CROWDFUND CAPITAL ADVISORS

The 2017 State of Regulation Crowdfunding -
U.S. securities-based crowdfunding under Title III of the JOBS Act[1]
Prepared for the US Securities & Exchange Commission

January 11, 2018

Introduction

Regulation Crowdfunding allows startups and SMEs to raise up to $1,070,000 per year from both retail and accredited investors by utilizing registered funding portals (or broker-dealers) to conduct exempt offerings online. This exemption requires issuers to file in a Form C and post online disclosures about a company's operations, team, financials and other material information for investors to review. Regulation Crowdfunding started in the United States on May 16, 2016. The second calendar year for the industry ended on December 31, 2017. Because data about issuers, their financial wellbeing, and the capital that is committed is public information we can analyze the data and bring transparency to a segment of the markets (exempt private offerings) that has been fairly opaque until the JOBS Act went into effect.

Key findings:

- The number of unique offerings increased 267%[2] from 178 in 2016 to 481 in 2017
- Proceeds increased 178% from $27.6 million in 2016 to $49.2 million in 2017. Total proceeds by the end of 2017 was $76.8 million
- The number of successful offerings increased 202% from 99 in 2016 to 200 in 2017
- The average success rate of offerings to date is 66.7%
- The total number of investors in Regulation Crowdfunding increased 158% from 28,180 in 2016 to 44,433 in 2017
- Issuers that filed annual reports and reported creating jobs created on average 13.9 jobs.
- Revenues for Issuers that filed annual reports increased on average 131% between the year in which they leveraged Regulation Crowdfunding and the Prior Fiscal Year.

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[1] This study was prepared for the Securities and Exchange Commission by Crowdfund Capital Advisors (CCA). This analysis is not intended to inform the Commission about compliance with or enforcement of federal securities laws. The views herein are those of the authors and who are not employees or representatives of the Commission. This study uses as its framework a prior study performed by Vladimir Ivanov and Anzhela Knyazeva of the Securities and Exchange Commission. The intent is to include data points and variables that have already been published by the Securities and Exchange Commission and might be familiar to the Commission. The analysis of this report comes from data collected by Crowdfund Capital Advisor's CCLEAR database.
[2] Given Regulation Crowdfunding started on May 16, 2016, the first calendar year of Regulation Crowdfunding only encompasses 7 ½ months. Had it been a full calendar year, this growth percent would have likely been lower.

Analysis:

1. The results of this data show that the market, while still in its infancy, is growing at a rapid pace.
2. The velocity of capital into funded offerings appears to be steady without showing signs of abnormal activity or irrational investor behavior.
3. The rapid increase in the number of offerings and investors proves that there is appetite for Regulation Crowdfunding from both issuers seeking capital as well as investors looking to diversify.
4. Given the high success rate for offerings, Regulation Crowdfunding represents a very structured yet viable alternative for access to capital for startups and SMEs.
5. Given the ability for firms to leverage capital raised to scale operations and create jobs, Regulation Crowdfunding should be promoted by local Chambers as well as the Small Business Administration.
6. Given the lack of irregularities or fraud, Regulation Crowdfunding (and the structure under which it provides for transparency), should be advocated by policy makers and government organizations.

Market Activity

The following represents offering activity in the Regulation Crowdfunding[3] market for offerings initiated during May 16, 2016-December 31, 2017.

During this period, there were 654 unique offerings by 634 issuers, seeking a total of $50 million based on the target amount, excluding withdrawn offerings. The median (average) offering targeted approximately $50,000 ($84,182). Almost all offerings accepted oversubscriptions up to a higher amount, typically close to $1 million, corresponding to the maximum amount sought of $279 million in the aggregate. While the median offering targeted a low amount of $50,000, it appears that this might be more of a common practice by some platforms than an actual goal. Since the law requires all or nothing financing, issuers appear to be setting this lower target to be sure to hit a minimum target. As shown below, the average successful issuer is raising 5 times the targeted amount.

As of December 31, 2017, approximately $77 million in proceeds was reportedly raised for 299 offerings by issuers. For the offerings that reported raising at least the target amount, as of December 31, 2017, the median (average) amount raised was approximately $140,376 ($257,525).

[3] Several portals allow concurrent offerings. Such offerings, while few and relate mainly to those offerings that exceed the $1,070,000 Regulation Crowdfunding cap, mainly conduct Regulation D Rule 506(c) (Accredited Investor Crowdfunding) and Regulation Crowdfunding offerings. Where reported by portals, we collect and report on these concurrent offerings and include their totals in the figures below.

For offerings initiated since 2016, 64 were withdrawn by issuers or associated with a funding portal whose FINRA membership was terminated and registration withdrawn, seeking a total of $6.2 million based on the target amount. Including allowance for oversubscription, these withdrawn offerings were seeking up to $37.3 million based on the maximum amount. $938,000 was committed by investors to these offerings and, per the final rules must be returned to investors since the offerings closed and failed to hit their minimum targets.

Most offerings solicited in all states. Nearly all 50 states had offerings with the exception of Montana, North Dakota, Nebraska, Kansas and Iowa. California led with 33.8% (214) of all offerings, followed by New York with 9.2% (58), Florida with 6.9% (44), Texas with 6.8% (43), and Illinois with 4.6% (29). California also led with 42.3% of all proceeds ($30.9M), followed by Texas with 11.4% ($8.4M), New York with 5.3% ($3.9M), Massachusetts with 4% ($2.9M) and Colorado with 3.3% ($2.4M).

The most popular type of securities was equity (used by 228 issuers), followed by "simple agreements for future equity" (141), and debt (89). With the emergence of Initial Coin Offerings (ICOs), the industry saw its first token offerings in the end of 2017. These offerings used "simple agreements for future tokens" sometimes in conjunction with Convertible Notes. The most popular state of incorporation was Delaware and the most popular location of the business was California.

The median issuer had under $50,000 in assets, under $7,000 in cash, $2,500 in debt, no revenues, and 3 employees. About 53% of issuers reported non-zero revenue and 9% of issuers reported a net profit in the most recent fiscal year. Among issuers that reported non-zero assets in the prior fiscal year, the median growth rate was 553%.

59 companies filed annual reports (Form C-AR) with the Commission. 29% of those companies reported creating jobs. Average number of jobs created for those companies was 13.9. For all companies filing Form C-AR average revenue increased 131% from the Prior Fiscal Year. Net Losses for those same companies increased in average 375% as they most likely were using the cash raised to invest into operations and jobs.

Offerings initiated during this period involved 26 intermediaries, including 18 funding portals and 8 broker-dealers. Overall, as of December 31, 2017, 48 funding portals have registered with the Commission and FINRA. One funding portal that originally registered had its FINRA membership terminated and withdrew its SEC registration. 7 others are no longer listed as active on FINRA's Funding Portals We Regulation webpage. Funding portals have so far accounted for most of the offering activity. The median intermediary percentage fee was 5%. Intermediaries took a financial interest in the issuer in approximately 19% of offerings.

Conclusion

2017 represented a strong first complete calendar year for Regulation Crowdfunding. We expect the industry to exceed $100M in funded offerings during the first quarter of 2018. When considering the growth of securities-crowdfunding globally, we expect the market to reach $1B in funded offerings within the next 5 years. This can be further supported by making adjustments to the exemption that would allow for greater issuer caps.

In looking for how to consider the growth rate and size of this market over time, one can look at the UK market for data. With now 5 years of active equity crowdfunding in the UK, according to Cambridge University's Center for Alternative Finance, in 2017, 17% of all seed stage capital in the UK came via equity crowdfunding. The CCLEAR database will continue to track these markets both domestically and globally as we begin to offer services to other regulators outside of the United States.