University Policy on Spin-outs

Classification:	Policy
Version number:	1-00
Status:	Approved
Approved by:	University Research and Knowledge Exchange Committee
Approval date:	22 May 2025
Effective from:	23 May 2025
Next review date:	22 May 2028
Document author:	Director of Knowledge Exchange
Document owner:	Pro-Vice-Chancellor (Research and Enterprise)
Contact:	PVC Research and Enterprise Office
Collaborative provision:	Not mandatory

State whether this document is applicable to the University's collaborative partners

Related documents:	Intellectual Property Policy; University Policy on Subsidiaries
University document:	Yes

A University document applies across the institution, is approved by a committee of Council or Senate and is held in the University Policy Directory on SharePoint.

Published location:	University Policy Directory SharePoint; University website

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Version 1-00 of this document was approved by University Research and Knowledge Exchange Committee on 22 May 2025

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This University Spin-outs Policy ensures that the commercialisation of University IP through spin-out companies aligns with both industry best practices and the UK Subsidy Control regime, fostering innovation, fair returns, and societal benefit.

1 Introduction

1.1 The University of Hull recognises the importance of research commercialisation and is committed to supporting the creation of spin-out companies and subsidiaries to facilitate the translation of research outputs into societal and economic impact. The commercialisation of intellectual property (IP) through spin-outs is a key pathway for fostering innovation, creating value, and delivering benefits to society. This policy is designed to provide a clear framework for the creation, management, and support of University spin-out companies in compliance with the recommendations of the Independent Review of University Spin-out Companies.

1.2 The University will ensure compliance with the Subsidy Control Act across its commercialisation activities, including intellectual property management, spin-outs, licensing, and collaborations. It will adhere to principles of fairness, transparency, and proportionality, conducting appropriate assessments to prevent undue advantage and ensure alignment with legal and regulatory requirements. Appropriate due diligence processes will be implemented to monitor and mitigate subsidy risks while supporting effective competition and innovation

1.3 This policy aligns with the University's broader goals of research and knowledge exchange, ensuring that the benefits of university research reach the public while supporting the interests of academics, investors, and other stakeholders.

2 Scope and applicability

2.1 This policy applies to:

a. University staff and students involved in the creation of IP and technology with potential for commercialisation.

b. Spin-out companies established based on University IP.

2.2 It sets out the principles and processes for:

a. Establishing spin-out companies.

b. Allocating equity between founders, the University, and external investors.

c. Managing relationships between stakeholders.

d. Protecting the interests of the University, its staff, students, and external partners.

2.3 Definitions

a. Spin-out Company or Company: A company formed to commercialise IP originating from University research, where the University holds an equity stake or exercises control.

b. Subsidiary: A company owned or controlled by the University, set up to manage business ventures or activities aligned with University objectives.

c. Inventor(s)/Founder(s): Staff or students who create IP or play a significant role in establishing a spin-out company.

d. Equity: Ownership interest in a company, represented by shares.

e. Investment: Financial capital provided to a spin-out for its growth, either by the University or external investors.

f. Fair market value: refers to the price that would be agreed upon between a willing buyer and a willing seller in an open, competitive, and non-distorted market, where both parties act independently and have access to relevant information. This can be established through methods such as independent valuations, benchmarking against comparable market transactions, competitive tendering, or expert assessment, ensuring compliance with subsidy control regulations.

3 Guiding principles for spin-outs

3.1 Ownership of Intellectual Property: IP created by University staff, in the course of their employment, is owned by the University, unless waived or modified. Students own IP they create unless covered by specific agreements (as per the University IP Policy). When IP is used in the creation of a spin-out, the University retains rights to that IP and licenses it to the spin-out, or assigns it in exchange for an equity stake.

3.2 Equity Split:

a. The University will typically take an initial equity stake in spin-out companies in exchange for the use of University IP and any other resources provided (such as facilities, support services, or funding).

b. Default equity split will be 25% University and 75% Inventors, in line with the recommendations of the Independent Review of University Spin-out Companies and the TenU USIT Guide, unless otherwise agreed based on the level of University support and involvement.

c. External investors will negotiate additional equity in subsequent rounds of funding, resulting in dilution of shares for existing shareholders.

d. All equity splits must reflect the contribution of all parties, including continued involvement by founders, IP originators, and any other key stakeholders.

e. Revenue Distribution: Where the University has a financial interest, proceeds from equity sales (e.g., on exit or IPO) will be distributed according to the University's revenue-sharing agreement as outlined in the IP policy, with a focus on equitable distribution reflecting contributions from all stakeholders.

3.3 Support for Spin-outs:

a. The University will seek to provide support to spin-out companies, such as access to resources, mentorship, business advice, and potential seed funding. This support will be managed through the University's Knowledge Exchange directorate.

b. Where substantial University resources are used, additional equity may be assigned to the University to reflect this contribution.

3.4 Inventors' Role: Inventors will typically take active roles in the spin-out company, either as founders, advisors, or board members. Their continued involvement must be balanced with their responsibilities to the University, ensuring any conflicts of interest are managed appropriately.

3.5 External Investment:

a. The University will seek to attract external investment to support the growth of spin-out companies.

b. All investment agreements must comply with the recommendations of the Independent Review of University Spin-out Companies, ensuring that the rights of inventors, the University, and investors are adequately protected.

c. Spin-outs are expected to demonstrate clear pathways to commercial success and meet key performance milestones to unlock further funding.

4 Decision-making process

4.1 Approval for Spin-outs:

a. Proposals for spin-out companies must be submitted to the University's Knowledge Exchange Directorate for review by the University's Intellectual Capital Exploitation (ICE) Panel.

b. A business plan, including market analysis, potential IP protection, proposed equity split, and financial projections, must be provided. The approval of spin-outs will be overseen by the University's Intellectual Capital Exploitation Panel.

c. The University may choose to support the spin out with financial investments or loans as seed funding.

d. The approval of any financial loans and any related terms between the University and a subsidiary company needs to be approved by the Finance & Investments Committee.

e. Spin-outs require formal authorisation from the Vice Chancellor or the University's designated officer.

4.2 Assignment of IP: When the decision is made to commercialise IP through a spin-out, the University will assign or license the IP to the spin-out company in exchange for an agreed equity share. The University will retain an Academic Licence to the IP, allowing continued use for research and teaching.

5 Shareholding

5.1 The University has a number of shareholdings in unquoted companies, which are established from time to time by the University to exploit and commercialise its IP. The University's spin out companies which result from IP are overseen on behalf of the University by *University of Hull Venture Holdings (UoHVH)* and it is UoHVH which is responsible for ensuring that this protocol operates effectively for such spin-outs. UoHVH is a University of Hull wholly owned subsidiary.

5.2 It should be noted that it is a feature of spin-out companies that over time the University's shareholding is often diluted as venture capitalists and similar funders invest money in the company in return for larger shareholdings. To recognise this, where the University's shareholding amounts to more than 25% of the Company's issued share capital (i.e. the University retains the right to block a Special Resolution) the University will endeavour to ensure that any shareholders agreement or Articles of Association contain the following provisions:

a. That within the first year following creation, the Board of the spin-out Company will normally have at least one independent director with knowledge and experience of the business activity (i.e. for this purpose an independent Director is one who is not an employee of the University or their spouse/partner/family member).

b. That the Company will have independent external auditors, appointed through a transparent and fair process.

c. That the Company will provide an annual report on activity to UoHVH and the University Finance Directorate.

d. That, in the event the Company decides to work with an organisation which may conflict with the University's ethical policies or reputation, there is a right for the University to require the other shareholders to acquire its shares for a fair value within the Articles of Association of the Company.

5.3 As well as ensuring this protocol is applied effectively to spin-out companies, UoHVH will be responsible for advising the University as to when amendments to Articles of Association and other governance matters of such companies are appropriate, and to take such factors into account when negotiating the formation of a new company.

5.4 The University is also cognisant of the potential reputational risks which may be inherent in shareholding or membership of the Company and therefore wherever possible the University will seek to ensure similar governance standards are also included in the Articles of Association of any Company Limited by Guarantee.

6 Exit strategy

6.1 Exit Mechanisms: Spin-outs are expected to develop a clear exit strategy, including potential sale, merger, or public offering. The University will work with the spin-out to ensure any exit maximises value for all stakeholders.

6.2 Proceeds from Exit: Proceeds from the sale of University-held equity will be reinvested into University activities, including research, innovation, and support for future spin-outs.

7 Dispute resolution

7.1 In the event of a dispute between the University, Inventors, or other stakeholders regarding spin-out terms or governance, the matter will be referred to the Executive Director of Research, Knowledge Exchange and Commercialisation for informal mediation.

7.2 If a resolution cannot be achieved, the dispute may be escalated to an independent third-party mediator, in accordance with the University's IP Policy and grievance procedures.

8 Review of policy

8.1 This policy will be reviewed every three years or as required by changes in law, University strategy, or sector best practices.

9 Version control

Version	Author	Date approved	Relevant sections
1-00	Director of Knowledge Exchange	22/05/2025	New document