SDL EXPLAINER

Contents

Principles Behind SDL

The SDL 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.

Big Picture Difference Between SCALE and Traditional UK Licenses

The SCALE philosophy is to maximise long-term value creation for all parties by making companies investable and scalable.

- It is equity-centric and low friction.
- It balances and aligns the needs of all stakeholders, the University, the Spinout, Investors and UK Plc.
- It requires minimal early cash extraction, as most spinouts don't have any cash, but it does allow the University to get some return as soon as the Company itself gets funding.
- Uses "market" normal royalties.
- Has very well defined and workable sub-licensing terms.
- Provides explicit assignment terms for when the Company is viable along with protections for the University if things do still go wrong.
- To break the current "long negotiation" paradigm, then all variables are fixed. With extensive negotiation time, then individual terms might be better either for the Spinout or the University, but we must deliver the big picture.

- It is primarily intended for non-Life Sciences companies, where most of the current delays lie. The License itself contains no field-of-use restriction (it grants rights "in all fields of use") and we think the terms could equally apply to Life Sciences ventures.
- The approach increases the probability of investment, likelihood of company success and exit valuation.

Traditional UK Licenses have placed greater emphasis on near-term value capture through combinations of equity, royalties and fees, and the experience of founders and investors has been that this is mismatched to the need to get successful and investable companies, and so creates significant negotiation friction at the point when the Company most needs to move quickly.

This Framework offers a structure that prioritises the conditions that make a company fundable, on the basis that a successful company is the outcome every stakeholder is working toward.

Section by Section Walk Through and Principles

We walk through the SDL 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.

Each section of the License is addressed, with commentary and reasoning. Most terms are standard and will require little discussion. Feedback on any of the terms - whether on wording, approach or market fit is welcome and will be considered for future versions of the SCALE License.

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 license in live negotiations will keep the SCALE Framework current and helpful.

1) DEFINITIONS AND INTERPRETATION

Meanings and General Definitions are fairly standard.

The Commercial Definitions section contains all the relevant commercial terms. We would like to think they can be accepted as is, but they will be the focus of most negotiations. Equity is dealt with later in its own specific section, so this section covers Royalties, Fees and Other Terms.

Royalties

Technology leaving the University is rarely ready to commercialise. Turning it into a product takes years of development and significant capital - in life sciences, often hundreds of millions. Agreeing to high royalties before that investment has been made and before the outcome is known, misprices the risk. The founder and investors are taking on that risk, and funding the development of the technology either through their time or their cash, and so the royalty structure should reflect it.

High royalties compress margins, and **compressed margins make the Company a harder investment case**. On top of that, markets rarely behave as modelled. Competitors enter, pricing falls, and a royalty calculated on early assumptions can become a real problem at scale. All of this can quietly limit fundraising options before the Company has had a chance to prove itself.

The University's interests are best served by terms that give the Company room to grow, because that is where the equity return is made.

SCALE terms:

- **Agreed Royalty Percentage** set at 1%. Represents a rate that early-stage companies can carry without it becoming a barrier to fundraising or growth.

  The royalties only start to be paid once the Company has scaled up and passed the **Scaling Threshold** of £10M.

- Royalties terminate automatically upon reaching the **Royalty Payment Cap** of £10m.

  By this point, the University will have received a substantial return on the licensed IP. The cap is set at a level that gives institutions confidence they are not leaving significant value on the table, while ensuring the Company is not carrying a royalty obligation indefinitely as it scales and so providing certainty to investors.

- **Net Receipts** and **Net Receipts Royalty Rate** which reflect how Sub-Licensing revenue is handled.

  These provide an early return to the University for sub-licensing. The step down reflects the fact that sub-licensing value generated in early years is mostly down to the original university IP, while the value in later years is predominantly attributable to the company's own technical progress, market development, regulatory clearances, and relationship capital. A step-down does not reduce absolute receipts to the UIniversity in the critical early years when sub-licensing activity is highest.

Comparison with other UK terms:

The 1% flat Net Sales Royalty sits within Imperial FC's 0.5–2% band and matches the midpoint for medium-margin businesses; the Scaling Threshold has been reduced to £10M, rather than the £50M level used in the Imperial FC to balance changes in other Imperial terms such as the Royalty Cap and step-down. The Net Receipts step-down (10% to 1% over nine years) matches Imperial's starting rate but reflects that later sub-licensing income is driven by the company's own commercial efforts rather than the original IP; a structure now adopted by many other Universities. The £10M Royalty Payment Cap is calculated on cumulative royalty payments made (combining Net Sales and Net Receipts royalties), not on cumulative Net Sales; at the 1% Net Sales rate this point is reached only after very substantial commercial success, by which time the TTO's economic mission has been fully served. Removing an open-ended royalty obligation addresses a structural barrier that US venture firms consistently flag in later financing rounds.

Fees

Many UK Licenses include multiple fees, some tied to different milestones, some annual fees, some minimum royalty fees. Each one represents a draw on funding (fuel) that early-stage companies need to operate, and each carries an administrative cost on both the University and the spinout.

The SCALE position is that equity is the primary economic consideration for the License of the Licensed Technology from the University. The value of the technology at the point of spinout is uncertain, and fee structures that do not reflect that uncertainty place a disproportionate burden on companies at their most vulnerable stage. Hence the only fees included are those that relate directly to costs the TTO has incurred: Patent Costs and a modest License Fee to cover administration.

SCALE terms:

- **Annual Licence Fee**. This is set at £50K, paid over five years and only paid once the Company has enough cash to actually pay.

- **Historic Patent Costs**. This is set the actual costs that have been incurred ahead of the License being signed and only paid once the Company has enough cash to actually pay.

- **Qualified Financing.** A threshold for defining when the Company has cash to pay the two fees. The threshold is set low, and so it should be achieved within the first funding round.

Comparison with other UK terms:

The £50,000 Annual Licence Fee matches Imperial, and should cover the TTO work in making sure all IP is properly documented and full provenance in place, and handling the license itself. Deferral to first Qualified Financing reduces the risk of non-payment or early termination before the company has revenue. Historic Patent Costs are consolidated into a single lump-sum on first investment rather than five annual instalments; from the TTO's perspective, a single payment eliminates collection risk over a five-year period and is consistent with standard UK transactional practice. The £500,000 Qualified Financing threshold is intentionally low and should be met within the first funding round, so the University's economic recovery is not materially delayed.

Other Terms

There are three other commercial terms used in the document.

- **Assignment Trigger** and **Required Assignment Investment**. These assigns the Patents completely to the Company.

  Having the University control the Patents and just license them to the Company in perpetuity makes both Investors and Acquirers nervous, potentially hampering growth and acquisition propositions. Conversely, the University has an obligation to get the Patents in the market and can't justifiably assign the Patents to an early-stage company when over 90% fail.

  The more balanced approach is to say:

  a) Once the Company has been EBITDA profitable for twelve months at a minimum annual revenue of £1,000,000, then the technology can be considered to have been successfully transferred.

b) Once the Company has received sufficient investment (the **Required Assignment Investment**), then it's not likely to fold and hence the assignment can safely take place**.**

c) If the Company is acquired or IPOs (and the University's shares in the Company are included in that Exit Event), then the technology is out into the market, the University has delivered on its obligation, and everyone is happy.

   An automatic assignment then takes the University out of the critical path of a possible stressful and complex acquisition or IPO process.

d) The Company can agree with the University that an assignment is needed based on the critical business needs of the Company

e) If the Royalty Payment Cap (£10m) is reached before any of the other triggers, assignment happens automatically at that point too, since the University's economic return has, by definition, already been fully realised.

And finally the license implements a belt and braces solution if the Company still fails and ensures simple re-assignment to the University in case of Insolvency.

- **Ordinary Shares**. Fairly simple definition to be used later when assigning Equity.

- **Dilution Protection Threshold.** A threshold for defining when the University Equity can be diluted.

The only other thing to note is that know-how is very deliberately defined by its relationship to the Patents. This is both to avoid negative implications which could miss useful know-how out, and to reduce the administrative burden on all parties to rigidly define an exhaustive list of every trade secret, manual, test result, or piece of accumulated expertise that might be relevant. Defining know-how by its relationship to the Patents allows everyone to focus on the utility of the information rather than its inventory tag.

Comparison with other UK terms:

Automatic assignment with objective, verifiable triggers (£25M cumulative equity raised; EBITDA profitability at £1M revenue; the Royalty Payment Cap being reached; IPO or trade sale) replaces open-ended negotiation, dramatically reducing transaction risk at exit for acquirers and IPO underwriters who require certainty of IP ownership. The post-assignment insolvency protection is an automatic, self-executing Reversionary Interest that reverts title to the University by operation of property law the moment an Insolvency Event occurs, without any further act, notice, payment or consent required, while preserving existing arm's-length sub-licences granted before the insolvency. This is a protection absent from most TTO agreements. The £5M Dilution Protection Threshold for dilution of the University's anti-dilution protection is consistent with Imperial's benchmark.

2) GRANT OF LICENSE

This section grants the Company the rights it needs to operate and commercialise the licensed technology, while preserving the University's ability to continue normal non-commercial academic activity.

The treatment of improvements follows standard practice:

- The University does not claim rights over future inventions or improvements unrelated to the licensed technology
- Improvements developed independently by the Company belong to the Company.
- The University retains Reserved Rights to use the Licensed Technology for academic research. This is standard.

For University-generated improvements, a two-year pipeline period gives the Company access to developments that were in progress at the point of spinout, after which the Company holds a first option to negotiate.

This avoids ambiguity over IP that was near completion at the time of formation, maintains academic freedom, and gives the Company visibility and protection over near-term development pipeline.

Comparison with other UK terms:

Provides industry-sponsored research with a 30-day notice-and-condition mechanism, achieving the same protection as other agreements without creating bottlenecks when the spinout may have no functioning board. The two-year free University Improvement window provides certainty during the critical proof-of-concept phase; the structured 60-day first-option mechanism thereafter ensures improvements are brought into the commercial pipeline with guaranteed company engagement.

3) SUB-LICENSING

This section is one of the more significant departures from common UK practice, and it is given its own section to make clear that it is a fully possible commercialisation pathway.

Deeptech sub-licensing has not historically been well served by UK license terms, despite being a primary business model for some of the most successful technology companies in the world. Qualcomm, Dolby, InterDigital, and not least the $300bn UK company Arm, use licensing as a primary business model.

Many technology companies will need to get to market by working through partners, so this must be addressed.

SCALE terms:

- Sub-licensing is freely permitted provided that the Company use clear terms that both protect the technology and the University.

- The Company is fully liable for all the sub-licensees and indemnifies the University against any of their actions
- Simple model where any royalties only relate to the total sub-licensing revenue that the Company actually receives
    - This avoids unsustainable situations where, for example, the University takes a 1% royalty on the Net sales of a sub-licensee, and the Company itself only receives a 1% royalty on the Net Sales of a sub-licensee, effectively nullifying any profit. This is usually a hang over from Life Sciences licenses.

      Low royalties are typical in Deep-tech licenses; for example, see public data from Arm on royalties it gets on its main processors. Even after 25+ years, it still only gets 2% on the latest generation of processors.

ARM Example Royalties	
IP	Royalty (% of chip cost)
ARM7/9/11	1.0% - 1.5%
ARM Cortex A-series	1.5% - 2.0%
ARMv8 Based Cortex A-series	2.0% and above

    - It also avoids complicated separate treatment of royalties and fees which can push the Company to avoid early, and very helpful, fees, and are complex to administer.
- High early payments to the University which step down over time to reflect the change in value add from being mainly down to the university IP to later being down to the value add from the Company.

Finally, step-in rights are included to protects the University and the sub-licensees against the license being terminated due to, for example, then Company becoming insolvent. In that case, the sub-licences would also terminate which would leave Sub-licensees badly exposed and cut off the University ability to get the technology into market. The step-in right protects both parties and allows the University to directly license the Sub-Licensee.

Comparison with other UK terms:

The most advanced licenses now treat sub-licensing as a core commercialisation tool and permit sub-licences without prior consent, eliminating friction that causes spinouts to miss time-sensitive partnership opportunities. Royalty statement identification of sub-licensees provides equivalent economic transparency, and the Step-In Right mechanism protecting sub-licensees on termination closely mirrors the best in class approaches. The Net Receipts royalty, preserving the TTO's economic interest in sub-licensing income, is maintained in full.

4) CONFIDENTIALITY

Standard confidentiality terms.

Comparison with other UK terms:

SCALE Framework's confidentiality provisions are standard. The principal addition is an explicit permission for the Company to refer to the existence of the licence in investor materials (with the commercial terms remaining confidential under the general confidentiality regime), addressing an ambiguity in Imperial's template that creates practical difficulties during investor due diligence. This is a narrowly drafted addition that does not compromise the TTO's confidentiality interests.

5) COMMERCIAL TERMS

Wording on payments, audit, financial controls are all standard. The fees and royalty sections are dealt with as part of the commercial definitions explained above.

The other substantive topic in this section is equity, and it is where UK practice varies most significantly. Despite the UK-wide guidelines providing a reference point, approaches across institutions differ considerably, both in the percentage sought and in the structural terms attached to it.

SCALE position:

- Equity to the University reflects its role as a founding contributor of the core IP. It is the primary economic consideration for the License, and the structure should give the University a meaningful stake in the long-term success of what it helped create.
- Equity aligns everyone's incentives with long-term success rather than early cash extraction through royalties and fees
- Some universities offer a choice between 10% dilutable equity or 5% non-dilutable until a specific funding threshold is reached. The SCALE License provides a similar option, although it should be noted that after a few funding rounds, the effective Cap Tables will look similar no matter which round is chosen, and some TTOs prefer the simplicity of 10% dilutable.
- Net result is that the spinout starts with a well-formed cap table which attracts early investors.

Most of the other commercial terms have been covered already in Section 1. The addition is the obligation to fairly discuss a Royalty Buyout mechanism if the Company can make the case that it would materially improve its commercial prospects. The University is not obliged to grant this, but it does need to give the Company a fair hearing..

Comparison with other UK terms:

The 10% dilutable and 5% non-dilutable equity options replicates Imperial precisely, and the Hickson Review (February 2026) specifically found that higher TTO equity stakes are a structural barrier to spinout investment.

The Royalty Buyout mechanism creates a structured, time-limited good-faith negotiation window that gives the TTO the opportunity to receive a lump sum potentially significantly larger than the stream of annual royalties, which is particularly valuable in M&A processes where acquirers prefer a clean IP stack.

The Company liability cap is set at the greater of £2,000,000 or the Company's total gross revenues in the twelve months preceding the claim, subject to an overall ceiling of £10,000,000, which precisely mirrors Imperial; the University cap (set at the Annual Licence Fee and Royalty payments actually received in the twelve months preceding the relevant act or omission) is appropriate for IP licensed “as is” without warranty on validity or third-party freedom-to-operate.

6) OBLIGATIONS

Standard terms. The University needs to get the technology to the Company; the Company needs to commercialise the technology to the best of their ability.

Also makes it clear to everyone that if the Company wants future support or updates from Academic staff then they need to put a formal contract in place. That covers everyone, especially the Academic staff.

Comparison with other UK terms:

SCALE Framework eliminates the risk of termination for commercial underperformance in circumstances beyond the company’s control, such as funding gaps, regulatory delays or market shifts, which the Hickson Review (February 2026) identified as a documented source of spinout distress. The good-faith dispute resolution pathway (with LESBI expert determination as backstop) is protective for the TTO.

7) INTELLECTUAL PROPERTY

Mostly standard. The one point worth noting is that the Company may abandon a Patent it no longer wishes to maintain. If the University chooses to take it on, the Company retains a non-exclusive license, ensuring it remains free to operate without exposure to freedom-to-operate (FTO) risk from its own former Patent.

Comparison with other UK terms:

The explicit no-grant-back clause is consistent with the Hickson Review’s recommendation that universities should not claim ownership of company-generated improvements; VC investors routinely flag grant-back provisions as high-risk items requiring remedy before investment, and accepting this clause costs the TTO nothing.

Company-led patent prosecution (with the TTO in a consultative, non-binding role) removes TTO prior approval requirement for material claim changes, which can impede commercially critical prosecution decisions, while the TTO remains fully informed. On abandonment, SCALE Framework’s 60-day notice is paired with a key protection: the Company retains a non-exclusive licence to any patent the University steps in on, protecting its freedom-to-operate from its own former IP.

8) WARRANTIES AND LIABILITIES

Mostly standard, including Insurances. Note that the Company indemnifies the University for activities of sub-licensees.

Comparison with other UK terms:

The liability framework closely mirrors normal TTO terms. The University cap is set at the total Annual Licence Fee and Royalty payments actually received in the twelve months preceding the relevant act or omission, which is consistent with standard UK academic licensing practice for IP provided without warranty as to validity or commercial utility.

The Funder Conditions warranty (within the University Warranties clause) addresses a well-documented real-world risk: spinouts have discovered post-licensing that UKRI or Horizon Europe grant terms impose march-in rights or open access requirements not disclosed at the time of licensing, creating significant legal risk for investors.

The explicit warranty, disclosure obligation, and indemnity incentivise thorough TTO pre-licensing IP audits that TTOs with robust record-keeping will have no difficulty meeting.

9) TERMINATION

Mostly standard. The main addition is a right for the University to terminate the licence on immediate written notice (with a corresponding obligation on the Company to terminate any sub-licence whose Sub-Licensee participates) if anyone attacks the Patents. That could seem obvious but is a useful belt and braces approach to protect the University.

Comparison with other UK terms:

The 30/60 Business Day cure period, reflects the reality that early-stage spinouts often lack legal infrastructure to respond rapidly to formal notices, and reduces the risk of accidental termination of a commercially viable company. The reversion mechanism, allowing the University to elect reversion of licensed rights as an alternative to full termination, was developed in direct response to VC investor feedback that binary termination risk deterred investment; termination destroys investor value, whereas reversion merely returns the IP while preserving the corporate entity, with the 90-day notice and remediation window ensuring the University retains full termination rights as a fallback.

10) GENERAL

Standard, other than assignment which is dealt with above.

Comparison with other UK terms:

The NSI Act provisions are substantively equivalent to normal TTO provisions and fully compliant with the 2021 Act.

The SDL’s Reputational Conduct clause is tied to a specific, University-drafted list of "Prohibited Actions" rather than an open-ended "serious disrepute" or "material and verifiable reputational harm" standard: the Company only breaches the clause if it undertakes one of the actions the University has identified in advance as bringing it into disrepute. This narrows the University's discretion and gives the Company certainty over what is and is not permitted. Where the Company disputes whether a Prohibited Action has occurred, either Party may refer that question to independent expert determination under the Dispute Resolution clause before any notice of material breach may issue. Where the position is confirmed (or not disputed), the Parties negotiate in good faith for 30 days to agree remedial steps; persistent failure then constitutes a material breach. Critically, the University’s right to terminate under this clause extinguishes upon the Assignment Trigger, after which conduct concerns are addressed through the University’s shareholder rights rather than its licensor rights. TTOs will need to draft the Prohibited Actions list carefully and specifically at the point of signing, since a vague or overbroad list would reintroduce the uncertainty this clause is designed to remove.

The explicit UK GDPR and Data Protection Act 2018 clause is now standard commercial practice and is uncontroversial for TTOs.

The tiered dispute resolution mechanism (good-faith negotiation, senior escalation, then LESBI-appointed expert determination) is consistent with standard UK TTO practice, and is less expensive and faster than arbitration.

A University Response Times clause commits the University to reasonable-endeavours turnaround targets for routine administrative matters - 10 Business Days for routine consents (sub-licences, Affiliate assignments, share-issue mechanics, Sub-Licensee step-in matters), 15 Business Days for signature of routine ancillary documents, and 30 Business Days for matters genuinely requiring board or senior-officer approval. If the University does not meet a target and has not given advance notice of delay, and the Company has chased in writing, the relevant consent is deemed given (save where the law or the University's charity status prevents this). This directly addresses a long-standing founder complaint that TTO administrative delay, rather than any substantive disagreement, is often what actually slows a financing round down.

A Founder Equity Allocation and Independent Advice clause requires each Founder to deliver a signed Founder Equity Allocation Document to the University before the Commencement Date, setting out in plain English their fully diluted percentage, the methodology used to split the founding equity, and their own confirmation that they consider the allocation fair. This is confidential between the Founders, the Company and the University (save for anonymised summary data feeding the Spinout Register Reporting clause below), and is a light-touch way of surfacing founder equity disputes before they become a problem at the first funding round rather than after.

A Spinout Register Reporting clause permits (but does not require) the University to submit anonymised, aggregate data about the spin-out - broad sector, whether a Qualified Financing has occurred, cumulative investment and revenue bands, headcount band - to the UK Spinout Register maintained by HESA and Research England, or any successor register. No personal Founder data may be included without that Founder's prior written consent. This supports the wider policy push toward transparent, comparable spinout data across the sector.

11) Areas that Founders may question

There are a number of areas in the SDL which Founders may initially question as being too favourable to the University. This section explains why those are there:

Net Receipts Royalty starts at 10% (Royalties section)

The step-down structure starts at 10% in Year 1, i.e. the period when sub-licensing value is highest and the Company is most cash-constrained. However note that in Year 1, the company will not have added much value to the technology, and so the value largely rests in the original University developed technology.

Automatic Reversion on Post-Assignment Insolvency (IP Assignment section)

Once the Assignment Trigger fires and IP transfers to the Company, the SDL gives the University a standing "Reversionary Interest" that causes the IP to revert automatically, by operation of property law, the moment an Insolvency Event occurs after assignment - with no further act, notice, payment or consent needed from any party, and without creating a charge or security interest over the Company's assets. This may still concern secured lenders, since it effectively places the University's right to recover the IP ahead of other creditors' claims on that asset. However this is the trade off for doing the original assignment to the Company. The University has an obligation to get the technology deployed, which is why many hold onto the patents until at or even beyond an exit, and so in order to get them to assign, there has to be a way for them to retrieve the technology automatically if the company fails. The mechanism also preserves any genuine arm's-length sub-licences the Company granted before the insolvency, so Sub-Licensees are not automatically caught out by the reversion.

12) What is not part of the License

The License does not include:

- A board seat
- Operational veto rights
- Reserved matters beyond standard shareholder protections and normal corporate governance

This keeps the University in its deliberate role as a non-operating stakeholder, and avoids the fiduciary complications that can arise when an institution holds both a licensing relationship and an operational governance position in the same company. Where a University also invests through a separate venture vehicle, that VC arm may seek standard investor protections through that relationship independently.