ACTIONS PLAN

1. Initial decision to proceed

The nature of the innovation – see earlier reference to disruptive innovation and platform technologies – may well dictate the route to commercialisation and the decision will be taken in concert with the IP Commercialisation Office.

2. Drafting of first business plan

This will be done in concert with the IP Commercialisation Office. This describes what the business will do and how the investors will get a return. With some spin-outs the business is at too early a stage for numerical projections to be meaningful. In these cases the investment decision will be made on the basis of confidence in the researchers, proposed spin-out managers and the technology.

It is rare for the business plan which is initially prepared by the spin-out team to be the same as the final plan which is used by the company as it goes forward. Typically the plan goes through a series of iterations and it is usual for investors and managers to contribute to the thinking as the plan evolves.

3. University permission

If you wish to proceed, because you may become a shareholder, director, and/or consultant to the spin-out, you will need to seek permission under the University’s External Work policy.

You will also need separate consent from your Head of School to form a spin-out company, particularly if it dependent in the first instance on any facilities or services within the school.

The company’s first business plan and proposed structure of the spin-out, including the suggested equity split, will need to be presented for approval to University senior management with responsibility for oversight of Knowledge Transfer. The IP Commercialisation Office will guide you through the process which will vary according to the nature of the company and whether or not investment is requested from the University.

4. Equity distribution

The University is the legal owner of the IP on which the company will be based. As such the founding equity is split 60:40 between the University and Founders, which is reflective of the revenue split in the event that IP is licensed externally under the University Code of Practice on Inventions and Patents.

If there are multiple inventors involved in the IP to be licensed into the company, their individual entitlements must be covered by agreed equity shares or in some other way.
Investors will expect in a reasonable equity stake for investment in an early stage venture and as a company grows it is likely to issue more shares to new shareholders to attract cash investment and people. Each time this happens existing shareholders may find their percentage shareholding reducing unless a shareholder uses pre-emption rights to buy more shares and thereby maintain a percentage shareholding.

<table>
<thead>
<tr>
<th>Illustration of share dilution</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
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<tbody>
<tr>
<td>Shares</td>
<td>%</td>
<td>Shares</td>
<td>%</td>
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<tr>
<td>Founders</td>
<td>40</td>
<td>40</td>
<td>40</td>
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<tr>
<td>University</td>
<td>60</td>
<td>60</td>
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<tr>
<td>Investors</td>
<td>100</td>
<td>50</td>
<td>100</td>
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<tr>
<td>Management</td>
<td>15</td>
<td>6.9</td>
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<tr>
<td>Shares</td>
<td>100</td>
<td>200</td>
<td>215</td>
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<td>%</td>
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5. Raising investment finance

Investors prepared to risk cash on early stage companies seek to generate profits well in excess of their initial outlay. They need high levels of return because they understand that due to the risks involved many of their investments will perform poorly.

Private investors and venture capitalists have investment preferences in terms of sector (e.g. biotechnology or nanotechnology), levels of available funds and methods of working. In particular some investors will expect to be very closely involved in decisions made by the developing company.

Once an investor has indicated their interest in providing funds 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.

Investment is available from a number of sources:

- Grants
- Business Angels
- Seed Capital
- Venture Capital
- Institutional Capital
- Corporate Venturing
- Bank Loans
6. Company formation/completion

Once all the permissions are in place and investment and/or grant funding secured, the company will need to be formed.

The University has a suite of precedent documents that can be used for this purpose.

The company will need to ensure that it has appropriate insurance in place (including directors and officers insurance and where appropriate building and contents insurance; employer's liability insurance; public liability insurance and product liability insurance) and has appointed, where appropriate, legal and financial advisors.