

Crowdfunding: Considerations for Technology SMEs

Richard Heap, Partner, Technology Group

24 September 2013 @ Intellect

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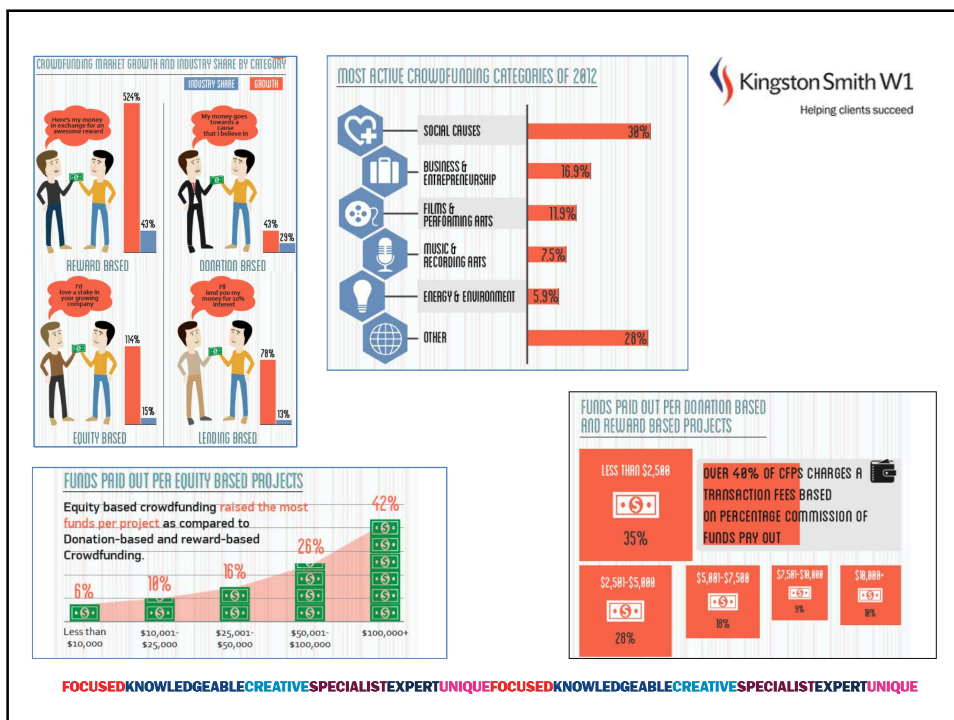
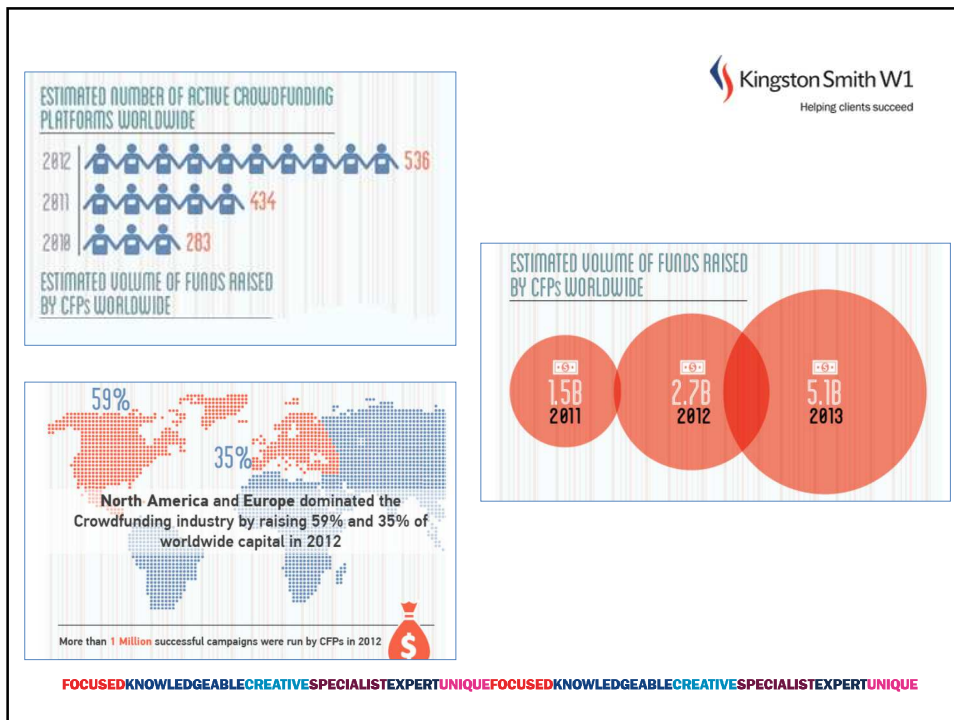
DEFINITION

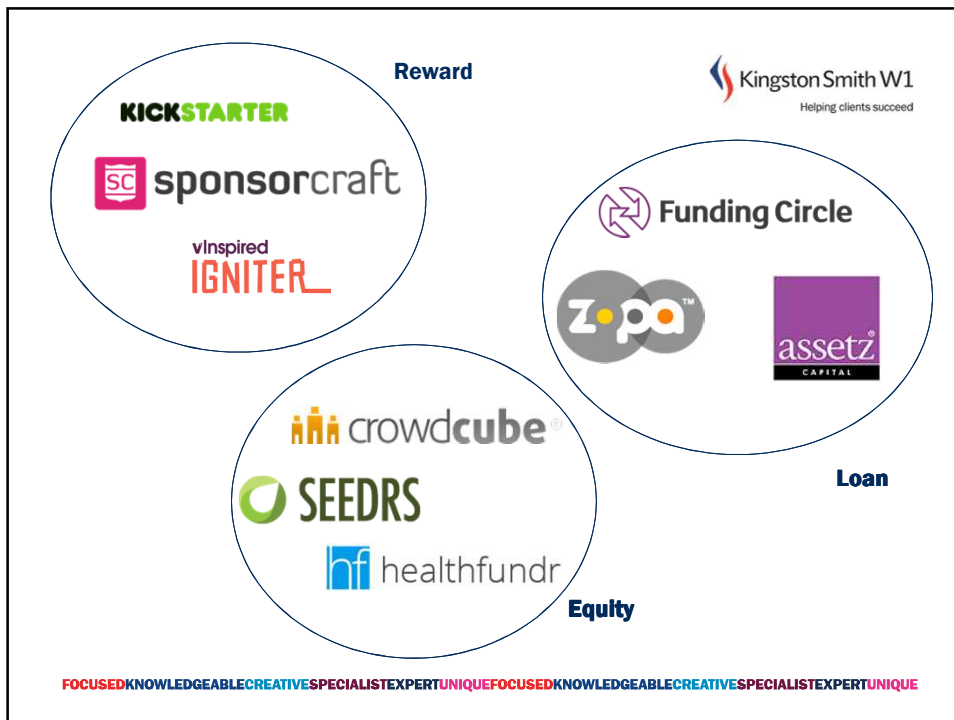
“The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet.” Source: Oxford Dictionary

But it's not new – a well known UK band raised \$60k in 1997 from fans, and before that, it can be traced back to the 17th Century.



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KICKSTARTER

Kingston Smith W1
Helping clients succeed

- Has launched 111k projects (\$768m), 49k successful (\$679m), 62k unsuccessful (\$89m) since 2009.
 - 44% success rate by number of projects
 - Most raise < ~£10,000
- Funds have been raised in these sectors:

■ Music	■ Film & video
■ Art	■ Publishing
■ Theatre	■ Games
■ Other	

Of those that have been unsuccessful, 10% never receive a single pledge and 81% raise > 20% their target.

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KICKSTARTER



- \$10.2 million pledged in May 2012
- 10.266% funded
- 69k units delivered to date, 250k orders to date

Pebble is a customizable watch. Download new watch faces, use sports and fitness apps, get notifications from your phone
 By Pebble Technologies, Palo Alto

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CROWD CUBE



Total amount successfully funded
£12,012,560

Overview

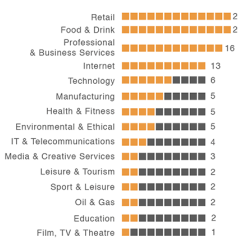
Number of members: 43,224	Number of businesses funded: 64	Average amount invested: £2,700	Total amount invested in all pitches: £18,948,529
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Successfully Funded Businesses

Stage of Growth:

	Funded pitches:	Average valuation	Average equity offered
Startup	24%	£470,000	21%
Early Stage	38%	£900,000	17%
Growth	29%	£2,900,000	13%

By Category:

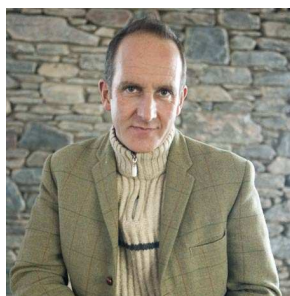


Creating New Jobs:

Number of employees before successful funding:	444	Estimated employees 3 years after successful funding:	1411
Average funded pitch amount:	£159,000	Average investment:	£2,700
Largest amount funded:	£1,500,000	Smallest amount funded:	£12,000
Fastest funded:	2.5 days	Largest number of investors:	417
Smallest number of investors:	1	Average number of investors:	75

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CROWD CUBE



- £1.4m raised from 476 backers for 19% equity
- Target £1m exceeded (141%) and still open
- Investment is a minimum of £100 for non-voting B shares, above £25k investors get voting A shares

HAB Housing was set up by Kevin McCloud in 2007 to develop sustainable housing, with an emphasis on custom build



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FUNDING CIRCLE



- £152m has been lent to date, with loans of between £5k and £1m
- Current interest rates of between 6.6% (A+) and 9.7% (C)
- 40-60 companies looking for funding at any point in time, with a £2-4m loan value
- From across a wide range of sectors
- For limited companies, LLPs AND NOW sole traders and partnerships (70% of UK businesses are within this new sector for Funding Circle)
- Funding Circle has £20m of Government funds to invest (the Business Finance Partnership Programme), so 20% of your loans might come from this
- Of those that have been unsuccessful, 10% never receive a single pledge and 81 % raise > 20% their target.

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FUNDING CIRCLE



£20k loan to fund the purchase of a new jet engine
 From 168 people in 7 days, May 2013

Saber Powerboats operates one of the largest fleets in Europe from Southampton, offering powerboat experiences by Simeon Penn, ex National Powerboat champion

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COMPARISONS



	REWARD	EQUITY	LOAN
£ raised to date	£425m (successful projects)	£12m	£152m
# projects to date	49k	64	Unknown
Date started	2009	2010	2010
Members	4.8m	43k	55k

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COMPARISONS - CONTINUED



	REWARD	EQUITY	LOAN
Top 3 sectors	1. Music 2. Film & video 3. Art	1. Retail 2. Food & drink 3. Professional & business svcs	Various: • Care home • Call handling • Holiday lodges
Costs	5% funds raised	5.5% funds raised + £1,750 legal fees	Interest (average 7-9%) + fees 3-5%
Range of £ raised Average	Up to £6.4m £9k	£12k-£1.5m 159k	£5k-£1m £62k for w/c 9/9/2013
Source	Kickstarter	Crowdcube	Funding Circle

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WHY SHOULD AN SME CHOOSE CROWDFUNDING?



- An alternative source of financing becoming ever popular
- Easy access to lots of potential investors
- Access to finance when needed and can be fast
- Investors are your evangelists (Gem Mista, Righteous)
- Benefit from investors expertise
- Seamless end-to-end funding process

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INITIAL THINGS TO THINK ABOUT



- Reward v loan v equity – which best suits your needs
- Which platform suits your needs – there are many
- Targets might not be reached so no investment at all is received
- You must be registered for EIS/SEIS (equity based)
- Do you have a good credit history (loan based)
- Will I need follow on investments
- The cost involved
- And most importantly, do you have an investable project or company...

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WHAT MAKES FOR A INVESTABLE PROJECT



- Strong management team, with credentials
- The market potential (niche, growing, scaleable)
- Is the idea or product good – what is the emotional attachment. Is there a practical application

A pitch must be a good one, make a good quality video, get people's interest

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ACCOUNTING AND TAX CONSIDERATIONS



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REWARD & DONATION



ACCOUNTING

- Funds are income, accounted for on a receivables basis
- Costs of sale will be minimal, and accounted for as incurred

DIRECT TAX

- If a company and a commercial activity is run, corporation tax will be due
- If an individual, it's more likely funds raised are donations or gifts, and not taxable. Otherwise as above a taxable activity exists
- Registered charities can claim gift aid, but watch the value of the rewards

INDIRECT TAX - VAT

- £79,000 of funds raised is the mandatory registration level
- A taxable supply is likely to exist even if the rewards and worth less than the sum invested
- Unless the rewards are broadly philanthropic, eg a "thank you"

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LOAN BASED



ACCOUNTING

- A loan arises which will appear on balance sheet, due within and after one year
- Disclosure requirements – term, rates etc.
- Arrangement fees due should be accounted for over the period of the loan as a finance cost

DIRECT TAX

- Interest payable and fees are tax deductible

INDIRECT TAX – VAT

- No specific matters

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EQUITY



ACCOUNTING

- Share premium account (SPA) arises if funds above a shares par value are raised
- Costs of raising equity can be offset against the SPA

DIRECT TAX

- A key driver will be SEIS or EIS, with tax immediate relief available to UK tax payers of 50/30%
- Companies engaged in certain “financial activities” are excluded from EIS/SEIS
- Investors must not receive anything of “significant” value, otherwise tax reliefs may be lost

INDIRECT TAX - VAT

- Shares and other forms of equity are an exempt supply

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Richard M Heap

Partner, Kingston Smith W1

020 7306 5653

rheap@kingstonsmithW1.co.uk

#richardmheap

#KSTechnolgy

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