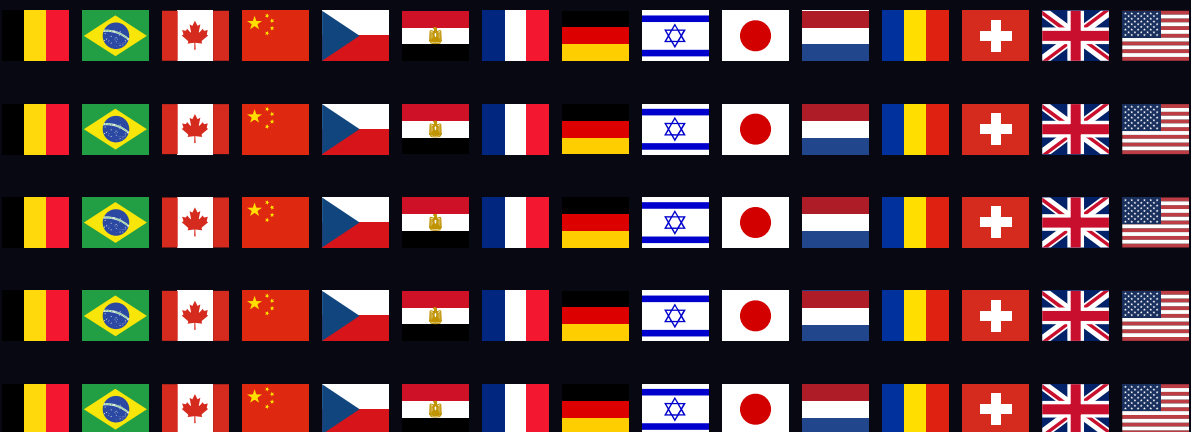


TECHNOLOGY M&A

Brazil



Technology M&A

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White & Case

Quick reference guide enabling side-by-side comparison of local insights into key laws, regulations and government approvals primarily implicated in technology M&A transactions; due diligence, including the transfer of licensed intellectual property, software due diligence, and the use of code scans; representations, warranties and other deal terms common to technology M&A transactions; and recent trends.

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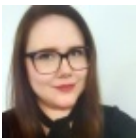
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STRUCTURING AND LEGAL CONSIDERATIONS

Key laws and regulations

What are the key laws and regulations implicated in technology M&A transactions that may not be relevant to other types of M&A transactions? Are there particular government approvals required, and how are those addressed in the definitive documentation?

Regarding M&A transactions, in addition to usual corporate laws, the key laws are those that regulate industrial property (patents, industrial designs and trademarks) – Industrial Property Law (Law No. 9,279/1996) , software – Software Law (Law No. 9,609/1998), copyrights in general – Copyright Law (Law No. 9,610/1998) and internet providers or applications – Internet Law (Law No. 12,965/2014) and Decree No. 8,771/2016. Data privacy issues are also common in the technology or internet industry, so the Brazilian General Data Protection Law (LGPD – Law No. 13,709/2018, as amended by Law No. 13,853/2019) is also a key law. Plant varieties are also protected by Law No. 9,456/1997 .

Registered IP assets shall be assigned to the Brazilian National Institute of Industrial Property (INPI), so their transfer is effective against third parties. Such assets include patents, trademarks, industrial designs and software (although software is protected by copyright). Brazilian domain names shall be transferred by Registro.br and registered plant varieties shall be assigned with the Ministry of Agriculture, Livestock and Food Supply (MAPA).

Law stated - 28 July 2023

Government rights

Are there government march-in or step-in rights with respect to certain categories of technologies?

As a rule, the Brazilian government has no legal march-in or step-in rights in connection with technology and intellectual property assets.

The only exception relates to patents, as provided for in the Industrial Property Law (article 68 et seq). In the event of national or international emergency, public interest or nationwide public calamity, as declared by the competent authorities, a temporary and non-exclusive compulsory licence may be granted, ex officio, for the exploitation of a patent or patent application, notwithstanding the rights of the respective holder, provided that the patent or patent application holder or its licensee does not meet these public needs. Public entities, educational and research institutions and other representative entities of society and the industrial sector shall be consulted to include patents and applications subject to compulsory licensing. Furthermore, any public or private institution may submit a request for listing patents and applications.

Law stated - 28 July 2023

Legal title

How is legal title to each type of technology and intellectual property asset conveyed in your jurisdiction? What types of formalities are required to effect transfer?

The legal titles of IP assets such as patents, trademarks, industrial designs, geographic indications and integrated circuit topographies are granted by registration at the National Institute of Industrial Property (INPI). Although software may also be registered at INPI, since they are protected by specific legislation and copyrights (Law No. 9.609/1998 –

the Software Law – and Law No. 9.610/1998 – the Copyright Act), its ownership does not rely on any official registration. However, the effects of registration give greater legal security to contracts through publicity, which guarantees public faith to business agreed between the parties. In the same way, other copyrighted works can be registered (for example, books and music can be registered at Brazilian National Library), but are protected regardless of any registration.

The transfer of technology and intellectual property assets should be done by assignment agreements, under the Brazilian Industrial Property Law (Law No. 9.279/1996). Assignment agreements related to industrial property assets (the ones that require registration with INPI to be recognised) basically demand a clear indication of the qualification of the parties, a definite term, price and scope of such agreements, including if they are exclusive or non-exclusive. These licences should be filed with INPI to be effective against third parties. Note that, in accordance with the Copyright Act, copyrights can only be assigned by written agreements.

Law stated - 28 July 2023

DUE DILIGENCE

Typical areas

What are the typical areas of due diligence undertaken in your jurisdiction with respect to technology and intellectual property assets in technology M&A transactions? How is due diligence different for mergers or share acquisitions as compared to carveouts or asset purchases?

While conducting a technology M&A transaction, the purchaser shall verify the ownership and validity of the technology and IP assets held by the target company. Ongoing disputes (judicial, administrative and/or extrajudicial) shall also be analysed. The status of industrial property assets (patents, trademarks, industrial designs, geographic indications and integrated circuit topographies) can be verified at INPI's website.

Regarding software, non-registered technologies and other copyrights, the purchaser shall ensure that the target company has all the documents that show its ownership (such as an assignment agreement from authors, proof of creation, etc).

In any case, limitations on the use of the referred technology and IP assets shall be disclosed by the target company.

Unlike M&A transactions where the assignment of IP rights is undertaken integrally, carve-outs and asset purchases require individual assignment agreements specifying the IP asset and granting IP rights partially, (eg, trademark licence agreement, industrial design licence agreement) that also subject the asset purchase to the compatibility of the activities to the corporate purpose.

In the case of merger or share acquisition, the due diligence must involve the target as a whole (all other areas such as labour, tax, litigation, consumer protection, etc). In the case of carve-outs and assets purchased due diligence, in addition to investigating the technology and IP assets, it is important to assess the possibility of the holder to dispose of assets (which implies confirming the existence of administrative, judicial or arbitration proceedings that may prevent or make the disposition of assets ineffective or fraudulent).

Law stated - 28 July 2023

Customary searches

What types of public searches are customarily performed when conducting technology M&A due diligence? What other types of publicly available information can be collected or reviewed in the conduct of technology M&A due diligence?

Generally, when conducting technology M&A transactions, the main public searches are made in INPI's online database, which provides information about patents, trademarks, industrial designs, geographic indications and computer programs. Searches at the website Registro.br (for domain names) and MAPA's website (for plant varieties) are also available.

This public information provided by these entities include, among other things, the name of the applicable holder or holders, validity and pending administrative issues.

It is also possible to carry out public search on the distribution of claims and legal suits (of a civil/commercial nature, consumer protection, tax and labour) against the target or holder of the technology of IP rights.

Law stated - 28 July 2023

Registrable intellectual property

What types of intellectual property are registrable, what types of intellectual property are not, and what due diligence is typically undertaken with respect to each?

Among intellectual property rights we have copyrights and industrial property rights, and both can be registered in Brazil. Industrial property assets must be registered with the INPI, as a mandatory condition to ensure the legal title to such an IP asset, thus, protecting the rights of the holder. For industrial property assets (eg, trademarks, patents, industrial design) the due diligence includes:

- confirming within the public records of the INPI the ownership of the IP asset or assets;
- verifying the status of the IP asset (like validity term); searching for ongoing disputes within the administrative scope and also judicial disputes; and
- analysing documents and agreements (licensing and assignment agreements).

Contrary to industrial property, the registration of copyrights (artistic, literary and scientific creations) is not mandatory. However, the author can register the copyrights to ensure the authorship of the work which comprises the following: evaluating the legal status of the intellectual property to assess the authorship of the work; confirming whether it is settled or not in the contract that ensure the assignment of the authorship of the work developed by the employees to the creator; verifying if there are any ongoing disputes; analysing documents and agreements (licensing and assignment agreements).

Law stated - 28 July 2023

Liens

Can liens or security interests be granted on intellectual property or technology assets, and if so, how do acquirers conduct due diligence on them?

Intellectual property and technology assets, including trademarks, patents, industrial designs, and software, can be subject to liens and security interests. Other IP assets that are not registered, such as copyrights and know-how, may be subject to liens and security interests as well, but their enforceability may be more difficult.

In any case, all these assets need to be evaluated and included in the company's balance sheet before being subject to liens and security interests. The agreements related to such encumbrances shall be registered with the Registry of Deeds and Documents and/or with INPI, as applicable, in order to be effective against third parties. The release of such encumbrances shall also be recorded by the Registry of Deeds and Documents and/or with INPI. To release such

encumbrances and security interests, the agreement that perfected these restrictions must be formally terminated and a formal release shall be registered in the same registrar's office (Registry of Deeds and Documents or with INPI, or both).

Law stated - 28 July 2023

Employees and contractors

What due diligence is typically undertaken with respect to employee-created and contractor-created intellectual property and technology?

There is no specific due-diligence for employee or contractor created IP, so the typical due diligence for IP matters will be carried out in these cases.

The Industrial Property Law and the Software Law generally provide that inventions and computer programmes shall belong to the employer when resulting from a labour, service relationship or agreement. This means that the assignment of IP rights to the employer (the target company) in such cases are automatic – the inventors or developers do not need to specifically assign their rights to the employer or contracting parties. To demonstrate ownership, the employer or service contracting party, may only show the respective labour or service agreement.

On the other hand, the Copyright Law does not provide for 'work for hire'. Thus, in this regard, it is advisable to have express copyright assignments from the authors to the employer or service contracting party.

Law stated - 28 July 2023

Transferring licensed intellectual property

Are there any requirements to enable the transfer or assignment of licensed intellectual property and technology? Are exclusive and non-exclusive licences treated differently?

Technology Transfer Agreements, which include the assignment or licence of (1) industrial property (patents, trademarks, industrial designs and geographic indications); (2) integrated circuit topographies and (3) non-patented technology under Brazilian rules, should be subject to registration at INPI as a condition for: producing effects in regards to third parties, ensuring intellectual property rights, allowing payments abroad and allowing deductibility of paid amounts for tax purposes. If not recorded at INPI, the contractual instrument shall be valid between the signatory parties and for use as evidence. Since the enactment of INPI Resolution No. 199/2017, which provides on the Examination Guidelines for annotation or registration of these contracts, INPI is more flexible while registering these Technology Transfer Agreements. The guidelines for registration provided for in this Resolution basically demand a clear indication of the qualification of the parties, a definite term, price and scope of such agreements, including if they are exclusive or non-exclusive. Nonetheless, these licences are not treated differently.

Law stated - 28 July 2023

Software due diligence

What types of software due diligence is typically undertaken in your jurisdiction? Do targets customarily provide code scans for third-party or open source code?

Software due diligence usually encompasses the analysis of technical and legal matters. The assessment of technical features shall be performed by software experts, so that they can verify the quality and security standards of the target software, as well as identify possible errors and bugs. After entering into a non-disclosure agreement, the seller

customarily provides code scans for the potential purchaser.

On the other hand, the legal due diligence will include all the documents related to the ownership of the software (developers' service agreements, copyright assignments) and the analysis of possible disputes.

In any case, there are aspects that should be analysed by both teams, like the software bill of materials. The technical expert can indicate all the required licences related to each component of the target software, while the legal team will analyse all the licence agreements related thereto. In this regard, it is important to understand if the target software is proprietary or open-source based, since this information is essential to determine its purchase value.

Law stated - 28 July 2023

Special or emerging technologies

What are the additional areas of due diligence undertaken or unique legal considerations in your jurisdiction with respect to special or emerging technologies?

Although there are a lot of public debates regarding artificial intelligence and internet of things (IoT) in Brazil, regular due diligences do not typically cover these matters. In 2019, the government published a 'National Plan for IoT', but such plan does not regulate IoT per se, it only tries to develop these emerging technologies in Brazil.

Notwithstanding the above, due diligence involving data privacy matters (which relates to big data) is becoming more common, since the Brazilian General Data Protection Law was enacted in 2018 and entered into force in 2020. In such cases, legal (for example, privacy policies) and technical (such as cybersecurity systems) aspects shall be analysed to assess potential risks.

Law stated - 28 July 2023

PURCHASE AGREEMENT

Representations and warranties

In technology M&A transactions, is it customary to include representations and warranties for intellectual property, technology, cybersecurity or data privacy?

Yes, in technology M&A transactions it is customary (and also advisable) to include clauses of representations and warranties related to intellectual property, cybersecurity and data privacy.

Normally, if the IP assets of the target company are essential to the transaction, the respective purchase agreement shall include specific representations and warranties to ensure the enforceability and ownership of these IP assets. The seller must guarantee that it is the sole and exclusive owner of such IP and that it is not limited or subject to any encumbrances. The seller must also ensure it has all the appropriate licences for the use of third-party IP rights, as well as that the target IP does not infringe any third-party right or that it is not and will not be subject to any dispute that may impact the buyers' right to exploit the relevant IP asset(s).

Since the enactment of the Internet Law in 2014, data privacy representation and warranties are becoming more common and after the enactment of the Brazilian General Data Protection Law in 2018, these representations and warranties are essential to technology M&A. Purchase agreements shall include specific representations to ensure that the target company complies with all the applicable laws and security standards regarding the collection, use, processing, storage and transfer of personal data. The seller shall also guarantee the actual enforcement of data privacy policies, safeguarding all the rights of the data subject (customers or employees, or both) and having in place all the legal mechanisms in the event of a data breach incident, for example. Cybersecurity representations and warranties should encompass data privacy issues but also more broad IT matters, like how the systems used by the

target are sufficient for the performance of the target's activities, without material disruptions that may cause losses to the target.

Law stated - 28 July 2023

Customary ancillary agreements

What types of ancillary agreements are customary in a carveout or asset sale?

In any case, technology M&A usually requires IP assignments, licence and grant-back licences for carve-out assets, as well as transition services agreements, which commonly involve IT systems (like data centres) and other technical services.

However, in Brazil we usually have more equity deals (rather than asset deals), because asset deals usually entail risks of universal succession of liabilities.

Law stated - 28 July 2023

Conditions and covenants

What kinds of intellectual property or tech-related pre- or post-closing conditions or covenants do acquirers typically require?

Usual pre- and post-closing conditions and covenants for technology M&A transactions include, without limitation: entry into and registry (if applicable) of IP ancillary agreements (especially IP assignments); delivery of source codes; transfer of know-how (and other material confidential business information), settlement of possible IP disputes; separation or replacement of shared IT agreements; and waivers from important licensors regarding change of control clauses.

Notwithstanding the above, it is important to mention that the Brazilian Competition Law (Law No. 12,529/2011), establishes a mandatory pre-merger notification and approval regime for some transactions, which may or may not include material technology and intellectual property assets. The territorial scope of the Brazilian Competition Law concerns acts performed, in whole or in part, within Brazil and acts that produce or may produce effects in Brazil. The following transactions are subject to pre-merger review clearance (thus, submitted to the Brazilian Competition Authority (CADE) and can be defined as 'concentration acts':

- the merger of two or more formerly independent companies;
- the acquisition of control (or portions thereof) of one or more companies by one or more other companies, pursuant to purchase or exchange of stocks, shares, bonds or securities convertible into stocks or assets;
- the merger of one or more companies into one or more other companies; and
- the entering by two or more companies into an associative contract, consortium or joint venture (except when used for bids promoted by the direct and indirect public administration and for contracts arising therefrom).

The legal thresholds for mandatory pre-merger review are: at least one of the groups involved in the transaction has had, in the latest balance sheet, annual gross sales or total turnover in Brazil, in the year preceding the transaction, equivalent to or higher than 750 million reais and that at least one other group involved in the transaction has had, in the latest balance sheet, annual gross sales or total turnover in Brazil, in the year preceding the transaction, equivalent to or higher than 75 million reais. For the sole purpose of assessing the above thresholds, under CADE's rules, the following shall be considered as part of the same economic group: (1) companies under the same control, internal or

external; and (2) companies in which any of the companies of item 'i' owns directly or indirectly at least 20 per cent of equity interest.

The lack of submission of a transaction the notification of which is mandatory, may lead to the application of penalties to the parties. The penalties include but are not limited to the declaration of nullity of the contract and imposition of a pecuniary fine ranging from 60,000 to 60 million reais.

Law stated - 28 July 2023

Survival period

Are intellectual property representations and warranties typically subject to longer survival periods than other representations and warranties?

Normally, intellectual property representation and warranties have the same survival periods as other general representations. Nonetheless, within a technology M&A where an IP right is the main asset of the target company, it is advisable to make specific IP representations and warranties valid for a longer period, ideally in accordance with the statutory period of limitation provided for in the applicable law (for example, 20 years for a patent).

Law stated - 28 July 2023

Liabilities for breach

Are liabilities for breach of intellectual property representations and warranties typically subject to a cap that is higher than the liability cap for breach of other representations and warranties?

If a certain IP right is the main asset of the target company, the representations and warranties regarding such asset are usually excluded from the general liability cap or at least higher than such general cap. Nonetheless, liability caps customarily vary in each transaction, depending on the size of the company and the known contingencies associated with the target company.

Law stated - 28 July 2023

Are liabilities for breach of intellectual property representations subject to, or carved out from, de minimis thresholds, baskets, or deductibles or other limitations on recovery?

Regarding technology M&A transactions, intellectual property representations are usually subject to or carved out from other limitations on recovery. Other recovery mechanisms are not commonly applied to intellectual property representations in technology M&A transactions.

Law stated - 28 July 2023

Indemnities

Does the definitive agreement customarily include specific indemnities related to intellectual property, data security or privacy matters?

The definitive agreement resulting from a technology M&A transaction customarily includes specific indemnities for losses related to intellectual property, data security and privacy matters. The seller is usually required to indemnify the purchaser in connection with any and all breaches of the IP representations. Indemnity provisions are normally subject

to certain conditions, such as immediate notice of the claim and the control of the claim to the indemnifier party. Indemnities related to data privacy matters are usually out of any limits or thresholds.

Law stated - 28 July 2023

Walk rights

As a closing condition, are intellectual property representations and warranties required to be true in all respects, in all material respects, or except as would not cause a material adverse effect?

'Walk rights' of the purchaser vary a lot. However, most agreements provide for 'walk rights' if the IP representation breach causes a material adverse event to the target company. Less important breaches may be remedied or fully indemnified by the seller.

Law stated - 28 July 2023

UPDATES AND TRENDS

Key developments of the past year

What were the key cases, decisions, judgments and policy and legislative developments of the past year?

According to PwC in 2022 there were 1,556 M&A transactions reported in Brazil, a number slightly lower than 2021, which was a year that registered a record in volume of transactions.

The Brazilian Constitution was amended in 2022 by Amendment 115, which included the right to personal data protection as a fundamental right and guarantee (article 5, LXXIX, of the Federal Constitution). The amendment also established that the Union shall exclusively legislate on personal data protection and processing.

Among the most important legislative developments there was the enactment of Law No. 14,478/2022, which regulates the market of digital currencies or cryptocurrencies. According to the new law, virtual asset service providers will only be able to operate in the country with prior authorisation from a federal public administration agency or entity. The law also defines cryptocurrencies as the digital representation of value that can be traded or transferred through electronic means and used for payments or investment purposes. Public administration agencies and entities may maintain accounts and carry out operations with digital currencies and derivatives.

Law stated - 28 July 2023

Jurisdictions

| | | |
|---|-----------------------|-------------------------------------|
|  | Belgium | Agio Legal |
|  | Brazil | Azevedo Sette Advogados |
|  | Canada | Davies Ward Phillips & Vineberg LLP |
|  | China | White & Case |
|  | Czech Republic | White & Case |
|  | Egypt | Zaki Hashem & Partners |
|  | France | White & Case |
|  | Germany | White & Case |
|  | Israel | Erdinast, Ben Nathan, Toledano & Co |
|  | Japan | Nagashima Ohno & Tsunematsu |
|  | Netherlands | Van Doorne |
|  | Romania | Muşat & Asociații |
|  | Switzerland | Walder Wyss Ltd |
|  | United Kingdom | White & Case |
|  | USA | White & Case |