Innovation
@ The Junction

The what, why & how of creating spinouts

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Business Development Manager

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What we do?

Deliver impact through commercialisation
Manage university research intellectual property
Why we do it?

Because it benefits the public (taxpayers) who funded our research in the first place.
Spinout companies

Spinout companies are start-up companies that are created based on intellectual property (IP) generated through a university’s research

Over 100 Warwick spinouts in the last 20 years
<table>
<thead>
<tr>
<th>Why spinout?</th>
<th>Commercialise IP from publicly-funded research - IMPACT</th>
<th>Support/incentivise your researchers</th>
<th>Attract research funding / staff</th>
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<tbody>
<tr>
<td>Boost innovation eco-system (socio-economic)</td>
<td>Positive institute reputation</td>
<td>Talent acquisition (staff &amp; student)</td>
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<tr>
<td>Contribution to curricula</td>
<td>Incubator client</td>
<td>Potential “pay-day” (unlikely)</td>
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'Mind the gap'

General unavailability of private investments
High transaction costs
High risk
Difficult to evaluate opportunity
‘Mind the gap’

Idea/Discovery
Research Grants

General unavailability of private investments
High transaction costs
High risk
Difficult to evaluate opportunity

Public Sector?

Private Sector?
‘Mind the gap’

Diagram showing stages of innovation:
- Idea/Discovery
- Proof of Concept
- Technology Development
- Seed Round
- Series A
- Series B

Funding sources:
- Research Grants
- PoC
- Angels
- Venture Funds
- Institutional Equity

Barriers to private investments:
- General unavailability
- High transaction costs
- High risk
- Difficult to evaluate opportunity

Questions:
- Public Sector?
- Private Sector?
Spinout considerations

- Substantial body of work
- Inherently risky
- Significant investment of time & money

Require:

- Specialist management
- Facilities (labs / manufacturing)
- Funding (investors, grants, customers)
Key components of a spinout

TECHNOLOGY

MARKET

TEAM

FUNDING
THE TECHNOLOGY
The Technology

• Universities are generally good at this
• But it is the least important!
• IP protection e.g. patents
• Stage of development – usually very early stage
• Platform or disruptive technology
• Scale up/manufacturing
• Licence of IP to spinout for upfront fee and royalty
• No assignment of IP
• Timing of when to spinout is crucial
THE MARKET
A concise statement of the benefits that a company is delivering to customers who buy its products or services
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**Benefits** not features
Pains and gains
The biggest mistake that startups make...?
#1 Mistake
“Building something nobody wants”
How to validate a market

- Talk to people!
- ICURE and other accelerators
- Consultants

Also:
- Size of market
- Accessibility of market – eg. regulations
- Timing
THE TEAM
The Team

This is why investors invest...

• Industry expert
• CEO – Does everything to start with! Leads the team. Academic?
• CTO/CSO – Academic? Coachability
• Chairman?

Who else?
• Scientific advisors
• Investor director
• Non-executive director (NED)
• University observer/director
Management

- Relevant experience and track record is key
- Must be able to think big
- Needs to establish a rapport with the founders, TTO and investors
- May transition as the company grows
- May be rewarded with equity
Engaging service providers

- Lawyers
- Patent agents
- Accountants
- Marketing
- Recruitment agents
THE FUNDING
Pre-spinout

**INTERNAL FUNDS**
- IP Protection costs
- Proof of Concept Funds
- EPSRC IAA
- MRC IAA

**EXTERNAL FUNDS**
Range of national & international, gov, charity & private sector funds
Post-spinout

Business grants eg. Innovate UK

Investment – business angels, venture capital. What do they want?

Loans

Can you manage without investment?

Don’t spinout too early
Business plan
HOW – THE PRACTICALITIES
Limited liability company

Typically used for University spin-outs

Professional & investable

Shareholders are liable for only what they have invested into the company (face value of shares in the business)

There is no reach through to your private assets (Provided that the company has been run in accordance with applicable laws and regulations)
Equity

**Meaning of equity in English**

**equity**

*noun*

UK /ˈek.wə.ti/  US /ˈek.wə.ti/

**equity noun (VALUE)**

[C or U] • FINANCE & ECONOMICS • specialized

*the value of a company, divided into many equal parts owned by the shareholders, or one of the equal parts into which the value of a company is divided:*

• *He sold his equity in the company last year.*

• *The rights give holders the opportunity to purchase additional equity interests in the company at a big discount.*
Financial Rewards – share value in spin-outs

- Shares are normally monetised on exit (public or private sales), but could also be via dividends

- There may be a direct cash payment or transfer of shares into the buyer's business

- There are tax implications on capital gains which can be managed via EMI option schemes
## Typical spinout shareholders

- Inventor/Creator of the technology
- Founder (may be a creator or not)
- University
- CEO
- Chairman
- Investor
- Non-executive director
- Employees
Why do universities get equity?

Legally the employer owns the IP

Recognition of support & contribution to original idea (marketing support, state research funding, staff salaries, lab/equipment, business model building..)

Recognition of support to the wider research eco-system (incubation, entrepreneur-in-residence, TTOs, research support services, investment, alumni, leveraging University brand....)

Staff motivation (departmental income, income re-invested)

Underpinning State support received

Maximise socio-economic benefits to region

Aligns University & spin-out interests (keen to provide on-going support)

Might be investor (through University investment fund) e.g. Midlands Mindforge
Why do creators get equity?

- Reward and recognition
- Motivation
- Founder
- Non-founding creator
- Ongoing work for the company (share options)
Independent Review of University Spin-out Companies

Final report and recommendations

November 2023
Investment and dilution

Pre-Dilution

Total Shares = 2/10 or 20%

Post-Dilution

Total Shares = 2/15 or 13.3%

Your Shares
Investment and dilution

Valuation of £1 million

£500k investment

Pre-Dilution

Total Shares = 2/10 or 20%

Post-Dilution

Total Shares = 2/15 or 13.3%

Valuation of £1.5 million

Your Shares
Spin-out Company Formation Process

1. Develop the business case and commercialisation pathway for the spin-out
2. Gain internal approval to spin-out
3. Identify and engage the CEO designate
4. Support the CEO and academic founders to develop the full plan and pitch
5. Incorporate the shell company
6. Support the process to find appropriate investors
7. Secure a Term Sheet
8. Support due diligence and finalise all agreements
9. Provide post-launch support
SWOT analysis for academic founders

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Academic to Director

• Founder Director must ensure they understand their role as a Director
• A director must act in the interest of the company

The board is responsible for:
- Company purpose
- Strategy
- Culture
- Promoting company success
- Managing risk and uncertainties
- Governance

Personal responsibility for the actions of the business
The Warwick Innovation Ecosystem

Bringing resources & talent in & around the campus
The Exit

- Trade sale
- Initial public offering
- Merger
So where do I start?!

Bespoke support & access to resources to commercialise your idea

Talk to us

MANAGE

DEVELOP

TRANSACT

PROTECT

WARWICK
THE UNIVERSITY OF WARWICK

INNOVATIONS
Innovation @
The Junction

NEXT SESSION:
Communicating Ideas & Impact
Thursday 11 July 1530 h
Dr Frances Pitt
THANK YOU

NOW IT’S QUIZ TIME!