



ELSEVIER

Contents lists available at [ScienceDirect](#)

Journal of Business Venturing Insights

journal homepage: www.elsevier.com/locate/jbvi

Equity crowdfunding: A new phenomena[☆]

Nir Vulkan^{a,*}, Thomas Åstebro^b, Manuel Fernandez Sierra^c^a Said Business School Oxford University, United Kingdom^b HEC Paris, France^c Economics department Oxford University, United Kingdom

ARTICLE INFO

Article history:

Received 1 December 2015

Received in revised form

30 January 2016

Accepted 4 February 2016

Available online 4 March 2016

Keywords:

Equity crowdfunding

UK

Campaign success

ABSTRACT

Crowdfunding has recently become available for entrepreneurs. Most academic studies analyse data from rewards-based (pre-selling) campaigns. In contrast, in this paper we analyse 636 campaigns, encompassing 17,188 investors and 64,831 investments between 2012 and 2015, from one of the leading European equity crowdfunding platforms. We provide descriptive statistics and carry out cross-campaign regression analysis. The descriptive statistics address its size, growth and geographic distributions in the UK. The regressions analyse which factors are associated with the probability of a successful campaign. We find some similarities and some interesting dissimilarities when comparing the descriptive statistics and regression results to research on rewards-based crowding. The data show that equity crowdfunding will likely pose great challenges to VC and business angel financiers in the near future. We discuss some research challenges and opportunities with these kind of data.

© 2016 Elsevier Inc. All rights reserved.

1. Introduction

In recent years crowdfunding has emerged as a viable and popular alternative channel for entrepreneurs to fund their early stage businesses. The consultancy Massolution recently reported that globally, funds raised via crowdfunding expanded by 167 percent in 2014 to reach \$16.2 billion, up from \$6.1 billion in 2013 (Massolution, 2015). Massolution predicts that the industry is set to raise \$34.4 billion in 2015. A number of high profile campaigns and an increasing appetite to “cut out the middleman” mean crowdfunding is likely to remain an important part of early stage finance for some years to come.

Broadly speaking crowdfunding can be divided into four main categories: donations, rewards-based (also called pre-selling), lending, and equity crowdfunding. Rewards-based campaigns have proved extremely popular among entrepreneurs, growing in volume by an amazing 524 percent annually since 2009 (The World Bank, 2013). The focus of this paper, in contrast, is on equity crowdfunding. Here, the crowd, typically via an online platform, takes an equity stake in the business in much the same way VC funding works. Equity crowdfunding might be considered, *a priori*, to have a more difficult time catching on compared to the other crowdfunding models. This is the case since contracts associated with equity funding have been considerably more complicated than other types of funding, the due diligence process is often extensive, and the levels of investments have been so high that there is a strong preference for funders to intimately know the entrepreneur and their business (Gompers, 1995; Cumming and Dai, 2010). None of these characteristics seem at first

[☆] We are grateful to Carlos Silva, Duarte Henriques and especially Jeff Lynn from SEEDRS for their support and patience. Financial support from Nesta and the Kauffman Foundation are gratefully acknowledged.

* Corresponding author.

blush to make equity investment amenable to online investing by the crowd, and, as a result, equity crowdfunding has been relatively rare worldwide, making up less than 5 percent of all crowdfunding investment by 2013.

Nevertheless, data from Beauhurst, a leading consultancy on early stage investments in the UK, show that around 21 percent of all early stage investment and as much as 35.5 percent of all seed-stage investment deals in the UK went through equity crowdfunding sites in 2015 (Beauhurst, 2015). These data reflect a rapid recent growth that is challenging the existing Angel networks and even some VCs.

The UK has been the fastest growing country for equity crowdfunding campaigns in the world, both in terms of the number of deals and the amounts raised. This is mainly due to a clear regulatory framework that has been in place since the end of 2011, which has given UK based platforms a head start. By contrast, the regulatory framework for equity crowdfunding by non-accredited investors in the US, laid down under Title III of the JOBS act of 2012, was only approved by the Securities and Exchange Commission on October 30, 2015. Moreover, investors of start-ups in the UK also benefit from a very generous tax incentive via the *Seed Enterprise Investment Scheme* (SEIS) and the *Enterprise Investment Scheme* (EIS). Both schemes are designed to help small UK-based companies raise finance by offering tax relief on new shares in those companies.¹ For these reasons, recent experience in the UK provides us with a unique opportunity to explore the properties of equity crowdfunding, and to make some preliminary forecasts about what will likely happen in the US in the near future.

In this paper we study a unique dataset kindly shared with us by SEEDRS, one of the leading UK equity crowdfunding platforms. SEEDRS was founded in 2012 by Jeff Lynn and Carlos Silva, and was the first equity crowdfunding platform to be accepted as a member of the UK Business Angels Association. More recently SEEDRS has announced their expansion to the US market via the acquisition of Junction Investments in California. SEEDRS business model is based on taking a one-off fee of up to 7.5 percent from successfully funded businesses. In addition, SEEDRS takes a success fee from investors equal to 7.5 percent of the profits made as a result of their investment.

We analyse 636 equity crowdfunding campaigns, encompassing 17,188 investors (also called “backers”) and 64,831 investments (often termed “pledges”) between 2012 and 2015. We provide descriptive statistics and carry out various regression exercises to analyse which factors are associated with the probability of a successful equity crowdfunding campaign. Such analysis have been performed before (e.g. Mollick, 2014), but mostly on rewards-based campaigns.² Throughout this paper we use Mollick’s results as a benchmark to ours, not only because his was the first major paper on the subject, but more importantly because to a large extent his results have already been replicated by Colombo et al. (2015) and by Kuppuswamy and Bayus (2015) looking at Kickstarter. The focus on rewards-based crowdfunding has been driven by the availability of data from sites such as Kickstarter and Indiegogo,³ and because regulation in the US for equity based crowdfunding has been lacking until very recently.

Making some cautious predictions about the nature of crowdfunding across different categories, Mollick (2014) states that “...to some degree, all crowdfunding funders may be thought of as investors, making decisions about which projects to support based on their expectations for success...”, further arguing that “...the dynamics of crowdfunding may be stable across some contexts. (page. 4).” We use the data from SEEDRS to address these predictions in a way that has not been possible before.

We find that equity crowdfunding differs from the typical rewards-based crowdfunding in a number of important respects: (a) a much higher average amount pledged; (b) a much higher average campaign goal, steadily increasing over time and lately approaching the size of first round investments for VCs; (c) the existence of (pre-money) valuation of each of the projects, and (d) the clear goal of the backers to obtain a positive monetary return on their investment. In terms of the geographical distribution, we find that the majority of the investors using the platform are located in the London area. There is, however, considerable geographical dispersion of backers across the country, which is indicative that equity crowdfunding could mitigate the effect that distance has on traditional fundraising efforts (see, for example, Agrawal (2011)). The data from SEEDRS, while limited to one platform, albeit a very important European one, suggests that equity crowdfunding will become a significant phenomenon for early stage fundraising in the US in years to come, potentially surpassing rewards-based crowdfunding.

We further discover that the dynamics of investments during a campaign, and in particular the kind of herding behaviour observed in the early stages of a campaign, do seem to be similar in both equity and rewards-based crowdfunding. After we present the data and analysis, we provide a more detailed discussion of the similarities and differences between the different types of crowdfunding.

2. Data description and variables

The data used for the analysis comes from the equity crowdfunding platform SEEDRS. The information was made available directly from their CTO and comprises the full universe of campaigns from the launch of the platform in July 2012 up until September 2015. In total, there are 636 campaigns, 17,188 investors and 64,831 pledges.

¹ The EIS is aimed at wealthier investors who receive 30% tax relief, but whose investments cannot be sold or transferred for a minimum lock-in period of three years. The SEIS is more generous and provides tax relief of up to 50% on investments of up to £100,000, and capital gains tax exemption.

² In the recent literature review by Belleflamme et al. (2015) we found 13 references to papers on rewards-based crowdfunding, 12 papers on lending, 3 on donations, and only 2 on equity crowdfunding.

³ see Agrawal et al. (2011, 2014), Belleflamme et al. (2014), Mollick (2014), Zhang and Liu (2012) to name a few

Download English Version:

<https://daneshyari.com/en/article/1019903>

Download Persian Version:

<https://daneshyari.com/article/1019903>

[Daneshyari.com](https://daneshyari.com)