



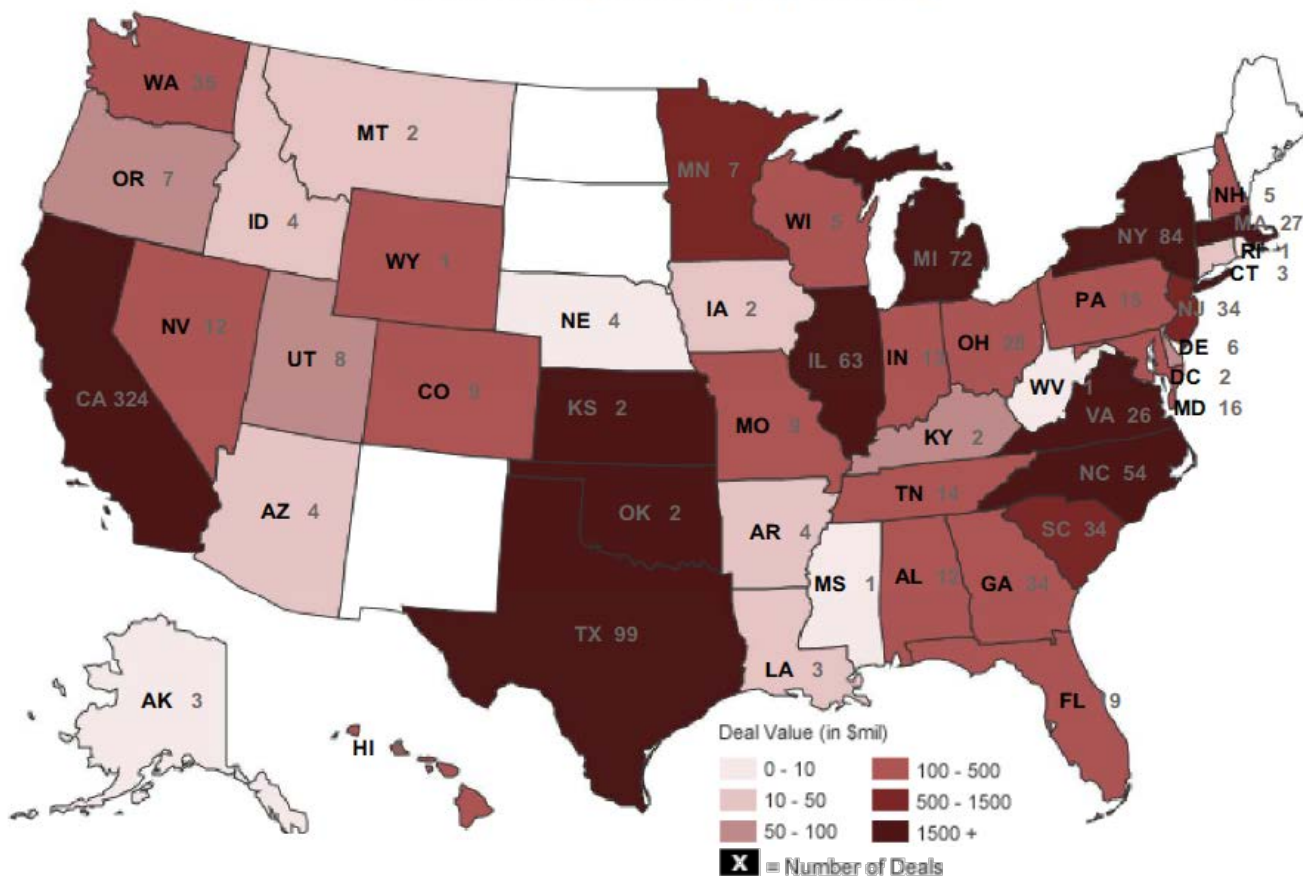
# **New Trends for Chinese Investments in the U.S.**

## **How to Strike a Win-Win Transaction**

**Karen Wong, Ph.D., J.D.**

# Chinese Foreign Direct Investment in U.S.

All States / All Industries / 2000 to Q2 2015  
Greenfield & Acquisitions / Any Ownership



Total Deals: 1117

Total Value: \$54 Billion

## Investment by Industry (in \$mil)

Agriculture & Food: 19 deals / \$7,256

Automotive: 105 deals / \$2,270

Aviation: 16 deals / \$736

Basic Materials: 43 deals / \$399

Consumer Prod. & Serv.: 100 deals / \$867

Electronics: 55 deals / \$353

Energy: 120 deals / \$12,353

Entertainment: 33 deals / \$3,216

Finance & Bus. Services: 62 deals / \$1,370

Health & Biotech: 81 deals / \$2,247

ICT: 177 deals / \$9,773

Ind. Machinery & Equip.: 75 deals / \$754

Metals and Minerals: 32 deals / \$1,305

Real Estate & Hospitality: 110 deals / \$10,847

Transport & Infrastructure: 89 deals / \$265

## Investment by Type (in \$mil)

Greenfield: 707 deals / \$6,166

Acquisitions: 410 deals / \$47,844

## Investment by Ownership (in \$mil)

Government: 305 deals / \$19,476

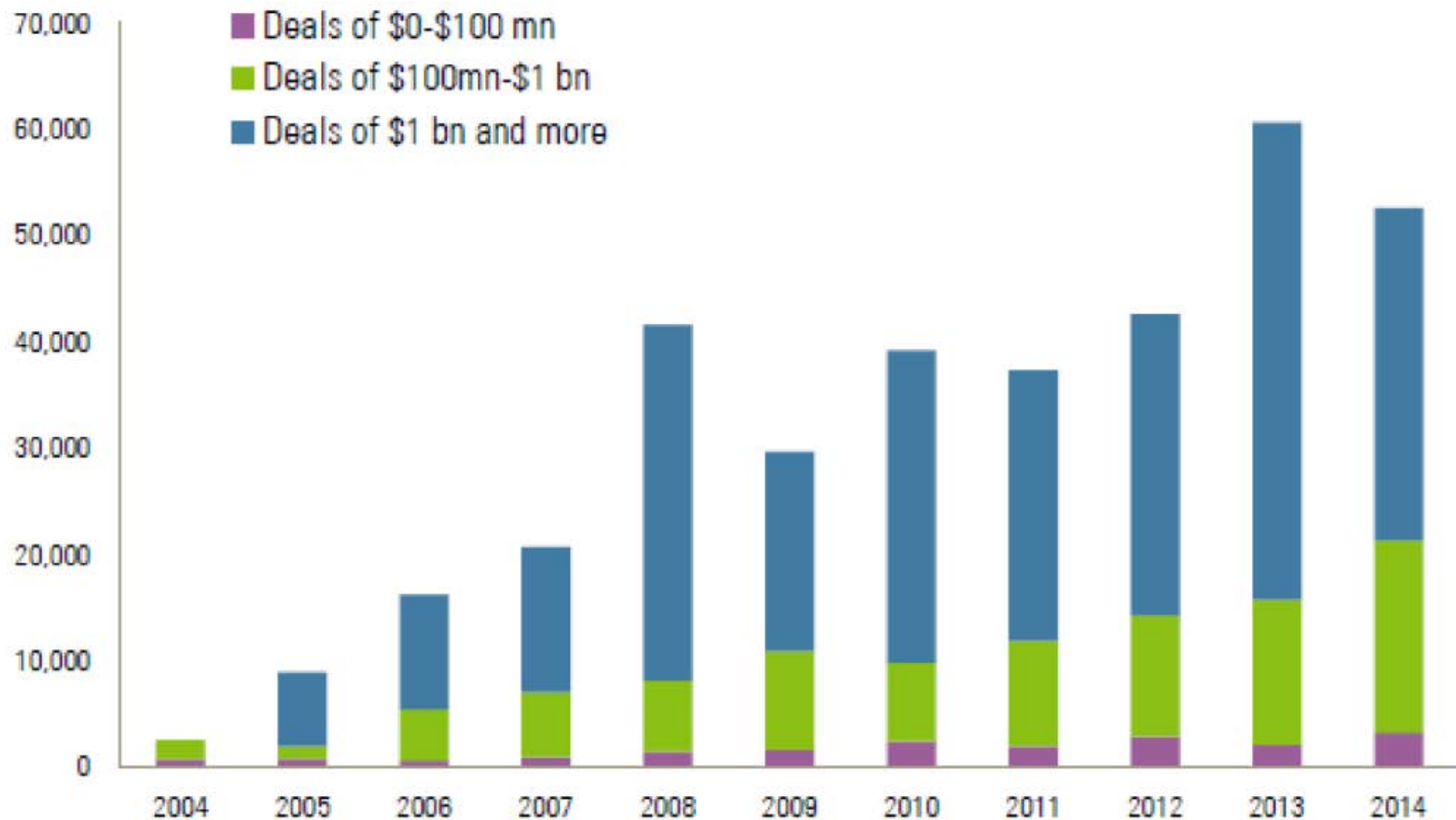
Private: 812 deals / \$34,534

Source: Rhodium Group, LLC (RHG)

# Technology – Next Wave of Chinese Investment in U.S.

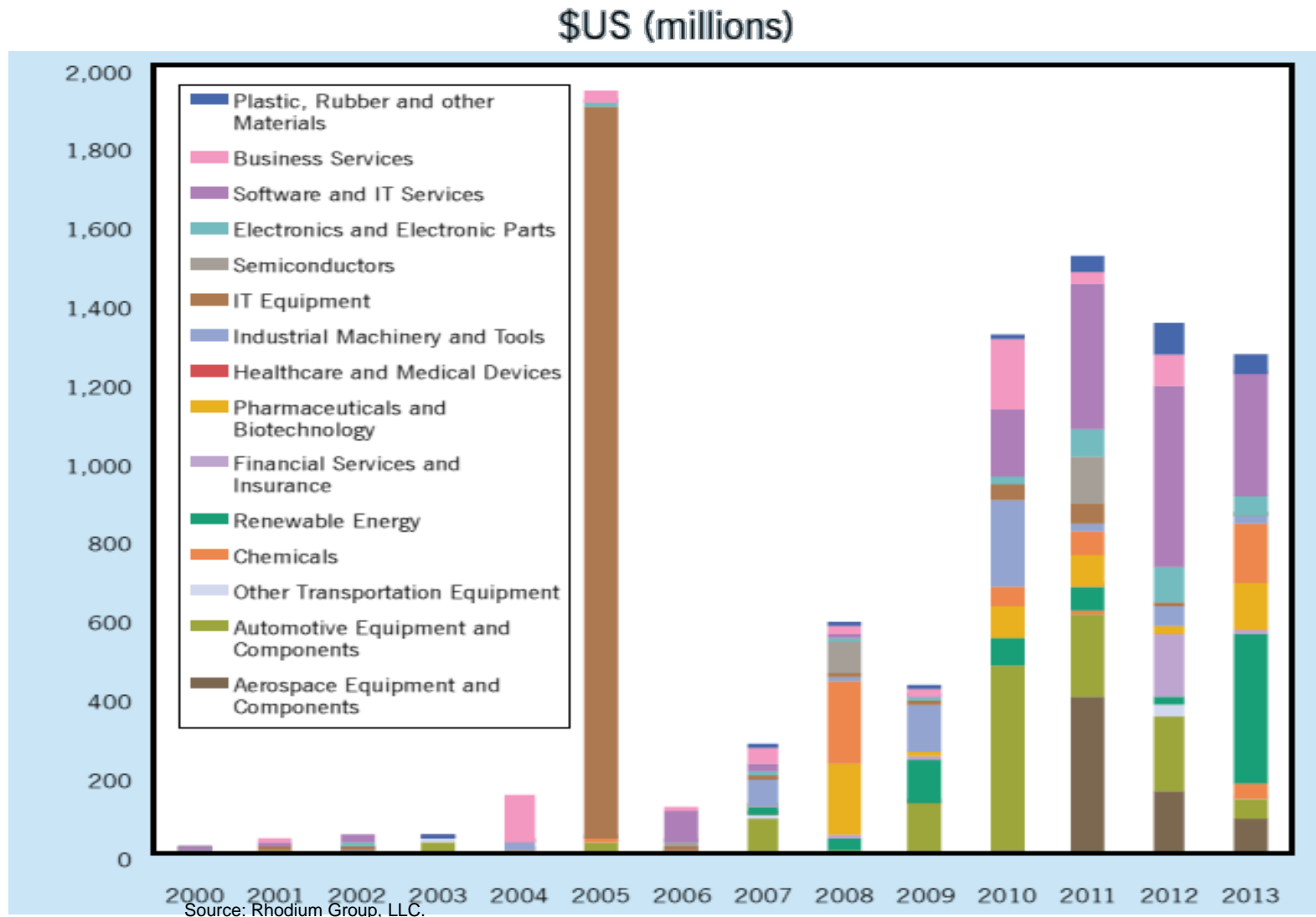
## Completed Chinese Cross Border M&A Deals by Size, 2004-2014

Aggregate value, USD million



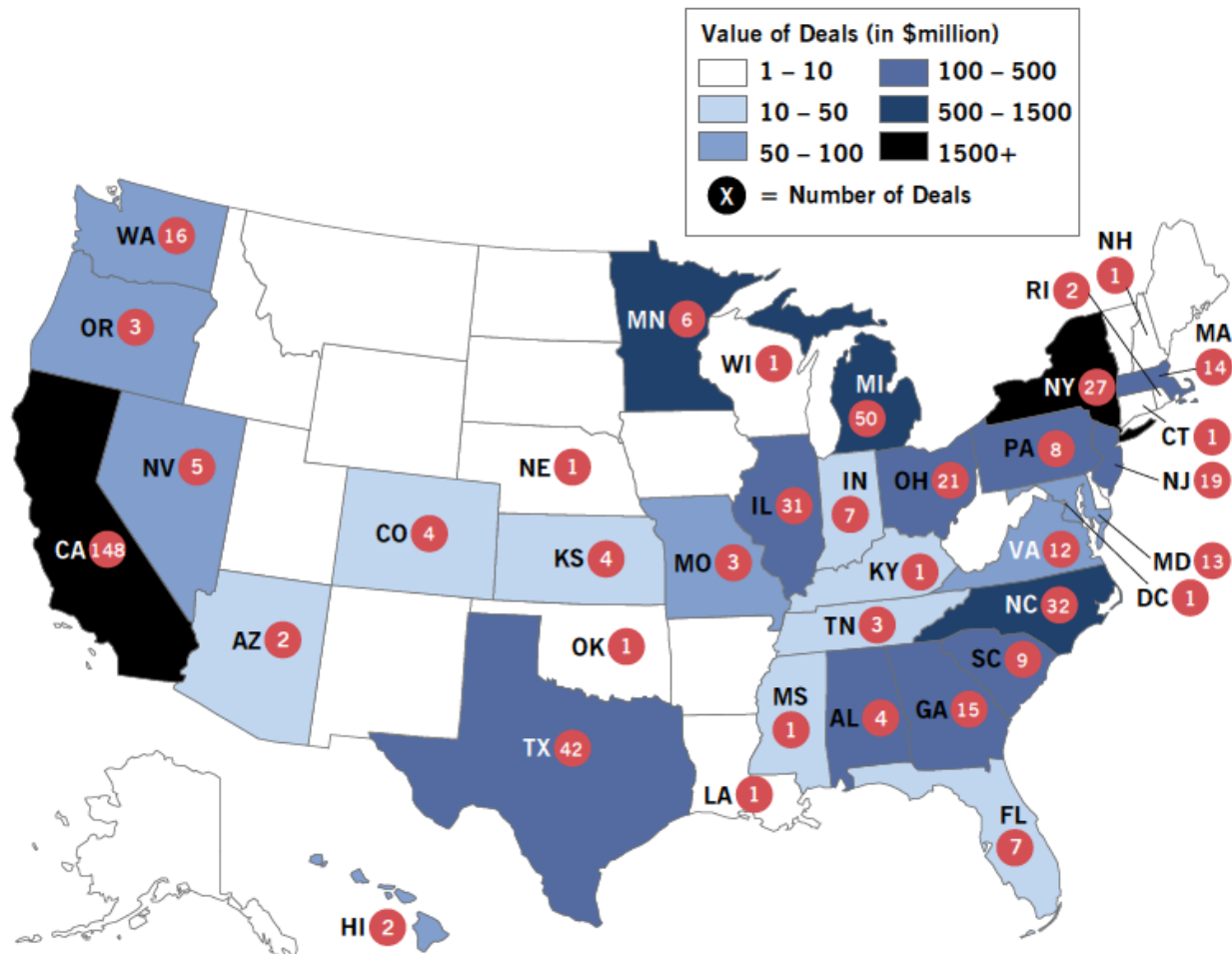
Source: Bloomberg, Thomson, Rhodium Group; includes all completed M&A transactions by ultimately Chinese owned firms irrespective of the size of the resulting stake

# Chinese FDI Transactions in U.S. High-Tech Industries



# Geographic Distribution of Chinese High-Tech FDI in U.S.

Accumulated deal value for 2000–2013, number of transactions

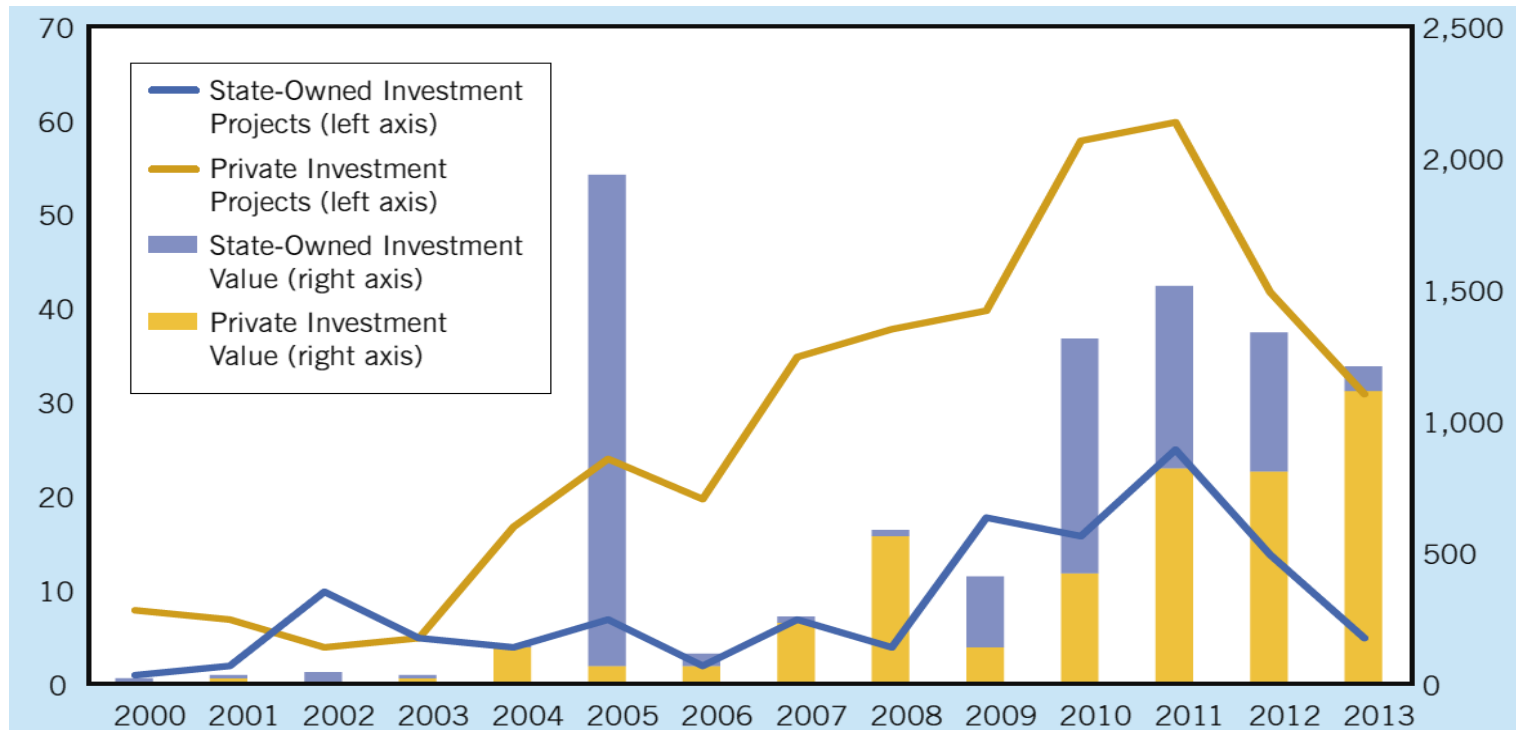


Source: Rhodium Group, LLC.

# Types of Investors

- Private investors
  - Chinese backed funds
  - Companies of private sectors
- State-owned investors

Number of deals and deal value in \$US (millions)



Source: Rhodium Group, LLC.

# Strike Win-Win Transactions

- On a deal-by-deal basis, understand the motives of investments:
  - Improving efficiency of global operation
    - Gain new technology
    - Pursue talents
    - Learn international management practices and global regulatory environment
    - Better access to US capital
  - Accessing U.S. markets
  - Acquiring strategic and higher margin assets
  - Diversifying businesses

# Improving Efficiency of Global Operation

- Didi Kuai's strategic alliance with Lyft
  - Invested \$100 million in Lyft's latest round of \$530 million
  - share knowledge and resources to further product and technology development and explore cross-platform and cross-regional opportunities
  - Lyft will hail a Didi car for U.S. visitors in China and Didi will pull up a Lyft ride for Chinese visitors in the U.S.
  - Partnership gives Lyft a boost against Uber and gives Didi a foothold in the US market where an increasing number of Chinese travelers visit each year





# Accessing U.S. Market by Innovative Chinese Companies

- Hengrui has established R&D site in the US
- Hengrui Pharmaceutical (Shanghai) exclusively licenses preclinical antibody drug developed *de novo* to Incyte Pharmaceuticals for \$25 mil upfront and \$770 milestone
- Hengrui retained China rights and Incyte acquired all ex-China rights
  - *ChinaBio Today*, the deal “is indicative of China's ability to truly innovate”
  - *Sina*, “A milestone transition in the Chinese pharmaceutical industry – from imitator to innovator”



## How To Structure Such a Premium Deal?

- Exclusive vs. non-exclusive
  - Exclusive conditioned on performance
  - Sublicensable?
  - Stepwise expansion of field of use
- Exclusivity
  - Territorial divide
  - Subject matter divide

# How To Structure Such a Premium Deal?

- Control of IP
  - Which party controls patent or trademark prosecution
  - Which party gets the first right to enforce IP
  - How to define improvement IP
  - Who controls improvement IP

# Gaining New Technology and Talents



- Lenovo – acquired cutting edge technology, attractive technology team, and international management team from IBM's PC unit.



- GCL-Poly - established R&D center in Washington state to boost in-house research capability to develop better solar photovoltaic technology. Plans to open another R&D facility in SV.



- Huawei - R&D center in SV employs 600 people, focus on developing enterprise solutions, such as telepresence and cloud computing.



- Baidu - artificial intelligence lab hired Google's ex-artificial intelligence chief and focus on AI and voice recognition.

# Common Pitfalls and Misunderstandings

- Handshake deals are infrequent.
- Transactions are much more document-intensive, more precise, and longer in length in US than those in China, which means they take longer to prepare and negotiate.
- Settle key rights at the term sheet stage, not drafting stage.
- Chinese investors often do not do as much due diligence as they should
- They may require tough and unrealistic representations and warranties and other terms
- Corporate governance and housekeeping (e.g. board approval, record keeping) are more important in the US.

## Common Pitfalls and Misunderstandings (Con't)

- Learn what's market in SV or wherever you are investing
- Tranche or milestone investment
- “At will” employment v. term employment
- Non-compete covenant in California
- Tax issues for non-US investors investing in LLCs

## Gaining New Technology and Talents

- Chinese companies setting up R&D center in Silicon Valley
  - How to handle joint inventions between the US Sub and Chinese parents?
    - Foreign filing license
    - Export control

## Joined Inventions by US Nationals and Foreign Nationals

- Filing the application first in US would violate Chinese law.
- Filing the application first in China would violate US law
- Article 20 of Chinese Patent Law: an invention or utility model completed in China is allowed to be filed in a foreign country only after it is determined upon examination that the invention or utility model does not need to be kept secret.
- 35 U.S.C. 184 US Patent Law: requires foreign filing license if one were to file outside of US FIRST for inventions MADE in US

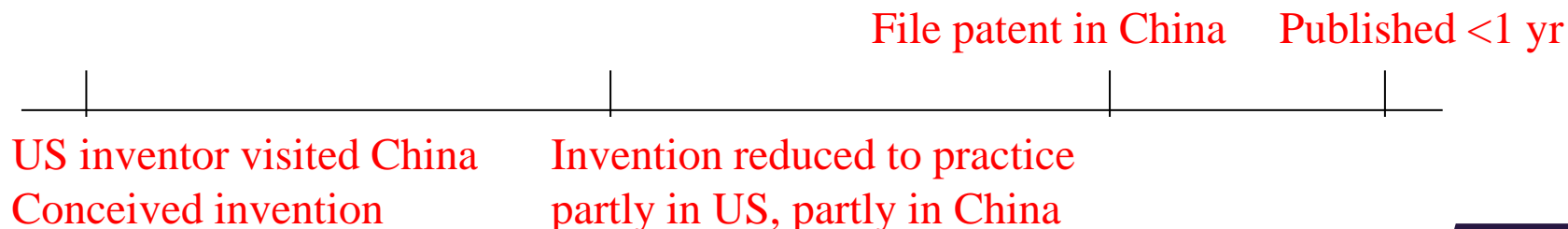


## Joined Inventions by US Nationals and Foreign Nationals

- What constitutes “MADE in US”?
  - No good definition
  - Proposed: “all or majority of conception, and all or majority of reduction to practice”
  - Exercise a abundance of caution:
    - Simultaneous filing in both countries problematic
    - Seek foreign filing license in US and file first in China (e.g., a PCT with SIPO) may be a better approach
    - Inventions made by US inventors outside of US not subject to foreign filing license under 35 U.S.C 184

# Case Study – Lesson To Be Learned

- Chinese company inventors collaborated with US university professor
- Professor partly conceived the idea, invention reduced to practice partly in US and partly in China by company inventors
- Chinese company initiated patent filing in China
  - Possibly violated US foreign filing license requirement, depending on the construction of “invention MADE in the US”
  - Possibly violated US export control law, depending on the subject matter
- Chinese company requested expedited prosecution and prompt early publication of the patent application within 12 months from the filing date
  - Created self-inflicted prior art, and foreclosed the chance of abandoning this case and refile a new case
  - Subsequent filing within 12 month must claim priority to the first case which is tainted with the issue of lacking foreign filing license from the US



## Joined Inventions by US Nationals and Foreign Nationals

- The foreign filing license from the Commissioner for Patents also would authorize the export of technical data and other subject matter relating to preparation and prosecution of a foreign patent application
- Technology and product developed by US nationals in collaboration with foreign nationals, regardless where the technology was made, may be subject to export control
  - Largely dependent on classification of the underlying subject matter by the Department of Commerce.
  - Other state departments may be involved depending on subject matter

# **Happy Investing**

## **But**

# **Be Mindful of Legal Pitfalls**



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