



23 June 2009

EDINBURGH RESEARCH AND INNOVATION LTD

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Dear Mr Philips

**FREEDOM OF INFORMATION REQUEST
INFORMATION ABOUT SPINOUT COMPANIES**

I refer to your e-mail of Thursday 4 June 2009 timed at 10:28:10 to the University of Edinburgh FOI office, which has been passed to me.

Edinburgh Research and Innovation Limited ("ERI") is a 100% subsidiary company of the University of Edinburgh and is responsible for pre-award research support services, management of technology transfer activities, consultancy services, company formation, incubation facilities and management of the University science park.

Please find attached the information you have requested in Appendix A.

If you require any additional information, please let me know

Yours sincerely

Ian Lamb
Company Secretary
Edinburgh Research and Innovation Limited

APPENDIX A

UNIVERSITY OF EDINBURGH – INFORMATION ABOUT SPINOUT COMPANIES FREEDOM OF INFORMATION REQUEST 4 JUNE 2009

1. How many spin-out companies has the University formed in the past five years and how much did it cost the University to create each company?

The company formation support activity is delivered by Edinburgh Research and Innovation Limited, a wholly owned subsidiary of the University. ERI is a specialised commercialisation and technology transfer operation set up with a specific mandate to support company formation, amongst other things. During academic years 2003/4, 2004/5, 2005/6, 2006/7 and 2008/9, the University, through ERI, spin-out 17 companies, see list below. The total attributable cost, including overhead allocation, to the University of this activity was £684k for the five years. Notionally then, the cost per company was approximately £40k.

The spin-out companies formed are: Anarkik 3D, Anti-Bullying Network, Brainwave, Carbon KPI, Conversatec, EZEP, Fios Genomics, Incite, Miramodus, Mobile Acuity, MTEM, Nanoflex, Neurocentrix Pharma, Shapespace, Spiral Gateway, Wyeth UK and Yadster.

2. Could you provide me with a breakdown of costs incurred by the University for each spin-out company formed within the past five years? This breakdown should include: - legal costs involved in the formation of each company; - salary costs for any University employees responsible for the formation of each spin-out; and - any other overheads involved, i.e. bonuses for said staff, consultancy costs, accommodation and travel costs.

The University supports the formation of companies. However, the costs of the formation of such companies including legal costs, consultancy costs, accommodation, travel, etc are borne by those companies. Staff costs make up the majority of the cost of running the operation - £470k of that £684k for the five years, including an allocation of time from the in-house legal team. An overhead allocation is also made reflecting the size of the company formation operation.

3. Could you also provide amounts of all income earned from University spin-out companies within the same five-year period, excluding equity/shares held by the University in those companies?

Income from the spin-outs formed during the last five years (see above) amounted to around £8,140k.

4. If you can neither provide the costs nor the quantifiable amounts of actual income can you provide me with the justification for such expenditure from the public purse?

The University's commercial philosophy for company formation is very much based around a portfolio approach. It is not easy to predict which spin-out companies will produce a significant return to the University. However in a balanced portfolio, some will and the overall return should exceed the total cost of the exercise. In addition, the return to the wider economy from the emergence and growth of successful indigenous technology companies is substantial. The University, and all Universities, participate in the economic development agenda, and the formation of spin-out companies is a crucial component of the University's contribution there.

5. How many spin-out companies have registered actual sales and how many of these companies are trading at a profit? Could you please provide details of profit and loss accounts for these companies? If none of these spin-out companies have made a profit, can you provide me with justification for continuing to spend public funds in this area?

The University does not require full accounts from spin-out companies, and so we do not hold the information required to answer this question fully. Annual accounts for all spin-out companies are available from Companies House. Financial reports are required relating to technology licenses, but these are not as complete as annual accounts. Spin-out companies and technology companies generally, tend to take some years to reach sales and profitability. R&D investment by such companies erodes any trading profitability. In addition, the route to market for a new and disruptive technology may be a long one. That is why investment dominates the 'income statement' of spin-out companies in their early years. Profitability, or lack of it, is not an adequate measure of the success of a spin-out company in its early years. Many technology companies are acquired prior to sales and profits, yet are still considered hugely successful.

6. What is the ratio of costs incurred by the University to income earned by each spin-out company formed? Does this represent good use of public funds?

Because of the portfolio approach, an average figure is relevant. As such, given the total income is £8,140k against total expenditure of £684k the ratio of income to cost is around 12:1. This represents good use of public funds.

7. Have the University's Vice Chancellor, Pro Vice Chancellor responsible for financial matters, Secretary of Court, Director of Finance or any of the University's governing bodies ever called for an investigation/review regarding the cost to the University of creating spin-out companies? If so, could you please provide me with the relevant details/reports?

No, though the company formation activity is subject to regular financial scrutiny. As well as reporting on a quarterly basis to the ERI board, regular reports on spin-out activity are provided to the University's Finance and General Purposes Committee and to the University Court. In addition, the University Head of Corporate Services retains authority on decisions to sanction spin-out companies. He chairs the ERI Board and also convenes the Company Formation Advisory Group to assist in that process. That Group has amongst its members two Vice Principals, the Director of Research and Commercialisation, the Director of Finance and two highly respected local technology entrepreneurs.

8. What level of legal/business qualifications do the people responsible for creating spin-out companies possess? If they do not possess such qualifications, is the University going to take any action against the Director of Human Resources for appointing these people, bearing in mind that it is public funds being used here?

Those involved in the support of company formation are suitably qualified and well supported. ERI has an in-house legal team with six qualified solicitors for instance. However, the companies are not formed 'by the University'. The University supports the process. Generally, companies are formed by one or two academics working with a small management team generally involving two or three experienced business people. All spin-out companies are advised to take on their own legal and financial representation, and as far as I am aware, all do so. It is though the responsibility of each company, not the University.

9. Are the University's managers with financial control for spin-out companies required to keep a record of all expenditure? If they are, are they required to report this to the Secretary of Court or Director of Finance? If so, could you please provide me with the relevant details/reports?

The University does not have financial control of spin-out companies. The University, if it is a shareholder, is a minority one. Companies and their own boards retain financial control.

ERI's board is substantially made up of University staff and it makes regular financial and operational reports to the University via several of its committees. The University's Director of Finance (or his deputy) attends the ERI board and is a member of the Company Formation Advisory Group (see above).

Grant Wheeler
Head of Company Formation and Incubation
Edinburgh Research and Innovation Limited
22 June 2009