

7 November 2013

§ 4 Company Analysis

Recommendation:

As a follow-up on the presentation and discussion about commercialisation activities at the IT University of Copenhagen at the Board´s Strategy Seminar on September 20, 2013, Management recommends that the IT University of Copenhagen found a company – a “§ 4 company” – with an investment of DKK 5 mill, based on the Danish act “Bekendtgørelse af lov om offentlige forskningsinstitutioners kommercielle aktiviteter og samarbejde med fonde” (LBK nr. 353 af 25/3-13).

The purpose of the foundation is with a commercial purpose and on market conditions to manage activities in connection with technology transfer, including to found or to acquire owner shares in companies or shareholder companies etc. To meet this purpose, the §4 company must build and develop competences within identification, assessment, protection, marketing and transfer of new marketable knowledge.

The company makes it possible to promote the transfer of knowledge and technologies from public research to industry and at the same time limit the economic risks of commercial activities to the capital investment of founding the company.

At present, the Management wants to transfer one specific commercial activity to the §4 company. Furthermore, it is expected to transfer one to four similar activities within the next couple of years.

Legal authority and conditions:

LBK nr. 353 af 25/3-13 has the purpose of strengthening the competition and the public research institutions´ relations to the surrounding society, for example by founding and owning foundations to promote the circulation of new knowledge and technology between research institutions and the trades and industries.

The act gives the research institutions the authority to found and own one independent company for technology transfer – a “§4 company” - or be joint owner of one or more companies founded by other public research institutions. The “§4 company” must have for its purpose to perform commercial activities (technology transfer) on market conditions, and is thus used for commercialising knowledge from research institutions.



It has its own board and director and can own shares in other companies. The public research institution's investment in companies or acquirement of shares in such is limited to no more than DKK 5 mill. or 3% of the institution's turnover by research and development activities as estimated in the latest official research statistics.

The "§4 company" can found a subsidiary company (a "§9 company") or acquire owner shares in companies, which only purpose is to mature an invention with a view to protecting the IP rights (IPR).

Possibilities:

Often the inventions of the universities are so immature that only a minority will be suited for sale directly to end users, and negotiations on transfer terms are difficult at that stage. A §4 company will have technology transfer as its main competence and act on market conditions. By putting immature inventions into a company having these main competences and focus, the opportunity together with investors to develop inventions to a level where they can be sold to an end user will be approved and more focused.

Furthermore, other possibilities for a §4 company could – if wanted - be activities like:

- Conducting analysis of commercial potential in new ideas coming from employees and students.
- Provide short courses for students and employees within topics related to identification, assessment, marketing and transfer of marketable knowledge.
- Supervising students and employees in projects with the purpose of commercializing knowledge, hereunder supervision on business plans, organization, HR, accounts and IPR protection.
- Consultancy services to IT University of Copenhagen on IPR protection and other services related to commercializing new knowledge from IT University of Copenhagen.

Risks:

There is the risk of the company not generating any profit of significance, or even generate a deficit every year.

Ultimately, if the §4 company goes bankrupt, the investment of DKK 5 mill. will be lost.

**Business case:**

The § 4 Company is founded by IT University of Copenhagen as the single owner with a capital investment of DKK 5 mill. In the long run, this amount is meant to increase through activities in the § 4 Company. However, in the startup phase, part of the capital will be spent on building competencies and starting up activities in the company.

The Management expects that in a couple of years there will be two to five technologies suitable to commercialization within the §4 Company, probably as §9 Companies.

Estimated economy for the §4 Company´s first three years:

The estimated economy of the company is very uncertain, because it has not yet been decided what specific activities the company is going to have. Also, the economy of the subsidiary companies is uncertain, because it is not yet possible to develop business cases for these. Therefore the above estimate is encumbered to a large extent with uncertainty.

Although the hope is that, in the long term, the company can become profitable, establishing the company is probably not the most lucrative way of investing 5 mill. DKK. However, the benefit of the investment is that IT University of Copenhagen will be able to support technology transfer in a manner which limits the potential loss of IT University of Copenhagen to 5 mill. DKK.

When the §4 Company is founded and a board appointed, the company is expected to set up a proper budget, which is presented to the Management at the IT University of Copenhagen. At the same time the board of the §4 Company will decide what kind of hiring to do, including a Manager.



Year 1 (mill. DKK)

Costs		Revenue		Result
Wages	0,60	Sale of services to IT-U	0,35	
- one full time employee		Sale to subsidiary company	0,10	
- one part time manager (temporary)				
Operating costs				
Incl. Estimated loss of value, subsidiary company no. 1 (DKK 150 thousand)	0,15			
Other costs	0,10			
Total cost year 1	0,85	Total revenue year 1	0,45	Total year 1 -0,4

Year 2 (mill. DKK)

Costs		Revenue		Result
Wages	1,0	Result of subsidiary company no. 1	0,0	
- two full time employee		Sale to subsidiary companies no. 1, 2 and 3	0,4	
- one part time manager		Sale of IPR-services	0,4	
Operating costs		Sales courses etc.	0,4	
Incl. Estimated loss of value, subsidiary company no. 2 and 3 (each DKK 150 thousand)	0,3			
Other costs	0,2			
Total cost year 2	1,5	Total revenue year 2	1,2	Total year 2 -0,3

Year 3 (mill. DDK)

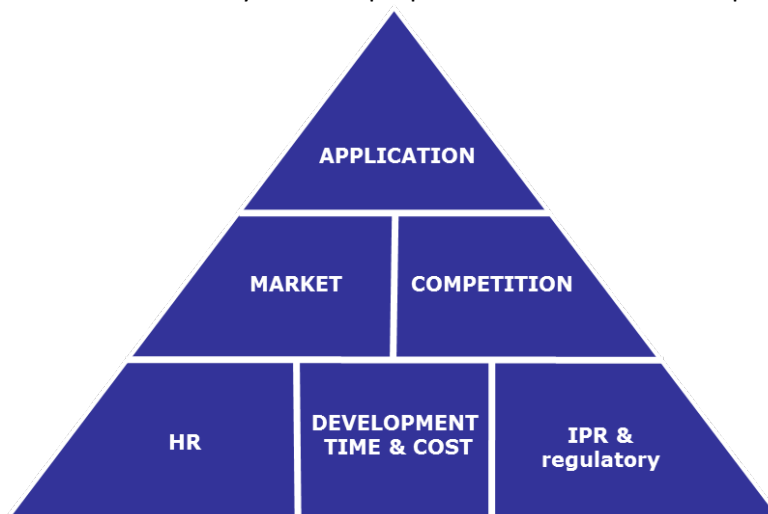
Costs		Revenue		Result
Wages	1,0	Result of subsidiary company no. 1	0,2	
- two full time employee		Result of subsidiary company no. 2 and 3	0,0	
- one part time manager		Sale to subsidiary companies no. 1,2 and 3	0,5	
Operating costs		Sale of IPR-services	0,4	
Incl. estimated loss of value, subsidiary company no. 4 and 5 (each DKK 150 thousand)	0,3	Sales courses etc.	0,4	
Other costs	0,2			
Total cost year 3	1,5	Total revenue	1,5	Total year 3 0,0



In the following years, the §4 company is anticipated to have a revenue of DKK 300,000 to 400,000 per year. The revenue is used for investments in new activities.

Analysis based on the TTO model:

This is a short analysis of the proposal to establish a §4 company using the TTO model.



Application (need from users perspective)

There is a need for enabling the IT University to transfer the rights to invention to new companies (primarily started by researchers) and to provide professional competences related to entrepreneurship to students and faculty.

Market (position in value chain)

The §4 company will develop companies (increase their value) in the very early phase between proof of concept (research prototype) and proof of business (demonstrated ability to get customers and deliver).

Competition

The §4 companies of other universities could in principle be competitors, but in practice it is unlikely that they would engage in developing ideas from the IT University. Providing professional competences related to entrepreneurship is done by consultants (e.g. TTO A/S, law firms, "Væksthuse" and similar organisations).



HR

There are current employees that could be transferred to the §4 company.

Development time and cost

This is described in the estimate of the finances of the first three years of the §4 company.

IPR and regulatory

This is covered by the proposal to the board (input from Lett on legal framework).

Other options:

Other options are to keep status quo or enter into cooperation with existing technology transfer organizations.

Further procedure:

The next steps are to have the documents gone over by a legal adviser; to have the §4 company founded; to appoint a board; and to formulate a business plan.