

Structuring Effective Joint Venture Agreements in ADGM – Sharing some Practical Insights

At **Pannike+Partners**, we have advised investors, entrepreneurs, family offices, and multinational businesses on the structuring, negotiation, and implementation of joint ventures within the Abu Dhabi Global Market (ADGM), UAE mainland and other suitable free zones. Our experience has consistently demonstrated that the long-term success of a joint venture is determined not only by the commercial opportunity but also by the quality of its legal framework. A carefully structured Joint Venture and Shareholders' Agreement provides the certainty, governance, and flexibility required to support sustainable business growth while minimising legal and commercial risk.

One of the principal advantages of establishing a joint venture in the Abu Dhabi Global Market (ADGM) is its sophisticated legal framework, which is founded on English common law and supported by the ADGM Companies Regulations 2020 and an independent judiciary. Unlike many civil law jurisdictions, ADGM offers a high degree of contractual freedom, enabling shareholders to negotiate bespoke governance arrangements, investor protections, transfer restrictions, funding mechanisms, and dispute resolution procedures that are recognised and enforceable under a familiar common law system. For international investors, private equity firms, family offices, and multinational businesses, this provides greater legal certainty, predictability, and confidence when structuring complex shareholder relationships. The availability of internationally recognised legal principles, together with an efficient regulatory environment and commercially minded courts, makes ADGM one of the leading jurisdictions in the Middle East for establishing robust and investment-friendly shareholders' agreements.

In practice, many parties initially focus on equity ownership, capital contributions, and commercial objectives, often overlooking the governance mechanisms that will regulate the relationship once the business becomes operational. We encourage clients to adopt a long-term perspective by establishing clear decision-making processes from the outset. This includes an appropriate board structure, director appointment rights, quorum and voting requirements, delegation of authority, Reserved Matters, approval of annual business plans and budgets, and clearly defined management responsibilities. Well-structured governance provisions reduce uncertainty and provide an effective framework for resolving differences before they develop into disputes.

Another critical consideration is funding. Beyond the initial capital contribution, the Shareholders' Agreement should address future funding requirements, shareholder loans, dilution mechanisms, default remedies, and restrictions on distributions where shareholder financing remains outstanding. Clearly allocating financial responsibilities provides certainty for both shareholders and supports the financial stability of the joint venture.

Where shareholders contribute intellectual property, proprietary technology, software, trade secrets, trademarks, or specialised know-how, we recommend documenting ownership, licensing arrangements, royalty structures, and rights to any newly developed intellectual property. For technology-driven ventures in particular, a comprehensive intellectual property framework is often one of the most valuable aspects of the transaction and should be addressed before operations commence.

In our experience, equal ownership (50:50) joint ventures require particular attention to deadlock management. We regularly recommend structured escalation procedures supported by commercially effective buy-sell mechanisms, such as Russian Roulette or Texas Shoot-Out provisions, enabling shareholders to resolve prolonged deadlocks without disrupting the business. Likewise, comprehensive share transfer provisions—including lock-in periods, pre-emption rights, tag-along and drag-along rights, change of control restrictions, and Good Leaver/Bad Leaver provisions—provide clarity and protect shareholder value throughout the life cycle of the venture.

From a regulatory perspective, we assist clients in ensuring that the proposed business activities are appropriately licensed within the ADGM and that the joint venture complies with all applicable legal and regulatory requirements. Depending on the nature of the business, this may include corporate governance obligations, AML/CFT compliance, sanctions screening, data protection, employment considerations, VAT, UAE Corporate Tax, and sector-specific regulatory approvals. Addressing these matters at the structuring stage significantly reduces regulatory risk and facilitates efficient business operations.

Finally, we encourage clients to consider their exit strategy at the commencement of the relationship rather than at its conclusion. A well-drafted Shareholders' Agreement should anticipate future scenarios such as additional investment rounds, changes in ownership, shareholder defaults, strategic sales, mergers, or dissolution. Clearly defined valuation methodologies, transfer procedures, and dispute resolution mechanisms provide certainty during periods of transition and help preserve the commercial value of the business.

Our Key Findings: In our experience, the most successful ADGM joint ventures are those where the legal documentation is treated as a strategic business tool rather than merely a legal formality. By establishing clear governance, balanced shareholder rights, robust funding and transfer mechanisms, effective intellectual property protection, and practical dispute resolution procedures from the outset, businesses create a resilient legal framework that supports long-term collaboration, facilitates future investment, and minimises the potential for costly shareholder disputes.