

# Growing the Top and Bottom Line Through Corporate Venturing And Strategic Alliances – The Basics

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## INTRODUCTION

Many companies desire to grow revenue and profits by strategically adding new products or lines of business. Beyond “organic” growth, there are several ways to pursue this goal – through a venture investment (or non-control investment), an acquisition (or control investment), a joint venture, or a technology development agreement. Each model has advantages and challenges, and some of the primary advantages and challenges are outlined below.

## CORPORATE VENTURE CAPITAL – NON-CONTROL INVESTMENTS

A company may decide to investigate the efficacy of a new product or technology by investing capital in the developer in exchange for a minority ownership stake. The investing corporation may also be able to negotiate a role in product development or oversight and an opportunity to utilize the product on favorable terms once commercialized. A non-control investment could take the form of equity, debt or a hybrid security, such as convertible debt or debt accompanied by warrants. In general, an equity investment will provide greater growth potential but more risk; while a debt investment may provide some current income and greater downside protection. A hybrid security could provide both growth and reduced risk. The determination of which form of non-control investment is best for a corporate venturer will depend on appetite for risk versus growth and other goals. The advantages and challenges of a non-control investment include:

### Advantages

- Relatively low capital investment
- Risk limited to investment
- Opportunity to get a first look at a new product/technology
- No day-to-day management

- No integration/culture risk
- Inside track to acquisition if desired

### Challenges

- Limited control over product development
- Limited control over management and direction
- No guaranty of acquisition absent specific agreement (but expect strong resistance)
- Potential for conflicts arising from access to confidential information

## ACQUISITION – CONTROL INVESTMENTS

Some corporations desire to implement their growth strategy by purchasing new lines of business. Control investments require significant due diligence, detailed tax analysis and structuring, careful consideration of the cultural fit and integration challenges, and complicated business and legal negotiations. However, acquiring a company with a desired technology or know-how allows a corporation to develop a product in the way it determines is best for its strategic growth. Other advantages and challenges of making acquisitions include:

### Advantages

- Control over product/technology development
- Control over decision-making
- Benefit from all the upside

### Challenges

- High acquisition costs
- High integration costs
- Cultural issues
- Long term investment

## JOINT VENTURE

A joint venture allows a company to leverage its resources with a selected partner to jointly develop a product or technology. A corporation may enter into a joint venture to strategically align with a partner who has similar business objectives but possesses different resources to contribute to the project. These resources could be capital, facilities or know-how. A joint venture generally takes the form of a new business entity, but could include a contractual relationship that would be more akin to the technology partnership model. The governance structure for a joint venture is often challenging to put in place. Other advantages and challenges of a joint venture include:

### Advantages

- Leverage capital and non-capital resources
- Flexibility in overseeing the product/technology development
- Can limit scope and duration
- Allocates risks and costs
- Align with potential competitors

### Challenges

- Difficult to set-up
- Higher start-up costs
- Disagreements between parties may create difficulty over daily operations
- Difficult to govern unless one party controls
- Difficult to exit the venture

## TECHNOLOGY DEVELOPMENT AGREEMENTS

Technology development agreements can most easily be viewed as contractual joint ventures. Generally, under technology development agreements one party licenses technology to another party and the parties each have agreed upon duties in the development, manufacturing and commercialization of a product.

Oftentimes one party will provide development capital, either up front and/or as milestone payments, as well as pay royalties if and when a product is commercialized. The costs and time in negotiating this type of arrangement are significantly less than the acquisition and entity joint venture alternatives and more akin to those involved in a corporate venture investment. Additionally, the governance and cultural issues are significantly more straight forward. Other advantages and challenges of this model include:

### Advantages

- Leverage capital and non-capital resources
- Flexibility in structuring
- Limited in scope and duration
- Allocates risks, costs and benefits
- Easier to negotiate

### Challenges

- Less control over development than a joint venture or acquisition
- Limited profit potential – upside benefits the licensor
- Exclusivity, if desired, is often difficult to negotiate

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