



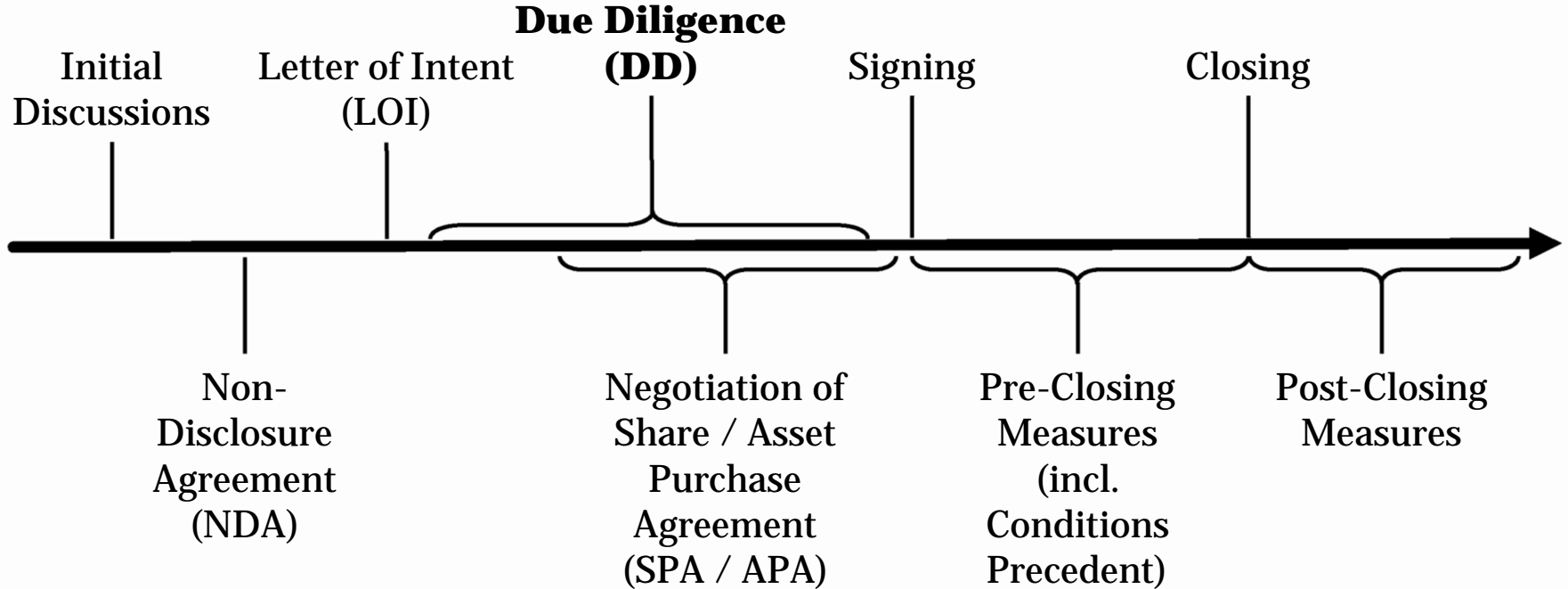
# Brands and Trademarks in Due Diligence

Sarita Schröder | 4 November 2021

# Due Diligence – What and Why?

- Due diligence (DD) is the process through which **a party to a transaction evaluates the target company or assets** prior to the transaction
- Different areas typically covered by a DD inspection include e.g. **legal (LDD), financial, tax, technical**, etc.
- A thorough DD inspection is **particularly important for the buyer**
  - Helps the buyer better understand what they are buying and what the associated risks and opportunities are
  - May also impact e.g. the buyer's valuation of the target
- Especially in larger transactions, **the seller may carry out their own DD** prior to the buy-side DD
  - Helps the seller prepare for the buy-side DD and subsequent negotiations relating to the transaction

# The M&A Process\*



# Conducting Due Diligence





# Key Background Information

- > **What type of transaction** is being carried out?
  - Share purchase
  - Asset purchase
  - Other
- > **Why is the buyer interested** in the target and **what does the buyer intend to do** with the target?
  - E.g. is the buyer acquiring the target for its brand / trademarks or does the buyer plan to rebrand the target?
- > **How much risk** is the buyer willing to tolerate (i.e. what is the materiality threshold for DD findings)?
- > **Are there other potential buyers** vying for the target (e.g. is the target up for auction)?

# Share v. Asset Purchase

- Through a **share purchase**, the buyer acquires all or some of the shares in the **target company**
  - Unless otherwise agreed between the parties, the target company continues to own all of its assets (incl. brand assets)
- Through an **asset purchase**, the buyer acquires the assets associated with the **target business**
  - The target business **carved out** of the seller's business as agreed in more detail between the parties
  - Assets not included in the carve-out remain with the seller
  - Especially if the transaction is brand-driven, it is **important to agree specifically about the transfer of brand assets** to avoid uncertainty and disputes
    - The buyer should *not* rely solely on section 37 subsection 2 of the Finnish Trademarks Act and section 13 subsection 2 of the Finnish Trade Names Act





# Information Request List (IRL)

- The DD process starts with the buyer submitting to the seller an information request list (IRL) that **sets out what information the buyer wishes to receive about the target**
- Brand assets are usually covered by more general IP-related items on the IRL
- If the transaction is brand-driven, a more specific brand-related item may be included on the IRL

# Data Room 1(2)

- The seller makes the requested information available through a **data room**
  - These days, a **virtual data room (VDR)** is used almost without exception
- The documents included in the data room are structured into an **index**, which helps locate relevant information, e.g.:
  - 5 IPR
    - 5.1 General
      - 5.1.1 Registered IPR
        - » 5.1.1.1 Trademarks
        - » 5.1.1.2 Trade Names
        - » [...]
      - 5.1.2 Non-Registered IPR
- Certain more sensitive information may be made available only to the buyer's counsel (not the buyer itself) in a separate part of the data room called the **clean room**







# Data Room 2(2)

- › Brand-related documents that may typically found in the data room include:
  - **Lists of trademarks, trade names and domain names** owned by the target company or associated with the target business
  - **Brand-related agreements** such as trademark licence agreements
  - **Documents pertaining to brand-related disputes** such as trademark infringement or invalidation proceedings

# Public Sources

- The documents included in the data room form the basis of the DD review
- Public sources may be used to **verify information** provided by the seller
  - E.g. typically lists of trademarks and other registered IPR are compared against information available in public databases to confirm their accuracy
- Public sources may also be used to quickly check the availability of certain unregistered brand assets
- It is unusual but not unheard of for the buyer to conduct thorough clearance searches in connection with a DD review



# Q&A

- If the information contained in the data room is incomplete or raises questions, **the buyer can ask for further information from the seller** through the Q&A function in the data room
  - Often, the number of questions allowed is limited
- Brand-related questions that may arise could include, e.g.:
  - “5.1.1.1: No details are provided about any registered trademarks of the target. Please provide the missing information or confirm that the target does not own any registered trademarks.”
  - “5.3.1.1: Section 12 of the trademark licence agreement stipulates that the agreement terminates automatically on 31 October 2021 unless renewed on or before 30 September 2021. Please confirm whether the agreement has been renewed and is in force. If yes, please also provide documentation of the renewal.”

# Management Interview

- The buyer typically has the possibility to interview the seller's management to **learn more about the target**
  - Depending on the scope of the transaction there may only be one management interview or several, e.g., divided by subject matter
- The management interview provides an **opportunity to clarify any questions that have not been satisfactorily answered** through the Q&A function in the data room
- **It may also be prudent to discuss DD findings** to gain a better understanding of how the seller views the issues at hand





# Due Diligence Report

- The DD findings that exceed the materiality threshold defined by the buyer are recorded in a DD report
  - In addition to the **findings**, the report sets out the **implications** and **recommendations** relating to each finding
  - The report also includes an **executive summary** condensing the key findings
- The report aids the **buyer's management** in their assessment of whether they wish to go ahead with the transaction and, if so, on what terms
- A copy of the report may also be requested by **financiers and insurers** providing their services in relation to the transaction

# Typical Brand-Related Findings

- > **The target's brand is insufficiently protected, e.g.:**
  - The target has only registered trade names and domain names but no trademarks
  - The geographical scope of the target's trademark registrations is insufficient
  - The target's trademarks are not registered for all of the relevant goods and services
- > **It is unclear whether the target owns the rights to its brand assets, e.g.:**
  - IP assignment clauses in director, employment and consulting agreements are lacking or insufficient
- > **The target's brand assets are not registered in the target's name, e.g.:**
  - The target's trademarks are registered to the parent company or an IP holding company in the target's group
  - The target's domain names are registered to a hosting service provider or an individual IT administrator
  - The target is licensing certain trademarks from a third party
- > **There are encumbrances on the target's brand assets, e.g.:**
  - The target's trademarks are pledged as a security
  - The target has granted third-party licences to its trademarks
- > **The target's brand assets are the subject of an ongoing dispute**

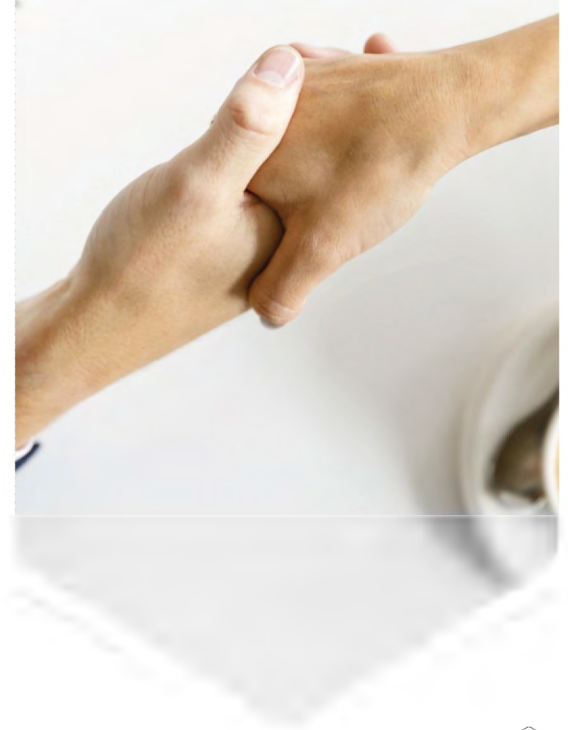


# Impact of Due Diligence



# The Share / Asset Purchase Agreement

- The share purchase agreement (SPA) or asset purchase agreement (APA) is the **main document setting out the terms of the transaction**
- May include a number of **ancillary agreements**, e.g.:
  - Transitional Services Agreement (TSA)
  - Brand Licence Agreement
  - Trademark Assignment Agreement
- Generally negotiated for the most part in parallel with the DD process
  - The DD findings impact the final content of the SPA / APA







# Representations, Warranties and Indemnities

- The seller always gives certain **representations (reps)** about the target
  - E.g. the seller can usually be expected to represent that it owns, free of any encumbrances, all of the trademarks necessary to operate the target business as heretofore
- The seller typically also gives certain **warranties and indemnities (W&Is)**
  - E.g. the seller may warrant that, to its knowledge, the target business does not infringe the trademark rights of any third party
  - In addition, the seller may agree to indemnify the buyer for any damage suffered in case of a breach of warranty
- Regardless of the W&Is given by the seller, the buyer will be unable to successfully claim compensation if it knew or should have known based on its DD review that they were “broken”

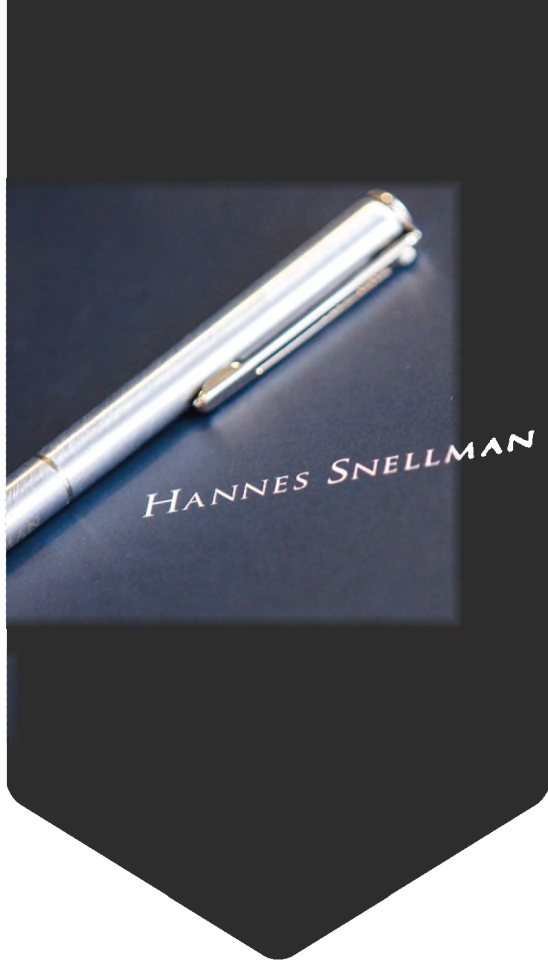
# Specific Indemnities and Conditions Precedent

- **Specific indemnities (SIs)** cover potential liabilities identified during the DD process
  - E.g. if a third party has filed a trademark infringement claim against the target, the buyer may require the seller to give an SI covering any damage that the target / buyer may suffer post-closing as a consequence of that claim
- **Conditions precedent (CPs)** concern “fixable dealbreakers” that the buyer requires the seller to resolve pre-closing
  - E.g. if certain trademarks that the buyer wishes to acquire as part of the transaction are registered to another company in the target company’s group, the buyer may require that they are assigned to the target company pre-closing



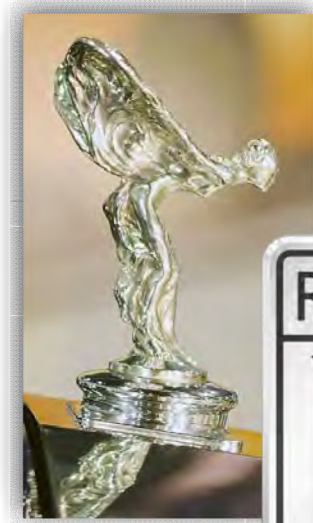
# Post-Closing Measures


- > Not all issues identified during the DD process can or need to be dealt with pre-closing
  - The seller may also be unwilling to agree to take care of certain issues pre-closing
- > **Issues that are not resolved pre-closing should be compiled into a post-closing checklist** to be worked through once the buyer controls the target
- > Typical brand-related post-closing measures include:
  - **Recording assignments** of trademarks included in the transaction (in the case of an asset purchase)
  - **Applying to register** new trademarks or trade names or acquiring domain names identified as lacking from the target's portfolio
  - **Informing third parties** (e.g. trademark licensees) about the transaction insofar as required by the target's agreements with those third parties



# The Importance of Due Diligence

- In 1998, **Volkswagen offered GBP 430 million to purchase luxury car manufacturer Rolls-Royce Motors**
  - Volkswagen beat BMW's final offer of GBP 340 million
- As part of the transaction, Volkswagen acquired Rolls-Royce Motors' factories, the 'Spirit of Ecstasy' mascot and the rights to the shape of the cars' radiator grille
- The **Rolls-Royce name and logo were controlled by Rolls-Royce plc**, an aero-engine manufacturer
- Rolls-Royce plc subsequently decided to licence the name and logo to BMW for GBP 40 million
- Still today, Rolls-Royce cars are manufactured by Rolls-Royce Motor Cars, a subsidiary of BMW



A photograph of four women in a meeting or presentation. The women are shown from the chest up, looking towards the right. The woman on the far left has dark hair and is wearing a dark top. The woman next to her has blonde hair, glasses, and is wearing a plaid jacket with a white scarf. The woman in the center has red hair and is wearing a red and black patterned top. The woman on the far right has dark hair, glasses, and is wearing a white top. A semi-transparent, dark grey hexagonal overlay is centered over the image, containing the text "Questions or Comments?" in white serif font. The background is a blurred indoor setting with light-colored walls and curtains.

Questions  
or  
Comments?

# Thank You!



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