

Delineating Securities-Based Crowdfunding



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about me

thecrowdcafe.com

leading provider of research, data and analysis on the global crowdinvesting industry

localinvestors.org

live, think, invest local



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Ellenoff Grossman & Schole LLP

Leading law firm serving the
crowdfunding industry



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rewards vs. investment

Reward-Based

- ▶ Receive no financial return
- ▶ Rewards / Perks
- ▶ Legal today

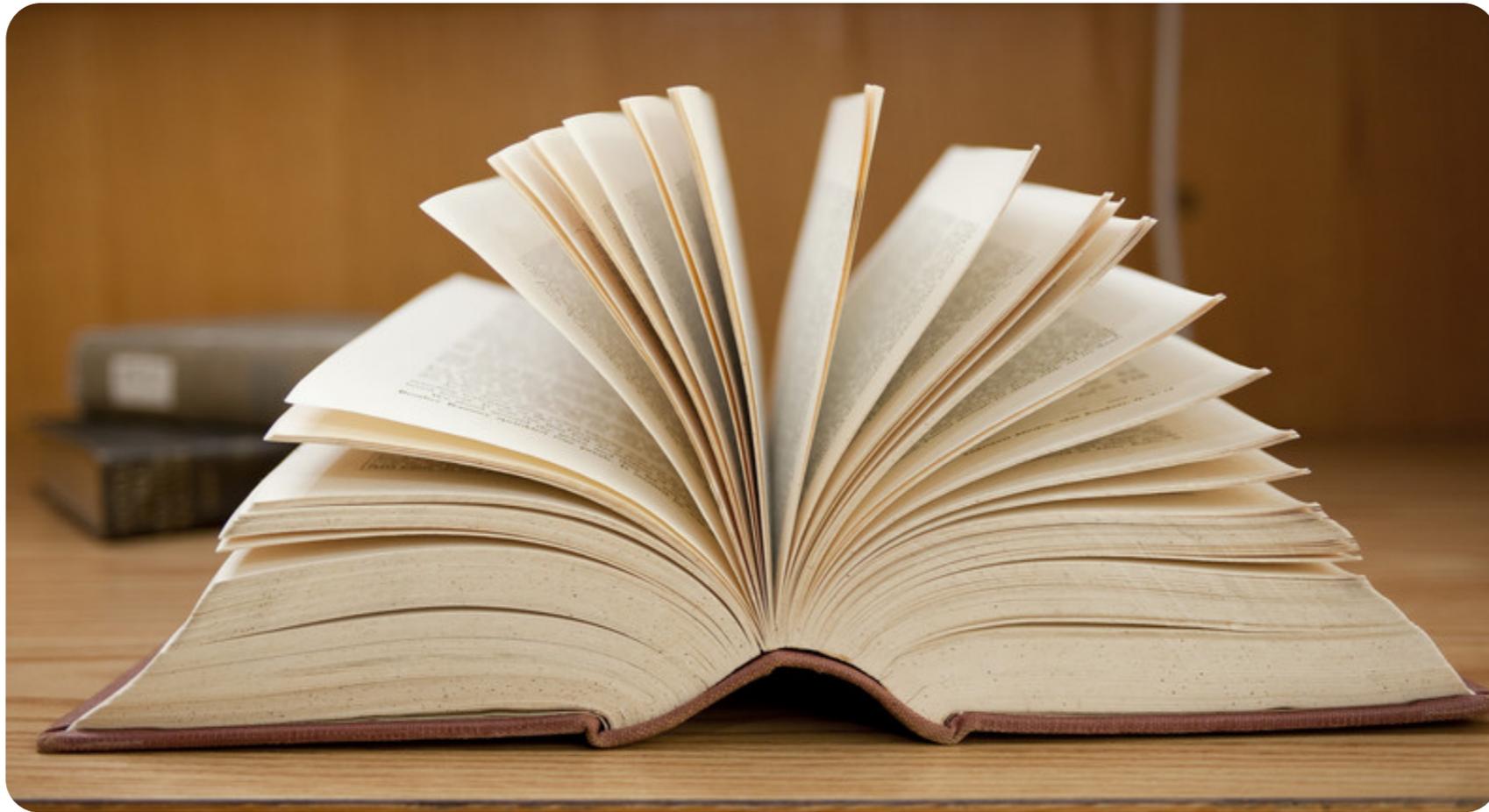


Investment-Based

- ▶ Securities offered in return for crowds' investment
 - ▶ Equity
 - ▶ Debt
 - ▶ Revenue share / Royalty
 - ▶ Blended
- ▶ The **JOBS** Act
 - ▶ Title II vs Title III

The Legalities of Investment Crowdfunding

Title II & Title III of the JOBS Act



The JOBS Act

Title II

- ▶ Lifts ban on general solicitation and advertising on security offerings to **accredited investors**
- ▶ Amended Form D (Proposed changes only — currently NOT in effect)
- ▶ Effectuated September 24th, 2013

Crowdfunding for Accredited Investors

Title III

- ▶ **Businesses** Raise up to \$1mm in 12-month period
- ▶ **Investors** tiered limits on investment amount
- ▶ Rule-making includes SEC **and** FINRA
- ▶ Proposed rules released. Commenting period open through January 2014

Crowdfunding for Everyone

Title II In Action

Demo Days



DEMO DAY
SEPTEMBER 23, 2013

10 TEAMS PRESENTING
250 PEOPLE ATTENDING
+ LIVE INTERNET BROADCAST

Title II In Action

Startup Investing



*"You can pick your own winners, and invest as little as \$1000—
or invest **\$5000 in a fund with all 25.**"*

Title II In Action

Real Estate Investing



Title II In Action

Global Deal Flow



*"As a result of the new SEC regulations, effective today, all of **OurCrowd's deals will be posted publicly for US investors** on OurCrowd's website as well as on social networks, email, and through online and offline advertising and public meetings."*

Title II Impact

- ▶ Brings dramatic **efficiencies** to private capital markets
- ▶ Geographically **indiscriminate**
- ▶ Creates **frictionless** access to deal flow for investors
- ▶ Creates **frictionless** access to investors for businesses

Investment Crowdfunding

The Mechanism

the mechanism

Rewards-Based

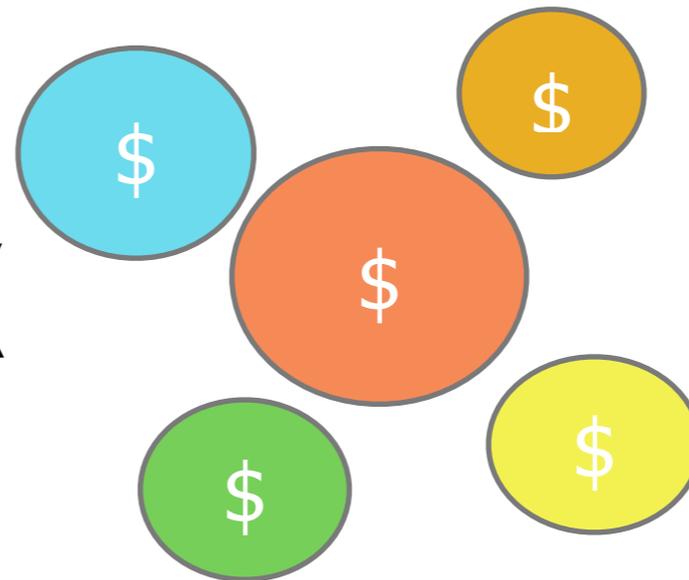
CUSTOMERS

AFFINITIES

FAMILY

FRIENDS

X



=

Funded



the mechanism

INVESTORS

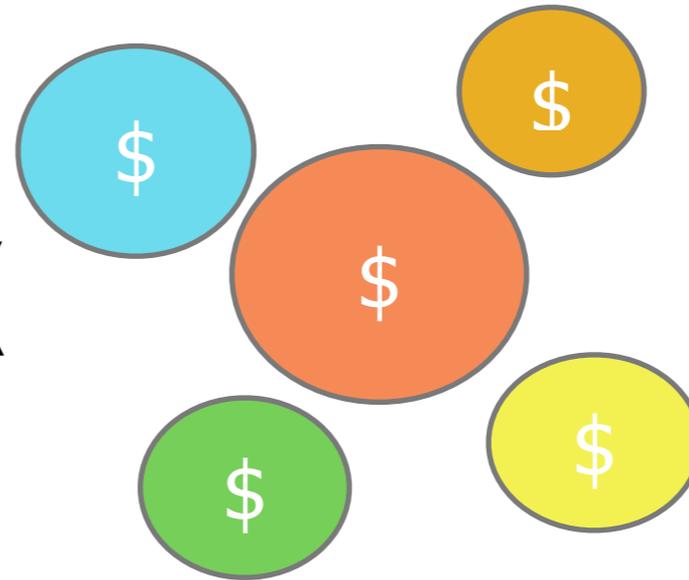
CUSTOMERS

AFFINITIES

FAMILY

FRIENDS

X



=

Funded

the mechanism

INVESTORS

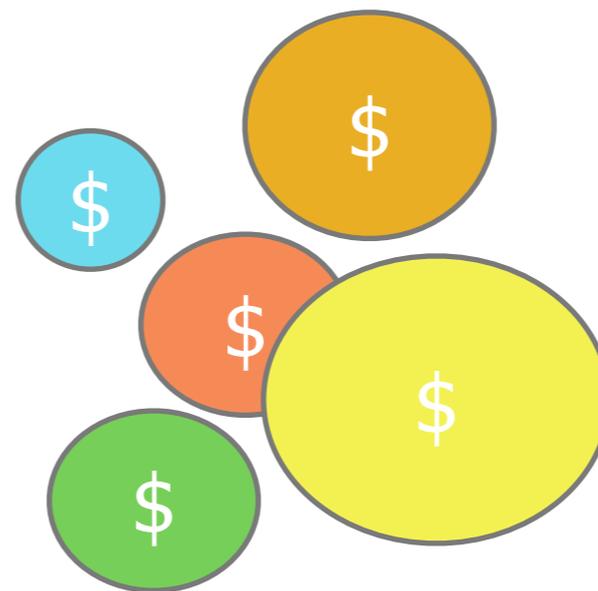
CUSTOMERS

AFFINITIES

FAMILY

FRIENDS

X



=

Funded

the mechanism

INVESTORS

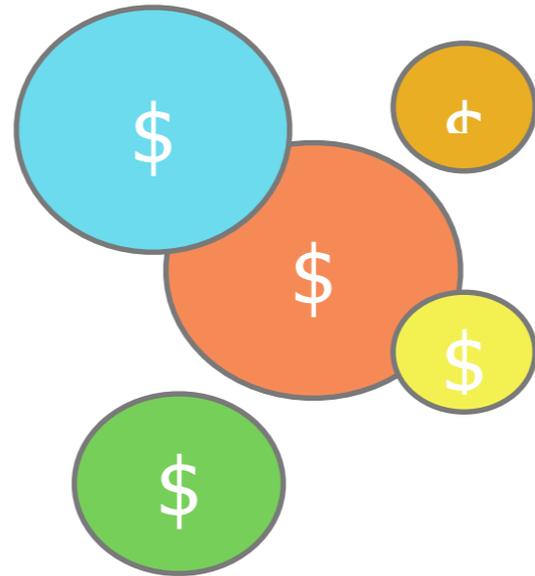
CUSTOMERS

AFFINITIES

FAMILY

FRIENDS

X



=

Funded

the mechanism

INVESTORS

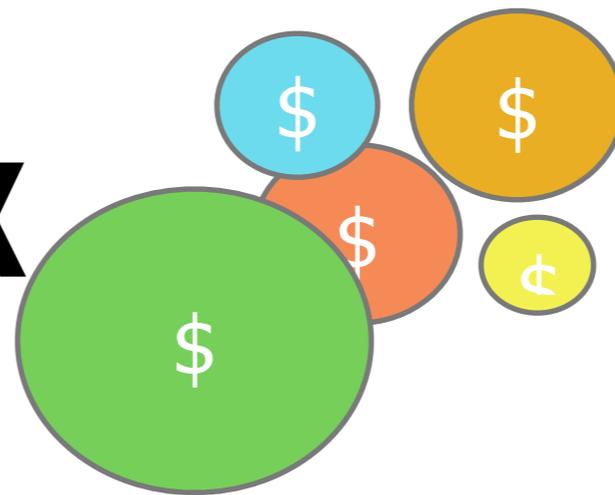
CUSTOMERS

AFFINITIES

FAMILY

FRIENDS

X



= **Funded**

the mechanism

INVESTORS

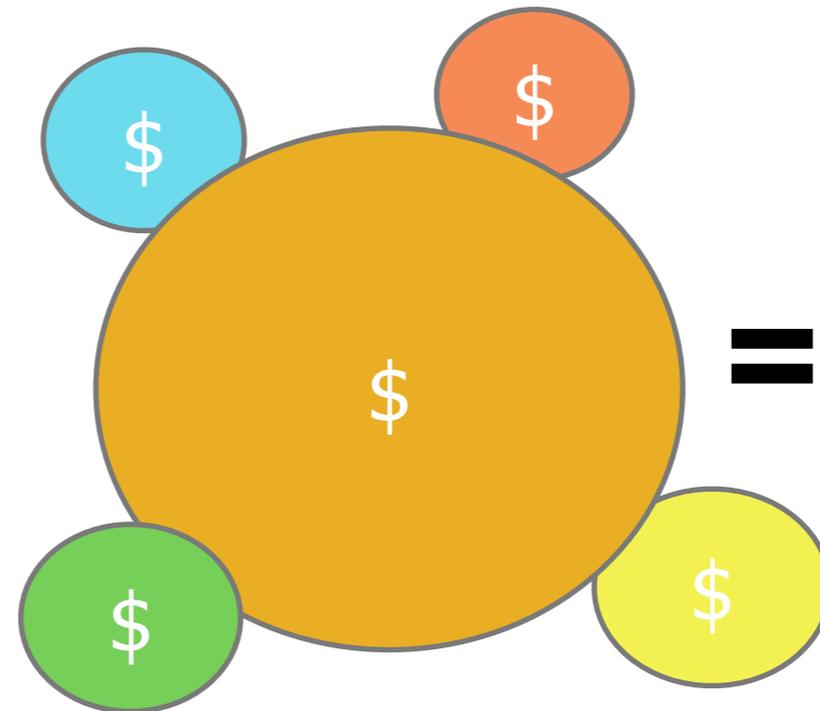
CUSTOMERS

AFFINITIES

FAMILY

FRIENDS

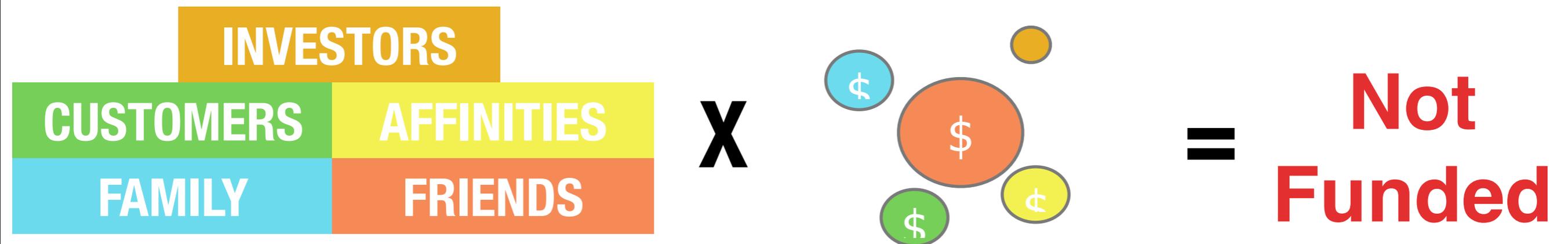
X



=

Funded

the mechanism



So... why is investment-based crowdfunding such a big deal?

rewards vs. equity

Median Fundraise

KICKSTARTER

~\$5,000

 crowd**cube**.com

~\$160,000

CircleUp

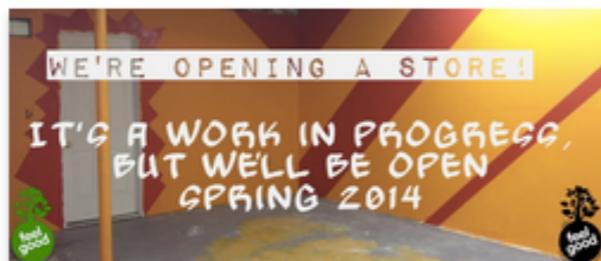
~\$775,000

CURRENT CAMPAIGNS

View By:

CAMPAIGNS

REWARDS



NEW ENGLAND LONGBOARDS

DERRY | NH

Become part of New Hampshire's newest Longboard Shop

\$100 of \$10,000
AMOUNT INVESTED

1
DAYS LEFT



BUNKERS HILL CONSTRUCTION

HARLEM | NY

We are moving to a Harlem based incubator to continue construction projects that matter to the community.

\$1,220 of \$10,000
AMOUNT INVESTED

2
DAYS LEFT



RHYTHM CONNECT

FAIRPORT | NY

(Fairport, NY) Local Music Store Drums Up Deep Discounts and 'Noteworthy' Deals to Fund Move & Expansion to Main St.

\$687 of \$20,000
AMOUNT INVESTED

3
DAYS LEFT



YOGA WITH FRIENDS

ATLANTA | GA

Spreading the joy of yoga, one group of friends and one mobile-location at a time.

\$775 of \$4,000
AMOUNT INVESTED

5
DAYS LEFT



DIG SOUTHEAST

PITTSBORO | NC

Creating local block from North Carolina clay

\$2,006 of \$20,000
AMOUNT INVESTED

23
DAYS LEFT



KIMONO USA

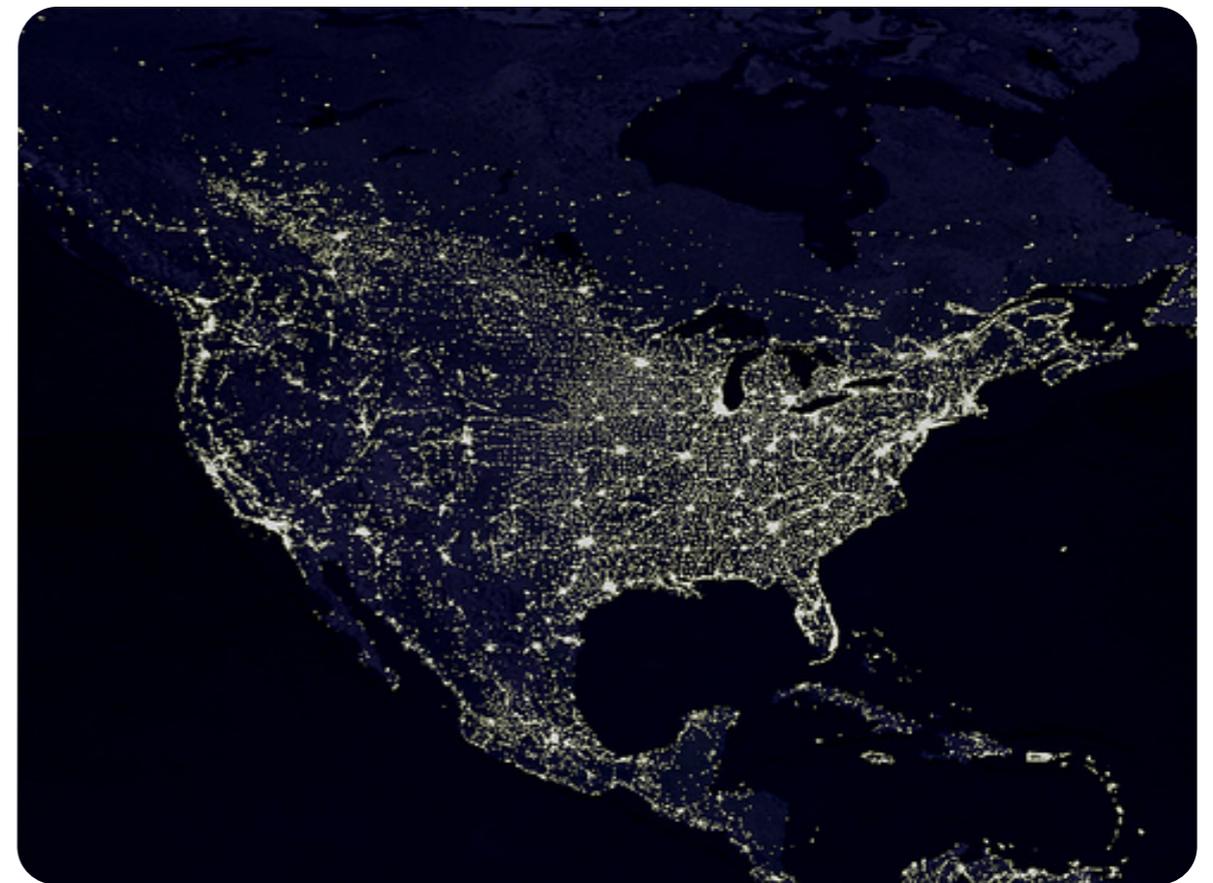
ROSWELL | GA

Cultivate the perfect venue for traditional Japanese arts and crafts for local Japanese-American artists when you fund our project...

\$0 of \$5,000
AMOUNT INVESTED

40
DAYS LEFT

The U.S. Market



Platforms market segmentation

Investment Crowdfunding Platforms

Startups

SMBs

Niche/Affinity

 AngelList

 MicroVentures

seedinvest























Platforms market segmentation

Startups

1. [Angellist](#)
2. [Gust](#)
3. [Seedups](#)
4. [MicroVentures](#)
5. [Seedinvest](#)
6. [FundersClub](#)
7. [RockThePost](#)
8. [WeFunder](#)
9. [Fundroom](#)
10. [FundersClub](#)

SMBs

1. [SoMoLend](#)
2. [Bolstr](#)
3. [Fundable](#)
4. [Localstake](#)
5. [Dealstruck](#)
6. [LendingClub](#)
7. [P2BInvestor](#)
8. [Raiseworks](#)
9. [Relayfund](#)
10. [Prosper](#)

Niche

1. [HealthFundr](#)
2. [VentureHealth](#)
3. [Poliwogg](#)
4. [HealthiosXchange](#)
5. [ExplorationFunder](#)
6. [Agfunder](#)
7. [Fquare](#)
8. [RealtyShares](#)
9. [RealtyMogul](#)
10. [RealCrowd](#)
11. [Groundbreaker](#)
12. [Crowdmason](#)
13. [Collaperty](#)
14. [CircleUp](#)
15. [ReturnOnChange](#)
16. [WeSparkt](#)
17. [Slated](#)
18. [Pave](#)
19. [Upstart](#)
20. [Alumnifunder](#)

Generalist

1. [EarlyShares](#)
2. [EquityNet](#)
3. [ExemptCapitalNetwork](#)
4. [FlashFunders](#)
5. [Ibankersdirect](#)
6. [ConfidentCrowd](#)
7. [99funding](#)
8. [IRAvest](#)
9. [Crowdfunder](#)
10. [FundAmerica](#)
11. [Axial Markets](#)

Platforms market structures

The Curation Spectrum

**Very High
Curation**

High

Moderate

**No
Curation**

5%

25%

50%

100%



<5%

acceptance rate



100%

Platforms business models



20% Carry



10% Success Fee + 10%
Carry



\$19 - \$69 / month

The U.S. Market

Concluding thoughts...

- ▶ **Investors** Productization
- ▶ **Investors** Secondary markets
- ▶ **Investors** Portfolio management
- ▶ **Businesses** Ecosystem: one-stop shop for fundraising
- ▶ **Businesses** Optimization of the Cap Table (pre-funding)
- ▶ **Businesses** Optimization of Execution (post-funding)

Global Snapshot

What's the data say?



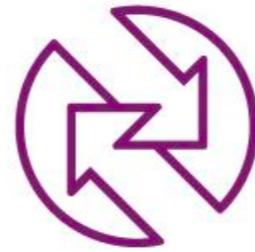


Macro-Data: Selected Sample



Equity

180 Deals
\$132 Million



Funding Circle

Debt

3,142 Deals
\$294 Million



Equity

83 Deals
~\$26 Million



Equity

11 Deals
\$954k



Equity

32 Deals
\$3.3 Million



Equity

23 Deals
~\$25 Million

\$300+ Million in Crowdfunded Security Transactions...

300+ Equity Placements

2,900+ Loans

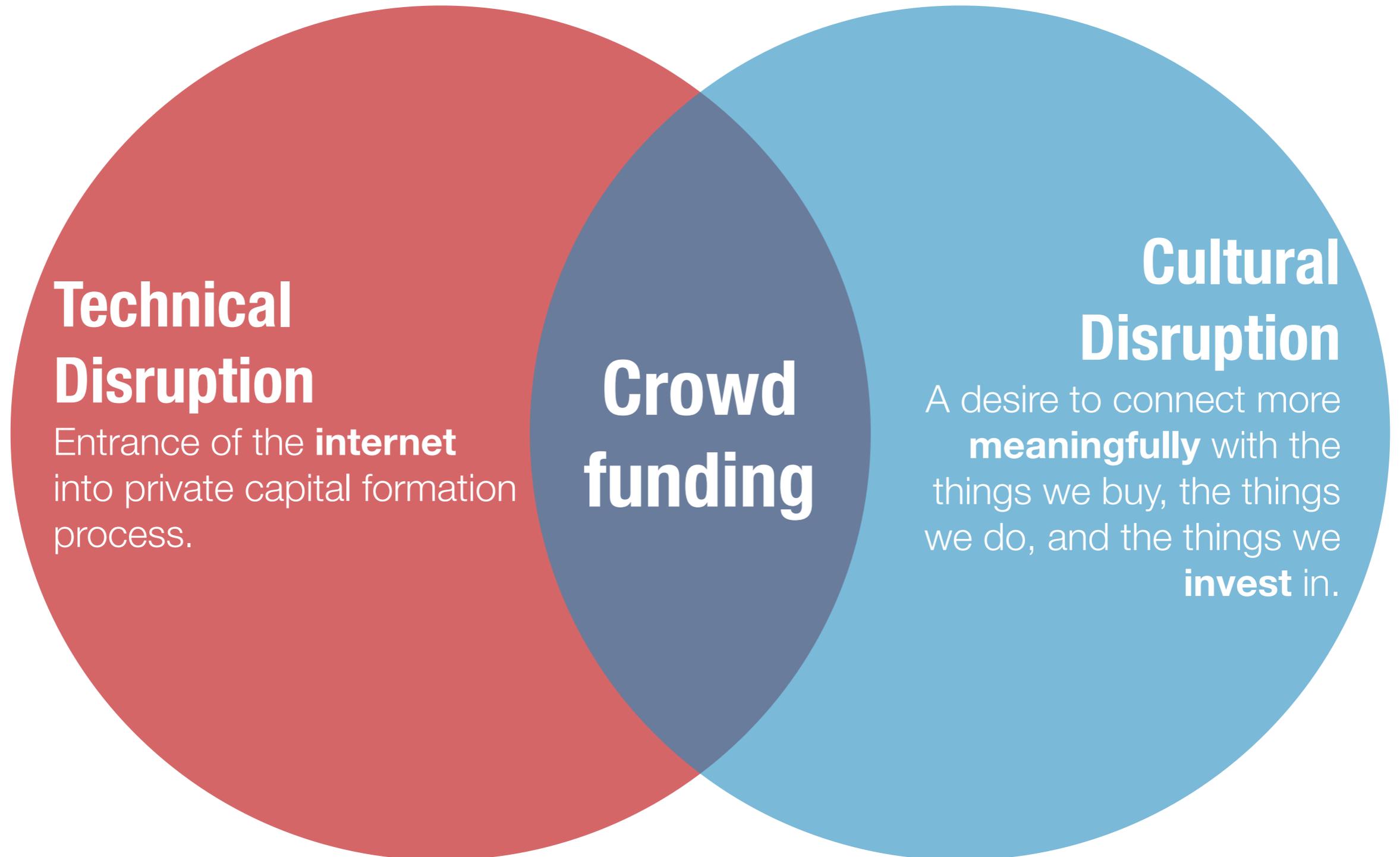


The Disruption – Not If, But When



Investment Crowdfunding

Two mega-trends colliding



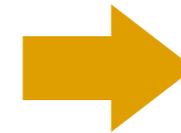
Internet-driven Disruption

Technical

Before

After

Music



iTunes

Travel



Retailing



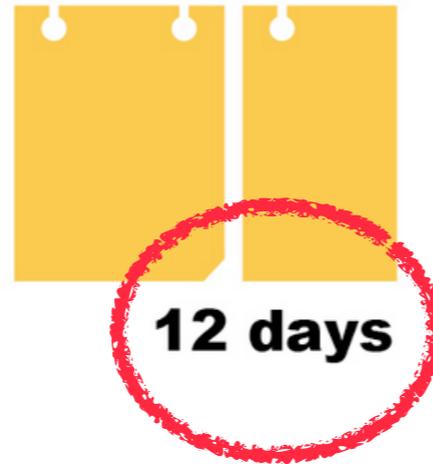
A fundamentally more efficient capital formation process

Technical



Funding Circle

Better for business, better for investors, better all round.



A Big UK Bank



A fundamentally more efficient capital formation process

Technical

The screenshot shows the AngelList website interface. At the top, there is a navigation bar with a search bar and a 'NEW' badge next to the text 'Invest in Rock Health's graduating class'. Below the navigation bar, the main heading reads 'Public Fundraising It's here' with the subtext 'Tell the world you're raising money.' Below this, there are three investment opportunities listed:

- MITCH KAPOR INVESTING**
 - SoundFocus**: The next generation of hearing aids (YC S13)
 - TEAM: Went to Stanford
- YVES BEHAR INVESTING**
 - soil IQ Soil IQ**: Nest for lawn and garden
 - TEAM: Went to Princeton
- HIRO MAEDA INVESTING**
 - Asseta**: eBay for Manufacturing Equipment (YC S13)
 - FOUNDER: Anton Brevde

Technical Disruption

Technical

Summed up...

- ✓ The first major change in security law in 70+ years;
- ✓ Invites the internet into the capital formation process.

What it means...

- ✓ Processes moved online
- ✓ Efficiencies realized
- ✓ Incumbents with traditional cost structures obseleted
- ✓ New markets served

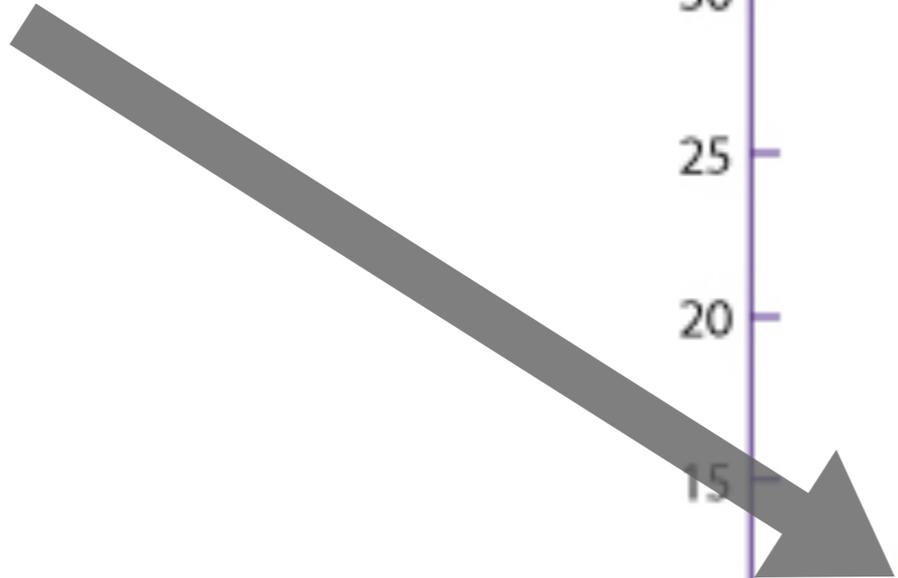
**But it's not just structural change
driving the disruption.**

It's also cultural.

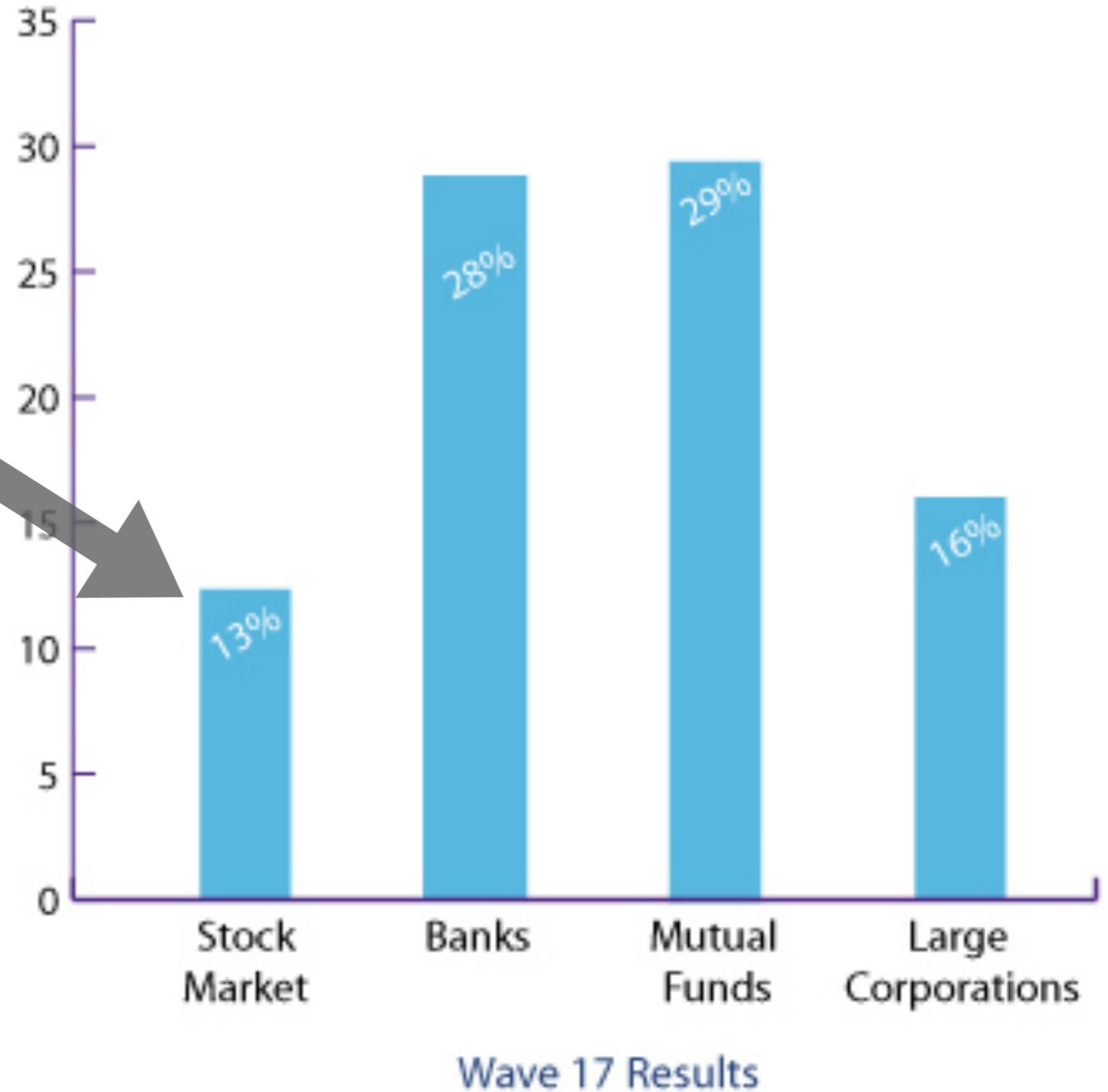
Chicago Booth: 13% of Americans trust the stock market



Distrust is pervasive



Chicago Booth Financial Trust Index



Today

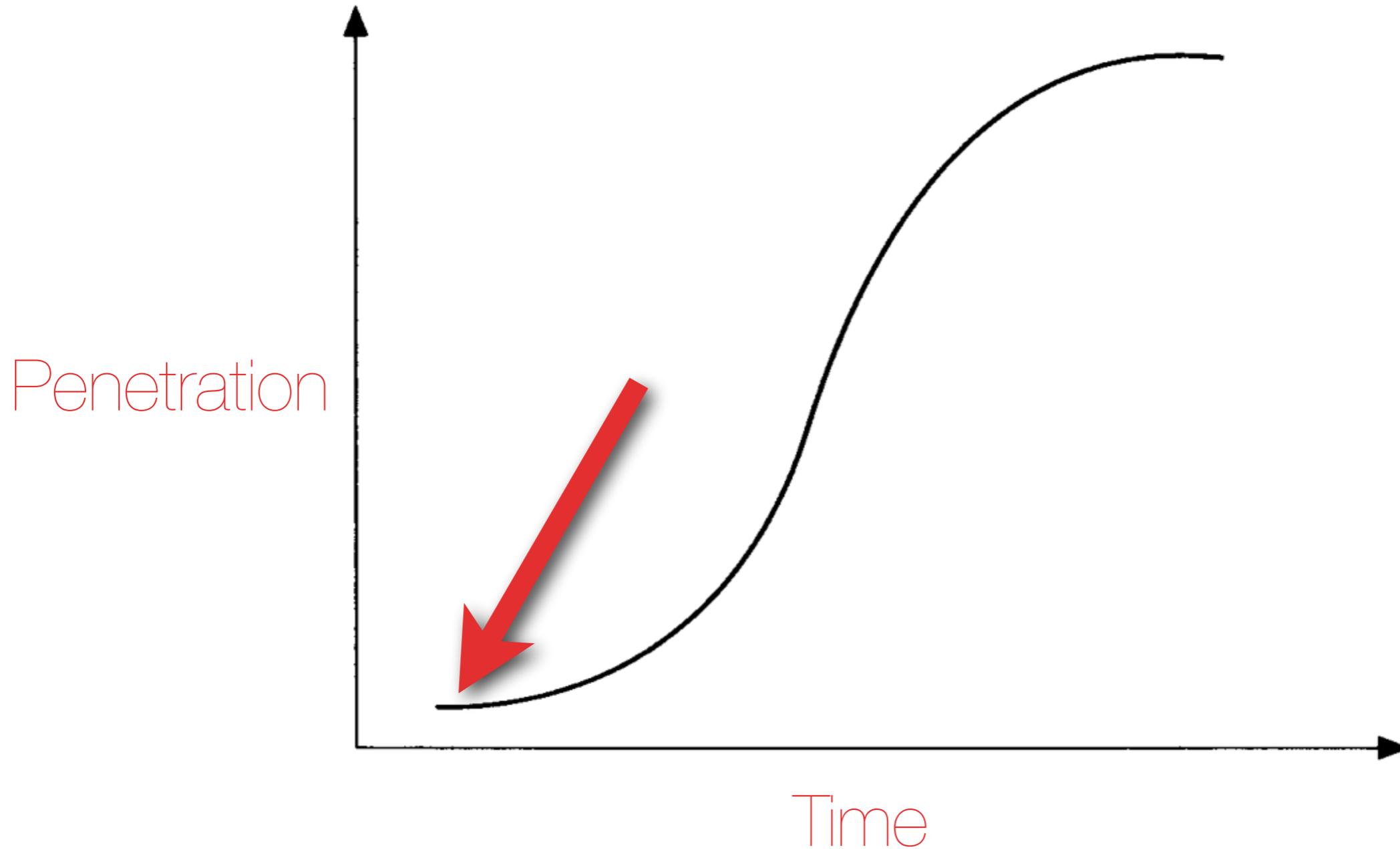
little alternative to public markets

Tomorrow

individuals empowered to invest in the the companies,
people and causes they believe in

Where are we?

Market Adoption: S-Curve



Thank You!

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