

## Guidance on the Founders Choice™ Trial for Forming Spin-Outs 01/08/2017 – 31/01/2019

Imperial College is conducting an eighteen-month trial called **Founders Choice™**. This is a joint pilot programme with Imperial Innovations that is designed to facilitate Imperial College staff who consider that they are capable of finding the resources, finance and expertise necessary to make a spin-out company successful (with minimum of assistance from Imperial Innovations) by providing staff with the opportunity to pursue such a choice. The objective of the trial pilot programme is to give founding inventors (“founders”) a choice between two routes differentiated by their own involvement; the level of support they wish to receive from Imperial Innovations and the equity distribution. If the founders choose to form a spin-out with basic support from Imperial Innovations, the founders will receive 90-95% spin-out equity at foundation. Further details are described below.

Imperial College’s objective is to encourage more inventors with ideas for new businesses to pursue their ambitions and achieve societal impact with their ideas, a view [supported by Imperial Innovations](#). Founders have the option to participate and select the new pilot programme route during the pilot period (under which the founders drive development and receive the basic level of support from Imperial Innovations) or alternatively to create a spin-out in the current manner with the continuing full support of Imperial Innovations.

**“Founder Driven Route”:** For founders electing to take developmental responsibility with the lower level of ‘**basic support**’, Imperial Innovations will provide less hands-on assistance and will take only 5-10% university founding equity (to be shared equally with Imperial College on equity sale), along with a non-dilution protection on their % equity share up to a pre-agreed level of investment. Each founding team on choosing this route will agree a period of time (typically 6-12 months) to ‘test’ the market to see if customers exist, whether start-up funding can be found and professional management can be attracted. During this time Imperial Innovations will put the marketing of the IP on-hold (known as the “Standstill” period in this pilot) but maintain the patent up to an agreed cost ceiling. Following evidence of successful engagement and interest developed by the founder, the IP will then be exclusively licensed into the new founder driven company on reasonable commercial terms. This is a similar approach to that used by a number of successful US universities (though details may differ) and recognises the continuing maturation of the entrepreneurial ecosystem around Imperial College and London.

**“Jointly Driven Route”:** For founders preferring and electing to take the existing more in-depth level of ‘**enhanced support**’ Imperial Innovations will follow the current model of spin-out formation whereby the founders have the full benefit of the resources, network and expertise of [Imperial Innovations Venture Support Unit](#) in forming the spin-out. Negotiations on the university/founders equity will start at 50:50, as is currently the case and as set out in the College’s IP Policy. In this route, Imperial Innovations will form the company, help find management teams, work with founders to locate and pitch to investors, manage investor negotiations and ‘stay with’ the company during its first couple of years to help it get up and running.

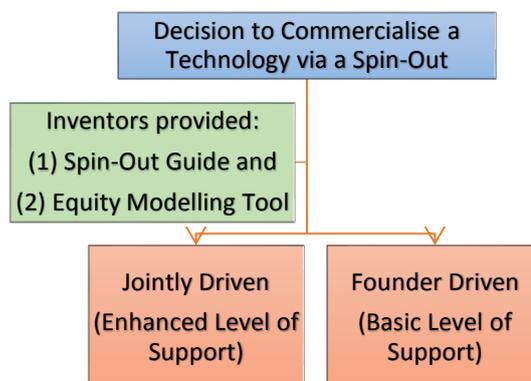
### **The Process for the Founders Choice™ Pilot Programme**

After evaluation of the disclosed technology, Imperial Innovations will discuss, as per the normal technology transfer process, their findings on the technology’s potential application and market evaluation with the inventors, take into account supplemental information provided by the inventors and by mutual agreement decide on the [best way to commercialise](#) the technology for maximal societal impact.

## Spin-out Guidance: Founders Choice™ Pilot Programme

At the point that a decision is made to pursue and form a spin-out company, the founders can choose one of the following two routes: Founder Driven Route or the Jointly Driven Route depending on the level of commitment inventors are prepared and able to make in driving forward the creation of the business and finding its funding and resourcing and the associated level of support they desire from Imperial Innovations on that journey.

Figure 1 is a simple illustration of the decision making process. Imperial Innovations will provide founders with [guidance on the two routes](#) and access to [equity modelling software](#) in order to make an informed decision on the route they wish to take. When a decision has been made the founders and Imperial Innovations sign a [Letter of Understanding](#) (LoU) detailing the agreed level of support opted for, the process and the next steps.



**Figure 1 Founders’ Decision on Spin-Out Route**

### Process Differences between the Jointly Driven and Founder Driven Routes

Table 1 highlights several of the differences between the Jointly Driven and Founder Driven routes.

Steps in Spin-Out Formation	Jointly Driven Spin-Out	Founder Driven Spin-Out
Creation of Shell Company	Imperial Innovations	Founders or Imperial Innovations (decision with founders)
IP “Stand-Still” Letter (defined below)	Not Required	Provided for a fixed period
Support Level from Imperial Innovations (e.g. Business Scoping, Management Team Recruitment and Seed Funding ,	<b>Enhanced Support Level:</b> Imperial Innovations’ Venture Support Unit assist in business establishment & development	<b>Basic Support Level:</b> Basic level of support only with the founders expected to drive business establishment & development, including business planning, management recruitment and hiring advisors.
Finding Investors	Support from Imperial Innovations with finding, pitching to and negotiating with investors. Access to extensive investor network.	Founders to seek, pitch to and select investors.
Touchstone Innovations (no difference between routes)	All Imperial spin-outs will be shown to Touchstone Innovations but founders are under no obligation to accept funding from them	All Imperial spin-outs will be shown to Touchstone Innovations but founders are under no obligation to accept funding from them
Post formation support	Post-formation support from Imperial Innovations during the early years including board seat	Observer and information rights only, no board seat
Imperial Innovations/Imperial College Equity	50% (negotiable) at foundation (dilutable)	5-10% (Non-dilutable)
IP Licence (no difference between routes)	IP licensed to spin-out on arms-length royalty bearing terms	IP licensed to spin-out on arms-length royalty bearing terms

**Table 1 Showing key differences in Jointly Driven and Founder Driven routes**

**Further Details on the Founder Driven/Basic Support Option**

The flowchart outlined in Figure 2 provides a summary of the key stages in founding a spin-out via the Founder Driven Route. Further clarification is also given to the left of the flowchart on certain aspects such as (1) the IP Stand Still Letter, (2) Basic Start-up Support Package and (3) the shell company.

**IP Stand Still Letter (Founder Driven Route)**

The [IP Stand Still letter](#) is principally a commitment from Imperial Innovations confirming that they will maintain the patents (or other registrable IP) for a fixed period (typically 6-12 months) and also not market or engage with any other company that could have an interest in licensing the technology. This commitment has a cost that will be covered by Imperial Innovations up to an agreed ceiling. The costs will be decided on a case by case basis and relate to the maturity and extent of the patent portfolio destined to be licensed to the spin-out.

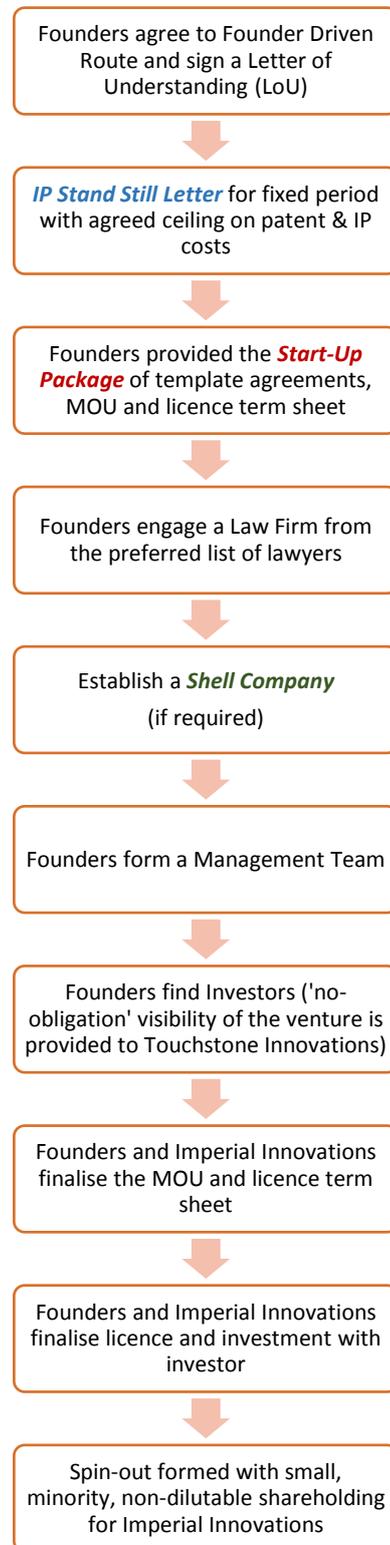
**Start-up Package**

Imperial Innovations will provide the founders with a Basic Start-Up Package containing a set of documents designed to assist the founders in driving forward the business and engaging with potential Investors. It will contain:

- A template [Memorandum of Understanding](#) (MoU) which all parties will need to fill in and sign to show the distribution of equity between founders and that the spin-out process is fully understood
- A suite of company formation template documents (including template corporate and licence agreements)
- An IP licence commercial term sheet bespoke for the technology and giving ranges on equity, non-dilution thresholds and other licence terms (e.g. milestone payments & royalties)
- A [panel of law firms](#) that are familiar with the unique process for forming Imperial College spin-outs
- Advice on activities to avoid if staff founders wish to take advantage of the College’s agreed HMRC approved company formation process (see below).

**Shell Company Formation (Founder Driven Route)**

Imperial Innovations will set-up a shell company for the founders if so requested. Alternatively, founders who wish to set up a shell company for their future spin-out are free to do so but care should be taken by the founders to avoid adding any taxable value.



**Figure 2 Key Stages in Founding of a Spin-out via the Founder Driven/Basic Support option**

### HMRC Inland Revenue Approved Spin-out Formation Process

It is important to note when creating a shell company for any university spin-out that the shell company should be of negligible value until the university licenses the IP. Activities such as receiving investment money, issuing shares to third parties, trading or engaging employees in the shell company should be avoided prior to signing the IP licence as this may bring tax liabilities for the founders. Following the agreed Imperial College and Imperial Innovations protocol will ensure that the Imperial staff founders benefit from the HMRC's researchers' tax safe harbour which provides income tax relief for founders taking equity in university spin-outs. It is not necessary to set up a shell company at an early stage and may be wise to wait until the spin-out is ready to form before incorporating the company so that there are no issues for founders in relation to tax and founders will not need to liquidate the company if investors cannot be found. Founders are advised to seek independent tax advice from a professional advisor.

### Expiry of the IP Stand-still Letter (Founder Driven Route)

The IP Stand-still letter is a key component of the Founder Driven Route as it provides comfort to the founders who are driving the creation of the business and also gives assurance to potential investors that the new company will have exclusive access to well-maintained IP. The agreed fixed period of the Stand-still Letter (typically 6-12 months) can be extended for a limited period by mutual agreement to allow an investor to complete on a funding round.

At the end of the fixed period defined by the IP Stand-still Letter the terms offered to the founders by Imperial Innovations will expire. At this stage, Imperial Innovations will discuss with the inventors the possible next steps in relation to the IP which may involve re-marketing it to potential licensees.

### University Equity Stake in Founder Driven Route Spin-outs

Imperial Innovations holds equity in new spin-outs and shares it with Imperial College upon realisation of those shares into cash. The equity stake in Founder Driven spin-outs will be decided on a case by case basis taking into account the equity due to third parties such as the project funders of the underlying research that gave rise to the IP and the terms and conditions of their awards. For example, spin-outs founded on IP that has been heavily funded by charities are more likely to be at the high end of the 5-10% Imperial Innovations equity stake in order for Imperial College to honour its funders' terms and conditions.

The equity stake held by Imperial Innovations in the Founder Driven Route spin-out will be non-dilutable up to a set threshold of investment (expected to be in the range of £3m to £15m). This non-dilution means that Imperial Innovations' percentage equity stake at foundation must be preserved during the following funding rounds in which investors are given shares in return for investing their money and taking into account any share options set aside during this period. The threshold level of investment is a commercial term, agreed with the spin-out in the formation contracts and may vary between technologies. Once the investment threshold level has been reached Imperial Innovations' equity stake can be diluted with further rounds of investment.

Irrespective of the route and level of support that founders opt for under Founders Choice, Imperial Innovations will always hold the university's equity stake in the venture and will always licence the intellectual property into the new venture on arms-length commercial terms (e.g. milestones and royalties etc.). This enables founders to legitimately describe the company as an "Imperial College spin-out".

In all cases, the university and the academic founders will both receive an equity stake in any companies from or associated with Imperial College. The university's equity stake is held by Imperial Innovations Limited (as Imperial College is a charity and cannot trade). The formation of a spin-out company at Imperial College starts from the premise that the definition of a spin-out is that it is founded upon intellectual property generated by the academic founders working for Imperial College. Note that this is distinct from start-ups which may be created without intellectual property from the College (either existing or future).

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### Head of Department Approval and Imperial College’s Register of External Interests

Staff wishing to create a spin-out via the Founder Driven route should seek approval from their Head of Department as this may have an impact on a member of staff’s capacity to perform their current academic and teaching duties. Such approval is also required by the department for any spin-out to be formed but given the increased commitment by academic founders taking the Founder Driven Route this approval is more pertinent. Approval should be sought via Appendix A of the [Register of External Interests and Annual Declaration Policy](#) which is used for all approvals for taking equity or accepting a position of Directorship in spin-outs. A note should be added to the Appendix A declaration to notify the Head of Department that the Founder Driven route will be used to form the spin-out.

### Imperial College’s Entrepreneurial Ecosystem

Whichever option under Founders Choice academic founders elect, all such founders are free to use the growing entrepreneurial ecosystem at Imperial College to develop their spin-out. Several links to established facilities are listed below:

- [Imperial College Incubator at White City](#)
- [Imperial Enterprise Lab](#)
- [Advanced Hackspace](#)
- [White City Invention Rooms](#)
- [The Entrepreneurship Hub](#)
- [Venture Catalyst Challenge](#)

Please note that under the Founder Driven Route of Founders Choice academics are not ‘opting out’ of the [College’s IP policy](#) nor [opting out of working with the College’s IP commercialisation partner, Imperial Innovations](#). They are simply choosing between the levels of support provided by Imperial Innovations in the commercialisation of the technology which, in turn, affects the level of university equity that Imperial Innovations will hold in the new company.

### Appendix 1: Levels of Support Provided by Imperial Innovations under the Two Founders Choice™ Routes

Activities provided by Imperial Innovations to support spin-out formation during the Founders Choice™ Trial	<b>Enhanced Support</b> (Jointly Driven)	<b>Basic Support</b> (Founder Driven)
<b>Setting the Scene</b>		
1. Communicate potential challenges and rewards for scientific entrepreneurs embarking on an entrepreneurial journey	✓	✓
2. Provide a comprehensive guide to starting a spin-out company at Imperial College plus a mini-guide to Founders Choice™	✓	✓
3. Ensure awareness of the various stakeholders within the Imperial entrepreneurial community and what will be expected in this process	✓	✓
4. Provide initial assessment of potential customers and the size of the market so that all parties reach a common understanding of the key unique selling points (USPs) of the company / value proposition	✓	
<b>Crystallising the founders’ idea into a business (after commercial potential has been established)</b>		
5. Find credible sources of information for detailed customer/market analysis and undertake an iterative process of market and customer evaluation <ul style="list-style-type: none"> <li>• Includes access to the wider Imperial Innovations network including Entrepreneurs in Residence and Technology Venture Partners</li> </ul>	✓	

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6. Brainstorm to help determine the initial target markets, competitive advantage in those markets and the commercial rationale to test with customers	✓	
7. Identify key market metrics and impact on the business proposition	✓	
8. Work on an iterative process of market and customer evaluation and formulate a technology marketing plan	✓	
<b>Planning the business</b>		
9. Build the financial modelling template that will underpin the business plan. This involves identification of input data, main KPIs of the company and cross-checking these with competition and available market data	✓	
10. Help to prepare business plan including interim goals and strategies, formulation of a three-year vision and identification of the resources needed to reach business goals	✓	
11. Provide specific advice on developing an IP strategy for the spin-out from Imperial Innovations in-house patent attorney	✓	
<b>Preparing the company for funding / facing the investor challenge</b>		
12. Support in finding potential sources of grants and assistance in writing bid <ul style="list-style-type: none"> <li>• Imperial Innovations have also built a relationship with an independent company that can provide specialist grant writing support in exchange for a fee</li> </ul>	✓	
13. Help to prepare: <ul style="list-style-type: none"> <li>• Executive summary and public one-pager</li> <li>• Investor presentation deck</li> </ul>	✓	
14. Assistance with preparing and practising the pitch to investors. Usually an iterative process may involve 'friendly' external feedback on the investment deck and pitch	✓	
15. Undertake initial company valuation exercise based on comparable market data, Discounted Cash Flow analysis of future revenues streams and Imperial Innovations experience and feedback from investor network	✓	
16. Prepare a share capitalisation table and model the impact on founders' percentage ownership (dilution) of different investment scenarios	✓	
17. Provide an equity modelling tool to enable founders to see what the effect of different sized future funding rounds and anti-dilute provisions may mean to a founder's shareholding	✓	✓
18. Introducing founders' company proposition to the Touchstone Innovations Venture Investment team (without any obligation on you or them to proceed),	✓	✓
19. Provide 'warm' introductions to appropriate early stage VCs and angel investors from our extensive networks	✓	
<b>Building out the spin-out team</b>		
20. Match you to the right external mentors and domain expert consultants as needed. This support and access to Imperial College's and/or Imperial Innovations networks will continue during the whole spin-out journey	✓	✓
21. Provide low cost external recruitment service for senior leaders and team members. Imperial Innovations have agreed a low cost bespoke service for cash constrained early stage Cos.	✓	

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22. Provide access to network of specialist firms and alternate sources of talent such as new web-based services	✓	
<b>Spin-out process</b>		
23. Provide access to a range of template legal documents (vetted by external legal firms) for the company formation, licencing of IP and investment process – including tax efficient HMRC approved process for academic staff	✓	✓
24. Provide access to a range of template subsidiary documents such as consultancy agreements and non-disclosure agreements as needed	✓	✓
25. Provide plain English explanation of all aspects of the process and what to expect as the company grows and raises further funding <ul style="list-style-type: none"> <li>• Imperial Innovations will be available to discuss all aspects of the process in detail until you are comfortable</li> </ul>	✓	
26. Grant access to a panel of external legal firms who offer a fixed-price package to cover the actual company set-up and licencing process	✓	✓
27. Offer £5,000 convertible loan to cover legal set-up costs	✓	
28. Form the shell company on founders' behalf (if desired for Founder driven route)	✓	✓
29. Offer specialist help to open a bank account	✓	
30. Provide cover under Innovations' Directors & Officers insurance policy at this early stage of the spin-out (subject to equity and funding hurdles)	✓	
31. Provide 'Preferred Suppliers' list of specialist service providers used by our portfolio of spin-outs (wide range of services from manufacturers to designers)	✓	✓
<b>Building Value in the company</b>		
32. Provide a board director offering continued support and access to the wider Innovations network as the company grows and faces commercial challenges. This may include guidance on running and documenting board meetings, regular review of the company strategy and advice on corporate governance	✓	
33. Offer Product/Service development. If needed Imperial Innovations will bring together the commercial experience needed to help founders answer issues and questions from prospective customer & users.	✓	
34. Help founders identify experts and advisors who can advise you on regulatory requirements and help founders to overcome regulatory hurdles.	✓	
35. Provide continuous support in all aspects of successive fund rounds	✓	
36. Co-ordinate Due Diligence. Larger funding rounds will require a data room – Imperial Innovations will help founders outline the documents needed and review those from the prospective Investor to highlight any concerns in advance	✓	
37. Provide support in preparing for an exit (acquisition or float) process including engaging the right advisors and lawyers and working with founders on all aspects of the process	✓	

### Spin-out Guidance: Founders Choice™ Pilot Programme

Wider support		
38. Introduce founders to Imperial College White City Incubator (lab & office space or virtual tenancy)	✓	✓
39. Support founders to find alternative locations if no space available in Imperial White City Incubator	✓	
40. Provide access to a range of training seminars (for example roles and responsibilities of a director) under the Innovation Academy programme and provide access to Imperial community networking events, workshops and seminars with other spin-outs	✓	✓