SCALE FRAMEWORK

Spinout, Commercialisation and Licensing Essentials

Contents

Purpose and Scope

Spinout companies are startups built on intellectual property (IP) generated through University research. They are a primary mechanism by which publicly funded science reaches the market.

The United Kingdom ranks among the world's leading research nations. Universities generate technology that reshapes industries and, when translated and funded, produces the sovereign capabilities that underpin long-term economic competitiveness. That potential is realised when research moves from the lab into commercial reality, in the form of funded companies that can develop and deploy it.

The goal is a UK where productive spinout ecosystems exist around every research institution and where universities actively shape the entrepreneurial ecosystem as the norm.

At present, the process of licensing research & innovation into a spinout Company is slow, arduous and at times inconsistent. Real progress has been made toward common guidance. Nevertheless, the UK spinout ecosystem is only just moving towards convergence on a shared standard: one that gives founders a clear reference point, gives investors structures they recognise, and allows TTOs to close transactions in weeks rather than months or years.

This framework is a practical response to that gap. It sets out the terms on which University IP could be licensed into a spinout, explains the reasoning behind each decision, and provides a ready-to-use Licence that any party in the UK can adopt. The aim is to get to good deals faster: deals that give founders a workable starting position, the University a fair long-term return, investors a structure they recognise, and most importantly, a healthy Company structure set for scale.

When spinouts succeed commercially and founders generate significant returns, that is the outcome the whole system should be designed to produce. The returns flow back: through tax, employment, follow-on investment, and the signal to the next generation of researchers that building a company from their work is worth attempting. For the UK to capture that value, it must be able to support these companies from incorporation through to long-term growth.

The SCALE Framework and Licence aim to provide a clear, investor-compatible and University-ready Licence for licensing intellectual property (IP) into newly formed spinout companies in the UK. It is designed to:

- Reduce negotiation time and friction
- Align incentives between universities, founders and investors
- Improve investor readiness and remove structural barriers that can prevent good companies from getting funded
- Create momentum in the UK spinout ecosystem, with transparent benchmarking for any given deal to be compared
- Promote spinout quality & speed

The SCALE Framework reflects startup growth-aligned structures observed in leading UK and US spinout ecosystems.

Guiding Principles

A University spinout licence should be simple enough to understand quickly, fair enough that no party has reason to walk away and structured in a way that gives the Company the best possible chance of reaching scale. The SCALE Framework is built on five principles:

1. Be simple and transparent
2. Preserve founder and investor incentives
3. Avoid structural barriers to fundraising
4. Provide fair long-term participation for the University
5. Support scalable company growth

Both the Framework and Licence are grounded in real spinout practice. The terms reflect real balanced deals when founders, Universities and investors are working towards the common vision of a successful and scalable venture. It is a ready-to-use Licence document - that can be adopted as written, with commercial variables completed, and sets out a founding structure that gives the Company a credible path to investment.

The Framework that accompanies the Licence explains the concepts behind each term and walks through the spinout negotiation process in practical terms. It also introduces the *Deal Dial*: a way of thinking about licence negotiations that does not look at independent clauses as items to be won or lost, but instead describes a value matrix where movement on one term should prompt movement on another. This gives all parties a shared language for negotiation and a clearer route to a deal that holds.

Introduction: From Lab to Company

University research produces some of the most impactful technology in the world. Getting it out of the lab and into a company that can develop and deploy it, is a different skill set entirely - and a process that, for most founders, is opaque until they are already in it.

This section covers the stages every UK University spinout goes through before a licence agreement is signed: disclosing your IP and engaging the technology transfer office (TTO), preparing to spin out, incorporating the Company, and entering formal negotiations.

Tech Transfer: What It Is and What to Expect

If your research was conducted using University resources (lab equipment, University funding, or time allocated under your employment or studentship) the University will have rights to the intellectual property. This applies even where the work is entirely funded by an external body such as EPSRC, UKRI or a corporate partner. The source of funding does not determine ownership; the conditions of the research relationship do. Much of the TTO's work involves mapping those rights: understanding which IP arose from which activity and on what terms.

The first step is disclosure. Universities often encourage researchers to notify their TTO of any potentially commercialisable discovery before it is published, presented or shared externally.

These invention disclosures give the TTO the opportunity to assess patentability before the work enters the public domain.

Patents are one tool among several. Publication does not end the commercialisation conversation, but it can change the protection strategy. Trade secrets, know-how, copyright and first-mover advantage all are available, and many successful spinouts are built on a combination. The right approach depends on the technology, the market and the competitive landscape - the TTO can help assess that.

Before committing to a full application, some TTOs will test commercial interest more broadly. This is not a signal that the University intends to license elsewhere; it is a check that real market demand exists before significant legal spend is committed. Once a patent exists, there are several routes to commercialisation. Not every patent leads to a spinout, and not every spinout requires a patent filed specifically for it.

Preparing to Spin Out

Prior to formal negotiations, the TTO and founders should work together to stress test the commercial thesis. In practice, this means presenting the idea to industry experts, potential advisors and investors. This process can begin before an investment term sheet is in place and provides valuable market insight relevant to the spinout's target sector. The aim of this phase is to avoid committing significant time and resource to building a product without validated market demand.

A common concern at this stage is that sharing information may expose the invention. But most of what needs to be validated cannot be validated in private. In practice, the goal is to share enough to get meaningful feedback while keeping core technical detail appropriately protected until the right safeguards are in place. Commercial validation is crucial and it should not be avoided due to fear. Some core secrets need to be kept, but an understanding of the why, how and what you want to do needs to be communicated and validated.

Every University runs its own approval process for spinouts. This typically involves sign-off from within the TTO, and often from academic faculties or dedicated committees. The seniority of decision makers, what they prioritise, and how long the process takes will vary by institution. Aim to know who will lead negotiations on the University side before you enter the room; their experience, incentives and recent deal history are essential information. Founders who take the time to understand that process before entering it, including speaking to others who have been through it at the same University, are better placed to navigate it efficiently. Come prepared with a business plan or pitch: not a finished investor deck, but enough to show you understand the market, how the Company will be structured, and how the IP translates into something someone will pay for.

Incorporation: The Easy Bit

Incorporating a private limited company in the UK with Companies House takes a single day and for a nominal fee. The Company will need to exist before the Licence Agreement is signed, since it is the Company (not the founders individually) that becomes the Licensee.

There is no obligation to wait for the University to incorporate on your behalf. If you do incorporate early, you will need to think about the initial share structure. The right structure depends on your anticipated cap table, and getting this wrong creates administrative work later. Some grant timelines also begin at the point of incorporation, so the timing decision is worth a conversation with your TTO and an adviser before you file.

Founding Equity

Invention and execution are different things. The founder who leaves a stable University position, takes no salary, and builds the Company day-to-day is taking a much higher risk than the academic who contributed IP but remains in their post. Investors pay attention to this distinction, and a working CEO holding similar or less equity than a non-executive inventor will raise questions in every funding conversation. Contribution and commitment need to drive allocation: operational founders should hold the majority, academic contributors who provide ongoing support deserve recognition as a minority, and inventors not actively involved in building the Company should be acknowledged and then largely stepped back from the equity story. Getting this right at formation allows the cap table to tell a coherent story to everyone.

What the Negotiations Produce

Formal negotiations with the TTO produce a suite of founding documents that together define the Company's legal and commercial starting position – this includes, but is not limited to, a Shareholder's Agreement, Articles of Association, and Licence Agreement.

The Licence Agreement is the legal instrument which defines the terms with which your company the right to use, develop and commercialise the relevant IP: payment and royalty structures, sublicensing terms, patent cost responsibilities, governance rights and termination conditions. The negotiation of Licence terms can typically be the most challenging stage of spinout formation and is the primary focus of the standards set out in this Framework.

The Deal Dial

Licence negotiations are not a list of independent wins and losses. Every term has a price, and the total deal can be structured in multiple ways to reach the same outcome. Move one lever, and others should move too. This is the basis of trade-off negotiation, and it is what we call *dial thinking*.

Low equity / unfriendly licence | Balanced equity position & licence | High equity / minimal licence

On the left-hand side of the dial: lower equity (say 5%), with royalties, patent cost reimbursement, and high sublicensing. On the right-hand side: higher equity (say 15%), and no other payments elsewhere. The left side of the dial provides a near term recovery for incurred costs but more limited long-term upside. Whereas, by taking the right-hand side approach the University bets on a long-term benefit from the Company's success, with higher associated risk. Every single term in the licence agreement should not be treated in isolation, but the negotiation should be treated as give-and-take to result in a balanced deal. By taking this approach the value exchanged during the negotiation should make sense for the founders and the University.

Universities will be granted equity in the Company in the form of ordinary (common) shares. The majority of UK universities fall in the range of 5-20% equity at incorporation, depending on sector (i.e. software vs deep tech / life sciences).

From the investors' perspective, University equity stakes above 10% can generally be seen as unfavourable. Equity is a forward-looking incentive: it rewards those who will continue to create value in the Company over time. Investors and founders want as much of the cap table as possible held by the people who will build the business - continuing to develop the technology, winning customers, hiring the team, raising the next round and contributing to the active growth of the venture.

Term	SCALE Licence	Market Range
Founding Equity	5% non-dilute to £5M	5-20% depending on TTO
Annual Licence Fee	£50,000 (5 × £10k; deferred to Qualified Financing)	£10k-£100k
Net Sales Royalty	1% flat after £10M; cap at £10M total	1-5% (varies; few use thresholds)
Net Receipts Royalty	10% declining to 1% by year 9	10-25% flat
Royalty Cap	£10M cumulative	Rare; not standard
Assignment Trigger	Automatic at £25M raised / IPO / trade sale / 12mo EBITDA profit / Royalty Cap reached	Negotiated at exit

Negotiation

The best spinout negotiations start with a set of principles. These processes can and have been arduous, lengthy, inconsistent; and the result is that companies which should be building are instead waiting, and deals that should take weeks stretch into months or years. This framework exists to bridge that gap, to move quicker into building and scaling. When both sides come to the table with a shared reference point, the number of open issues shrinks, the process moves faster, and the energy that would have gone into negotiation goes into building the Company instead.

So before you push back on a single clause, understand what the TTO actually needs from this deal right now. TTOs are not monolithic, their priorities shift. An office focused on long-

term value creation (for instance, if just seen a liquidity event) will weigh equity participation differently from one under pressure to demonstrate near-term returns. One that has spent heavily on patent prosecution will be looking to recover that investment; one that hasn't will have more flexibility. These dynamics shift the whole conversation, and most founders walk in without asking.

Three things worth establishing before you negotiate:

1. **What does success look like for the University TTO?** Priorities vary across institutions and change over time. A shared understanding of what each side needs from the deal makes it far easier to find terms that work for both.
2. **What has been agreed before?** Recent deals at the same institution, in the same technology category, provide the most relevant benchmark for has been achievable and where priorities lie.
3. **What has been invested so far?** Patent prosecution, legal fees and commercialisation support represent real costs. Understanding the scale of that investment helps both sides have a grounded conversation about fees and cost recovery.

A fair negotiation is not one where every point goes your way. It's one where both sides can explain to their stakeholders why the deal makes sense. Keep that framing front of mind - and keep the *Deal Dial* close.

Principles Behind SCALE

The UK has world-class research, an active investor community, and University TTOs with the expertise to bridge the two. What our SCALE Framework adds is a common foundation: a set of terms that all parties can arrive at quickly, that holds up to investor scrutiny, and that gives the resulting company the best possible start for a credible path to investment and growth.

The Licence that follows reflects the terms that balanced deals in the current UK market converge on when founders, universities and investors are all focused on the same outcome: a company that gets funded and scales.

The next section walks through the Licence term by term, explaining the reasoning behind each clause and where flexibility exists. Used as intended, it should make the negotiation shorter, the outcome more predictable, and the Company better positioned from day one.

Company success is the shared goal between parties as this will allow value from the owned equity to be realised

SCALE will evolve. Markets change, norms shift, and the UK deep tech ecosystem is still maturing. Feedback from founders, investors, and TTOs who use this licence in live negotiations will keep the SCALE Framework current and helpful.

Appendix: SCALE Spinout Scoring Framework

Universities may be evaluated using the following weighted criteria:

Category	Weight	Score Range
Equity Fairness	25%	0-5
Royalty Structure	20%	0-5
Governance Simplicity	20%	0-5
Investor Compatibility	20%	0-5
Transparency & Clarity	15%	0-5

Scoring Bands:

- **Tier A / Capital Ready:** 4.5 - 5.0
- **Tier B / Negotiable:** 3.5 - 4.4
- **Tier C / Heavy Friction:** 2.5 - 3.4
- **Tier D / Structurally Blocking:** <2.5

The SCALE Deep-tech License (SDL) establishes a clear, fair, and scalable licensing framework aligned with UK and global best practice.

Institutions adopting these standards signal: investor readiness, founder alignment and long-term ecosystem strength.

Standardisation of spinout terms is a structural lever for accelerating and strengthening deep-tech commercialisation in the United Kingdom.