

Private M&A 2020

Contributing editors

Will Pearce and John Bick

Davis Polk & Wardwell LLP



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Publisher

Tom Barnes

tom.barnes@lbresearch.com

Subscriptions

Claire Bagnall

claire.bagnall@lbresearch.com

Senior business development managers

Adam Sargent

adam.sargent@gettingthedealthrough.com

Dan White

dan.white@gettingthedealthrough.com

Published by

Meridian House

34-35 Farringdon Street

London EC4A 4HL

Tel: +44 20 3780 4147

Fax: +44 20 7229 6910

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Lexology Getting The Deal Through is delighted to publish the third edition of *Private M&A*, which is available in print and online at www.lexology.com/gtdt.

Lexology Getting The Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique Lexology Getting The Deal Through format, the same key questions are answered by leading practitioners in each of the jurisdictions featured. Our coverage this year includes new chapters on Sudan and the United Arab Emirates.

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Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Lexology Getting The Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to the contributing editors, Will Pearce and John Bick of Davis Polk & Wardwell LLP, for their continued assistance with this volume.



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For further information please contact editorial@gettingthedealthrough.com

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France

Jacques Naquet-Radiguet, Juliette Loget and Jean-Christophe Devouge

Davis Polk & Wardwell LLP

STRUCTURE AND PROCESS, LEGAL REGULATION AND CONSENTS

Structure

- 1 How are acquisitions and disposals of privately owned companies, businesses or assets structured in your jurisdiction? What might a typical transaction process involve and how long does it usually take?

In most cases and unless there is a natural choice (eg, a joint-venture partner or a majority shareholder willing to buy out minority shareholders), the seller would seek to promote competition between different bidders through a competitive auction process, whose conduct is not subject to specific rules apart from the requirement of good faith (see question 10).

The typical auction process would start with the seller soliciting offers – possibly with the support of a financial adviser or accountant (see question 9) – by providing a short presentation about the target (a teaser). After having signed a non-disclosure agreement, interested bidders will gain access to an information memorandum, on the basis of which interested buyers would provide non-binding letters of interest. Selected bidders may also be granted access to a data room, the management of the target through management presentations and possible site visits, to be in a position to make binding offers.

The time period for achieving the transaction varies depending on the circumstances, but it usually takes three to five months to execute an agreement once the process has started

Legal regulation

- 2 Which laws regulate private acquisitions and disposals in your jurisdiction? Must the acquisition of shares in a company, a business or assets be governed by local law?

Private acquisitions and disposals are generally governed by contracts law, as provided by the French Civil Code, which underwent a major reform in 2016 with the aim of modernising and simplifying the applicable rules. In addition, specific additional legislation may be applicable depending on the nature of the assets being sold. By way of example, the transfer of real estate assets require the assistance of a French notary. In addition, the transfer of certain sensitive activities to a foreign investor requires the prior approval of the French Ministry of Economy and Finance.

Where one or more of the parties are non-French or where there are assets located in various jurisdictions, it is possible to subject a transaction involving a French target or asset to a foreign law (except for certain specific assets such as real estate).

Legal title

- 3 What legal title to shares in a company, a business or assets does a buyer acquire? Is this legal title prescribed by law or can the level of assurance be negotiated by a buyer? Does legal title to shares in a company, a business or assets transfer automatically by operation of law? Is there a difference between legal and beneficial title?

In general, a buyer would acquire the title of ownership over shares in a company, a business or assets and all of the powers attached thereto (ie, the right to use or dispose of such shares, business or assets). The transfer of ownership occurs either upon the entry into the relevant sale and purchase agreement or, as applicable, upon the satisfaction of mandatory regulatory conditions or contractually agreed conditions precedent.

Where title to shares is concerned, such title is transferred via registration in the buyer's shareholder account of the company's register, which may be done, for unlisted securities, by using blockchain technology.

French law does not distinguish between legal and beneficial titles, but provides a single concept of ownership right. However, a few concepts under French law may be analogous to beneficial titles, such as:

- the *fiducie*, whereby one or more persons may transfer assets, rights or guarantees to a third party, who has the duty to administer these on behalf of the beneficiary; and
- the division of shareholder rights between a bare owner and a beneficial owner (the latter benefiting solely from the right to use and receive the revenue from the assets).

Multiple sellers

- 4 Specifically in relation to the acquisition or disposal of shares in a company, where there are multiple sellers, must everyone agree to sell for the buyer to acquire all shares? If not, how can minority sellers that refuse to sell be squeezed out or dragged along by a buyer?

As a general principle, a buyer must obtain the consent of each shareholder to buy his or her shares. Indeed, no squeeze-out mechanism is currently available under French law for non-listed companies to allow a buyer to force a minority shareholder to sell his or her shares unless he or she previously consented to (for instance, through a drag-along clause, an exclusion clause or a call option, all of which can be stipulated in the by-laws or in a shareholders' agreement).

Exclusion of assets or liabilities

- 5 | Specifically in relation to the acquisition or disposal of a business, are there any assets or liabilities that cannot be excluded from the transaction by agreement between the parties? Are there any consents commonly required to be obtained or notifications to be made in order to effect the transfer of assets or liabilities in a business transfer?

As long as the transfer of a business results in the transfer of an autonomous and complete branch of activity, such transfer would entail the automatic transfer of all related assets and liabilities, with the exception of agreements concluded *intuitu personae* (in consideration of the other party's quality) as well as agreements that expressly prohibit such transfer without the other party's approval.

The transfer of real estate assets may require specific formalities and authorisations.

Consents

- 6 | Are there any legal, regulatory or governmental restrictions on the transfer of shares in a company, a business or assets in your jurisdiction? Do transactions in particular industries require consent from specific regulators or a governmental body? Are transactions commonly subject to any public or national interest considerations?

Generally, there is no restriction on such transfers, including in relation to foreign investors. Nonetheless, French authorities may object to foreign investments in a few specified sectors, the list of which was expanded in 2014 following the takeover battle between Siemens and GE over Alstom's energy business and extended once again in 2018. Such strategic sectors now include activities that are essential to guarantee the country's interests in relation to public policy, public security or national defence (the supply of energy sources or of water, transport and electronic communications services, etc) and, in certain circumstances, R&D activities with respect to semiconductors, artificial intelligence, cybersecurity and robotics.

In practice, the French authorities adopt a pragmatic approach when dealing with sensitive transactions, using their veto power to impose specific conditions to safeguard national interests. Any such conditions regarding EU investors would typically be more lenient than they would be for non-EU investors. In the event of non-compliance with such conditions, sanctions may be imposed on involved parties as a result of recent Pacte bill adopted in May 2019.

In addition, pursuant to an EU Regulation issued on 19 March 2019, the European Union has established a coordination mechanism between member states in the implementation of domestic filtering or control procedures for foreign direct investment from third countries that may adversely affect projects or programmes that are of particular relevance for the European Union. In essence, any investment project that is subject to a domestic supervisory procedure must be simultaneously communicated to the European Commission as well as to any member state concerned to enable them to issue and channel an opinion to the member state responsible for the ongoing control.

Furthermore, transactions in specific industries (eg, banking, telecoms, insurance) may also require the consent from the competent regulatory bodies.

Moreover, the transaction could be subject to the merger control of the European Union, or to French merger control regulations (in addition to merger control regulations of other EU member states). Under such French merger control regulations, transactions meeting the three following conditions may be required to be filed with the French Competition Authority (ADLC): (i) the gross worldwide total turnover of all of the companies involved in the concentration exceeds €150 million;

(ii) the gross total turnover generated individually in France by each of at least two of the companies involved in the concentration exceeds €50 million; and (iii) the merger does not fall within the scope of the EU's Merger Regulation.

Finally, other legal or tax restrictions may also affect the possibility of completing a transaction (eg, tax schemes subject to lock-up commitments).

Third-party consents

- 7 | Are any other third-party consents commonly required?

Depending on the corporate form of the entity, whose shares are being transferred (closely held companies such as partnerships (SNC or SCS) or private limited liability companies (SARL), for instance), the consent of the other shareholders (or the board of directors in a *société anonyme*) may be required for one shareholder to transfer his or her shares. Otherwise, such consent is not necessary, unless stipulated in the by-laws.

In a situation where a corporate entity is the seller, the decision to sell is taken by the management. This position, however, ought to be qualified for some strategic decisions (eg, in the event of a sale of the majority of assets) for which, depending on the by-laws, the board of directors' or shareholders' prior approval may be necessary.

Regulatory filings

- 8 | Must regulatory filings be made or registration (or other official) fees paid to acquire shares in a company, a business or assets in your jurisdiction?

While the acquisition of shares generally involves limited formalities (tax filings and, with respect to certain corporate forms (SNC, SARL, SCS), additional filings with the Commercial Register), a transfer of a business or assets may involve specific disclosures to inform the seller's creditors of the sale or other formalities depending on the assets being sold (eg, the transfer of any real property involves a notarial deed and may require the waiver of municipal pre-emptive rights).

ADVISERS, NEGOTIATION AND DOCUMENTATION

Appointed advisers

- 9 | In addition to external lawyers, which advisers might a buyer or a seller customarily appoint to assist with a transaction? Are there any typical terms of appointment of such advisers?

Both the seller and the buyer usually appoint financial advisers to help them throughout the course of the transaction. Faced with a vast diversity of financial advisers (ranging from highly regulated investment banks to non-regulated players), in early 2017, the French financial regulatory authority (AMF) launched a public consultation to determine whether it would be appropriate for the AMF to oversee such advisers. Although such oversight proposal was not retained in the end, the AMF has expressed its readiness to support initiatives aimed at improving the industry's practices and, in January 2018, the AMF released a recommendation regarding the assessment of the knowledge and skills of advisers called upon to advise on a transaction such as investment services providers.

For large-scale transactions, the terms of appointment of such advisers are typically standardised, with smaller transactions allowing more flexibility. A financial adviser's engagement letter will typically provide limitation of liability clauses, indemnities and success fees (and sometimes a retainer fee).

Although not very common, there is also an increasing number of situations where third-party appraisers are used for private M&A

deals. For instance, third-party appraisals may be used to mitigate the risk of fiscal reassessment of LBO management packages by providing evidence that managers are bearing a financial risk and that the transaction has been made at fair market value.

Duty of good faith

- 10 | Is there a duty to negotiate in good faith? Are the parties subject to any other duties when negotiating a transaction?

As part of the reform of the Civil Code (see question 2), the duty of good faith has been expressly extended to the negotiation phase – in addition to the signing and implementation phases – as an ‘imperative’ duty. Because good faith is a generic concept, it is difficult to identify fully what this requirement actually means in practice beyond the general duty of loyalty it underlies. In the event of a sale process, for instance (see question 1), one could argue that such requirement should be construed as entailing the necessity for any seller to treat alike prospective bidders in the same situation. More precise guidance, however, has been provided with respect to pre-contractual information (see question 14).

In a negotiation context, directors of a buyer or a seller must also pay attention to the specific duties that apply to them, such as the duty to act in the company’s interest (which may differ from the shareholders’ interests) or the duty of loyalty that prevents, for instance, directors from buying minority shareholders’ shares at a price lower than that which could be offered by a third party thanks to the inside information they hold because of their functions. This tighter framework may be considered as part of the explanation of the increased use of third-party appraisals (see question 9).

Documentation

- 11 | What documentation do buyers and sellers customarily enter into when acquiring shares or a business or assets? Are there differences between the documents used for acquiring shares as opposed to a business or assets?

In addition to preliminary agreements such as non-disclosure agreements or term sheets, buyers and sellers enter into definitive long-form agreements (typically a sale and purchase agreement) which are tailored to the specific circumstances of the transaction and include a description of the transferred assets, the price, the representations and warranties granted by the seller, the conditions precedent, and post-closing covenants. Furthermore, asset purchase agreements must comply with a more rigid framework including some compulsory statements (such as the name of the previous owners and details about turnover), the absence of which entitles the buyer to claim the invalidity of the sale.

When definitive long-form agreements cannot be executed until the employees representatives bodies information and consultation process have been completed, it is common practice to secure the terms of the transaction through put-option agreements with the long-form agreements annexed (see question 34)

Formalities

- 12 | Are there formalities for executing documents? Are digital signatures enforceable?

Except for real estate transactions, no public notary involvement is required. Digital signatures are generally enforceable provided the signing process is reliable (the rules in this respect are provided by both the Civil Code and the EU electronic Identification, Authentication and Trust Services Regulation No. 910/2014), but this is not yet common practice for large-cap M&A transactions.

DUE DILIGENCE AND DISCLOSURE

Scope of due diligence

- 13 | What is the typical scope of due diligence in your jurisdiction? Do sellers usually provide due diligence reports to prospective buyers? Can buyers usually rely on due diligence reports produced for the seller?

The scope of due diligence typically varies depending on the size of the contemplated transaction (ie, whether the buyer intends to acquire a minority interest or 100 per cent of the share capital of the target). Due diligence usually covers corporate documentation, commercial contracts, employment, taxation, IP, IT, regulatory, litigation, environment, compliance, accounting and financials. Compliance matters are increasingly becoming a key issue of due diligence, particularly following the new requirements enacted by the 2016 French Anti-corruption law (‘Sapin 2’ bill).

Vendor due diligence reports are very common in auction processes in order to expedite the due diligence exercise of prospective buyers. The successful bidder is often entitled to rely on such report, subject to applicable qualifications and limitations, under a reliance letter drafted by the relevant service provider.

Liability for statements

- 14 | Can a seller be liable for pre-contractual or misleading statements? Can any such liability be excluded by agreement between the parties?

As a direct consequence of the good faith requirement for pre-contractual negotiations (see question 10), the Civil Code now provides specifically that any party having knowledge of a fact that is key for the consent of the other party must inform such other party thereof, provided, however, that such other party is legitimately unaware of such information or relies on the knowledgeable party. This pre-contractual duty to inform is likely to have an important impact on M&A negotiations, especially because it cannot be excluded or limited by the parties. In addition, in the case of a breach, it may lead to the contract being null and void. In addition, specific regulations (real estate, environment) may also impose specific disclosure obligations.

Except for this important caveat, the liability of the seller for any pre-contractual or misleading statements may be limited or extended depending on the terms and conditions of the contract. Any limitations on such liability would, however, be disregarded in cases of fraud.

Publicly available information

- 15 | What information is publicly available on private companies and their assets? What searches of such information might a buyer customarily carry out before entering into an agreement?

Trade and companies registers are the main public source of information regarding French privately held companies. They make available, inter alia, companies’ incorporation certificates (K-bis excerpts, which certify the legal existence of a company and provide information about their management), their articles of association, their annual financial statements as well as information about potential insolvency proceedings and potential pledges or encumbrances. In practice, such documents may be consulted online on the Infogreffe website (www.infogreffe.com) for limited fees.

It may also be helpful to check other sources of information, such as patent and trademark databases held by the French National Institute of Industrial Property, land registers or the registers of the relevant regulators in the event the target is subject to any specific regulation given

the nature of its business (eg, information about portfolio management companies may be found on the AMF's website).

Finally, in the event that the target is a subsidiary of a listed company, useful information may also be found in the public disclosure of such listed company (eg, through its annual report).

Impact of deemed or actual knowledge

- 16 | What impact might a buyer's actual or deemed knowledge have on claims it may seek to bring against a seller relating to a transaction?

Unless otherwise provided in the transaction document, if the buyer was aware or should have been aware of any fact or event giving rise to a claim, French courts would take into account such failure to reduce the amount of the claim or to exclude it.

PRICING, CONSIDERATION AND FINANCING

Determining pricing

- 17 | How is pricing customarily determined? Is the use of closing accounts or a locked-box structure more common?

Pricing is often determined by using the discounted cash flow method based on a business plan with post-closing adjustment mechanisms (typically with respect to net debt and working capital) based on actual closing accounts. Other valuation methods can be used depending on the industry (eg, the revalued net asset method is favoured for real estate companies). Locked-box structures are increasingly used in the context of auction processes involving attractive assets.

Form of consideration

- 18 | What form does consideration normally take? Is there any overriding obligation to pay multiple sellers the same consideration?

Cash remains the most common form of consideration, and it is very rare to see shares used as a means of payment for private M&A deals unless the transaction is structured as a combination through a merger or a contribution. Vendor notes are not frequently used except for a limited portion of the price or intra-group transactions.

Although there is no strict obligation to pay multiple sellers the same consideration, it is almost always the case.

Earn-outs, deposits and escrows

- 19 | Are earn-outs, deposits and escrows used?

The decision to use earn-outs, deposits and escrows is made on a case-by-case basis and will depend on the circumstances. Earn-out mechanisms are less common than deposits and escrows.

Financing

- 20 | How are acquisitions financed? How is assurance provided that financing will be available?

Debt financing structures are frequently used to finance acquisitions, from single facility loan agreements to more complex structures involving different tranches of debt. To get assurance on this matter, the seller would usually require being provided with a duly executed debt facilities agreement (or binding term sheets) before entering into definitive documentation with the buyer. In addition, should the buyer have minimal financial substance (ie, it is an SPV), the seller may also seek guarantees from creditworthy entities or directly enforceable equity commitment letters to cover equity financing.

Limitations on financing structure

- 21 | Are there any limitations that impact the financing structure? Is a seller restricted from giving financial assistance to a buyer in connection with a transaction?

French corporate law prohibits financial assistance schemes whereby a company would advance or lend money or grant a security interest – directly or indirectly – to a third party in view of the subscription or acquisition of its own shares. Similarly, any company must refrain from committing a misuse of its corporate assets or acting in contradiction of its best interests. Thin capitalisation rules may also have an impact on acquisition finance transactions.

CONDITIONS, PRE-CLOSING COVENANTS AND TERMINATION RIGHTS

Closing conditions

- 22 | Are transactions normally subject to closing conditions? Describe those closing conditions that are customarily acceptable to a seller and any other conditions a buyer may seek to include in the agreement.

Signing and closing of a transaction can occur simultaneously. It is market practice, however, to provide for closing conditions, the most common of which being antitrust and other regulatory clearances. Of course, a buyer may seek to extend such conditions so as to include, for instance, the availability of financing, and the absence of any material adverse change between signing and closing.

Buyer and seller obligations

- 23 | What typical obligations are placed on a buyer or a seller to satisfy closing conditions? Does the strength of these obligations customarily vary depending on the subject matter of the condition?

Sale and purchase agreements typically require both the seller and the buyer to take any reasonable actions that are necessary to satisfy the closing conditions that have been agreed upon.

Pre-closing covenants

- 24 | Are pre-closing covenants normally agreed by parties? If so, what is the usual scope of those covenants and the remedy for any breach?

It is a common feature to have pre-closing covenants whereby the seller undertakes to operate its business in the ordinary course of business in accordance with past practice. Any unusual transactions, such as modifications to the share capital, acquisitions or sales of significant assets, and the creation of encumbrances, will generally require prior consent of the buyer, keeping in mind in this respect that information exchanges and restrictions on the target's business operations must be analysed carefully to avoid any gun-jumping qualification when the transaction is deemed implemented before receiving antitrust clearance (see, for instance, the €80 million record fine imposed in 2016 on telecom operator Altice by the ADLC).

Remedies will vary depending on the nature of the breach of such pre-closing covenants and the terms and conditions of the contract, but would generally result in damages rather than permitting a buyer to terminate the transaction.

Termination rights

25 | Can the parties typically terminate the transaction after signing? If so, in what circumstances?

Typically, parties cannot terminate a transaction between signing and closing before a negotiated long-stop date, except to the extent that any condition is, or becomes, incapable of satisfaction. That being said, the reform of the Civil Code has made room for hardship in M&As by allowing the amendment or rescission of a contract if, following an unforeseeable change in circumstances, the performance of such contract becomes excessively onerous for one party. However, the parties may contractually agree otherwise and exclusion of hardship has become standard practice for M&A transactions. A contract may also be rescinded in the case of a force majeure event with anticipated long-term adverse effects.

Break-up fees and reverse break-up fees

26 | Are break-up fees and reverse break-up fees common in your jurisdiction? If so, what are the typical terms? Are there any applicable restrictions on paying break-up fees?

Break-up fees and reverse break-up fees are becoming more common in seller-friendly transactions in France but they are not used as often as in other jurisdictions such as the US. No specific restrictions apply to them at the stage of the definitive sale and purchase agreement.

REPRESENTATIONS, WARRANTIES, INDEMNITIES AND POST-CLOSING COVENANTS

Scope of representations, warranties and indemnities

27 | Does a seller typically give representations, warranties and indemnities to a buyer? If so, what is the usual scope of those representations, warranties and indemnities? Are there legal distinctions between representations, warranties and indemnities?

The seller customarily gives representations and warranties and less frequently gives specific indemnities, the scope of which is negotiated on a case-by-case basis.

In practice, representations and warranties will be used to cover any adverse unknown event whose origin pre-dates the execution of the transaction document. Representations and warranties will be grouped into two main categories: fundamental warranties and business warranties, with different conditions for indemnification. The minimum set of fundamental representations and warranties includes the following items: capacity of the seller and authority, valid title of ownership of the assets being sold as well as the absence of any third-party rights.

Besides, the seller may also agree to specific indemnities, pursuant to which the seller undertakes to indemnify the buyer against specific risks identified through due diligence. Because specific indemnity provisions usually concern important risks (eg, specific litigations, environmental or compliance issues), they are often euro-for-euro indemnities, which are not subject to the limitations applying to business representations and warranties (see question 28) except for the seller's aggregate liability cap that is, in most cases, to the purchase price.

Limitations on liability

28 | What are the customary limitations on a seller's liability under a sale and purchase agreement?

Limitations on a seller's liability will typically depend on the types of representations and warranties (see question 27), with fundamental warranties often carved out from any limitations other than a cap equal to the purchase price.

Business warranties will typically be subject to the following limitations:

- a deductible or a tipping basket;
- a de minimis deductible;
- specific conditions regarding the calculation of claims (net of taxes or insurance proceeds);
- limited survival periods (one to three years, except for tax or labour law warranties for which the survival period would be the statute of limitation); and environmental representations, which typically survive for five to 10 years; and
- a cap (10 to 20 per cent).

Transaction insurance

29 | Is transaction insurance in respect of representation, warranty and indemnity claims common in your jurisdiction? If so, does a buyer or a seller customarily put the insurance in place and what are the customary terms?

Transaction insurance in respect of representation, warranty and indemnity claims have become more common in seller-friendly processes but they remain relatively rare in negotiated deals. When used, transaction insurance policies are customarily put in place by the buyer and will generally duplicate the scope of the representations and warranties that has been agreed between the seller and the buyer.

Post-closing covenants

30 | Do parties typically agree to post-closing covenants? If so, what is the usual scope of such covenants?

Post-closing covenants are typically agreed to by the parties for limited periods of time. The following post-closing covenants are customary:

- non-compete;
- non-solicit;
- confidentiality; and
- access to information.

TAX

Transfer taxes

31 | Are transfer taxes payable on the transfers of shares in a company, a business or assets? If so, what is the rate of such transfer tax and which party customarily bears the cost?

Transfers of shares in a company are typically subject to the following stamp duties: 0.1 per cent of the purchase price for shares in joint-stock companies; 3 per cent of the purchase price for shares in limited liability companies or partnerships; or 5 per cent of the purchase price for shares in real estate companies.

There is an exemption from stamp duty for acquisitions of listed securities.

Transfers of a business are subject to stamp duties of up to 5 per cent (for the fraction above €200,000) of the purchase price. Transfers of assets are generally not subject to any stamp duty unless they qualify as real property.

It is market practice for the buyer to pay all stamp duties, although the seller and the buyer remain in all cases jointly liable to the tax authorities for such payments.

Corporate and other taxes

- 32** Are corporate taxes or other taxes payable on transactions involving the transfers of shares in a company, a business or assets? If so, what is the rate of such transfer tax and which party customarily bears the cost?

Transfers of shares, businesses or assets may result in taxable capital gains for the seller.

If the seller is a company subject to French corporate income taxes and if it transfers shares, the tax rate pursuant to which the capital gains will be taxed depends on the qualification of the shares transferred. If they qualify as ownership interest (at least 5 per cent interest, held for at least two years), the capital gains will be taxed at a preferred 12 per cent rate. Otherwise, they will be taxed at the corporate income tax rate (28 per cent, to be reduced progressively to 25 per cent in 2022). If the seller is a French company subject to corporate income taxes that transfers a business or assets, the capital gains on such transfer will be taxed at the normal corporate income tax rate.

Value added taxes are not applicable to transfers of shares or businesses. However, value added taxes may be applicable to transfers of individual assets, depending on the nature of such assets.

EMPLOYEES, PENSIONS AND BENEFITS

Transfer of employees

- 33** Are the employees of a target company automatically transferred when a buyer acquires the shares in the target company? Is the same true when a buyer acquires a business or assets from the target company?

Employees of a company whose shares are being transferred remain employees of this company and are automatically transferred (indirectly) to the buyer.

In addition, employees of a company are automatically transferred to the buyer who acquires an 'autonomous economic entity' (ie, an organised set of assets and persons facilitating the exercise of an economic activity that pursues a specific objective). However, the acquisition of individual assets from a seller does not always trigger the automatic transfer of employees. Hence, in the event of an assets sale, an analysis of the scope of the transaction must be run to consider whether it will entail the automatic transfer of employees.

Notification and consultation of employees

- 34** Are there obligations to notify or consult with employees or employee representatives in connection with an acquisition of shares in a company, a business or assets?

Employees' representatives of a target company must be notified, consulted, or both, prior to the acquisition of the shares or the business of such target company. The acquisition of assets will give rise to notification or consultation obligations to the extent that it results in the transfer of an autonomous economic entity (see question 33) or impacts on the production structures of the target company. The relevant notification and consultation process must be run prior to the signature of any agreement obligating the seller to sell the relevant shares or business. This is why, typically put-option agreements are signed first, obligating the buyer to buy but also obligating the seller to sell, and the share purchase agreement is signed only when the employee's consultation is completed. Notification or consultation obligations of employees' representatives may also concern the seller and buyer if they operate in France.

In late 2017, the French government reformed the French Labour Code and, in particular, simplified the framework of the employee representative bodies by merging the then current bodies into a single social

Davis Polk

Jacques Naquet-Radiguet

jacques.naquet@davispolk.com

Juliette Loget

juliette.loget@davispolk.com

Jean-Christophe Devouge

jc.devouge@davispolk.com

121, avenue des Champs-Élysées
75008 Paris
France
Tel: +33 1 56 59 36 00
Fax: +33 1 56 59 37 00
www.davispolk.com

and economic committee. The social and economic committee has the same function as the previous structures, notably those attributed to the works councils. Thus, for companies having more than 50 employees for at least 12 months, the target company's social and economic committee must be notified and consulted prior to any changes made to the target company's economic or legal organisation, including any merger, acquisition, changes to the production structure or upon any acquisition or sale of a subsidiary. In the context of takeover bids, a special notification and consultation process applies to the social and economic committee of the target company.

Small or medium-sized enterprises (ie, companies with fewer than 250 employees and an annual revenue or total assets not exceeding €50 million or €43 million, respectively) are subject to specific obligations in terms of employee information in the context of an acquisition so that such employees are given the opportunity to bid for the acquisition of the shares or business of the target company. Hence, in connection with the acquisition of a business or at least 50 per cent of the shares of an SME, the employer must inform the employees at least two months prior to closing the transaction if the target company does not have a social and economic committee, or otherwise no later than at the same time as the consultation of the social and economic committee. A breach of this obligation may result in penalties for the employer but does not trigger the nullity of the acquisition.

Transfer of pensions and benefits

- 35** Do pensions and other benefits automatically transfer with the employees of a target company? Must filings be made or consent obtained relating to employee benefits where there is the acquisition of a company or business?

As a general principle, all contractual rights and obligations of employees of a company whose shares are being transferred are transferred to the buyer of such company, pursuant to the automatic transfer rule (see question 33), without any filing. However, the automatic transfer rule does not apply to other benefits granted in accordance with specific collective agreements that may be no more applicable following the transaction, including voluntary supplementary pension schemes. The recent Pacte bill has, however, increased the possibilities for employees to continue benefiting from such schemes following a transfer.

UPDATE AND TRENDS**Key developments**

- 36 | What are the most significant legal, regulatory and market practice developments and trends in private M&A transactions during the past 12 months in your jurisdiction?

An important recent trend in private M&A in France is a shift to a more seller-friendly environment, especially for transactions that follow an auction process or involve a private equity seller. In such a context, it is more common for sellers to request and obtain a locked-box price structure. Compliance and General Data Protection Regulation matters have also become an ever-important focus of the due diligence exercise, especially for cross-border transactions. Finally, there is a growing tendency to include representations and warranties seeking the confirmation of the absence of sexual harassment ('#MeToo' representations and warranties) especially for targets operating in the tech industry.

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