Spinout to Exit:
Growing a technology based business

Maximise your potential

If successful, technology businesses tend to develop extremely rapidly. This speed of development means they have to address a wide range of business issues in a relatively short space of time. These issues will be driven by the core technology and how it is commercialised. For example, when a technology business is at its earliest stages one of the most fundamental issues to address is how the company is intending to extract value from the underlying technology.

Alternatives may be:

- Develop the technology to a certain point and then license it out to a range of users. Following this route is relatively cheap and leaves others to bear the risk. However, the ultimate revenue generation;
- Development to a certain level and then sell the business or part of it – this is more usual in drug or medical device development perhaps once the product has gone through a certain level of clinical trials.
- The company could seek to retain total control over the technology and the product and take it right through to manufacture and marketing. This route can be expensive and risky, but ultimately, if successful, far more profitable than either of the other two options. Once that strategy is defined the company's management team then needs to:
- Establish what the company needs to do; resources it requires and structure that will be needed to achieve that.
- Plan the availability of sufficient funding to continue the development of the technology.
- The ability of the management team to deliver what the business needs at each stage of its growth.

It is rarely the case that the entrepreneurs or academics who founded the company will be the right people to lead it in the long term. This is because the fundamental focus of the business shifts away from the perfection of the R&D towards the marketing and sale of product or as the company seeks to exit.

Technology businesses by their nature tend to be international. Very often key employees will come from overseas – in which case there are many considerations to go through including how they are to be remunerated; whether they have appropriate visas to work here and their general terms and conditions.

Many such businesses will look to have an overseas presence for a wide range of reasons such as, in order to:

- Have access to grant funding;
- Have access to investors and markets;
- Have access to particular research teams / skill sets; and
- Run clinical trials.

Whatever the reason, serious thought needs to go into how that presence is to be effected – it's certainly not as simple as setting up a company in the location of choice. Consideration will include:

- How that entity is to be funded;
- The relationship with the original company;
- Who is going to run the new entity;
- Whether there will be employees; and
- Tax considerations.

Other companies will have, as part of their strategy, a policy of acquisition of other businesses in similar or complementary areas of trade. The acquisitions may be opportunistic or the result of a search.

Irrespective of the way in which the acquisition originates, the process of acquisition is likely to be broadly similar:

- An offer will be made;
- Heads of Terms will be agreed;
- Due Diligence will be entered into to ensure that the purchaser knows what it is really acquiring. The focus on the due diligence process is very much dependant on what the purchaser perceives to be the real value in the business and the nature of the entity being acquired; and
- Contracts will be finalised.

Post-acquisition there will be other challenges – working out how the merged entity will operate; proper integration of employees; ensuring that common systems are adopted.

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