

SPIN-OUT REVIEW – SO WHAT?

How does this shape the landscape going forward?

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At the end of 2023, we hosted our first Investment Futures event in London, an evolution of our annual Investment Showcase. As well as showcasing start-ups and scale-ups raising investment from across SETsquared’s portfolio, it was an opportunity to collate market insights about the investment landscape for 2024.

Through a series of roundtables, we gathered intelligence on a range of topics critical to the start-up, investment and research commercialisation sectors. The following write-up captures the discussion around the recent Scale-Up Review.

In November, Professor Irene Tracey and Dr Andrew Williamson published their comprehensive report aimed at enhancing the growth of companies emerging from across the UK university ecosystem. [The Spin-Out Review](#), curated between March and October 2023, made 11 pivotal recommendations to bolster the cultivation of university spin-out enterprises whilst also establishing the UK as a globally prominent innovation ecosystem.

“There were no nasty surprises in the recommendations from the Spin-Out Review. Eleven recommendations aired a lot of detail about the spin-out route, but it is a process-driven report. It doesn’t talk about people a lot and ultimately, it’s the people involved that make all the difference.”

Tamsin Mann, PraxisAuril

The roundtable, **led by Tamsin Mann**, Head of Policy and Governance, PraxisAuril, tapped into some of the impacts of the review – the differences it will make to not only the companies spinning out but university teams and investors too. Additionally, the discussions explored how the report’s findings resonate with the investor community and which recommendations may be easiest to action.



What were people's initial thoughts upon the release of the review?

Marty Reid, Executive Director, shared some thoughts from SETsquared's perspective. *"I actually found the review quite refreshing. Of course, there was a bit of hesitation and wariness from universities that find themselves challenged so regularly, and the initial press coverage around the equity element of this report felt quite reductive. However, as the review got going, it actually stimulated a lot of engagement and collaboration between institutions and even investor communities."*

"We had Pro Vice Chancellors asking questions like 'What are your terms?' and 'How are you going to respond to this?', and this really brought us together to form a common statement. The process of this review has certainly helped to nudge us towards transparency and openness as a sector, which hasn't necessarily always been there," he said.

"The report really opened conversation and understanding about the ways we at universities do things. That's almost more important than the details."

...added **Rosalind Darby, Senior Investment and Commercialisation Manager, University of Bristol**. *"It's great that this review is encouraging us to gain a common understanding of where other stakeholders are coming from, and as Marty has highlighted, it's helping us as universities to develop a single voice as one united sector."*

The report made reference to the UK's 'Golden Triangle' - a set of leading universities across Southern England that have been likened to Boston and San Diego for their ability to create world-leading spin-out ecosystems. It recognised that increased government funding in the last two decades had supported this development, with the introduction of the Research Excellence Framework (REF) in 2014 having enabled, in part, the ability to assess HEIs on their commercialisation and research impact performance.

Discussing the perceived mystery behind the spin-out process, **Marty Reid** made the point that *"Tech Transfer departments operate like business units within universities - you have to work to budgets and deliver results, often under a lot of financial pressure. When the element of negotiation is added, which is part and parcel of tech transfer and commercialisation, there is naturally a bit of pressure to protect your terms and do the best you can - that's the nature of deal-making, right?"*

"This review has arguably helped university teams to become more transparent, helping us to build more openness around what market rates are, what's actually happening in spin-out teams and the commercialisation world."

The session also touched on the value of the USIT Guide - a co-developed University Spin-out Investment Terms guide to increase the UK's capacity to turn world-leading university research into successful spin-out companies. The Spin-Out Review suggested that universities, investors, and founders should collaborate to build on USIT guidance to develop a spin-out term sheet, which could simplify and streamline the negotiation process.

Speaking on the guide, **Tamsin Mann added**, *"For inexperienced members of the tech transfer office or even first-time founders, there is often a lot unfamiliar language to wrap your head around. The USIT Guide is tremendously useful for allowing you to get more comfortable with the core terminology used in university settings. But it isn't a one-way street. We also need to work on making sure that investors feel comfortable with the language used in order to take action from the first recommendation of this review to become a success."*

Participants around the table agreed with a secondary point made in response to the suggestion - that developing a spin-out terms sheet would help streamline the negotiation process for all parties.



How can we start making strides towards the recommendations made in the Spin-Out Review?

One key recommendation made in the review was around the interpretation of data and spin-out statistics. “We as universities need to give centralised statistics on spin-outs and licensing agreements,” commented **Paul Devlin, Head of Research Commercialisation and Impact, Cardiff University**. “There’s a recommendation to increase the amount of data on spin-outs so that they can get longitudinal data on failure, success, etc, but I was actually involved in this part of the review, and there were other recommendations we could take action on now.”

“There were discussions on getting entrepreneurial support for all PhD students, encouraging them to consider the spin-out route as a viable and reasonable option. Ultimately, the more PhD students we can expose this route to, the more students might choose to spin-out from their chosen universities.”

Another recommendation was also looking at broader investment and some of the regional needs presented across the UK. Every region across the country should look at unmet needs in their investment landscape and ensure that the work that goes on complements and seeks to address those needs.

Paul Devlin continued *“I’ve worked as a founder. I was a venture capitalist too and now I work in technology transfer, so I’ve lived all three of those lives and actually think that the Spin-Out review was very objective in actually speaking to some of the real challenges that each sector faces.”*

Tamsin Mann added, *“I think there’s an interesting point that wasn’t really raised in this review, on how long universities should feel responsible for the companies they create. In the data that Paul’s just talked about – the data that the sector supplies – you record a spin out at birth, and then you track whether it’s still going three years later. But after that, it’s easy to lose track of those companies – there’s no obligation for universities to submit that data beyond the three-year mark.”*

“What we’re also seeing is a desire to understand more about different sectors: life sciences compared to engineering, which are those more traditional spin-outs, also, some of the social sciences spin-outs that we’re now seeing as well, which are not based on such tangible IP. That focus on data will be helpful in giving us better insight into the growth of those spin-outs across various sectors moving forward.”

When discussing what more can be done to boost the number of academic spin-outs, the conversation turned towards institutional involvement and how academics can raise awareness of the options available to student entrepreneurs. **Paul Devlin suggested** a greater need for PhD level entrepreneurial training for those with innovative ideas and early-stage businesses. By doing so, the creation of an entrepreneurial pipeline would perhaps encourage students to consider the university spin-out route as an attractive and viable option.

This indicates that a cultural shift may be needed amongst institutions – a suggestion which was touched upon within the Spin-Out Review itself. *“A really salient point on this actually comes around the next Research Excellence Framework exercise. It will be interesting to see how that will incorporate commercialisation as an impact factor. That could have quite a transformational effect on research culture within universities.”*

Recommendation five from the Spin-Out Review suggested that Government should increase the amount of funding available for proof-of-concept funds to help researchers gain commercialisation support and access to venture-building programmes prior to spinning out.

“Early Career Researchers (ECRs) are stuck between a rock and a hard place,” said Mark Blair, who works around industry engagement at PD Plus. *“I was at the recent ICUR event in Newcastle, and almost every university team that I spoke to said that the funding was the bit they were missing to get them out of the door.”*



How can we strengthen relationships between the investor and academic communities to drive funding for spin-outs?

ICURe (Innovation to Commercialisation of University Research), funded by Innovate UK, is one of the UK's leading early-stage research pre-accelerator programmes. SETSquared, alongside two other delivery partners have supported more than 500 project teams explore the commercial potential of their university research, with more than 200 of those reaching the spin-out stage through funding, training, and support. Yet despite the scheme's impressive impact statistics, many outside of the university space were unfamiliar with it.

Support for programmes like ICURe could help in dramatically boosting the number of successful spin-outs each year. **Paul Devlin added** that awareness of the Innovate UK-funded programme needed improving, with it offering investors an invaluable first look at some of the promising opportunities emerging from university research.

"We at PD Plus often say that the more funding you put in at the top, the more you're going to get out at the bottom. That is why I think the recommendation for more commercialisation education is a great thing." said **Mark Blair, PD Plus**

Investor, Richard Clarke, added *"One of the concerns that I've had is that I don't think that entrepreneurs and spin-outs spend enough time deciding what investors they actually want. There is often a tendency to just take money from the first person that has a reasonable rate, but I think that the spin-outs that are particularly successful are the ones that have spent the time assessing what investors are out there."*

"If it takes you an extra six months of negotiation to get the right investor, as opposed to jumping in with one that isn't right for you, I think that's six months well spent; personally, however, we have to help our ECRs and founders understand how to identify the right investor for them."

Investors agreed that they would be keen to get involved in distributing proof-of-concept funding. Discussions also touched on the prospect of evaluating the current funding landscape to better align with the evolving needs of spin-out companies. This included potentially adjusting existing frameworks and processes with a view to optimising the allocation of funds and creating a more conducive environment for the development of pipeline companies that could spin-out.

Marty Reid said, *"Hastening the benefit doesn't necessarily add value to the overall system. Development time for these companies can be really valuable, and the earlier delivery of proof-of-concept funding could be hugely beneficial not only to the companies themselves, but the investors and funders too."*





IN SUMMARY

Discussions from the roundtable session reinforced key themes from the Spin-Out Review, emphasising its largely positive and consultative nature. A significant focus emerged on the need for more active engagement between all parties to improve understanding and demystify the spin-out space, with suggestions including greater publication of data and more thorough reporting processes. The conversation also suggested previously unexplored opportunities to start engaging the investor community more directly with university teams, including reverse pitching and the creation of a publicly available database of contacts. The overarching sentiment echoed the understanding that the challenges and opportunities within the spin-out landscape are multifaceted, requiring a collective approach that leverages the strengths and expertise of each involved stakeholder.

To catch-up on all the action from the Investment Futures 24 event, go to SETsquared.co.uk/investment-futures-24