HOW DOES CROWDFUNDING IMPACT JOB CREATION, COMPANY REVENUE AND PROFESSIONAL INVESTOR INTEREST?
Crowdfund Capital Advisors

ABOUT

Crowdfund Capital Advisors (CCA) is the leading global advisory and consulting firm on early-stage finance initiatives including equity, debt and rewards based crowdfunding strategy and implementation. Our clients are investors, governments, multi-lateral organizations, development NGOs and entrepreneurs who seek strategic advice and tactical implementation of crowdfunding ecosystems. CCA has worked in 24 countries on projects to create jobs, innovation and entrepreneurial success through new business financing tools. Example projects include:

• Development of early stage finance landscape and gap analysis

• Creating roadmaps for creating crowdfunding strategies that support common sense reforms to existing securities regulations

• Delivering educational programming to regulators, government officials, and business executives to build consensus and understanding of the opportunity and power of crowdfunding

• Creating roadmaps to use new financing tools (e.g. crowdfunding) to connect and enhance existing entrepreneurial ecosystem efforts

• Planning for capacity building initiatives for entrepreneurs to support effective use of these new financial tools for job creation and business development.

The CCA Group Principals, Jason Best and Sherwood Neiss are also Co-Founders of The Program for Innovation in Entrepreneurial and Social Finance within the Coleman Fung Institute for Engineering Leadership at The University of California, Berkeley. The Program’s Academic Director is Professor Lee Flemming and the Program hosted the first Global Crowdfunding Academic Symposium in October 2013 with over 100 academics from 15 countries. Best and Neiss serve as Entrepreneurs-in-Residence at the UC Berkeley Center for Entrepreneurship and Technology.

For more information visit www.crowdfundcapitaladvisors.com or send an email to info@theccagroup.com.
EG&S has been one of the most active IPO law firms in the US for the last 5 years (top 20 in 2012 and 4th in 2011); #1 Broker-Dealer counsel for PIPEs and Registered Directs and #1 world wide for SPACs and SPACquisitions. We represent 50 public companies.

Ellenoff Grossman & Schole has been meaningfully involved in the crowdfunding program since its inception. The Firm has sponsored conferences, webinars and has been invited to speak at different events on the topic. Douglas S. Ellenoff, a member of the Firm, has met with the SEC on many occasions to discuss many aspects of the proposed new law, how the industry currently operates and how both the SEC and FINRA will register and regulate funding portals and the crowdfunding activity to be conducted. Mr. Ellenoff was invited to speak about Crowdfunding by both the SEC and FINRA.

The Firm is actively engaged with clients (funding portals, broker-dealers, technology solution providers, software developers, investors and entrepreneurs).

In cooperation with the industry trade association, the Firm is discussing what level of regulatory review and monitoring is appropriate by the SEC and FINRA in balancing the interests of the program with investor protection.
Key Findings

While there are dozens of articles and columns speculating whether crowdfunding works or not, the research team at Crowdfund Capital Advisors has recently completed a study of the actual impacts of crowdfunding on companies that raised money using this new form of finance.

Companies in the US, Europe and elsewhere that raised capital via rewards, equity and debt-based crowdfunding were questioned about the marketing benefits, job creation, follow-on investment and the return on investment (ROI). Key questions asked and findings from the survey include:

1. Does crowdfunding have a marketing benefit that translates into sales?
   - Crowdfunded companies (via rewards, equity or debt) increased quarterly revenues by an average of 24% post crowdfunding (not including amounts raised by crowdfunding).
   - Equity-based crowdfunding companies increased revenue by 351%.

2. Does crowdfunding create jobs?
   - 39% of companies hired an average of 2.2 new employees per company after crowdfunding.
   - An additional 48% of companies said they intended to use crowdfunding proceeds to hire new staff.

3. Does crowdfunding deter follow-on investment?
   - Within three months of a crowdfunding campaign, 28% of the companies had closed an angel investor or venture capital round.
   - An additional 43% were in discussions with institutional investors.

4. What was the ROI of a successful crowdfunding campaign?
   - Every hour invested in a successful crowdfunding campaign returned $813.
Research Methodology

In August 2013, our research team surveyed several hundred companies in the North America, Europe and Africa that had completed successful rewards, debt or equity-based crowdfunding campaigns from June 2012 to June 2013. The team randomly selected companies from major platforms including Kickstarter, Indiegogo, Symbid, Crowdcube, Seedrs, WiSeed and several others. None of the campaigns were for philanthropic causes, meaning that each campaign had to be for a for-profit business to understand the impact crowdfunding has on this type of entity.

We collected data from companies headquartered in the US, Canada, France, Finland, Ireland, the Netherlands, UK, Kenya and Namibia. Each country has its own specific laws regarding crowdfunding. The companies were offered anonymity or could select to disclose their contact information. About 8% completed an online survey (n=87, complete survey replies were gathered from 73 firms). Each company was also offered the opportunity to conduct an in-depth phone interview with our researchers, and 23 of the 73 completed a 30-minute phone interview where the research team discussed their experience with crowdfunding in more detail.

It should be noted that there might be some bias in the data since companies self-selected to participate and hence these findings represent those that had a positive experience with crowdfunding.

Crowdfunding Can Provide Significant Capital in a Rational Manner

- Across all forms of crowdfunding, from rewards to equity, the average amount raised in US dollar equivalents, was $107,810 (the mean was lower, $40,300, with the average skewed by some of the larger equity raises).

- The average equity raised, in US dollar equivalents was $178,790.

- The minimum and maximum amounts raised in US dollar equivalents via debt or equity crowdfunding ranged from $15,600 to $936,000.

- Firms sold between 5% and 50% of their company for an equity round with an average of 15%. 

THE RESULTS
The results show that market participants are acting in a rational manner. Issuers are not seeking more capital than they need and investors are not seeking unreasonable yields. The data also signal that debt campaigns took the place of traditional bank loans since this type of funding has slowed since the global financial crisis of 2008.

### Averages Raise/Yield

What can industry participants expect?

<table>
<thead>
<tr>
<th></th>
<th>Average Raise</th>
<th>Median</th>
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<tbody>
<tr>
<td>All Types</td>
<td>$111,100</td>
<td>$46,850</td>
</tr>
<tr>
<td>Equity Only</td>
<td>$178,790</td>
<td>$81,880</td>
</tr>
<tr>
<td>Debt Only</td>
<td>$62,421</td>
<td>$15,341</td>
</tr>
<tr>
<td>Rewards</td>
<td>$111,647</td>
<td>$25,800</td>
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</table>
Crowdfunding Campaign Benefits

There is a Direct Benefit of a Crowdfunding Campaign When Compared to Cost
The average company invested 135 hours of staff time in their campaign, with an average of 45 days engagement. Putting this into return on hours invested, the average crowdfunding campaign returns $813 dollars for every hour invested. The average company spent just over $2,100 on the campaign itself (video, marketing, social media marketing, etc). From this sample, a successful crowdfunding campaign appears to be a very effective marketing and revenue-enhancing use of a firm’s time and resources.

Companies also deploy this capital quickly. The average company spent 100% of their crowdfunding raise within 90 days of the end of the campaign. This can be attributed to the tendency of the firms to (a) spend more than anticipated on fulfillment and (b) hiring new employees soon after successfully using crowdfunding.

The most interesting statistic in the study was quarterly revenue growth— defined as quarter over quarter change. This growth was calculated net of the crowdfunding raise. We recognize that running a crowdfunding campaign is time and labor intensive, so we compared revenue figures for the quarter preceding crowdfunding to the quarter after the close of the crowdfunding campaign. The average increase in quarterly revenue across all types of crowdfunding was $12,675. This represents an average increase of 24% quarter over quarter. This result also lends credibility to the argument that fundraising moves a company’s focus away from sales. Hence the shorter the campaign, the faster a company can get back to generating revenue.

Immediate ROI in Equity Crowdfunding
Equity-based crowdfunding resulted in a quarterly increase of 35% (not including funds raised via the equity round).

While pledge or donation crowdfunding lead to an increase of 24% in revenues, equity-based crowdfunding resulted in a quarterly increase of 351%—not including funds raised via the equity round.
Impact on Jobs

Job Creation Depends on Size of Company and Type of Crowdfunding Used
Eight-Seven percent of firms either had or intended to hire new employees as a direct result of having raised equity or debt financing via crowdfunding. For the firms yet to hire, they intended to hire an average of 2.5 new employees.

Crowdfunding Campaigns are Used by Smaller Entities but Represent Job Potential
The survey also considered the size of the firms:
- The most common firm using reward-based crowdfunding only had one employee—the founder.
- 15% of the firms had more than two employees, with the largest firm having 15 employees.
- The average company size for debt or equity campaign companies was 2.1 employees.

What was the impact on job creation in these companies?
- Among firms using rewards-based crowdfunding, the median number of new hires was 2.0 with a maximum of 10 new employees hired after crowdfunding success.
- 28% of firms who had had success with pledge and donation-based crowdfunding hired new employees.
- 39% of firms who had success with equity or debt-based crowdfunding hired new employees. These firms hired an average of 2.2 new employees. In total, 87% of firms either had, or intended to, hire new employees as a direct result of having raised equity or debt financing via crowdfunding.
- The larger the firm size, the more likely the firm would reinvest crowdfunding proceedings into new employee hires.
- Firms with only one employee were extremely unlikely to hire new staff—they reinvested proceeds into product development.

This data indicate that crowdfunding may be a viable form of financing for small teams that would not qualify for institutional financing. It may allow teams to practice fundraising and leverage the proceeds to hire additional resources. It may also signal that companies using rewards campaigns might be testing market validation while equity and debt campaign companies might be looking for growth capital.

Post-Funding Job Creation
Where will jobs be created?

<table>
<thead>
<tr>
<th></th>
<th>Avg. Employees pre-raise</th>
<th>Median New Hires post-raise</th>
<th>% of firms hiring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards</td>
<td>1.0</td>
<td>2.0</td>
<td>28%</td>
</tr>
<tr>
<td>Equity Debt</td>
<td>2.1</td>
<td>2.2</td>
<td>39%</td>
</tr>
</tbody>
</table>
Building on his untraditional past, David’s is a true story of “rags to riches” in the making. Years ago, David was homeless, living on the streets of London. Turning his life around, he returned to school and landed jobs programming for Merrill Lynch, the British government and Microsoft.

Case Study

Crowdfunding Success Case Study: Microco.sm
Based in London, Microco.sm provides a portal that host’s discussion forums, bulletin boards, and communities. CEO David Kitchen describes his portal as the social media platform for the introverted community, turning the notion of Facebook on its head. The company is scheduled to go live in mid-January 2014.

Microco.sm chose to use the crowdfunding platform Seeders to list its offering.
Unlike other crowdfunding platforms, Seeders acts as a holding company for a group of investors, in turn being treated as a single investor for a given business. The first campaign had a fairly high threshold— £50,000 for 10 percent equity—but was met within 15 hours. About 90 percent of the investors were users of David’s prototype.

The second campaign had a threshold of £100,000 for just 5 percent equity—four times the price per share of the first offering—yet was met in a staggering 2.5 hours—again with 90+ percent of investors being users of the prototype. David believes that his success can be attributed to the emotional connection of investors who believe in him and his portal.

Soon after the first crowdfunding campaign, several angel investors and venture-capital firms approached Microco.sm. David declined their interests and decided to stay on his own for a little longer.

After the second and even more successful campaign, Microco.sm was approached by many of the A-grade venture-capital firms in the UK. Out of these many firms that approached David, only one had a concern with the number of crowdfund investors. That concern was quickly resolved when the firm realized that they would be working with only one other legal shareholder: Seeders. David attributes crowdfunding as a key part of Microco.sm’s success thus far.
Crowdfunding Option

Crowdfunding Is Not the Option of Last Resort but Rather the First Choice
One of the main issues in crowdfunding is whether it is a first option for firms with potential or if it is used by firms that have had failures in other capital markets.

The data on pledge and donation-based crowdfunding showed:
- 56% of firms used crowdfunding as their first choice in fundraising.
- 44% of firms had tried—and some with success—to raise funds using other methods.

Among UK and European firms who raised money on equity and debt platforms:
- 52% chose crowdfunding as their first means of fundraising.
- 48% had previously tried other forms of financing.

In this sample, the only form of financing companies had received was personal loans or credit financing—none had been able to raise money from the capital markets.

This may indicate that crowdfunding will be used by small enterprises as the first means of financing. Companies that previously did not qualify for traditional financing may be able to use a crowdfunding success as a reason to qualify for traditional financing later on.
Professional Investors Engage with Crowdfunding

Do Professional Investors Engage with Crowdfunded Companies for Follow-on Investment?
There is a consistent refrain that professional investors will not want to work with companies that have received crowdfunding investments. The data from this study suggest the exact opposite. Within three months of the closing of the crowdfund investing round, 28% of companies had completed a round of investment from either angel groups or venture capital firms.

Another 43% reported that they were in discussions with institutional investors. Notwithstanding any limitations from the nature of the survey, this data shows that success with crowdfund investing leads to expression of interest from professional investors rapidly after the close of the round.

CROWDFUNDING CREDIBILITY TRACK
Success with crowdfunding opens the door to traditional forms of investment capital—allowing many firms to establish revenues, customer acceptance and demonstrate the ability to execute—thus gaining trust from established investors. Several founders remarked that they received calls from angel groups that had not even allowed them to pitch, and were receiving term sheets from these.

These findings indicate that angels and venture capital groups may look to entrepreneurs to prove their ability to execute and fundraise from the crowd prior to investing. Doing so may derisk their investment if they can see an entrepreneur has traction from the crowd.

Several other firms reported being able to secure business or personal loans on the basis of their success with crowdfund investing. same angel groups on the basis of their crowdfunding success.
Crowdfunding is More Than Money

PRODUCT VALIDATION, MARKET INSIGHT & STRATEGY
During our interviews we attempted to determine how success with crowdfunding affected business plans, strategy and operations. We used a Likert scale to collect responses from companies on the degree to which crowdfunding success had impacted their marketing plans, business plans and plans for future financing.

The most significant impact of crowdfunding was on marketing planning (mean of 5.6 on 1-10 scale). Firms reported being made aware of new market opportunities, learning which product features resonated with funders, and gaining new insights into competitive products or consumer demand. Many firms that had exceeded their funding goals scrapped their marketing plans and created entirely new marketing plans based on their successful crowdfunding round.

Strategy was nearly as significantly impacted as marketing—with a mean of 4.7 on a scale of 1-to-10. There was a wide variation across firms but responses and interviews suggested that the interaction with the crowd led the founders to re-evaluate their products and go-to-market strategy. Financing plans shifted dramatically with successful crowdfunding.

Given the fact that these firms had either not attempted professional financing, or had been rejected by institutional investors, it is not surprising that many firms had not considered future funding from professional investors. Many of the firms that had raised funds from debt and equity-based platforms reported having less interest in bringing institutional investors on board—essentially an attitude that “I may be able to go it alone”, or a plan to fund growth from operations. Firms with success in pledge- and donation-based crowdfunding often expressed surprise at the degree of interest from angels or venture capital.

Opinions and plans varied dramatically but two themes emerged: first, a sense of confidence—these owners believed they could raise money from private investors if they wished; and second, a sense of skepticism, that they were not as motivated to accept the first offer, that their belief in their product/service had been bolstered by their success with crowdfunding and that they felt they had more bargaining power in interactions with investors.

Benefits of Crowdfunding
A crowd with a vested interest is more than money

<table>
<thead>
<tr>
<th>Knowledge/Experience</th>
<th>Funders bring relevant industry knowledge and experience to the table</th>
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<tbody>
<tr>
<td>Strategy</td>
<td>They assist the entrepreneur in crafting winning strategies</td>
</tr>
<tr>
<td>Market Opportunity</td>
<td>They provide introductions to entrepreneurs that provide valuable market opportunities</td>
</tr>
<tr>
<td>Product</td>
<td>They assist in refining a product offering so that it meets the demands of the market</td>
</tr>
<tr>
<td>Demand</td>
<td>They assist entrepreneurs in gauging demand for a product by attaching monetary bets on the company future</td>
</tr>
<tr>
<td>Money</td>
<td>And they provide the capital entrepreneurs need to execute on vision.</td>
</tr>
</tbody>
</table>
Success Building on Success

While a relatively small survey, this study shows that crowdfunding has significant impacts on strategy, finance, job creation and business finance, and also in how founders perceive themselves and their products. More research is underway to both validate and expand this research. Success with crowdfunding opens the door to new investors and partners, and appears to boost confidence in founders. Contrary to expectation, it also leads to interest and investment activity from angel and venture capital groups. This suggests that institutional investors see success with crowdfunding as a strong indicator of potential success for their early-stage firms.

Equity crowdfunding appears to dramatically accelerate the growth of these early-stage companies suggesting that equity crowdfunding should be considered as one of the main mechanisms for economic development and job growth policy interventions. When a relatively small investment results in several hundred percent growth in revenue and an average of nearly 2.2 new jobs, equity and debt-based crowdfunding deserves the serious attention of policy makers.