unIPartners Ltd is pleased to submit the following in response to the Australian Government's "Tax incentives for early stage investors Policy Discussion Paper February 2016". unIPartners is driven from Flinders University (Flinders Partners) and has been specifically referred to in the IRU submission.

unIPartners Ltd applauds the current government on its overall Innovation and Science Agenda in general and this initiative to stimulate and provide confidence for early stage investors. unIPartners Ltd has been created to facilitate more effective commercialisation of technologies derived from Australia's research intensive universities whilst addressing the key challenges and problems associated with the traditional approaches taken by the university and business sectors.

Traditionally, the progress of technology and intellectual property (IP) developed within a university through the start-up phase to final commercial uptake has required the involvement of multiple counterparties at the various stages of the business' lifecycle. With each stage, each start-up business faces new challenges including identifying the appropriate sources of capital to ensure it has sufficient funding to achieve its next milestones. The business model adopted by unIPartners Limited (unIPartners or the Company) seeks to address many of the challenges faced by early stage companies by providing a seamless and integrated approach to funding and commercialising IP from the concept stage through to full commercial realisation.

The unIPartners' model

unIPartners is a newly formed IP commercialisation company which aggregates and incubates the outcomes of new research projects sourced from universities located in Australia, New Zealand and the Asia-Pacific (Partner Universities). These Partner Universities entered into Memoranda of Understanding (MOUs) with unIPartners with the aim of commercialising research projects covering a range of fields including information technology (IT), biotechnology and healthcare.

The company's objectives are to bring unIPartners' business commercialisation skills and funding together with technology and IP developed within the Partner Universities to create new commercial opportunities. unIPartners is currently preparing for listing on the ASX in July 2016. It is seeking to raise $50 million and has already signed Australian universities.

unIPartners invests at three different stages of the investment cycle, targeting the various stages of development of each potential opportunity identified by the relevant Partner University. The fourth stage in the model is the Investee Company investment realisation stage.

Stage 1:	Proof of Concept stage commercial opportunities will be funded by a Seed Investment Fund (SIF) established for the Partner University.
Stage 2:	A Follow on Investment Fund (FIF) will be used for continued investment and potential incorporation of promising commercial opportunities.
Stage 3:	unIPartners may also elect to invest directly in existing spin-off companies established by the Partner University to enable the development of commercial opportunities and market growth for such companies.
Stage 4:	Market realisation through IPO, trade sale or management buyout of Investee Companies.

Most importantly unIPartners bridges the critical gaps between funding and research and innovation and between the investment community and the university sector. Highlights of the unIPartners approach include:

- Unique timing in development cycle
  unIPartners' uniqueness and future opportunities stem from its relationships with its Partner Universities: Projects are funded from the "proof of concept" (Proof of Concept or PoC) stage meaning that new ideas and technologies are captured early and relatively inexpensively. This unique relationship facilitates access to opportunities for investors at a lower entry cost than later stage investments, optimising the potential uplifts in valuation as the concept is developed into a business.
- Applying commercial business expertise to a university environment
  unIPartners brings business expertise to PoC-stage ideas and technologies developed within its Partner University network. unIPartners has forged and will support a strong collaborative relationship with each Partner University's Technology Transfer Office (**TTO**). Many of these opportunities sourced from the TTOs already have hundreds of thousands of dollars in research behind them. They are significantly different from traditional start-ups.
- Patient Capital
  Start-up businesses require both time and capital to reach their full potential. The unIPartners structure allocates patient capital to support early stage growth businesses through to the point where they are self-funding or can be monetised. This attracts sophisticated investors.
- Risk management and diversification
  Because early stage concepts from the research departments of the Partner Universities are aggregated via unIPartners, the challenge of choosing winners is mitigated. Increases in valuations in unIPartners' Investee Companies are recognised as profit and capital growth is revalued and appears as an asset in unIPartners' financial statements.
- Secure and diversified business opportunities
  unIPartners' Collaboration Agreements with its Partner Universities will provide unIPartners with a secure and diverse source of commercial opportunities from a highly respected network of research intensive universities that have a history of originating and commercialising valuable IP. Due to unIPartners' business model, there will be a greater emphasis on short/medium term opportunities.

The unIPartners investment approach is modelled on that of London Stock Exchange listed company, IP Group PLC. IP Group has successfully commercialised a number of research projects from its now 15 partner universities over the past 12 years and grown its market capitalisation from GBP111.76m when listed in October 2003 to GBP1.314bn today. IP Group pioneered the concept of the long-term partnership model with UK universities. Its revenue stream is derived from the sale of equity in spin-out companies and income from licensing of IP.

unIPartners is bringing this proven approach to addressing the government's objectives from its Innovation Agenda and early stage investor support to Australia. It is critical that the government's policies supporting this appropriately accommodate both the traditional and the next generation of technology commercialisation approaches required to increase Australia's performance in this area.

More detail of the unIPartners' model and activities can be obtained through contacting Flinders Partners and unIPartners Managing Director Anthony Francis on 0466 090 248 (anthony.francis@flinderspartners.com).

Response to the Discussion Paper

We wish to address a number of key elements of the Policy Discussion Paper critical to achieving the need identified above.

The discussion paper highlights the “tax incentives are designed to encourage investment into Australian innovation companies (innovation companies) at earlier stages, where a concept has been developed, but the company may have difficulty in accessing equity financing to assist with commercialisation”. The unIPartners model addresses both elements of this statement; stage 1 working with and within the universities’ Technology Transfer Offices (TTO) even before Proof of Concept (PoC) and the provision of early stage equity funding (and beyond based on ongoing start-up company and market growth).

As drafted the proposed policy would preclude unIPartners from participating in the scheme.

The discussion paper also states “The Government is mindful that innovation companies beyond a certain size should still be able to benefit from Australia’s existing venture capital regime. This does not acknowledge the current shortcoming all to frequent with the traditional VC model; the inability to attract equity funding post VC exit (“valley of death”). unIPartners addresses this through its whole of opportunity investment and patient investor strategies.

To accommodate the unIPartners model requires amendment to the key qualifying definitions.

Australian Innovation Company

The policy’s intent to define criteria for an eligible innovation company is welcomed. However the criterion “is not an entity listed on any stock exchange”, whilst consistent with the traditional commercialisation approach, precludes direct benefits being available to the emerging more effective and risk distribution approach to achieving the policy’s overall objectives. As written the draft policy in excluding listed companies from becoming an innovation vehicle, and while this is likely to be because of integrity concerns associated with access to the proposed tax concessions, in the long-run it is suggested it will inhibit investment in innovative technologies.

unIPartners itself opens up the sector to a new investment market. By having a portfolio of university co-owned technology private company equity, unIPartners addresses the key issues of risk and liquidity that the government seeks to address. With qualified deal flow, investment and co-investment - issues of risk to non-sophisticated investors is reduced. Similarly by being traded on the stock exchange as a portfolio it enables liquidity to the investor. Most importantly this combination enhances the whole sectors appeal, risk and potential.

Similar commentary applicable to the proposed criteria discussion on page 5 “Gateways and Safe Harbours” (Method 2).

It is recommended the policy be extended to allow for the incentive measures to be available to listed companies such as unIPartners who’s designated to deliver innovation and more effective structures to transfer university derived early stage technologies to realisation via the proposed structured and managing company development and deliver to market.

Related to this, the principles listed on page 4 (Method 1) outlines a number of proposed criteria that again appears based on the traditional focus on an individual start up developing a particular technology, not the portfolio approach of unIPartners. This is also relevant with regard to the consideration of “Eligible Investor”.

A structure like unIPartners would attract investors beyond merely ‘sophisticated investors’ (as previously mentioned) because it would be obliged to meet the rigorous disclosure requirements imposed on listed companies. Where it can be demonstrated that potential investors are able to make decisions based on a suitable level of disclosure, they should not be precluded from accessing potential tax concessions simply for the reason that they are not deemed to be 'sophisticated' for company law purposes. Accordingly, as it stands, the policy to date appears to be disadvantage and exclude a wide range of investors

It is recommended that the unIPartners commercialisation model also be deemed eligible under the policy's principles.

Eligible Investor

Again the draft policy is primarily framed around the traditional concept of "direct investment into an innovation company is the first method that will attract the tax incentives". In addition proposed criteria such as "an investor (including their affiliates) cannot hold, nor have rights to, more than 30 per cent of the issued capital of an innovation company" does not:

- Reflect the reality of a model like unIPartners, who enter into the technology commercialisation "pipeline" with the Partner University at a very early proof of concept phase, at this time usually with an initial equity distribution in excess of the 30% (in the case of unIPartners it limits its equity at any stage to less than 50%) as usually the only equity holders are the University, unIPartners and an allocation to the inventor;
- Acknowledge the reality that as the start-up develops with new and required equity investment injections (in the case of the unIPartners model through private equity investment) companies such as unIPartners will dilute their equity holding, although the value of the start-up increases.

It is recommended that technology development companies applying the unIPartners model be recognised as an Eligible Investor.

A general and maybe alternate policy consideration could be that instead of a series of prescriptive exclusions, consideration should be given to whether a body such as the ATO or Innovation Australia could designate entities as 'innovation funds' and regulate these entities in a manner not dissimilar to the way the Australian Charities and Not-for-profits Commission oversees charities in Australia. Such an oversight body coupled with a stringent self-regulation regime would obviate the need for restrictive conditions to be put in place around what does and what doesn't qualify to be an innovation fund, and would also be an appropriate mechanism for assessing the effectiveness and reach of innovation funds. Such an approach would arguably facilitate expansion of the pool of potential investors into innovation funds to include superannuation entities and managed funds for example, which could then flow tax credits back to members/investors

A structure like unIPartners would attract investors beyond merely 'sophisticated investors' because it would be obliged to meet the rigorous disclosure requirements imposed on listed companies. Where it can be demonstrated that potential investors are able to make decisions based on a suitable level of disclosure, they should not be precluded from accessing potential tax concessions simply for the reason that they are not deemed to be 'sophisticated' for company law purposes. Accordingly, as it stands, the policy to date appears to be biased against a wide range of investors

From the outset, the submission must make clear that while unIPartners applauds the Government's effort to encourage investment in innovative companies, the option presented in the paper is too narrow and does not accommodate structures, like unIPartners, that are directed at providing a range of investors access to 'Australian innovation companies'.

In closing this section it is suggested the policy-development process cannot afford to be overly pragmatic merely because the Government intends to implement measures with effect from 1 July 2016. To the extent that the over-arching aim of policy is to attract investment in innovative technologies, thought must be given as to what new structures should be allowed and how traditional structures must adapt in order to achieve this aim.

Responses to Specific Discussion Paper Questions

A range of comments in response to the specific questions presented in the discussion paper are:

4.1

The additional principle we would add is that there has been a shareholding or vested interest by an Australian Research Organisation (University etc.) that has resulted from a technology transfer or research relationship. We say this because not all transactions here are reflected in a patent or license.

4.3

The regulatory/ approval process needs to be one of compliance and endorsement rather than approval. The investment community needs certainly on investment.

4.5

See 4.3 - yes, however the guidelines need to be clear and there needs to be an exceptional case approval mechanism for that may test the guidelines but achieve the outcomes desired.

4.6

We would not see an accelerator program as being necessarily an ingredient for success. Rather that the company and/or a portfolio manager have appropriate management - unfortunately this is almost impossible to assess. Instead the attraction of capital seems to be a much more “all encompassing” criteria which becomes largely self-regulating.

4.8

This is appropriate, however many companies that are Australian need to establish a subsidiary overseas to hire folk and to be credible in that market. This should not exclude those from eligibility.

6.1

Yes a cash call would be useful, but the sector is definitely aware but not always willing to make investment. Some incentive would be useful. Perhaps a more appropriate incentive would be a onetime direct incentive based on the funds raised to the investment vehicle. This would be required to be invested into subsidiaries within 5 years or returned to the government. This would give the effect of increasing the capital value of the investors’ investment (incentive) and ensure funds are spent on qualifying investments.

6.3

We are in advanced discussions with a public company that will be established to exclusively deal with University IP. Other Universities such as Murdoch are in a similar position. This works of the highly successful IP Group model in the UK. These entities should be specifically included in the notion of a qualifying investment fund. If they are not it will severely hamper the uptake of investment as these structures give confidence to investors as well as resolve the issue of proper management. Both Malcolm Turnbull and Christopher Pyne are aware of these models and see their value.

6.4

Public Companies established for this specific purpose will already go through a rigorous ASX market led process. Other companies perhaps should have some credibility in terms of past performance of the individuals and connections to further investment and capital markets.

6.5

In the main, this should be self-managed. The broader issue of ensuring adequate coverage of risk in terms of number of spin off companies, access to deal flow, existing investments would be a more appropriate risk management approval process.

Closing Remarks

unIPartners represents a model that should be encouraged within the innovation framework. By assembling a portfolio, partnering with universities and applying a proven process to the Australian research base it provides a platform for high growth companies from Australia's research. In addition it adds liquidity to truly create 'patient capital'.

We would be pleased to brief the government further on the initiative, and specifically its role within the proposal regulation. We have recently had the privilege of having the opportunity to introduce both the Prime Minister and the Minister for Industry, Innovation and Science to the concepts and benefits of our approach.

As mentioned, by developing the initiative in this manner we will open the sector to a much broader base than perhaps anticipated. Our analysis shows this would extend to the growing market of superannuation and self-managed superannuation funds. This is particularly true given the investment in listed securities (avoiding the valuation issues) and it offers capital growth as a key objective.

unIPartners would like to be involved in targeted consultation on the policy. We again applaud the government on the existing options in the paper, we suggest it is a welcome start. It is acknowledged that our approach is seeking greater reform to better address the overall objectives of the Government's Agenda and Policy. We would welcome the opportunity to be involved in further consultation on these matters.

Please call Anthony Francis for further information.