



## Setting up a spin-out company

Spin-out company formation is one mechanism of exploiting commercial opportunities arising from your research. Undertaking the spin-out journey is an exciting, immersive and rewarding experience. However, the time commitments can be considerable.

If you are committed to the challenge of a spin-out company then there are numerous questions to address. What is the nature of the business which the company will undertake? Who will be involved in the venture and in what capacity? How much money will be required both immediately and in the longer term?

Formal approval from the University is required since spin-out formation involves the licensing of University intellectual property into the new company.

Guiding you through this process is the responsibility of Nottingham Technology Ventures.

### Introduction to NTV

[Nottingham Technology Ventures Ltd](#) (NTV) is a wholly owned subsidiary company of the University of Nottingham. NTV exists to assist University of Nottingham academics with the formation of spin-out companies, manage the University's investment in companies and offer continued assistance and support post spin-out.

NTV works with academic founders in a number of ways. A typical journey for the creation of a spin-out includes the following steps:

**Opportunity identification:** You have a novel idea but are unsure if it is a spin-out. NTV are always happy to meet, to receive enquiries and offer advice. In order to progress towards commercialisation it is necessary to record an intellectual property disclosure with the IP & Commercialisation Office. If not done already, NTV will facilitate this process.

**Proposal development:** You will work directly with the NTV team to further develop your proposal. Assessment of the commercial opportunity and the best route to exploitation will be undertaken in an iterative process. External consultants with specific market expertise can be engaged to support the development of the proposal.

**Team assembly:** Spin-out team members will be identified and any gaps highlighted. Strategies to address those gaps will be developed.

**Sourcing investment:** It may be that a commercialisation plan can be devised without the requirement for additional investment. However, it is normally the case that some form of investment is required and NTV will be active in helping you source funds from the University – both translation and investment – as well as from external sources.

**Gaining University approval:** University approval is necessary to form a spin-out company. This authority is delegated to the Spin-out Investment Committee. This is a board comprising both internal and external members. Approval requires an investment paper, prepared by NTV, and presentation based on the proposed company's business plan and financial forecasts.



## Spin-out process

Once University approval has been obtained, there are 3 steps to take to complete the spin-out process:

1. The academic founders will register the new company at Companies House and become the initial shareholders. One or more of the founders will become directors.
2. A licence agreement is put in place between the Company and the University. This will cover intellectual property (including know how) that is owned by the University. The University will receive a shareholding and may receive royalties or milestone payments, which are distributed according to the University Intellectual Property policy.
3. Various other legal agreements are also put in place at the same time as the new spin-out is formed. These include new articles of association and a shareholders' agreement, directors' contracts and external work permissions for the Founders. Template documents for all of these steps are provided by the University to expedite the process.

## Additional items to consider when creating a successful spin out.

### Advisors

The new company will require professional advisors in a number of different areas, e.g., lawyers, accountants, banking. NTV can provide recommendations and work with spin-outs to appoint appropriate advisors. When forming the spin-out company it is important that the founders take their own legal advice as the University cannot provide this for you. As the company develops, other specialist advisors in areas such as public relations and human resources may be required.

### Tax

Neither Nottingham Technology Ventures nor the University is able to provide tax advice on a personal or company level. Decisions taken at the formation stage can have significant consequences for the tax positions of individuals and the company at a later date. Therefore, staff wishing to undertake the spin-out journey should obtain independent tax advice.

### Insurance

As a newly formed spin-out, a number of insurance policies will be required depending on the nature of the business such as management liability insurance, employees liability insurance, public liability insurance, product liability insurance, buildings and contents insurance. Cover can be arranged independently by the company or through a broker.

## Shareholder dilution

This often-mentioned term refers to the effect whereby individual shareholders see their percentage shareholdings decrease in relative terms due to the issuing of new shares. Typical reasons for new shares being issued are in exchange for investment or to provide shareholdings to new directors or employees. A simplified example of the process is below.



Shareholders	Share prior to investment	%	Shares after investment	%
Founder	800	80	800	53.33
UoN	200	20	200	13.33
Investor A	-	-	500	33.33
<b>Total</b>	<b>1000</b>	<b>100</b>	<b>1500</b>	<b>100</b>

Investor A has bought new shares in the company. It is important to note that the number of shares owned by the founders does not reduce. Thus, if the share price has increased at the point of investment, the value of the founders' shares increases even though the percentage has reduced.

## Funding sources (internal/external)

There are a variety of funding sources available for new spin-out companies. Prior to formation, there are internal pump priming funds available within the University. These can be used to undertake initial proof of concept translational work or engage particular pieces of market research. The University of Nottingham can then provide financing for spinouts by investing from two funds:

**Pathfinder Fund:** Invests at formation of a new company, typically in the region of £50K to £70K and usually by way of a convertible loan to company. The loan is often converted into equity at a future funding round (or sometimes repaid by a company from profits).

**Invention Fund:** Invests alongside co-investors typically in the region of £100K to £250K to help spin-outs move towards Series A funding.

**External Funds:** NTV works closely with a range of external investors including high net worth individuals, angel funds, venture capitalists and strategic corporate investors. The portfolio has raised over £350m to date from external investors.

**If you would like to discuss any aspects of forming a new spin-out please email**

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