

Supporting the Creation of Spin-off Companies

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Training School
Making Transfer Offices a Success

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DEFINITIONS

What is a Spin-off Company ?

PROTON EUROPE *A new company whose formation was dependent on the use of intellectual property (including patents, copyright, design rights, “know how”, utility model or similar) that was created and/or developed at a Public Research Organisation (PRO).*

STAKEHOLDERS

The creation of “world class” spin-off companies is of growing importance to:

- The EU (Lisbon 2000, Barcelona 2002)
- National governments
- Regional and local environments
- Public Research Organisations
- The academic community
- The Investment Community
- The general public

EU STATISTICS

- PROTON is developing a data base of European university spin-off companies.
- Currently estimate 3,500 spin-off companies in Europe created over the last 6 years

STRATEGIC MISSION

- Underpins the “mission” of a modern progressive university
- Supports and encourages academic community
- Top level university support for activities of Technology Transfer Office
- Sends a strong signal to university funding organisations
- Enhances research base
- Facilitates the development of an “entrepreneurial culture”

POLICY AREAS

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What are the key areas that policies on spin-off formation should address?

We need to understand the needs and aspirations of all the parties involved

PRIMARY PLAYERS

- Academic Entrepreneurs
- Institution
- Faculty/Department
- Research Staff/Team
- Technology Transfer Office

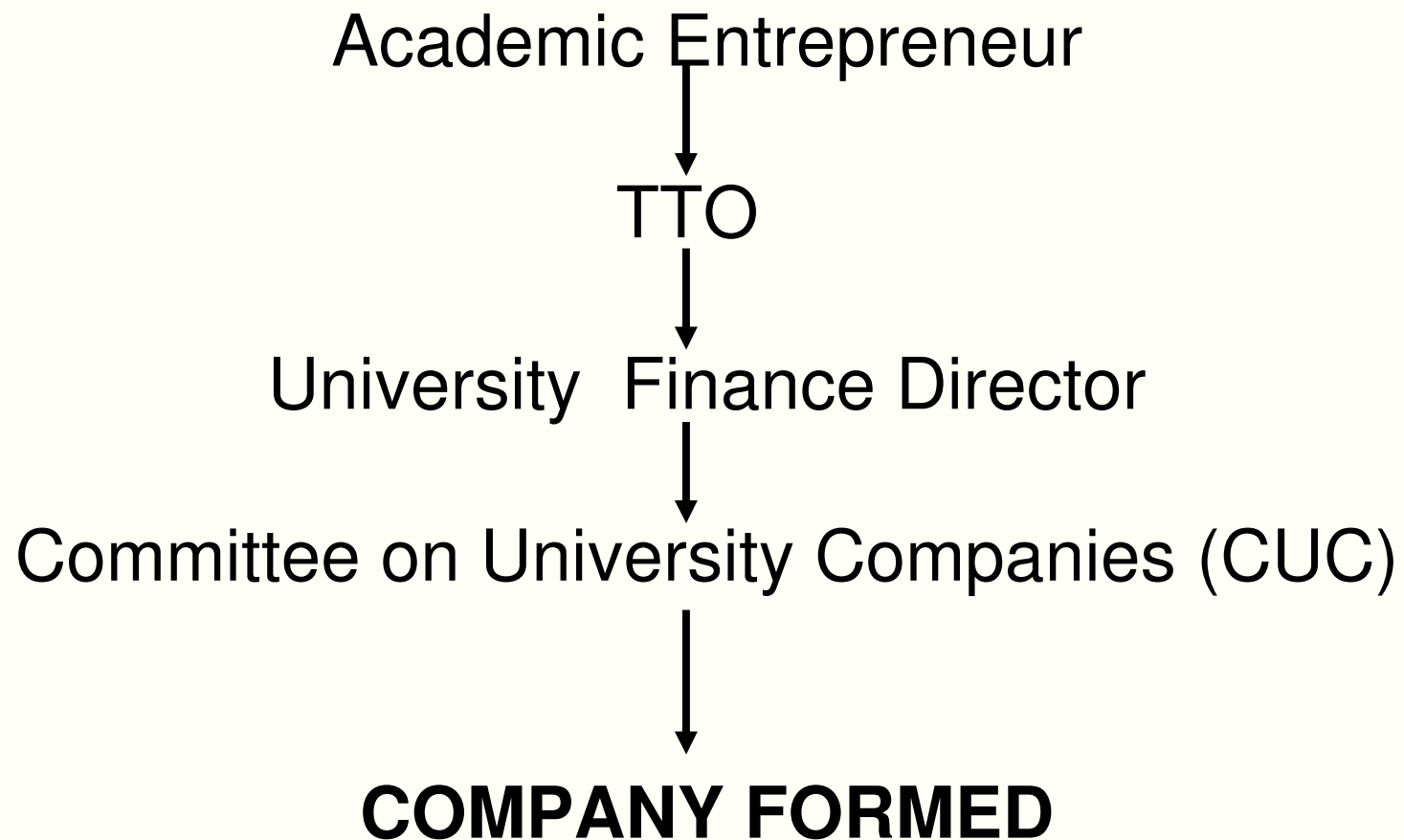
POLICY AREAS

1. Clear spin-off formation process
2. IP ownership and use
3. Distribution of equity in the spin-off
4. Relationship between spin-off and the institution
 - Use of institution's facilities by spin-off*
 - Management of the spin-off*
 - Secondment of academic staff to spin-off*
5. “Conflict of interest” issues with the academics involved in the spin-off

1. CLEAR FORMATION PROCESS⁹

- Authorisations necessary
- Who is responsible for what!

Example of formation process



2. IP OWNERSHIP & USE

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- Normally the IP generated by academic staff as part of their **normal research activity** is owned by the institution
- Benefits from commercialisation of IP shared between academics, department/faculty and institution
- Licensed or assigned to spin-off company in exchange of royalties or equity shares
- State Aid rules on commercial terms

3. EQUITY SHARE

- Initial distribution between academic inventor(s) and institution (assuming no financial investment) (founders shares)
- Diluted by financial equity investments
- Consider anti-dilution clauses with a cap

4. SPIN-OFF/INSTITUTION

Relationship

- Invariably “arms length” relationship
- Use of institution’s facilities
 - *What is policy*
 - *Who gives permission*
 - *Research/commercial balance*
- Management of spin-off
 - *Does institution have a role*
 - *Appoint directors*

4. SPIN-OFF/INSTITUTION

Relationship (cont.)

Secondment of academic staff to work in the spin-off

What is the policy of the institution?

Needs to cover the following issues:

- *Cost of staff time*
- *Remains employee of institution?*
- *Development of new IP in spin-off*
- *Confidentiality*

5. CONFLICT OF INTEREST

“A conflict between the private interests and the official responsibilities of a person in a position of trust”.

Also includes conflicts of duties, rights and obligations

Importance of “Conflict of interest” policy heightened by increase in spin-off creation

5. CONFLICT OF INTEREST

Particular issues raised with spin-off company

An academic could be:

- A director or shareholder
- An investor
- Research Director
- Research contracts from spin-off to university
- Part time seconded to spin-off

POLICY EXAMPLES

Examples of policies on Spin-off formation

- University of Warwick “Procedures for Spin-off companies from the University”

Examples of “Conflict of Interest” policies

- University College London
- Ecole Polytechnique Federal De Lausanne

OPPORTUNITY IDENTIFICATION

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Key business development activities in a TTO

- Capture the opportunity
- Evaluate the opportunity
- Progress the opportunity

OPPORTUNITY IDENTIFICATION

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CAPTURING THE OPPORTUNITY

- Initial Opportunity Description (IOD)

Summary document of no more than 2 pages outlining the essence of the opportunity

OPPORTUNITY IDENTIFICATION

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1. THE IDEA

- What exactly is it and what is it for?
- Applications of the invention/technology

One paragraph of half-a-dozen lines or so stating explicitly the idea/invention.

Non-technical and jargon-free.

OPPORTUNITY IDENTIFICATION

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2. THE BACKGROUND

- Background to the development of the idea – who, where etc
- How clear is the IP – who owns it?
- Are there patents or disclosures?
- Is there an academic Champion?

OPPORTUNITY IDENTIFICATION

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3. THE MARKET

- A new, emerging or established market
- What is the target market? Specific market gaps? Specific niches?
- What is the demand for the invention/possible size of market
- How will the idea/invention impact in the market- Competitive advantage
- How easy/difficult will it be to get into this market?-competitors, barriers etc

OPPORTUNITY IDENTIFICATION ²³

4. RECOMMENDATIONS

- Robustness of the technology
- Further research/investment required
- The way ahead

EVALUATING OPPORTUNITY

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Key task for the TTO

- Likely commercial return
- The risk *Technical/financial*
- Resources required.... *People/time/money*
- Priority for opportunity.... *Opportunity cost*

Try to spot the winners!!

Leads to commercialisation route

Commercial Opportunity Appraisal Process

CREATING SPIN-OFF COMPANY

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Why do it?

- Mission of the Institute
- Mission of the TTO
- Political Factors
- Founder scientists goals
- Approach from an entrepreneur
- Does the technology warrant it
- To make money (forget it!!!)

CREATING SPIN-OFF COMPANY

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What Turns An Opportunity Into A Company?

1. TECHNOLOGY

- Platform
- Portfolio of applications
- Protectable

2. IP OWNERSHIP

- Clear ownership
- Can be assigned/ licensed to company

CREATING SPIN-OFF COMPANY

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3. MARKET

- Of a size to make it attractive
- New and/or developing market
- Market sectors definable **NOT** a commodity market!!

CREATING SPIN-OFF COMPANY

4. CLEAR BUSINESS MODEL

How will company make its money?

- Consultancy/ specialist expertise
- Technology Licensing
- Marketing products/ processes

CREATING SPIN-OFF COMPANY

5. MANAGEMENT TEAM

- To drive the company forward -mix of skills
- Product champion/academic entrepreneur

6. FUNDING

- Ability to raise finance
- Seedcorn
- Second stage

CREATING SPIN-OFF COMPANY³⁰

7. THE INTANGIBLES

- Vision/Mission *Commercial Vision*
- The TTO *Internal Champion*
- Time and Energy
- Commitment
- Expectations *Founders/Institute/Investors*

SUMMARY

Policies of the Institution that facilitate spin-offs

Opportunity Recognition for spin-off formation

***Key mission of Proton Europe is to
avoid “bad practice”***