Crowdfunding 101: Democratization of Finance, Industry and Market Overview

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Prepared by: Craig Asano
Presentation Outline

- Part 1: Who is NCFA Canada and what do they do?
- Part 2: What is Crowdfunding?
- Part 3: Why is it Important to Canadians?
- Part 4: Benefits and Challenges
- Part 5: Overview of the Global Crowdfunding Industry
- Part 6: Overview of the Canadian Crowdfunding Industry
- Part 7: Global Crowdfunding Trends and 2013 Predictions
- Part 9: Questions and Answers
Part I: Who is the NCFA Canada and What Do We Do?
Who is NCFA Canada?

- Canada’s leading Crowdfunding Industry Association
- Recognized by industry, government and regional innovation hubs across the country
- National growing membership and wide social media reach
- NFP mandate is to educate, advocate and connect
- Community-based and membership-driven
- Collaborative, transparent, inclusive and dynamic
- Support innovation, small businesses and entrepreneurship and advocate for a dynamic, robust, harmonious and protective Crowdfunding industry in Canada
What does NCFA Canada do?

- **Educate** members and stakeholders regarding crowdfunding trends, initiatives, regulations, and emerging best practices

- **Advocate** the growth of a collaborative and dynamic crowdfunding industry in Canada

- Establish a relevant membership network and **Connect** crowdfunding professionals with opportunities in the industry

- Develop strategic program initiatives that impact members and their daily interactions
NCFA Canada Leadership

Craig Asano is the Founder and Executive Chair of NCFA Canada. 15 years as a marketing strategist, software technologist and entrepreneur in Canada and overseas.

Pat Shaw is the Managing Director of Amplifi, a cross-Canada change agency. He serves as Executive Director for York Technology.

Marty Gunderson is the president of Gunderson and Associations. A Certified Financial Planner (CFP) with 17 years in the finance industry.

Brock Murray, CEO of JOI Media, an award-winning software firm providing enterprise solutions and related services across the private, public and social sectors.

NCFA Canada has also assembled a diverse and talented national board of advisors.
NCFA Canada – NFP Structure

Industry Partners
- Sponsors (sustaining & open)
- Members
- Ambassadors
- Community support
- Business associations
- International affiliates

Eco-system Partners
- Federal Government
- Provincial / municipal – Regional Innovation centres
- Universities

* All resources are voluntary except for executive management and any contracted services

* Executive Management

Advisory Committees

Research and Education
- MarComm
- Social media
- Workshops
- Industry research

Events
- Host Events
- Speaking
- Partners events

Advocacy
- Media/PR Voice
- Lobbying
- Legal framework
- Exemptive applications

Networking and Connecting
- Business opportunities
- Partner development
- Lead generation
- Introductions

Member Services
- Discounted services
- Market place offerings
- Products
- Programs

Non-voting National Membership
What Are We Passionate About?

- We are passionate about building a valuable network of credible and relevant crowdfunding stakeholders, fundraisers and investors.

- Connecting entrepreneurs and communities together with the desire to help them achieve greatness & common goals:
  - Authentic long term high value customer touch points
  - Nurture human capital and develop the resources and opportunities that propel them

- Implement scalable technologies into exponential markets.

- Execute, communicate and collaborate with high values, quality, transparency and social validation.
Part 2: What is Crowdfunding?
What is Crowdfunding?

Video [link](#)

**Definition**

- Pooling of small amounts of capital from a large number of people (known as ‘the crowd’) using the internet and social media to fund a project or business venture
Who is Crowdfunding for?

- For profit and Not-for-profit
- Companies, government, groups, individuals to fund their organizations and social causes

2012 Global Distribution by Active Category ($2.7 billion)

Source: Massolution
Fundamental Participants and Models

Primary Participants
• Portals, Providers and Enablers
• Fundraisers (those seeking funding)
• Investors (unaccredited and accredited)

Fundamental Crowdfunding Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Canada?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation (charity, philanthropy)</td>
<td>✔️</td>
</tr>
<tr>
<td>Reward (including pre-order)</td>
<td>✔️</td>
</tr>
<tr>
<td>Lending (P2P, P2B)</td>
<td>✗</td>
</tr>
<tr>
<td>Equity (securities)</td>
<td>✗</td>
</tr>
<tr>
<td>Revenue sharing (income splitting)</td>
<td>✔️</td>
</tr>
</tbody>
</table>
PART 3

Part 3: Why is it Important to Canadians?
Importance of SMEs to the Canadian Economy

• Small to mid-size businesses are the lifeblood of the Canadian economy

• In 2010, SMEs hired nearly 50% of the entire workforce. 25% of the Canadian population is a self-employed entrepreneur

• In 2009, SMEs represented 28% of Canada’s total GDP and 25% of total exports

• SMEs play a significant role as a feeder system to a much larger economy
SMEs Funding Challenge

- SMEs need proper access to capital to innovate and develop competitive products/services to bring to Canadian and global markets

- Lack of funding and a clear funding roadmap
  - F&F funding is often insufficient
  - Banks and alternative lenders have strict lending requirements
  - Limited number of incubator/accelerator programs

- Total VC investment in Canadian start-ups has declined
  - In 2000, $5.9 billion was invested in 1,007 start-ups
  - In 2010, $1.1 billion was invested in 357 start-ups
What’s the Risk?

• Equity-crowdfunding has gained momentum globally and is legally permitted in Australia, UK, Netherlands and in the near future the US (Jobs Act). [Canada could fall behind]

• Without sufficient funding or a supportive environment many business ideas will not get funded in Canada
  ➢ Entrepreneurial flight risk (pebble watch story)

• Foreign groups that raise funds internationally will have an unfair competitive advantage over Canadian companies

• Decline in global innovation rankings and the economy will suffer as a result (e.g, negatively impact job creation)
• Social media has reached a tipping point. We are living in a highly connected and rapidly changing world.

• The way we transact today is rapidly evolving and it’s changing our views of co-operation, outsourcing and community ownership

  ➢ People are reaching out to online communities of similar interest, exchanging ideas and helping one another for social benefits of ‘friends and likes’

  ➢ Car-sharing arrangements; collaborative co-working spaces, outsourcing group tasks to enhance productivity (e.g., U-Test)

  ➢ Crowdfunding is no different – a kind of micro-funding scheme enabling ordinary people to invest more easily in local and social enterprises and community start-ups than ever before.
PART 4

Part 4: Benefits and Challenges
Crowdfunding Benefits for SMEs

• Access to a new source of capital to fill a critical funding gap
  - Efficient, transparent, cost effective
  - Mobilize funds to non-traditional groups (e.g., rural areas)

• Crowdfunding helps get new businesses off the ground
  - First customer traction and pre-order sales (reduces risk)
  - Help raise early stage funding (VC feeder system)
  - Market driven valuations
  - Organizational preparedness

• Market research and product validation
  - Crowdsourced feedback ‘intelligence’ (bolsters confidence, or demands that entrepreneurs pivot their business model)

• The power of the crowd: Social media / marketing mavens
  - Once committed investors become avid supporters, promoters and connectors for the project
Crowdfunding Benefits for Investors

- Support innovation and entrepreneurism in Canada
- Participation in more opportunities (4% vs. 96%, low min.)
- Direct connection with project founders (engagement)
- Wide range of projects to invest in (diversification)
  - Spread risk in a self-directed manner
  - Choose a portal and investment that suits their profile
- Standardization, tracking and transparency
  - Technology will professionalize and streamline investor relations
  - 17% of all financing raised in 2012 was from friends and family and non-professionally managed sources of capital that will benefit from Crowdfunding technologies and process
- Direct access to other investors
  - Angel group syndications, lead investors versus the general crowd
Crowdfunding Challenges

- Fraud and investor protection
  - Crowd intelligence and due diligence

- Number of business failures

- Concerns in illiquid nature of crowdfunding investments
  - Purchase risk acknowledgement

- Large number of investors
  - Streamlined communications and voting

- Regulations prohibit certain models
Dec 2012: OSC Staff Consultation Paper 45-710

- $1.5 million in any 12 month period
- $2.5k in any single deal up to $10k in any 12 month period
- Incorporated in Canada and head office located in Canada
- Advertising restriction to only the portal and issuer’s website
- Not available to investment funds or complex securities
- Investors can only re-sell securities under existing prospectus exemptions; they are illiquid investments
- Sign a risk acknowledgement and 2 day cooling off period
- Disclosure at point of sale (financing, issuer and risk factors)
- Deal is <$500K mgt certified statements; >$500k audited
- Portal regulation unclear but will have to register (gatekeeper)
Part 5: Overview of the Global Crowdfunding Industry
Global Funding Volume by Region (2012)

Distribution
60% North America
35% Europe
5% Other

Total Number Of Portals (50%+)
Mar 2012 (813)
Apr 2011 (542)

Source: Massolution
Global Funding Volume by Model (2012)

Volume Accelerating
$2.7 billion in 2012
81% y-o-y growth

Distribution
Lending - $1.2b (44%)
Donation - $980m (37%)
Reward $383m (14%)
Equity $116m (4%)

Fastest Growth
Lending 111%

Source: Massolution
Global Average Campaign Size by Model (2012)

Total Campaigns
1.1 million worldwide
North America (625k)
Europe (470k)

Source: Massolution
Global Average Funding Probability (2012)

- Average funding probability for most models was approx 50%
- Lending campaigns achieved a 91% success rate in 2012

By Model

By Region

Source: Massolution
PART 6

Part 6: Overview of the Canadian Crowdfunding Industry
Canadian Industry - Portal Distribution

Vibrant Growing Industry

• 220%+ growth in the total number of portals since April 2011
Canadian Industry Overview

Eco-System
• Crowdfunding is a hot topic of discussion amongst start-up, new venture, finance, technology, marketing, government and academic circles
• American portals such as Indiegogo, Kickstarter and Rockethub are attracting a lot of Canadian deal flow
• Events and conferences are springing up across the country
• Ontario Securities Commission has taken a leading role in engaging public discussions with industry and community Crowdfunding stakeholders
• NCFA Canada is receiving a lot of interest in Crowdfunding from industry and prospective issuers
Provincial Responder Distribution

Responders by Province

<table>
<thead>
<tr>
<th>Province</th>
<th>Responders</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>16</td>
<td>11.1%</td>
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<tr>
<td>Ontario</td>
<td>68</td>
<td>47.2%</td>
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<tr>
<td>Nova Scotia</td>
<td>5</td>
<td>3.5%</td>
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<tr>
<td>BC</td>
<td>26</td>
<td>18.1%</td>
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<tr>
<td>Quebec</td>
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<tr>
<td>Yukon</td>
<td>2</td>
<td>1.4%</td>
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<tr>
<td>Manitoba</td>
<td>6</td>
<td>4.2%</td>
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<tr>
<td>New Brunswick</td>
<td>2</td>
<td>1.4%</td>
</tr>
<tr>
<td>Unknown</td>
<td>8</td>
<td>5.6%</td>
</tr>
<tr>
<td>total</td>
<td>144</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

- **NCFA Crowdsourced input from 144 start-ups and SMEs**
  - 75% unaccredited / 25% accredited
  - 75% were planned industry stakeholders (portals and providers)
  - 8% were registrants such as EMDs, portfolio managers, etc.
Key Survey Learnings

- **General Support:** 95% favour a Crowdfunding exemption under applicable securities laws

- **Move ahead:** 60% agreed or strongly agreed that Canada should move ahead and not wait for the SEC/FINRA to finalize crowdfunding rules in the US
  - 75% agreed that Canada should move ahead on a trial basis

- **Top risks:** (1) investors could lose all their money; (2) may not be able to redeem their investments; (3) Limited disclosure at the time of purchase
Key Learnings (continued...)

• **Investor caps:** over 70% indicated investor caps should be $10-15k or more

• **Issuer caps:** 45% indicated that there should not be a limit on funds raised

• **Second market:** 65% of responders said crowdfunding should be free trading securities after a period of time (e.g., 39% said after 12 months)

National Research Project

• NCFA Canada, EMDA and partners are planning to launch a National industry research project in 2013
Part 7: Global Crowdfunding Trends and 2013 Predictions
Global Crowdfunding Trends

- Niche platforms (Industry focus)
- Community platforms (Locavesting)
- Hybrid platforms (multiple models)
- Direct Crowdfunding
- Enterprise Crowdfunding
  - CSR (e.g., Microsoft’s ‘Chip-in’ student laptop program)
  - Entrepreneurial spin-off ventures
  - Crowdsourcing input
- Live Crowdfunding
- Mainstream Crowdfunding
  - A&E Project Startup; CNBC Crowdrules
  - Celebrity (Donald Trump – fund anything)
Global Market Outlook 2013 – By Region

2013 Total Funding Prediction by Region

$5.1 billion

$3.7 billion will be Crowdfunded in North America

Source: Massolution
Global Market Outlook 2013 – By Model

2013 Total Funding Prediction by Model

$5.1 billion

Lending will account for 72% of the total funding volume
PART 8

Part 8: Questions and Answers
Craig Asano is the Founder and Executive Director of the National Crowdfunding Association of Canada (NCFA Canada), a cross-Canada non-profit with the mandate to provide education, advocacy and networking opportunities in the emerging Crowdfunding industry. NCFA Canada works closely with industry partners, technology platforms, academia, affiliate groups and business associations to create a strong and vibrant Crowdfunding industry and voice across Canada.

Craig is actively involved in developing the Canadian Crowdfunding industry at a grass-roots level connecting with industry stakeholders, Crowdfunding leaders and key participants across the country. He has participated in and spoken at several Crowdfunding events and has spearheaded multiple programs and initiatives such as Canada’s largest Crowdfunding Directory, a National Ambassadors outreach program, and NCFA Canada’s advocacy efforts to advance equity-based Crowdfunding regulations in Canada.

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