

Open Office Hours - April 7th

State of Crowdfunding Address

Today's Agenda

- Q1 Review
- Predictions for 2021
- Our Q2 Initiatives
- Q&A

Q1 Review

Our 5 Predictions: Because of the increases in raise limits in Reg-CF...

- **#1) A New Era of Deals:** More – and “higher quality” – companies will see crowdfunding as a more attractive option.
 - [Wefunder Lists 40 Y Combinator Startups in One Day Enabled by New Reg CF Rules](#)

- **#2) The Mainstreaming of Crowdfunding:** Increased attention from more traditional VCs and institutions
 - [Gumroad wants to make equity crowdfunding mainstream](#)
 - The fact that a founder turned part-time venture capitalist is using crowdfunding to raise money for his own company is a meta headache on its own. But the founder sees this as an opportunity to make crowdfunding mainstream and an attractive asset class.
 - [OurCrowd 50 Index Fund Available on BNY Mellon Pershing Alternative Investment Network](#)
 - “We are very pleased that Pershing has onboarded our flagship OC50 Fund. Pershing is one of the leading clearing and custodial platforms and we are glad that RIAs who clear through Pershing will be able to offer the OC50 Fund to their clients.
 - Private companies are offering their shares to the public through an IPO much later in their lifecycle than they did in the late 1990s through early 2000s.
 - RIAs who offer OurCrowd’s venture capital opportunities enable their clients to access privately-held companies at much lower minimums than traditional venture capital firms.”
 - [New Index Tracks Online Investment Offerings and Investor Sentiment – 50 Largest Equity Crowdfunding Offerings by Private US Companies](#)
 - Companies represented on the index are operating companies raising money, not equity funds. They represent twenty sectors: Agriculture, Forestry, Fishing and Hunting; Mining Quarrying, and Oil and Gas Extraction; Utilities; Construction; Manufacturing;

Wholesale Trade; Retail Trade; Transportation and Warehousing; Information; Finance and Insurance; Real Estate and Rental and Leasing; Professional, Scientific, and Technical Services; Management of Companies and Enterprises; Administrative and Support and Waste Management and Remediation Services; Educational Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; Accommodation and Food Services; Other Services; Public Administration.

- **#3) The Beginning of “Portal Wars”:** Portals will start raising money and competing for customers as more investors enter the marketplace.
 - [Republic Announces \\$36M Series A to Democratize Access to Investing for Everyone](#)
 - The round was led by Galaxy Interactive with participation by Tribe Capital, Motley Fool Ventures, and Broadhaven Ventures.
 - [StartEngine launches “Testing the Waters” campaign](#)
 - [Wefunder launches crowdfunding campaign on Honeycomb.](#)

- **#4) Increased Scrutiny from Regulators:** Biden administration appointees + more deals + more retail investors = greater need for investor protection and education
 - **Securities and Exchange Commission – Gary Gensler**
 - Gary Gensler’s Senate confirmation vote to be chairman of the Securities and Exchange Commission is set for the week of April 12. He is widely expected to be confirmed.
 - “the SEC does its job — when there are clear rules of the road and a cop on the beat to enforce them — our economy grows and our nation prospers. But when we take our eyes off the ball — when we fail to root out wrongdoing, or to adapt to new technologies, or to really understand novel financial instruments — things can go very wrong. And when that happens, people get hurt.”
 - “The top of the agency is going to be setting an agenda in the opposite direction of where Jay Clayton and the congressional Republicans have been steering for years, by expanding and improving industry disclosures and restoring investor rights,
 - This story is about new technology and technology changing constantly. A few questions on my mind:
 - How to ensure the customers still get best execution in the face of payment for order flow?
 - How to protect investors using trading applications with behavioral programs designed to incentivize customers to trade more?

- How to ensure customers access to markets when those apps may fall short of funds?
- How to promote competition in markets when a few firms may come to dominate those markets?
- How to update back office infrastructure to lower risk and cost?

- **Consumer Financial Protection Bureau – Rohit Chopra**
 - “Student lenders and servicers Sallie Mae, Navient and NelNet are likely to get increased scrutiny under the Biden administration, as are fintech companies like LendingClub and Funding Circle.” [\[CNBC\]](#)

 - “In my view, it is appropriate to charge officers and directors personally when there is reason to believe that they have meaningfully participated in unlawful conduct, or negligently turned a blind eye toward their subordinates doing the same.”

- **Crowdfunding Surprises...**
 - Financial Requirements for Issuers
 - “An issuer can use REVIEWED financials for raises up to \$1.07m” has been the rule.
 - We assumed this would translate to the \$5m raise.
 - However, they will need to use AUDITED financials to raise \$1m - \$5m
 - Testing the Waters in Reg-CF
 - Blue Sky Laws -- state by state laws for raising capital

- **#5) A Sobering Look at Past Performance:** On April 5, 2012, the Jumpstart Our Business Startups (JOBS) Act was signed into law by President Barack Obama. Regulation Crowdfunding (Title III) went into effect May 16, 2016. ***5 years later... where are the success stories?***
 - There's been plenty of success for issuers looking to raise money, but what about returns for their investors?

Our biggest fear? The lack of success stories ***for investors*** will ruin Crowdfunding. And we're not alone...

[Jonny Price \(WeFunder\)](#): We try to be as transparent as we can be. There are a few things we do around the investor disclosure issue, and to be honest, this is the thing that keeps me up at night. This is the thing I'm most concerned about.

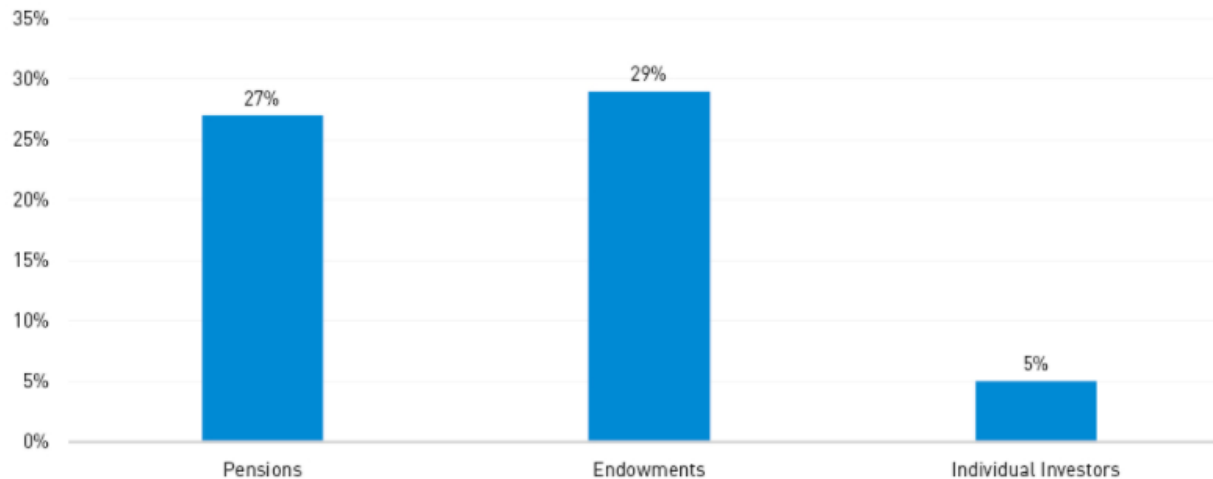
You look at what happened with GameStop and Wall Street, and it's like, "How do we prevent people from being sucked into a bubble? How do we prevent this Regulation Crowdfunding industry from going that way?"

Predictions for 2021 (and beyond)

The trend of retail investors seeking alternative sources of returns that can offer diversification from traditional markets will be a significant force for change over the next five years

In August 2020, the US Securities & Exchange Commission expanded its definition of ‘accredited investor’ to allow more investors to participate in private offerings. The SEC expects the total pool of individual investable assets to rise from \$70tn in 2018 to \$106tn in 2025, while average allocations for individual investors are less than 5%, compared to 27% for pension funds and 29% for endowments (Fig. 1).

Fig. 1: Average Allocation* to Alternatives by Investor Type



*Allocations shown are for US Pensions and US University Endowments.

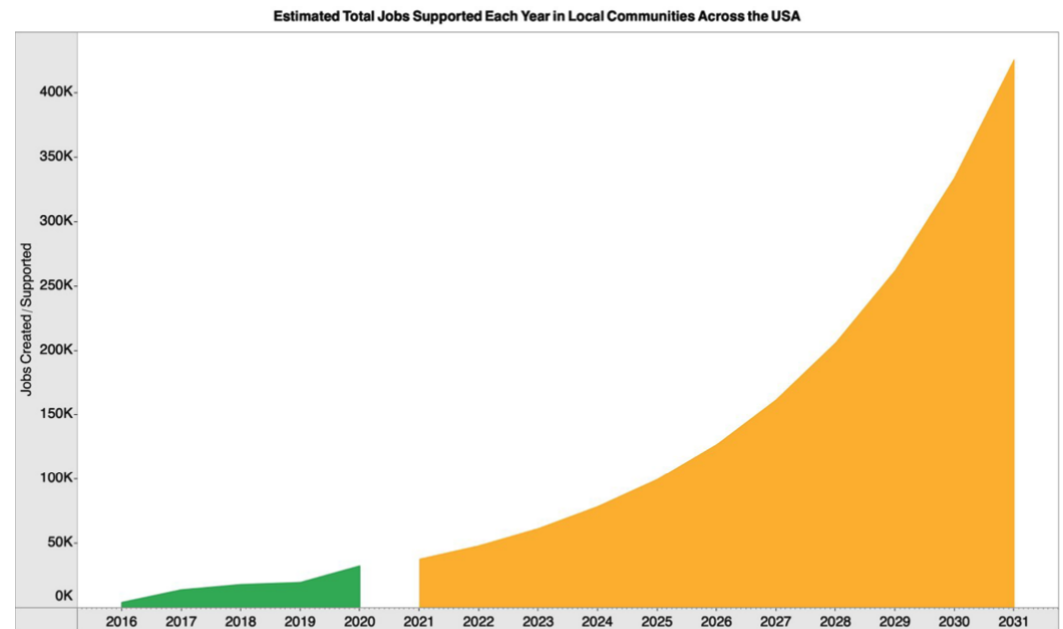
Sources: 2016 Willis Towers Watson Global Pension Assets Study; 2016 National Association of College and University Business Officers; Money Management Institute, "Distribution of Alternative Investments through Wirehouses."

Crowdfund Capital Advisor says, over the next 12 months...

- Over \$1.2B will be invested
- The number of offerings to increase 40% to 1,700
- The number of investors to double to 800,000

[W]e believe that since the launch of regulation Crowdfunding, over 88,000 direct and indirect employees have been supported by issuers that have successfully raised money online.

Without taking into account the anticipated changes the SEC made to Regulation Crowdfunding to increase the maximum raise from \$1M to \$5M and the direct impact that will have on the types and sizes of issuers that raise money online, our models indicate that within the next 10 years almost 2 million jobs will be supported by issuers that raise money online.



If we add into effect those changes we expect that number to be closer to 10 million jobs in the next 10 years.

What do we have planned for Q2?

- **More Deals** – Everyone wants to know when we'll be listing new deals. The short answer: soon.
 - When we are introduced to an issuer, we are in due diligence for ~4 months. Unfortunately, this means it takes a lot of time to get new offerings up on our portal.
 - More deals in sectors you won't see on other portals
 - More income focused plays (like real estate)
 - More traditional growth/PE style deals
 - More moonshot/VC style deals

- **More Education** – The Private Market Investing Workshop
 - Top 4 Goals
 - I want to diversify my portfolio.
 - I want more passive income (cashflow)
 - I want to grow my portfolio (so I can afford to retire)
 - I want to leave something for my kids and grandkids
 - What's preventing you from reaching these goals?
 - I don't know what I'm doing
 - I don't know who to trust
 - I don't have enough money to invest
 - What are the top 3 things you want to learn?
 - I want to learn how to find low risk, high reward investments?
 - I want to learn how exits work (a lot of confusion on the IPO process and how long it takes to make an exit)

- I want to know how to do due diligence
- **More Tools** – Systems, processes, workflows, checklists, and technology that help you source, screen, and support companies you want to invest in.

Q&A

- Is there a listing available for A+ and CF success and/or failure? And, is there a listing for the SCAMMERS?
 - We haven't seen a "scoreboard" in regulation crowdfunding yet
 - The SEC has a spot on their website called "litigation releases" where they publish information, but there isn't much on the crowdfunding side
 - There is likely a crowdfunding task force being formed right now

- How do I gain access to deals usually reserved for the big players?
 - You need to become a big player
 - You need to get your money into a fund that has access to those types of deals
 - If you want more deal flow, sign up for more portals, newsletters, and distribution channels.

- Can you explain more in detail the process once we invest into a particular company thru your service and how long it usually takes to see any profits, if any?
 - Once you sign the subscriber agreement and send in the money it goes...
 - Into escrow. The issuer cannot access the funds until certain conditions are met.
 - We use PrimeTrust, who is probably the leader in the CF space.
 - It depends on where the company is in their growth cycle. This should be reflected with the company valuation, financials, and history.
 - Not every deal is an investable deal. This is a function of economics and the structure of the business.

- Do we always have to deal with the company we invest in to get answers on how they're operations are going and if they're actually growing, staying flat or heading down hill?
 - We (Equifund) have decided to host regular offering updates to give you more insight on the company's progress.
 - As a public company, you file the Q's and K's (quarterly and annuals) as well as MDMA
 - You've also got quarterly conference calls and earnings.
 - As a Reg-CF company, they are only obligated to file an annual report (The Form C/A)
 - We are looking for a semi-annual reporting schedule as follow up for our issuers on our portal

- Are you able to explain why Canadian investors end up still needing to be Accredited Investors to get into US Reg-CF or Reg-A+ deals, even if our own local regulations allow us to invest in private deals without being Accredited? Is this something restricted by US laws? Or is it a discretionary decision made by the issuer?
 - We as a FINRA member are required to follow all “know your customer” and “anti-money laundering” laws. (KYC/AML).
 - We partner with Vcorp Services: if you are a non-US citizen and are looking for a long term solution to investing in US deals, talk to them about getting an entity set up and an EIN/ITIN.

- deals that have VC backing; is this a positive check for the deal?
 - It can be. But the devil is always in the details.
 - Is the valuation set properly?
 - Are the deal terms investor friendly?
 - Why are they exiting the institutional path?

- Are they coming into the deal alongside the crowd?
- My strategy as an Angel Investor is to do the investment and forget it. Is this a good strategy...currently 9?
 - Maybe? If you're stressed out watching the company, there's not much you can do to impact the exit timeline.
 - If you can impact the growth of the company, then it probably makes more sense to be more involved.
- VC investing occurred to speed up the time line of building the deal that has traction, customers etc
- how to read financial sheets effectively?
 - The 3 Documents
 - P&L (Income Statement)
 - Balance Sheet
 - Assets and Liabilities
 - Accounts Receivable
 - Accounts Payable
 - Debt
 - Cash Flow Statement
 - You're looking for line items that don't add up or don't back out.
 - If the narrative of the company is they are an IP based company with lots of patents, and you see a lot of expenses related to legal/patent acquisition, this narrative holds true if you don't see any revenue and lots of expenses.

- Every CEO is passionate about their business and they want to only give you the hits. They don't want to talk about their failures.
- How to learn and study certain sectors that you only want to invest in?
 - Start with something you already know and you're already interested in.
 - The key is to focus and see a lot of deals in one sector until you feel comfortable with what types of deals are available to you.
- Realistic minimums to consider (\$100 doesn't really give you much of a win if there are so many costs involved, even at 10X return, etc.).
 - First step, use the investment calculator to determine your limit in a 12 month period.
 - If I have a ceiling, my strategy is different than I don't have one.
 - From a portfolio perspective, use the Investment Policy Statement to determine your position size and what types of opportunities make sense for you.
- How do I get rich quick?
- How do I get more reward for less risk?
 - Risk
 - Reward
 - Liquidity

