A transactions.

Valuing intellectual property assets can be challenging because their true worth may not be immediately obvious. The value of an IP asset may not be fully reflected in the company’s income. In fact, a significant portion of an IP asset's value often lies in its negative rights, such as the ability

[10] Bambhulkar, S. (2018) Intellectual Property Issues in Mergers and Acquisitions, ipleaders (2018) https://blog.ipleaders.in/ip-issues-in-ma/

[11] The Story of Daksh Buyout, TOI, 9 April 2004, accessible at: https://timesofindia.indiatimes.com/business/india-business/the-story-of-daksh-buyout/articleshow/608084.cms

to prevent others from engaging in actions they would otherwise be allowed to take. Consequently, the full value is rarely captured solely through income generation.

Valuing an intellectual property asset is further complicated by the fact that its value is typically not static. Instead, the value tends to fluctuate over time. Therefore, companies should regularly re-evaluate the worth of their IP assets, ideally on an annual basis.

Furthermore, the fact that there are multiple ways to value IP assets poses a significant challenge. However, there is a dearth of a standardized approach that can convert a firm's IP holdings into concrete economic terms. The central issue is selecting the appropriate method, and it remains unclear how to evaluate the outcomes obtained from various methods and compare them.

Moreover, the point is to consider the practical aspect of this assessment, which includes taking into account expenses like the amount of time and money that will be required hence the valuation of IP and the method selection for it can be and is often an arduous task.

METHODS OF IP VALUATION

Schedule III of the Companies Act, 2013 classifies intangible assets as following-

- Goodwill
- Trademarks
- Computer Software
- Mining Rights
- Mastheads and publishing titles
- Copyrights, Patents and other IP Rights
- Recipes, formulae, models, designs and prototypes
- Licence and franchise
- Others

However, it is an imperative fact that any of the above mentioned IP (right) does not exist in isolation and even though it is an intangible asset, it is always attached with a tangible product. For instance, a patent on a drug would be presented in the form of the medicine and similarly a copyright would vest in a book.

Hence, the methods of valuation for both tangible and intangible are same in nature (i.e., how the valuation is derived), and ICAI Valuation Standard 302 of 2018[12] provides specific guidelines and principles for valuing intangible assets that are not addressed by other standards. It offers detailed guidance on the valuation of intangible assets such as goodwill, brand value, and licenses. These

---

[12] The Institute of Chartered Accountants of India (ICAI) introduced the ICAI Valuation Standards 2018 as a reference point for valuation practices that Chartered Accountants are expected to follow.
Accessible at: https://resource.cdn.icai.org/51432vsb41162.pdf

assets are defined as identifiable, non-monetary items without physical substance. The standard outlines key factors for valuing intangible assets, such as determining the purpose of the valuation, assessing the legal rights associated with the asset, and considering its highest and best use. It also highlights the relationship between goodwill and other intangible assets, emphasizing their distinct characteristics.

Following three are the most renowned methods[13] discussed and provided under ICAI Standards-

Income-based Method[14]

The income-based method is one of the most commonly used methods for intellectual property (IP) valuation. This method estimates the value of the IP asset based on its expected future cash flows. The income-based method is best suited for IP assets that have a history of generating revenue, such as established patents, trademarks, and copyrights.

The income-based method involves estimating the future cash flows that the IP asset is expected to generate over its economic life. The cash flows are then discounted to their present value using a discount rate that reflects the time value of money and the risk associated with the cash flows. The discount rate used in the income-based method reflects the opportunity cost of investing in an alternative investment with a similar level of risk.

The estimation of future cash flows is based on various factors, such as the current market demand for the product or service associated with the IP asset, the competition in the market, the expected life cycle of the product or service, and the costs associated with maintaining and protecting the IP asset. These factors are used to estimate the expected revenue that the IP asset will generate over its economic life.

Once the expected cash flows have been estimated, they are discounted to their present value using a discount rate. The discounted cash flows are then summed up to arrive at the net present value (NPV) of the IP asset. The NPV represents the total value of the IP asset based on the estimated future cash flows, discounted to their present value.

One of the main advantages of the income-based method is that it takes into account the potential future revenue generated by the IP asset, which is not considered in the cost-based method. This method is also flexible and can be used to value a wide range of IP assets, including patents, trademarks, copyrights, and trade secrets.

However, the income-based method also has some limitations. It requires accurate and reliable

---

[13] Caulder, I. (2007), Intellectual Property Due Diligence. Conducting Effective Corporate Due Diligence, available at: www.bereskinparr.com/French/publications/pdf/Other-Diligence- Caulder.pdf

[14] Pradeep, K.R. (2019), INTELLECTUAL PROPERTY RIGHTS: A CASE FOR MONETIZATION, Singh & Singh Law Firm LLP and Confederation of Indian Industry (CII).
Accessible at: https://www.ciiipr.in/pdf/CII-Singh-%26-Singh-Report-IPR-A-Case-for-Monetization-2019.pdf

data on future cash flows, which can be challenging to obtain for some IP assets. Additionally, the accuracy of the valuation depends on the quality of the assumptions and estimates used in the analysis. Therefore, it is often used in conjunction with other methods to arrive at a more accurate valuation of the IP asset.

Cost-based Method[15]

The cost-based method is one of the methods used for intellectual property (IP) valuation. It is primarily based on the estimation of the costs incurred in developing, registering, and protecting an IP asset. The cost-based method is best suited for newly developed or registered IP assets that do not have any history of sales or licensing.

The cost-based method involves identifying all the direct and indirect costs associated with creating and maintaining the IP asset. Direct costs include expenses such as research and development costs, patent filing fees, legal fees, and marketing costs. Indirect costs include overhead costs such as salaries, rent, utilities, and depreciation of equipment.

After determining the total cost of developing and maintaining the IP asset, the next step is to estimate the economic life of the IP asset. This is the period during which the IP asset is expected to generate revenue. The economic life of an IP asset depends on various factors, such as the technology involved, the competition in the market, and the expected life cycle of the product or service that the IP asset is associated with.

Once the economic life of the IP asset has been estimated, the total cost is divided by the number of years of the economic life to arrive at the annual cost of the IP asset. This annual cost can be used as the basis for calculating the value of the IP asset using a discounted cash flow method.

One of the main advantages of the cost-based method is that it is relatively simple to apply and can provide a reasonable estimate of the value of the IP asset, especially for newly developed or registered IP assets. However, this method has some limitations, such as not considering the market demand for the IP asset or the potential revenue that the IP asset can generate. Therefore, it is often used in conjunction with other methods to arrive at a more accurate valuation of the IP asset.

Market-based Method[16]

The market-based method is one of the commonly used methods for intellectual property (IP) valuation. This method involves comparing the IP asset with similar assets in the market to estimate its value. The market-based method is best suited for IP assets that have a market with

[15] Ibid. Page 21
[16] Ibid

active transactions, such as patents and trademarks.

The market-based method involves collecting data on recent transactions involving similar IP assets. This data is used to determine the fair market value of the IP asset by comparing it with the prices paid for similar IP assets in the market. The fair market value is the price that a willing buyer would pay to a willing seller for the IP asset in an open market.

To use the market-based method, it is essential to identify comparable IP assets that are similar to the asset being valued. Comparable IP assets should have similar technology, market demand, and other relevant characteristics. This data can be collected through various sources, such as databases, public records, and industry reports.

Once comparable IP assets have been identified, the next step is to analyze the transactions involving those assets. This analysis involves examining the terms of the transaction, such as the licensing fees, royalty rates, and other financial terms. This data is used to estimate the fair market value of the IP asset being valued.

The market-based method has several advantages. It is based on actual market transactions, which makes it a reliable method for valuing IP assets. It is also relatively easy to apply, and the data required is readily available in the market.

However, the market-based method also has some limitations. The method may not be suitable for valuing unique or specialized IP assets that do not have comparable assets in the market. Additionally, the analysis may be subjective and depend on the quality of the data and the assumptions used in the analysis. Therefore, it is often used in conjunction with other methods to arrive at a more accurate valuation of the IP asset.

IP DUE DILIGENCE

IP due diligence is a crucial part of the mergers and acquisition (M&A) process. In an M&A transaction, the acquiring company or investor is interested in acquiring the target company's IP assets as part of the deal[17]. IP due diligence helps the acquirer to assess the value and risks associated with the target company's IP assets before the transaction.

[17] Combs, S.B. and Yates, J.C. (2007), "Due diligence of intellectual property in mergers and acquisitions: integrating information technology policies and procedures", The Computer and Internet Lawyer, Vol. 24 No. 6.

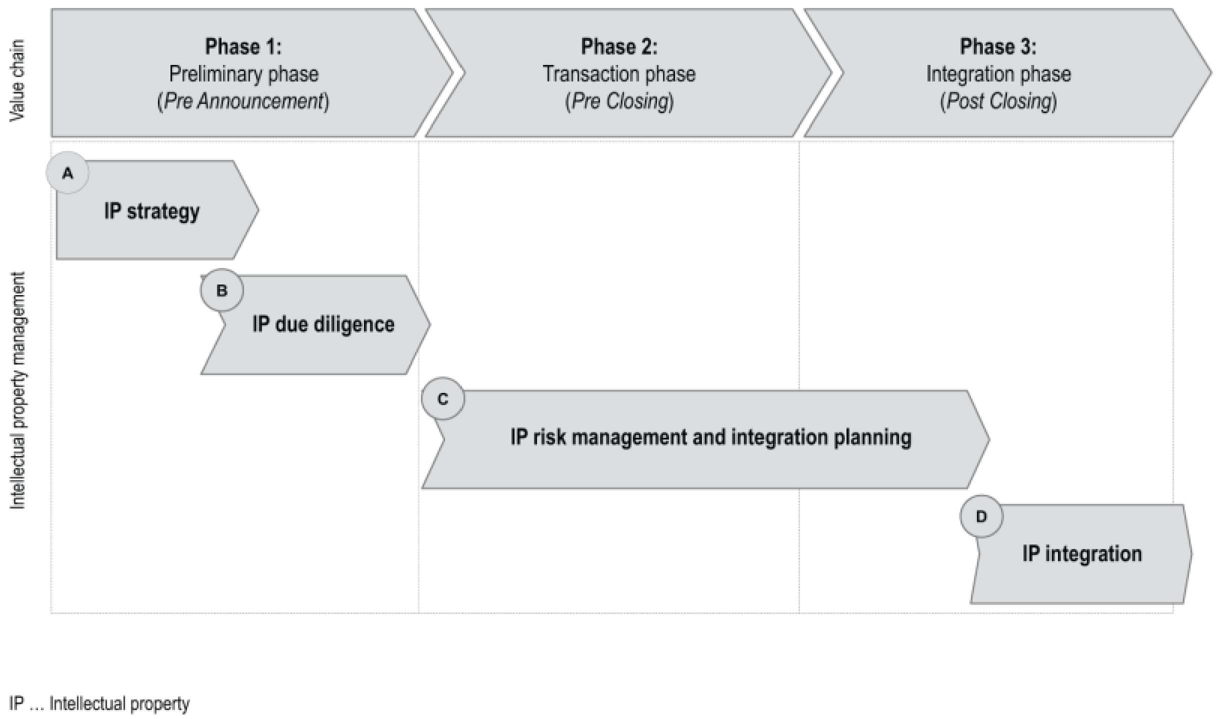

Chart-I: Stages of Transaction of Merger and Acquisition[18]

The IP due diligence process in M&A typically involves several steps:

- Identification of IP assets: The first step is to identify all the IP assets owned by the target company. This includes patents, trademarks, copyrights, trade secrets, and other IP assets.
- Assessment of ownership: The second step is to assess the ownership of the IP assets and to ensure that the target company has the right to use, license, or sell these assets. This involves reviewing the IP registrations, licensing agreements, employment contracts, and other legal documents related to the IP assets.
- Evaluation of validity: The third step is to evaluate the validity of the IP assets and to ensure that they are enforceable. This involves reviewing the IP registrations, assessing the strength of the IP assets, and evaluating any potential infringement claims.
- Assessment of infringement risks: The fourth step is to assess the potential infringement risks associated with the IP assets. This involves reviewing the target company's products, services, and marketing materials to ensure that they do not infringe on the IP rights of others.
- Valuation of IP assets: The final step is to assess the value of the IP assets and to determine their potential contribution to the overall value of the target company. This involves

[18] Meilmann, E.A. and Brady, J.W. (2003), "Due diligence in business transactions involving intellectual property assets", Intellectual Property Today, Morin & Oshinsky LLP, pp. 20-5, available at: www.dicksteinshapiro.com/files/Publication/b8c05365-d318-4926-a75f- Intellectual property management 47 e5467ad44f41/Presentation/PublicationAttachment/b3bb2383-5702-4a69-a449-e78fde6e79e3/iptoday.pdf

assessing the market demand for the IP assets, evaluating the potential revenue streams associated with the IP assets, and assessing the competitive landscape.

The results of the IP due diligence process are used to determine the final price of the M&A transaction, to assess any potential risks associated with the IP assets, and to develop a strategy for managing the IP assets after the transaction. The acquirer may decide to restructure the target company's IP portfolio or to license or sell certain IP assets to mitigate any potential risks.
Overall, IP due diligence is a critical process in the M&A process that helps the acquiring company to assess the value and risks associated with the target company's IP assets and to develop a strategy for managing these assets after the transaction.

An infamous case highlighting the need of IP due diligence is that of Rolls-Royce[19]. In 1998, Volkswagen AG bought Rolls-Royce Ltd. from Vickers PLC, but the deal was completed without proper IP due diligence. Later on, Volkswagen AG discovered that the trademarks of Rolls-Royce were owned by Rolls-Royce PLC, the aircraft-engine arm, and not Rolls-Royce, Ltd. Volkswagen AG had acquired the factory and equipment owned by Rolls-Royce Ltd. but did not have the rights to use the Rolls-Royce trademarks. So even though Volkswagen spent 900 millions USD for this transaction, they were still unable to make and sell cars in the brand name of Rolls-Royce. This case highlights the significance of involving IP specialists to carry out IP due diligence to ensure that the desired assets are indeed acquired.

To prevent such situations, businesses must conduct comprehensive due diligence. In the case of Austin Nichols And Co. And Seagram India v. Arvind Behl, Director, Jagatjit[20], the Delhi High court very early in Indian law jurisprudence highlighted the need to conduct of performing due diligence before proceeding with M&A transactions.

Same notion was also echoed by supreme court in case of of Nirma Industries and Anr v. Securities Exchange Board of India,[21] it was revealed that Nirma Industries, despite knowing about multiple legal proceedings against the target company, went ahead with the merger without addressing the associated risks. The court ruled that an investor company is obligated to perform proper due diligence on a target company prior to investment, as mandated by Regulation 27(d) of the

---

[19] Buerkle, Tom (1998); "BMW Wrests Rolls-Royce Name Away From VW"; available from http://www.nytimes.com/1998/07/29/news/29iht-rolls.t.html; and
Liberman, A. (2003); "IP issues in mergers and acquisitions; available from http://www.wipo.int/export/sites/www/sme/en/activities/meetings/singapore_03/singapore_liberman_10.pdf

[20] 2006 (32) PTC 133 (DEL)

[21] 2013 AIR SCW 3489

Securities and Exchange Board of India (SEBI) regulations of 1997.

Process	A IP strategy	B IP due diligence	C IP risk management IP integration planning	D IP integration
Objective	Identify strategic growth options on the basis of intellectual property	Collect information on target's IP assets and identify risks	Eliminate risks and plan the integration of IP assets after closing	Successfully implement the integration plan and monitor the integration progress

Tasks	• Identify essential IP assets as growth options and evaluate of the rationale of the impending transaction
	• Implement an initial plan for managing activities in subsequent phases
	  • External and internal communication
	  • Timing and costs
	  • Responsibilities
	• Identify relevant expert groups and team members
		• Obtain information about the IP assets in the target's data room
		• IP DD questions to the target
		• IP DD answers from the target
		• Evaluate and verify the data and answers regarding IP assets, i.e. detailed lists of applications, IT processes and policies, non-registered trademarks, patents, copyrights, chain of title and external agreements
		• Follow-up reviews and interviews on-site at the target
		• Identify IP risks and their strategic importance for the transaction and the competition
			• Develop IP risk management strategies
			• Consult on measures with the relevant departments (purchasing, procurement, IT, legal, M&A)
			• Plan the integration
			• Integration project management
			• Resolve IP problems before day one:
			  • Corporate structure
			  • Data protection conflicts
			  • IP agreements
			  • IP transfers
			  • Vendor warranties, representations and guarantees
				• Determine staffing requirements for post-closing IP management
				• Develop and introduce IP policies to the new post-deal organization
				• Design and hold IP compliance training
				• Safeguard physical and logical security
				• Seamless monitoring of IP compliance after closing

Results	• Identified strategic growth options on the basis of intellectual property	• List of IP DD questions • List of IP DD answers • IPDD risk assessment and on-site interview report • Initial plan for IP integration	• IP integration plan • Consents • Notices of assignment • License agreements • Amendments to agreements • Warranties and representations	• Organizational charts • Post-merger policies • Training programs • Security policies and guidelines
Timing	**7-15 days**; depending on the size of the transaction	**15-30 days**; depending on the size of the transaction. The questions and answers are particularly time-consuming	**15-30 days**; interaction with external software manufacturers and reseller companies is particularly time-consuming	**90+ days**; potentially longer in a limited integration (preservation, i.e. target stays independent)

Chart-II: Stages of IP Due Diligence[22]

Participants In Due Diligence Process

[22] Supra Note 9.

The IP due diligence process typically involves several participants with different roles and responsibilities. Here are some of the key participants in the IP due diligence process:

- Acquirer: The acquirer is the company or individual seeking to acquire the target company or its IP assets. The acquirer is responsible for conducting the due diligence process and ensuring that all relevant IP assets are identified, evaluated, and properly integrated into the acquirer's existing IP portfolio.
- Target company: The target company is the company being acquired, and is responsible for providing all relevant information and documentation related to its IP assets.
- IP lawyers: IP lawyers are responsible for evaluating the legal and regulatory aspects of the target company's IP assets, including ownership, validity, and potential infringement risks. They also advise the acquirer on strategies for mitigating legal and regulatory risks associated with the IP assets.
- IP specialists: IP specialists are responsible for evaluating the technical aspects of the target company's IP assets, including the value and potential risks associated with the assets. They may conduct technical assessments and provide advice on strategies for managing IP risks and maximizing the value of the assets.
- Financial advisors: Financial advisors are responsible for evaluating the financial aspects of the target company's IP assets, including the value of the assets and the potential return on investment. They may provide advice on pricing and negotiation strategies, as well as on the financial implications of the IP assets for the overall M&A transaction.
- Due diligence team: The due diligence team is responsible for coordinating the due diligence process, including identifying and engaging the appropriate participants, conducting the necessary assessments and evaluations, and communicating findings and recommendations to the acquirer. The team may include representatives from the acquirer, target company, IP lawyers, IP specialists, financial advisors, and other relevant parties.

Effective collaboration among these participants is essential for conducting a thorough and effective IP due diligence process. By working together, they can identify and mitigate potential risks, ensure the value of the IP assets is accurately assessed, and help ensure a successful M&A transaction.

IP due diligence can provide several benefits for companies involved in mergers and acquisitions or other transactions involving IP assets. Here are some of the key benefits[23]:

- Risk mitigation: IP due diligence helps identify potential risks associated with the target company's IP assets, including risks related to ownership, validity, infringement, and licensing. By identifying and assessing these risks, companies can develop strategies to mitigate them and reduce their overall exposure.
- Value assessment: IP due diligence helps determine the value of the target company's IP assets, including their market value, potential for future revenue, and potential for use in the acquirer's existing IP portfolio. This information can help inform pricing and negotiation strategies, as well as decisions about the overall financial feasibility of the transaction.
- Integration planning: IP due diligence provides valuable information for planning the integration of the target company's IP assets into the acquirer's existing portfolio. By understanding the strengths and weaknesses of the target company's IP assets, companies can develop effective integration strategies that maximize value and minimize disruption.
- Legal and regulatory compliance: IP due diligence helps ensure that the acquirer is aware of and compliant with relevant legal and regulatory requirements related to the target company's IP assets. This can help avoid legal and financial penalties associated with non-compliance.
- Reputation protection: IP due diligence helps protect the acquirer's reputation by ensuring that the target company's IP assets are not associated with any unethical or illegal practices. This can help maintain the acquirer's brand reputation and avoid damage to its public image.

There are several problems that can arise in the IP due diligence process. The most common ones are:

- Lack of transparency: The target company may not have clear documentation or records regarding its IP assets, making it difficult to assess their ownership, validity, and potential risks.
- Complex IP portfolios: The target company may have a large and complex portfolio of IP assets, including patents, trademarks, copyrights, and trade secrets, making it difficult to identify and evaluate all the assets.

[23] Bruner, R.F. (2004), Applied Mergers & Acquisitions, 1st ed., John Wiley & Sons, Hoboken, NJ, pp. 218-25.

- Incomplete or inaccurate information: The target company may not provide complete or accurate information regarding its IP assets, which can lead to incorrect assessments of the value and risks associated with the assets.
- Time constraints: The IP due diligence process can be time-consuming, and there may be time constraints associated with the M&A transaction that make it difficult to complete a thorough assessment of the IP assets.
- Legal and regulatory risks: There may be legal or regulatory risks associated with the IP assets, such as potential infringement claims or compliance with industry-specific regulations, that can be difficult to assess and mitigate.
- Integration challenges: After the M&A transaction is completed, the acquirer may face challenges integrating the target company's IP assets with its existing portfolio, which can impact the overall value of the IP assets.

To overcome these problems, it is essential to conduct a thorough and comprehensive IP due diligence process that includes identifying all the IP assets, verifying ownership and validity, assessing potential risks and infringement issues, and determining the value of the assets. It is also important to work closely with legal and IP experts to ensure that all legal and regulatory risks are identified and mitigated.

CONCLUSION

When negotiating M&A deals, intellectual property questions are crucial and mishandling them can have negative consequences. Even if past IP strategies do not seem to have any immediate impact on the deal, they may lead to expensive legal disputes with third parties or between the buyer and seller in the future.

Therefore, it is essential to establish policies that identify, protect, manage, use, and enforce the company's own IP and IPRs and thoroughly document contracts related to IPR acquisition, transfer, amendment, restriction, and sale. Properly shaping the IP chapter of an M&A transaction is not only about transferring IPRs but also ensuring that the company's operations continue without unnecessary limitations after the transfer and that the buyer has access to the IP that remains with the seller for a defined period to implement and use the acquired IP. Doing so will save time, money, and hassle during M&A preparations.

In summary, IP due diligence provides valuable information and insights that can help companies make informed decisions about mergers and acquisitions or other transactions involving IP assets.

By identifying potential risks and opportunities, companies can minimize their exposure to risk and maximize the value of their IP portfolios.

Although factors like time, cost, and industry expertise are sometimes used to justify skipping the due diligence process, its long-term advantages far surpass these concerns. Therefore, businesses should view due diligence as a crucial step to secure the success and sustainability of their mergers and acquisitions, safeguarding the interests of all stakeholders involved.

****