THE UNIVERSITY OF WESTERN AUSTRALIA

COMMERCIALISATION PROTOCOLS

The following policies and procedures collectively define the commercialisation protocols that are implemented by UWA’s Office of Industry and Innovation:

- General IP and Revenue Sharing Policy  
  (Available via the Legal Services Office website)

- Disclosures  
  (Available via Office of Industry and Innovation (OII) website)

- Licences and Patents  
  (Available via the OII website)

- Pathfinder Fund  
  (Available via the OII website)

- Business Planning  
  (explicit in Pathfinder Fund on the OII website – implicit in licensing & patents policy)

- Company formation

An appendix is provided showing potential commercialisation pathways with company formation highlighted in red text.

FORMATION OF SPIN-OUT COMPANIES

The University wishes to encourage the utilisation of its intellectual property. In cases where the formation of a spin-out company is an appropriate method for the exploitation of such intellectual property, the following guiding principles apply.

1 PRINCIPLES

1. The University does not want to be a cash investor in commercialisation vehicles. UWA’s key contributions into a spin-out company are intellectual property; ‘know-how’ and access to expertise.

2. The University does not want to be a major stakeholder (or cash investor) in fully commercialised entities. (A fully commercialised entity means a company with established sales and earnings probably after several rounds of venture capital investment; and if an ASX company, then UWA shares are out of escrow, i.e., the shares are freely tradeable.)

3. The University does not seek to hold equity stakes in spin-out companies for extended periods of time. Exit strategies need to be put in place to sell out of vehicles at an optimum time, ideally within five years from inception. In this regard, UWA should seek independent advice on appropriate exit strategies as required. The objective is to maximise early gains, so as to fund the development of spin-outs and the IP commercialisation process anew.

4. When considering the appropriate vehicles for commercialisation, the University should always seek to position itself to be in the best position to achieve principles 2 and 3.

5. Full transparency in accounting and reporting is to be maintained to meet internal governance needs as well as external accountability requirements.
2 INVENTOR BENEFITS

Any UWA staff involved as inventors in UWA spin-out companies have the opportunity to benefit financially as per the UWA IP and revenue policy. This will usually be when there is an “exit event” and the university sells its shareholding in a spin-out company. The monies so obtained shall be distributed as per the university’s IP revenue sharing policy.

In cases where staff (inventors) hold equity in a spin-out company in their own right, they are responsible for obtaining their own legal, financial, and tax advice with respect of their shareholding.

3 RELATED BENEFITS FROM SPIN-OUT COMPANY FORMATION

It should be noted that one of the major benefits for the University in commercialisation ventures including start-up companies is that the IP is usually at a stage that requires further research to be conducted. A key benefit from forming a spin-out company is that in the majority of cases, this research work is contracted back to UWA.

4 RISK MANAGEMENT

Due to the inherent risks in early stage commercialisation related to the formation of spin-out companies, it is important that appropriate due diligence (of the technology, potential investors etc) is performed at an early stage. The Office of Industry & Innovation is responsible for carrying out the due diligence process, so that recommendations can be made whether to proceed with company formation. OII will obtain independent external advice as required.

The following considerations shall also be taken into account when establishing a spin-out company:

- The company formed should have a designated Chief Financial Officer and Legal Counsel (or access to UWA’s Legal Services Office if appropriate).
- Proper accounting standards and procedures should be adopted, with complete transparency in accounting and reporting procedures.
- The company will operate with its own letter head and make its relationship with UWA clear to third parties at all times
- UWA will be represented on the company’s Board of Directors, at a level appropriate to UWA’s equity position.

Furthermore, risks will be reduced by utilising the following preferred models for setting-up spin-out companies.

5 MODELS FOR COMPANY-FORMATION

Each possible spin-out scenario provides different challenges and opportunities to the university, therefore the following models are offered as the recommended options:

A: UWA as Foundation Shareholder

In this case, the university enters into an agreement with an external party or investor to form a company to further exploit the IP.

- UWA holds shares on behalf of the inventors.
- Investor and UWA are foundation shareholders.
- UWA prefers not to have a majority of shareholding for various reasons including the desire to have external staff driving the commercialisation process.
- In the unlikely event that dividends are received from a spin-out company, these revenues shall be shared with inventors as per the IP revenue sharing policy.
- Inventors will benefit when the university “sells out” of the company.
- All revenues thus obtained will fall under the UWA IP Revenue sharing rules.
Any funds accruing to inventors will be subject to income-tax. Inventors will need to take advice and understand their obligations in this regard.

UWA, at its discretion, may appoint one or more nominated directors to the spin-out company.

**B : Investors and inventors are foundation shareholders**

- UWA and its inventors decide for various reasons that the inventors and investors will form a company.
- UWA’s shareholding will be independent and separate to that of the inventors.
- In such cases, any revenues from UWA’s IP are to be apportioned between the UWA IP income account and the School in which the IP was generated.
- Inventors holding shares in their own right are responsible for their own financial affairs and will be advised to seek independent expert advice.

**i) Option Agreement Variant**

If for whatever reason, UWA decides that it does not wish to be a foundation shareholder it may choose to use this variant, whereby:-

- inventors and inventors establish a spin-out company as foundation shareholders;
- UWA will license its’ IP to the spin-out venture;
- UWA will enter into an option agreement with the start-up company to convert the IP licence into an IP assignment at a later date, for an agreed equity position;
- in such cases, the university’s shareholding shall be independent of the inventor(s) shareholding.

**6 COMPANY FORMATION : ADOPTING A ‘STAGED APPROACH’**

The purpose of company formation is to move IP developed in the University closer to full commercialisation. The IP must therefore be of "significant value" to warrant the establishment of a company and to be able to sustain a commercially viable product or services business in the future. The University considers that there are two distinct stages though which a spin-out company could evolve, each offering different risk-reward profiles:

**6.1 First Stage (organic growth)**

In many situations, the business case is not sufficiently compelling to warrant setting up a spin-out company from day one. The aim for these ‘first stage’ ventures is to encourage inventors to find ways of generating a revenue stream for a product or process under the UWA banner. The inventors are encouraged to seek out sources of early-stage funding (including Pathfinder) in order to seed the business venture, prior to the spin-out stage. The Pathfinder fund is a UWA early stage "commercialisation scoping" fund able to invest up to $40K by project. There are very clear rules and processes for this fund and any UWA start-up companies are, for example, ineligible for this fund. The fund is at the early-stage and funds are used for proof of concept prototypes, market research, business planning and thus to determine the commercial viability of the IP.

Once the venture has clearly demonstrated that sustainable revenues and profit targets can be achieved over a period of time (minimum 12 months) a stronger case may be made to establish a spin-out company. The Director of OII, after consultation with the PVC(R&I) will set targets for each individual first stage venture looking to establish a spin-out company. It is unlikely that a first stage venture turning over less that $75,000 per annum, would be considered eligible.
The aim is to position the spin-out company so that it can pursue future commercialisation initiatives.

6.2 Second Stage – venture financing

Second stage funding is generally where the venture has developed a clearly proven value proposition; a professionally-developed business plan, and has a requirement for significant amounts of seed capital.

The general principle is that the University does not and should not invest cash in second stage spin-out companies. The Federal Pre-seed Fund and early stage Venture Capital funds should generally be the prime sources of seed capital. The Office of Industry and Innovation has contacts with such fund managers. Investments of cash by the university into spin-out companies should be relatively rare events. Exceptions to this principle should clearly show that the benefits outweigh the costs, and that the risks have been fully evaluated and minimised.

On an exception basis, cash investments by the university might be considered for the following:

1. To buy in or in-license third party IP;
2. To underwrite a loan or provide a loan generally by way of convertible notes to a spin-out company;
3. To provide funding against an option to take equity or repayment;
4. Provide an overdraft facility against a cash flow problem (with scope for an equity position);
5. On a loan basis as part of a joint venture, to secure investment from a third party. The question of the loan repayment period requires careful consideration;
6. As part of a rights issue, to secure position in the short term; and
7. To spread the risk with VC or pre-seed fund (very rarely)

6.3 Exception Funding of Second-Stage

The mechanics, including the advisory and budget components of this funding, are suggested as follows:

1. Create a standing committee comprised of two external and independent advisors with Financial Officer competencies to advise the PVCRI;
2. The PVCRI will take his recommendations to the UWA Executive for approval and sign-off;
3. A line item budget of up to $250K p.a. be set up to fund such exceptions and that this be "topped up" to this level annually; and
4. The PVCRI to report to Strategic Resources Committee on any recourse to this fund.

The preferred financial instrument to use for ‘exception funding’ is a convertible note so that UWA has the opportunity to reap the benefit of any equity benefits that arise from its loan.

7 Spin-out company formation: Decision making process

Final responsibility for authorising the formation of a Spin-out company is as follows:

- Director, OII recommends to PVCRI that a spin-out company be formed, including justification.
- PVCRI will take advice as required from two independent financial advisors.
- PVCRI obtains Executive sign-off with VC and this decision is reported to Senate.
8 Spin-out Company Directors

No person may act or purport to act as a Director nominated by the University without the written authority of the Vice-Chancellor. The following shall apply to Directors of spin-out companies nominated by the University:

(1) If University staff or a member of Senate they must be nominated by a member of UWA Executive and have the written authority of the Vice-Chancellor.

(2) If non-university staff they must be nominated by the Vice Chancellor and approved by the Senate as a Part I item of the Agenda.

(3) The insurance officer of the University must be advised in writing of any university staff or member of Senate taking up directorships so they can be covered by the university's directors and officers' liability insurance. The onus to report this to the insurance officer lies with the nominated director once approval by the vice-chancellor has been granted.

(4) University-nominated directors may receive directors' fees on the same basis as other directors of the company and may acquire, subject to the approval of the Vice Chancellor, shares in the company for a fair or market based consideration. If the company proceeds to list on the ASX or like exchange then the director will no longer require the Vice Chancellor's approval as ASX,ASIC and the company's own policy will apply.

(5) Any university-nominated director will have demonstrated that they have experience in being a company director or otherwise have completed the AICD introductory course on “The Responsibilities of Directors and Officers in Companies” or like course.
OII Processes & Procedures Flowchart: Commercialisation Ventures

1. New UWA Project

2. Reject?
3. Accept?
4. Redefine?

5. Licensing / IP assignment?
6. Contract Research?

7. ‘Start-up’ company?

8. Identify Prospective partners

9. Eligible for Pre-seed funding

10. External investor

11. IP Licensing - obtain appropriate approval

12. PSF Start-up company - obtain appropriate approval

13. Start-up company - obtain appropriate approval

14. Implement agreed commercialisation strategy
Notes on OII Processes & Procedures flowchart


2. Reasons for rejection may include: little or no commercial interest or potential; IP position is unclear, encumbered or very complex etc.

3. Project accepted. Produce a preliminary investor memorandum or get external consultant to produce. Decide on an appropriate IP protection strategy. Carry out patent search and file provisional if appropriate. Decide which route is most appropriate: contract research; licensing, or ‘start-up’.

4. Project may have good commercial potential but some redefinition is required in order to achieve the potential. Additional research may be recommended before the project is progressed to the ‘commercialisation’ stage. OII to work with the researcher to identify and apply for additional sources of research funding or consider Pathfinder.

5. Decide on appropriate filing strategy eg PCT then international patent(s) and agree this with the licensee. Establish commercial arrangements for licence. All patent costs from PCT onwards are to be funded by the licensee not UWA.

6. Contract research. May be the most appropriate route for technology that is still ‘early stage’. Could lead to full commercialisation later. Work with Research Services and the research team to ensure the correct infrastructure costs are incorporated into proposals to external parties.

7. After business scoping and market assessment, spin-out vehicle is considered to be the optimum route. Define criteria for the venture partner. Define funding requirements. Develop detailed investor memorandum. Investigate federal and state funding sources if eligible. Set up company structure and complete legal & contractual documentation. Refer Commercialisation Protocols.

8. Undertake market research to define list of potential licensing partners. Carry out basic financial ‘due diligence’ where required. Negotiate with target companies and secure a deal ‘in principle’, subject to due diligence and authorisation.

9. Project is eligible for pre-seed funding. Develop pre-seed application in conjunction with venture partner and PSF manager. Obtain internal approval from PVC(R&I) to submit PSF application to fund manager.

10. External investor required. Select the preferred source of funds (eg VC; capital injection from industrial partner; business angel etc). Prepare business plan or obtain external advice to prepare. Target selected funding sources and negotiate the deal. Complete legal documentation identifying equity split etc through LSO.

11. Obtain approval from PVCRI based on recommendation of Director, OII. Once deal signed put on licensing and royalty register.


13. Refer Commercialisation Protocols. Complete the required contractual documentation through legal services, investor, and external advisors and legal parties. When company formed OII to put on internal OII company register. This includes names of directors and any UWA nominated directors on Company Board, equity holding, number of shares etc etc… Shareholding and updates etc…for ASIC etc…to be followed up in agreement with company. OII to update register as advised by company.

14. Ongoing management will depend on level of involvement by UWA staff and UWA equity position. At a minimum OII will require regular financial and management updates to be provided on a regular basis.
By Resolution 70/05 the Senate approved the attached annexure to the University's Commercialisation Protocols. This annexure sets out the action which the University has determined that it will take in order to comply with the National Governance Protocols.

Commercialisation Protocols

Annexure addressing National Governance Protocols 10 and 11

National Governance Protocol 10:

The governing body is required to oversee controlled entities by taking reasonable steps to bring about the following:

(a) ensuring that the entity’s board possesses the skills, knowledge and experience necessary to provide proper stewardship and control of the entity;
(b) appointing some directors to the board of the entity who are not members of the governing body or officers or students of the higher education provider, where possible;
(c) ensuring that the board adopts and regularly evaluates a written statement of its own governance principles;
(d) ensuring that the board documents a clear corporate and business strategy which reports on and updates annually the entity’s long-term objectives and includes an annual business plan containing achievable and measurable performance targets and milestones; and
(e) establishing and documenting clear expectations of reporting to the governing body, such as a draft business plan for consideration and approval before the commencement of each financial year and at least quarterly reports against the business plan.

Responsibility for compliance with National Governance Protocol 10 rests with the Pro Vice-Chancellor (Research and Innovation).

Section 8 of the Commercialisation Protocols is amended to add the following paragraphs:

(6) Where possible, the University will nominate some directors to the board of the entity who are not members of the Senate or staff or students of the University.

(7) As soon as practicable upon formation of the spin-out company, the governing board thereof must formally adopt and publish a written statement of its governance principles and thereafter review the same on an annual basis.

(8) The University must ensure that the governing board of the spin-out company documents a clear corporate and business strategy which reports on and updates annually the company’s long-term objectives and includes an annual business plan containing achievable and measurable performance targets and milestones.

(9) The University must ensure that the governing board of the spin-out company provides to the Pro Vice-Chancellor (Research and Innovation) regular reports and notice of material changes in circumstances including but not limited to draft annual budgets for approval, quarterly financial statements and an annual report as to the achievement of performance targets and milestones.
National Governance Protocol 11:

A higher education provider must assess the risk arising from its part ownership of any entity (including an associated company as defined in the Accounting Standards issued by the Australian Accounting Standards Board), partnership and joint venture. The governing body of the provider must, where appropriate in light of the risk assessment, use its best endeavours to obtain an auditor’s report (including audit certification and management letter) of the entity by a State, Territory or Commonwealth Auditor-General or by an external auditor.

Responsibility for compliance with National Governance Protocol 11 rests with the Pro Vice-Chancellor (Research and Innovation).

On an annual basis the Pro Vice-Chancellor (Research and Innovation) will assess the risk arising from its part ownership of any entity as specified in Protocol 11. In light of this risk assessment and in accordance with Protocol 11, the PVC (R&I) will seek an auditor’s report (including audit certification and management letter) of the entity by a State, Territory or Commonwealth Auditor-General or by an external auditor.

The PVC (R&I) will submit a report (including copies of any auditors’ reports obtained) annually through the Strategic Resources Committee to the Senate for consideration.