

Key aspects of M&A in the video game sector

SOME KEY NUMBERS

Video games have established themselves as economically relevant assets both nationally and internationally. For example, in Spain:

- (i) the annual revenue of this sector already exceeds EUR 1.7 billion;
- (ii) the sector shows year-on-year growth of almost 20%; and
- (iii) has an industry of more than 650 developers¹.

The depth and breadth of the industry, the high growth rates, together with the Spanish government's commitment to the sector through the *Digital Spain 2025*² agenda and the "*Spain Audiovisual Hub of Europe*" Plan³, have made the video game industry an attractive sector for private investment, which has led to an increase in the number and volume of investments in the sector, mainly through mergers and acquisitions⁴.

KEY LEGAL ASPECTS

The CJEU defines video games as "complex material comprising not only computer programs but also graphic and sound elements which, although encoded in computer language, have a creative value of their own which cannot be reduced to that encoding"⁵. In this regard, the elements of a video game can be protected through:

- **Copyright and Related Rights:** different original elements of a video game are protected by the IPL⁶ (e.g. video game code, script, soundtrack, characters, etc.).
- **Trademarks:** The title of a video game is usually protected territorially by trademark law. Therefore, the existence of a trademark similar to that of a video game in third countries may affect its commercial use.
- **Patents:** Patent protection is traditionally limited to video game-related devices themselves (e.g. arcade machines, controllers, game consoles, etc.). However, in some cases, patent protection may extend to the technical manner in which the mechanics of a video game are executed⁷.
- **Trade Secrets:** during the development of a video game, the most efficient means of protecting sensitive information such as the release date, theme, storyline, etc., is found in the Trade Secrets Act⁸, in the signed confidentiality agreements and in the

employment contracts (eventually including confidentiality clauses) of the workers who take part in the development of the video game.

Specific features of M&A transactions in the video game industry:

Unlike other corporate mergers and acquisitions, those related to the video game industry revolve around an intangible asset and, therefore, it is necessary to take into account, from the beginning to the end of the transaction, certain aspects which, from a legal and logistical point of view, will shape the acquisition process. These include:

- (i) **Request for documentation (checklist), Q&A rounds and Due Diligence process:** transactions involving the acquisition of a business whose main assets are video games, whether a direct acquisition, within the context of an asset deal or indirectly, through the acquisition of one or several companies (share deal), require the gathering and analysis of certain specific information and documentation that will have a decisive influence both on the feasibility analysis and valuation of the transaction and on the contractual design of the transaction documents⁹, mainly:

- The **identification and provision, where applicable, of documentation certifying ownership or the right to commercial use of the entire chain of rights that make up the intangible assets, as well as the fact that these intangible assets are duly protected by intellectual and industrial property rights**, for example with titles of registration with different authorities, such as the Spanish Patent and Trademark Office (SPTO) or the European Union Intellectual Property Office (EUIPO). In particular, during the due diligence process, special attention should be paid to the **transfer of rights**¹⁰.
- Information on any assignments and **commercial use licences**, whether exclusive or not, granted by or in favour of the target company for the commercial use of elements protected by intellectual or industrial property rights relating to video games. Video games contain a multitude of third-party elements (library music, graphic resources, image rights, middleware, etc.), which are generally not transferred to the developer but, rather, licensed. The acquirer of the target company will have to analyse such licences in order to learn about their scope, including with regard to possible obligations and limitations, such as the promotional phase and the marketing of the video game. In particular, it is essential to analyse in detail:

¹ According to the 2020 Report "The video game industry in Spain" prepared by the Spanish Video Game Association - AEVI, the main companies in this sector in Spain are developers, mostly SMEs, which develop video games independently, and games or assets for third parties. The main publishers of video games operating in Spain are major multinationals, which are also responsible for the localisation of the titles they publish, and to a lesser extent local operators. Finally, the main manufacturers of consoles and hardware for the video games sector are present in Spain, as well as some middleware providers, but, above all, there are more and more companies dedicated to the e-sports subsector (including teams, leagues and tournament organisers).

² https://portal.mineco.gob.es/ca-es/ministerio/estrategias/Paginas/00_Espana_Digital_2025.aspx.

³ https://www.lamoncloa.gob.es/presidente/actividades/Documents/2021/240321-Plan_de_impulso_al_sector_audiovisual.pdf.

⁴ Invest Game, Global Video Game Deals Report Q1 2021 Yet another record year ahead (<https://www.dropbox.com/s/m94bferlpyt5nj/Q1%202021%20IG%20Report.pdf?dl=0>).

⁵ CJEU (Fourth Chamber) of 23 January 2014, Nintendo v. PC Box. (C-355/12) ECLI:EU:C:2014:25

⁶ Royal Legislative Decree 1/1996, of 12 April 1996, approving the revised text of the Intellectual Property Law, standardising, clarifying and harmonising the legal provisions in force on the matter ("IPL").

⁷ Boards of Appeal of the European Patent Office, Case Number T 0012/08, 6 February 2009.

⁸ Law 1/2019, of 20 February, on Business Secrets.

⁹ WIPO, World Intellectual Property Report 2017 - Intangible Capital in Global Value Chains, 2017 (https://www.wipo.int/edocs/pubdocs/es/wipo_pub_944_2017.pdf) and Boyd Toby, What is the Value of Intangible Assets?, Communications Division, WIPO, February 2018. (https://www.wipo.int/wipo_magazine/es/2017/06/article_0001.html).

¹⁰ It is important to note that, while copyright and related rights are protected from the moment of their development, and their registration is optional, industrial property rights (e.g. trademarks, patents, etc.), in general, are not protected until they are registered in the relevant territorial registry.

- whether the licences are subject to a change of control or voluntary termination clause that may lead to their termination;
- whether they are exclusive or not, as well as their territorial and time scope; or
- whether the licenced assets are material to the company as a “technology captive” or not.
- Information about the **contracts signed with workers and external partners**, whose functions or services consist of creating or developing, in whole or in part, the elements that make up the video game.
- **Assignment contracts**, specifically those related to the performance of **freelancers, workers or external partners**, must comply with the provisions of **Article 43 of the IPL**, defining the work or service to be assigned, the time and territorial scope of the assignment, and the rights and methods included in the transfer.

If there is no transfer of rights in favour of the employer in the terms set out above, we must analyse the **application of the presumptions** established in the IPL, unless the video game has been created as a **collective work**¹¹, in which case, the rights over it will belong, unless otherwise agreed, to the developer or the publisher, depending on the specific case.

- **Absence of assignment clauses in employment contracts.** On the other hand, in the event of the failure to provide for an assignment of rights clause in the employment contract: (i) the **computer programs** (including object code and source code) that form part of the video game shall belong to the developer, unless otherwise agreed¹²; and (ii) the **works and services** (including scripts, characters, graphic interfaces, etc.) shall belong to the party provided in the contract and, in the absence of a specific agreement, the company may only use the “necessary rights”, hence the importance of reviewing whether there has been a correct transfer of rights¹³.
- **Absence of assignment clauses in contracts with freelancers and/or external partners.** In contrast to employment contracts, in commercial contracts there is no express assignment of rights to the video game: (i) it limits the transfer to **five years**; (ii) the territorial scope

to the **country in which the transfer is made**; and (iii) if the **methods of commercial use** of the work are not specifically expressed, the transfer will be limited to that which is **necessarily inferred** from the contract itself and is indispensable to fulfil the **purpose of the contract**.

- (ii) **Acquisition Agreement (of the video game, business unit or shares):** Having analysed all the information and the chain of rights relating to video games, when signing the corresponding purchase and sale agreement (for example, the share purchase agreement - SPA), we must pay special attention to the seller’s **representations and warranties** to reinforce the buyer’s understanding of the nature of the intangible assets, and, where appropriate, consider whether all or part of these representations should be essential for the purposes of increasing the coverage for non-compliance in the acquisition contracts, or at least, as a minimum, those relating to the fact that:

- the target company is the **holder of all the rights** necessary for the commercial use of the video games, and has not made any total or partial assignment in relation to the same;
- the target company has the **necessary rights licences** for the commercial use of the video games;
- the video games are **free from all liens and encumbrances**, in particular, claims relating to the validity and/or ownership of their intellectual and industrial property rights; and
- the target company **has not been the subject of any claim**, at least in the **last 5 years**, for infringement of the intellectual and industrial property rights of a third party¹⁴.

CONCLUSION

Investment in Spanish developers has started and is set to continue to grow in the coming years. In this regard, both sellers and buyers must pay special attention to the correct management of their intangible assets, verifying the chains of rights relating to them, as well as ensuring that the commercial use of their video games cannot be interfered with through the exercise of the intellectual and/or industrial property rights of third parties. Accordingly, start your game engines, insert your coins and may the best bidder win.

¹¹ Article 8 of the IPL.

¹² Article 97.4 of the IPL.

¹³ Article 51.2 of the IPL.

¹⁴ Article 140 of the IPL.

This Legal Briefing was prepared by Andy Ramos and Álvaro Martínez Crespo, Intellectual Property and Technology.

The information contained in this Legal Briefing is of a general nature and does not constitute legal advice.

This document was prepared on 20 January 2021 and Pérez-Llorca does not undertake any commitment to update or revise its contents.

For more information, please contact:

Andy Ramos | Intellectual Property and Technology Partner
aramos@perezllorca.com / +34 91 423 20 72

Fernando Quicios | Corporate/M&A Partner
fquicios@perezllorca.com / +34 91 436 04 35

Pedro Fernández | Corporate/M&A Partner
pfernandez@perezllorca.com / +34 91 423 70 41

Jordi Farrés | Corporate/M&A Partner
jfarres@perezllorca.com / +34 93 481 56 04