Key and Practical IP issues in Distribution / License and M&A transactions

In today's open innovation environment and increasingly competitive global economy, business partnerships amongst pharmaceutical, biotechnology and animal health companies are even more important, in order to sustain business growth and profitability. In this context, intellectual property ("IP") is playing an increasingly significant role in the assessment, negotiation and implementation of such business partnerships or transactions.

Highlights

Planning and preparing proactively for the key IP issues, which will definitely arise in Distribution and License as well as in M&A transactions, will help Canadian companies in providing better assurances to potential IP-savvy American and European business partners in the pharmaceutical, biotechnology and animal health industries, in addition to enhancing business value and growth for all parties concerned.

From the Canadian perspective as well as US / European perspectives, certain key and practical IP factors arise in two typical situations: (1) a distribution and license (D&L) business partnership, which normally precedes an exit via (2) a M&A transaction.

In typical D&L partnerships, there are several business points discussed in a term sheet, including scope, pricing, market exclusivity, market opportunities, competitive product offerings and strategic fit, to name a few. The parties also discuss the relevance of IP in such transactions, including the enforceability and quality of the patent portfolio, as well as the trade mark(s), that would cover or be used in connection with, respectively, the distributed products.

Usually, the IP quality and commercial relevance would be assessed from a US and/or European perspective(s), due to the relative size and importance of these markets. Practically speaking, therefore, Canadian companies seeking D&L partnerships should be able to articulate the commercial relevance of their patent portfolios in the USA and Europe, i.e., the quality of protection and the relative enforceability of such patents, in order to establish a solid barrier to entry for the business partners who may work together and expend significant resources to build and sustain a market for the distributed products.

Canadian companies seeking to partner with foreign, i.e., US or European business partners who are usually more IP-savvy, need to be prepared for enquiries on IP and develop clear and solid IP positions; otherwise this may create concerns during negotiations or impact business value.

Depending on the strategic importance and revenue potential of the distributed products, US or European business partners sometimes undertake deeper IP due diligence during the negotiation of D&L transactions, including freedom-to-operate (FTO) patent analyses, especially in the USA. Such deeper IP analyses are more common in exit or M&A situations, when more complex and numerous business, technical, manufacturing, distribution, legal as well as post-deal integration issues usually arise.

Consequently, the key IP due diligence in M&A transactions usually focus on: (a) IP ownership or scope of licensed rights available for the potential acquirer, (b) the scope, quality and enforceability of the commercially relevant IP assets, and (c) FTO analyses as regards the key products made, sold or distributed in countries with current or potential business value.

Canadian companies that understand these key IP factors, and that plan and prepare their IP position continuously in support of their business objectives and strategy, should have an easier time, at least on the IP front, when discussing potential business partnerships with US or European companies. US or European companies will certainly appreciate and value such IP efforts made by the Canadian companies.

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