



Crowd-Funding Exchange

**How can crowd financing generate
business for exchanges?**

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Would you invest into a Banana Piano Kit?

❖ Company asked for \$ 25,000 and got \$ 568,106 (11,124 investors)



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Can your SME segment provide capital for an E-Paper Watch?

- ❖ Pebble asked for \$100,000 and raised \$10,266,845 (68,929 investors)



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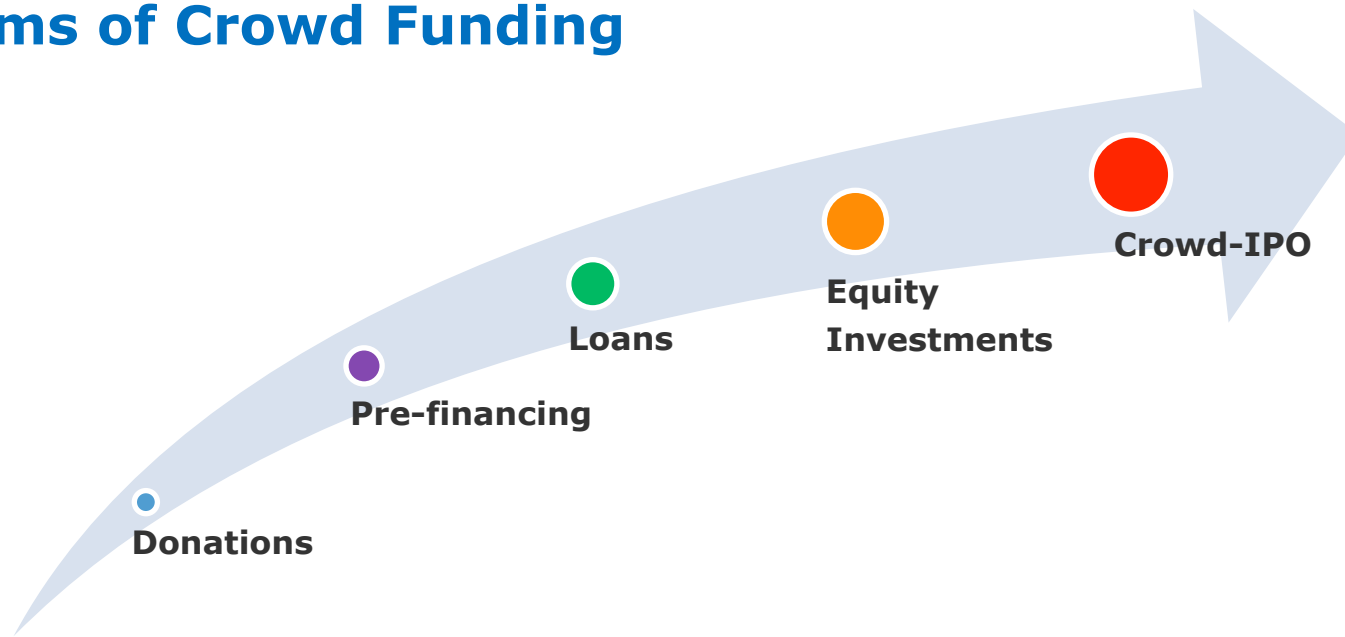
Welcome to the World of Crowd Financing!

What is Crowd Funding?

❖ Definition of Crowd Funding

- Crowdfunding is an open call, essentially through the Internet, for the provision of financial resources.

❖ Forms of Crowd Funding





SME Markets and Access to Finance

❖ **SMEs access to finance**

- SMEs face more severe credit conditions than larger companies
 - Higher interest rates
 - Shorter maturities
 - Increased requests for collaterals

[Source: Financing SMEs and Entrepreneurs 2012: An OECD Scoreboard]

❖ **Regular capital market financing doesn't work**

- Deal size for investment banks too low
- High regulatory burden and costs for small enterprises to list
- SME market segments of exchanges are not successful

❖ **Crowd Funding may offer an alternative**

- Potential additional service of exchanges
- Platform for building up an IPO pipeline



Changing Legal Environment

❖ **Need for changes in the legal environment**

- Regulatory regimes restrict direct equity investments via crowd financing
- Legal initiatives started to introduce proper regulation

❖ **US as front-runner for regulating Crowd Funding**

- Jump Start Our Business Startups Act (JOBS Act), 2012
 - Focus on Emerging Growth Companies (EGC)
 - Issuing stocks
 - Annual revenues less than \$ 1 billion in a fiscal year
 - Allows crowd funding investments over the Internet
 - Permits private companies to raise \$ 1 million of capital annually (audited financials) or \$ 500,000 (unaudited financials)
 - Exemption applies only if offering is conducted via funding portal or broker
 - Investment restrictions for retail investors
 - Net income less than \$ 100,000: \$ 2,000 or 5% of their net income
 - Net income over \$ 100,000: 10% of net income up to \$ 100,000
 - Disclosure reform
 - Less registration and reporting requirements



First Accreditations in Europe

❖ **First crowd funding platforms accredited in Europe**

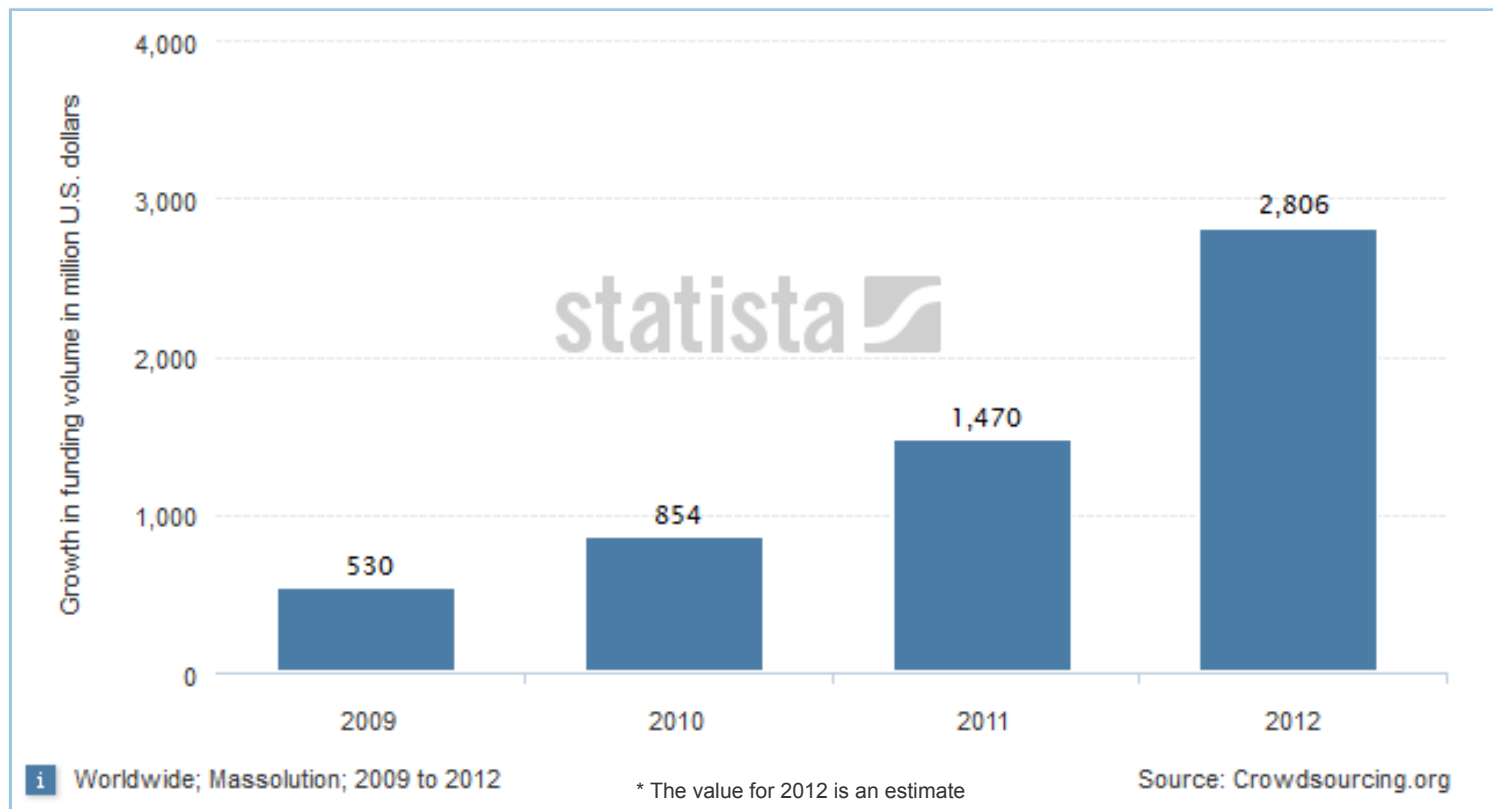
- FSA (UK) accredited Crowdcube and Seedrs
- Strong support for crowd lending
 - Crowdlenders Zopa and FundingCircle have received strong support, including substantial financial backing direct from the UK government

❖ **Crowd financing is seen as democratic participatory capitalism**

Raised Capital exceed USD 2.5 billion

❖ Development of worldwide crowdfunding volume

- Significant increase from 2009 to 2012





Crowd Financing as Exchange Business Line

❖ **Exchange´s role is to provide a platform for raising capital**

- Crowd financing can increase access to finance for SMEs
- Market segment based on a crowd funding model fits better to SMEs needs
- Less dependency of exchange on financial intermediaries
- Direct access to companies and investors

❖ **Revenue Driver „Crowd Funding Segment“**

- Fee based on raised capital
 - Crowd funding platforms charge 5% to 7.5% of the raised capital
 - Kickstarter, the largest crowd funding site, raised \$319.8 million in 2012
 - Investors came from 177 countries and supported 18,109 projects (17 above 1 million \$)
- Transaction Fee – Secondary Market
 - Share trading, depending on regulatory environment
- Market data and index licensing fees



**Exchanges are very well placed
to offer a Crowd Funding Platform
for SMEs**

It's time to act now!