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University spinouts: a British success story

UK universities are world leaders in commercialising their technology. Their cutting-edge innovation and approach to technology transfer means they punch above their weight in producing successful spinout companies. In 2020/21, businesses spun out of the 24 Russell Group universities alone created 33,000 jobs and brought in £4.9bn of investment to towns and cities across the country.

University technology transfer offices (TTOs) are focused on making a positive impact in the world, which is why most do not make a profit. Instead, UK TTOs provide a much wider range of support for fledgling tech businesses than their counterparts in the US. This includes filing patents, helping form business plans, hiring CEOs, negotiating licences, finding investors, and often providing vital proof of concept funding. Given the less well-developed private-sector support for these activities and its lack of early-stage investment, TTO support is vital to high spinout success rates.

The equity stake UK universities take in spinout companies reflects this heightened level of support. Unlike

investors come into a spinout. Importantly, this means British universities typically end up owning comparable shares of a company to their US counterparts.

How are UK universities performing in technology transfer?

Technology transfer is the process of taking an idea and turning it into a real-world product or service. University technology transfer is high-risk as it is dealing with new, often unproven technology. As charities, universities do tech transfer to benefit both society and the economy: TTOs usually do not make a profit.[i]

Instead, successful commercialisation ventures help support further investment in new ventures and continued TTO activity. Without that income, much less funding would be available to invest, leading to a fall in spinout rates or an increase in spinout failure.[ii] **Currently, only one in ten university spinout companies fail, compared to the wider start-up environment where less than half of start-ups succeed.[iii]**

UK universities are world-leading in tech transfer. Their spinouts attracted £2.5bn in equity investment in 2021, up from £1.5bn in the previous year and a five-fold increase on investment in 2012.[iv] UK universities produce a similar number of spinout companies to those in the US per million pounds of research funding.[v] UK universities also attract a higher share of their research income from industrial sources than those in the US. **University commercialisation and tech transfer are a striking British success story.**

Northern Gritstone, focused on university spinouts in the north of England, was launched in July 2021. It was founded by the Universities of Leeds, Manchester and Sheffield to support the commercialisation of science and IP-rich businesses. Many of these opportunities are in the most exciting emerging sectors, like advanced materials, health technology, cognitive computation and AI. By May, Northern Gritstone had raised £215m. It plans to raise £500m overall, with a huge role in supporting innovative growth and levelling up.

What are the main elements of spinout deals?

The parties involved in spinouts academic inventors, company founders, the university and other investors each take shares in it, known as . may depend on individual researchers role in the company, the intellectual property (IP) involved, pre-company formation project-specific investment, and their role in making a spinout possible. A negotiating starting point is not the same as a final agreement.

Appendix: equity dilution in practice

In order to raise new capital, spinouts will go through funding rounds where they issue new shares in exchange for funding. Each time a spinout issues new shares, the share of equity each current owner holds will be reduced as new shares are issued, unless otherwise agreed (which is not usually the case in UK spinout deals).

An example will help to illustrate how this works in practice. This is a real-life example of a spinout from a Russell Group university:

development	What happened at this stage	Equity ownership at the end of this stage
Incorporation (2020)	Company was legally incorporated	Founders (academic and commercial): 75.0% University: 25.0%
Seed funding round (February 2021)		