



The research commercialisation office of the University of Oxford, previously called **Isis Innovation**, has been renamed **Oxford University Innovation**

All documents and other materials will be updated accordingly. In the meantime the remaining content of this Isis Innovation document is still valid.

URLs beginning www.isis-innovation.com/... are automatically redirected to our new domain, www.innovation.ox.ac.uk/...

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Spin-out versus Licence

What are the differences between a Spin-out and a Licence in university technology transfer? How do you decide which to do?

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Introduction

A frequently asked question by visitors at Isis is how do you decide whether to licence a technology to an existing company or set up a new spin-out company to develop the technology? There are many issues to consider in identifying the best route to market for an early stage technology, and many points of view to take into account.

This paper discusses some of the factors involved, some of the conventionally held views and then discusses how there may be more similarities than differences.

To explain our use of terms:

A licence, and licensing, refer in this context to a licence agreement which allows an existing company (the licensee) to use intellectual property right owned by the university or its technology transfer company (the licensor). The licensee is an existing company, of any size, anywhere in the world. Usually the licensee will be reasonably well established to have reached the stage where it is licensing in new technology other than the technologies it is founded upon.

A spin-out is a new company formed specifically to develop technology arising from within the university, with the direct involvement of founding researchers from the university as shareholders. Initial shareholders typically include four groups: founding researchers, the host university, investors and company management. In this case the IP is transferred into the new company in the form of a licence or other suitable means.

The technology transfer office (TTO) is that part of the university responsible for commercialising university owned intellectual property through the core activities of: attracting and assessing invention disclosures; patenting and other forms of intellectual property protection; licensing; spin-out company formation; material sales; managing seed funds. The TTO may also incorporate a function that helps researchers sell their time as expert consultants.

What is the difference?

The conventional view ...

There is a conventional and widely held view that the Licence route is generally easier than a spin-out. The first table below summarises some of the commonly held perceptions. The second table identifies ways in which it may not always be like this.

	Licence	Spin-out
Effort	Relatively easy Do the deal and that's it	Masses of work as Shareholder, director, consultant
Speed	Quick and easy	Long hard slog
Cost	Patent & legal costs	Find investors to capitalise the company
Returns	Only Income	Capital Gain & Income
Involvement	Only at the start	Right in the heart of the action
Satisfaction	Not much - lose attachment	Masses - 'I built a business'
Risk	Not much	Enormous, Gaol
Fun	Not much they have the fun	Fantastic - the cut and thrust of the board room
Pain	Easy ride	See above

'Speed'

Using this aspect as an example to illustrate the variation, the conventional thinking is as follows. Licences do not take very long to negotiate and conclude and then once the deal is signed there is very little work involved on the researcher and TTO side until the money starts coming in from product sales. Whereas with a spin-out it takes ages to pull the team together, generating much heat and light, and then years for the technology to come to market.

Things can play out differently. We have examples of licences taking a long time to conclude, and then requiring re-negotiation, litigation, support from researchers, and taking years for any royalties to flow. We have examples of new companies thriving with experience management, needing little input from researchers and generating decent shareholder return and exit opportunities in a few years.

An alternative view ...

	Licence	Spin-out
Effort	Support, questions, improvements	Just be a passive shareholder, leave them to it
Speed	Evaluation, option, license, can take just as long	Set it up, get a manager, then sit back
Cost	Patent & legal - can be expensive	Who is investing? You?
Involvement	Watch it every step of the way	Cut out by the company
Satisfaction	My idea is everywhere	It was all a bit embarrassing actually
Risk	IP, warranties	Company protects you
Fun	Sit back and watch	Extended bitterness
Pain	They ripped me off	Just great fun

How do you decide?

What makes you think you have the choice?

We are often asked how we decide whether to licence a technology to an existing company or set up a new spin-out. A first reaction can be, What makes you think you have the choice? This is a serious point for at least two reasons.

The first reason is that transferring technology from a university out into industry is fundamentally difficult. Finding anyone who is willing to invest their money in your idea is hard. And this applies whether a company is investing in developing the technology under a licence or financial investors are investing in a new spin-out company. Technology transfer is helpfully described as the 'art of the possible' rather than a target-rich environment where the TTO is selecting which of many offers to take up. Getting other people to invest their resources in your idea is hard; why should they?

The second reason is that it is not the TTO alone which decides the route to market. We are part of a group or team of people working together to transfer a technology from the university out to business, so the technology is developed into new products and services for people to use.

Who is involved?

The people in the TTO will be working with the researchers who invented the technology. In some universities the TTO decides what to do with the technology and sets about executing its plan. In others researchers are expected to tell the TTO what they want to happen. Usually, it is a joint decision; it is generally counter-productive for the TTO to try to achieve something the researchers do not want to happen.

However, this is only half the story, so far only considering the supply side or push side, from the university out to industry. What about the demand / pull side? Successful technology transfer requires people in business deciding to take an idea on. The vital role of the TTO is trying to understand the possible routes to market and finding companies and investors willing to take on the challenge of developing a new technology.

What role does the researcher want to play?

'Licence or spin-out' has important implications for the researchers involved, and these are discussed below. The biggest difference is whether the researchers are shareholders in a new company or not; but even this can be blurred. A researcher may choose not to be a founder shareholder in the spin-out. A researcher may be incentivised by an existing company licensee with share options or shares under a consultancy agreement alongside the licence.

Researchers have very different views (on everything –ed.) about how their technology is used. Some take the view that allowing anyone else to take their idea forward is an honour for which that person should be eternally grateful. Others are pleased to see any uptake of their research outputs.

In any case it is extremely important to have full commitment of the researchers in both cases (licence or spinout) and definitely in the case of the spin-out. The spinout could be in jeopardy if the researchers loses his interest too soon when choosing to spinout.

What are your objectives?

There is also variation in the objectives of those involved: the researchers, the university, the TTO, the investors, the company, the management.

Researchers may be motivated to see their ideas out there, being used and to make as much money as possible. The university may be most interested in generating stories to tell about well it is connected to industry and benefiting society; and also playing the long game for business partners to make donations many years ahead. The TTO may not be well enough resourced to wait for the researchers to die, and may need financial return to stay open.

The Isis approach

At Isis we have no preference for either creating a new spin-out or licensing to an existing company. The key thing for the Technology Transfer Office is to identify the route to market with the optimum chance of success.

Our focus is on identifying the most appropriate route for commercialisation of the technology arising from the research at the University, rather than pursuing a preference for the route of either licensing to existing companies or creating new spin-out companies. Both routes are challenging, and when Isis spin out companies this still involves a commercial licence deal with the spin-out company. Isis also plays an instrumental role in establishing other possible applications of the technology, hence widening the overall scope and the target market.

In recent years the numbers of licensing deals concluded by Isis and new spin-outs formed have both risen [although spin-out formation ceased from mid-2003 to mid-2004 due to the unintended consequence of government changes to tax legislation]. We continue to build strong relationships with investor communities outside the UK such as Japan, Middle East, US and China, and have successfully secured investments from them for a number of our spinouts.

The introduction of key funding initiatives from the UK government over the last 7-8 years such as the University Challenge Seed Fund, the Biotechnology Exploitation Platforms, and the Higher Education Innovation Fund, has enabled resource to be put into technology transfer in the UK. This has therefore allowed many more research institutions to commercialise the results of their research, with the consequent increase in technology transfer in the UK and therefore an increase in the number of spin-out companies formed during this period. At the same time the business and investment communities showed a greater interest in commercializing university technologies.

The University Challenge Fund initiative was a collaboration between the UK Government, the Wellcome Trust and the Gatsby Charitable Foundation and has increased substantially universities' capability to invest in spin-out companies and led to greater interaction with seed/venture capitalists; both of which have increased the number of UK university spin-outs, as well as stimulating more licensing activity.

The £4m Oxford University Challenge Fund was managed by Isis and an Investment Advisory Board and invested in 68 projects, so far leading to equity stakes in 21 spin-out companies and enabling a further four technologies to be licensed out to existing companies. This in a period when we concluded 150 licensing transactions and helped create more than 30 new spin-outs.

Some of the University Challenge Funds are consortia of universities and are managed by external Fund Managers who only invested in a company vehicle which perhaps also contributed to an increase in the number of spin outs formed during this period.

The key point is our emphasis on the right route to market for a technology rather than pursuing an overall preference for spinning-out over licensing.

Conclusion

So the difference really comes down to whether an existing company or a new company takes on development of the technology. Which is better is impossible to say. The outcome is a balance of decisions made by the supply side (researchers, TTO) and the demand side (companies, investors). At Isis we have no preference for either creating a new spin-out or licensing to an existing company. The key thing for the Technology Transfer Office is to identify the route to market with the optimum chance of success.