



# Equity Crowdfunding Guide

FOR ISSUING COMPANIES



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*Disclaimer: Crowd88 does not provide financial advice. This guide has been prepared as a support document to provide Issuing Companies with a greater understanding of Raising Capital through Equity Crowdfunding platforms like Crowd88. It is recommended that before you make any decisions to Raise Capital via Equity Crowdfunding that you discuss this with your financial advisor*

## Things to consider before launching an Equity Crowdfunding campaign

**What funding stage are you in the business cycle:** Are you at seed, early, growth or late stage?

**Seed stage:** Companies with just an idea will find it difficult to engage investment through Equity Crowdfunding. Seed stage companies may be better placed to undertake a reward or product based Crowdfunding campaign

**Early stage:** A majority of companies using Equity Crowdfunding are in early stages of development. Typically, they have a product or service and many seek funding to improve this product or service. At this stage companies tend to raise smaller amounts

**Growth stage:** Companies in growth phase generally seek larger amounts of funding than early stage and use funding to grow into new markets and grow revenue streams

**Late stage:** *Companies in this stage will typically be seeking larger amounts and may use Equity Crowdfunding as part of a larger capital raise or even part of an IPO*

**Amount of funding you require:** With Equity Crowdfunding you will typically set a minimum and maximum target. If you only require a small amount of funding eg: < \$150k the amount of effort and cost required to prepare an Equity Crowdfunding campaign may deter you from progressing. Alternatively, if you are seeking a large amount of funding most markets have a cap on how much can be raised from Retail Investors so you will need to review the regulations to determine if your maximum target is achievable.

**Family and Friends:** Are a sound source for funding and you can validate their shareholding when completing an Equity Crowdfunding campaign. Have you considered further funding from family and friends?

**Your current customer base:** Customers are generally a good source of investors when Equity Crowdfunding if you sell a retail product, provide a service to the public or if you have a brand with public appeal. Typically, if your customers like your product/ service they are a potential investor if you launch an Equity Crowdfunding campaign. What is your current customer base?

**Social Media:** Do you have a social media follower base on Facebook, LinkedIn, Instagram, Twitter, Google +? A strong social media follower base will significantly help your Equity Crowdfunding campaign through sharing your campaign with the crowd and they are also a potential investor base.

**Company credibility:** Has your company received any awards, testimonies? When Equity Crowdfunding you need to prove to potential investors that you have a credible company. If you have awards or customer testimonies these are one source of credibility to show the crowd.

**Number of shareholders:** A successful Equity Crowdfunding campaign will attract > 100 investors, which will require you to maintain a share registry. In some cases, the Crowdfunding operator may have a nominee company set up to hold the shares in trust for your investors through Crowdfunding. To manage the increased number of investors Crowd88 recommend that you provide regular reporting to your shareholder base (Refer below).

**Shareholder reporting:** Regular reporting to shareholders keeps them informed on the company's progress and reduces the potential for surprises. It is also likely that sometime in the future you will be seeking further funding and if you keep your existing shareholders up-to-date they will be well informed about your company and its future needs. Initially, it is recommended that your company reports to your investors on a quarterly basis. At Crowd88 we will support you by providing the channels to engage your shareholder base to deliver this reporting.

**Company prospects:** Do the products and/or services you offer have a real market place advantage and what are the prospects they continue to do so? What is your competitive edge and how is this something different from your initial target industry?

**Cost of preparing a campaign:** Consider the costs of preparing an Equity Crowdfunding campaign. Depending on what material your company already has, costs to prepare a campaign can vary. If the cost of preparing a great campaign are manageable then Equity Crowdfunding could be right for your company.

### **Getting Investment ready**

**Business planning:** Having a business plan for your company's future direction and aspirations is an important part to being investment ready. Investors will need to know where your business is heading.

**Corporate Governance:** Good corporate governance practice/s instils confidence in your business. Investors want to see that you have sound systems, policies, procedures and processes in which your company is controlled. Investors will also want transparency and accountability in your company.

**Accounting/ Taxation:** It is important that your company has well-managed accounting policies and procedures and that you tax is up to date.

**Leadership:** Does your leadership team have the right balance of skill and experience to be operationally and financially efficient? Do they collaborate, communicate, hold each other accountable?

**Government assistance:** Government assistance can be provided through grants, funding and tax incentives. It is recommended that you check if any of these are available for your company before launching a crowdfunding campaign.

### **Things to consider when preparing your pitch and campaign**

**Preparation:** The content you use in your campaign is critical to the ultimate success of your company meeting their raise capital targets. The number one rule is to give yourself enough time to prepare a quality campaign. Start preparing your campaign early!

**Management:** Will your interests be aligned with current and new shareholders? Is your remuneration geared towards long term performance?

**Business strategy:** What is your strategy for the business? What is the core purpose for the business and your aspirations? Have you articulated the overall direction for the business? How will you execute the strategy?

**Financials:** Do you have financial forecasts and are they realistic? How much risk is involved in generating those sales and what are some financial barriers such as debt etc. that you will need to keep in mind?

**Industry:** What is the forecast growth of the market as a whole next 2-3 years? What is the Forecast Market Share of your Company in the next 2-3 years?

**Knowing your market:** Who are your current/ target customers by geography and demographics? Who are your key competitors? Is a potential partnership or merger a possibility in the future? How can your product/service change the traditional market and how can this benefit you and your investors?

**Medium/ Long-term Goals:** What are your medium and long term goals eg. Global expansion or diversifying product/service range. Staff expansion or potential partnerships with other businesses that you may want to pursue

**Video/s:** It is imperative to have a good video as this is one of the key items that Investors will watch. Ensure you engage a good video production house who can produce quality video. A sub-standard video will increase your chances of failing to meet your targets.

**Marketing:** How are you going to market your campaign other than on the crowdfunding website? Do you have a Marketing strategy eg: will you use Social media, Print media, TV?

**Legal:** You will need to have various legal documents in place including a constitution and a subscription or investment agreement

**Minimum and Maximum target:** It is critical that you set your targets based on the amount of money your business actually requires and you have a detailed plan of exactly how the funds are to be used. For example: if your minimum target is \$1m and your maximum target is \$1.5m you need to outline how the funds will be used if you reach \$1m, \$1.25m or \$1.5m. Ensure that you have a realistic and achievable minimum target.

**Rewards:** In addition to providing equity to investors some Equity Crowdfunding campaigns also offer rewards to investors. Typically, rewards are offered based on the amount of the investment. If you produce a product or service that can be used as a reward you may consider adding this as part of your campaign.

**Valuation:** If you over-value the company you will deter investors and will risk your chance of meeting your targets. If you undervalue your company, you will be giving up more equity than you need too. It is recommended that you have your company valued by a professional with experience in providing valuations and to ensure it is realistic.

**Capital structure:** What financial commitments other than to equity does my company have? Is the equity I am issuing subordinated?

**Over disclose:** You are best to over disclose than under disclose. Your potential investors want to know everything about your company – the good and the bad! In most cases, your campaign on an Equity Crowdfunding platform is all the Investor will see so it needs to be well planned and thorough. If you do not include information an Investor would expect to see you risk losing that investor.

**Liquidity events and investor returns:** Have you considered a future liquidity event? How will you make profits for your investors? In the medium to long term are you looking to IPO, trade sale? Will you be paying dividends to your investors? Will you be looking to issue more equity in the future?

**Finally, would you Invest:** You need to ensure that your offer is realistic and provides a great investment opportunity. Remember that people will potentially invest serious money in your company and they are doing so on the basis that they believe they may get a good return on their investment. So, your offer needs to be investor friendly to attract a solid investor base. You need to sell them on the journey an investment in your company will deliver; what the future holds, what the potential is.

## **Find a Cornerstone Investor**

Having a Cornerstone Investor in your company is essential and very attractive to other potential investors. Cornerstone Investors can be individual professional investors, Institutional or Venture Capitalists who have experience in investing into exciting and potentially rewarding companies. They may also assist you in developing a great campaign.



At Crowd88, we have developed a Cornerstone Club and invited a group of experienced investors who we provide access for companies to pitch prior to listing on our website.

## **Identify Independent Director & Mentors**

It is good practice for a company to have at least one independent director. Independent Directors are a great source of knowledge and experience that expand and complement those of the owners and management. They should also bring governance experience and skill to the board table and your company. Independent directors give comfort to investors that someone who is independent and not a shareholder is helping to develop and instigate strategy and monitoring the performance of your company in the interest of shareholders. Business mentors are also an important source of knowledge and specialisation. We recommend you identify potential mentors whom you can learn from.

At Crowd88, we have engaged a number of independent directors to join company boards who raise capital on our website. Our Independent Director base have been carefully chosen based on their industry and business experience and backgrounds in strategy, corporate governance, compliance and shareholder reporting.

## **What happens when the company meets its target? What if the company fails to reach its minimum target?**

Funds from investors will be held in a trust account until such time as all conditions required by the documentation have been satisfied. Once the conditions have been met you will be required to issue the shares to the investors in your company and the investor funds will be transferred from the trust account to your nominated company account. For companies who do not meet their minimum capital raise no funds will be provided and the business will not receive any investment. All funds committed from investors will be returned.

## How long should I run my raise capital campaign for?

The average campaign is approximately 45 days however the planning is considerably longer. The company determines the timeframe and some companies have 30 day campaigns and others for as long as 90 days. It is unusual for a company to have a campaign longer than 90 days. It is recommended that you determine your timeframe based on the following factors;

**Have your gathered momentum before launching:** have you engaged with your contacts and network to gather momentum for when you launch? This should be addressed as part of your campaign.

**How many investors are lined up:** Have you already identified several key investors? If possible identify and target potential key investors as part of the campaign so as to ensure you start with a committed investment at the launch of the offer.

**Are you having a campaign launch:** Will you be having an official launch to drum up investment from the moment your campaign is launched?

If you answered yes to all of the above you can potentially have a shorter campaign timeframe. If the answer is no to all of the above you should probably have a longer timeframe.

You will also want to consider roadshows or investor presentations as part of the campaign.

## Deliver a great Offer

Your investors will spend most of the time looking through your offer pages on the Equity Crowdfunding website, and therefore make a judgement about their investment decision from there. They will think of how your offer fits in with their aspirations and goals.

The first impression left on the investor's mind will depend on the quality of your offering. It may include aspects such as your investment proposal, graphic dynamics, videos, financials and overall presentation of the company as a whole.

Investors understand that every investment comes with a certain amount of risk, and they expect to find key business matters outlined and addressed and the opportunity clearly outlined to provide confidence and clarity. So your campaign pages should not only being pure advertising, but also involve company facts and the bigger picture revolving around goals and how sustainable they are.

Companies should be patient after launching a campaign although the campaign should be dynamic and not lose momentum. Many investors may be considering multiple deals at one time and will take their time in considering the opportunity. Patience is therefore required

for the campaign to be appropriately considered by investors as they undertake personal research and some may pose questions which will play a major part in their decision making.

### Communication is key

Provide updates to investors throughout your campaign and try and engage with investors as much as possible to keep momentum during your campaign.

### What type of people typically invest?

Historically, there have been various different types of investors including;

**Family and friends:** This specific group tends to be long-term investors, with strong loyalty and support as they want to see you succeed.

**Employees and Customers:** This is an important group of potential investors. Many companies try and convert as many employees and customers to investors as possible. They invest because of loyalty and their experience with your product or services.

**Social Media Followers:** Your follower base in Facebook, LinkedIn, Instagram, Twitter, Google+ are all potential investors. A strong follower base will also further promote your campaign.

**Retail investors:** Are typically classified as Mum and Dad investors who tend to invest smaller amounts in companies/ industries of which are of interest to them.

**Wholesale Investors:** This group includes professionals, angels and high net-worth individuals. They tend to invest larger amounts and in more deals to get a diversified portfolio. In many cases they will be a Cornerstone investor.

**Venture Capitalists/ Companies:** Are likely to invest large amounts and hold a larger % of your company than other investor types. In most cases they will be a Cornerstone investor.

### Are you ready for this journey?

If you want to raise capital through Equity Crowdfunding, you must be completely dedicated and 100% focused. Before launching and during the campaign you must dedicate your time to your investors and marketing. Do not rush your campaign.

Crowd88 recommends you consider all types of funding and you seek professional financial advice to determine what funding is right for your company.



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*Connecting companies with investors*