



# Founders Choice™

A guide to your spinout support options at

Imperial College London

# About Founders Choice™

Founders Choice™ is a pilot programme operated by Imperial Innovations and Imperial College London for 18 months, beginning 1 August 2017.

The entrepreneurial ecosystem at Imperial has grown and evolved over the past two decades. Now there are many academic researchers with experience of forming and building businesses. Others will have a personal network with experience that can support the creation and management of a spinout. Those of you in this group will not require as much support from Imperial Innovations when setting up a new spinout; you will be able to handle most (if not all) aspects of your spinout journey at Imperial yourself.

In cases where you take on most of the responsibility, it makes sense that you should also have a greater share of the founding equity than is currently possible under the standard College Rewards to Inventors policy. Imperial is therefore conducting an eighteen-month trial programme called Founders Choice™. This is a joint pilot programme with Imperial Innovations that is designed to facilitate Imperial College London staff who consider that they are capable of finding the resources, finance and expertise necessary to make a spinout company successful (with minimum of assistance from Imperial Innovations) by providing staff with the opportunity to pursue such a choice.

The two options under Founders Choice™ are the *Founder Driven* route and the *Jointly Driven* route. The *Founder Driven* route receives the *basic support package* from Imperial Innovations and the *Jointly Driven* route receives an *enhanced support package*.

This guide contains useful information to help you decide what level of support is right for you.

To discuss any aspect of the Founders Choice™ programme please contact:

[govind.pindoria@imperialinnovations.co.uk](mailto:govind.pindoria@imperialinnovations.co.uk)

or visit

[www.imperialinnovations.co.uk/founderschoice/](http://www.imperialinnovations.co.uk/founderschoice/)

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# Options under Founders Choice™

## Two options exist for founders of companies at Imperial College London

### The 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 London on equity sale), along with a non-dilution protection on their percentage equity share up to a pre-agreed level of investment from £3m to £15m depending on the nature of the company being formed. The decision on the initial University equity holding and investment threshold will be taken simultaneously and take into consideration a range of factors including the extent to which the IP has been funded by charities, the nature of the technology, the likely time and route to market and other considerations. Each founding team, on choosing this route, will agree a period of time (up to 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 developing maturity of the entrepreneurial ecosystem around Imperial and London as a whole.

### The 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

spinout formation whereby the founders have the full benefit of the resources, network and expertise of Imperial Innovations Venture Support Unit in forming the spinout. 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 identify 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.

### Support

Detailed information on the support you will receive from Imperial Innovations under each option in Founders Choice™ is described later in this document ([page 14](#)).

You should remember that the starting point of the technology transfer process (Invention disclosure, College due diligence and the technology and IP assessment stages) remains unchanged (and you can

find further detail on the College website and in our Founders Guidebook).

You will be able to choose your preferred formation route under Founders Choice™ when we jointly agree that a spinout company is the best route for both commercial and societal impact for a given technology (or bundle of technologies).

Whatever Founders Choice™ option you select, the mechanics of forming the spinout will remain unchanged and Imperial Innovations will always provide a basic level of support including provision of our detailed Founders Guidebook on how to form a spinout at Imperial College London. These details are described in the other material included in the collection of documents you will receive from Imperial Innovations during discussions over spinout company formation.



# The Founders Choice™ Process

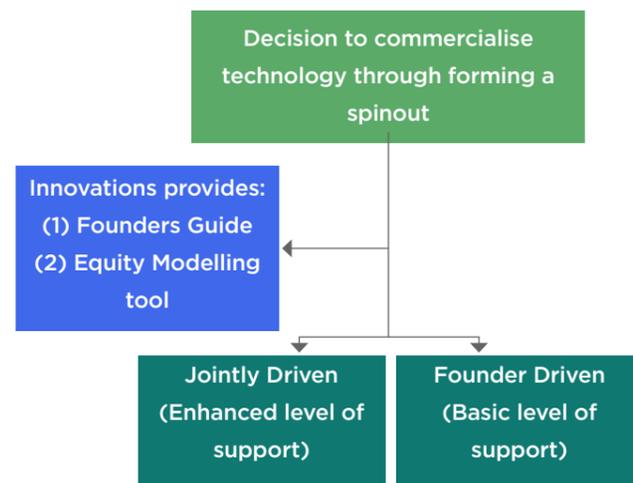
## The process for the Founders Choice™ Pilot Programme

After a disclosed technology has been evaluated, Imperial Innovations will discuss its findings regarding the technology's potential application and market evaluation with the inventors. This is in keeping with the normal technology transfer process. Innovations will also take into account supplemental information provided by the inventors and by mutual agreement decide on the best way to commercialise the technology for maximum societal impact.

When the decision is made to pursue a spinout company, the founders can choose between the [Founder Driven Route](#) or the [Jointly Driven Route](#). This choice will depend upon their commitment and ability to drive forward the creation of the business, taking into account 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 both routes and access to equity modelling software in order that they may make an informed decision on the route they wish to take. When a decision has been made the founders and Imperial Innovations will sign a *Letter of Understanding (LoU)* detailing the agreed level of support, the process and the next steps.

**Figure 1: Founders decision on spinout 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 spinout formation	Jointly driven spinout	Founder driven spinout
<b>Creation of Shell Company</b>	Imperial Innovations	Founders or Imperial Innovations (decision with the founders)
<b>IP "Stand-Still" Letter (defined below)</b>	Not Required	Provided for a fixed period
<b>Support Level from Imperial Innovations (e.g. Business Scoping, Management Team Recruitment and Seed Funding)</b>	<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.
<b>Finding Investors</b>	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.
<b>Touchstone Innovations (no difference between routes)</b>	All Imperial spinouts will be shown to Touchstone Innovations but founders are under no obligation to accept funding from them	
<b>Post formation support</b>	Post-formation support from Imperial Innovations during the early years including board seat	Imperial Innovations has observer and information rights only; no board seat
<b>University Equity (Imperial Innovations/Imperial College London)</b>	50% (negotiable) at foundation (dilutable)	5-10% (Non-dilutable) to a pre-agreed investment amount of between £3 million and £15 million
<b>IP Licence (no difference between routes)</b>	IP licensed to spinout on arms-length royalty bearing terms	

## Forming spinouts at Imperial

Forming spinouts at Imperial is a well-established process covered by various policies available on the College website.

A guide is available to all academics to help you through this process and can be downloaded online:

[www.imperialinnovations.co.uk/founderschoice/](http://www.imperialinnovations.co.uk/founderschoice/)

The Imperial College London 'Inventors Key Information' website contains a wealth of essential information for spinout company founders: <http://www.imperial.ac.uk/research-and-innovation/research-office/ip/inventors-key-information/>

**Other helpful information includes:**

Innovation spaces at Imperial College London: <http://www.imperialinnovations.co.uk/innospace/>

# The Founder Driven route

Because every spinout proposition has its own unique circumstances, such as the characteristics of the technology sector and the obligations Imperial has to the funders of your research, the exact amount of university founding equity that Imperial Innovations takes will be decided on a case-by-case basis. In the *Founder Driven* route of Founders Choice™, it will fall within the range of 5 to 10%. The academic founders of the company will therefore receive between 90% and 95% of the founding equity, to be distributed among themselves.

The university founding equity holding will remain unchanged throughout the initial investment rounds until a cumulative investment threshold is reached. This will also be agreed on a case-by-case basis. As you are managing the growth of the spinout, we will set no restrictions on the terms of any funding round and you may raise one or multiple funding rounds to reach the investment threshold.

The decision on the initial University equity holding and investment threshold will be taken simultaneously and take into consideration a range of factors including the extent to which the IP has been funded by charities, the nature of the technology, the likely time and route to market and other considerations.

The founding team (inventors) will therefore receive between 90% and 95% of the founding equity. Given this dramatic decrease in the university founding equity, it is also expected that any option pool you decide to set aside for incoming management will come from the founders' equity

holding. [Figure 2](#) overleaf compares the increased equity for founders under the Founder Driven route against the Jointly Driven route under Founders Choice™

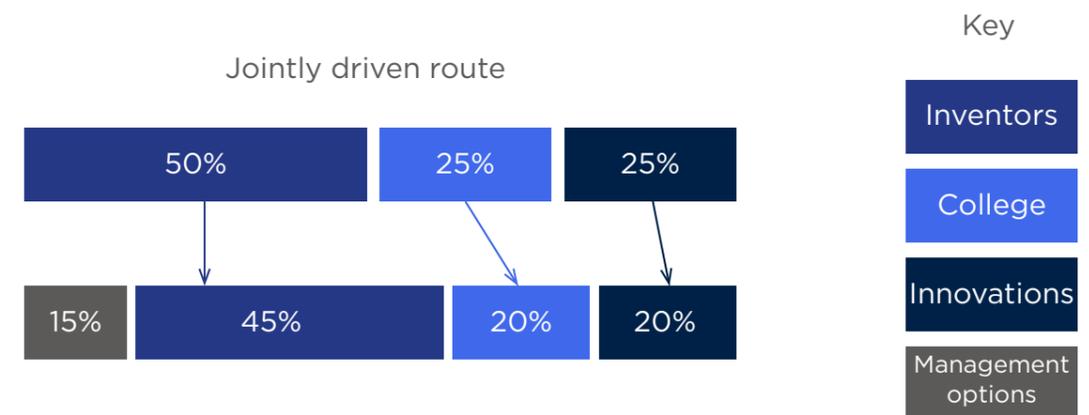
A clause will be added to the Articles of Association of the new spinout, based on standard clauses provided by the British Venture Capital Association that will act to maintain the university founding percentage shareholding at the agreed minimum threshold (accomplished by the issue of the appropriate number of additional shares to Imperial Innovations). This will last only until the cumulative investment in the company reaches the pre-agreed amount and after this point the University equity will be subject to dilution in the same way as other shareholders.

As guidance, our approach to the agreed investment threshold will differ depending on the capital requirements of the new company. For example, with a pharmaceutical company, which may require tens of millions of pounds of investment to progress the technology, we would seek a relatively high initial threshold - say £15m. For a software company, in which the required investment may be relatively low then we would expect to agree a lower hurdle - say £5m. The precise threshold that the non-dilute will be set at will therefore be agreed on a case-by-case basis.

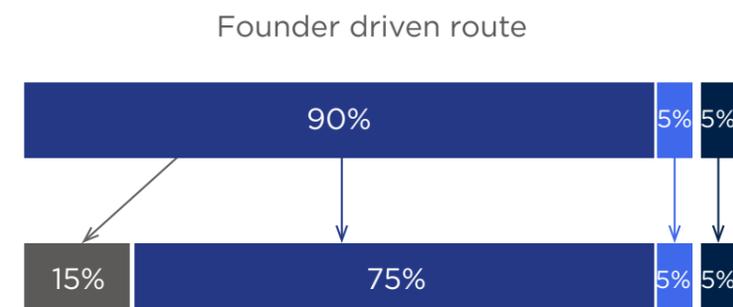
We will provide an equity modelling tool to founders to allow you to do your own scenario analyses of the impact of these investment ranges on your founding equity.

**Figure 2: Suggested initial equity distribution under Founders Choice™**

A 50:50 split between founders and university equity is the starting point and is subject to negotiation on a case by case basis.



Under the *Jointly Driven* route, management options are drawn pro-rata from all equity holders



Under the *Founder Driven* route, management options are drawn from the founders' equity holding.

# Founder driven route (continued)

The flowchart outlined in [Figure 3](#) provides a summary of the key stages in founding a spinout via the Founder Driven Route.

## IP Stand-still Letter

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 (not to exceed £20,000). The costs will be decided on a case-by-case basis and will relate to the maturity and extent of the patent portfolio to be licensed to the spinout.

## Start-up Package

Imperial Innovations will provide the founders opting for the *Founder Driven* route with a Start-Up support package including 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 once the initial activity of the company has been agreed and investment identified. This will show that the distribution of equity between founders and the spinout process is fully understood. It also acts as guidance for Imperial Innovations' lawyers to draft the full legal documents which will be finalised

in association with the founders and any incoming investors.

- 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)
- *Founders Guide: your guide to starting a spinout company at Imperial College London*
- List of a panel of law firms that are familiar with the unique process for forming Imperial College London spinouts
- Advice on activities to avoid if you wish to take advantage of the College's agreed HMRC approved company formation process (see below).

## Shell Company formation (Founder Driven Route Only)

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

## HMRC Inland Revenue Approved Spinout Formation Process.

It is important to note when creating a shell company for any university spinout that the shell company should be of negligible value until the university licenses the IP. Activities such as receiving grant or 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 create tax liabilities for the founders. Following the agreed Imperial College London and Imperial Innovations protocol will ensure that the Imperial staff founders benefit from HMRC's researchers' tax safe harbour which provides income tax relief for founders taking equity in university spinouts. It is not necessary to set up a shell company at an early stage and it may be wise to wait until the spinout 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 Only)

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 assurance to potential investors that the new company will have exclusive access to well-maintained IP. The fixed period (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 next steps in relation to the IP which may involve re-marketing it to potential licensees.

**Figure 3: Key stages in founding of a spinout via the Founder Driven Route**



# The Jointly Driven route

## Figure 4: Key Stages in Founding of a Spinout via the Jointly Driven option

- ↓ Founders agree to *Jointly Driven* Route & to take the enhanced start-up package & sign *Letter of Understanding (LoU)*
- ↓ Founders & Innovations agree the *Memorandum of Understanding (MoU)*
- ↓ Founders select and engage a law firm from preferred supplier list
- ↓ Innovations will establish a shell company at the appropriate time
- ↓ Innovations & founders work with recruitment services to identify management team
- ↓ Innovations & Founders pitch to network of investors ('no-obligation' visibility of the spinout is provided to Touchstone Innovations)
- ↓ Founders & Innovations finalise licence and investment with investor
- Spinout formed with agreed equity position and royalty bearing licence

Under the *Jointly Driven* route of Founders Choice™, you have elected to take the enhanced level of support from Imperial Innovations. This follows the traditional process of spinout formation at Imperial in which negotiations begin with a presumption of an equal split between the academic founders and the University.

For a company without any third-party interests this assumes a starting position to negotiations of a 50:50 equity split between the founders and the University. This is the starting position and is subject to negotiation, taking into account that an option pool will also be created to reward founders taking an active role in the company.

As detailed in the list of enhanced services ([page 14](#)), Imperial Innovations will work with you to crystallise your idea into a commercial business proposition and agree the short and medium term activities the company will undertake (and how it will find funding for them). This together with the agreed equity split and basic corporate governance structure for the spinout will be laid out in the *Memorandum of Understanding (MoU)*.

This MoU acts to ensure that all founders agree on the route forward the equity split. It also acts as guidance for Imperial Innovations' lawyers to draft the full legal documents which will be finalised in association with the founders and any incoming investors.

[Figure 4](#) lays out a simple process flow and more detail is provided in the services list ([page 14](#)).

# Commonalities between the routes

## Getting the College's approval Head of Department Approval and Imperial College's Register of External Interests

Staff wishing to create a spinout 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** spinout 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 spinouts. 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 spinout.

## Equity and the IP licence

Whatever 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 spinout".

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 ultimately held by Touchstone Innovations, Imperial Innovations' parent company (as the College is a charity and cannot trade). The formation of

a spinout company at Imperial starts from the premise that a spinout is defined as a company founded upon intellectual property generated by the academic founders working for Imperial. Note that this is distinct from start-ups which may be created without intellectual property from the College (either existing or future).

## Accessing the College's Entrepreneurial Ecosystem

Whichever option is selected under Founders Choice™, all founders are free to use the growing entrepreneurial ecosystem at Imperial to develop their spinout. Several links to established facilities are listed below:

- Imperial College Incubator at White City  
[www.imperialincubator.com](http://www.imperialincubator.com)
- Imperial Enterprise Lab  
[www.imperialenterpriselab.com](http://www.imperialenterpriselab.com)
- Advanced Hackspace  
[www.imperial.ac.uk/advanced-hackspace/](http://www.imperial.ac.uk/advanced-hackspace/)
- White City Invention Rooms  
[www.imperial.ac.uk/white-city-campus/community/the-invention-rooms/](http://www.imperial.ac.uk/white-city-campus/community/the-invention-rooms/)
- Venture Catalyst Challenge  
[www.imperialenterpriselab.com/index.php/vcc-2017/](http://www.imperialenterpriselab.com/index.php/vcc-2017/)

**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.

# Founders Choice™ support options at a glance

Every spinout journey is unique. Imperial Innovations has formed over 150 companies and has a well developed but increasingly flexible process to suit your needs.

We can guide you on your entrepreneurial journey and we have developed a set of support services that can be adapted to suit your needs and the needs of your project. Whether you choose *Basic* or *Enhanced Support*, Imperial Innovations' Venture Support Unit will provide a named individual from the team who will work with you throughout the assessment and spinout process in order to help you make your journey a success.

Activities provided by Imperial Innovations to support spinout formation during the Founders Choice™ Trial	Enhanced Support (Jointly Driven)	Basic Support (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 spinout 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. Includes access to the wider Imperial Innovations network including Entrepreneurs in Residence and Technology Venture Partners	✓	
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 spinout 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. Imperial Innovations has built a relationship with an independent company that can provide specialist grant writing support in exchange for a fee	✓	
13. Help to prepare executive summary and public one-pager and Investor presentation deck	✓	

Activities provided by Imperial Innovations to support spinout formation during the Founders Choice™ Trial	Enhanced Support (Jointly Driven)	Basic Support (Founder Driven)
14. Assistance with preparing and practising the pitch to investors. Usually an iterative process that 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 non-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 Imperial Innovations' extensive networks	✓	
<b>Building out the spinout team</b>		
21. 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 spinout journey	✓	✓
22. Provide low cost external recruitment service for senior leaders and team members. Imperial Innovations has agreed a low cost bespoke service for cash constrained early stage companies	✓	
23. Provide access to network of specialist firms and alternate sources of talent such as new web-based services	✓	
<b>Spinout process</b>		
24. Provide access to a range of template legal documents (vetted by external legal firms) for the company formation, licensing of IP and investment process - including tax efficient HMRC-approved process for academic staff	✓	✓
25. Provide access to a range of template subsidiary documents such as consultancy agreements and non-disclosure agreements as needed	✓	✓
26. Provide plain English explanation of all aspects of the process and what to expect as the company grows and raises further funding. Imperial Innovations is available to discuss all aspects of the process in detail until you are comfortable	✓	
27. Grant access to a panel of external legal firms who offer a fixed-price package to cover the actual company set-up and licensing process	✓	✓
28. Offer £5,000 convertible loan to cover legal set-up costs	✓	
29. Form the shell company on founders' behalf (if desired for <i>Founder Driven</i> route)	✓	✓

Activities provided by Imperial Innovations to support spinout formation during the Founders Choice™ Trial	Enhanced Support (Jointly Driven)	Basic Support (Founder Driven)
30. Offer specialist help to open a bank account	✓	
31. Provide cover under Imperial Innovations' Directors & Officers insurance policy at this early stage of the spinout (subject to equity and funding hurdles)	✓	
32. Provide 'Preferred Suppliers' list of specialist service providers used by our portfolio of spinouts (wide range of services from manufacturers to designers)	✓	✓
<b>Building value in the company</b>		
33. Provide a board director offering continued support and access to the wider Imperial 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	✓	
34. 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.	✓	
35. Help founders identify experts and advisors who can advise on regulatory requirements and help founders to overcome regulatory hurdles.	✓	
36. Provide continuous support in all aspects of successive funding rounds	✓	
37. 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	✓	
38. Provide support in preparing for an exit (acquisition or IPO) process including engaging the right advisors and lawyers and working with founders on all aspects of the process	✓	
<b>Wider support</b>		
39. Introduce founders to Imperial College White City Incubator (lab & office space or virtual tenancy)	✓	✓
40. Support founders to find alternative locations if no space is available in Imperial White City Incubator	✓	
41. 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 spinouts	✓	✓

# Enhanced Support

## The Enhanced Support Package comprises the following benefits



- Business Planning
- Identifying Management
- Identifying Investment.

### Business Planning

Imperial Innovations will help with the preparation of the business plan, which will provide the basis on which your investors will construct their proposals. Imperial Innovations can assist in deciding how best to structure the new company (debt/equity; shares, share options etc.). Innovations will also provide a wide range of business planning support as described in the services list on [page 14](#).

### Finding Management

Imperial Innovations will work with you in identifying the right set of skills and experience you need to attract into the spinout company to make it a success. You may be the world's leading expert in your area of research but investors in your business will expect it to be led by a team that includes someone with a proven and relevant management experience. Innovations has an extensive network of potential commercial leaders and other team members (some of whom may have successfully led previous Innovations funded companies) and in addition can also provide access to a low cost external recruitment service for senior leaders and team members. Also in the very early stages you may neither need nor be able to afford full-time senior managers in specialist fields such as marketing, finance or regulatory processes; but you will require access to that sort of knowledge if

your business is to be credible and successful and Innovations can help find this specialist advice via its network.

### Finding Funding or Investment

Imperial Innovations can assist in identifying sources of investment finance through making an introduction to Touchstone Innovations plc (in which the College owns shares) and introductions to Imperial Innovations' early-stage investment network and other contacts. The early-stage investment network is a group of private investors (often called 'business angels') and venture capital companies with a keen interest in investing in university spinout companies. It is not uncommon for business angels to take an active role in their investee companies that can bolster the spinout team. Investment opportunities are presented to members through direct mailings, meetings and formal presentation events held throughout the year.

### Loan

Imperial Innovations will provide initial working capital funding of £5,000 in the form of an interest-bearing loan with terms that include conversion at a 20% discount to the next equity round investment.

# Supplementary information

Further information that may inform your decisions about Founders Choice™

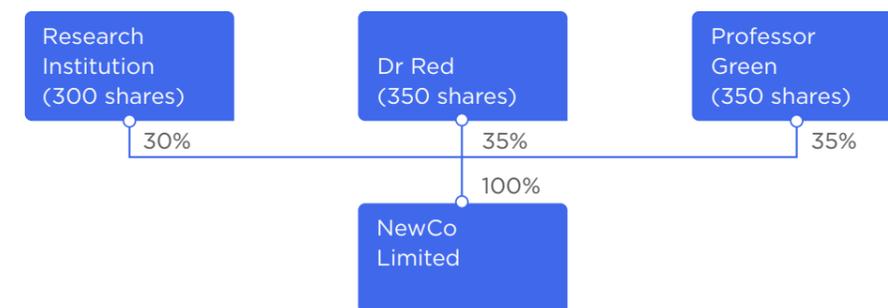
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- Understanding non-dilution
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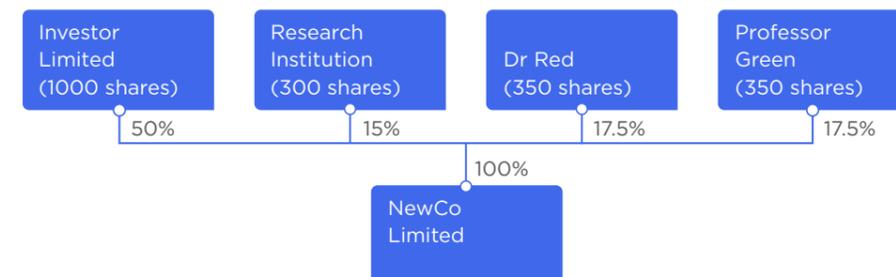
# Shares & the effect of dilution

## Reduction in Percentage Shareholding (Dilution)

The main effect of new investors becoming shareholders is that new shares will be issued to them which will dilute the percentage holding of the original shareholders, including yourself. For example, if 1000 shares are in issue of which you hold 350, you will own 35% of the company. If a further 1000 shares are issued to new investors, you will hold 350 shares out of 2000 shares in issue - so you will own only 17.5% of the company. The original position is shown in the figure below:



If a new investor, Investor Limited, wishes to acquire 1000 new shares in Newco, the new shareholdings will be as follows:



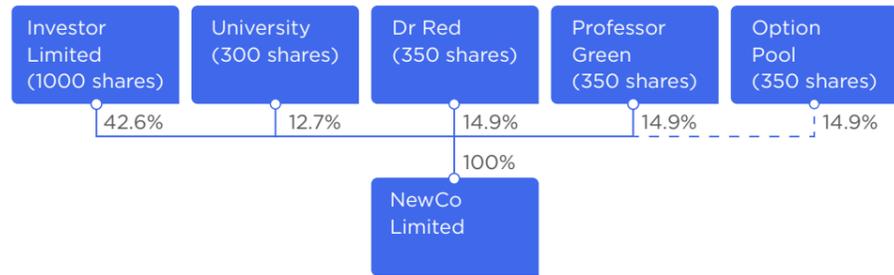
In other words, the percentage shareholdings of the original shareholders will also have gone down. Their holding has been diluted. The question for the original shareholders, however, is what benefits the new investment will bring in return for them accepting a dilution of their shareholdings. Will the investment, for example, provide the injection of funds which the company needs to take the next step in its development?

You must also remember that the company may require a number of rounds of further financing in order for it to develop and grow until it reaches the stage where an exit can be contemplated. These rounds are classed by letter, i.e. "Seed" round, "A" round, "B" round, "C" round etc. This simply means the various stages reached, i.e. first round, second round, third round etc. as the spinout progresses and achieves its predetermined targets.

Typically the size of funding is larger at each subsequent round and the shares issued for these rounds may carry different rights. Such further rounds of financing will inevitably lead to further dilution.

It is good practice to reserve a certain number or percentage of shares for key people who are yet to join the spinout, who will help drive it towards success. An equivalent to about 15% of the issued shares of the company is commonplace. This is called an “option pool” and when the shares which have nominally been allocated to such a pool are allotted it too will lead to dilution

If Newco wishes to allocate 350 new shares to an option pool (to create the equivalent of 15%), then the new shareholdings, once those shares have been issued, will be as follows:

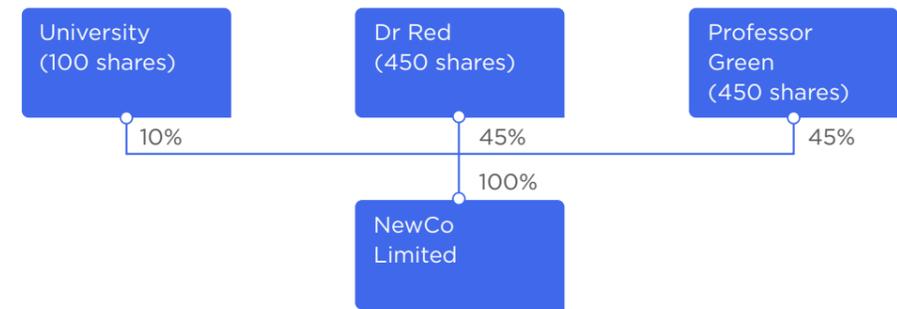


Though it may seem that dilution should be avoided in order to protect your interests, ultimately it is more worthwhile to have a small percentage shareholding in a large company than a very large percentage shareholding in a small company. Five per cent of a £100 million exit is worth more than 33 per cent of a £10 million exit, after all. Given that for almost all technology companies, outside funds are required to grow and develop the business, resisting further investment in order to protect your shareholding may result in you having a large holding in a company that cannot reach its potential.

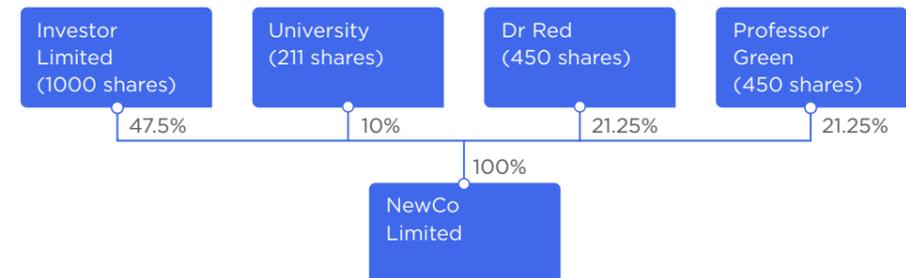
# Understanding non-dilution

Non-dilution provisions protect the shares from dilution effects up until certain conditions are reached. If you choose the basic support option under Founders Choice™, the non-dilution clause will be removed once a certain level of cumulative investment is received by the company.

In the following example, we assume a 10% non-dilutable equity stake is taken by the University and the cumulative investment threshold is set at £10,000. If the founding share capital of the company is divided into 1000 ordinary shares and 100 non-dilutable shares are issued to the University, 450 ordinary shares are issued to Dr Red and 450 ordinary shares are issued to Professor Green, the ownership of the company will be as follows:



If a new investor, Investor Limited, wishes to acquire 1000 new shares at £10 a share (for a total investment of £10,000) then Newco Limited will issue 1000 new shares to the investor. It will also issue 111 new shares to the University in order to keep its stake at 10%. The total number of shares in issue for NewCo Limited will therefore be 2,111.



As the cumulative funding threshold has been reached, the non-dilution provision falls away and University shares will be diluted the same way as others at the following investment rounds.

**Please note:** non-dilution provisions are distinct from anti-dilution provisions, which you may also be familiar with. Unlike non-dilution provisions, anti-dilution provisions protect against future financing when the value of the company decreases (also referred to as a down-round). Anti-dilution ensures that equity stakes do not drop below a certain fixed percentage by adjusting the share price agreed at previous financing rounds. More information is available in Imperial Innovations’ Founders Guidebook.

# Imperial Innovations Venture Support Unit

The Venture Support Unit (VSU) is Imperial Innovations' dedicated company formation and support team. Working exclusively with Imperial staff, VSU can accompany you on your journey to becoming an entrepreneur.

We ascribe particular importance to the steps that founders take before they form a company. This planning and research stage is integral to the success of high-technology spinouts. Our expert team will support Imperial entrepreneurs to conduct market research, identify and interview customers, and establish the company value proposition.

Our team can inform and advise you and your business throughout its growth, from pre-formation to growth and fundraising.

The VSU is at the centre of a wide network connecting entrepreneurs, talent, established business, mentors, and business angels.

The Venture Support Unit website contains further information on the Imperial spinout process, services offered, spinouts, resources, information on training and a guide on what to expect throughout the entrepreneurial journey.

[www.imperialinnovations.co.uk/venture-support/](http://www.imperialinnovations.co.uk/venture-support/)

# Venture Support Unit Team



## **Govind Pindoria**

Govind leads the Venture Support Unit and during his time at Innovations has led the formation of over 35 companies and is on the board of number of these companies. In the last few years he has led the sale of three Imperial spinouts to companies including Google, Evonik and Oxford University Press.

Prior to Innovations, Govind was the European Director of Technology for a US semiconductor equipment company (Novellus Systems now Lam Research) where he led a European team responsible for the introduction of new technology. In his early career Govind was a scientist at the Cavendish labs in Cambridge University and in Japan. Govind has a BSc in Chemical Physics from University of Sussex, PhD in Semiconductor Physics from University of Warwick and an MBA from Imperial College Business School.

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# Venture Support Unit Team



## **Graham Hewson**

Graham Hewson has managed the Imperial College Incubator since 2010 currently heads Imperial White City Incubator, supporting deep science SMEs. Graham regularly introduces Entrepreneurs to beneficial connections to help companies survive and develop. Examples include introducing founders who have been in dispute to IP Lawyers as well as creating bespoke workshops for Incubator clients on a range of topics.

Previously he managed a digital media Incubator in Tech City. He is a current director of the United Kingdom Science Park association.

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## **James Sheppard**

James joined Innovations as the Marketing & Community Manager for the Imperial Incubator. The Imperial Incubator is a hub for innovation and entrepreneurship, providing office and laboratory space for early-stage companies including many spinouts from Imperial College London. James is responsible for connecting companies to the external eco-system including investors, suppliers, corporate partners and customers. James manages the Venture Support Unit supplier list which aims to provide our spin outs with high quality partners to help them grow and develop. James manages a programme of training and opportunities to engage with innovators hosted out of the Imperial White City Incubator. These provide the perfect opportunity for entrepreneurs to engage with like-minded individuals for the benefit of their project.

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## **Julie Gimenez**

As Venture Support Unit Executive, Julie supports entrepreneurial individuals, both staff and students, at all stages of the start-up journey from idea inception to post company formation. Before joining Innovations, Julie worked as an independent consultant for a boutique technology investment fund and an M&A advisory firm, where she was responsible for technology assessment, business plan evaluation, fundraising as well as strategic advisory projects, working with entrepreneurs in the fields of Telecommunications, Big Data, Internet of Things and Clean Technologies.

She started her career in the Energy sector at EDF as a Market Analyst and then joined Smarter Grid Solutions, a spin-out from Strathclyde University to help the company grow through European expansion.

She holds an MSc in Computational Mechanics from the Ecole Normale Supérieure in Cachan and an MBA from the Collège des Ingénieurs, Paris  
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# Founders Choice™

Imperial Innovations' mission is to help increase the number of Imperial technologies making an impact on society. Founders Choice is designed to give Imperial inventors greater freedom to take advantage of the Imperial entrepreneurial ecosystem and to take their ideas forward themselves if they feel capable. This guide contains the information you need to know about Founders Choice™, and how you can participate.