Starting a spinout company

Introductory message

This booklet has been created with the aim of equipping Oxford's academic community with the basic knowledge and tools to understand what a spinout company is, and the steps involved in spinout formation.

The University's mission is research, teaching, and the dissemination of knowledge by every means. Innovation is an increasingly important mechanism to enhance all three. Innovation transforms ideas, inventions and expertise into real-world impact, delivering benefits for people and the planet. Spinout companies are a great way to make this happen.

We define the success of a company in a holistic way, where societal, environmental, and commercial impact are all equally important. We hope you do too. Spinout founders and their investors can set the tone and culture of their ventures, and we would encourage you to think about the impact your venture will make in the world; its sustainability as a business, and the positive example it can set as another good employer within our Oxford ecosystem.

Oxford University Innovation exists to help ensure that the University's knowledge and research lead to a better future through innovation, whether through spinout formation, licensing or academic consultancy. If spinout formation is the correct route for you, we will support you at every stage of the journey, through creation process and beyond as the company develops. If you are interested in becoming a spinout founder, please do contact us with any questions you have about the information here and how we can help you.

Creating a spinout can be a thrilling and rewarding experience, that requires commitment, determination and patience from all parties involves. The journey is often compared with a rollercoaster ride with ups and downs along the way – challenging at times, yet equally exciting and fulfilling. Each of us stands on the shoulders of those who came before us and you'll be aware of many people who helped you along the way. We'd like to encourage you to "pay it forward" and commit to helping those coming after you in whatever way you can, so that together we can build a thriving and supportive environment for entrepreneurship here. We look forward to working with you, wish you all the best for a successful venture and hope you'll enjoy the ride.

Mairi Gibbs

CEO, Oxford University Innovation

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1 IMPACT, COMMERCIALISATION, LICENSING AND SPINOUTS

1.1 Introduction

There are many ways to generate impact and societal benefit from the University of Oxford's research and from the expertise of researchers. One example, common across all divisions of the University, is through their influence on public policy. Another common route to impact is through commercialisation: creating products and services which make use of research outcomes or researcher expertise.

Commercialisation of research outcomes typically involves either licensing the Intellectual Property (IP) and/or know-how created through the research to an existing company, or creating a new company to develop and market new products or services based on the IP, know-how and/or expertise. We call this new company a spinout.

A spinout from the University of Oxford (an "Oxford spinout") is a company in which one or more founders are employed by the University of Oxford at the time of incorporation, and which has a link to their employment at the University of Oxford. In the sections which follow we'll provide a brief introduction to IP and to the factors which might determine whether a spinout is the best route for commercialisation. In the remainder of the document the spinout process we use at Oxford is described.

If you are unsure if your business idea falls under the scope of an Oxford spinout, please speak to your OUI Licensing and Ventures Manager or any of the Deputy Heads of Licensing & Ventures (see Section 7) for guidance (Oxford University Innovation staff).

1.2 Intellectual Property

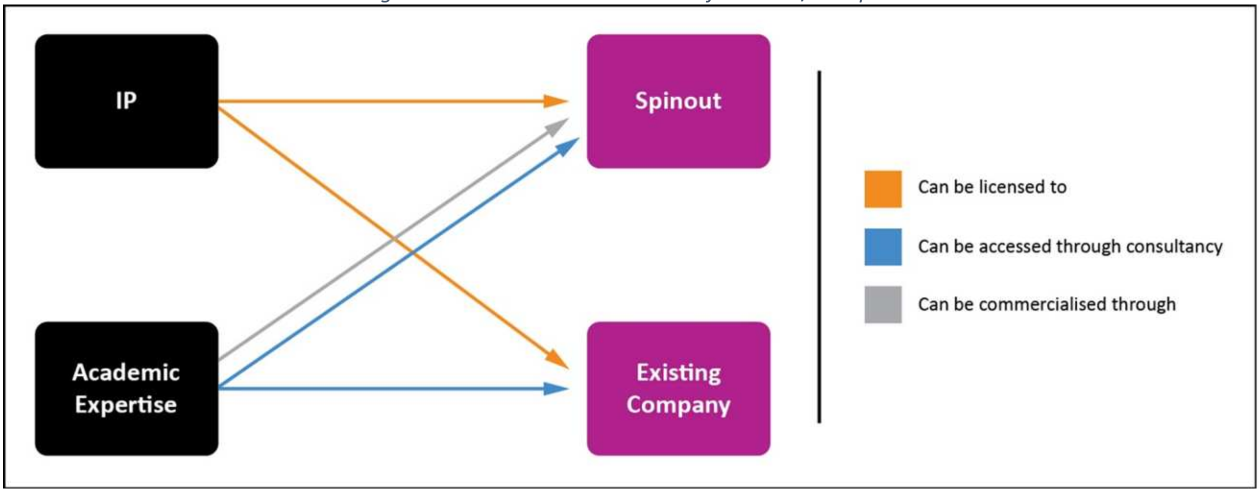
The commercialisation of intellectual property (IP) (WIPO definition of IP, IP and licences) and/or expertise is an exciting journey and makes an important contribution to societal and environmental impact of research beyond that achieved through academic dissemination.

IP is constantly generated from research activities, but not all IP generated has value from a commercial point of view. The first steps towards IP commercialisation consist of identifying the pieces of IP that make a final product, process or service better or more efficient, so that it has a competitive advantage over what is currently available. Once identified, capturing the IP and, where appropriate, protecting it, e.g. by filing a patent prior to any public disclosure, are important steps to be considered in order to make it licensable.

The Licensing and Ventures group at OUI provides support in IP protection strategies and commercialisation of IP owned by the University of Oxford. To read more about what constitutes University-owned IP, please refer to Statute XVI: Property, Contracts, and Trusts | Governance and Planning (ox.ac.uk).

Equally, expertise generated during your employment at the University of Oxford can also be commercialised through a spin-out if consultancy through OUI to existing companies is not the right mechanism to maximise the desired impact (Figure 1. Commercialisation routes for IP and/or expertise).

Figure 1. Commercialisation routes for IP and/or expertise



1.3 Licensing vs. Spinout

There are two mechanisms for commercialisation: **licensing the IP to an existing company or developing and commercialising the IP and/or expertise through a newly created company (the "spinout")**. (Figure 1. Commercialisation routes for IP and/or expertise). Selecting one or the other is important, yet not a trivial decision, and in some cases, time is dedicated into exploring both options in parallel. There are, however, some general principles that help in assessing the right route by which to commercialise a new technology, depending on its nature and the appetite/readiness of the market for such a solution. OUI and the inventors/authors of the technology, know-how and/or expertise should work together to agree on the commercialisation route that is more likely to succeed and achieve its desired impact in society. The choice of route also significantly depends on your own wishes, as the levels of time commitment needed from you vary considerably between the two routes. The following table outlines some of the key considerations (Table 1. Licensing vs. Spinout).

Table 1. Licensing vs. Spinout

	Licensing to an existing company	Spinout
Technology / Product / services	Single technology	Technology platform
	Incremental technology	Disruptive Technology
	Know-how	Expertise/know-how
Team	No founding team	Motivated founding team
Market	Established market and key players	Nascent market with high growth potential
	Interested licensee	Interested investor and/or bootstrapping strategy to generate revenue (lean spin-out)

Involvement opportunity	**Consultancy** to support development	(Non-)executive directorship, consultancy, sponsored research agreement. Involvement in technology development and in shaping the vision of the venture.
Invested time	Variable depending on involvement	High initially, but variable later depending on involvement
Cost	Patent and legal initially covered by OUI and reimbursed through the licence.	Patent, legal, accountancy, salaries, offices, labs, etc. covered by the company.
Speed	Variable depending on the type of licence (evaluation, development with option, full exploitation)	Variable depending on the maturity of the technology, the readiness of the founding team and availability of funds
Risk	Licence termination, lack of expertise to de-risk the technology	Limited liability (the company protects you); lack of funding; failing to de-risk the technology
Legal	Licence between OUI and the licensee. Contributors to the IP receive revenue sharing.	Licence, plus company documents which you will sign in your individual capacity. **Directors have personal liability**. Founders that are also contributors to the IP receive revenue sharing.

We recommend using the Market Opportunity Navigator tool (Where to Play - Market Opportunity Navigator), to help you identify, organise and strategise the market opportunities for the new technology and/or services. Whether commercialisation is through licensing or through a spinout, the tool allows you to identify what further (technological) developments are needed to de-risk the technology or idea, based on the most promising application and markets. For example, you can visit Resources - Where to Play.

1.4 What is in it for me?

Licensing know-how and/or technology to an existing company can help expand your network within key industries, which can result in new consultancy and/or research sponsorship opportunities. Finding the right partner to de-risk, develop and sell products and services based on the licensed IP increases the chances of delivering the societal and/or environmental impact that drove the research in the first place, while creating financial revenues for contributors to the IP and the University. Even if efforts are ultimately unsuccessful, you are likely to find the process valuable, for example, through the development of new leadership skills and a deeper understanding of how your subject interacts with the world outside academia.

Pursuing the **spinout** route as a commercialisation vehicle can be seen as an opportunity for professional development that involves designing a translational and a business plan to deliver the desired impact, expanding your network by engaging with a variety of stakeholders, building the right team to run the business, and seeking investment. Although it is often a thrilling experience, the process can also be demanding, and setbacks are a natural part of the journey. If fundraising is successful, the likelihood of generating a financial return and desired impact increases, therefore making the experience genuinely rewarding. Starting an entrepreneurial journey may or may not result in a spinout, which may or may not be successful, but either way you will learn a huge amount.

2 DE-RISKING YOUR IDEA: TRANSLATIONAL STRATEGY

Whether the best route to market is through a licence to an existing company or through the formation of a new venture, designing and completing the right translational strategy is paramount to the success of IP commercialisation and subsequent impact creation.

Translational funding can be used to bridge a 'gap' in development between early-stage university research outcomes and a commercial product or service. In disciplines within Science, Technology, Engineering and Mathematics (STEM) fields, this is often referred to as increasing the Technology Readiness Level (TRL) of a technology. Social Sciences, Humanities and Arts for the People and the Economy (SHAPE) can also use the readiness level approach to assess the maturity level of their idea. By further developing the technology or idea, the risk is reduced for potential commercial partners. This makes the commercial opportunity more attractive, increases its value, and makes a successful outcome more likely.

There are various funding schemes available to support translational research projects. More information can be found here:

- Medical Sciences Division's Translational Research Office (TRO)
- Mathematical, Physics and Life Sciences Division's Impact Acceleration Accounts (IAA)
- Economic and Social Research Council (ESRC) Impact Acceleration Account (IAA)
- Knowledge Exchange (KE) Seed Fund
- John Fell Fund

These funding schemes are **"non-dilutive"**, meaning that the capital provided is not exchanged for equity or ownership stakes following the incorporation of a company commercialising such technology. Equally, those funds are not intended to be reimbursed following successful licensing of the technology.

Translational funding opportunities that convert into equity, and therefore are **"dilutive"**, are also available pre-incorporation of the spinout:

- **University Challenge Seed Fund (UCSF)**: aimed at de-risking technologies or ideas to a point where commercial usefulness can be demonstrated. The UCSF investment converts into equity following the first investment round of the spinout at the agreed valuation with investors, or it is reimbursed if a licence is put in place with an external company. Amounts range from £2.5k to £250k. Returns from successful fund investments are returned to the UCSF fund to support future applications making the fund "evergreen". Both STEM and SHAPE-based projects are eligible as long as commercial potential exists.
- **OSE's Uncover Fund**: fund mainly geared towards STEM-based IP. Similarly to UCSF, it is also aimed at de-risking technologies that are too early to be developed and exploited by a potential spinout and can also cover regulatory, IP and commercial analysis. Investment can be up to £750k and convert into equity following first investment round of the spinout. Note that, unlike UCSF, the conversion into equity might be based on a different valuation than the one set by the investors of the first funding round of the spinout.

If you are interested in applying for translational funding, please contact your Licensing and Ventures Manager to explore the different funding options available; they will help you to devise the best translational strategy and will support translational grant applications prior to submission.

3 SPINNING OUT

3.1 Types of Ventures Supported by the University

OUI supports the formation of both "profit-driven" and "mission-driven" businesses (also called social ventures). Please note that due to the charitable status of the University of Oxford, charities cannot be spun out of the University of Oxford. If you wish to establish a charity, this must be undertaken independently and without OUI support, provided that you have obtained the necessary permissions for any outside appointments from your head of department.

A **"profit-driven" business, or commercial enterprise,** is a company which aims to earn profit and build value through its operations to maximise financial returns to its shareholders.

A **"mission-driven" business,** or **social venture,** is an organisation that aims at making an intentional, positive, and measurable impact in society and/or the environment. This type of company has **a mission statement embedded in its articles of association**, and its management team needs to balance the company's mission with profitability (see Debunking social enterprise myths - Oxford University Innovation). Founders can choose to re-invest any proportion of the company's profit into its mission in order to further its intended impact.

Mission-driven businesses are well-suited for founders who wish to embed their values and commitment to creating positive impact into the very foundation of the company. Benefits can include stronger stakeholder alignment with the mission. Social ventures represent a spectrum that spans between purely commercial enterprises and charitable organisations (Figure 2. Spectrum between commercial and charitable entities).

More information about social ventures and their associated options in terms of types of companies and legal structures can be found here: How OUI does social ventures and what they are - Oxford University Innovation

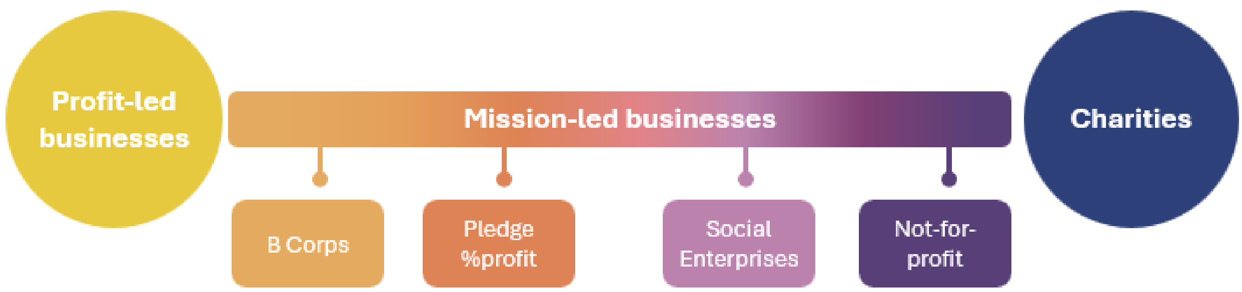


Figure 2. Spectrum between commercial and charitable entities

Profit-led businesses can also create positive social and/or environment impact; however, what distinguishes mission-led businesses is their intentionality and sustained commitment to achieving that impact.

The OUI Licensing and Ventures team can support you on deciding the type and structure of entity that best suits the commercialisation of the technology and/or expertise and your vision for the company.

3.1.1 Companies Limited by Shares (CLS)

Nearly all spinout companies are formed as companies limited by shares (CLS). In a CLS, shareholders own the company's share capital in differing proportions. Put simply, in a CLS the financial returns shareholders will receive, if the company is sold, are proportional to the size of their shareholding. A board of directors is appointed by the shareholders and takes on the legal responsibility for the operation of the company as well as deciding the strategy of the business. Directors have personal liability. Day-to day operations are the responsibility of the management team, typically led by a Chief Executive Officer (CEO).

A key issue for a CLS is how the shares or share capital in the company, also known as its **equity**, are divided among shareholders. The University has a spinout equity policy which sets out the split between founders and the University at company incorporation (founding stage) (see Section 3.2).

3.1.2 Companies Limited by Guarantee (CLG)

A small number of spinouts are formed as companies limited by guarantee (CLG). In a CLG, the company does not have share capital, and it is instead collectively owned by its members in equal proportions. Members have an equal vote on matters that are taken to the membership, similar to the way in which a student society or building society Annual General Meeting works. The lack of share capital means CLGs are not compatible with equity investment, but they can fundraise through grants, philanthropy and/or loans (all non-dilutive funding). CLGs cannot be sold the same way CLSs can, but they can merge or transfer their assets to another CLG.

This type of legal structure can be a good choice for social ventures prioritising social impact over commercial returns, as the structure signals a commitment to public benefit rather than private profit. Profits are typically reinvested to advance the company's mission, and organisations using this legal structure are commonly referred to as 'not-for-profit'.

In a CLG, the board of directors is appointed by the members. The responsibilities of the board of directors and the management team in a CLG are similar to those of a CLS.

The University will become a member of a spinout company formed as a CLG. As there is no equity in a CLG, the spinout equity policy does not apply. The only constraint is that there should be at least four other members in addition to the University at the company's formation and thereafter. This is to ensure that the company will not need to be treated as a University subsidiary for reporting purposes.

3.2 Spinout Equity Policy

A spinout from the University of Oxford is a company in which one or more founders are employed by the University of Oxford at the time of incorporation, and which has a link to their employment at the University of Oxford. The majority of University founders are researchers, including students, but founders can – and have – come from other sections of the University community. The University's equity sharing policy refers to Oxford employees as "researcher founders" to distinguish those founders from others, e.g. external managers, that join the founding team.

Since the IP and/or academic expertise have often been developed using University's facilities, and with financial support from the University where external grants do not cover the full economic costs of the research, and the founders often want to continue to benefit from the security of their employment with the University, the University will take an equity stake in the company at the time of spinout formation. This policy applies to all Oxford spinouts in recognition of the support (infrastructure, salary, students, or researchers) the University has provided the founder researchers in generating the IP and/or expertise and subsequent commercial opportunity, and the support offered to the spinout in leveraging the University's resources, facilities, and brand.

The current policy, which applies across all four of the University divisions, sets the standard founding equity share in spinout companies as follows:

- **80% for the founding team and 20% for the University**: this is the case when the University has enabled the creation of relevant patents or patentable IP and/or has provided support through infrastructure, salary, and/or student or research support.
- **90% for the founding team and 10% for the University:** applicable when a spinout is created in the absence of patented or patentable IP and either (i) in the absence of any support in terms of infrastructure, salary, students, or researchers from the University, or ii) when a spinout is a University software spinout.

  A **University software spinout** for these purposes is defined as a company (a) that requires only source code and/or object code to be licensed or transferred from the university to the company at formation for the business to be viable; and (b) whose business will be software products only or consulting services provided by the use of software; and (c) that will operate in a regulatory-light environment

The equity split percentages apply at incorporation (founding round) before any dilution by incoming investment. The University does not have anti-dilution protections on its shares so, in practice, expects its shareholding to be significantly lower than the following investment.

When a spinout is formed with researchers from the Medical Sciences Division (MSD) or the Mathematical, Physical and Life Sciences Division (MPLS), then the University's agreement with Oxford Science Enterprises (OSE) applies and the University splits its founder equity with OSE (there is more detail about OSE later in Section 4.4.1). In the typical case this means the University retaining 10% and OSE taking 10% of the 20% founding round equity (called the "OSE carry stake"). The OSE agreement also applies to lean spinouts (example in Section 3.2.1) originated from either the MPLS or MSD divisions.

More information and FAQ about the spinout equity policy of the University can be found on the website [Equity Sharing – Research Support].

3.2.1 Worked Examples of the Spinout Equity Policy

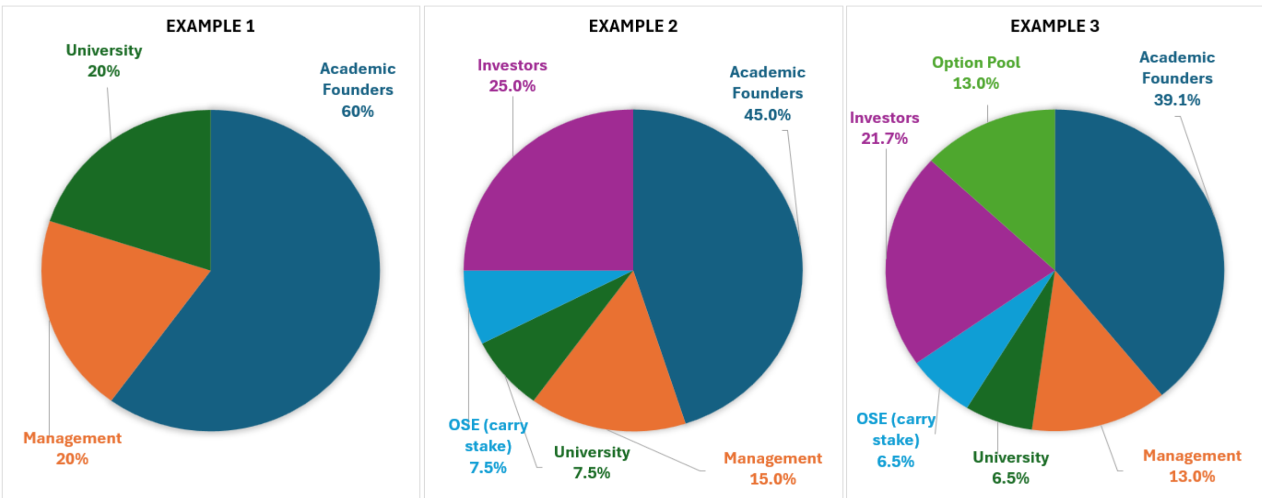


Figure 3. Worked examples of the spinout equity policy. Numbers are illustrative only.

Example 1 - Lean spinout from Social Sciences and/or Humanities divisions (OSE agreement does not apply)

A spinout which can be formed with a viable business plan **without the need for external investment is called a "lean spinout".** This is the case when a company can generate early revenues from sales and/or leverage personal savings from its incorporation, allowing it to sustain operations and grow through its own profits – a process commonly known as bootstrapping. Typically, in a lean spinout, the only shareholders are the founder researchers, one or more members of a management team, and the University (left pie chart, Figure 3. Worked examples of the spinout equity policy. Numbers are illustrative only.). *In this example, the founder researchers have brought in a management team and given them 20% equity from their equity share of 80%. The University remains at 20%.*

Example 2 - Spinout from MPLS and/or MSD with investment (OSE agreement applies)

Where a spinout takes investment then the additional shares bought by the investor mean that the fraction of the business owned by the other shareholders is reduced: they are said to be "diluted". Note that in Oxford, unlike in some other universities, there is no anti-dilution protection for the University: it is treated the same as the researchers and the management team (centre pie chart, Figure 3. Worked examples of the spinout equity policy. Numbers are illustrative only.). *In this example, the founder researchers have brought in a management team and given them 20% equity from their equity share of 80%. The University shared its 20% equity share with OSE under the OSE agreement. An investor buys 25% of the shares, and all other shareholders then have 75% of their original shareholding.*

Spinouts from Social Sciences and Humanities divisions can of course be formed with equity investment. In this case, there is no founder round equity for OSE as the OSE agreement does not apply.

Example 3 - Spinout from MPLS and/or MSD with investment and option pool (OSE agreement applied)

Founding shareholders and incoming investors recognise that incentivising those working within the business, including new people joining the venture, is critical**. Providing share options** is a tax efficient and widely adopted way to do this. Typically, the proposed size of the option pool is agreed at the time of investment and is in the range of 10-20%. When reviewing an investment offer you will need to consider how the option pool is being included in the calculation, i.e. whether the investors are intending that the fraction of the business they are acquiring will be diluted by the formation of the option pool (right pie chart, Figure 3. Worked examples of the spinout equity policy. Numbers are illustrative only.). *In this example, the shareholding positions from Example 2 are diluted because an option pool of 13% is created: all other shareholders then have 87% of the shares they had in Example 2.*

As noted above, spinouts from Social Sciences and Humanities divisions can also be formed with investment and with an option pool, and in this case there is no founder round equity for OSE.

Management team shares are taken from the researchers' 80% or 90% split with the University. The split between the University founders and non-University founders is a matter for their own negotiation and agreement but should balance the past and expected future contributions to the venture.

Pie charts provide a helpful visualisation for the equity policy and the effects of incoming investment and option pool formation. However, in practice the details, including the actual numbers of shares etc., are recorded in a table format, usually using a spreadsheet known as the **capitalisation table or "cap table"** (see section 10.1).

Guidance on the allocation of founding shares among founders can be found in Section 4.3.2 ("The Founding Team").

4 THE STEPS INVOLVED IN SPINOUT CREATION

4.1 General Overview and Spinout Process Flowchart

We covered the importance of **identifying and de-risking the opportunity** in Sections 1 and 2, and we will now proceed to discuss the steps involved in spinout formation in terms of the following five packages:

- **University approvals**
- **Business planning**
- **Seeking investment & OUI spinout panel**
- **Securing access to IP & expertise**
- **Company's legal bible & incorporation**

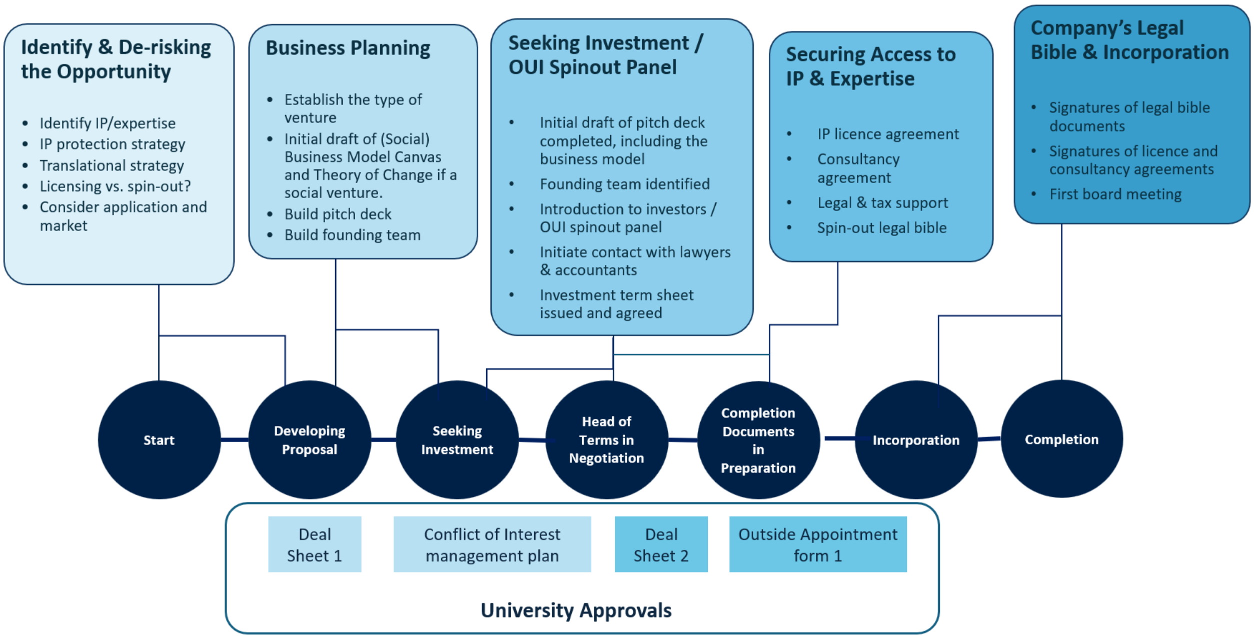


Figure 4. Spinout process flowchart

4.2 University approvals

The creation of a new company is a significant activity and there are multiple stakeholders within the University that have an interest in it. In addition, you also need to manage your employment obligations to the University. Stakeholder and employment obligations management can be achieved through the completion of several necessary forms which must be approved by the Head of Department (or Head of Division where appropriate e.g. where one of the founders is the Head of Department) before completion of a spinout. These are:

- Deal Sheet 1 (DS1)
- Deal Sheet 2 (DS2)
- Conflict of Interest management plan (CoI management plan)
- Outside appointment form (OA1 form)

4.2.1 Deal Sheet 1 (DS1)

Deal Sheet 1 is all about good stakeholder management and ensuring that all parties have the same basis of understanding of the transaction. Deal Sheet 1 sets out the founding team's understanding of the proposed structure for the new Oxford spinout. It captures information about the founding team, their relationship with the spinout, the equity split between the founding team and the University, the technology being commercialised and its assessment against the sensitive sector of the UK economy listed in the National Security and Investments Act (NSIA). It exists to ensure that all interested parties have clarity on the proposed spinout and to avoid misunderstandings, in particular in relation to the proposed equity split between researcher(s) and university and the arrangements for the academic founders. It is not a legally binding document.

DS1 is the first approval form to be completed. Once completed in draft, OUI will arrange a meeting with the founding team and the relevant Head(s) of Department (or Head of Division) to discuss the new spinout opportunity and to address any issues raised by the Head of Department. For founder researchers with relevant college appointments, the college is treated as a department for the purposes of acknowledgement and approval of spin-out deal sheets. You are encouraged to talk about your spinout plans with your Head of Department or equivalent at the earliest opportunity.

The agreed final version of the form is signed by the academic founders, OUI and by the relevant Head(s) of Department. The Department needs to be involved at this early stage so that they understand what is being planned and can help in managing any conflicts of interest. The form is then circulated for information to the University's Head of IP, Director of Innovation & Engagement, Assistant Director of Funding and Assistant Director of Research Funding and Contracts.

4.2.2 Deal Sheet 2 (DS2)

In addition to the information already captured in DS1, Deal Sheet 2 incorporates financial details of any proposed investment made into the spinout. The completion of DS2 also gives the founding team an opportunity to update the information provided in DS1 in case changes in the business plan and founding team have occurred. The resolution of any issues raised by the Head(s) of Department at the DS1 stage should also be recorded. Like the DS1, DS2 needs to be approved and signed by the Head(s) of Department (or Head of Division where appropriate). It is not a legally binding document.

The completion of DS2 happens once the main terms of a commercial proposition (Heads of Terms or Terms Sheet – see section 4.4.2) are agreed upon among the founding team, the University and a potential investor. The DS2 needs to be fully signed prior to the inclusion of the University into the term sheet.

In certain circumstances, a spinout does not require investment to bring its product or service to market. In such situations i.e. the "lean spinout" model (see section 3.2.1) DS2 still needs to be completed with a justification of why investment is not needed and any other updates to the information in DS1.

Once completed, DS2 is signed by the academic founders, OUI, the relevant Head(s) of Department (or Head of Division where appropriate) and by OUI's Head of Investments on behalf of the University's Director of Finance. It is then circulated for information to the University's Head of IP, Director of Innovation & Engagement, Assistant Director of Funding and Assistant Director of Research Funding and Contracts. The spinout completion cannot occur until the DS2 has been signed off. Heads of Department will need to be satisfied that appropriate Conflict of Interest management plans are in place or in progress before they sign off the DS2.

4.2.3 Conflict of Interest (COI) Management Plan

Clear declarations and good management of conflicts of interest are part of research integrity and are requirements for all members of the University. As founders of a new company, academic researchers or staff continuing their employment at the University will be wearing "different hats" depending on their role and interaction with the spinout (see *Table 2. Examples of the responsibilities associated with the roles of PI, NED and consultant.*). The difference in responsibilities and new financial interests might generate conflict with their obligations as Oxford staff and/or students. It is not uncommon for either a conflict or a perceived conflict to arise, and adequate management of conflicts of interests is vital to avoid personal and/or University reputational damage.

For a spinout company, a formal CoI management plan is required to help Oxford employees identify, manage, and mitigate any potential risk of conflict and to inform the Department about their different roles and activities. It is a live document that needs revisiting and updating as their role within the spinout evolves over time. To promote transparency, the academic founders will need to inform their colleagues or research group (if you have one) of the existence of their CoI management plan. It is required by the University that the CoI management plan is agreed before the completion of investment, or before the spinout starts to operate if there is no investment.

While OUI can provide you with some guidance on drafting a plan, additional support is provided by the research administration team within some Departments or through Research Services. More information can be found in [Statement of policy and procedure on conflict of interest | Research Support (ox.ac.uk)](#).

Table 2. Examples of the responsibilities associated with the roles of PI, NED and consultant.

Principal Investigator (PI)	Non-Executive Director (NED)	Consultant
Creates detailed research plans, including schedules, resources and costing elements	Helps develop/challenge company strategy	Provides general technical advice and expertise; trains staff on the technology; attends technical review meetings
Directs the research project, undertake research and supervise research staff at the University	Monitors company performance	Advises on product development planning and technical strategies; how the Licensed Technology will be turned into a product or service.
Reports results to the research sponsor, identifying new IP	Ensures integrity of financial information and sufficiency of risk management systems	Identifies and defines technical problems that may need addressing, either through sponsored research or through other strategies such as in-licensing third party IP Rights, accessing technical services, or other consultancy advice
Liaises with sponsor over potential publications	Sets remuneration levels of the executive directors (EDs),	Advises on how the technology can be made more robust or easier to manufacture.

	supports hiring and firing of EDs, and succession planning	
	Attends Board meetings	

Note that the spinout founding team can be composed of both Non-Executive Directors (NEDs) and Executive Directors (EDs). The EDs are typically members of the so-called C-suite: in addition to the Chief Executive Officer (CEO) there may be a Chief Technology Officer (CTO) and/or Chief Scientific Officer (CSO). In addition to having the same legal responsibilities as a director, they are also responsible for overseeing the daily management of the company. PIs usually take on NED positions rather than ED positions due their already existing appointment at the University.

4.2.4 Outside Appointment Form (OA1)

Within the terms of their standard academic contracts, Oxford staff can hold outside appointments for **up to 30 days per year** without any salary sacrifice.

As a **spinout founder**, outside appointments can be used to:

- Prepare and attend board meetings if you are a (non-executive) director
- Consult into the company

Note that the roles of consultant and director are different as seen in *Table 2. Examples of the responsibilities associated with the roles of PI, NED and consultant.*

The University requires all academics who have outside financial interests or hold an outside appointment whilst employed by the University to complete an Outside Interests and Outside Appointments Declaration and Approval Form (called an OA1 form). This will include a Conflict-of-Interest management plan (see Section 4.2.3). The OA1 form must be submitted to the academic founder's Head of Department or Division for approval.

The academic founder can submit one OA1 form <u>for all roles</u> they undertake in connection with their spinout: shareholder, director, employee, or consultant. The founder must arrange the completion of the form with their Head of Department and must inform OUI that this has been completed. However, note that if the founder is undertaking a consultancy for their spinout, they must submit a signed copy to their OUI Consulting Services (CS) Project Manager before any consultancy agreement can be finalised.

Alternatively, OUI's CS group can facilitate the OA1 form for the consultancy separately (see Section 4.5.2)

More information can be found in Holding outside appointments | HR Support (ox.ac.uk).

If more than 30 days are needed, approval must be obtained from the Head of Department. The **innovation leave scheme** for University spinout founders enables founders of University spinout companies to be "bought out" from all or part of their University duties for a defined period of time. More information about conditions and approvals can be found in Holding outside appointments | HR Support (ox.ac.uk) (Section 5. Innovation leave scheme for University spinout founders). Requests to pursue a buyout should be made with as much notice as possible, normally at least three months. This is the type of proposal which could usefully be included on the DS1 and discussed at the Head of Department meeting (see section 4.2.1).

4.3 Business Planning

4.3.1 Pitch Deck and Business Model

Regardless of the type of venture founders plan to create and whether they will be seeking investment at incorporation, the founding team will need to prepare a pitch deck outlining the business opportunity. The deck should describe the problem being tackled and the solution, and provide information about potential customers/beneficiaries, the market, the founding team, and how much funding the founding team is seeking, if any. We recommend the following resources to help the founding team structure and communicate their business idea: The Pitch Canvas for Startup Pitches | Best 3 Minutes.

For mission-driven businesses (social ventures), founding teams must clearly articulate the company's mission, , and outline a change strategy to achieve the intended positive impact .. The Theory of Change (ToC) is a valuable framework l that helps founders define this strategy, while also identifying key performance indicators (KPIs) to measure and report on the impact delivered.

In addition to the business idea, the pitch deck also needs to include a business model, i.e. how much it is going to cost to run the business and a summary of the planned revenue generating streams. The "Business Model Canvas" is another valuable framework to assist founders structure such information: Business Model Canvas – Download the Official Template (strategyzer.com); Business Model Canvas Explained (youtube.com). A Social Business Model Canvas can also be used and is available in Social Business Model Canvas - Business Model Toolbox (bmtoolbox.net).

To help you define your value proposition and business model, there are a series of incubator programmes to which you can apply that are funded by UK Research and Innovation (UKRI). You can find more information about these on UKRI's website: Home new - ICURe Programme. If you are planning to apply to any of the ICURe programmes, please let your Licensing and Ventures Manager know so they can support you.

If you are not planning to raise capital through the sale of shares at the incorporation stage, i.e. you plan to follow the "lean spin-out" model, you will need to present your pitch deck to OUI's "spinout panel", which includes members of the Investments and New Ventures team. The goal is to provide you with useful feedback and guidance and to perform the due diligence that investors would have carried out if you were seeking equity investment.

OUI can support you through the pitch deck and business plan preparation process to help you become ready for incorporation and/or fundraising.

4.3.2 The Founding Team

A successful founding team comprises individuals with the complementary skills, diversity of perspective and range of experience needed to build a successful company.

While technical skills and/or specialised knowledge are often present within the founding teams of university spinouts, commercial acumen, market experience, and business knowledge tend to be scarcer. Openness to welcoming an additional team member (often as Chief Executive Officer) to complement the team's skills and to join the company full-time is frequently required. If you are planning to seek investment, it is likely you'll be able to tap into the networks of the interested investor(s) to find such a person. For lean spinouts, OUI can facilitate introductions to relevant contacts from its network.

The founding team will need to agree on how founding shares will be distributed among themselves at incorporation. Although there is no general rule, the allocation of shares should take into account the amount of work done by each founder to generate the spin-out opportunity (IP creation and business planning and development), the amount of work required upon creation of the company (executive roles), and the risk taken by the founders joining the new company full time. An option pool (see section 3.2.1) is recommended to incentivise the first employees of the company (for more information on the TenU guide in section 3.2.1: [The USIT Guide: Leading Universities and Investors Launch Set of Recommendations for the Innovation Sector — TenU (ten-u.org)](https://ten-u.org)). In addition to the USIT Guide, the UK Government's Spinout Review of 2023 recommended that:

"Founders should be encouraged to adopt amongst themselves proportionate equity distribution that both recognises the contributions to originating IP and continued intellectual support, but also the need to reward and incentivise those individuals who will commit considerable effort in taking the company forward."

A classic example of a STEM-based spin-out founding team consists of:

- a post-doctoral researcher and/or recently graduated doctoral student joining the spin-out full-time in a technical and/or managerial role, perhaps as the Chief Technology Officer (CTO).
- an external CEO (often identified by investors) joining the spinout full-time.
- the principal investigator joining the spinout as a non-executive director and consultant for an agreed period of time alongside their primary employment at the University (See consultancy in Section 4.5.2).

For SHAPE-based spinouts, the composition of the founding team is likely to differ, due to the nature of the research, the way it is undertaken at the University and the makeup of the research team.

While the composition of founding teams can vary from spinout to spinout, for investor-backed spinouts it is essential that at least one founder joins the spin-out full-time initially to manage the company's day-to-day activities. Understandably, it might not be trivial for one of the founders to join full-time, but investors will want to see someone running the company following incorporation.

4.3.3 Use of The 'Oxford' Name

While companies can use the term 'Oxford' for their company name, it is important to note that the use of 'Oxford' is controlled and that the University is careful to ensure that companies, including spinouts, do not misrepresent themselves as University activities through the use of the University's brand identity.

If you plan to use 'Oxford' in the company name, the company will need to seek permission from the University through a licence agreement. Of course, avoiding the use of 'Oxford' in your company name avoids this complication

4.4 Seeking Investment / OUI Spinout Panel

Depending on your business, development plan and the type of company you are planning to incorporate, it is possible that you will need to seek investment to be able to cover product development, laboratory and/or office space, salaries, and the legal and administrative costs incurred at incorporation and post-incorporation.

Once a first draft of the pitch deck is available, you can start discussing the opportunity with investors from the Oxford ecosystem and beyond. OUI has a growing network of investors and can assist you in identifying relevant sources of investment finance through their contacts e.g. if you are forming a social venture then we would recommend so-called "impact investors". When you are ready to pitch to investors, OUI can arrange for a practice pitch session for you to rehearse your presentation and prepare for the types of questions which your potential investors will ask.

4.4.1 Oxford Investment Ecosystem

(a) *Spinouts with Science, Technology, Engineering and Mathematics (STEM)-based applications*

Oxford Sciences Enterprises (OSE), formerly Oxford Sciences Innovation, is an independent, billion-pound early-stage venture capital firm founded in 2015 as a joint venture with the University of Oxford, in a partnership that gives the University a non-dilutive 5% stake in OSE. In return for this stake, OSE receives half of the University's founding equity in spinouts emerging from the MPLS and MSD divisions. This typically equates to 10% of founding equity in each spinout (5% in companies where the founders/University equity split is 90:10) before investment.

OSE is the **University's preferred partner** for funding and development of spinout companies. As of 2024, OSE has received an automatic stake in approximately 135 science spinouts, and has invested in over 80 of them, helping progress >50 spinouts from Seed to Series A and >20 to Series B and beyond, including two IPOs and seven exits.

There are overarching confidentiality obligations in the agreement between OSE and the University. OSE is committed to engage with academics who are interested in and ready to explore the potential to commercialise research through the creation of a new venture. OUI works closely with OSE and engages routinely with the various OSE teams (Pharma, MedTech and DeepTech), sharing investment opportunities at a very early stage from MPLS and MSD divisions. OSE is also able to engage directly with Oxford academics and can provide valuable support in building the business plan and team for the company.

While OSE is the University's preferred partner for funding, founders are encouraged to engage with other investors who might wish to lead and/or syndicate together with OSE or others. Note that OSE is under no obligation to invest in an Oxford spinout: it is their commercial decision on a case-by-case basis. Similarly, founder researchers have no obligation to accept an investment offer from OSE.

In addition to OSE, OUI has well-established relationships with many early-stage investors. One example is Parkwalk Advisors.

Parkwalk Advisors is an early-stage venture capital firm with over 10 years' experience of investing in technology companies spun out of UK universities and research institutions, having invested in over 180 companies as of 2024. It is the UK's most active investor in the university spin-out sector, investing in global sectors of strategic importance to the UK, such as life sciences, AI and quantum computing, advanced materials, genomics, cleantech, the future of mobility, medtech and big data. In 2017, Parkwalk joined forces with IP Group plc, a FTSE 250 listed company.

Further examples of funding of direct relevance to Oxford spinouts are as follows:

University of Oxford Innovation Fund (UOIF): Established in 2014, UOIF invests across all areas of technology and intellectual property from Oxford, including new Oxford-based software companies. Managed by Parkwalk Advisors, with OUI as the Portfolio Advisor, this fund offers a tax-efficient opportunity to private investors and provides an additional source of investment for spin-out and start-up ventures. Note that UOIF cannot lead an investment round but will co-invest alongside other investors. The UOIF can only make equity investments directly into spinouts and cannot otherwise fund research at the University. You can register your interest in OUIF by contacting your Licensing and Ventures Manager or the OUI Investment team.

(b) *All spinouts, including those within SHAPE fields*

Oxford Investment Opportunity Network (OION): Managed by Oxford Innovation Finance, it is one of the oldest and largest angel investment networks in the UK, focussing on technology companies from Oxford and across the country. They provide angel investors with the opportunity to invest in pre-screened opportunities either directly through their angel network or directly through their Enterprise Investment Scheme (EIS) Fund and provide companies with the opportunity to secure investment from a large, diverse investor base. Since 2021, OION has completed 102 investments into 86 companies from across the UK, and have been recognised as the most active angel networks in the UK, according to data compiled by Beauhurst in 2023. OION organises regular pitching events for companies interested in funding through angel investment. Your Licensing and Ventures Manager or the OUI Investment team will be able to help you connect to OION.

The Oxford Seed Fund (OSEF): Europe's largest student-led fund, supporting early-stage startups founded by Oxford University's students, faculty, and alumni, and offering investments up to £100,000. The team is made up of Saïd Business School students with experience in venture capital, investment strategy, management consultancy, financial services, and entrepreneurship. Supported by the Entrepreneurship Centre at the Saïd Business School, OSEF sources and evaluates up to 200 potential opportunities, conducts due diligence, and invests in ten startups every year. They invest in companies across a range of industries.

ImpactU Pathfinder Award: pre-seed investment of up to £40,000 to de-risk and accelerate the value proposition for **mission-driven businesses i.e. social ventures**. When applying to the Pathfinder Award, the founding team also gains access to non-monetary support and guidance. Both CLS and CLG structures are eligible to apply, with the investment being considered an equity investment for CLSs and a loan for CLGs. Companies should contact their Licensing and Ventures Manager before applying to check that they are at the right stage to apply and to receive support for their application. Note that this fund is currently available until the end of 2025.

If you are forming a **social venture**, OUI can also facilitate introductions to impact investors. Your designated Licensing and Ventures Manager will work with OUI's Investments team to find suitable investors to support company formation. You can explore the impact investor ecosystem through the Impact Investor Finder - Explore the investor network (impact12.com).

The University Challenge Seed Fund (UCSF) and OSE's Uncover fund are covered in Section 2. Although these funds are dilutive (i.e. they will convert into shares like any investment), they can fund the development of the technology at the University prior to the incorporation of the company.

4.4.2 Getting Investment – The Term Sheet

Once an investor has indicated their interest in investing, a process of due diligence will commence. Typically, an investor will seek confirmation of all the main assumptions set out by the company in its business plan. Particular areas of interest will be patents, details of the financial plan and evidence of market interest. Be prepared to respond to a large number of due diligence enquiries while fundraising; this can be time-consuming.

If the due diligence process is completed satisfactorily, the investors will then issue a Term Sheet (also known as the Investment Heads of Terms or HoT), a non-binding document that sets out the key provisions for all aspects of the spinout company. Please refer to the USIT guide to learn more about the typical provisions included in a Term Sheet (The USIT Guide: Leading Universities and Investors Launch Set of Recommendations for the Innovation Sector — TenU (ten-u.org)).

The issuance of a Term Sheet will then lead to a period of negotiation between the investor(s), and the spinout founding team. OUI, on behalf of the University, will review the Term Sheet to ensure that University requirements have been included and that the financial terms are in line with the University's equity entitlement. Once agreed by each party, including OUI on behalf of the University, the Term Sheet will be signed off. The Term Sheet is the summary upon which the parties' lawyers will build full legal completion documentation. Agreeing on a comprehensive Term Sheet will save all the parties time and money (legal costs come from multiple sets of lawyers) before drafting and circulating completion documents.

(a) *Lawyers And Accountants*

As you start seeking investment, we recommend that founders **initiate conversations with lawyers and accountants**. The responsibility of lawyers is to advise founders prior to company formation and execute all the legal documentation for company incorporation (see Section 4.6). Accountants provide the necessary tax advice for company formation. While **OUI cannot provide legal and tax advice** for the company, we can share contact details of lawyers and accountants that are part of the Oxford ecosystem.

Social ventures may be eligible for **pro bono or low-cost legal support** from The Social Finance Hot Desk. Depending on the business plan and model of the social venture, pro bono legal support might be paramount for the venture's initial sustainability.

(b) *Regulatory Requirements*

Any investment in an Oxford spin-out will need to comply with the UK National Securities and Investments Act, OUI's Know Your Customer (KYC) and Anti-Money Laundering (AML) policies and the University of Oxford's ethical acceptability policies.

4.5 Securing Access to IP and Expertise

4.5.1 The Licence

In many cases, University Intellectual Property (IP) is a core component of the new proposed spinout. If the spinout intends to commercially exploit any IP originating in the University and owned by OUI, a licence from OUI to the spinout company is needed in order to grant the spinout access to the IP.

(a) *Types of Licences*

There are different types of licences depending on the IP rights intended for licensing and whether the company requires development work before committing to an exploitation licence (*Table 3. Types of licencing agreements)*. For instance, it is not uncommon for a company to licence the IP via a development licence initially to assess the IP technologically and commercially. Such licences have development periods lasting up to two years and include an option to an exploitation licence following the end of that period. During the option period, OUI will not engage and/or enter negotiations with any other party interested in licensing the IP.

Table 3. Types of licencing agreements

Type of Licence	Type of IP Rights	Description	Typical Commercial Terms
Technology Exploitation Licence	Patent, Know-how	Grants access to the IP for development work and commercialisation, including selling a product and/or sublicensing the IP.	Signing fee Past patent costs Royalty rate Fee income royalty rate Milestones payments Minimum sums **Negotiable terms**
Software Exploitation Licence for source code	Copyright, Know-how	Grants access to the IP for development work and commercialisation, including	

		selling a product and/or sublicensing the IP.	
Software Exploitation Licence for object code only	Copyright, Know-how	Grants access to use the software for a specific number of users.	Signing fee / Annual Fee Royalty Rate Fee income royalty rate Milestones payments Minimum sums **Negotiable terms**
Know-how only licence	Know-how	Grants access to the IP for development work and commercialisation, including selling a product and/or sublicensing the IP.	
Technology Development licence with option	Patent, Know-how	Grants access to the IP for technical and business development work only. They include an option to an exploitation licence.	Option fee Past patent costs **Negotiable terms**
Software Development licence with option	Copyright, Know-how	Grants access to the IP for technical and business development work only. They include an option to an exploitation licence.	Option Fee **Negotiable terms**
Express Licence	Patent and/or software, Know-how	Grants access to the IP for development work and commercialisation, including selling a product and/or sublicensing. **Only available to Oxford spinouts receiving equity investment.**	Signing fee Past patent costs Royalty Rate Fee income royalty rate Sublicensing royalty rate Exit fee **Non-negotiable terms**

A definition of the commercial terms can be found in Section 9.

Exclusivity

Any of the above forms of licensing can be made exclusive to all fields and/or all territories, exclusive for specific fields and/or specific territories or non-exclusive for all fields and/or territories.

Commercial Terms

As shown in Table 3, exploitation licences typically include different types of licence fees, such as signing fees/annual fees, royalties, milestones fees, and minimum sums. Licensing terms will be agreed to reflect the market value of the IP and its commercial potential,while remaining financially viable for the early-stage company. Any prospective licensee is required to include a development and business plan in the licence, which is used to inform the proposed commercial terms.

Express Licence

Investment-backed Oxford spinouts have the option of taking a so-called “express licence”, which contains commercial terms that differ significantly from those typical in a standard exploitation licence (see Table 4 for a comparison). The goal of the express licence is to provide simplified terms and a streamlined process since those terms are non-negotiable. While many spinout teams and investors value the speed and the way that the express licence aligns the financial returns under the licence with financial returns to investors, others prefer to negotiate and create a bespoke licence for the business. Note that the express licence is available to Oxford spinouts only at the time of completion and following equity investment. Any Oxford IP licensed to a spinout at a later stage will be done through a fully negotiable development or exploitation licence.

The express licence is in the public domain here: [Microsoft Word - Spinout Express Technology Licence (ox.ac.uk)]

Table 4. Comparison between the Standard Licence and the Spinout Express Licence

Standard Licence	Spinout Express Licence
Negotiable	Non-negotiable. Really.
Past Patent Costs – paid in full	Past Patent Costs – paid in full
Signing Fee – negotiated	Completion Fee – £50,000
Royalty Rate – negotiated	Royalty Rate: 0.5% ↔ 2.5% (Determined by maturity and profit margin) No royalties on first £25m (Royalty Threshold)
Fee Income Royalty Rate on lump sum income received by licensees – negotiated	Fee Income Royalty Rate: 15% → 5% (Depending on when sublicensing deal completed)
Sublicensing Royalty Rate – none (Sublicensing Sales fall under Royalty Rate through Net Sales definition.)	Sublicensing Royalty Rate: 15% → 5% (Depending on when sublicensing deal completed)
Minimum Sums – negotiated	No Minimum Sums
Milestones Fees – negotiated (e.g. as patent grant, development goals or sales success projected and described in the development plan.)	No Milestone Fees (A development plan is still required even if there are no milestones fees.)
No Exit Fee	Exit Fee: 2% → 0.5% (Depending on Exit Valuation. Capped at £5m.)

Non-commercial terms

Any type of licence from OUI includes the following non-negotiable non-commercial clauses:

- Rights regarding **non-commercial use on the licensed IP**: through the licence, OUI and the University are granted a licence to the IP for non-commercial use. This clause provides an ongoing ability for researchers to do research and teaching, which is more important than the deal itself.
- **Indemnities and warranties**: OUI does not provide any indemnities and/or warranties.

The University is a charity and has the charitable obligation to advance learning through teaching and research, and to ensure its activities benefit the public. Since OUI is fully owned by the University, it cannot provide any indemnities and/or warranties that might expose the University charitable mission.

- Licensee's **commercially reasonable endeavours**: the licensee has the obligations to develop, exploit and market the technology through the development plan provided, and report progress against the development plan. This obligation aligns with the University's charitable mission and OUI's mission to maximise the global impact of Oxford's research and expertise.

If there is no IP owned by the University or OUI to which you need access for your spinout, e.g. you are planning to commercialise an idea using your knowledge or expertise rather than any specific know-how which already exists, then no licence is required. Academic founders forming a spinout in which there is no transfer of IP into the company may be treated differently for tax purposes than founders of IP-based companies and you should take independent tax advice. OUI cannot offer tax advice. You should also be aware that later investors or acquirers of the no-IP spinout may require assurance of the validity of your assertion that there is no University IP, particularly if it appears that there is a close link between the company and your research interests. OUI and University are not able to provide such statements.

4.5.2 Academic Consultancy

Academic founders are allowed to consult to their own spinout. However, the University mandates that, in the first year, the academic founder's consultancy must be managed by OUI's Consulting Services (CS). A CS Project Manager will be assigned to each spinout, who will work with the academic founders to complete all the necessary paperwork required and assist with securing the necessary approvals for each stage of the process.

OUI charges a management fee equal to 10% of the consultancy rate. In the first year, such fee is transferred to the academic founder's department. After the first year, if the academic founders choose to continue using OUI CS, the management fee will be split between their department and OUI.

It is important to note that, while some investors prefer to have the consultancy agreements signed at the same time as the other spinout documents, there is no requirement for this: documents can be signed as part of the spinout completion phase, or after.

There are three separate, but related, documents required for a consultancy contract:

(a) The Consulting Contract between OUI and the spinout,
(b) The Outside Appointments form and Conflict of Interest management plan (see Section 4.2.3),
(c) The Subcontract between OUI and the academic founder.

(a) *The Consulting Contract between OUI and the spinout*

This is an agreement between OUI and the spinout with the founder as the named consultant in the contract. The signatories on the contract will be OUI and the authorised signatory from the spin-out.

OUI will need the following information to be able to draft the contract with the spin-out:

- Spinout's name, address and registration number,
- Consultancy start date and term of the contract, including required number of consulting days per year,
- Founder's name or the name of their Personal Services Company (PSC),
- A description of the consultant's services (see in Table 2 the types of activities associated with consultants),
- Consultancy rate.

(b) ***The Outside Appointments form and conflicts of interest declaration***

The University requires all academics who have outside financial interests or hold an outside appointment whilst employed by the University to complete an *Outside Interests and Outside Appointments Declaration and Approval Form* (called an OA1). This will include a Conflict-of-Interest management plan. The OA1 form must be submitted to the academic founder's Head of Department or Division for approval (see Section **4.2.3**).

The academic founder can submit one OA1 form for all roles they undertake in connection with their spinout: shareholder, director, employee, or consultant. The founder must arrange the documentation with their Head of Department and must submit a signed copy to their CS Project Manager before the consultancy agreement is finalised.

Alternatively, OUI CS can facilitate the OA1 form for the consultancy separately.

(c) ***The Subcontract between OUI and the academic founder***

This is the formal agreement between the founder academic and OUI, binding the academic to supply the service to the spinout and enabling OUI to pay the founder. OUI CS will prepare this form with information from the contract with the spinout.

The signatories on this subcontract will be the founder academic and OUI.

(The subcontract is also called "Back-to-Back Agreement" because it incorporates the agreement between OUI and the spinout company.)

4.6 Company's Legal Bible and Incorporation

"Spinout completion" is the phrase used to describe the final stage of the process in which a new venture is born. This is the point at which the University takes its shares in the new spinout and, if there are external investors, the investors invest. The precise timing and sequence of the completion process can vary depending on the tax and legal advice which the new company and its shareholders, including the researcher and management founders, have received. **OUI cannot give tax and legal advice**.

Prior to the spinout completion, all the documentation must be prepared and agreed in its final form. The list of documents involved can be long, but the two key documents relating to the operation of the spinout company are the Articles of Association (often called "the Articles") and the Subscription and Shareholders' Agreement:

- The **Articles** are the rules governing the operation of the company and are made available to the public by Companies House.
- The Subscription and **Shareholders' Agreement** contains the details of the shareholders, any investment, and specifics relating to the operation of the company which are not addressed in the Articles. One area of particular relevance to University founders are the so-called "Restrictive covenants" which describe what will happen to a founder's shareholding if they leave the company. The Shareholders' Agreement is confidential.

The **core agreements** are the technology licence (see Section 4.5); the Articles and Subscription and Shareholders' Agreement, consultancy contracts (see Section 4.5.2), and any sponsored research contracts that are intended to be put in place between the spinout and the University.

Ancillary documents, also called “ancillaries”, include Share Certificates, Shareholders Resolutions, Statutory Registers, various Company House forms among others. These documents are prepared by the company’s lawyers and include the paperwork required to support the mechanics of the spinout completion itself.

The collection of all the documents used in and signed as part of the completion process are known as the **“Legal Bible”**. After completion the company lawyers provide a copy of the Legal Bible to OUI for its records.

There are some administrative “post-completion” actions that need to be taken, e.g. on the company side, letting Companies House know about changes in shareholding and directorships. For OUI this is also the time when responsibility for the spinout passes from the Licensing and Ventures group to the Investment and New Ventures team.

More information can be found in the TenU USIT guides: The USIT Guide: Leading Universities and Investors Launch Set of Recommendations for the Innovation Sector — TenU

The above-mentioned documents are standard for companies incorporating in the United Kingdom. Legal documents may vary if the company incorporates in another country. While most spinouts incorporate in the UK, founding team and/or spinout’s circumstances can lead to a spinout to incorporate in a different country.

4.7 Summary

The different work packages identified in Section 4.1 are likely to be progressed and completed in parallel at different points of spinout formation. The process will require time and effort, and it is important that all members of the founding team are fully on-board with the decision of spinning out and are proactively engaged in the different actions throughout the process.

Through the process, the founding team will work together with an OUI Licensing and Ventures Manager, who will:

- guide you through the entire process,
- support IP protection and translation strategy,
- facilitate introductions to investors, lawyers and accountants,
- provide feedback on business plan and pitch decks,
- signpost relevant networking events,
- tap into OUI’s networks for relevant connections,
- put in place and negotiate licensing agreements,
- support your discussion with Research Services with regards CoI management plans and/or Sponsored Research Agreements,
- connect you with OUI’s Consultancy Services team.

In addition, the OUI Licensing and Ventures Manager will represent the University of Oxford in all negotiations with the investors.

To increase team resilience, it is likely that a second Licensing and Ventures Manager will be involved in supporting you in the process of spinout creation.

5 ADDITIONAL CONSIDERATIONS DURING SPINOUT CREATION

5.1 Timescales

The time it takes to complete the spinout process can vary enormously. Sometimes an extended time period is a positive: for example, the researchers may be successful in securing translational funding which develops the technology, builds value in the business proposition, or upskills the researcher as a spinout founder. This work can be undertaken within the University environment prior to spinning out. Sometimes of course, delays are less welcome. Common challenges relate to difficulties in finding investment or suitable co-founders, e.g. a CEO, with the skills to complement those of the researchers in the spinout team. IP due diligence can also be slow if there is a need to agree with external third parties who have rights in the IP.

Overall, the median time to spinout reported by Oxford founders in a recent survey (2023) is in the range of 7-9 months, but a significant fraction takes considerably longer: 9% reported the process had taken more than 18 months.[1] OUI works diligently to expedite the completion of the transaction once a term sheet is agreed and all necessary IP rights are cleared.

5.2 Stakeholder Management

In addition to the potential shareholders of the spinout, other relevant stakeholders that might have an interest in the spinout need to be identified and managed appropriately. These can include: the Head(s) of Department, divisional office(s), University staff, prospective investors and employees, research funders, students linked to the research being commercialised, and close family and/or life partners. While these stakeholders are not directly involved in the new venture, disregarding them can result in a negative impact for the company formation and/or company management. For instance, they might oppose to the company formation, have concerns over potential conflict of interests, or the time commitment given to the spinout, to name a few.

5.3 Changing Roles During Spinout Creation

During the early spinout preparation phase, OUI and the founding team are aligned in aiming for a spinout company and working out the plan for the business, in addition toproviding a service to academics in protecting IP.

However, if a founding team seeks to negotiate the University's non-negotiable policy on founding equity, or conflicted founders became directly involved with negotiating the commercial licensing terms, they and OUI will find themselves on opposite sides of the negotiating table. OUI is owned by the University and works to protect the University's interests. These may not be aligned with the views of an individual on what is best for them in their individual capacity, or best for the spinout company, which will have an independent legal identity once it has spun out.

Under the University's Conflict of Interest policy, founders who are employed by the University should not seek to negotiate terms for access to IP on behalf of the spinout. Although they may identify very strongly

[1] Government spinout review (2023). Oxford respondents (only) reporting how many months the spinout deal took to complete from agreement to form a spin-out to having all agreements signed and ready to proceed.

with the spinout and have a strong financial interest in the success of the spinout, those founders usually also remain employees of the University and would usually be beneficiaries of the licence, so their financial interests provide a conflict. The spinout CEO or investor should negotiate licence terms.

OUI will always try to explain these issues clearly. In doing so, there is no challenge to the integrity of those involved; we recognise that all are genuinely trying to seek a fair outcome and to find a way to make the spinout happen.

6 THE OXFORD INNOVATION ECOSYSTEM

In addition to OUI, the innovation ecosystem in Oxford comprises a multitude of key stakeholders to help you start and grow your business.

EnSpire Oxford	Entrepreneurship hub of the University of Oxford, connecting all entrepreneurial initiatives and resources found within the University. The hub also manages IDEA, an initiative focused on increasing the representation of women in entrepreneurship. Partners in the hub include the Entrepreneurship Centre at the Saïd Business School, the Careers Service and OUI.
OUI's Incubator	Support including mentoring, facilities and funding from OUI's incubator is available for students, staff and alumni from the University of Oxford wishing to start a business and commercialise IP that is **not** owned by the University (start-ups). Oxford spinouts as well as start-ups can access training and workshops organised by the Incubator.
Impact U	Collective of UK universities working collaboratively to support and raise awareness of mission-driven businesses emerging from the UK member universities. Impact U provides free training and pre-seed investment into social ventures associated with UK Universities.
Student Entrepreneur's Programme (StEP Ignite)	Programme for **Oxford students only** that includes training, mentorship, and workspace to take an idea to a real pitch in front of investors.
Innovate UK ICURe programme	Early-stage pre-accelerator programme to guide researchers through the process of refining and validating commercial potential.
The BioEscalator	University's biotech incubator with lab space provisions and entrepreneurial support for start-ups.
The Hill	Innovation catalyst, embedded within Oxford University Hospitals NHS Foundation Trust. They empower innovation in health and care by supporting new approaches which seek to make the NHS more efficient and effective, empower staff and benefit patients.
Begbroke Science Park	Science Park wholly owned and managed by the University of Oxford. The park includes offices, workshops, laboratories and business support

	services. They offer a flexible environment that encourages links between Oxford spinouts and the University.
ARC Accelerator (ASPECT)	Six-month programme, which helps researchers and universities build SHAPE (Social sciences, Humanities, and the Arts for People and the Economy/environment) ventures.
Equinox	Equinox (Equitable Innovation Oxford) is an initiative by the University of Oxford with partners across business, government, and the community. Its purpose is to strengthen Oxford's position as a globally recognised innovation hub - one that connects research, industry and investment to deliver growth benefiting both the economy and society.

Please note that the ecosystem is continuously developing, working with your Licensing and Ventures Manager helps to access up-to-date information on the support available.

7 NEXT STEPS

If you have developed IP (see Section 1.2) or generated expertise that you think could be commercialised through a spin-out or simply would like to have a more general chat about spin-out formation, OUI staff are here for you.

If you haven't been in touch with OUI yet, feel free to reach out to any of our Deputy Heads of Licensing and Ventures:

Physical sciences: Emmanuel Raptakis (Emmanuel.raptakis@innovation.ox.ac.uk),

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Life sciences, digital health: Steve Silvey (steve.silvey@innovation.ox.ac.uk).

OUI Startup Incubator: Catherine Spence (Catherine.Spence@innovation.ox.ac.uk)

8 FURTHER READING

USIT & USIT For Software Guides - Download | TenU — TenU New Site Design

Independent Review of University Spin-out Companies (publishing.service.gov.uk)

The Knowledge Asset Spinouts Guide

The Knowledge Asset Commercialisation Guide

9 GLOSSARY OF TERMS

Note that the following glossary of terms is not an exhaustive list, but a list of standard jargon that you are likely to encounter through the spinout creation process.

Additional term definitions can be found in the TenU guides (USIT & USIT For Software Guides - Download | TenU — TenU New Site Design) and the Knowledge Asset Spinout Guide published by the Government Office for Technology Transfer (GOTT) (The Knowledge Asset Spinouts Guide).

A

Ancillary documents ('Ancillaries'): papers, forms and other information that support or verify a main document. In the context of a spinout, ancillaries include Share Certificates, Shareholders Resolutions, Statutory Registers, various Company House forms among others, that accompany spinout core documents including the licensing agreement, the Articles of Association, Shareholders' Agreement, consultancy contracts, and any sponsored research contracts.

Articles of Association (the 'Articles'): documents and rules to specify the regulations for a company's operations and define the company's purpose. It outlines how tasks are to be accomplished within the organisation, including the process of appointing directors and handling financial records.

Author (software copyright): the individual who created the software/wrote the code.

B

Board of Directors: the governing body of a corporation or organisation, responsible for overseeing management, setting strategy, and protecting the interests of shareholders and stakeholders.

Board meeting: formal gathering of a company's board of directors to discuss and decide on matters related to the company's strategic direction, performance, and governance.

Board Observer: individual who attends and participates in board meetings, receiving all information provided to board members, but lacks the authority to vote or make decisions. The University typically has a board observer rather than a director on the board of its spinouts.

Bootstrapping: starting and growing a company using only existing resources such as personal savings, their own time and effort, and early revenue, without relying on external funding like venture capital or loans.

Business plan: written document that describes the business's objectives, strategies, sales, marketing and financial forecast.

Business model: strategic plan of how a company will generate revenue and become financially sustainable/profitable.

C

Capitalisation Table ('Cap Table'): table showing the equity owned by the company's shareholders, and the value of such equity at the company's incorporation stage and further investment rounds.

Company Limited by Guarantee (CLG): a legal structure where the company has no share capital, and is instead collectivelyowned by its members in equal proportions. Members have an equal vote on matters that are taken to the membership. While incentives for members are possible, no dividends can be personally distributed in a CLG as shares do not exist. It is a legal structure commonly found in not-for-profit companies or charities.. As there's no equity in a CLG, the spinout equity policy does not apply, however the University assumes membership in the company. The only constraint is that there should be at least four other members in addition to the University at the company's formation and thereafter. This is to ensure that the company will not need to be treated as a University subsidiary for reporting purposes.**Company Limited by Shares (CLS):** a legal structure where the company has share capital, and it is therefore owned by its shareholders. Shareholders own different fractions of the total number of shares, which leads to different numbers of votes that shareholders can cast at general meetings, and different returns on dividends, for instance when the company is sold. This is the legal structure most commonly used not only by profit-driven companies, but also some types of mission-driven businesses due to the flexibility associated with the legal structure.

Conflict of Interest Management Plan: in the Oxford context, it is a document outlining the different roles held by an employee of the University, the interests associated with each role, the conflicts that may arise (or might be perceived to arise) among them and a mitigation plan for each identified potential conflict. The objective of the plan is to help University employees navigate complex situations that might emerge as a result of their different appointments and responsibilities. The plan is a living document that needs updating as the situation evolves and is made available to the Head of Department.

Copyright: type of IP right that protects the expression of ideas, rather than the underlying ideas themselves. Copyright in the UK is automatically created and applies to various forms of creative works including literary, artistic, musical and software. The owner of the copyright can prevent others from using their work without permission or a licence. In the case of software, the owner of the copyright might not necessarily be the author of the software.

C-suite: term used to refer to a company's senior executives, such as Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Technology Officer (CTO), etc.

D

Data Room (for investor's due diligence): collection of documents needed for the investor's investment due diligence to provide additional evidence on the claims made through the business proposition in the pitch deck and business plan. The list of documents can include the pitch deck, technical data, scientific publications, patents, techno-economic assessment of the technology, information about the founders, information about the market, business model, financial forecast, company documents, etc.

Deal Sheet 1 (DS1): internal document that sets out the founding team's understanding of the proposed structure for the new Oxford spinout. It captures information about the founding team, their relationship with the spinout, the equity split between the founding team and the University, the technology being commercialised and its assessment against the sensitive sector of the UK economy listed in the National Securities and Investments Act (NSIA). It is not legally binding. It needs to be signed by the Head of Department or Head of Division (as appropriate).

Deal Sheet 2 (DS2): internal document that incorporates financial details of any proposed investment made into the spinout. The completion of DS2 also gives the founding team an opportunity to update the information provided in DS1 in case changes in the business plan and founding team have occurred. The resolution of any issues raised by the Head(s) of Department at the DS1 stage should also be recorded. Like the DS1, the DS2 needs to be approved and signed by the Head(s) of Department or Head of Division (as appropriate). It is not legally binding.

Development Licence: type of licence that grants access to the IP for technical and business development work only. It can include an option to an exploitation licence during the development period.

Dilution (shares): reduction of the company's ownership proportion (equity) of shareholders following the issue of additional stock, usually through a new round of investment and/or the creation of option shares.

Anti-dilution protection: clause in an investment agreement designed to safeguard a shareholder's ownership percentage from dilution following the issue of new shares.

Director (Non-Executive, also called NED): member of the senior management team of a company, whose role is to attend board meetings, help develop the company's strategy and monitor company performance.

Director (Executive, also called ED): senior executive of the company whose role is to daily oversee and manage the company's activities, while also attending board meetings and develop the company's strategy, and monitor company performance.

Dividends: payments made by a company to its shareholders that are proportional to their ownership percentage.

Due Diligence (investor's): investigation and/or analysis made by an investor prior to issuing a term sheet to evidence the claims made in a company's business plan and pitch deck.

Due Diligence (IP ownership): investigation and/or analysis made by the University to understand the ownership of the IP and any obligation the University has towards the funders of the IP, if the IP is commercialised.

E

Enterprise Investment Scheme (EIS): government-driven initiative that provides tax relief to investors investing in early-stage businesses. Check online for business eligibility.

Equity: shareholder's proportion of ownership of the company.

Equity Split: ownership split of a company among shareholders.

Exit (of a company): transfer of ownership of a company. It can happen through the acquisition of the company by another larger company, the merger of the company with another company, the company going public in the stock market through an Initial Public Offering (IPO) or liquidation when the business is no longer viable.

Exit Fee (of a licence): payment triggered by a successful exit of a company.

Expertise (compare with Know-how): expert knowledge in a particular field. It cannot be licensed.

Express Licence: type of IP licence for patent and/or software only available to Oxford spinouts receiving equity investment. The goal of the express licence is to provide simplified terms and a streamlined process since those terms are non-negotiable.

F

Fee Income Royalty Rate (FIRR): percentage applicable to all up-front payments (including signing fee, milestones payment and minimum sums), that the licensee receives from its sub-licensees. It only applies when sub-licensing is part of the licensee's business model. See also Royalty Rate.

Funding (dilutive): type of capital which, when invested into a company, is converted into equity at the share subscription price of the funding round. The amount of money an investor commits to investing is also called a “ticket” or “ticket size”.

Funding (non-dilutive): type of capital that does not convert into equity when invested.

I

Impact: direct or indirect consequences of the activities of an organisation to its internal and/or external stakeholders. In this case, we refer to positive long-term change made by the University’s activities on the economy, people and planet.

Impact Investment: investment made with the intention to generate positive and measurable social and/or environmental impact alongside a financial return. It is this intentionality that sets impact investors apart from more traditional investors.

Incorporation (of a company): process of registering a new business.

Initial Public Offering (IPO): a process by which a company is listed in the stock market to allow shares to be offered to the public for the first time. This process is also known as “going public”. It is a type of company exit.

Intellectual Property (IP): defined by the World Intellectual Property Organisation (WIPO) as “creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.” Link: What is Intellectual Property?

Intellectual Property Rights (IPR): legal rights that protect IP, granting the creator or owner exclusive control over the use, commercialisation, and distribution of the IP protected.They include patent, copyright, registered design and trademark, and confidential trade secrets.**Inventor (IP)**: under UK patent law, these are the actual devisers of the invention described in the patent application.

Investment Term Sheet (Head of Terms): non-binding document that sets out the key provisions for all aspects of the spinout company. Please refer to the USIT guide to learn more about the typical provisions included in a Term Sheet: The USIT Guide: Leading Universities and Investors Launch Set of Recommendations for the Innovation Sector — TenU (ten-u.org).

Investor (Angel): individual(s) who invest their own money in businesses in exchange for equity.

K

Know-how: confidential practical information about processes, methods, techniques, etc. that can be captured in a document. The information is protected indefinitely if the information is kept secret. Know-how can be licensed.

L

Lean spinout: spinout which can be formed with a viable business plan without the need for external investment.

Legal Bible (of a company): collection of documents and agreements related to the incorporation of, and investment into, a new company.

Licence agreement (IP/Know-how): contract that grants a party (the licensee) permission to use another party's (the licensor's) intellectual property and/or know-how.

M

Member (CLG): person that has ownership interest in the company limited by guarantee, and that has certain rights and duties associated with the company, including voting. Members are also known as guarantors. CLG members are not entitled to dividends.

Milestone Payments (of a licence): licence fees payable on reaching predetermined technical and/or commercial milestones specified in the licence's development plan.

Minimum Sums (of a licence): minimum annual fee payable by the Licensee. If royalties paid in a given year (when Minimum Sums are due) are lower than the Minimum Sum, the Licensee must pay the difference. If royalties paid in a given year (when Minimum Sums are due) are higher than the Minimum Sum, no further payment is due.

Mission-driven business see **Social Venture**

Mission statement (of a company): purpose of the organisation that explain why it exists and what it does. It focusses on the present and explains the organisation's key activities, audience and impact.

N

National Security & Investment Act (NSIA): UK legislation which gives the government powers to scrutinise and intervene in business transactions to protect national security. Covers 17 sensitive areas of the economy including many sectors which might be the subject of spinout creation and licensing particularly in the physical sciences e.g. Advanced Materials, Advanced Robotics, Artificial Intelligence, Quantum Technologies and Synthetic Biology.

Not-for-profit company: company that reinvest all its profit towards the company's mission.

O

Option Pool: a portion of a company's equity (shares) set aside to be issued as share options to employees, advisors, or other stakeholders. It's a reserved block of shares that can be granted to individuals to incentivise their work or reward their contribution. Option pools are common in spinouts and are used to attract talent, retain employees, and align an individual's interests with the company's success.

Outside Appointment Form (OA1 Form): University internal form that lists the different roles and responsibilities held by Oxford employees in addition to their main role at the University. It is often accompanied by the conflict-of-interest management plan.

P

Patent: a right at any national or regional patent office giving the owner the right to exclude others from using, making and/or selling the invention for a set period of time (usually 20 years). It may cover a granted right or a pending patent application.

Pitch Deck: a concise presentation used to communicate a business idea to potential investors, partners, and/or customers.

Platform Technology: technology or set of technologies that serve as a foundation for a broad range of applications.

Public Disclosure (IP): a public disclosure for the purpose of intellectual property asks the question "has the information been made available to the public", not whether a member of the public has actually heard it or read it. Inclusion of the information in a thesis or journal article or social media post is a public disclosure. Presentation at a meeting or conference is a public disclosure unless all of the audience are internal to the research group or are under an understanding of confidentiality.

R

Royalty Rate (RR): percentage applicable to the net sales of products based on the licensed IP/know-how made by the licensee and/or its sublicensee(s). See also Fee Income Royalty Rate.

S

Pre-Seed Funding: initial capital raised from founders, angel investors or venture capital funds to validate ideas and/or build prototypes.

Seed Funding: early investment from angel investor or venture capital funds to develop a minimum viable product (MVP) and establish a product market fit.

Series A Funding: funding raised generally from a venture capital fund to scale proven business models and optimise operations. Follows Seed funding.

Series B/C Funding: funding raised generally from a venture capital fund to expand market reach. Follows Seed and Series A funding.

Shares (equity): units of ownership of most spinout companies.

Shareholder: owner of shares in a company.

Shareholder's Agreement (SHA): document containing the details of the shareholders, investment, and the operation of the company which are not addressed in the Articles. Unlike the Articles, the Shareholders' Agreement is confidential.

Share Options: an agreement that gives an individual, often an employee of the spinout, the right, but not the obligation, to purchase shares in a company at a predetermined price. Allowance for granting these rights is usually provided for at an early stage by creating an option pool on the cap table.

Signing Fee (of a licence): upfront payment following the execution of a licence agreement.

Social Venture (also mission-driven business): organisation that aims at making an intentional, positive, and measurable impact in society and/or the environment. This type of company has **a mission statement**

embedded in its articles of association, and its management team needs to balance the company's mission with profitability.

Spinout (Oxford): company in which the University is entitled to shares through the University employee being a shareholder. While the company does not need to be based on University intellectual property, the business proposition needs to relate to the employee's activities/research at the University.

Sponsored Research Agreement (SRA): agreement between the new spinout company and the University to undertake a specific programme of research. Typically, the sponsorship grants the spinout some rights to IP arising from the work, e.g. an option to license.

Stakeholders: person or body which has an interest in the new venture. Not limited to those with a financial interest in the venture.

Subscription Price (shares): actual price paid to acquire shares in a particular investment round. At the founder round, this will be a nominal amount, but at investment rounds the subscription price reflects the valuation of the company.

Syndicate (investors): group of investors who work together to fund a particular investment round.

T

Technology Readiness Level (TRL): a standardised framework used to assess the maturity of a particular technology, from concept to deployment.

Theory of Change (ToC): framework that explains how an organisation's key activities lead to its desired long-term impact. It connects the organisation's mission, vision and strategy by mapping out the process of change from problem to impact.

What is Theory of Change? - Theory of Change Community

Translation (technological): process of developing and adapting scientific discoveries, inventions and/or expertise, into commercially viable products, processes and/or services.

U

University software spinout: a spinout company (a) that requires only source code and/or object code to be licensed or transferred from the university to the company at formation for the business to be viable; and (b) whose business will be software products only or consulting services provided by the use of software; and (c) that will operate in a regulatory-light environment. (Defined in the University's Equity Sharing Policy).

V

(pre-money) Valuation: estimated value of the company prior to an investment round.

(post-money) Valuation: estimated value of the company following an investment round.

Venture Capital (VC): term used to describe investment in return for equity in early-stage companies such as University spinouts. The term is also used for firms which engage in this activity.

Vesting: process by which an employee earns company shares.

Veto Rights: the right of a stakeholder to prevent certain pre-defined actions without their approval e.g. an investor may insist on veto rights over significant business decisions. For lean spinouts the University has veto rights over a small number of actions.

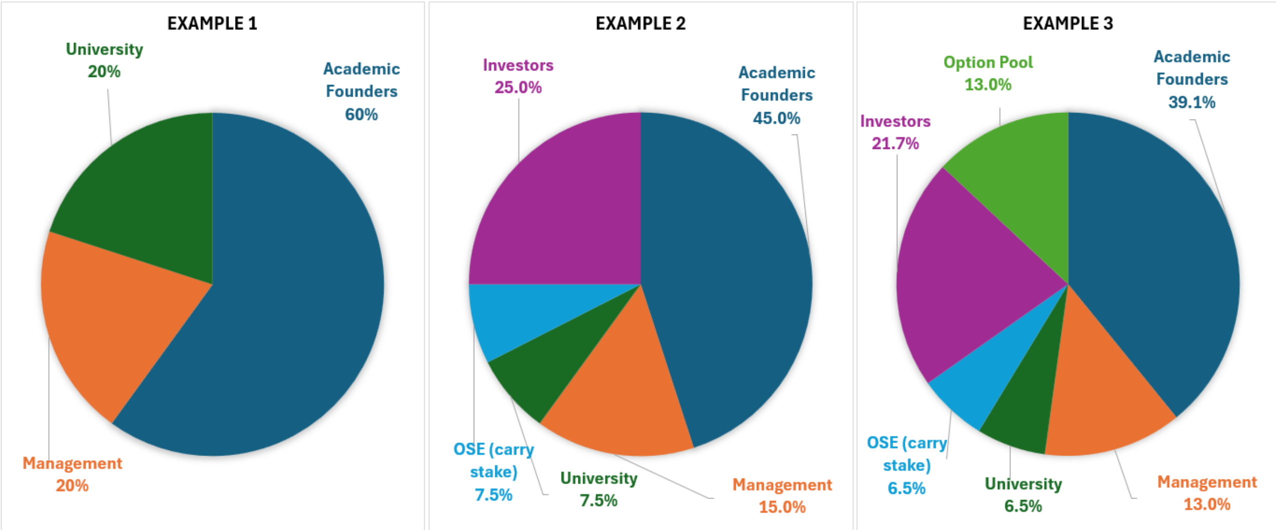
Vision (of a company): the goal that defines what the company hopes to achieve and become in the long term. The tone is usually aspirational and inspirational.

Voting Rights: the rights attached to share ownership (or to membership for a CLG) which allow the shareholder to influence the decision-making for the spinout. Typically for a new spinout each share confers a single vote, but for a CLS the relationship between share ownership and attached voting rights can be more complex e.g. if there are different classes of shares created in later funding rounds.

10 APPENDIX

10.1 “Cap Table” used for the Equity Policy Worked Examples

Note that numbers are illustrative only.



Shares in Issue at Spin-out	10,000
Pre-money valuation	£1,500,000
Post-money valuation	£2,000,000
Implied seed round share price	£150.00

	EXAMPLE 1 - Lean spinout (University Round)	
	Shares	Percentage Holding
Academic Founders	6,000	60%
Management	2,000	20%
University	2,000	20%
OSE (carry stake)		
Investors		
Option Pool		
Total:	**10,000**	**100%**

	EXAMPLE 2 - Investment Seed Round		
	Shares	Investment (£)	Percentage Holding
Academic Founders	6,000		45.0%
Management	2,000		15.0%
University	1,000		7.5%
OSE (carry stake)	1,000		7.5%
Investors	3,333	500,000	25.0%
Option Pool			
Total:	**13,333**	**500,000**	**100%**

	EXAMPLE 3 - Investment Seed Round with Option Pool		
	Shares	Investment (£)	Percentage Holding
Academic Founders	6,000		39.1%
Management	2,000		13.0%
University	1,000		6.5%
OSE (carry stake)	1,000		6.5%
Investors	3,333	500,000	21.7%
Option Pool	2,000		13.0%
Total:	**15,333**	**500,000**	**100%**

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