

# University Spin-offs

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# Agenda

1. Public project funding
2. IP rights management
3. Public spin-off funding
4. The role of the university
5. Spinning off
6. Public startup funding

# 1. Public Project Funding

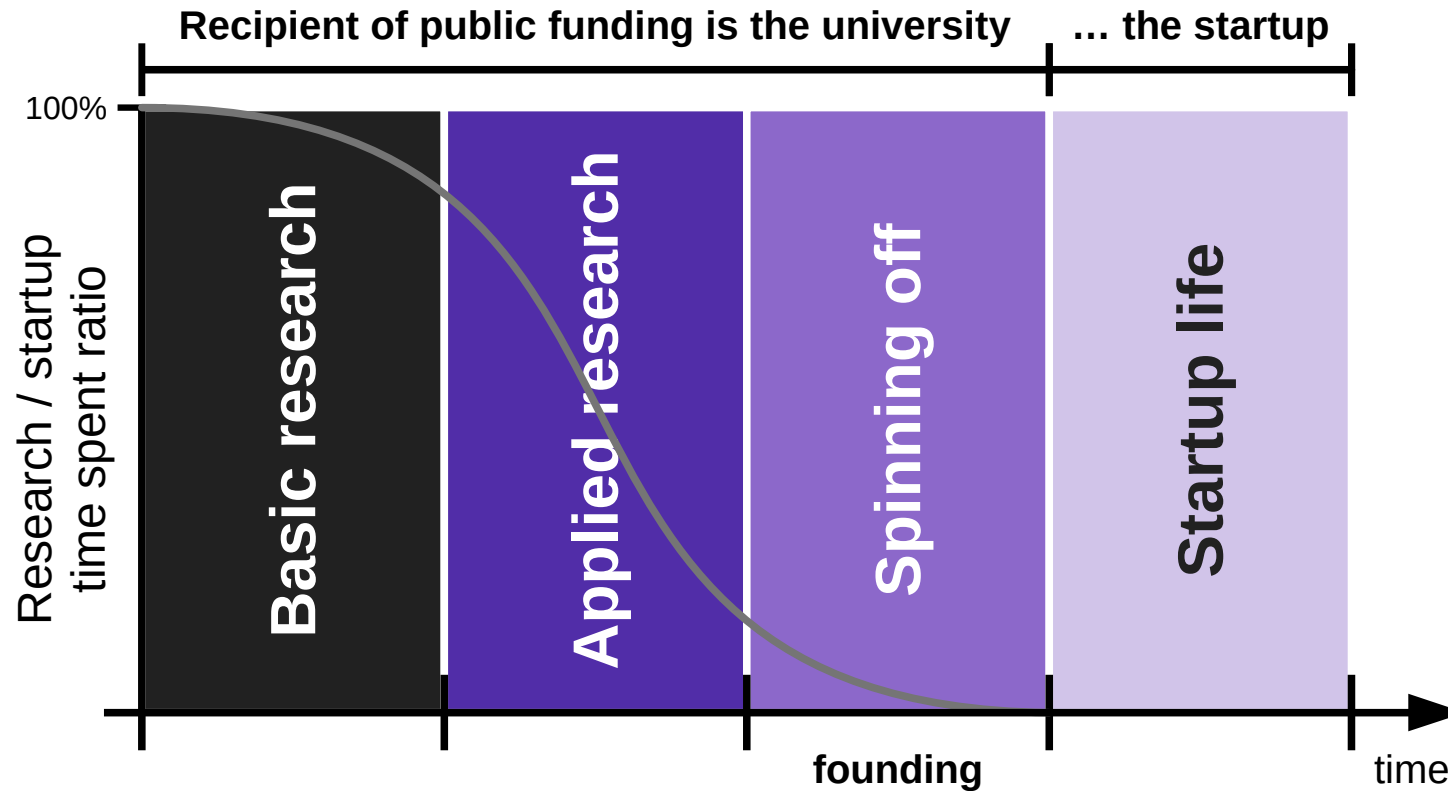
# Types of Public Funds

- **Public project funding**
  - Is always a gift (no loss of equity)
- Public loans
  - Are usually complements to commercial loans by banks
- Public venture capital
  - Is also always complementary to commercial venture capital

# Forms of Public Project Funding

- Grants to university
  - Basic research funding
  - Applied research funding
  - Spin-off funding
- Grants to startup
  - Direct startup funding
  - Pre-competitive research

# Phases of Public Project Funding



# Phases, Funders, and Programs

#	Phase	Program	# Persons	Amount [PM p. P.]
1	Basic research	DFG, ERC	1-3 (up to 6)	36
2	Applied research	BMWi (various), EU H2020	1-4	18-36
3	Spinning off	EXIST Forschungstransfer	3-4	18
4	Starting up	EXIST II	3-4	6
5	...	KMU Innovativ	...	12-24

## 2. IP Rights Management



# Who Holds Which Rights?

Degree Program			
	Bachelor or Master	Student in class / thesis	Student helper (WiHi)
	Doctoral	Doctoral student	Research fellow (WiMi)
		The individual	The university

Copyright Ownership

# Bachelor and Master Students

- In student role, students
  - Own the rights to anything they do voluntarily and for free, including
    - Course work, final theses, volunteer (outside) work
- In party-to-a-contract role, students
  - Can transfer IP rights to university if compensated for it
    - Student job, work made for hire (German: “Dienstvertrag”)
    - Work contract (German: “Werkvertrag”)

# Research Fellows / Ph.D. Students

- In Ph.D. student role, they
  - Own the rights to what they do if
    - The professor gave them time off from project work
    - It falls within the scope of their dissertation topic
- In employees of the university role, they
  - Transfers the IP rights to the employer (the university)
  - German Urheberrecht stays with research fellow, but is inconsequential

- In Germany, owns their work, even if paid

# Ensuring a Clean Intellectual Property Situation

- Acquire IP rights in advance
  - Paid work (see before)
  - Contributor agreement
- Acquire IP rights after the fact
  - Letter of forfeiture
  - Sales contract
- Document no IP rights claimed
  - Confirmation letter

### **3. Public Spin-off Funding**

# Spinning Off

- Follows the basic and applied research phase
- In which you turn the research project into a product
- **Takes place at university and can be funded there**

# Funding for Spinning Off

- EXIST Forschungstransfer (BMWi) funds
  - Up to four people for 18 months
  - Materials, for example, hardware, software, services
- The process of EXIST Forschungstransfer
  - Apply with business plan, get invited
  - Pitch to jury
- How to win the grant
  - Convince as a team (at least 3 people)
  - Convince with business idea



# Founding the Startup

- Needs to happen during the spinning-off phase
- At this stage, all IP is still owned by the university

## 4. The Role of the University

# Transfer of Intellectual Property

- For the startup to proceed, it needs to acquire the IP rights from the university
- **What the university can offer**
  - Exclusive rights to closed source
  - Non-exclusive rights to open source
  - Rights to other intellectual property
- **What the university may ask for**
  - Lump-sum payment (unlikely)
  - Incremental conditional payments
  - Share of founders' equity
- Commensurate with the (as assessed) value of the intellectual property

# Valuation of Intellectual Property (to Transfer)

- Pricing strategies
  - By assumed value (using outside assessor)
  - By labor spent on it (counting person months)
  - By lines of relevant code (pricing by line of code)

# Incremental Conditional Payments

- Structure total payment into sequence of payments
  - Dependent on external events (revenue, profits, acquisition)
  - Until total value is reached

# Share of Founders' Equity

- The University may ask for founders' equity
  - A request for equity is possible, not always likely
    - Holding an equity stake requires attention, adds complexity
  - If it takes equity, it is still unlikely to play an active role
    - It may want a board seat though in the beginning
- No good formula for amount of equity
  - If only code, in the low one digits (2-5% of total equity)

## 5. Spinning Off

# Steps for Spinning Off

- Found company
- Transfer IP rights
- Build out product
- Acquire funding



## 6. Public Startup Funding

# Types of Public Startup Funding

- Startup funding
  - Dedicated to helping startups off the ground
- Project funding
  - Dedicated to support risky undertakings

# Summary

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# Thank you! Questions?

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