

PRESEED PROJECTS & START-UP COMPANIES

GUIDANCE FOR DETERMINING PRESEED ELIGIBILITY

INTRODUCTION

As New Zealand's research commercialisation system matures, there are a richer array of options available for supporting technologies through to commercial success. The increased support available for technology start-up companies, through the Callaghan Innovation Technology-Focused Incubator programme for instance, has made the start-up model a more attractive commercial route for many research organisations.

There are many examples where PreSeed Accelerator Funding has invested in a technology to achieve an 'investor ready' outcome of start-up company formation with follow-on investment, often from a tech incubator. As technology start-ups mature and become increasingly supported by the private sector, these companies represent a robust and easily-accessible channel-to-market for cutting-edge PRO technologies not previously available. Technology start-up companies represent the 'green shoots' of a shift from a high-volume to a high-value economy, and should therefore be celebrated and nurtured on a journey to commercial sustainability and success.

START-UP COMMERCIALISATION MODELS AND PRESEED

Where a start-up is to be pursued as the commercialisation vehicle for a technology, there are two predominant models. Both models may deploy PreSeed investment at different parts of the process:

1. The PRO will wrap together a suite of technologies *upfront* into a start-up for commercialisation. Aggregation of technology into a start-up can be an excellent way to grow successful global companies.
2. One piece of IP (or application) is first commercialised to initiate the start-up and attract external investment. Additional opportunities are then pursued in a step-wise fashion using the newly-established channel-to-market.

When progressing a new technology opportunity, PreSeed eligibility should always be considered in the first instance. The primary purpose of the PreSeed Accelerator Fund is to undertake early stage technology commercialisation activities to **maximise the commercial benefits to New Zealand** from publicly-funded research. This is achieved by progressing technology prospects through a commercialisation process towards a point of investor-readiness. 'Investor ready' means the stage where a working prototype or similar stage of project development at which point a private sector firm, venture capital investor or other investor may be reasonably expected to invest, with the intention to advance or complete the commercialisation process.

A project is initially eligible for PreSeed funding if:

1. The IP originates from publicly-funded research and
2. The PRO has control of the IP, through the TTO or a majority-owned start-up and
3. The core IP has NOT previously received PreSeed investment to a point of 'investor readiness'

A technology will be deemed 'investor ready' (and therefore not PreSeed-eligible) if it has already been licensed into a start-up AND the company has already received external investment, from a tech incubator or other investor, to advance the commercialisation. This means that PreSeed cannot be invested in a new project that uses IP already licensed or assigned to an 'investor-ready' start-up. The PRO is free to invest PreSeed into projects that explore different fields and applications of the IP provided they are unassigned to the start-up.

PROGRESSING NEW OPPORTUNITIES THROUGH AN EXISTING START-UP

Once established, a start-up can represent a readily-available route-to-market for complementary technologies emerging from the PRO, provided they have the resources to divert to a new opportunity without negatively impacting existing projects. The capabilities developed within the company can enable new opportunities to be pursued more easily – much of the market risk will have been addressed, or at least well understood, through the commercialisation of the foundation technology. This often means that subsequent opportunities can be progressed to ‘investor ready’ more quickly with greater market understanding, and consequently with fewer resources, using the market channels the start-up is already building.

When assessing the use of PreSeed for step-wise commercialisation of technology (for which a startup has rights), the IC will pay particular attention to whether this funding is being utilised to get a technology investor ready, to enable maximum value capture for NZ, or is instead representing a source of ‘soft money’ or a non-dilutive boost of funding for the start-up.

GUIDELINES FOR ASSESSING NEW OPPORTUNITIES

The following aspects should be considered when assessing a new opportunity for PreSeed investment:

1. New IP – the opportunity must be based on new IP sitting within the PRO, not utilising existing IP already licensed or assigned within the start-up.
2. Benefit to New Zealand – As with all PreSeed projects, PreSeed should not be invested *primarily* for the PRO or start-up to enhance its own value capture – the principal driver must be to secure value capture to New Zealand, such that there is a strong additional return for NZ (beyond the technologies already being progressed by the start-up) which would not otherwise be the case. The PRO should naturally capture as much value as is sensible, but the case for PreSeed investment must *primarily* articulate how returns to New Zealand will be realised.
3. ‘Investor Ready’ Point – a clearly defined point at which the technology will have been sufficiently de-risked for it to be licensed into the start-up to complete the commercialisation.
4. Commercial Agreements – appropriate commercial agreements and licensing terms must be in place between the PRO and start-up, in line with standard commercial arrangements. Where a majority-owned PRO company has ‘first right of refusal’ to additional IP, contracts should have appropriate revert and performance milestone (use-it-or-lose-it) clauses to ensure maximum returns to New Zealand.
5. Ability to Deliver – Evidence that the start-up company has the ability and capacity to successfully advance the commercialisation of the technology at the conclusion of the PreSeed project. A clear understanding of the outcomes of earlier and/or current commercialisation projects should be obtained, to assess prior performance and identify ways to strengthen the commercialisation pathway.