

# The commercialisation of IP

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## Executive summary

**‘UK universities are originators of some of the best novel intellectual property in the world. IP Group plc’s business is to generate commercial value from IP created by its university partners’, proclaims IP Group on its website. Other companies are trying to do much the same thing, amongst them Angle, Sigma Technologies and Biofusion.**

**In these arrangements a university typically gives away 10 to 15% of equity in spinout companies in exchange for help in commercialising IP and access to finance. Before one university took the plunge and signed-up for a 25 year deal it asked us to research the question “Do these arrangements work?”**

We were initially sceptical. Commercialisation is an expensive and time consuming process and the UK’s track record in commercialising IP from universities is hardly encouraging given the resources that have been put in through schemes such as HEIF. Was it really possible that a relatively small commercialisation company (the largest, IP Group lists just 16 staff) could make such a difference?

Our first finding was that these companies answer a need. With few exceptions, university technology transfer offices are short on staff, expertise and funding. They struggle to select the right ventures to back, and if they get this right, then they have too little access to seed funding and other finance to take a venture forward at a commercial pace. Also they lack access to the people who could become the spin out management team. So any offer of

people, expertise and cash is bound to be welcomed.

In exchange for this help, universities typically sign up for a 25 year term to grant up to half their equity in spinouts to the commercialisation company. On the face of it, the universities are selling the family silver. But, as several technology transfer officers told us, their main objective is to see IP originally funded by the public purse gets out into the real world. “We want a financial return, but that’s not our priority” was a typical response.

Furthermore, universities would prefer to have a smaller share of a successful venture than a larger share of a failed venture. The 25 year tie-in sounds drastic, but it is less off-putting when one recognises that commercialisation is a long term game.

The situation looks different from the commercialisation company’s perspective. The business model of these companies is to raise finance on the back of university partnership deals, get access to IP, and get ventures out onto AIM as fast as their barely formed legs will carry them.

IP Group has had some real successes here, with some ventures being floated in less than two years from formation. But here lies the weakness in the whole proposition. So long as AIM is hungry for these types of spin-out company, the business model is secure. But the moment AIM becomes less confident, the timing goes kaput and the cash runs dry. We modelled the effect of a less bullish AIM and found that the business model is acutely sensitive to the time taken to flotation.

In their defence, the commercialisation companies could point out that this would affect the universities anyway, with or without a commercialisation deal. This is true, but it does not absolve the commercialisation companies from having credible plans for such a scenario.

We expected there to be many operational tensions in these relationships. Suppose the commercialisation company and the university disagreed on which ventures to take forward? Suppose the academics didn't want to go along with the arrangements that had been negotiated? We saw no evidence that such problems had occurred. Instead, we found well designed arrangements to help align the interests of universities and commercialisation companies.

Biofusion, which has rights to all Sheffield University's life science IP, is half owned by the university, thus achieving financial alignment. In other cases there are joint commercialisation boards or separate boards with reciprocal representation. In our research we found that universities particularly valued expert, independent investment boards to raise the standard of decision making and incorporate a commercial viewpoint from the start.

In principle there could be a problem if two universities each had spinouts targeting the same market or exploiting similar technologies. The consensus was that, rather than being a problem, this was an opportunity to put IP together from different institutions in order to create stronger propositions.

This, perhaps, gives an insight into where the UK is heading. We can see the emergence of a handful of

commercialisation companies, each one having a portfolio of exclusive relationships with a selection of universities. The scale of such arrangements will confer several advantages. First it will allow one university's IP to be more easily assessed against another's.

Though harsh, such cherry picking may be essential. Second, it will provide a basis for recruiting and retaining specialist commercialisation staff where before it has only been possible to use generalists. Third it will facilitate the creation of less risky seed funds. Finally it will encourage the standardisation of processes and contracts.

The need to negotiate every detail from scratch is a criticism often made by business trying to deal with universities. More certainty should lead to more technology transfer. For smaller universities it may be a way to band together with others to achieve the scale needed to enter into successful commercialisation partnerships.

### Conclusion

Back to the question "Do these arrangements work?" For the universities, the answer is surely "Yes". For investors, the question no-one can answer is how far the process of creating these commercialisation companies will get before market conditions turn down. When it does, the commercialisation companies will struggle to achieve the rapid AIM IPOs which have underpinned their business models.

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