Fostering a University Entrepreneurial Culture to Create Start-Ups • New Products • Jobs

February 12, 2008
The Start-Up Model

- Hi tech represents less than 10% of start-ups in U.S.
- Success rate is about 20%
- Why become an entrepreneur
  - Challenge
  - Make a difference
  - Success will also lead to financial success
  - Philanthropy

- What is the make-up of an entrepreneur
  - Passion
  - Commitment
  - Risk taker
  - No fear of failure
  - Knows what he/she doesn’t know
The Start-Up Model

• If it is a hi tech start-up, what is required
  – If you are a well known academic with a track record, your reputation is all you need to raise funds
  – For the rest of us mere mortals
    • Marketing oneself is key
    • IP

• To do a start-up, what is involved, what is the process
The Start-Up Model

- Licensing to start-ups requires the fostering of an entrepreneurial culture
The Start-Up Model

- Elements necessary to foster an entrepreneurial culture
  - Develop relationships with faculty
  - Secure trustee, administrative support
  - Identify key faculty
  - Establish rapport
  - Demonstrate support
  - Build trust and confidence
Elements necessary to create a spinoff

- Personal requisites of the faculty/entrepreneur
  - Passion
  - Commitment
  - Desire to make a difference
The Start-Up Model

• Elements necessary to create a spinoff
  – Critical mass
  • Educated workforce
  • Experienced management
  • Venture capital
  • Space
  • University
  • Entrepreneurial culture
The Start-Up Model

• Elements necessary to create a spinoff
  – Business or Marketing Plan
    • Provides focus, strengths and weaknesses
    • The key elements
      – Management
      – Markets
      – Technology
      – Intellectual Property
The Start-Up Model

• Elements necessary to create a spinoff
  – OTT assistance (proactive)

• Describe the fund-raising process
  (acquisition of IP to series A funding)

• Introductions to:
  – IP firms
  – CPA firms
  – Angel investors
  – Institutional investors
  – Realtors
  – Caltech alumni/entrepreneurs
The Start-Up Model

• Elements necessary to create a spinoff
  – OTT assistance (proactive) (CONT’D)
    • Critique of business plans
    • Patent support
The Start-Up Model

- The fund raising process (a typical series A pie-chart)

- 25% (Founders—typically 3)
- 20% (Option Pool)
- 5% (University)
- 50% (Investors)
The Start-Up Model

• Steps to acquire rights to technology
  – Create an entity (empower the faculty/entrepreneur)
  – Negotiate an option

• Criteria to acquire an option
  – In the case of faculty, a commitment to make it happen within the conflict rules
  – In the case of student/post docs, support of the faculty member
The Start-Up Model

- Nature of an option
  - Consideration
  - Period (typically 12 months)
  - Right of exercise (upon raising funds typically an amount necessary to launch company)
  - Term sheet (equity, royalty rates, etc.)
  - Consummation (conversion to a license)
The Start-Up Model

• Why an option?
  – Can be consummated in a short time
  – Allows entrepreneur/faculty member to raise funds
  – Ties up technology only for duration of the option
The Start-Up Model

• Why equity?
  – In exchange for a small equity share, typically 4-5% of the post series A financing, University:
    • Is a partner
    • Defers patent expenses
    • Defers minimum payments
    • Significantly reduces royalty rates
    • Takes no up front payments
The Start-Up Model

• Rationale for equity stake
  – The money raised is focused on product development
  – Founder’s stock is worth only pennies
  – Royalties affect the companies bottom line – the lower the better
  – Equity provides an undivided interest in the company as a whole
The Start-Up Model

• Rationale for equity stake
  – Equity provides a quicker (and possibly greater) return if company goes public or is acquired in 4-7 years
  – Philanthropic support by successful entrepreneurs, both faculty and alumni
The Start-Up Model

• Summary
  – To foster an entrepreneurial culture
    • Faculty relationships are key
    • Trust is paramount
  – Use the option to
    • Empower the faculty
    • Partner with faculty and investors
  – To send the right message
    • Have a long-term approach
    • Be a partner for success