Attracting Big Funds for our Activities

ASTPProton Annual Conference 2014

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Summary

- The History of University Investment Funds in the UK
- The Why's and Why not's?
- How are they structured?
- What we have learnt

UK History – 1999

- University Challenge Seed Funds
  - Set up by Government + Wellcome Trust
  - 15 + 4 Awards to 51 institutions.
  - £1 University + £3 Government
  - £60m over two rounds (1999 & 2001)

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UK History – 1999

- University Challenge Seed Funds
  - Imperial Innovations, formed back in 1986, "only really began to accelerate in the late 1990s, when the British government began to back technology transfer with schemes like the University Challenge Seed Fund"
  - Deloitte's analysis of the Wyvern UCSF suggested that whilst the annual Internal Rate of Return (IRR) was very good at 20% per annum, this would have been higher if more funds had been available and the investment cap had been greater than £250k.

House of Commons Select Committee on Science & Technology, March 2013

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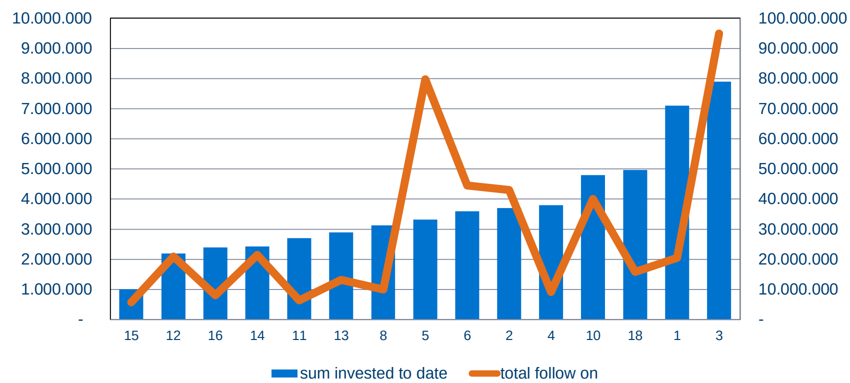
UCSF – Follow on Funding attracted



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Summary numbers (2008)

- 617 investments generating 262 new companies
- £55.9m invested, bringing in follow-on funding of over £433m
- 1,236 employees
- 94 companies selling products
- 76 failed investments costing £6m
- 16 positive realisations generating £7.6m

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UK History – Cambridge UCSF

- Cambridge UCSF
  - £4m original fund; current cash c£13m
  - Investments realised between 2007-12 returned 3.6x cost
  - BlueGnome sold to Illumina for $100m (100x return)
  - Solexa sold to Illumina for $650m (now an $18Bn company); started with £100,000 from the UCSF
  - Astex Therapeutics sold to Otsuka Pharmaceuticals for $886m; started with £250k from the UCSF
  - Horizon Discovery IPO'd for £121m ; started with £36,000 from the UCSF

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UK History – IP Group

- 2000 – Beeson Gregory £20m IP for cash deal with Oxford Chemisty
- 2002 – IP2IPO £5m investment fund with Southampton University
  - 11 Investments, 4 IPOs, ~70% IRR
- 2003 – IPO as IP Group for £112m
- 2013 - Signs pilot agreements with Penn, Columbia & Princeton
- 2014 - £860m market cap; 15 UK, 3 US University partners; 52 investee companies

ipgroup plc

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UK History – Imperial Innovations

- 1986 – Imperial Innovations formed
- 1999 – £4m UCSF Funding
- 2006 – IPO at £181m market cap
- 2010 - Expanded to include UCL, Oxford, Cambridge deal sourcing
- 2014 - £400m market cap, £246m raised.
- 2014 - Circassia IPOs at £581m market cap.
    - Imperial Innovations invested £25.5m
    - Total investment up to IPO of £105m

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UK History – Cambridge Enterprise

- 1970 – Wolfson Industrial Liaison Office founded
- 1995 - University Venture Fund created (£2.5m)
- 1999 – £4m UCSF Funding
- 2006 – Cambridge Enterprise formed
- 2008 - Cambridge Discovery Fund (Alumni – Philanthropic - £1.8m)
- 2012 - Enterprise Fund (Alumni – Investment - £2m p.a.)
- 2013 - Cambridge Innovation Capital (£50m)

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UK History – Cambridge Enterprise Outcomes

- Since 1995 (University Venture Fund):
  - €14m invested in ……
  - 70 companies who raised……
  - €1.5Bn of third party investment
- Cambridge Cluster
  - 1500 companies employing 57,000 people and turning over €15Bn
  - 14 $Bn companies of which three are $10Bn+ companies

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Other UK Funds

- Cancer Research UK £50m Pioneer fund with European Investment Fund and Sixth Element Capital LLP
- Wellcome Trust £200m Syncona Fund

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Why run your own fund?

- Failure of the VC model and decreasing funds available
- Most VC funds now invest at much later stages
- The typical VC timeline is 5-7 years
- The terms available remove most/all of the value for early investors/founders including the university
  - Circassia: £581m IPO
  - Biovex: $1Bn IPO
  - Solexa: $650m acquisition
- You need to be able to sit at the table and follow your money to influence the terms

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Why not to run your own fund?

- A fund much below €50m is hard to run efficiently
- You need to have the deal flow to sensibly invest that amount
  - IPG has 15 university partners
  - Imperial Innovations had to expand its deal flow sourcing to other universities
  - Cambridge taps deal flow from its cluster.
- It's difficult to raise
  - Manchester/UCL/Edinburgh Phoenix fund didn't succeed.
  - You need a track record
- The fund will have to be publicly listed after a few years

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Why not to run your own fund?

- Its not money for nothing
  - IPG has 15-25 year investment rights in partner spin outs
  - Imperial Innovations has ownership of all Imperial College IP until 2020
  - CIC has privileged relationship and pre-emption rights from Cambridge Enterprise's seed and IP equity holdings
- There can be complex tax issues to resolve.
- Set-up costs are high
- Potential reputational issues for the university
- Professional management team needed

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Getting round the short term investment problem

- VC companies are ten year closed funds. Investors get their cash back with (hopefully) an increase after 10 years
  - A typical fund invests over the first five years and realises over the second five years with a 5-7 year investment holding.
- IPG, II & CIC are set up like spin outs. Investors buy equity in the fund company whose share price reflects the value of its investments.
  - The Fund can be evergreen with 10-20 year investments holds
  - Returns via dividends and holding/selling fund equity

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University of Cambridge Enterprise Fund

- Fund based on Alumni investments
- Uses two Government tax breaks for individuals – EIS & SEIS
- Consolidated into a nominee account that makes investments
- Has to be raised annually
- Companies have to qualify
- Run by specialist EIS fund manager
- c.20 investors, minimum £25k, max £500k, total £2m p.a.
- Now duplicated by Oxford (and several VC funds)

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Cambridge Innovation Capital

- £50m initial fund
- Private company structure
- Investment advisory panel of successful Cambridge entrepreneurs
- “Cambridge Rules” investment
  - All ordinary share structures
  - No predatory pricing rounds (need to maintain community reputation)
- Can invest in anything from the Cambridge Cluster
- Max. investment £10m per company

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Summary/lessons

- Sub €50m funds are difficult to make work
- Big funds require strong deal-flow
  - Either big university or
  - Consolidate deal-flow from multiple partners
- Think about drop-dead costs
- What are you going to give away to make the deal flow proprietary?
- Consider alternative smaller funds (e.g. Cambridge Enterprise Fund)

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