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Equity Crowdfunding: A Possible Replacement for Traditional Financing Sources?

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ABSTRACT

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Dissertation title: Equity Crowdfunding – A Possible Replacement for Traditional Financing Sources?

This thesis aims at analyzing the future potential of the emerging financing source of equity crowdfunding. In order to fully understand the context that equity crowdfunding is taking place in, the currently available traditional as well as alternative –i.e. recently emerging– financing sources used by start-ups and SMEs are presented and compared. Based on this information, the concept of equity crowdfunding is introduced and discussed in-depth, covering reasons for its usage and challenges connected to it. The presentation of the funding sources is supplemented with an analysis of the need for alternative financing sources in general and equity crowdfunding in particular, leading the way to why equity crowdfunding can be seen as an interesting funding solution in the future.

Multiple case studies with respectively one embedded subcase enable a comparison of the equity crowdfunding situation in two countries and shine light on the future potential of the new funding source. The cases analyze the equity crowdfunding situation in Germany with Seedmatch as a representative equity crowdfunding platform and in the United Kingdom with Crowdcube as a representative platform. Analyzing both the situation in the two countries as well as the companies which conducted equity crowdfunding campaigns on the two platforms leads to the conclusion that equity crowdfunding can currently be seen as a form of bridge funding for young companies, which is used when other, traditional financing sources cannot (yet) be obtained. Additionally, a potential to become an alternative way of funding for more developed SMEs can be assumed.

SUMÁRIO

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Título: *Equity Crowdfunding* – um possível substituto às fontes tradicionais de financiamento?

Esta tese tem como objetivo analisar o futuro potencial da emergente fonte de financiamento que é o *equity crowdfunding*. De forma a compreender o contexto no qual o *equity crowdfunding* se está a desenvolver, as fontes de financiamento tradicionais e alternativas atualmente disponíveis para *start-ups* e PME's são apresentadas e comparadas. Com base nesta informação, o conceito de *equity crowdfunding* é introduzido e discutido em profundidade, incluindo as razões para a sua existência e os desafios que acarreta. A apresentação das fontes de financiamento é complementada com uma análise à necessidade de encontrar novas fontes de financiamento em geral e *equity crowdfunding* em particular.

Vários estudos de caso com um sub-caso incorporado permitem uma comparação do ponto de situação em que se encontra o *equity crowdfunding* em dois países e elucidam acerca do futuro potencial desta fonte de financiamento. Os casos analisam a situação do *equity crowdfunding* na Alemanha com *Seedmatch* como plataforma representativa de *equity crowdfunding* e no Reino Unido com *Crowdcube* como plataforma representativa. A análise da situação nos dois países bem como das empresas que recorreram a campanhas de *equity crowdfunding* em ambas as plataformas permite concluir que a modalidade de *equity crowdfunding* pode atualmente ser vista como um género de ponte de financiamento para jovens empresas, que é utilizada quando outras formas tradicionais de financiamento não podem (ainda) ser obtidas. Além disso, pode-se assumir que existe potencial para se tornar uma forma alternativa de financiamento para PME's mais desenvolvidas.

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I. Equity Crowdfunding as a New Funding Type

The concept of crowdfunding started to gain traction in 2008 when the reward-based crowdfunding platform Indiegogo¹ was started, followed in 2009 by Kickstarter². On these platforms, individuals can contribute money for various projects from a large array of areas, amongst them technology, music, community building or environment, in exchange for a small reward. The following years saw a growing interest in crowdfunding campaigns, the start of new platforms and the global spread of the funding concept. Additionally, new funding concepts based on contributions from a large group of people – the crowd – were developed, adding investment-based crowdfunding as a funding approach for start-ups to the available, more traditional, financing sources. A first approach to equity crowdfunding in particular was the launch of GrowVC in 2009 to improve the market for private seed funding for tech companies.³ Following this first endeavor, new platforms were set up, legal regulations were discussed and equity crowdfunding started to get recognized by the media.

The initial success of equity crowdfunding initiated the discussion concerning the allocation of the new funding type in the financing cycle of companies and which role it would take on in the future, potentially replacing other – more traditional – financing sources. Based on these considerations, this thesis wants to analyze *whether equity crowdfunding is a possible replacement for traditional financing sources*.

Equity crowdfunding is still in a nascent stage, however initial indications concerning the future development of this new asset class can be determined and may hint at a potential future positioning. These initial indications shall be researched by conducting case studies on the German and British equity crowdfunding market in order to answer the research question by gaining an in-depth understanding of working equity crowdfunding markets. By analyzing the market in its nascent stage and gaining an understanding of it, further research can be pointed in the right direction.

The content of this thesis will cover the following aspects: Initially, the currently available traditional as well as alternative, i.e. recently emerging and growing, financing sources for companies will be introduced and compared. This general introduction is followed by an in-depth coverage of equity crowdfunding in chapter 2, considering its history, the concept itself, reasons for its usage as well as challenges connected with it.

¹ see <https://www.indiegogo.com/about/our-story> (06.05.2016)

² see <https://www.kickstarter.com/stories/fiveyears?lang=de> (06.05.2016)

³ see <http://group.growvc.com/faq.html> (03.05.2016)

After offering an introduction to both traditional and alternative financing sources, the need for alternative finance in general as well as equity crowdfunding in particular is discussed in chapter 3 to determine whether these new funding types actually have a fruitful soil to grow on.

The first three chapters provide a theoretical basis for understanding the concept of equity crowdfunding. Chapter 4 will introduce the research methodology of case studies as well as its application to the topic of this thesis by developing a case study protocol. This case study protocol will then be applied to both German and British equity crowdfunding markets. Chapter 5 will draw conclusions from the case study research conducted in chapter 4 and answer the initially asked research question. Chapter 6 concludes the thesis by providing an outlook on the future of equity crowdfunding and needed changes or improvements.

II. Equity Crowdfunding – A Possible Replacement for Traditional Financing Sources?

The following chapters will aim at resolving the research question determined above by providing a theoretical introduction, followed by case studies covering the equity crowdfunding situation in Germany and the United Kingdom.

1. Diverse World of Financing Sources

In order to classify the emerging financing source of equity crowdfunding, an overview over the possibilities for enterprises to receive funds for successful business conduct shall be provided. Since equity crowdfunding is a specific funding type, which so far has been used by start-ups⁴ and small and medium companies (SMEs)⁵, the provided overview will focus specifically on funding options for these company categories.

A basic segmentation is made between traditional financing sources that have been successfully used for several decades and alternative sources that have only emerged recently and will be defined more in-depth further on in this chapter. These alternative sources are seen as financing sources with increasing popularity and relevance, based on the experienced challenge of securing funding from traditional sources. They are therefore included in the presentation of funding sources.

Apart from this basic segmentation, financing sources are classified as either equity or debt. Equity capital is an ownership interest in a company represented by common or preferred stock whereas debt capital is money that is borrowed from lenders.⁶

1.1. Traditional Financing Sources

Both equity and debt funding will be considered in the following paragraphs. Equity sources will be described along the Start-up Financing Cycle, considering bootstrapping, family, friends and fools, angel investors, venture capital firms in cooperation with institutional partners, corporate investors, funding through mergers & acquisitions and eventually initial public offerings. Public funding and hybrid funding

⁴ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 71

⁵ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 355

⁶ see W. L. Megginson & S. B. Smart (2009), *Introduction to Corporate Finance*, Mason: Cengage Learning, p. 13

forms with a combination of equity and debt characteristics are considered, too. Debt sources to be covered are loans, revolving lines of credit, private placements of debt or public bond issues.

Traditional financing sources have been used for decades to receive funding for businesses and are still the most common source. Source and volume of funding is changing with the size of the company as the business grows and larger financial needs emerge. With the usage of traditional sources of funding, the business owners are typically only connected with a manageable crowd of investors or sponsors with whom they maintain personal contact.

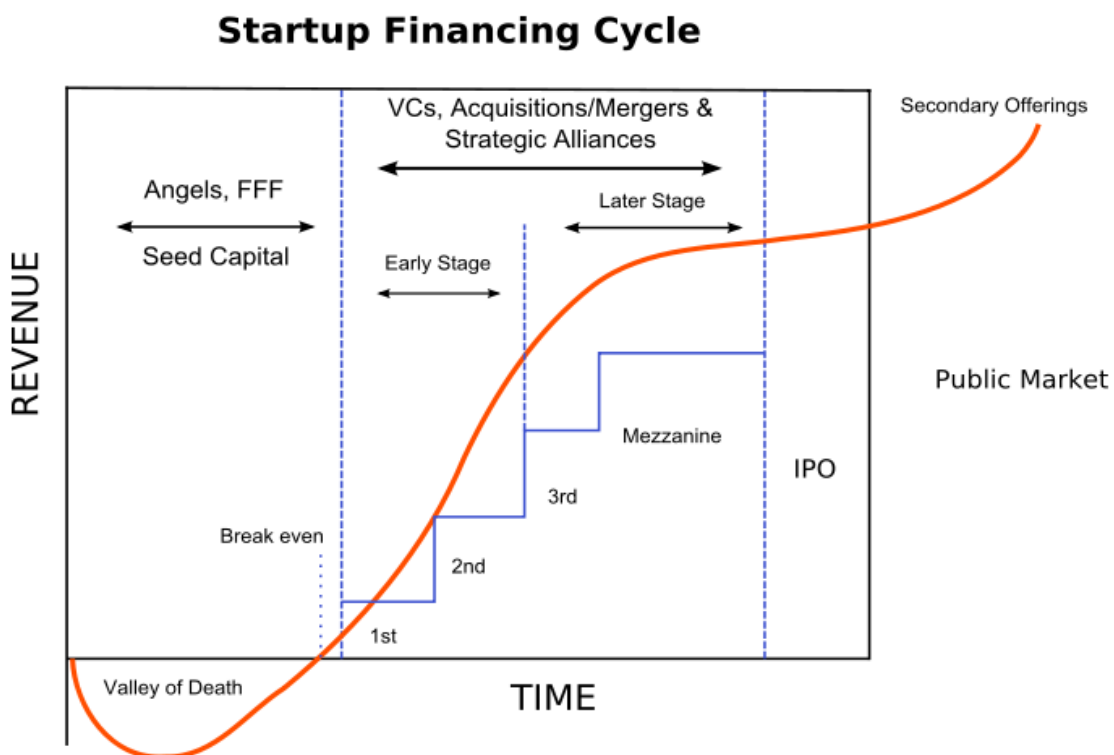


Chart 1 The Start-up Financing Cycle⁷

The Start-up Financing Cycle can be used as an informative basis for the presentation of funding sources used by a start-up over the course of its growth.

Initially, funders may rely on their own financial resources like savings, inheritance etc. and fund a company without additional external funding. This approach is commonly named “bootstrapping”. It provides the advantage of involving no external investors in the company and the entrepreneur can maintain the full decision power. However, the available funding is limited to the funds of the entrepreneur and may therefore not be

⁷ http://www.netvalley.com/silicon_valley_history.html (26.01.2016)

sufficient.⁸

Reaching out to the so-called FFF, namely family, friends and fools, can expand the available amount of funding. Family and friends have personal ties to an entrepreneur and may therefore be willing to support an entrepreneurial endeavor. Fools encompass the group of additional contributors of financial means who support the start-up because they believe in its future success despite the high failing rates of young companies. These groups are typically also called informal sources and the modalities of their financial contribution are regulated individually.⁹

In addition to personal funds as well as the FFF group, many countries offer public funds for entrepreneurs to help them start a business and cover the first expenses.¹⁰

Once the previously described resources have been tapped and exhausted, angel investors may provide additional funding for young companies. Angel investors typically are wealthy individuals who possess vast business knowledge. They invest parts of their own fortune in early stage ventures and are usually actively involved in those companies by offering feedback and guidance to the entrepreneurs. Most often, the funding from angel investors is received in private transactions in exchange for common stock. The angel investors typically invest with a long-term horizon and enjoy their personal involvement in the company. The additional advantage of receiving funds from angel investors compared to FFF is the skills and recommendations that these investors can provide to the entrepreneur.¹¹

Bootstrapping, FFF and angel investors can help an entrepreneur to cross the so-called valley of death, the early phase of a start-up during which initial structures are established and typically no revenue is generated. Many businesses already fail in this stage. The funding that an entrepreneur receives during this period is generally called seed funding. Seed funding is seen as a high-risk investment due to the nascent stage of the investment target. Usually, the contractual set-ups of the equity investments during the seed stage are also less elaborate than the contracts developed during the future of the company.¹²

⁸ <http://www.investopedia.com/terms/b/bootstrapping.asp> (27.01.2016)

⁹ M. Klačmer Čalopa et al. 8 (2014), *Analysis of financing sources for start-up companies*, „Management: Journal of Contemporary Management Issues“, vol. 19: p. 27

¹⁰ R. Veugelers (2011), *Mind Europe's Early-Stage Equity Gap*, p. 2

¹¹ see S. G. Morrissette (2007), *A Profile of Angel Investors*, „Journal of Private Equity“, vol.10: p. 52, 54, 59-60

¹² <http://www.investopedia.com/terms/s/seedcapital.asp> (27.01.2016)

When a start-up has overcome the valley of death and is generating revenue, additional funding resources may be explored.

In several investment rounds, venture capital firms can provide private equity to young enterprises. Venture capital firms are usually set up as limited partnerships with general managers running the investment business and institutional partners providing the funds.¹³ Following one of the first traditional venture capital investors, General Georges Doriot, the usage of venture capital can be tied to the following characteristics of the investment: the investment is focused on the development of new business approaches, investors are able to significantly participate in the company's management, the competencies of the venture's employees are outstanding, the products or processes have left the early prototype stage, a successful exit of the venture capital investors can be expected within a few years and the investors can also contribute their knowledge and feedback in addition to a sole financial contribution.¹⁴

The previously mentioned institutional partners, which typically provide the funds for venture capital firms can also invest directly in private companies. Additionally, corporate investors can provide equity investments for start-ups or by this time SMEs. In many cases, these corporate investors are not only interested in the return they can generate from their investment but often also expect a strategic benefit from the cooperation with a younger firm by forming strategic alliances.¹⁵ Apart from forming strategic alliances, other companies may also be interested in completely purchasing the start-up/ SME, making mergers & acquisitions another potential development path for a company to secure its future financial survival.

So far, the funds provided by venture capital firms as well as institutional partners and corporate investors have taken the form of equity investments. In order to secure the growth of a company, hybrid funding forms/ mezzanine funding exhibiting a combination of equity and debt characteristics may be used as mentioned in chart 1.¹⁶

When a private company has experienced successful growth, the company can eventually be taken public via an IPO (i.e. Initial Public Offering) in order to make its stock available to the public. Public companies however have additional obligations like

¹³ see J. Berk & P. DeMarzo (2007), *Corporate Finance*, New York City: Pearson, p. 752

¹⁴ see J. W. Bartlett (1999), *Fundamentals of Venture Capital*, Lanham: Madison Books, p. 3

¹⁵ see J. Berk & P. DeMarzo (2007), *Corporate Finance*, New York City: Pearson, p. 753

¹⁶ <http://www.investopedia.com/terms/m/mezzaninefinancing.asp> (27.01.2016)

detailed financial disclosure and following up on investor-protection standards.¹⁷ After the IPO, the stock of a company is traded on the stock market. In order to secure additional funding later on, companies can conduct a secondary offering where additional stock is made available to the public.¹⁸

The funding sources described in the previous paragraphs have mostly covered equity types of financing with one hybrid form. However, apart from using equity, companies can finance their growth through private debt financing (i.e. non publicly traded debt) and public debt financing, by borrowing money from lenders. Debt can be raised in the form of loans, revolving lines of credit, private placements of debt or public bond issues.¹⁹

For a loan, a specified sum of money that is borrowed from a lender has to be repaid including a certain amount of interest. Loans can have different characteristics, by being secured through a collateral-backing, being limited to a certain time span or being terminable by borrower or lender.²⁰ As bank loans typically require a credit history and a collateral e.g. property, they may often not be available for entrepreneurs during initial development stages of the company.²¹

Revolving lines of credit offer the opportunity to use a determined credit or parts of it during a specified time span based on the specific needs of the company and may be reused during the specified time span of the revolving line of credit.²²

Private placements of debt are bonds that are only sold to a small circle of investors and cannot be resold on the secondary market. This funding form needs no registration like public bonds and is therefore cheaper in issuing.²³

Complementary to private placements, public bond issues are a means of financing for larger companies that have grown successfully. These bond issues can be classified

¹⁷ see J. Berk & P. DeMarzo (2007), *Corporate Finance*, New York City: Pearson, p. 757-758

¹⁸ <http://www.investopedia.com/terms/s/secondaryoffering.asp> (27.01.2016)

¹⁹ see J. Berk & P. DeMarzo (2007), *Corporate Finance*, New York City: Pearson, p. 780, 785-786

²⁰ L.E. Davids (1980), *Dictionary of Banking & Finance*, Totowa: Littlefield, Adams & Co., p. 130

²¹ M. Klačmer Čalopa et al. 8 (2014), *Analysis of financing sources for start-up companies*, „Management: Journal of Contemporary Management Issues“, vol. 19: p. 26

²² see J. Berk & P. DeMarzo (2007), *Corporate Finance*, New York City: Pearson, p. 785

²³ see J. Berk & P. DeMarzo (2007), *Corporate Finance*, New York City: Pearson, p. 785

according to their interest rate (coupon), maturity, repayment provisions, seniority (i.e. the position for claim satisfaction), security, default risk as well as country and currency.²⁴

The combination of the variety of traditional funding sources can help an entrepreneur to grow a start-up from an initial idea and transform it into a SME.

1.2. Alternative Financing Sources

In contrast to the traditional financing sources described above, the following paragraphs will introduce various forms of alternative sources like crowdfunding, invoice trading, pension-led funding, impact investing and community shares.

Contrary to the traditional sources of funding, which have been used for decades, non-traditional or alternative sources have only recently experienced growth. This growth can be jointly attributed to the challenges caused by the recent financial crisis for the traditional financial markets as well as the progress in the telecommunication technology connecting individuals easily via internet and thereby enabling new ways of receiving funding.²⁵ Due to its recency, no common definition determining the specific characteristics of alternative financing or clearly naming the financing sources that belong to this new group or its sub-categories exists yet. Therefore, a vast group of offerings can be counted as alternative financing sources, including virtual currencies like BitCoin, social impact bonds and others.²⁶

So far, alternative financing sources have been described as “financial instruments and distributive channels that emerge outside of the traditional financial system”²⁷ in order to differentiate them from traditional financing sources.

In order to scale down the vast amount of alternative financing sources to a reasonable basis for this work, only the sources that can be considered funding options for companies will be analyzed. Therefore, other options like BitCoin as a modern virtual currency will not be part of the analysis.

Since not all participants in alternative funding set-ups are looking for financial return

²⁴ R. A. Brealey et al. (1995), *Fundamentals of Corporate Finance*, New York City: McGraw-Hill, p. 328-330

²⁵ see R. Wardrop et al. (2015), *Moving Mainstream - The European Alternative Finance Benchmarking Report*, p. 10

²⁶ see R. Wardrop et al. (2015), *Moving Mainstream - The European Alternative Finance Benchmarking Report*, p. 10

²⁷ R. Wardrop et al. (2015), *Moving Mainstream - The European Alternative Finance Benchmarking Report*, p. 9

as their primary objective, this work will avoid the term “investor” when referring to alternative finance in general and will use the following taxonomy: when speaking of individuals who offer funds, these will be named “contributors” while “fundraisers” will be used when considering the individuals/ firms who receive funds.²⁸

Research of the Cambridge Center for Alternative Finance will be used as a basis for an overview of alternative funding sources which provides a backdrop for the further analysis of equity(-based) crowdfunding²⁹. The Center’s initial approach of classifying alternative funding sources is combined with other research views, thereby leading to a classification of various categories and subcategories.³⁰

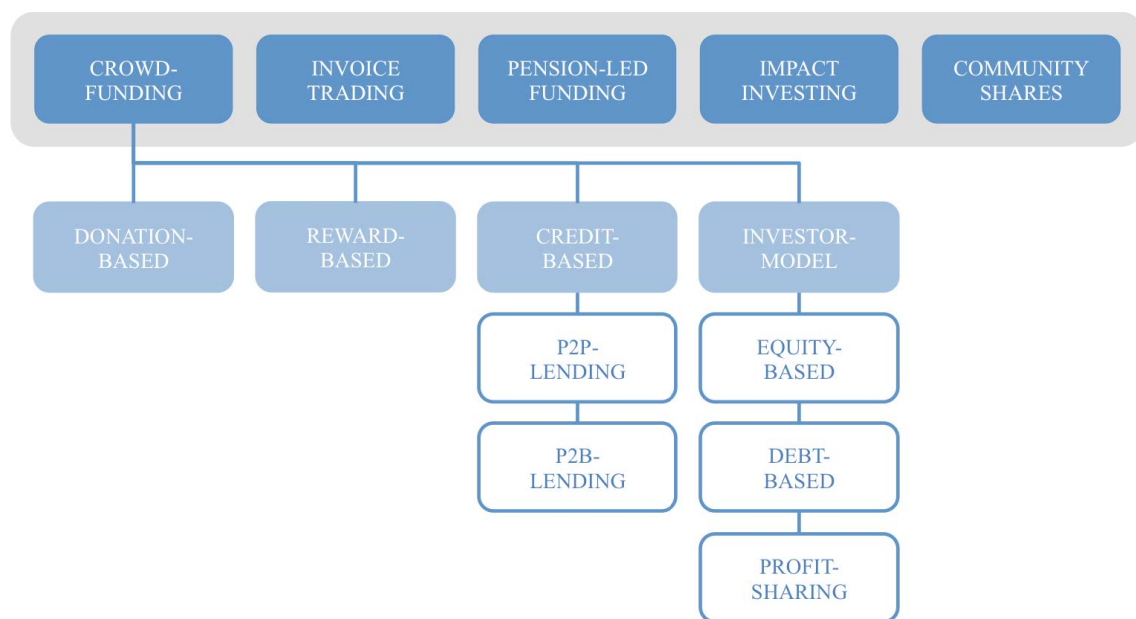


Chart 2 Overview of Alternative Funding Types*³¹

In the following paragraphs, types of alternative funding exhibited in chart 2 shall be described in order to cover the following aspects for each of them: type and specifications of funding, motivation of fundraisers, motivation of contributors, as well as challenges of the specific funding type. Crowdfunding will hereby be covered more

*P2P-Lending = Peer to Peer-Lending, P2B-Lending = Peer to Business-Lending

²⁸ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 3

²⁹ see P. Baek et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 8; R. Wardrop et al. (2015), *Moving Mainstream - The European Alternative Finance Benchmarking Report*, p. 17

³⁰ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 356; E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 3

³¹ Author’s illustration

in depth to develop an extensive basis for the further research on equity crowdfunding.

Crowdfunding

The concept of crowdfunding is based on the idea of crowdsourcing where a large group of individuals (i.e. the crowd) is used to generate input in the form of feedback, ideas or suggestions for new products.³² This concept was transferred to crowdfunding where financial resources are generated “from large groups of ordinary people”³³. Due to the nascent literature in this field, various definitions have been developed which point into the same direction. Based on the available research, crowdfunding is defined in the following way in this paper: *Crowdfunding refers to the attempt of individuals or firms –with creative, social, cultural or business background– who want to acquire funds through an open call on the internet which is however limited in terms of time. The small contributions provided by a large number of individuals are connected to the fundraiser via an online crowdfunding platform instead of using traditional financial institutions as intermediaries.*³⁴ The phenomenon of replacing a financial intermediary who is acting and contracting with the fundraiser in its own name by a platform that directly connects the fundraiser with the contributor is named disintermediation.³⁵

The flexibility of this type of funding has to be underlined since it enables the fundraiser to consider specific needs as well as offering various benefits for the contributors based on the specific type of crowdfunding used.³⁶ Crowdfunding can be categorized based on the benefits that contributors will receive in exchange for their monetary contribution. Currently used types of crowdfunding are donation-based, reward-based, credit-based or an investor-model which encompasses an equity-based or

³² see Belleflamme et al. (2014), *Crowdfunding: Tapping the right crowd* (July 9, 2013), „Journal of Business Venturing“, vol. 29, p. 7

³³ L. Valanciene & S. Jegeleviciute (2013), *Valuation of Crowdfunding: Benefits and Drawbacks*, „Economics and Management“, vol. 18, p. 40

³⁴ see Belleflamme et al. (2014), *Crowdfunding: Tapping the right crowd* (July 9, 2013), „Journal of Business Venturing“, vol. 29, p. 8; E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 2; L. Valanciene & S. Jegeleviciute (2013), *Valuation of Crowdfunding: Benefits and Drawbacks*, „Economics and Management“, vol. 18, p. 41; European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union, COM(2014) 172 final*, p. 2

³⁵ see Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 285

³⁶ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 355

debt-based model as well as a form of profit-sharing.³⁷ These types can be additionally classified, with donation-based and reward-based crowdfunding belonging to the approach of crowd sponsoring, equity-based and debt-based crowdfunding as well as profit-sharing mechanisms belonging to crowd investing and credit-based crowdfunding being seen as crowd lending as exhibited in chart 3 below.³⁸

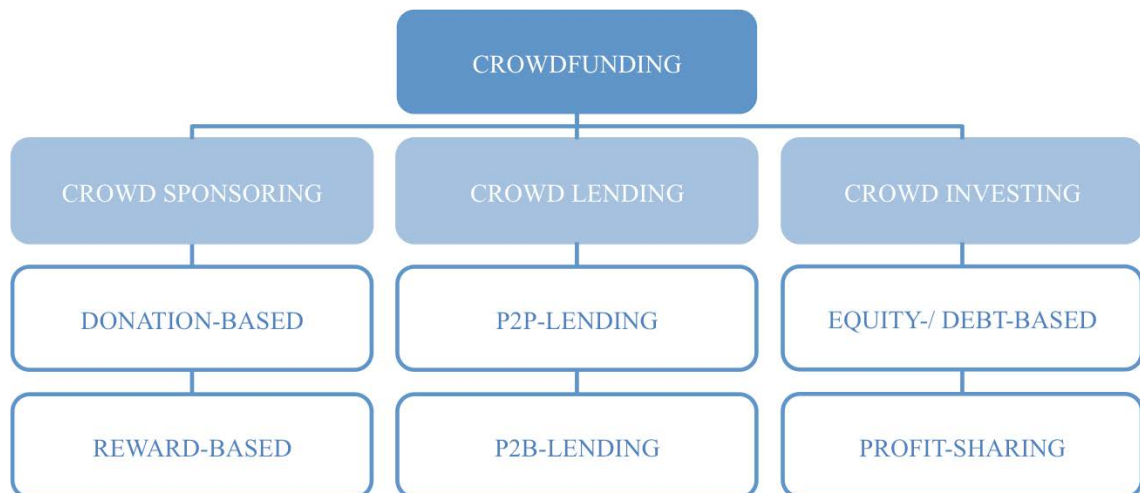


Chart 3 Classification of Crowdfunding Types³⁹

Donation-based crowdfunding campaigns support mostly charitable objectives, but can also cover other topics like creative endeavors or research projects. Individuals or philanthropic and corporate contributors donate money without receiving any monetary or material return.⁴⁰

On the contrary, reward-based crowdfunding aims at providing the contributors of funds for startups, SMEs or personal projects with rewards consisting of products, services or credits in creative works. However, these rewards are of non-financial nature.⁴¹

³⁷ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 356; E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 3; European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union, COM(2014) 172 final*, p. 3

³⁸ see European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union, COM(2014) 172 final*, p. 3

³⁹ Author’s illustration based on European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union, COM(2014) 172 final*, p. 3

⁴⁰ see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 85; M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 356

⁴¹ see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 71; M. Kuti & G. Madarász (2014), *Crowdfunding*,

The previously mentioned types of crowdfunding mainly focus on supporting an evolving project or business, whereas participants in the remaining types additionally or even primarily concentrate on generating a financial return from their contribution. Credit-based crowdfunding describes a process in which many individuals contribute funds to a loan for either another individual (P2P-lending) or a business (P2B-lending). For individuals, these loans are mostly unsecured and can either be secured or unsecured in the case of business loans. Based on the characteristics of the crowdfunding agreement, repaying the loan can or cannot include interest payments. The high risks involved with unsecured loans are diminished by having a large group of individuals of whom each one only contributes a small amount of money to the loans.⁴² Investor-model crowdfunding is an approach for SMEs to attract funding when other traditional funding sources cannot be successfully used. Contributors can acquire an equity stake in a company and therefore have claims over the future cash-flows of the specific company (equity-based crowdfunding). The debt-based approach (also called “debt-based securities”), is similar in structure to a bond and is especially popular in the renewable energy sector. In a profit-sharing set-up, the contributor of funds has claims over future profits or royalties as detailed in the characteristics of the specific crowdfunding campaign.⁴³ Fundraisers may have a variety of motives to set up crowdfunding campaigns⁴⁴, however the most prominent one is the need for financial resources to start or continue a project or grow a company. Many start-ups and existing SMEs experience difficulties when trying to raise funding in traditional ways.⁴⁵ By using crowdfunding, these companies increase awareness for their project and its visibility and thereby enlarge the pool of potential investors who can fund their projects. Additionally, by using online

„Public Finance Quarterly“, vol. 59, p. 356; E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 3

⁴² see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 28, p. 40; European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union, COM(2014) 172 final*, p. 3; M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 356

⁴³ see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 51, p. 80; M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 356; E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 3

⁴⁴ see E. M. Gerber et al. (2012), *Crowdfunding: Why People Are Motivated to Post and Fund Project on Crowdfunding Platforms*, Workshop Paper, p. 2, 5-6

⁴⁵ see Belleflamme et al. (2014), *Crowdfunding: Tapping the right crowd* (July 9, 2013), „Journal of Business Venturing“, vol. 29, p. 4

platforms to generate funds, geographic boundaries can be eliminated or reduced since funds will not only be given by individuals or institutions located closely to the fundraisers but can be received from any person.⁴⁶

By exposing an idea to the public through a crowdfunding campaign, the idea will also receive feedback from the public. This can help the fundraiser to validate an idea as well as adapt it to the target group's preferences based on suggestions from the contributors or even the wider public. The received feedback further on enables a fundraiser to test the marketability of an idea and receive information over potential future demand figures. By engaging with the crowd, fundraisers also establish social connections with contributors and the public, which may contribute to the successful realization of an idea.⁴⁷

Apart from the fundraisers, contributors may also participate in crowdfunding campaigns for a variety of reasons.⁴⁸ The aspects may vary with the various types of crowdfunding, however some general motives apply to all types.

Compared to other investment choices or contributions to a good cause, which are often handled by big institutions, contributors of online crowdfunding campaigns can directly choose the target of their contribution. This enhances the feeling of direct involvement with and contribution to the project instead of having the money handled by an institutional intermediary.⁴⁹

Apart from having direct control over the allocation of one's financial assets, each contributor to a crowdfunding project becomes part of a larger community and experiences community benefits from his/ her participation. The contributors as well as the fundraiser probably share the same ideals and interests and therefore new social interactions and a feeling of connectedness may evolve among them and are highly enjoyed by them.⁵⁰

Direct influence on the target location of one's contribution as well as experiencing

⁴⁶ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 34

⁴⁷ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 357; Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 12-13

⁴⁸ see E. M. Gerber et al. (2012), *Crowdfunding: Why People Are Motivated to Post and Fund Project on Crowdfunding Platforms*, Workshop Paper, p. 6-7

⁴⁹ see European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union*, COM(2014) 172 final, p. 5

⁵⁰ see Belleflamme et al. (2014), *Crowdfunding: Tapping the right crowd* (July 9, 2013), „Journal of Business Venturing“, vol. 29, p. 10

community benefits apply to all of the various crowdfunding types, however specific additional motivators exist for individual types: For a donation-based model, the sheer feeling of supporting a good cause or a personal project is an important motivator since these funding contributions often have a philanthropic nature.⁵¹ For reward-based crowdfunding, an important reason is the chance to obtain a funded product as an early buyer or to receive a reward related to the crowdfunded project, like T-shirts, credits in a production or meeting an individual of the fundraising team/ the fundraiser.⁵² Contrary to the previously described types, contributors to credit-based crowdfunding or the investor-model are mostly incentivized by the potential to gain a financial return from their investment.⁵³

Despite the previously described benefits of crowdfunding, including the possibility to close a funding gap for start-ups and SMEs, this financing source also encompasses some challenges, which may develop throughout the funding process.

Primarily, researchers have observed a specific type of contributor behavior due to the limited information availability and the restricted timeframe of a crowdfunding process. Many contributors tend to participate in the so-called herding which is a follower behavior. The more funds have already been accumulated for a specific project and the closer a project is to reaching full funding, the higher the willingness of other contributors to also fund this project. This behavior however assumes that the initial contributors have thoroughly analyzed the crowdfunding project and its quality and based their funding decision on their successful positive analysis. In case this analysis and its result failed, herding behavior can cause more contributors to offer funds for low-quality projects.⁵⁴

Herding is a risk emanating from contributors' behavior and misguided fund contribution, which in return destroys the value of their contribution. However, risks can also originate from the behavior of the fundraiser: The projects that fundraisers aspire to realize may exceed their real capabilities and skills. This "Creator

⁵¹ see E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 3

⁵² see E. Mollick (2014), *The dynamics of crowdfunding: An exploratory study*, „Journal of Business Venturing“, vol. 29, p. 3

⁵³ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 355-356

⁵⁴ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 4, p. 29

Incompetence”⁵⁵ may only become apparent after having concluded the crowdfunding process and starting to realize the project. Additionally, since the typically supported projects are nascent ventures, they bear an inherent risk of failing due to their young age.⁵⁶

In addition to the described potential developments that may risk the successful implementation of crowdfunding projects, fundraisers may be fraudulent on intention in order to benefit from the monetary contributions received from crowdfunding without planning to realize the project, which was supported by the contributors.⁵⁷

In order to successfully realize a crowdfunding campaign, a sufficient amount of contributors is needed. These contributors can be reached via advertising and informing the public about the project. Therefore, the fundraiser should not only focus on setting up an ideal crowdfunding campaign with a well-structured project, but should also consider the benefits that can be received from supportive advertising. Not conducting any marketing activity may have a negative effect on the fundraising success.⁵⁸

In addition to the previously described challenges, equity crowdfunding may face additional problems. These will be discussed in an additional section specifically dedicated to equity crowdfunding.

Invoice Trading

Invoice Trading is the latest sub-category of receivables finance, which also includes invoice factoring and invoice discounting. Invoice trading however is a more flexible approach helping companies to bridge cash gaps without obliging them to pledge all invoices to a factoring company. For an invoice trading process, a business, typically a SME, uploads one or more selected invoices to an online invoice trading platform. Contributors on the platform will then participate in a bidding process and a certain percentage of the invoice value will be transferred to the SME after closure of the bidding process. Once the invoice is settled, the reserve, i.d. the remaining percentage of the invoice value less the fees paid to the contributor, is transferred to the SME.⁵⁹

⁵⁵ Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 18

⁵⁶ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 19

⁵⁷ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 19

⁵⁸ M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 362

⁵⁹ see <http://fundinginvoice.com/invoice-trading/> (08.02.2016)

Invoice Trading is typically used to secure working capital for businesses, which avoid long periods of up to 180 days until their invoices are settled. The contributors of funds are most often institutional investors or high net worth individuals.⁶⁰

This funding approach is helpful for companies in need of working capital, which do not receive funding from banks for various reasons. Compared to the traditional invoice factoring approach, invoice trading may be a rather quick and easy solution to this challenge since the process is quickly implemented via sign-up on an online invoice trading platform. Invoice trading does not oblige the company to pledge all of its invoices to a contractor but gives the chance to raise funds by only offering selected invoices online. Typically, no (monthly) fees are charged to the companies from the platform unless the service is used and no debenture registration is needed.⁶¹

When investing into invoices through an invoice trading platform, contributors should pay attention to the received data and materials about the company offering the invoices and try to gain as much information as possible in order to secure their investment since sometimes no detailed information about the invoice seller is provided.⁶²

Pension-led Funding

Like the previously described invoice trading, pension-led funding is an option for SMEs who struggle to secure funding in more traditional ways.

Pension-led funding gives owners or directors of businesses the chance to re-invest their previously accumulated pension into their own businesses in order to receive working capital or expansion capital. Typically, intellectual properties are used as a collateral in this kind of funding approach.⁶³

Pension-led funding is an alternative finance approach that has recently gained attention in the UK. An owner or director of a business or several owners or directors can transfer their previously accumulated pensions into a special scheme which allows owner(s)/director(s) to decide themselves about the investment target of their pensions instead of an insurance company making the decision. These schemes are either called SIPP (self-invested personal pension) or SSAS (small self-administered scheme). After an in-depth

⁶⁰ see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 47

⁶¹ see http://www.altfi.com/article/0360_invoice_trading_platforms_great_opportunities (08.02.2016), <http://fundinginvoice.com/invoice-trading/> (08.02.2016)

⁶² see http://www.altfi.com/article/0360_invoice_trading_platforms_great_opportunities (08.02.2016)

⁶³ see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 66

review of the company of the owner(s)/ director(s), the pensions from the SIPP or SSAS can be used to offer funding to the company. This may take place in the form of a loan to the company or by buying an asset from the company and leasing it back afterwards. With a loan set-up, this loan is paid back to the pension scheme over a previously specified period at a determined interest rate.⁶⁴

Using pension-led funding schemes offers two advantages to the business owner: on the one hand, working capital or expansion capital can be secured which might not be offered from other – more traditional – sources. On the other hand, the interest paid for the funds will not benefit a third-party contributor but will contribute to the pension of the business owner. Thereby, pension-led funding helps to grow a business as well as a pension simultaneously since the business owner is fundraiser and contributor at the same time. Apart from this advantage, pension-led funding often offers the opportunity to use intellectual property as a collateral. This may be helpful since companies often have already pledged other assets to traditional lenders like a bank.⁶⁵

Despite these advantages, one should consider that a failing business, which previously used pension-led funding and is still involved in paying back the offered loan, may cause the business owner to not only lose his business but to consequently also lose parts or all of his pension which was invested in the company.⁶⁶

The previously presented forms of funding can be used in general by any start-up or SME. For these forms, the focus was on the side of fundraisers searching for alternative ways to secure funding. Contrary to this, the idea of impact investing as well as community shares focuses on the side of the contributors who look not only for financial return but expect their investment to also generate social impact.

Impact Investing

Contrary to the previously described funding approaches, impact investing has already gained considerable traction in the financial world. Therefore, a common definition has been developed. According to the Global Impact Investing Network (GIIN), impact investments are defined as “investments made into companies, organizations, and funds

⁶⁴ <http://startups.co.uk/pension-led-funding-could-it-help-grow-your-business/> (08.02.2016)

⁶⁵ see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 66; <http://startups.co.uk/pension-led-funding-could-it-help-grow-your-business/> (08.02.2016)

⁶⁶ <http://startups.co.uk/pension-led-funding-could-it-help-grow-your-business/> (08.02.2016)

with the intention to generate social and environmental impact alongside a financial return”⁶⁷.

The clear focus with this type of investments therefore lies on generating positive impact, not on avoiding specific industries that might generate a negative impact on the society or environment. Impact investing can occur in for-profit as well as nonprofit companies. So-called “for-profit social enterprises” generate social impact through their specific business model while “enterprising nonprofits” generate profits as a by-product of their nonprofit activities.⁶⁸

Impact investing activities are not limited to a specific industry or sector. Social impact can be generated within a variety of sectors and can even span different sectors, which are influenced by the social impact. Examples for popular sectors are amongst others community development, environmental issues, health and education.⁶⁹

Similarly, this investment approach is also not limited to a specific asset class but can be observed for classes as diverse as fixed income, private equity, venture capital or assets. Additionally, investments can be made directly into specific enterprises or through structured products like funds into a diversified set of different enterprises that all follow the idea of generating social impact alongside the financial return.⁷⁰

The contributors of funds for impact investments are various groups, ranging from individual investors to institutions amongst them pension funds, insurance companies and fund managers. Their approach of investing combines the request for financial return of traditional investors with the need for social return of philanthropists.⁷¹

Community Shares

Community shares are withdrawable share capital, which can be issued by either co-operatives, community benefit societies or charitable benefit societies.⁷² The specific objective of the endeavors can vary considerably from a local shop, to a community pub or sports club, however “the key element is that they are run by and for the community, and serve a wide range of social aims.”⁷³ Community shares can be issued either offline

⁶⁷ <https://thegiin.org/impact-investing/need-to-know/#s4> (08.02.2016)

⁶⁸ see S. Greene (2014), *A Short Guide to Impact Investing*, p.4-5

⁶⁹ see S. Greene (2014), *A Short Guide to Impact Investing*, p.18

⁷⁰ see S. Greene (2014), *A Short Guide to Impact Investing*, p.20, p. 26

⁷¹ see <https://thegiin.org/impact-investing/need-to-know/#s4> (08.02.2016); S. Greene (2014), *A Short Guide to Impact Investing*, p.6

⁷² see P. Baeck et al. (2014), *Understanding Alternative Finance – The UK Alternative Finance Industry Report 2014*, p. 62

⁷³ <http://stepbystep.communityshares.org.uk/about-community-shares> (08.02.2016)

or through specific online platforms.

Since community shares also focus on generating social impact, they could be seen as a form of impact investing. However, as described above, impact investments aim at generating a social impact alongside a financial return. For community shares, the social impact clearly has priority over the financial return of the enterprise. Often, the return provided by the shares is limited and many enterprises are subjected to a so-called asset lock, which prevents the selling of the enterprise. This approach offers no opportunity for capital appreciation or investor speculation and therefore clearly puts the financial return on second place. By giving the social return of the enterprise the primary spot of attention, this funding set-up ensures that the investors are aligned with the social or community goals of the enterprise since they are actively accepting the possibility of giving up financial return in exchange for social return.⁷⁴

1.3. Comparison of Financing Sources

A variety of traditional as well as alternative financing sources have been described in detail in the previous paragraphs. The following Table 1 provides a shortened overview of these types, considering the benefits and limitations or challenges of each source.

Name	Type	Stage	Benefits	Limitations/ Challenges
TRADITIONAL				
Bootstrapping	E	Seed	direct access; no outside investors	limited volume
FFF	E/D	Seed	relatively easy to contact	limited volume; personal connection
Public Funds	-	Seed/ Start- up		bureaucratic process
Angel Investors	E	Start-up	active involvement: knowledge and feedback	limited resource
Venture Capital	E	Start-up/ Growth	active involvement: knowledge and feedback	challenging to receive; loss of part of control
Institutional Partners	E	Growth	potential for strategic alliance; benefit from connections of partner	large amount of legal paperwork
Corporate Investors				
M&A				

⁷⁴ <http://stepbystep.communityshares.org.uk/about-community-shares> (08.02.2016); <http://www.ft.com/intl/cms/s/0/44240144-1c04-11e5-8201-cbdb03d71480.html#axzz3zb9QmUr4> (08.02.2016)

IPO	E	Established	small contribution per investor	variety of requirements
Hybrid Funding	E&D	Start-up	funding for stage of transformation	lengthy set-up process; potential loss of decision power
Loan	D	Growth	usually simple set-up	need for collateral and covenants
Line of Credit	D	Growth	re-usability	need for collateral and covenants
Private Placement	D	Growth	no registration needed	potential need to pay premium
Public Bond Issue	D	Established	rating indicates quality	public registration needed
ALTERNATIVE				
Crowdfunding			raise awareness/ marketing	risk of herding/ follower behavior
-Donation	-	Seed	no monetary/ material payout	only suitable for charitable/ creative objectives/ research
-Reward	-	Seed	interest of contributor in product	challenge of delivering material reward on time
-Credit	D	Seed/ Start-up	small contribution per investor	potentially unsecured loans
-Equity/-Debt/-Profit Sharing	E	Start-up/ Growth	small contribution per investor	usually limited Due Diligence
Invoice Trading	-	Established	increased flexibility by offering only some invoices	loss of part of invoice value
Pension-led funding	D	Established	intellectual properties as collateral	potential of loosing business <i>and</i> pension
Impact Investing	E/D	varying	positive impact alongside financial return	challenge of measuring social impact
Community Shares	E	varying	support for the community	financial return less important

Table 1 Overview of financing sources and their characteristics⁷⁵

As a conclusion from this table, it can be assumed that the initially available traditional funding from the entrepreneur him-/herself, FFF and public funds may dry up quickly because of their limited volume while larger equity funding volumes cannot yet be acquired due to challenging selection criteria and debt funding may fail due to covenants and collateral requirements, indicating a lack of funding based on the characteristics of the sources.

This raises the question for suitable alternative sources. These should offer larger

⁷⁵ Author's illustration; E = equity, D = debt

funding volumes, but at the same time the selection criteria should not lead to an exclusion of too many companies from funding in order to provide a satisfying total amount of funding opportunities. Equity investments could be preferable if requirements for debt funding cannot yet be fulfilled.

Equity crowdfunding may serve as a suitable alternative financing source in this case, fulfilling the previously mentioned criteria. Therefore, the following chapter will analyze this source in depth before a more numeric analysis is considered on whether a need for alternative financing solutions, amongst them especially equity crowdfunding, can be seen. Afterwards, case studies will research the usage of equity crowdfunding in two countries to verify whether equity crowdfunding is used in order to overcome the previously stated assumptions concerning the lack of suitable funding.

2. Characterization of Equity Crowdfunding

After having presented a general overview of various types of alternative funding, equity-based crowdfunding shall be discussed in more depth. Aspects to be considered are the history of equity crowdfunding, the concept, reasons for the usage as well as challenges connected to this type of funding.

2.1. History of Equity Crowdfunding

Equity crowdfunding was previously described as a crowdfunding type according to which contributors have claims over the future cash flows of the specific company based on an investment made into that company via an online platform.

However, the first investment opportunity that could be seen as a form of equity crowdfunding for individual contributors did not take place on a specific crowdfunding platform but directly through the company's own homepage. The British brewery *BrewDog* collected around 2.2 Mio GBP in 2009. In the same year, GrowVC was launched as a platform for equity investments into start-ups.⁷⁶ Eventually, equity crowdfunding started to gain traction in 2012 with an increase in number and volume of projects. To date, important platforms are Seedrs (UK), Crowdcube (UK), Crowdfunder (US), Seedmatch (Germany) and Companisto (Germany).⁷⁷ The development of equity crowdfunding platforms, which are open for investments from individual, non-

⁷⁶ <http://group.growvc.com/faq.html> (10.02.2016)

⁷⁷ <http://www.crowdcru.com/top-10-equity-crowdfunding-websites-for-startups/> (10.02.2016)

accredited users is heavily dependent on the national legislation. Title III of the Jumpstart Our Business Startups Act (JOBS Act) changes equity crowdfunding legislation in the US, enabling platforms to register with the U.S. Securities and Exchange Commission starting on Jan. 29, 2016.⁷⁸ This development should trigger a growth in equity crowdfunding for the masses in the US.⁷⁹

2.2. Concept of Equity Crowdfunding

Despite various manifestations of certain aspects of equity crowdfunding, a general definition shall be developed and complemented with a process description. Based on the definition provided by Ahlers et al. in their paper “Signaling in Equity Crowdfunding”, equity crowdfunding can be defined as *a funding method whereby a group of individuals invests into an enterprise in the form of equity stakes, bond-like shares or hybrid financial products by following an open call initiated via an online platform.*⁸⁰

Based on the national legislation, the question arises of whether equity crowdfunding can be used and under what conditions as well as with which specifications.⁸¹ These specifications especially refer to the mode of investment chosen for the equity crowdfunding and will be covered in more detail in following parts of this work.

Following the definition provided above, three participants can be determined in the equity crowdfunding scheme: the fundraiser, i.e. the enterprise and its owners or managers, the contributors, i.e. the individuals planning to invest and the online platform connecting fundraisers with contributors. In this context, the online platform takes on the role of an intermediary between the fundraiser and contributor. However, the platform does not cover typical tasks of traditional financial intermediaries like risk and maturity transformation but rather only focuses on the pre-selection of suitable enterprises who may take on the role of fundraisers on the platform.⁸² In addition to the

⁷⁸ <https://www.sec.gov/news/pressrelease/2015-249.html> (10.02.2016)

⁷⁹ <http://unternehmen-firmenboerse.de/Informationen-fuer-Unternehmen/crowdinvesting.html> (10.02.2016)

⁸⁰ see G. Ahlers et al. (2015), *Signaling in Equity Crowdfunding*, „Entrepreneurship: Theory and Practice“, vol. 39, p. 958; Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287

⁸¹ see G. Ahlers et al. (2015), *Signaling in Equity Crowdfunding*, „Entrepreneurship: Theory and Practice“, vol. 39, p. 958

⁸² K. Pilbeam (2010), *Finance and Financial Markets*, Houndmills: Palgrave Macmillan, p. 30; H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative*

pre-selection of suitable enterprises for an equity crowdfunding campaign, the platform offers the legal basics for the investment contract between fundraiser and contributors by providing standardized contracts as well as processing the financial transactions or managing the outsourcing to a financial partner.⁸³

These three participants are involved in the equity crowdfunding process, which can be described as a seven-step process from application phase to exit phase (see chart 4).⁸⁴ The individual steps and actions taken by the participants will be described in the following paragraphs.

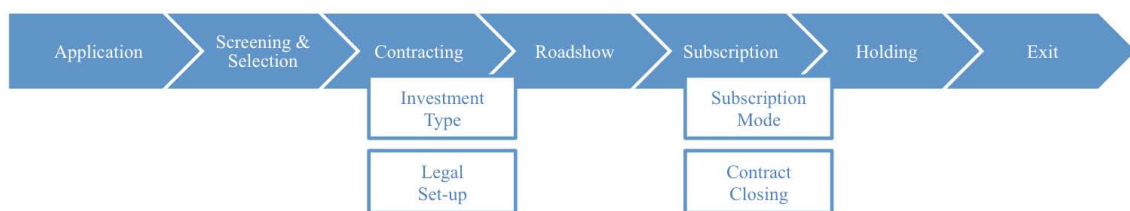


Chart 4 The Equity Crowdfunding Process⁸⁵

The Application Phase starts with an enterprise signing up on an equity crowdfunding platform and signaling interest for the crowdfunding process by applying to the platform hosts. According to the rules of the specific platforms, a variety of information is required during the application process like an executive summary or the business plan of the enterprise.⁸⁶

After an enterprise has exhibited interest in starting an equity crowdfunding campaign, it enters into the screening and selection phase. The team of the specific platform will analyze the enterprise and determine whether or not they will support a campaign.

in der Gründungsfinanzierung?, Göttingen: PFH Forschungspapiere/ Research Papers, p. 10

⁸³ see G. Ahlers et al. (2015), *Signaling in Equity Crowdfunding*, „Entrepreneurship: Theory and Practice“, vol. 39, p. 955

⁸⁴ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 75

⁸⁵ Author’s illustration based on A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 75

⁸⁶ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 75; G. Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287

Similarly to the decision process of venture capital firms, a due diligence is performed to get insights into the company, its business model and performance. However, the due diligence of a crowdfunding platform is typically more limited and simplified and may vary from platform to platform. In addition to the due diligence, some platforms calculate a company value for the enterprise in order to adequately price the investment options afterwards. After the applicants have been screened, the platform chooses promising companies and offers them to enter into the contracting phase.⁸⁷

During this phase, a detailed contract covering the raising of funds is developed between the platform and the fundraising enterprise. This contract covers financial aspects as well as managerial topics. From a financial point of view, the enterprise has to determine the amount of capital that shall be raised during the process and the length of the funding process. In addition to the total amount of capital requested, a funding threshold representing the minimum capital requirement is determined. This funding threshold has to be reached within a specified timeframe to enable the enterprise to continue the crowdfunding process.⁸⁸ The fee paid to the platform for its service is also based on the total amount raised during the process and is discussed during the contracting phase.

Additionally, the enterprise has to determine the type of investment to be offered. As the name “equity crowdfunding” suggests, an enterprise is selling equity stakes on the online platform. However, due to legal specifications and restrictions, other investment types may be used. This is especially the case in Germany where mezzanine capital (also called hybrid funding methods)⁸⁹ is often used as type of investment for equity crowdfunding campaigns. An important advantage of mezzanine capital is the possibility to freely design the characteristics of this funding type since the current regulation is rather low. Popular mezzanine funding structures for equity crowdfunding are typical and atypical silent partnerships, subordinated profit participation loans and participation certificates. These specific types will be discussed more in depth later in

⁸⁷ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 75; G. Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287

⁸⁸ see G. Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 289

⁸⁹ see G. Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287

this work.⁹⁰

In addition to choosing a suitable type of investment, the enterprise has to consider managerial topics like choosing the legal set-up for the investment process, i.e. how the contributors will be connected to the fundraiser. In a peer-to-peer model, the contributors are directly connected to the fundraiser through an investment contract and the platform only functions as an intermediary setting the stage for the investment.⁹¹ In the so-called nominee structure, the platform takes on the role of a nominee shareholder for each individual investor. A nominee shareholder holds shares or other investment vehicles in the name of the actual owner.⁹² Therefore, the platform in its role as nominee shareholder is the only contact point for the fundraiser and the challenge of communicating with a variety of contributors is solved.⁹³

In some countries, national legislation challenges the sale of equity stakes to the public. Therefore, a participation model based on an intermediate holding vehicle evolved. In order to prevent every enterprise, which raises equity through crowdfunding, from having to comply with challenging regulations concerning the public offering of equity, an intermediate holding vehicle is set up which complies with the national regulations. A contributor invests into this intermediate holding vehicle instead of directly investing into the specific enterprises. However, this approach may also lead to challenges due to following a variety of formalities, like prospectus regimes or the pooling of several equity campaigns of different enterprises within one holding vehicle.⁹⁴

In addition to the basic service of connecting fundraisers with potential contributors, some equity crowdfunding platforms offer further services to the enterprises. These may cover business-related topics like developing a marketing campaign for a successful equity crowdfunding process or personality-related topics like offering mentoring to the entrepreneurs. These additional services as well as their fees are also agreed on during

⁹⁰ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 75-76; W. Portisch (2008), *Finanzierung im Unternehmenszyklus*, München: Oldenbourg Verlag, p. 109-110

⁹¹ European Commission (2014), *Crowdfunding innovative ventures in Europe – The financial ecosystem and regulatory landscape*, p. 38-39

⁹² <http://www.investopedia.com/terms/n/nominee.asp> (13.02.2016)

⁹³ European Commission (2014), *Crowdfunding innovative ventures in Europe – The financial ecosystem and regulatory landscape*, p. 36

⁹⁴ European Commission (2014), *Crowdfunding innovative ventures in Europe – The financial ecosystem and regulatory landscape*, p. 36-37

the contracting phase.⁹⁵

When all contractual details have been determined, the equity crowdfunding process enters into the roadshow phase. The investment offer is announced on the platform with relevant material for an evaluation of the company like a business plan, company description or marketing material. The potential investors can analyze the company based on the provided information and decide whether or not they are interested in investing. The platform does not take on the role of an investment advisor in this context but rather only functions as the intermediary connecting the fundraiser with the potential contributors. During the roadshow phase, the business idea of the enterprise is revealed to the public. It is important to deliver sufficient information to the potential contributors in order to persuade them of the success potential of the company and increase their trust into the enterprise.⁹⁶ However, the revelation of the business idea has to be conducted very carefully in order not to make sensitive information public and risk the copying of the business idea by a third party.⁹⁷

Once the individuals interested in investing into the enterprise have considered all the available information, they will make a decision on whether or not to invest into the company and thereby enter the subscription phase. The subscription phase can only be successfully concluded if the previously mentioned funding threshold is reached within the determined timeframe. The subscription to the securities offered on the platform can take place according to two different models. The simple subscription method is based on a first-come-first-serve principle. Contributors can invest in the enterprise until the total capital need indicated is satisfied and pay a previously determined price per security.

Contrary to that, the auction method requires contributors to indicate the price above a minimum value, which they are willing to pay per security and the number of securities they want to purchase. Afterwards, all the offers are arranged in a descending sequence based on the price and the smallest successful offer (in order to satisfy the indicated

⁹⁵ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 77

⁹⁶ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 13

⁹⁷ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 77

capital need) will determine the final price per security. Using the simple subscription method facilitates the subscription process, however it is criticized for not offering an optimal distribution mechanism since the demand, which is indicated after the total capital needed is reached, is not considered. Since not all the demand is considered, the price determination may not be optimal.⁹⁸

As with the subscription method, two different models can be used for the closing of the investment contract. The more straightforward approach is the so-called *offer-acceptance model*. Here, the offer describes the offer of the fundraiser who sells securities of his enterprise. An interested contributor can then simply invest into the company by clicking on a button on the online platform to accept the offer. This closing model is used for the simple subscription method.

On the other hand, the *invitation to treat model* offers a more time-intensive investment approach. The contributor signals her interest in investing via the online platform to the fundraiser. The fundraiser can then decide whether or not to accept the contributor as an investor. This decision of acceptance can be based on the specifications of the previously described auction model or on personal preferences of the fundraisers who might consider specific characteristics of their potential future investors. When based on the specifications of the closing model the match between fundraiser and contributor is made, the contributor is supposed to pay for the securities and will then be issued a signed investment contract.⁹⁹

During the subscription phase, the previously described herding behavior may take place once a project has gained traction and is exposed to increasing interest from contributors. Badly informed contributors may then simply follow the crowd instead of analyzing the investment opportunity themselves.¹⁰⁰

Once the subscription phase has been successfully concluded, the enterprise raising funds will have to pay the previously determined success fee to the platform.

⁹⁸ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 79; G. Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 289

⁹⁹ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 80

¹⁰⁰ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 4, p. 29

After the contributors have purchased their securities, the holding phase starts. It varies between different platforms and campaigns and the specifications of the investment type, but generally can be considered as medium-term (5-10 years) for investments with a specified timeframe or unlimited for typical equity investments. During this phase, the investors will receive on the one hand information about the development of the enterprise and on the other hand the financial pay-out determined in the investment contract will be transferred to them.¹⁰¹

When the holding phase as specified in an investment contract comes to an end, various options are available for both the enterprise and the investor. Both parties can cancel the contract and conclude their partnership once the holding period ends. However, also an automatic prolongation of the investment contract can be a possible solution. For typical equity investments with an unlimited investment period, investors may want to disinvest for various reasons, too. At the moment, no secondary market for equity crowdfunding shares exists yet, however an investor may be able to sell his shares privately in accordance with the investment regulations of the company. Since equity crowdfunding is still a nascent form of investment, the future will show preferences or development potential for this phase.¹⁰²

2.3. Reasons for Usage of Equity Crowdfunding

Given the specifications of the concept of equity crowdfunding explained above, the question remains why fundraisers might use this new type of funding for their enterprise. The decision can be retraced to financial aspects as well as other advantages, which accompany the concept.

Young enterprises often face a challenge when trying to gather funds for their company. Banks are more reluctant to offer credits to young companies, especially since the last financial crisis. Instead of trying to acquire funds from banks through loans, enterprises may try to contact the previously described venture capital firms or angel investors.

¹⁰¹ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 80-81

¹⁰² see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 81-82; <https://www.crowdcube.com/pg/post-investment-equity-1633> (29.02.2016)

However, the needed funding volumes often fall below the funding thresholds targeted by these funding partners. Additionally, a high rejection rate can be observed for venture capital firms. These aspects will be discussed in more depth in a later part of this work.¹⁰³

In addition to the challenging situation of acquiring funding from the previously mentioned sources, fundraisers have to consider the high non-quantitative costs coming along with searching for a suitable venture capital firm or angel investor. In order to minimize searching and information costs, equity crowdfunding may offer a promising substitute since the individual investor will not have to be researched but enters the online equity crowdfunding platform due to their own interest.¹⁰⁴

For these investors, the individual contribution to the enterprise is detrimentally smaller than the funding offered by venture capitalist firms or angel investors. Therefore, the probability of contributing only a small amount is higher. Complimentarily, by contributing smaller parts of the funding, the total number of investors increases. These investors are interested in a successful development of their investment and may therefore work as marketing agents through word-of-mouth and by sharing information about their investment online. The enterprise thereby receives free marketing, which can lead to a multiplier effect when the friends and contacts of the investor also share information about the company.¹⁰⁵

In addition to the aspects discussed above, A. Nasrabadi covers a variety of other benefits coming along with the usage of equity crowdfunding.¹⁰⁶ Investors may not only contribute to the success of the enterprise by using word-of-mouth to raise the awareness for the company or its product, but they may also enter into direct exchange with the fundraiser(s) and contribute their opinion and recommendations. However, due to the large number of investors, the exchange may be limited based on the preferences of the fundraisers. Additionally, the interest from contributors for a specific project can be used as a measure of market validation for the enterprise in general as well as for the specifications of the product/ service to be offered. Combining the variety of opinions,

¹⁰³ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 6-7

¹⁰⁴ see Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 299-300

¹⁰⁵ see Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 300-301

¹⁰⁶ see A. Nasrabadi (2016), *Equity Crowdfunding: Beyond Financial Innovation*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 203-206

backgrounds and skill sets of the investors additionally creates a diverse community, which may be used as a pool of innovation for the company.

2.4. Challenges Connected to Equity Crowdfunding

Equity crowdfunding seems to be a very promising nascent source of funding, however several challenging aspects have to be considered when using it.

Initially, due to the funding model being in a developmental stage, legislation and regulations have not been developed or updated in all countries. As previously mentioned, the JOBS Act will have a great impact on the equity crowdfunding scene in the US. However, in a variety of countries, current legislation still limits the number of private investors a company can have, putting restraints on the equity crowdfunding approach.¹⁰⁷ In Europe, individual countries have developed national regulations concerning equity crowdfunding, which are not harmonized across the European Union. This challenges and harms the development of a single European market and the easy usage of equity on a transnational level.¹⁰⁸

As mentioned before, the due diligence performed by online platforms in order to determine which enterprises are granted the opportunity for an equity crowdfunding process is more limited than the typical due diligences conducted by venture capitalists.¹⁰⁹ In addition, due to the target investor group of equity crowdfunding – small investors –, the challenge may arise that these investors have little or no knowledge concerning the valuation of businesses. Therefore, they have to trust the decision of the platform without being able to verify the specific valuation approach.¹¹⁰

Whereas the higher number of investors each investing a small amount may initially be helpful to gain funding for an enterprise, the same set-up of a large number of investors may later on be challenging for subsequent funding. The dispersed ownership group

¹⁰⁷ see Belleflamme et al. (2014), *Crowdfunding: Tapping the right crowd* (July 9, 2013), „Journal of Business Venturing“, vol. 29, p. 8

¹⁰⁸ European Crowdfunding Network (2014), *Review of Crowdfunding Regulation. Interpretations of existing regulation concerning crowdfunding in Europe, North America and Israel*, p. 10

¹⁰⁹ see A. Hagedorn, A. Pinkwart (2016), *The Financing Process of Equity-Based Crowdfunding: An Empirical Analysis*, in D. Brüntje, O. Gajda (eds.) *Crowdfunding in Europe: State of Art in Theory and Practice*. Heidelberg: Springer International Publishing, p. 75; G. Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287

¹¹⁰ see G. Ahlers et al. (2015), *Signaling in Equity Crowdfunding*, „Entrepreneurship: Theory and Practice“, vol. 39, p. 959

may be unappealing for angel investors or venture capital firms who can become interested in the enterprise once it has grown since they have to deal with a variety of owners and their opinions.¹¹¹

In addition to all of the previously described challenges, agency problems may arise in the context of the equity crowdfunding set-up. Agency problems occur when a task is delegated from a principal to an agent whose objectives differ from those of the principal and who has more information than the principal. Therefore, asymmetrical distribution of information in combination with conflicting objectives can offer the chance for the development of agency problems. If the agent is able to act without observation from the principal, issues of moral hazard (evident in hidden action) may arise. In the case of the agent owning private information, adverse selection (based on hidden knowledge) issues can occur. Hold-up situations may occur due to hidden intentions of one of the parties involved.¹¹²

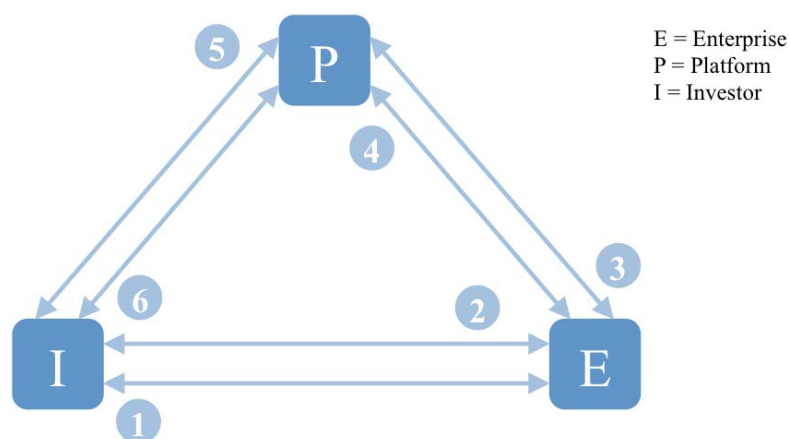


Chart 5 Principal-Agent-Relationships¹¹³

Based on the set-up of the equity crowdfunding process which was discussed before, three participants are involved, leading to six potential principal-agent-relationships as can be seen in chart 5. The challenges that can occur within each of these relationships will be discussed below.

¹¹¹ see M. Kuti & G. Madarász (2014), *Crowdfunding*, „Public Finance Quarterly“, vol. 59, p. 359

¹¹² see J. Laffont, D. Martimort (2002), *The Theory of Incentives: The Principal-Agent Model*, Princeton: Princeton University Press, p. 2-3; H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 21-22

¹¹³ Author's illustration based on H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 21

In the first relationship, the investor takes on the role of the principal while the enterprise is the agent. In this set-up, all of the previously described challenges may arise. Adverse selection is a problem arising before the investment decision of the contributor, since the owner(s) of the enterprise have more detailed knowledge about their company and not every fact might have been published during the roadshow phase. Once the investment contract has been closed, moral hazard challenges are caused by the fact that the investors cannot observe every action of the owner and do not know whether they really act for the benefit of the company. Eventually, the hold-up problem may arise from hidden intentions of the owners who see the capital raised by equity crowdfunding as source for their own income without using it to develop the company.¹¹⁴

Considering the vice-versa relationship 2, adverse selection and hold-up problems may be observed. With the investor in the role of the agent, the enterprise has only limited knowledge about the investor's characteristics and therefore has no guarantee concerning sufficient funds of the investor to pay the investment sum. This describes the adverse selection case. In addition, an investor may not be interested in investing in the enterprise but focuses on extracting information from the available information about the company and business idea in order to profit from these details. The enterprise cannot verify the hidden intentions of their future investors, leading to a hold-up problem.¹¹⁵

Regarding the relationship between platform and enterprise, the enterprise takes on the role of principal in no. 3. The only problem arising from this combination is caused by hidden knowledge: the enterprise does not know whether the platform will be able to mobilize a satisfying number of investors to support the equity crowdfunding campaign and whether another platform might be more successful. This leads to an adverse selection situation.¹¹⁶

When the platform takes on the role of the principal, the adverse selection as well as the moral hazard problem can be caused by the behavior of the enterprise. The adverse selection is again caused by the fact that the enterprise owner has all the information about the company while only limited or low-quality information may be passed on to

¹¹⁴ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 22

¹¹⁵ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 23

¹¹⁶ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 25

the platform in order to protect the business or improve the image of the company. On the other hand, the platform cannot entirely control the behavior of the owner(s) during the subscription phase in order to determine whether the interest of investors stems only from the marketing campaigns issued by the platform and a persuasive business idea or whether the owners are trying to acquire additional investors through other channels which might falsify the investors' opinion concerning the capability of the business. In order to ensure the quality of the business idea and the correct behavior of the owner(s), a detailed analysis of the company is needed, since any negative outcomes may also negatively influence the image of the equity crowdfunding platform.¹¹⁷

The last pair of relationships connects the platform with the investor in equity crowdfunding campaigns. With the platform in the position of the principal (5), the issues are similar to no. 2, exhibiting adverse selection as well as hold-up characteristics. The platform cannot verify the availability of sufficient funds of the investors upfront; neither can it ensure that the investor's primary goal is not the retrieval of company information and business ideas. Vice versa, with the investor in the role of the principal, an adverse selection issue may arise since the investor has to select a preferred platform amongst the various platforms without having all the details about this platform, e.g. employees and employee education and their capability of selecting suitable enterprises.¹¹⁸

Since the described principal-agent-challenges have the potential to negatively influence the success of the equity crowdfunding campaign, solutions to overcome the challenges have to be considered. Signaling and screening are two helpful approaches to solve the problem. The party possessing an informational advantage conducts signaling, e.g. the enterprise owners knowing every detail about their company will share as much information as possible with the platform and the investors in order to increase their trust. Initial research about signaling in equity crowdfunding suggests the following signals as effective approaches to improve the success of an equity crowdfunding campaign: Keeping a higher equity share in ownership of the founder signals the founder's confidence in the future success of the enterprise and the expectation of satisfying cash flows. Additionally, informing potential investors about specific risks, which may affect the enterprise, is also seen as an effective signal in the equity

¹¹⁷ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 24

¹¹⁸ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 23

crowdfunding context. On the other hand, the participants with an informational disadvantage, e.g. the investors, can use screening mechanisms to gather as much information as possible about the partner in the principal-agent-relationship. Considering the informational disadvantage concerning the qualifications of the platform employees, an investor can conduct online research to determine the education of these employees and judge their ability to select promising enterprises for equity crowdfunding campaigns.¹¹⁹

3. Need for Alternative Finance

Previously, the various specifications of alternative financing opportunities have been described with special attention to the topic of equity crowdfunding. It is proven that SMEs as well as newly founded enterprises face problems when trying to secure funding.¹²⁰ Therefore, traditional sources seem not to be sufficient to satisfy the funding requests of companies, which became also apparent when considering a variety of financing sources in chapter 2. The following chapter refers to this problem by looking at inherent characteristics of start-ups and SMEs which may challenge their search for funding, as well as covering the problems of a structural funding gap and a periodical lack of funding. The question of whether alternative funding is needed and whether equity crowdfunding may be a suitable solution shall be researched in a more in-depth way.

3.1. Challenging Access to Funding due to Inherent Characteristics

Start-ups as well as more developed SMEs often cannot receive funding from traditional financial intermediaries in the form of bank financing. At the same time, the knowledge of start-ups about appropriate funding sources at different development stages is often limited, leading to the typical misconception that bank loans can be taken out for starting a business.¹²¹ However, also more developed companies that have reached the

¹¹⁹ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 22-25; G. Ahlers et al. (2015), *Signaling in Equity Crowdfunding*, „Entrepreneurship: Theory and Practice“, vol. 39, p. 971, p. 976

¹²⁰ see Agrawal et al. (2013), *Some Simple Economics of Crowdfunding*, NBER Working Paper Series, No. 19133, p. 4; European Commission (2014), *Unleashing the potential of Crowdfunding for the European Union, COM(2014) 172 final*, p. 4

¹²¹ see R. Swart (2015), *Challenges in SME Access to Capital*, New York: The Roosevelt Institute, p. 4

SME status may struggle to secure funding in the form of loans since traditional institutions try to avoid risky investments. Loans to SMEs often fall into the category of risky investments since these young enterprises typically cannot provide a collateral needed for external financing options. Looking at both start-ups and SMEs, a variety of inherent characteristics are exhibited which may challenge the request for external funding: the companies usually have a short history, operate on a limited scale, retained earnings have not yet been generated and business ideas may be risky innovative approaches. Combining these various aspects leads to a set of characteristics, which is challenging for requesting funding, especially debt funding, from traditional institutions.¹²²

3.2. Structural Funding Gap

As has been described in the previous paragraph, start-ups as well as SMEs may face challenges when trying to secure funding. In a best-case scenario, companies could receive the needed funding from various equity-based sources while moving along the funding escalator¹²³ as can be seen in chart 6.

Despite overlaps between the different sources of funding, not all companies are able to satisfy their funding needs since they do not match the requirements of the funding sources or encounter a lack of availability of funding. In these cases, funding gaps may occur. The possibility for funding gaps in the oval area in chart 6 due to the structure of the funding escalator will be discussed in the following paragraphs.

When the funding needs of a young enterprise have surpassed the capital available from FFFs or public funds, new sources are needed. At this point during the seed stage and approaching the early stage of company development, the majority of venture capital firms are not yet very interested in an investment since companies in a more progressed development phase are preferred. Whereas the bigger venture capital firms in the US also partly cover the seed- and early-stage phase, Europe is facing a lack of venture capital funding in these development stages. Therefore, angel investors have taken action to fill this funding gap. The angel investor system is strongly developed in the

¹²² see C. Deffains-Crapsky, A. Sudolska (2014), *Radical Innovation and Early-Stage Financing Gaps: Equity-based Crowdfunding Challenges*, „Journal of Positive Management“, vol. 5, p. 4; R. Swart (2015), *Challenges in SME Access to Capital*, New York: The Roosevelt Institute, p. 4; R. Veugelers (2011), *Mind Europe's Early-Stage Equity Gap*, p. 2-3

¹²³ see R. Veugelers (2011), *Mind Europe's Early-Stage Equity Gap*, p. 2

US, however business angels tend to invest locally (typically within 150 miles of their home location) and thereby limit the access to funding in areas with only a few business angels. The access to funds is therefore strongly influenced by the country the enterprise is operating in as well as the location within the country as becomes evident in the case of US angel funding.¹²⁴

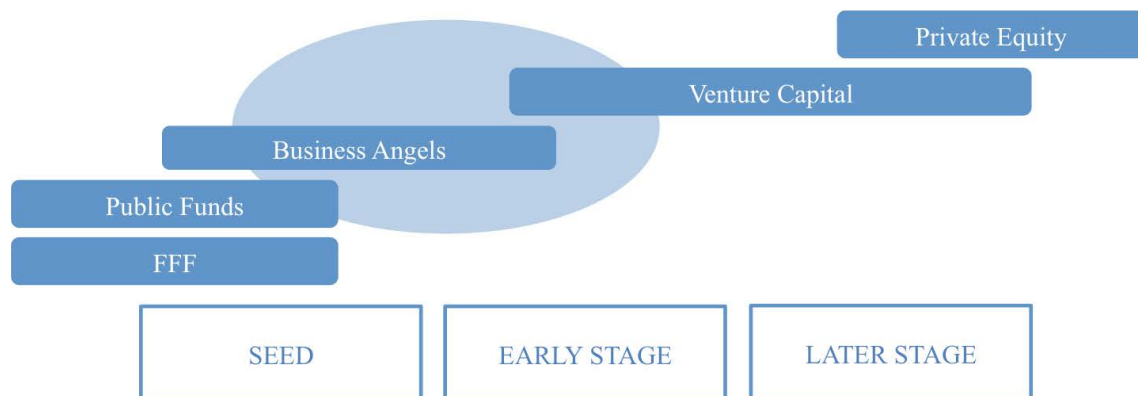


Chart 6 Funding Escalator¹²⁵

Once an enterprise has overcome the transition from seed- to early-stage, its funding needs grow simultaneously. It may experience a period during which needed funding volumes exceed the typical funding amounts of angel investors, however they are also too small for venture capital firms. Additionally, venture capital firms are very selective in the choice of their investment targets. Only a small group of enterprises will be able to secure venture funding, while the majority of up to 99% of enterprises will fail to do so. Venture capital firms are looking for enterprises with high growth expectations and the chance of generating high future profits. Many enterprises do not fulfill these criteria and are excluded from venture funding, thereby indicating a second funding gap.¹²⁶

A lack of sufficient funding from business angels, partially caused by self-imposed

¹²⁴ see C. Deffains-Crapsky, A. Sudolska (2014), *Radical Innovation and Early-Stage Financing Gaps: Equity-based Crowdfunding Challenges*, „Journal of Positive Management“, vol. 5, p. 10-12 ; R. Swart (2015), *Challenges in SME Access to Capital*, New York: The Roosevelt Institute, p. 4; R. Veugelers (2011), *Mind Europe's Early-Stage Equity Gap*, p. 4-5

¹²⁵ Author's illustration

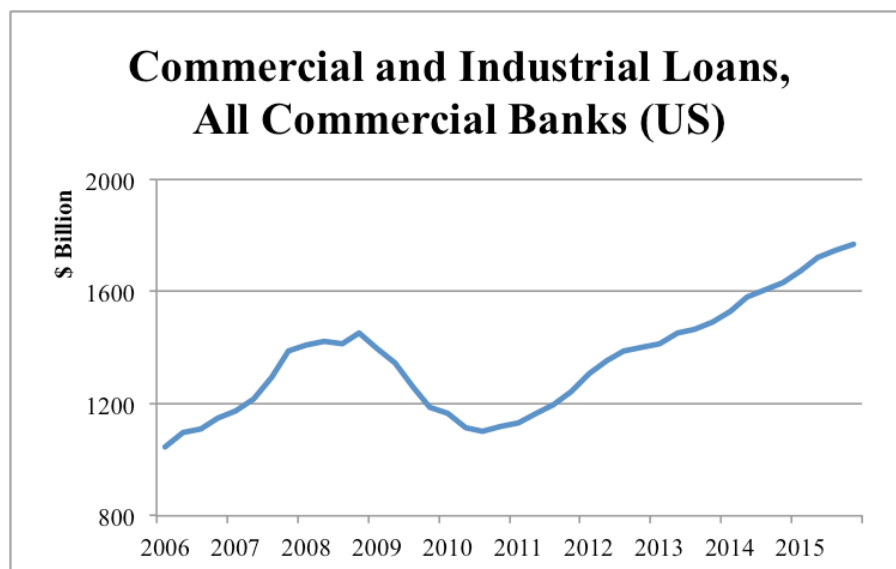
¹²⁶ see H. Kortleben, B. Vollmar (2012), *Crowdinvesting – eine Alternative in der Gründungsfinanzierung?*, Göttingen: PFH Forschungspapiere/ Research Papers, p. 6-7; R. Swart (2015), *Challenges in SME Access to Capital*, New York: The Roosevelt Institute, p. 5; R. Veugelers (2011), *Mind Europe's Early-Stage Equity Gap*, p. 3-4

geographical restriction of the business angels combined with a venture capital sector, which shows preferences for mature projects in later development stages, offers an opportunity for alternative financing methods. Considering the specific needs of the respective companies, ranging from ensuring sufficient working capital to looking for long-term investors, various alternative financing sources can be used to overcome structural funding gaps.

3.3. Periodical Lack of Funding

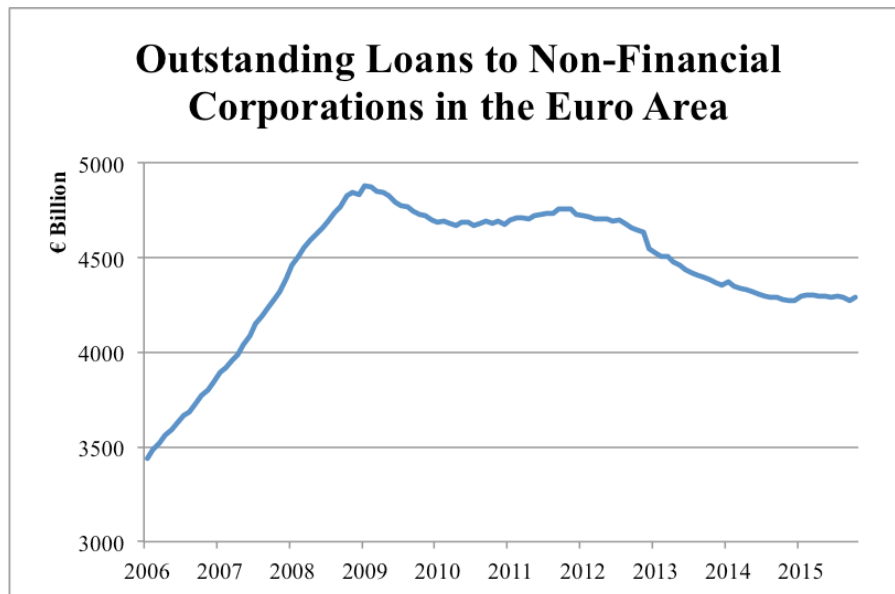
In addition to the previously described structural gaps in funding, which are independent of the general development of the macro-economic environment, gaps may develop based on the macro-economic situation of the economy. If considerable changes in this environment lead to a change in the provided volume of a specific funding type, companies, which depend on this funding, may struggle to secure sufficient funds.

A recent change of the macro-economic environment was the financial crisis and the following euro crisis starting in 2008. In the aftermath of this crisis, loan volumes dropped considerably in the US as well as in Europe as can be seen in the following graphs 1 and 2.



Graph 1 Commercial and Industrial Loans, All Commercial Banks (US)¹²⁷

¹²⁷ Source: Federal Reserver Bank of St. Louis, <https://research.stlouisfed.org/fred2/series/ACILACB> (25.02.2016)



Graph 2 Outstanding Loans to Non-Financial Corporations in the Euro Area¹²⁸

This drop was amongst other reasons caused by the so-called deleveraging process following the stricter banking regulations of the Basel III regulation package, which was introduced due to the financial crisis. Deleveraging demands an adjustment of the capital structure of a bank, reducing its debt-asset-ratio. Deleveraging can for example be conducted by reducing the lending portfolio of a bank, which might lead to insufficient loan supply for enterprises.¹²⁹

In general, such a drop in available loans may not harm all companies, however it is proven that especially small companies experience credit constraints more easily than larger ones.¹³⁰ In addition to the stronger effects of a drop in available loans for SMEs, the typical financing set-up of a country, e.g. whether the country is more dependent on capital markets or bank financing, may determine the effects of a change in the macro-economic environment as described above. Bank financing is typical for Europe while a different set-up depending more strongly on the capital market characterizes e.g. the US.¹³¹ The share of bank credit to the private sector compared to the sum of bank credit

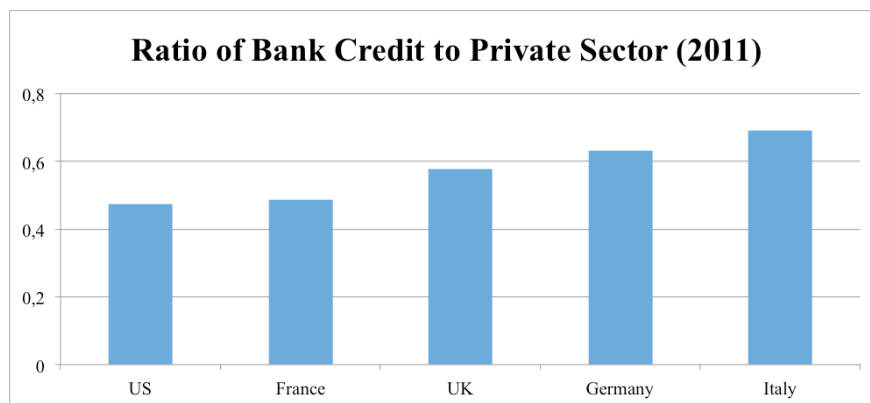
¹²⁸ Source: European Central Bank, https://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&DATA_TYPE=1&node=2116081 (25.02.2016)

¹²⁹ see T. Mosk, S. Ongena (2013), *The impact of banking sector deleveraging on investment in the European Union*, in A. Kolev et al. (eds.), *Investment and Investment Finance in Europe*, Luxembourg: European Investment Bank, p. 173, 175

¹³⁰ see S. Holton et al. (2013), *SME Financing Conditions in Europe: Credit Crunch or Fundamentals?* (July 28, 2013), „National Institute Economic Review“, vol . 225, p. 53

¹³¹ see The PCS Secretariat (2013), *Europe in transition – Bridging the funding gap*, p.

combined with the bond and stock market capitalization indicates a country's preference for bank financing.¹³² The higher share of bank credit in Europe indicates a higher preference for bank financing as can be seen in graph 3.



Graph 3 Ratio of Bank Credit to the Private Sector (2011)¹³³

Following this, SMEs with limited access to alternative funding methods apart from bank financing suffered stronger from the crisis and still reported the access to bank financing as challenging in 2013 when the general economic outlook had already started to improve.¹³⁴ For the euro area, an improvement in the availability of bank financing (amongst them loans and bank overdrafts) could only be observed for the year 2015, when a net improvement of the availability compared to previous research timeframes could be determined. Additionally for the first time since 2009, the external financing gap turned negative for euro area SMEs in 2015, thereby indicating an excess of the perceived availability of funds over the need for external funds (from various channels, including bank loans, bank overdrafts, trade credit, equity and debt securities). Due to the strong preference of euro area SMEs for bank financing, the negative financing gap indicates an overall improvement of the availability of bank financing in 2015.¹³⁵

Given the fact that changes in the macro-economic environment occur repeatedly and

¹³² L. Gambacorta et al. (2014), *Financial structure and growth*, „BIS Quarterly Review: March 2014“, p. 23

¹³³ Author's Calculation and Illustration, Source: Global Financial Development Database, The World Bank, <http://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database> (26.02.2016)

¹³⁴ see H. Kraemer-Eis et al. (2013), *Bottlenecks in SME financing*, in A. Kolev et al. (eds.), *Investment and Investment Finance in Europe*, Luxembourg: European Investment Bank, p. 280

¹³⁵ European Central Bank (2015), *Survey on the access to Finance of Enterprises in the euro area*, December 2015, Frankfurt: European Central Bank, p. 18-19

another crisis may take place, SMEs might have to face a drop in available bank financing again. Especially in Europe, where the preference for bank financing is inherent to the business system, such a drop might challenge the success of companies. In this case, alternative sources of finance can help to overcome lower levels of available funding from traditional sources.

3.4. A Potential Need for Equity Crowdfunding

A potential need for an alternative financing source can be determined when considering the three in-depth covered aspects of inherent characteristics, structural funding gaps as well as a periodical lack of funding.

The question remains whether equity crowdfunding is one of the alternative financing sources, which might be useful in the specific contexts.

Considering the structural funding gap topic, equity crowdfunding might help as a supplementary funding source in combination with the offers from FFF, angel investors and venture capital. As described, angel investors do not cover all regions of their country of location or may not have a deeply developed network. Due to the online funding process of equity crowdfunding, the funding source acts location-independent and can support companies in areas with low business angel funding. Additionally, the majority of companies cannot secure venture capital funding due to small growth expectations. However, their expected growth may still be sufficient for an equity crowdfunding campaign.

The topic of periodical funding gaps is closely related to the funding preferences of companies. As discussed above, European companies exhibit a strong preference for bank financing. Equity Crowdfunding might only be an acceptable supplementary funding source if the owners of companies are ready to enter the equity market to secure funding.

4. Equity Crowdfunding from an Empirical Perspective

After having compiled an in-depth introduction to the currently available information on alternative finance with a special focus on equity crowdfunding, the methodological and empirical part is targeted at solving the question whether equity crowdfunding can be a replacement for traditional financing sources. Initially, the chosen research methodology, the organization of the research as well as the planned analysis of the compiled data will be described. Afterwards, two case studies are presented as a result

of the research process, which will lead to an answer for the previously determined research question.

4.1. Development of the Case Study Research Approach

4.1.1. Case Study as Appropriate Research Approach

As described in the previous chapters, equity crowdfunding is a nascent phenomenon, which is currently gaining traction in various countries. Due to its currently still small investment volumes, no specific conclusions concerning the threat of equity crowdfunding for traditional financing sources can be drawn based solely on quantitative data. However, it is possible to observe the phenomenon of equity crowdfunding in the context of its environment concerning contributors, fundraisers, legal settings etc. and conduct an in-depth research combining qualitative and quantitative aspects.

This approach is commonly named a case study and defined as “an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”¹³⁶ Therefore, it is assumed that the context as well as other surrounding conditions are of importance for the topic and should also be examined instead of focusing on a single variable. Using such an approach enables the researcher to combine input and observations from a variety of sources, thereby generating a multi-layer observation. Such a holistic approach ensures the consideration of various influences when generating new knowledge and basing final conclusions on it.¹³⁷

Various approaches to case studies exist, amongst them descriptive, exploratory or explanatory studies. Exploratory studies are used when no preliminary detailed research has been conducted and are often used as a basis for future more in-depth studies to explore the terrain. Despite the nascent stage of research on the equity crowdfunding topic, the case studies to be conducted for this research should be categorized as descriptive case studies since a distinctive question concerning the phenomenon (“Can

¹³⁶ R. K. Yin (2009), *Case Study Research: Design and Methods*, Thousand Oaks: SAGE, p. 18

¹³⁷ see R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 4; P. Eriksson & A. Kovalainen (2010), *Case Study Research in Business Management* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 93; E. Hijmans & F. Wester (2010), *Comparing the Case Study With Other Methodologies* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 177

equity crowdfunding replace traditional financing sources?") is being used as an outset for the research. The chosen cases will then be analyzed in depth in order to determine an answer to the question used as a starting point and generate the opportunity of advancing the current research on the topic.¹³⁸

In order to enhance the value of the descriptive approach, a comparative case study approach will be applied. Therefore, several manifestations of the phenomenon *equity crowdfunding* will be researched by looking at it in the countries of Germany and the United Kingdom. By analyzing the usage in two countries, similarities as well as differences can be determined and thereby enhance the value of the research approach.¹³⁹

The research for the case study will be conducted in an extensive manner, focusing on creating an in-depth understanding of both cases but at the same time keeping in mind the objective of answering the ulterior question. Instead of putting the specific workings of equity crowdfunding in the specific country in the center of the investigation as would be the approach in an intensive set-up, the ulterior motive is to determine common patterns and differentiating aspects that contribute to the initially asked research question.¹⁴⁰

4.1.2. Conduct of Case Study Methodology

In a first step of the case study methodology, a case has to be selected, with a case being described as a "bounded entity (a person, organization, behavioral condition, event, or other social phenomenon)"¹⁴¹. In order to bind the case for the research at hand, a commonsense approach is used, considering all aspects as part of the case studies that are experienced as part of it in daily life. This leads to looking at equity crowdfunding as it is understood and practiced respectively in Germany and the United Kingdom as

¹³⁸ see C. Streb (2010), *Exploratory Case Study* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 372; R. Tobin (2010), *Descriptive Case Study* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 288

¹³⁹ see S. Campbell (2010), *Comparative Case Study* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 174-175

¹⁴⁰ see P. Eriksson & A. Kovalainen (2010), *Case Study Research in Business Management* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 93-94

¹⁴¹ R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 6

the entity of the cases.¹⁴²

In a second step, an appropriate design has to be selected for the case study. A decision has to be made between a single- or multiple-case study set-up as well as whether the individual case studies will be holistic or consider embedded subcases. Multiple case studies consider complementary aspects of the main research question or phenomenon. A multiple case approach is typically connected with an increased difficulty, however the collected data will improve the quality and value of the final outcome. In this specific research set-up, a multiple case approach will be used, with *Equity Crowdfunding in Germany* being case 1 and *Equity Crowdfunding in UK* being case 2. In addition to the two specific cases considered, an embedded subcase focuses on a select part of the respective total case being analyzed. The subcase thereby refers to one specific equity crowdfunding platform per country in order to highlight implementation of the equity crowdfunding idea in both countries. Seedmatch will be used as a representative German platform and Crowdcube as its UK complementary.¹⁴³ The research set-up is visualized in chart 7.

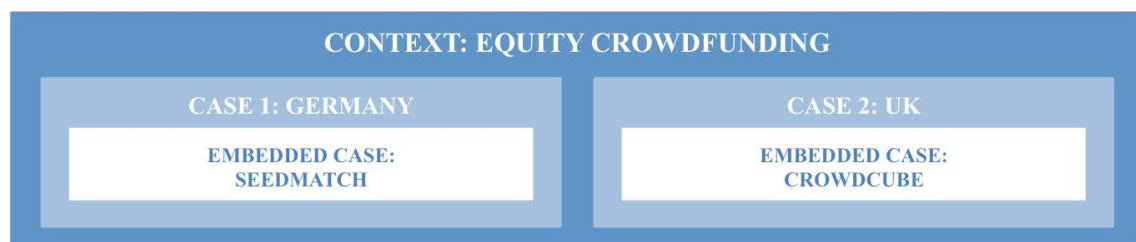


Chart 7 Research Set-up¹⁴⁴

After the selection of an appropriate research design, the researcher can decide whether or not a theoretical approach should be used as a starting point for the case studies. Theory in this context should not be understood as high-level theory constructs but rather refer to an initial theoretical proposition indicating a relationship to be researched. In the research at hand, the question “Can equity crowdfunding replace traditional financing sources?” will be used as such an initial theoretical proposition to

¹⁴² see T. Elger (2010), *Bounding the Case* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 56

¹⁴³ see R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 7-8

¹⁴⁴ Author’s illustration

base the research on.¹⁴⁵

The previously described steps are followed by the data collection to build the final case study on. Case studies can use a variety of different data sources and may benefit from both qualitative as well as quantitative input. Typically, case studies depend strongly on direct observations and interviews. However, in this specific project the bounded entities are relatively large, considering entire countries and a variety of economic, legal and social aspects in these countries. Therefore, vast data amounts will be derived from archival records as well as available documentation. Direct requests targeted to relevant platforms or entities can be added as further research methods to receive information on more specific aspects of the equity crowdfunding platforms that might not be available in the extensive online reporting.¹⁴⁶

Since re-use of data compiled by other researchers will play an important role in this specific research, the quality of the data should always be verified by checking on the author of the specific research and the date of publication. This research will base its results on a variety of other, previously conducted research projects that may have targeted other research topics. Therefore, it can be seen as so-called assorted analysis by drawing on a variety of available sources to answer a new research question.¹⁴⁷

In order to improve the quality of the final outcome of the case studies, the method of triangulation will be used, which is commonly described as the usage of a variety of approaches to establish converging lines of inquiry. Various types of triangulation can be used, amongst them methodological triangulation when generating data through different research methods, data type triangulation referring to the usage of both qualitative and quantitative data as well as analysis triangulation by referring to multiple units and levels of analysis like the cases referring to different countries as well as the usage of embedded subcases.¹⁴⁸

In order to ensure a successful conduct of the two case studies, a case study protocol will be developed (see chart 8). It serves as a framework and guideline for the topics that shall be covered during the research and the following write-up of the case study

¹⁴⁵ see R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 9

¹⁴⁶ see R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 10

¹⁴⁷ see O. Germain & D. Chabaud (2010), *Re-Use of Qualitative Data* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 827-828

¹⁴⁸ see J. Evers & A. van Staa (2010), *Qualitative Analysis in Case Study* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 749-750

and can be adjusted based on new findings during the data compilation process.¹⁴⁹ The information collected during the cases and the comparison of the two case studies shall then be used as a basis for answering the research question of whether equity crowdfunding can be used as a replacement for traditional financing sources.

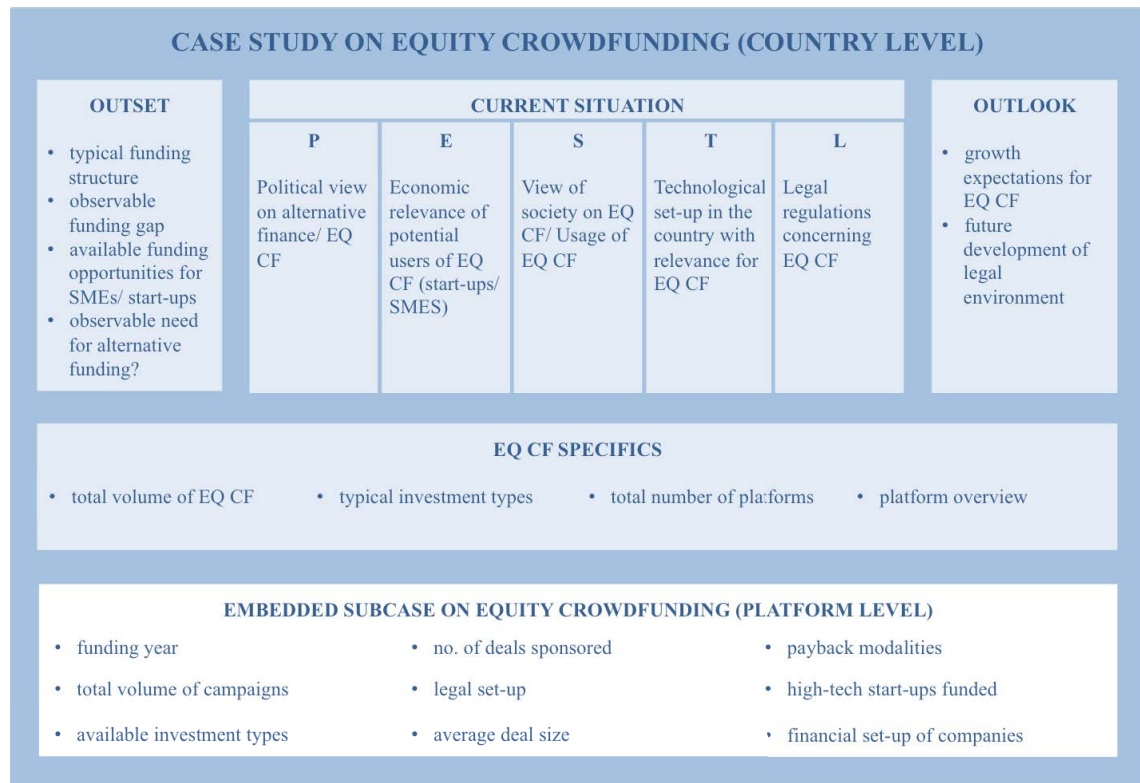


Chart 8 Case Study Protocol¹⁵⁰

In order to fully understand the environment for the equity crowdfunding set-up in the specific country and follow the case study set-up, which strongly considers the respective context, several aspects are considered under the topic “outset”, describing the basic situation in terms of funding environment in the country. The PESTLE framework covers the current situation faced by equity crowdfunding in the specific country, however the environmental aspect is dropped from the analysis due to insignificant contribution. The “outlook” topic will consider the potential future development of equity crowdfunding. In addition to analyzing the environment that the equity crowdfunding process is taking place in, specific data for equity crowdfunding in the country is collected, including an overview over various platforms.

¹⁴⁹ see R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 13-14

¹⁵⁰ Author’s Illustration, EQ CF = abbreviation for equity crowdfunding

These topics are complimented by the embedded subcases focusing on a specific platform and covering various topics from type of typical investment to total volume of equity crowdfunding raised. In order to answer the research question, the companies funded on the two representative platforms will also be categorized according to their business operations into high-tech (high-technology and medium-high technology manufacturing as well as high-tech knowledge-intensive services and financial knowledge-intensive services) or low-tech based on Eurostat indicators.¹⁵¹ Furthermore, the funding set-up of the companies before their equity crowdfunding campaign will be researched.

4.1.3. Analysis and Development of Solution

Once all the data has been compiled, the researcher will move to the analysis of the available data with the initially asked research question in mind. Various approaches may be used for the analysis, whereas an explanation building technique starting from the initial research question may be seen as a helpful analysis tool in this research. In addition, following the Miles & Huberman Tradition can be helpful as it transfers vast qualitative data into graphic representation to depict connections and influencing aspects.¹⁵² Based on the analysis, the researcher may try to derive logical assumptions from the case, which can be generalized for application to other similar research set-ups. Generalizations in the context of case studies should hereby not be seen as a final conclusion but rather as a hypothesis to start yet another research.¹⁵³

In the research at hand, an answer shall be found for the question “Can equity crowdfunding replace traditional financing sources?” based on the data compiled on equity crowdfunding in Germany and the UK. This answer can be accompanied by further recommendations and suggestions for future research or topics of consideration.

4.2. Case Study Germany

In Germany, equity crowdfunding is often called *crowdinvesting*. The first platform established in the country is called Seedmatch and will be further investigated in a later

¹⁵¹ Eurostat (2006), *Eurostat indicators on High-tech industry and Knowledge – intensive services*

¹⁵² see J. Evers & A. van Staa (2010), *Qualitative Analysis in Case Study* in A. Mills et al. (eds.), *Encyclopedia of Case Study Research*, Thousand Oaks: SAGE, p. 752

¹⁵³ see R. K. Yin (2012), *Applications of Case Study Research*, Thousand Oaks: SAGE, p. 15-19

part of this case study.

4.2.1. Outset

In Germany, the so-called *Mittelstand* is an important group of enterprises, referring with a volume of more than 3.6 million companies to more than 99% of all German enterprises and supplying more than 60% of German jobs. The *Mittelstand* is typically made up of small- and medium-sized companies (SMEs) with no more than 500 employees and is characterized by a corporate culture with strong owner engagement in the firm.¹⁵⁴

Since the *Mittelstand* is the basis of the German economy, it presents itself as a viable starting point for a consideration of the funding situation in Germany, which can be used as a back-drop for the analysis of equity crowdfunding in Germany. Funding new investments in German SMEs is typically strongly fuelled by available own funds of the company (around 50% of sources for investments) combined with bank loans (amounting to around 30%). Governmental subsidies play an important role, contributing up to 15% of the investment funds. However, other funding options like mezzanine capital or outside equity capital appear to draw less interest from company owners. The funding mix for new investments building heavily on own resources and loans is aligned with the generally low equity capital quota in the *Mittelstand* amounting to about 30% and thereby exhibiting a distinctive lag compared to other European countries or the US. The resulting small interest in outside equity funding should play an important role when considering the potential success of equity crowdfunding in Germany.¹⁵⁵

The usage of personal resources compared to loans is even higher for start-ups compared to the *Mittelstand* and more than half the companies in the seed- or start-up-stage are worried about finding sufficient additional funding.¹⁵⁶ When looking at the further development of such a young company which may lead to a *Mittelstand* positioning, official institutions like the *Bundesverband Deutscher*

¹⁵⁴ see <http://www.make-it-in-germany.com/de/fuer-fachkraefte/arbeiten/mittelstand> (10.03.2016)

¹⁵⁵ see Deloitte (2012), *Finanzierung im Mittelstand*, p. 23;
<http://de.statista.com/statistik/daten/studie/261431/umfrage/finanzierungsquellen-von-mittelstaendischen-unternehmen-in-deutschland/> (10.03.2016);
<http://de.statista.com/statistik/daten/studie/150148/umfrage/durchschnittliche-eigenkapitalquote-im-deutschen-mittelstand/> (10.03.2016)

¹⁵⁶ see Ernst&Young (2015), *Start-up-Barometer Deutschland*, p. 11-12

Kapitalbeteiligungsgesellschaften (German Private Equity and Venture Capital Association) criticize the current legal set-up for private equity and venture capital funding, which creates an unfavorable environment for these funding types leading to a potential lack of follow-up financing. Consequently, successful German companies may leave the country to secure funding more easily abroad and foreign investors may be less interested in private equity or venture capital investments in Germany due to legal obstacles. Problematic topics are a lack of transparency for venture capital funds taxation as well as additional value added taxes for management fees. Overall, with having overcome the initial seed phase, companies may face a structural funding gap in Germany.¹⁵⁷

Despite the worries expressed especially by enterprises in an early development stage, which might lead to the perception of little start-up funding support in Germany, a variety of funding programs are available for companies. However, knowledge about these sources may be scarce. Typically, the programs are subject to specific conditions in order not to give funding to companies as a gift. Programs range from support for students and university research projects (*EXIST*), funding for founders out of permanent jobs or unemployment (*Fördermittel für Existenzgründer*), loans under cheap conditions from the *KfW* (Reconstruction Credit Institute) to funding programs from the European Union. With having grown into a *Mittelstand* company, but potentially still facing high covenants and problematic collateral requirements when it comes to bank loans, alternative types of financing have been developed in Germany. *Mittelstandsanleihen* (corporate bonds for the *Mittelstand*) can be used, *Genussrechte* (participation certificates) are a special set-up, which attributes the right to receive a share of the dividends of a company to an individual in exchange for a capital contribution, however no participations rights in the company are handed over. The so-called *Schuldscheindarlehen* are unsecured loans on standardized terms, which are granted by one bank to the company, however the loan is shared by a group of several investors, which typically are not banks.¹⁵⁸

As pointed out above, the German *Mittelstand* has been using alternative options to

¹⁵⁷ see <http://gruender.wiwo.de/deutschland-bietet-start-ups-zu-wenig-kapital-3/> (11.03.2016); <http://www.gruenderszene.de/allgemein/bvk-venture-capital-gesetz> (11.03.2016); http://www.huffingtonpost.de/ulrike-hinrichs/deutschland-venture-capital-gesetz_b_6601880.html (11.03.2016)

¹⁵⁸ see <http://www.foerderland.de/finanzen/foerderung/> (11.03.2016); <http://www.osborneclarke.com/connected-insights/publications/alternative-financing-structures-in-germany/> (23.03.2016)

secure funding already in the past and will continue to do so in the future. When looking at young and innovative companies, funding is detrimental for growth and success, however bank funding is typically not yet available due to lacking collaterals. At the same time, private equity as well as venture capital markets are not yet as established in Germany as they are in other European countries or the US. Therefore, alternative funding sources like equity crowdfunding may find a potential target group in the *Mittelstand* as well as in start-ups in Germany.¹⁵⁹

4.2.2. Current Situation

Having provided an overview of the funding environment in Germany as a back-drop, the PESTL-framework will cover all relevant aspects of the current situation for equity crowdfunding in the country.

From a political point of view, the German government in place for the period of autumn 2013 to autumn 2017 introduced the so-called *Digitale Agenda* (Digital Agenda) covering a variety of topics the government wants to tackle in order to shape the digital change in Germany. Supporting the young digital economy in the country is amongst the various objectives of this innovation and growth policy. This endeavor shall also be undertaken by improving the general financial conditions for venture capital and crowdfunding in Germany, by making the conditions more internationally competitive. Despite the obvious interest in improving the funding situation and crowdfunding conditions especially for young companies, disputes over the so-called *Kleinanlegerschutzgesetz* (Retail Investor Protection Act) have led to questions concerning the real power of the Digital Agenda.¹⁶⁰

The Retail Investor Protection Act was introduced after the insolvency of the biggest German energy cooperative and aimed at protecting small investors from losing their money. However, the original draft would have strongly limited the future growth and success potential of crowdfunding in Germany and therefore received heavy backlash from the crowdfunding community. A revised draft eventually entered into force on July 10, 2015 and signaled a success of crowdfunding supporters in the political arena.

¹⁵⁹ see Bundesverband der Deutschen Industrie e.V. (2015), *Positionspapier: Risikokapital für junge und innovative Unternehmen*, p. 1

¹⁶⁰ see https://www.digitale-agenda.de/Webs/DA/DE/Handlungsfelder/2_DigitaleWirtschaft/2-2_JungeDigitaleWirtschaft/junge-digitale-wirtschaft_node.html (25.03.2016); <http://www.it-finanzmagazin.de/bitkom-politik-gefaehrdet-crowdfunding-und-widerspricht-damit-dem-eigenen-koalitionsvertrag-11479/> (25.03.2016)

Compared to the initial idea, the threshold for having to publish an expensive investment prospectus with details on the investment opportunity was raised significantly, an initially planned advertising ban for investment offers was cancelled and the idea of having to print a signed information flyer was substituted by an online warning. Through these changes, the act became more favorable towards crowdinvesting and is more in accordance with the government's Digital Agenda.¹⁶¹

The government underlined that with the implementation of the act, they want to guarantee a better investor protection while at the same time making crowdinvesting possible without high bureaucratic effort.¹⁶²

The political support for new funding approaches like equity crowdfunding/crowdinvesting is one aspect. However, the economic set-up of a country will also strongly influence whether this funding form will find a nourishing floor. As mentioned before, start-ups as well as potentially the *Mittelstand* may use crowdinvesting in Germany. With a share of more than 56% of all value added and almost 37% of revenue of German companies, the *Mittelstand* underlines how relevant it is for the success of the German economy.¹⁶³ In addition to the existing companies, 300,000 new companies are started every year of which around 16% develop an innovation.¹⁶⁴

The *Mittelstand* as well as new start-ups may face funding challenges, however no information is yet available on whether and to what extent the established *Mittelstand* is using crowdinvesting schemes. On the other hand, the E&Y Start-up-Barometer indicates that 5% off all the surveyed start-ups are using crowdinvesting in Germany.¹⁶⁵ Overall, this suggests that the *Mittelstand* and newly created companies are an important contributor of the German economy, however crowdinvesting is currently in an introductory phase with this group and might see growth in the future.

Since crowdinvesting is a funding approach, which engages the community, the social aspect of the PESTL analysis can be analyzed from different points of view, considering

¹⁶¹ see <http://www.welt.de/finanzen/geldanlage/article139708440/Doch-kein-harter-Anlegerschutz-beim-Crowdinvesting.html> (25.03.2016); https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Meldung/2015/meldung_150710_kleinanlegerschutzgesetz_en.html;jsessionid=3EA65A87710EFD9039A8541D75EC60F2.1_cid372 (25.03.2016)

¹⁶² <https://www.bundesregierung.de/Content/DE/Artikel/2015/04/2015-04-23-kleinanlegerschutz.html> (25.03.2016)

¹⁶³ Bundesministerium für Wirtschaft und Energie (2014), *Wirtschaftsmotor Mittelstand – Zahlen und Fakten zu den deutschen KMU*, p. 2

¹⁶⁴ Bundesministerium für Wirtschaft und Energie (2016), *Unternehmensgründungen und Gründergeist in Deutschland*, p. 6, p. 24

¹⁶⁵ see Ernst&Young (2015), *Start-up-Barometer Deutschland*, p. 12

the openness of the German society towards innovation, the society's investment habits as well as the potential usage of crowdfunding through social businesses.

An apt description for an often-encountered behavior in the German society is the so-called *German Angst* (German Fear), describing the society's aversion to risks and new developments. Currently, this *German Angst* strongly focuses on topics like artificial intelligence, data theft, cyber criminality or the Transatlantic Trade and Investment Partnership (TTIP). This *German Angst* often results in high bureaucratization and sometimes over-regulation. Therefore, professionals have voiced the concern that the *German Angst* may eventually negatively influence the future success of the country's economy. Based on the described feeling, initial skepticism can be expected from the general German population towards the new investment type of crowdfunding.¹⁶⁶

A 2014 survey commissioned by Bitkom indicated that 5% or 3.5 million Germans could imagine investing into start-ups.¹⁶⁷ If the connection between these interested individuals and the start-ups could be set-up via crowdfunding platforms, this type of investment might face a strong growth. However, the typical preferences of the German investors remain traditional with 40% of private German assets being deposited in banks as well as almost 37% of them being held as investments in insurance companies, while only 6% of the assets are invested in stocks.¹⁶⁸ Given the current low interest environment combined with the continuously high German savings ratio of around 13%¹⁶⁹, private investors might look for more profitable investment opportunities. Start-ups may be a potential target for these investors, since the increased risk coming along with the investment in a start-up simultaneously promises a higher return.¹⁷⁰

Expanding the area of consideration from the German society to social businesses opens up another potential group, which may strongly use crowdfunding in the future. Generating funding is a typical problem for social businesses since traditional investors despise of the low returns and bad exit opportunities. Traditional investors so far have not seen the additional social return as valuable enough to offset the potential lack of

¹⁶⁶ see <http://www.manager-magazin.de/magazin/artikel/die-risikoaversion-der-deutschen-wird-zum-fortschrittskiller-a-1055045.html> (30.03.2016)

¹⁶⁷ see <https://www.bitkom.org/Presse/Presseinformation/Grosses-Potenzial-fuer-Crowdfunding.html> (30.03.2016)

¹⁶⁸ see <http://de.statista.com/statistik/daten/studie/153566/umfrage/verteilung-des-geldvermoegens-in-deutschland/> (30.03.2016)

¹⁶⁹ see <http://de.statista.com/statistik/daten/studie/13070/umfrage/entwicklung-der-internetnutzung-in-deutschland-seit-2001/> (30.03.2016)

¹⁷⁰ see <http://gruender.wiwo.de/wie-start-ups-von-niedrigzinsen-profitieren/> (30.03.2016)

monetary return. However, individuals may be willing to comply with the above-mentioned trade-off. In this case, crowdfunding can be seen as a suitable solution to overcome funding challenges by involving a vast amount of individuals who each contribute a small amount. So far, crowdfunding has been used by social German start-ups operating in the *green energy sector*, trying to make energy production and consumption more sustainable, like e.g. *Bettervest*.¹⁷¹

Overall, a potential for growth of crowdfunding can be determined based on the social aspect of the PESTL-analysis, however the realization of this growth is dependent on whether or not investors can be persuaded to use the new asset class of crowdfunding. Since crowdfundings are conducted via internet platforms, the share of Germans having access to the internet is also of relevance for the success of this investment approach. 86% of the Germans are counted as internet users, whereas in the age bracket of 18-24 years old 99% use the internet.¹⁷² Therefore, these people may potentially participate in crowdfunding.

However, internet usage in general does not determine whether Germans also handle investments and monetary issues via the internet. The share of German internet users who also conduct financial transaction via the internet can be seen as representative in this context. In 2014, 54% of Germans fall into this category.¹⁷³ This share could definitely be higher compared to other countries and once again indicates the Germans' fear of data theft and reluctance to use new offers.

From a legal point of view, crowdfunding had not been considered specifically in any legal regulations until 2015. The relevant legal frameworks are the banking and capital markets law as well as the trade law. Based on the German legislation, special attention had to be given to two aspects: compliance with the prospectus requirement as well as the classification of crowdfunding platforms according to the banking and securities services supervisory law and the potentially arising duties from the classification. According to the securities prospectus act, a prospectus covering all relevant information for a valuation of the company has to be published by the issuer of securities. Such a prospectus causes high costs. A general exemption to the prospectus

¹⁷¹ see <http://www.gruenderszene.de/allgemein/crowdfunding-sozialunternehmertum> (30.03.2016)

¹⁷² see <http://data.worldbank.org/indicator/IT.NET.USER.P2> (30.03.2016); <http://de.statista.com/statistik/daten/studie/13070/umfrage/entwicklung-der-internetnutzung-in-deutschland-seit-2001/> (30.03.2016)

¹⁷³ see <http://de.statista.com/statistik/daten/studie/3942/umfrage/anteil-der-nutzer-von-online-banking-in-deutschland-seit-1998/> (21.04.2016)

issue is given if the issued securities within a twelve months timeframe do not exceed a 100,000€ threshold.¹⁷⁴

The Retail Investor Protection Act of 2015 was the first German legal document, which specifically considered the new funding form of crowdfunding. Its revision of the prospectus requirement exempted start-ups which participate in a crowdfunding campaign from publishing such a prospectus if they do not cross a total funding volume of € 2.5M in the campaign. However, the same act limits investments without any further disclosure to 1,000€ per private investor while higher contributions up to a 10,000€ limit require a personal disclosure of the availability of sufficient assets.¹⁷⁵

If a crowdfunding platform is seen as a financial services company according to the banking and securities services supervisory law, it would have to operate according to special duty of diligence and organizational obligations and would be supervised by the *Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin, Federal Financial Supervisory Authority)*. Currently, the platforms operating on the German market are not considered financial services companies since they outsource the payment transactions between investor and start-ups to third parties.¹⁷⁶

4.2.3. Outlook

After the threat coming from the Retail Investor Protection Act had been overcome by a more favorable draft towards crowdfunding, the industry regained its optimism concerning the future development. In 2015, crowdfunding targeted at start-ups and SMEs grew by over 30%. Additionally, platforms focused on green energy projects and property flourished extra-ordinarily. The growth of the raised funds indicates the continued interest, both on the side of investors as well as companies, in the concept of crowdfunding. It remains a topic of observation to what extent legal forces will positively or negatively influence this development in the future. Consolidation due to the important legal changes introduced by the Retail Investor Protection Act as well a

¹⁷⁴ see L. Klöhn, L. Hornuf (2012), *Crowdfunding in Deutschland – Markt, Rechtslage und Regulierungsperspektiven*, „Zeitschrift für Bankrecht und Bankwirtschaft“, vol. 24, p. 246-248; §3 (1) Wertpapierprospektgesetz (WpPG), §3 (2) WpPG

¹⁷⁵ see <https://www.bundesregierung.de/Content/DE/Artikel/2015/04/2015-04-23-kleinanlegerschutz.html> (31.03.2016), https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2015/fa_bj_150_1_kleinanlegerschutzgesetz_en.html?nn=3698804#doc5822200bodyText3 (31.03.2016)

¹⁷⁶ see Dorfleitner et al. (2014), *Crowdfunding als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 286

co-financing in different set-ups are seen as important determinants for the year of 2016 and onwards.¹⁷⁷

4.2.4. Equity Crowdfunding Specifics in Germany

The outset as well as the outlook of crowdfunding in Germany have been researched and were complimented with an analysis of the business environment based on the PESTL-framework. In the following paragraphs, an overview of crowdfunding in Germany shall be provided in terms of volume funded, potential investment types and available platforms.

Researchers consider in their work different crowdfunding platforms, they have different data available and the methods of calculation are different, e.g. lead investors in crowdfunding campaigns may not be considered. Therefore, the numbers on the total volume of crowdfunding in Germany differ from researcher to researcher, however they all point into the same direction.

Apart from funding start-ups or SMEs, the previously mentioned categories of property and green energy have gained considerable traction in Germany. From the start of the first crowdfunding platform in 2011 until the end of 2015, almost € 90M have been raised on various platforms according to the *Crowdfunding Deutschland – Marktreport 2015*. Crowdfunding started with only around € 2M raised in 2011, experienced a first distinctive increase in 2013 to almost € 16M and another hike in raised investments in 2015 to almost €49M, which can be mostly attributed to the large growth in the property crowdfunding area. By the end of 2015, around 46% (€ 22.6M) of all raised funds belonged to the property category, while 39% (€ 19M) fall into the start-up/ SME category and 14% (around € 7M) into the green energy one.¹⁷⁸

Another report cites a volume of around € 37M for crowdfunding projects in Germany in 2015 with € 17M being attributed to the start-up/ SME area. During the 5-year timeframe of crowdfunding usage in Germany, the report determines around 30-35 companies with a funding amounting to around € 5M, which went bankrupt or

¹⁷⁷ see M. Harms (ed.) (2016), *Crowdfunding Deutschland – Marktreport 2015: Update 1*, p. 6; Für-Gründer.de GmbH (2016), *Crowdfinanzierung in Deutschland – Nr. 1/2016*, p. 8

¹⁷⁸ see M. Harms (ed.) (2016), *Crowdfunding Deutschland – Marktreport 2015: Update 1*, p. 2, p. 4-5

discontinued operations.¹⁷⁹

The legal set-up in Germany led to a preference for one specific investment type in the crowdinvesting business, the so-called *partiarisches Nachrangdarlehen* (subordinated profit participation loan), as can be seen in the platform overview in table 2. Subordinated profit participation loans as well as other used investment types (silent partnerships and participation certificates) belong to the previously introduced mezzanine capital class. Mezzanine capital is superior to equity, however it is also subordinate to debt capital, thereby determining the payout order in case of bankruptcy. It is a long-term investment type, however with a limited timeframe and typical investment periods lying in the five to ten years area. If an investor uses a mezzanine structure, he usually does not take a shareholder position in the company and the decision rights distribution is not influenced. Additionally, the previously mentioned flexibility of mezzanine capital structures allows a variety of contract designs.¹⁸⁰

The preference for subordinated profit participation loans can be attributed to its previous characteristic of being exempted from the need for a prospectus even with investment volumes larger than 100,000€. ¹⁸¹ Since the Retail Investor Protection Act, subordinated profit participation loans also fall in the category of assets for which a prospectus has to be published, however the exemption clause for crowdinvesting campaigns up to € 2.5M can be applied now.¹⁸²

In the following paragraphs, a short overview covering *partiarische Nachrangdarlehen* (subordinated profit participation loans), *stille Beteiligungen* (silent partnerships) and *Genussscheine* (participation certificates) shall be provided. It is determined whether the investment type is closer to equity or debt, how the payout for the investor is designed (fixed or performance based), whether the investor participates in losses of the company through a final payout that can be lower than the initial investment and whether the investor can participate in an increase in value of the company by receiving a payout at maturity that is higher than the initial investment (see table 2).

The presented investment types are often combined with so-called equity kickers to give

¹⁷⁹ see Für-Gründer.de GmbH (2016), *Crowdfinanzierung in Deutschland – Nr. 1/2016*, p. 4, p. 7

¹⁸⁰ see <http://www.foerderland.de/finanzen/finanzierung-im-ueberblick/mezzanine-finanzierung/eigenschaften-der-mezzanine-finanzierung/> (12.04.2016); Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287

¹⁸¹ see Dorfleitner et al. (2014), *Crowdinvesting als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 286

¹⁸² <http://www.partiarische-darlehen.de/ausgestaltung/prospektpflicht/> (12.04.2016)

the investor the opportunity to participate in an increased value of the company in the case of an exit or at maturity of the investment. Based on the contractual set-up, such an equity kicker can entitle the investor to purchase company shares under special conditions at a later point in time, to receive a special payment or a combination of both.¹⁸³

	typical silent partnership	atypical silent partnership	participation certificate	subordinated profit participation loan
equity mezzanine		x	x	
debt mezzanine	x			x
fixed interest rate	yes	yes	yes	yes
performance based interest rate	yes	yes	yes	yes
loss participation	contractual exclusion possible	typically yes	typically yes	no
payout at maturity > nominal value	no	possible	no	no

Table 2 Overview Investment Types on German Crowdfunding Platforms¹⁸⁴

The presentation of possible investment types for the German market provides a backdrop for providing an overview of the platforms active on the German market. Since 2011, more than 30 crowdfunding platforms have tried to establish themselves in the German market. However, not all of them succeeded.¹⁸⁵ The platforms presented in table 3 are focused (or used to focus) on raising investments for start-ups or the *Mittelstand*, while the other increasing areas of property funding and funding of green energy projects are excluded due to the objective of this thesis. Platforms are ordered based on the starting date of the first crowdfunding project on the respective platform;

¹⁸³ mzs Rechtsanwälte (2015), *Mezzanine-Finanzierung: Ein Leitfaden für Gründer, Initiatoren und Kapitalgeber*, p. 17

¹⁸⁴ Author's illustration based on Dorfleitner et al. (2014), *Crowdfunding als Finanzierungsalternative für kleine und mittlere Unternehmen*, „Die Betriebswirtschaft“, vol. 74, p. 287-289; <http://www.foerderland.de/finanzen/finanzierung-im-ueberblick/mezzanine-finanzierung/formen-von-mezzanine-kapital/> (12.04.2016)

¹⁸⁵ see Für-Gründer.de GmbH (2016), *Crowdfinanzierung in Deutschland – Nr. 1/2016*, p. 4

total funding volumes are calculated for the deadline of 31.12.2015.

In total, the presented platforms have raised funds of 72,172,397€ by the end of 2015. The market is dominated by the two platforms Seedmatch and Companisto with funding volumes of more than € 20M on both platforms. Both platforms have introduced differentiated investment set-ups based on the development stage of the start-up to be funded. Another segment of the platforms has raised several millions each, while the third segments lies below the € 1M threshold. As previously discussed, a strong preference for the *Partiarische Nachrangdarlehen* can be observed in the investment type column.

Name	Starting Date	Funded Projects	Total Deal Volume (€)	Min. Inv. (€)	Industry Specification	Investment Type	Comment
Seedmatch	2011	85	24.647.000	250	none	PND	Seed Investment for Start-ups, Venture Debt for Growth Companies
innvestment	2011	26	2.522.040	250	Focus on new technologies	PND	
Companisto	2012	45	23.945.858	5	none	(P)ND	Partiarisches Darlehen for Start Ups, Nachrangdarlehen (Venture Loan) for Growth Companies; including one property funding
Bergfürst	2012	5	5.184.025	10	property (now)	(P)ND, A, G	
Bankless 24	2012	8	644.000	100	Mittelstand	G	Merger with Austrian platform CONDA (01.03.2016)
Deutsche Mikroinvest	2012	29	8.700.000	250	Start-ups, Mittelstand	SB, (P)ND, G	
CROWD NINE	2013	2	67.000	100	Focus on Stuttgart region	ND	
Startnext	2013	2	326.211	50	Creative and sustainable ideas	Cooperative shares	Crowdfunding Platform, also temporarily offered crowdfunding (currently in review due to Kleinanlegerschutzgesetz); combination of crowdfunding & crowdfunding
Fundsters	2013	10	781.508	1	Innovative Consumer Solutions	SB	
FunderNation	2014	4	3.739.505	100	Digital Media & IT, Sustainability, Women in executive positions, Aerospace Technology, Innovative Mittelstand, Property	P(ND)	Categorization of projects according to 4 different risk-return-profiles
DUB	2014	2	252.750	100	Growth Companies	PND	
Conda	2014	6	501.900	100	Start-ups	ND	Only consideration of German projects, since international platform
Venturate	2015	1	850.000	100	none	PND	Curated Crowdfunding Platform: support through one main investor has to be guaranteed; only consideration of crowd investments
Unternehmerich	2015	1	250.000	250	Mittelstand	PND	

Table 3 Overview of Crowdfunding Platforms in Germany¹⁸⁶

¹⁸⁶ Author's Illustration based on platform homepages and direct requests; (P)ND = (Partiarisches) Nachrangdarlehen, A = Aktie, G = Genussschein, SB = stille Beteiligung

4.2.5. Subcase Germany: Seedmatch GmbH

The following subcase will cover the German crowdfunding platform Seedmatch, including its development, information on funded projects as well as the specifications of raising funds on this particular platform.



Seedmatch was started as the “first platform for startup-crowdfunding” in Germany in 2011. The Seedmatch platform is supposed to connect innovative ideas of companies who create new employment opportunities with investment from supporters who offer capital and feedback in order to enhance the founding culture in Germany. Seedmatch currently (as of May 2016) operates in Dresden with nine employees.¹⁸⁷

On Seedmatch, no limitations apply to the industry a company is operating in when it is looking for funding. However, the business model of the company should be scalable, the managers should possess an interest in communication and exchange with the crowd and be in need of funding volumes between 100,000€ and € 2.5M. To date, Seedmatch offers two funding options for companies: seed investments for start-ups and the so-called venture debt for young growth companies, which was introduced in February 2016. Seedmatch switched from silent partnerships to *partiarische Nachrangdarlehen* in November 2012 to overcome the 100,000€ funding limit.¹⁸⁸ The currently used two funding types have different characteristics and offer different pay-out options for investors. They are based on the previously described peer-to-peer model.¹⁸⁹

Seed Investments are suitable for start-ups in an early development stage. The company has to exhibit an innovative product or service with clear unique selling points, a proof of concept for the developed idea in the form of prototypes or first revenues as well as an experienced founding team. Additionally, the company has to be legally set up according to one of two specific German legal company set-ups. The investment contracts for Seed Investments usually have a minimum timeframe of five years for investors and eight years for start-ups, however these timeframes can be adjusted from

¹⁸⁷ see <https://www.seedmatch.de/ueber-uns#seedkoepfe> (06.05.2016)

¹⁸⁸ see <http://blog.seedmatch.de/2012/11/26/seedmatch-knackt-die-100-000-euro-nuss-und-definiert-crowdfunding-fur-startups-neu/> (14.04.2016)

¹⁸⁹ see <http://blog.seedmatch.de/2016/02/18/venture-debt-festzins-venture-kicker-renditepotenzial-crowdfunding/> (13.04.2016); <https://www.seedmatch.de/fuer-gruender> (13.04.2016)

case to case.¹⁹⁰

Investors participating in a seed investment receive a fixed basic interest rate of 1% p.a. to be paid at maturity. This is combined with an annual performance-related bonus interest once the break-even-point has been reached. This bonus interest is calculated based on the profit of the company. Additionally, the investor will benefit in the event of an exit or contract termination. In the case of an exit, the investor will receive a share of the total exit proceeds based on the personal ownership share in the start-up. In the contract termination case, the higher value of either an EBIT- or sales-multiple valuation will be used to calculate the one-off bonus payment based on the personal ownership share. The loan will be paid back in four quarter-annual installments starting three months after contract end.¹⁹¹

Companies that have already progressed further in their development can use Venture Debt. These companies must exhibit a sustainable business model with significant and growing sales in the past years, a market history encompassing several years and the break-even-point has already been reached. Additionally, positive cash-flows are needed to ensure the payment of interest based on the operative business.¹⁹²

The investor in Venture Debt will receive an interest of 8% p.a. with a semi-annual payout cycle. Additionally, a one-off bonus interest payment based on the sales volume of the company can be received at contract termination (so-called “Venture Kicker”). In the case of Venture Debt, the entire loan amount will be paid back four months after contract termination. The first Venture Debt on Seedmatch is “heypaula”, a venture connecting young German premium fashion labels to established online fashion shops. The company wants to raise € 1M, crossing the funding threshold of 100,000€ on day one of the funding campaign.¹⁹³

Seedmatch recommends to assume a timeframe of three to four months for a crowdfundering campaign starting from the point of kick-off when the start-up has passed the application and selection process (two to four weeks) and starts to prepare

¹⁹⁰ see <https://www.seedmatch.de/fuer-gruender> (13.04.2016); <https://www.seedmatch.de/faq> (13.04.2016)

¹⁹¹ see <https://www.seedmatch.de/fuer-investoren#investmentchance> (13.04.2016); <http://blog.seedmatch.de/2013/03/28/exitbeteiligung-wie-sie-als-crowdfunder-langfristig-am-erfolg-eines-startups-partizipieren/> (13.04.2016); Seedmatch GmbH (2016), *Model Contract Restube GmbH*, p. 9

¹⁹² see <https://www.seedmatch.de/fuer-gruender> (14.04.2016)

¹⁹³ see <https://www.seedmatch.de/fuer-investoren#investmentchance> (14.04.2016); <https://www.seedmatch.de/startups/heypaula> (14.04.2016); Seedmatch GmbH (2016), *Model Contract cbecom GmbH*, p. 8

for the campaign by developing contracts and marketing material. After the roadshow phase, called preview at Seedmatch, subscriptions to the investment offer can be undertaken in a first-come-first-serve mode and will trigger the contract closing by the simple offer-acceptance model. The subscription phase typically lasts 60 days and can be prolonged by another 60 days. If the funding is successful, Seedmatch will receive a fee of 5-10% of the raised capital. The campaign costs can be higher depending on whether or not the start-up decided to hire a communication or PR agency for support.¹⁹⁴

85 crowdinvesting campaigns have been concluded on Seedmatch until 31.12.2015 with a success rate of more than 96%, leading to 82 funded campaigns. 70 different companies initiated these campaigns. 23 companies started a follow-up funding campaign, out of these 13 were conducted on Seedmatch. The start-up *Front Row Society* has even conducted a second follow-up campaign. Overall, these campaigns have led to a funding volume of 24,647,000€. Based on the campaigns conducted until the end of 2015, the minimum funding amount was raised for the follow-up funding of *secucloud*, amounting to only 50,000€, while the follow-up funding of *Protonet* raised the highest amount to date of € 3M. Average deal size* amounts to 300,572€ while the median deal size* lies at 192,500€ with a standard deviation* of 391,983.50. Out of all of the funding campaigns, one buy-back as well as one buy-out-offer has been issued to the investors, while two start-ups paid an additional interest payment. In 2015, *Lottohelden* received high media attention for the first exit (more than 50% of shares of company owners are sold) of a crowdfunded company in Germany.¹⁹⁵

Despite the described success stories, 13 companies funded through Seedmatch have experienced bankruptcy and terminated operations. Two of these failed companies had even received a follow-up funding from the Seedmatch investors. An overview of all the funded companies and their respective status is provided in Appendix 1.¹⁹⁶

Of the 72 different businesses, which started a campaign on Seedmatch, 63% can be seen as high-technology companies (as described according to Eurostat in the case study set-up, see p. 46). 19% of all businesses fall into the high- or medium-high-technology

* considering only successful funding campaigns

¹⁹⁴ see Seedmatch GmbH (2015), *Crowdfunding für Startups – Finanzierung 2.0*, p. 26-27, p. 36-37; Seedmatch GmbH (2016), *Investment Offer Restube GmbH*, p. 29

¹⁹⁵ Author's calculations based on data available on seedmatch.de;

<http://blog.seedmatch.de/2015/11/26/lottohelden-crowdfunding-exit-deutschland/>
(14.04.2016)

¹⁹⁶ Author's calculations based on data available on seedmatch.de

manufacturing category, while 43% of the businesses offer high-tech or financial knowledge-intensive services. Additionally, it could be observed that 13 businesses follow a platform set-up, which takes a traditional offline sales process online.¹⁹⁷

Out of 85 attempted campaigns, information on the funding set-up previous to the campaign could be obtained for 75 campaigns. For all but one campaigns, self-funding was used to establish the business. The second-most used funding source are angel investors or shareholders, being used in 44% of the campaigns. Venture Capital and equity crowdfunding follow with similar shares, being used in 13% and 16% of the cases. While 11% of the campaigns had acquired business grants, only 5% have received funding from banks. An overview of the technological categorization as well as the funding set-up before the campaign on Seedmatch can be found in Appendix 2.¹⁹⁸

4.3. Case Study United Kingdom¹⁹⁹

The UK used to be a country with a strong manufacturing sector, based on the growth during the industrial revolution. However, today the manufacturing sector contributes only 10% to the total GDP, while the services sector is fuelling the British economy. More than 50% of the approximate Gross Value Added at basic prices of the non-financial business economy can be attributed to (non-financial) services.²⁰⁰

4.3.1. Outset

SMEs play an important role in the United Kingdom since 99.9% of all private sector businesses belong to this group. In 2014, an annual turnover of € 2.45T was generated by SMEs, contributing 47% to all private sector turnover. At the same time, 60% of all private sector employees work at SMEs.²⁰¹

Due to the importance of SMEs for the British economy as well as their relevance for the equity crowdfunding market, SMEs will stay in the focus of the research for this case study.

¹⁹⁷ Author's calculations based on data available on seedmatch.de

¹⁹⁸ Author's calculations based on data available on seedmatch.de and <https://www.bundesanzeiger.de/>

¹⁹⁹ The majority of £ values are transferred to € values for improved readability based on the €-£ closing value of 31.12.2015, being 1.36

²⁰⁰ see <https://ig.ft.com/sites/numbers/economies/uk> (19.04.2016); Office for National Statistics (2015), *UK Non-Financial Business Economy: 2014 Provisional Results*, p. 6

²⁰¹ see Department for Business, Innovation & Skills (2015), *Business Population Estimates for UK and Regions 2015*, p. 1

Looking at the financing preferences of these companies reveals that more than half of them had not used any external funding sources during the three previous years of survey conduct in 2014, thereby relying on internal funding like retained earnings. Overall, the financial crisis led to a decline in the volumes of external funding and together with an increase in cash reserves generated after the crisis has contributed to remaining lower needs for external funding. When using external funding, a strong preference for bank overdrafts (used by 26% of survey participants) and credit cards (22%) were reported. Bank lending in general is reported with the largest volume for external finance for smaller businesses, leading to an outstanding bank lending stock of € 222B by the end of 2015, however start-ups have to face higher rejection rates when applying for debt finance than more established SMEs. Especially more established, medium-sized SMEs also rely on asset finance through e.g. leasing. P2P-business lending activities have gained traction in the UK, reaching a level of € 1.71B and thereby turning P2P-lending platforms into the biggest segment of all online platform financing options. At the same time, seed stage equity funding has experienced a strong growth, fuelled both by private equity investors as well as crowdfunding set-ups, which traditionally leads to lower funding volumes but caused a strong increase in the total number of companies being funded through equity.²⁰²

As previously described, loans are the preferred funding source for many SMEs. However, since 2013 the amount of outstanding loans to non-financial SMEs has dropped by around € 20B.²⁰³ Whilst one could argue that this drop might be due to a shift in preferences on behalf of the SMEs, David Cameron underlined already in February 2015 that the British Business Bank had estimated an annual funding gap of around € 1.36B for small companies. The British Chambers of Commerce also criticized the lack of support for the long-term growth objectives of small companies, which were often hindered by a lack of funding. However, the funding gap cannot only be attributed to a lack in available bank loans. The problematic situation is even enhanced by non-existence of a market for private placements from institutional investors to SMEs as well as a closed market for the securitization of SME loans.²⁰⁴

²⁰² see <http://www.statista.com/statistics/463168/small-businesses-external-finance-practice-united-kingdom/> (19.04.2016), British Business Bank PLC (2016), *Small Business Finance Markets*, p. 12, p. 22, p. 40, p. 42, p. 66

²⁰³ see <https://ig.ft.com/sites/numbers/economies/uk> (19.04.2016)

²⁰⁴ see <http://www.bbc.com/news/uk-politics-31370496> (19.04.2016), <http://www.independent.co.uk/news/business/analysis-and-features/how-to-fix-the-funding-gap-where-small-firms-can-go-to-get-their-finance-8857580.html> (19.04.2016)

Despite the mentioned funding gap, funding opportunities for start-ups and SMEs in general exist in the UK. The Business Finance Support Finder is an online tool helping business owners to find grants and other funding opportunities. Various direct grants are cash awards to be used for capital investment or company development and are usually handed out on the condition of a 50% involvement of the business owner in the costs of the project. Since SMEs are often struggling to obtain loans, government-funded start-up loans with more lenient terms and conditions may be a solution in this situation. Based on the location of a company, regional growth funds can be used, too. For entrepreneurs starting their business out of a jobseeker's position, the Enterprise Allowance Scheme may be helpful. Innovative start-ups may also try to apply for an incubator like Seedcamp or the Telefonica-sponsored Wayra. In the UK, business angels invest more than € 1B a year, and thereby offer a potent source of funding for entrepreneurs, who are seeking for funding and mentoring at the same time. Additionally, various online resources offering information on available funding for SMEs refer to crowdfunding as a growing new resource, indicating the relevance at this point of time.²⁰⁵

When covering the available funding opportunities in the UK, challenger banks should be mentioned. Challenger banks are young banks, which have recently entered the British market in order to compete with the established, traditional banks. After initial success in the mortgage market, some challenger banks attempt to enter the business sector like Metro Bank, Virgin Money or TSB.²⁰⁶

In 2015, the UK alternative finance market accounted for a volume of more than € 4B, thereby becoming the biggest market for alternative finance in Europe. The size of the market indicates a strong interest in the UK and hints at a need for these alternative finance products. In 2016, the long-awaited bank referral scheme will be introduced and can be expected to lead to even greater awareness for alternative finance: banks, which reject loan applications of SMEs will have to refer these SMEs to alternative finance providers. A first collaboration of this type was established in 2014 between Santander and the P2P-lending platform Funding Circle. Companies also underline the positively-

²⁰⁵ see <http://startups.co.uk/small-business-grants/> (19.04.2016), http://granttree.co.uk/startup_funding_uk (19.04.2016); <http://www.theguardian.com/money/2014/jan/05/money-businesses-start-up-entrepreneurs> (19.04.2016); <http://startups.co.uk/what-are-business-angels-and-what-can-they-offer/> (19.04.2016)

²⁰⁶ see <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/12068537/Are-challenger-banks-the-saviours-of-British-banking.html> (19.04.2016)

perceived increased willingness to take risks by alternative funding providers, thereby indicating a need for such behavior.²⁰⁷

Overall, the pronounced funding gap as well as the growing alternative finance market in the United Kingdom hint at a potential for change in the set-up of the financial market in the future. Since companies seem willing to participate in alternative funding methods and crowdfunding is receiving recommendations as a means of funding, equity crowdfunding might gain further traction in the future. However, the strong preference for debt-based financing in the UK still has to be considered.

4.3.2. Current Situation

Having provided an overview of the funding environment in UK as a back-drop, the PESTL-framework will cover all relevant aspects of the current situation for equity crowdfunding in the country.

As previously mentioned, Prime Minister Cameron recognized a funding gap in the UK in 2015, which should be solved mostly through offering more loans to the challenged companies. This underlines that the government is continuously dealing with the need to act and change the funding situation in the UK.²⁰⁸

However, such a need for additional funding had already been discovered previously and led the government to establish the British Business Bank in September 2012 with the objective to support the provision of financial sources to SMEs in the UK. The British Business Bank should change the structural set-up of financial markets for smaller businesses and improve the supply-side of these financial markets by engaging both established as well as emerging actors in the financial market.²⁰⁹

Apart from the establishment of the British Business Bank, the British government directly shows its support for equity crowdfunding both by investing as well as

²⁰⁷ see <http://www.growthbusiness.co.uk/growing-a-business/business-finance/2481661/mind-the-sme-funding-gap.html> (19.04.2016); <http://www.crowdfundinsider.com/2016/03/83220-view-from-the-uk-why-the-alternative-finance-industry-needs-greater-regulation/> (19.04.2016); http://www.altfi.com/article/1671_what_will_2016_hold_for_alternative_finance (19.04.2016); <https://www.fundingcircle.com/blog/2014/06/funding-circle-santander-announce-partnership-support-thousands-uk-businesses/> (19.04.2016); <http://www.statista.com/statistics/372193/uk-alternative-finance-smes-comparison-with-traditional/> (19.04.2016)

²⁰⁸ see <http://www.bbc.com/news/uk-politics-31370496> (19.04.2016)

²⁰⁹ see Department for Business, Innovation and Skills (2013), *Building the Business Bank – Strategy Update*, p. 3; Department for Business, Innovation and Skills (2014), *British Business Bank – Strategic Plan June 2014*, p. 6

improving the conditions for private investors when participating in equity crowdfunding campaigns. In 2014, the government-backed London Co-Investment Fund (LCIF) was established in order to fuel the growth of London-based tech-start ups. The LCIF will operate as a co-investor of £ 25M (€ 34M) with selected investment partners. The equity-crowdfunding platform Crowdcube was selected as one of these partners, receiving an allocation of £ 5M (€ 6.8M) for investment into companies participating in equity crowdfunding campaigns on its platform.²¹⁰

Investors in these equity crowdfunding campaigns can also benefit from tax reliefs according to two different schemes. Investors with available funding of up to £ 1M, who invest into high-risk companies can receive a 30% tax relief on their investment according to the Enterprise Investment Scheme (EIS). Since 2012, this program was extended to also cover nascent companies in the seed stage (Seed Enterprise Investment Scheme = SEIS), which can be used by investors looking to invest up to £ 100,000. A tax relief of up to 50% can be received in combination with capital gains tax exemption for the appreciation of SEIS shares. In 2015, the government started a consultation on whether to include equity-crowdfunding investments in the Individual Savings Accounts (ISA), which also provides tax advantages. The discussion in this case is still ongoing.²¹¹

It becomes clear that the British government has a strong interest in the alternative as well as the equity crowdfunding scene and is supporting it. However, this support will only be fruitful if enough companies are being set up in the country and can gain mentorship and support if needed. As previously mentioned, SMEs make up the majority of all private sector businesses in the UK and employ 60% of all private sector employees while contributing 47% of the entire private sector turnover. From 2014 to 2015, a 3% growth could be observed in the number of SMEs in UK. However, 76% of all of these SMEs are non-employing businesses, meaning only the owner is working there. Overall, SMEs seem to be a very important contributor to the British industry, however the large share of non-employing businesses shows the problematic situation

²¹⁰ see http://fundinglondon.co.uk/press-releases/FL-PressRelease-LCIF-Launch%20of%20Procurement_16-7-14.pdf (20.04.2016); <http://blog.crowdcube.com/2014/12/04/uk-government-set-to-invest-5m-through-crowdcube/> (20.04.2016)

²¹¹ see <https://www.crowdcube.com/pg/eis-seis-tax-relief-overview-43> (20.04.2016); <https://www.gov.uk/government/consultations/isa-qualifying-investments-consultation-on-whether-to-include-investment-based-crowdfunding/isa-qualifying-investments-consultation-on-whether-to-include-investment-based-crowdfunding> (20.04.2016)

that no additional jobs are created.²¹²

Apart from SMEs in general, start-up companies have seen a strong growth in the UK in the past years. London is the country's start-up hub with many tech-oriented businesses. Technology-oriented businesses are expected to contribute up to 14% to the GDP in 2016. Apart from London, Manchester, Edinburgh and Birmingham have also shown a strong start-up growth.²¹³

Since the majority of start-ups is located in London, the supportive scene is also largest there. More than 35 programs offering support in terms of money or mentoring exist in London, while the number amounts to around 60 when considering the entire UK. London can be seen as the capital of incubators and accelerators and is expected to add more than € 16B in economic activity in the upcoming 8 years.²¹⁴

These numbers give an impression of the British economy, especially considering SMEs and start-ups as the target group for equity crowdfunding. If the success of these groups continues in the future, the new funding form may also experience growing success.

However, not only the perspective of businesses, which might be interested in equity crowdfunding campaigns is relevant, but another important aspect are the investors who can support these campaigns. This topic is to be considered in the social aspect of the PESTL-analysis.

Equity crowdfunding has experienced a strong growth in the UK in the past years, even outperforming venture capital and private equity deals by numbers in 2015. Since equity crowdfunding campaigns can only be realized with the participation of investors, a definite interest on behalf of the society in this new investment type can be observed.²¹⁵

However, traditional UK investors still prefer cash-based investments with around 40% of families holding cash ISA accounts, while only 21% of families invested in premium bonds and only 6% in fixed term bonds. Investments into stocks and shares were held by 17% of families. For more than half of the investors in cash ISAs, the tax exemption counted as the main reason for an investment. Since investors exhibit a certain

²¹² see <http://www.fsb.org.uk/Media-Centre/Small-Business-Statistics>, (20.04.2016)

²¹³ see <http://techcitynews.com/2016/01/13/number-of-new-uk-startups-increased-4-6-in-2015/> (20.04.2016), <http://raconteur.net/business/scene-is-set-for-uk-tech-startups-to-make-it-big> (20.04.2016)

²¹⁴ see <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/11283107/All-of-Londons-start-up-accelerators-and-incubators.html> (20.04.2016)

²¹⁵ see Beauhurst (2016), *The Deal – An overview of UK high-growth companies, their investors and deals in 2015*, p. 10

confidence in the future development of SMEs, but often lack knowledge concerning available investments, a better information policy in combination with the offered tax exemption of EIS, SEIS and potentially in the future also ISA for equity crowdfunding may offer a successful and promising combination to grow the new funding type.²¹⁶

Since the high risk involved with investing in early stage companies may repulse many investors from placing their money with these companies and therefore also from using equity crowdfunding schemes, movement can also be observed in the scene surrounding equity crowdfunding: Crowdrating is a young company providing one-page independent reports on crowdfunding campaigns to support investors' decisions.²¹⁷

The British society may still be focused on traditional investment forms, however the combination of tax incentive schemes and supportive information policy might help equity crowdfunding to gain traction. Apart from the society, businesses may also play a role in the social area of the PESTL-analysis. Socially orientated businesses often face funding challenges since traditional investors forego them for more profitable offers. The British LLP Nesta focuses on this type of businesses and the question how innovation and technology may help to overcome social problems in the UK. They assume that crowdfunding in general, but especially also equity crowdfunding may be a suitable solution for these companies since they are typically in need of long-term capital due to their initially high costs and the incapability of interest payments. Additionally, investors who are interested in a certain social problem can be matched with companies solving this particular problem and might be ready to accept a diminished financial return when observing the additional social return generated by the business.²¹⁸

Therefore, equity crowdfunding may grow in the UK both from the perspective of investors increasing their trust in SMEs as well as from the perspective of social businesses being matched with suitable investors.

Since equity crowdfunding is conducted via the internet, the technological aspect of

²¹⁶ see <http://www.statista.com/statistics/294805/share-of-families-individual-savings-accounts-united-kingdom-uk/> (21.04.2016); <http://www.statista.com/statistics/294808/share-of-families-with-premium-bonds-united-kingdom-uk/> (21.04.2016); <http://www.statista.com/statistics/294812/families-with-fixed-term-bonds-uk/> (21.04.2016); <http://www.statista.com/statistics/294818/share-of-families-stocks-and-shares-investments-uk/> (21.04.2016); Scottish Widows (2013), *Savings and Investment Report*, p. 16; IW Capital (2016), *Taxpayer Sentiment Report 2016*, p. 4

²¹⁷ see <http://www.crowdrating.co.uk> (21.04.2016)

²¹⁸ see <https://nestainvestments.org.uk/could-crowdfunding-work-for-innovative-social-ventures/> (21.04.2016)

having access to the internet is of relevance for its success. In the United Kingdom, 91.6% of inhabitants are counted as internet users. Both the age groups of 16-34 years-old and 35-54 years-old outperform this high level of average usage.²¹⁹

Since internet usage on its own does not determine whether an individual is ready to conduct financial transactions through the online medium, the share of Britons using the internet for internet banking is considered as well. In 2015, this rate amounted to 56% of individuals living in Great Britain.²²⁰

Overall, equity crowdfunding campaigns can theoretically reach almost the entire population since the majority is using the internet. However, only a little over half of the population is ready to conduct financial transactions online, therefore this behavior might be seen as an obstacle for an investment through an online platform.

From a legal point of view, equity crowdfunding falls under the Financial Services and Markets Act 2000 (FSMA 2000), however the approach of selling non-readily realizable securities (i.e. securities, which are often lacking a liquid market) through an equity crowdfunding platform was not specifically considered in the FSMA 2000. Therefore, the Financial Conduct Authority issued a new regulatory approach in 2014 to cover the new investment opportunity. The biggest consideration was the idea of giving retail investors, who do not possess vast investment knowledge both the freedom to invest while still offering considerable protection, e.g. limiting direct offers to professional clients or retail clients who will not invest more than 10% of their available assets.²²¹

From the perspective of the platforms and their business with the start-ups, several regulations have to be considered. The FSMA typically requires companies, which issue securities, to draft a prospectus. However, start-ups offering up to € 5M within a 12 months period through equity crowdfunding are exempted. Additionally, the Companies Act 2006 does not allow offering shares in a private company to the public. In order not to break the law, the issuer of the shares can be set up as a public company or the platform can be structured in a certain way in order to reduce the risk of going against

²¹⁹ see <http://data.worldbank.org/indicator/IT.NET.USER.P2> (21.04.2016); <http://www.statista.com/statistics/286273/internet-banking-penetration-in-great-britain/> (21.04.2016)

²²⁰ see <http://www.statista.com/statistics/286273/internet-banking-penetration-in-great-britain/> (21.04.2016)

²²¹ see Financial Conduct Authority (2014), *PS14/4: The FCA's regulatory approach to crowdfunding over the internet, and the promotion of non-readily realisable securities by other media*, p. 35-36; <http://www.osborneclarke.com/connected-insights/publications/regulation-crowdfunding-uk/> (21.04.2016)

the law. According to the FSMA 2000, certain regulated activities involving transaction with securities require authorization by the FCA, which is very costly and involves a time-intensive process as well as the need to comply with FCA's conduct of business obligations in the future. Previously, platforms tried to bypass this authorization process by being structured according to a combination of exclusions and exemptions, however now they are often set-up as appointed representatives of authorized firms, giving them regulatory permission but not requiring the fulfillment of certain capital requirements. As previously described, the promotion of securities to retail investors is regulated. In case of an investment being structured as a collective investment scheme, even stricter regulations have to be followed, while so-called alternative investment funds may fall both in the basic corporate issuer/shareholder-relationship or the collective investment scheme.²²²

Since equity crowdfunding has experienced a strong growth and popularity in the UK, the regulatory frameworks have been adjusted to consider this new investment type. Currently, the focus lies on protecting investors and informing them of the risk of potential loss of money while still enabling the future growth of the new investment type.

4.3.3. Outlook

In 2015, equity crowdfunding accounted for more than 15% of total UK seed and venture-stage equity investment. The segment was one of the fastest growing ones considering all alternative finance segments and the entirety of these new asset classes are expected to continue their growth trajectory in the future. Robert Wardrop, the executive director of the Cambridge Center for Alternative Finance, assumes that 2016 might see a development towards the establishment of a secondary market for equity crowdfunding assets in order to overcome the current illiquidity of the market. Since an increase in institutional funding is becoming more relevant for various alternative finance assets, equity crowdfunding might also see a rising involvement of institutional investors as backers for equity crowdfunding campaigns.²²³

²²² see <http://www.osborneclarke.com/connected-insights/publications/regulation-crowdfunding-uk/> (21.04.2016)

²²³ see B. Zhang et al. (2016), *Pushing Boundaries – The 2015 UK Alternative Finance Industry Report*, p. 13, p. 18, p. 27; <http://www.cityam.com/234850/alternative-finance-in-2016-why-the-latest-industry-report-tells-us-its-now-too-big-to-ignore> (22.04.2016)

4.3.4. Equity Crowdfunding Specifics in the United Kingdom

Both the outset and the outlook of equity crowdfunding in UK have been researched and complimented with an analysis of the current business environment based on the PESTL-framework. The following paragraphs shall provide an overview of the equity crowdfunding industry and its characteristics in the country, considering raised volumes and platforms.

Currently, the volumes raised through equity crowdfunding are varying considerably based on the source used. Allegations have risen that platforms overstate the funding which is acquired through their platform or include funding in their total, which was either not raised from the crowd but from large scale investors or in private deals, which are not presented to the public.²²⁴

Following the most recent report of the Cambridge Centre for Alternative Finance in collaboration with Nesta, almost € 452M were raised on equity crowdfunding platforms in 2015. This number includes equity crowdfunding related to property, excluding this volume leads to more than € 333M. A strong growth could be seen throughout the year with Q1/2015 closing at about € 53M, while Q4 reached a volume of about € 111M. Equity crowdfunding saw a growth of almost 300% from 2014 (€ 114M) to 2015, while only around € 38M were raised in 2013. The strongest sectors participating in the UK equity crowdfunding market are technology, food & drink and internet & e-commerce. The Cambridge Centre for Alternative Finance bases its reported market volumes on an industry survey. On the other hand, AltFi, the leading news site for alternative finance, tracks all crowdfunding campaigns on the 6 largest platforms in the UK and thereby determined a funding volume of € 216M for 2015, while estimating a maximum of around € 14M to be potentially raised from other smaller platforms. This leads to a total of around € 230M and stands at a striking discrepancy to the € 333M reported by the Cambridge Centre for Alternative Finance.²²⁵

Calculations of the author considering the most important British equity crowdfunding platforms lead to a total volume of around € 424M raised on British equity crowdfunding platforms until Dec. 31, 2015. This volume considers an estimate for the platform Seedrs, stating upon direct request that more than £ 100M (€ 136M) had been

²²⁴ http://www.altfi.com/article/1747_why_can_nobody_agree_on_uk_equity_crowdfunding_volumes (27.04.2016)

²²⁵ see B. Zhang et al. (2016), *Pushing Boundaries – The 2015 UK Alternative Finance Industry Report*, p. 41;
http://www.altfi.com/article/1747_why_can_nobody_agree_on_uk_equity_crowdfunding_volumes (27.04.2016)

invested until the end of 2015. However, AltFi measured on Feb. 4, 2016 only around £ 53M (€ 72M) raised through publically announced campaigns on the Seedrs platform. Considering this number would lead to a total volume of funding raised through equity crowdfunding in the UK of € 358M. Overall, an exact number can neither be given for the year of 2015 nor for the total volume raised.²²⁶

In the UK, equity crowdfunding uses “real” equity structures in the form of shares as investment types. The majority of platforms, as can be seen in table 4, use ordinary shares while some also offer the additional class of preferential shares. These preferential shares have preference over ordinary shares concerning the payment of dividends, however they typically do not carry any voting rights. Crowdcube campaigns typically offer Type A and Type B shares, which will be covered in detail in the subcase. In addition to shares, some platforms have started to offer mini-bonds (Crowdcube), convertibles (Seedrs) or the combination of investments in several assets in funds (Seedrs).²²⁷ Both peer-to-peer legal set-ups and the nominee structure are used on UK equity crowdfunding platforms to connect investors with fundraisers, as becomes obvious in table 4.

In 2015, up to 35 equity crowdfunding platforms are said to have been operating in the British market. Due to the nascent market stage, many new competitors enter the market. The following table shall provide an overview of the largest platforms currently operating. Platforms are ordered according to the date of the first campaign on the platform. Total deal volumes are calculated for 31.12.2015 (with the exception of Seedrs, releasing only the approximate value of £ 100M on direct request). The presented platforms have all received FCA approval.

With the exception of Growth Funders, which is focusing on Impact Investing, thereby trying to fund companies, which align a social impact with their business operations, none of the platforms has a special industry specification.

As previously stated, around € 424M/ € 358M have been raised on these platforms until the end of 2015, depending on how the volume raised on Seedrs is being evaluated. The British market is clearly dominated by Crowdcube and Seedrs, with Crowdcube having eventually gained an advantage over Seedrs in terms of funding volume raised.

²²⁶ Own calculations of author based on platform homepages and direct request as well as http://www.altfi.com/article/1747_why_can_nobody_agree_on_uk_equity_crowdfunding_volumes (29.04.2016)

²²⁷ see P. Berk et al. (2013), *Fundamentals of Corporate Finance*, New York City: Pearson Higher Education AU, p. 192, p. 194; <https://learn.seedrs.com/guides/types-of-equity/> (27.04.2016)

AngelsDen, Syndicate Room and VentureFounders can be counted towards a second group of successful platforms, having each raised several € 10M. A third group is made up by several smaller platforms with lower deal numbers, these will have to prove their success in the upcoming years.

Name	Starting Date	Funded Companies	Total Deal Volume (€)	Min. Inv. (£)	Industry Specification	Typical Investment Type	Legal Set-up	Comment
Crowdcube	2011	346	153.677.246	10	None	Mostly A & B	Direct	Mini-Bond as additional investment type
Seedrs	2012	320	136.000.000	10	None	Type A Ordinary Shares	Nominee	Additionally: Funds, Convertibles as investment types
AngelsDen	2013	609	26.928.000	Various	None	Ordinary Shares	Direct	Curated Crowdfunding Platform
Syndicate Room	2013	66	56.608.550	1000	None	Ordinary Shares, Preferential Shares (same as Lead Investor)	Nominee	Lead Investor supporting the company development
CrowdBnk	2014	15	11.746.537	Various	None	Ordinary Shares	Direct	Some campaigns remain undisclosed in terms of money raised
GrowthFunders	2014	3	396.440	100	Impact Investing	Ordinary Shares	Direct	Some campaigns remain undisclosed in terms of money raised
InvestDen	2014	8	4.671.743	50	None	Type A	Direct/ Nominee	
VentureFounders	2014	12	31.192.817	1000	None	Ordinary Shares	Nominee	
Funding Tree	2014	3	1.667.319	100		Ordinary Shares	Direct	Close long-term relationship with potential follow-up funding (both debt & equity)
Crowd for Angels	2015	6	1.356.144	25	None	Ordinary Shares, Preferential Shares	Nominee	Investments from Seed- to Listed-Stage
Crowd2Fund	2015	4	809.880	Various	None	Ordinary Shares	Direct	5 different contribution types on platform (equity, bond, loan, revenue-based, donation)

Table 4 Overview of Equity Crowdfunding Platforms in UK²²⁸

4.3.5. Subcase UK: Crowdcube Limited

The following subcase will cover the British equity crowdfunding platform Crowdcube, including its development, information on funded projects as well as the specifications of raising funds on this particular platform.



Darren Westlake, a serial entrepreneur being named amongst the 500 Most Influential People of 2015, came up with the idea for Crowdcube in 2010 together with Luke Lang, a former owner of a marketing consulting business. In 2011, the business was officially founded as “the world’s leading investment crowdfunding platform [enabling] anyone to invest alongside professional investors in start-up, early stage and growth businesses through equity, debt and investment fund options”²²⁹. Today, Crowdcube has more than

²²⁸ Author’s Illustration based on platform homepages and direct requests

²²⁹ <https://www.crowdcube.com> (28.04.2016)

80 employees working in the main office in Exeter as well as in London. Crowdcube Spain started in 2014, however this branch is not considered for the remainder of the case study. Crowdcube is backed by one of the biggest European venture capital firms, Balderton Capital, as well as a crowd of private investors after having raised more than € 3M during three equity crowdfunding campaigns on its own platform.²³⁰

Crowdcube expects applying companies to have a distinct and innovative business proposition, which quickly attracts the interest of the crowd by exhibiting a strong growth potential. Additionally, the company's team should be composed of experienced individuals. Businesses from most industries can apply as long as they are not involved with gambling or betting, e-cigarettes, sexual topics, property development or operating in the film/ theatre industry. Apart from these criteria, businesses have to be set up as UK Limited companies, have a business plan and financial forecasts according to the Crowdcube guidelines and look for a minimum investment of £20,000, whilst the preferred range is £100,000-150,000. Crowdcube indicates a preference for companies with granted EIS or SEIS tax reliefs based on investors' interest in these tax advantages.²³¹

Companies can decide between two different funding options, equity or mini-bonds, which were introduced in 2014 as a funding source for more established businesses. "Equity" is targeted at start-ups, early stage- and growth-companies and is marketed as a "high risk, high reward long-term investment"²³². Dividends may be paid during the holding time dependent on the development of the company, however investors are expected to profit most from the growth in value of the company, which might be capitalized at an exit. Companies can offer various share classes during their Crowdcube campaigns, with Type A and B being the most popular ones. Out of a total of 282 successful campaigns until the end of 2015, 44 raised capital offering only A shares, 36 offered only B shares and 191 offered both types. The remainder offered a combination with other, less common share types.²³³ Typically, so-called A Ordinary Shares and B Investment Shares rank pari-passu, meaning none has priority over the other, however B Investment Shares usually do not encompass voting rights or the right

²³⁰ see <https://www.crowdcube.com/pg/meettheteam-5> (28.04.2016); <https://www.crowdcube.com/pg/jobs-37> (28.04.2016)

²³¹ see <https://www.crowdcube.com/faqs/raising-through-equity/is-there-a-maximum-or-minimum-target-amount> (28.04.2016); <https://www.crowdcube.com/pg/tell-me-more-1610> (28.04.2016)

²³² <https://www.crowdcube.com/pg/investing-your-money-1513> (28.04.2016)

²³³ Author's own calculations based on [crowdcube.com](https://www.crowdcube.com)

to receive information on general meetings. If both share types are offered, A Ordinary Shares can be received if an individual's investment crosses a certain investment threshold previously determined by the company raising funds. However, it is always recommended to read the specific Articles of Association of the company to ensure the specific rights attached to the share types in the relevant case. Crowdcube equity campaigns usually follow the peer-to-peer legal set-up, directly connecting the investor with the company. However, a nominee structure can be discussed in select cases on request of the company raising funds.²³⁴

For more established businesses aiming at raising more than £500,000, mini-bonds may be a suitable solution, offering regular interest payments up to 8% p.a. and a repayment of the investment as lump sum at the end of the investment period. These mini-bonds are unsecured and non-convertible. They will not be considered in the calculations for this case, due to the focus on equity crowdfunding and bonds being classified as a debt asset.²³⁵

Crowdcube indicates 3-4 months for the completion of the funding cycle, which encompasses 5 stages. An interested business will enter the pitch application phase by applying online. If Crowdcube selects the business to set-up a crowdfunding campaign on the platform, the pitch creation stage is entered during which regulatory compliance topics are covered and pitch material, like videos and a marketing plan are created. The average duration of this phase is 28 days. Afterwards, the pitch is activated on the Crowdcube platform and interested individuals can invest during a 30-day period, which may be extended in certain cases. Investments take place on a first-come-first-save basis and are finalized through the simple offer-acceptance model. After pitch closure, Crowdcube will conduct anti-money laundering checks on all investors while the investors enter a 7-day cooling-off period during which they can review their investment, which becomes legally binding afterwards. Together with the business, Crowdcube will finalize the legal documentation and then transfer the raised funds to the business, which takes on average 28 days.²³⁶

²³⁴ see <http://blog.crowdcube.com/2014/06/10/lend-established-brands-mini-bonds-new-way-invest/> (28.04.2016); <https://www.crowdcube.com/pg/businessfinance-3> (28.04.2016); Chargebox Ltd (2015), *Chargebox – Articles*, p. 11; <https://www.crowdcube.com/faqs/raising-through-equity/how-does-the-nominee-work> (28.04.2016)

²³⁵ see <https://www.crowdcube.com/pg/businessfinance-3> (28.04.2016)

²³⁶ see <https://www.crowdcube.com/pg/tell-me-more-1610> (28.04.2016), <https://www.crowdcube.com/how-crowdcube-works/investing/equity> (28.04.2016),

Businesses raising funds on Crowdcube may have to pay an initial fee of £250 if a complicated legal set-up has to be reviewed. Otherwise, the business is only charged in case of a successful campaign with 6,5% excl. VAT of the total amount raised. Additional costs for administrative and secretarial expenses and other preparations amount to £5000 and are further increased by payment processing fees, which vary based on the location of the investor.²³⁷

For early-stage businesses, Crowdcube is offering a special Sprint Program, which is a faster and easier approach to raising equity. The crowdfunding campaign can be started on the platform after only 2 weeks, foregoing any additional costs apart from the 6,5% excl. VAT of the total amount raised and payment processing fees.²³⁸

Until 31.12.2015, 282 crowdfunding campaigns have been conducted on Crowdcube since its start in 2011. Crowdcube indicates a success rate of 55% for 2015, indicating that in 2015 around 340 companies tried to raise funds on Crowdcube of which 186 were successful.²³⁹ The 282 campaigns were conducted by 246 individual companies and encompass 34 follow-up rounds of 29 companies. Red Advertising Ltd even conducted 3 follow-up rounds. The total funding raised during these campaigns amounts to € 153,677,246. The smallest successful funding campaign was conducted in 2011 by Bigbarn CIC, raising only £12,000 (16,320 €), whereas the largest campaign, conducted by Bitreserve in 2015, raised £6,360,516 (€ 8.7M). However, this campaign was part of an international investment round and only £ 1,5M (€ 2,04M) were offered to Crowdcube investors. Looking at average figures for the campaigns leads to an average deal size of 544,955€ and a median deal size of 229,357€ with a standard deviation of 933,579. Up to now, only two companies have been able to report a successful exit. E-Car Club Ltd was the first exit reported for a business supported by equity crowdfunding and is said to have brought its investors a return of 2,5x. Camden Town Brewery was acquired by the largest brewer in the world, Anheuser-Busch InBev

https://filescrowdcube.com.s3.amazonaws.com/portal_id_1/Crowdcube%20funding%200flowchart.pdf (28.04.2016), <https://www.crowdcube.com/faqs/raising-through-equity/what-are-the-average-time-frames-involved-in-getting-my-pitch-live-and-receiving-the-money> (28.04.2016)

²³⁷ see <https://www.crowdcube.com/faqs/raising-through-equity/what-fees-do-crowdcube-charge> (28.04.2016)

²³⁸ see <https://www.crowdcube.com/faqs/raising-through-equity/what-is-the-sprint-program> (28.04.2016)

²³⁹ see <https://www.crowdcube.com/infographic> (28.04.2016)

in 2015 and is said to have generated a multiple return to the investors.²⁴⁰

Contrary to these successful exits, no exact numbers are published concerning the failure of companies, which had previously secured funding through Crowdcube. Rebus Investment Group, which had raised more than £800,000 in 2015 through Crowdcube went into administration in 2016, being named as the biggest crowdfunding failure to date afterwards.²⁴¹ An overview of all the successful campaigns conducted via Crowdcube can be found in Appendix 3.

246 different businesses raising funding on Crowdcube were also categorized according to the operations conducted. 41% of all businesses can be seen as high-tech, with 14% representing high- or medium-high-technology manufacturing businesses and 27% belonging to the category of high-tech or financial knowledge intensive services. A considerable number of 68 companies exhibit an online platform as part of their business model. The large number of 82 campaigns belonging to the area of food and drinks is also striking.²⁴²

When analyzing the funding set-up of the businesses before each campaign on Crowdcube, the first 72 campaigns will not be considered since Crowdcube was only offering very limited information on the financial set-up of businesses in the beginning and the balance sheets available on the Companies House's website are not in every case sufficient enough to provide meaningful results. For the remaining 210 campaigns, information on the funding situation could be found for 202. 200 of these campaigns involve self-funding from founders. 40% of all campaigns involve angel investors or other shareholders like friends and family, while the usage of grants (often in the form of loans) with 16% is almost at par with the usage of bank loans (15%). 11% of all campaigns see a previous involvement of crowdfunding, which in some cases takes the form of a Kickstarter campaign while in other cases a previous round of Crowdcube funding was raised. Only 6% of the analyzed campaigns had previously attracted funding from venture capital firms. An overview of the technological categorization as

²⁴⁰ Author's calculations based on data available on [crowdcube.com](http://blog.crowdcube.com/2015/07/09/funded-club-business-e-car-club-creates-the-first-successful-crowdfunding-exit/); <http://blog.crowdcube.com/2015/07/09/funded-club-business-e-car-club-creates-the-first-successful-crowdfunding-exit/> (28.04.2016); AltFi (2015), *Where are they now?*, p. 19; <http://blog.crowdcube.com/2015/12/22/crowdcubes-second-exit-announced-camden-town-brewery/> (28.04.2016)

²⁴¹ see <http://www.ft.com/intl/cms/s/0/804d41c2-ca6d-11e5-be0b-b7ece4e953a0.html#axzz479FzhcPB> (28.04.2016)

²⁴² Author's calculations based on data available on [crowdcube.com](http://blog.crowdcube.com)

well as the funding set-up before the campaign on Seedmatch can be found in Appendix 4.²⁴³

5. The Replacement Potential of Equity Crowdfunding

After conducting case studies on the equity crowdfunding market in Germany and the United Kingdom, the following chapter will aim at solving the research question, whether equity crowdfunding can be seen as a possible replacement for traditional financing sources.

5.1. Comparison of Case Study Results

In a first step, the results from the case studies on Germany and the UK will be compared. Based on that comparison, conclusions can be drawn concerning the cases in which equity crowdfunding might present a suitable replacement for traditional financing sources and to what extent it might do so.

	Germany	United Kingdom
Outset	<ul style="list-style-type: none"> -overall low equity funding, preference for usage of own funds -concerns regarding bank funding -variety of funding programs available -alternative funding types used by <i>Mittelstand</i> 	<ul style="list-style-type: none"> -strong preference for internal financing -estimated funding gap of >€ 1B for SMEs -non-existent market for private placements -largest market for alternative finance in Europe
Political	<ul style="list-style-type: none"> -Digital Agenda with objective to improve conditions for crowdfunding 	<ul style="list-style-type: none"> -establishment of British Business Bank to support SMEs -introduction of tax relief for EQ CF investments (EIS/ SEIS)
Economic	<ul style="list-style-type: none"> -Mittelstand and innovative new companies highly important for economy, but low crowdinvesting usage to date 	<ul style="list-style-type: none"> -SMEs as important contributor to economy, however large share of non-employing businesses -London as start-up hub
Social	<ul style="list-style-type: none"> -<i>German Angst</i>: aversion towards risks and new developments -traditional investment habits -crowdinvesting as opportunity for social start-ups, e.g. in green energy sector 	<ul style="list-style-type: none"> -traditional investment habits; lack of knowledge concerning alternative opportunities -EQ CF expected to solve funding problems of social businesses (according to Nesta)
Technol.	<ul style="list-style-type: none"> -54% of Germans using internet for financial transactions 	<ul style="list-style-type: none"> -56% of Britons using online banking

²⁴³ Author's calculations based on data available on [crowdcube.com](https://www.crowdcube.com) and <https://www.gov.uk/government/organisations/companies-house>

Legal	-Retail Investor Protection Act of 2015 with first regulations for crowdfunding	-adjustment of regulatory frameworks in 2014
Outlook	-potential consolidation between platforms -co-financing approaches	-potential for development of secondary market -stronger involvement of institutional investors
EQ CF Specifics	-raised funding (31.12.15): € 72M -market dominated by 2 platforms -preference for <i>partiarisches Nachrangdarlehen</i> as investment type (limited timeframe)	-raised funding (31.12.15): € 424M/ € 358M (depending on sources) -market dominated by 2 platforms -ordinary shares as preferred investment type
Subcase/ High-tech companies	63% of 72 businesses as high-tech; 18% with platform set-up	41% of 246 businesses as high-tech; 28% with platform set-up 29% of campaigns from food & drink area
Subcase/ Funding situation	99%: self-funded 44%: Angel/ other investors 16%: (Equity) Crowdfunding 13%: Venture Capital 11% Business Grants 5%: Bank Funding	99%: self-funded 40%: Angel/ other investors 11%: (Equity) Crowdfunding 6%: Venture Capital 16% Business Grants 15%: Bank Funding

Table 5 Comparison of Case Study Results

Both countries exhibit concerns regarding sufficient funding from traditional banks. While German companies sometimes rely on alternative funding types (corporate bonds, participation certificates), the UK has seen a strong growth in its market for alternative finance. This development is strongly supported by the UK government, introducing tax incentives for equity crowdfunding investments, while Germany for the moment only relies on voicing its plans to improve the conditions for equity crowdfunding. Both countries have a large group of businesses, which fall into the target group of equity crowdfunding platforms, however traditional investment habits of the population may challenge a strong growth and interest in equity crowdfunding in the general society. From a legal point of view, both Germany and the UK have recognized the growing relevance of equity crowdfunding. Therefore, they have introduced legal regulations, which should facilitate the conduct of equity crowdfunding campaigns but at the same time protect the private investor from losing money.

Regarding the overall situation in the two countries under analysis, the most relevant difference lies in the approach of the government concerning the new funding form. While Germany is planning to improve the conditions, the UK is already actively promoting alternative financing approaches in general and equity crowdfunding

specifically. This hints at the fact that it may be easier for equity crowdfunding to gain traction in the UK.

Looking at the specifications of equity crowdfunding in the two countries leads to a differing set-up, only showing the similarity of both countries being dominated by two major platforms each. The volume raised in the UK is 5 to 6 times higher than the volume raised on German platforms despite the same starting year of equity crowdfunding in both countries. Additionally, the investment types used in Germany in the equity crowdfunding context belong to the mezzanine financing category whereas traditional ordinary shares are used at most British platforms.

Assuming the two largest equity crowdfunding companies in both countries to be representative, assumptions concerning the companies raising funds on equity crowdfunding platforms can be made. For Germany, almost two-thirds of the companies belong to the high-tech group of businesses, while only around 40% of British businesses fall into this category. Platform set-ups, taking the sale of goods online show a certain popularity by amounting to 18% of the Germany companies and 28% of the British companies. Almost one third of all the campaigns conducted on the British platform belong to the food & drink category, showing a striking interest in that area. These numbers indicate that the German platform has a certain preference for high-tech companies, being in line with the German culture of being an innovative economy. On the other hand, the campaigns on the British platform show more diversity and a lower dependency on high-tech businesses.

Almost all of the campaigns on the two platforms used the funds of the owner before starting a campaign on Crowdcube. Around 40% on both platforms had received support from Angel Investors or other investors like family and friends. While 13% of the campaigns had been backed by venture capital in Germany, only 6% of British had received this support. A discrepancy can also be seen in the use of bank funding, which was only available to 5% of the Germany campaigns but to 15% of the British ones. Overall, the funding situation clearly shows that equity crowdfunding is a funding type, which is either used instead of traditional sources like bank funding or is used because these traditional sources cannot be obtained. Given the fact that the majority of the companies raising funds are in early development stages, the latter reason may be crucial for the decision of founders to apply to equity crowdfunding platforms.

5.2. Replacement potential in Germany

A case study was used to analyze the general conditions, which are faced by the equity crowdfunding scene in Germany. Seedmatch was used as a representative example to get insights into the set-up of a platform as well as the companies looking for funding through this platform. The variety of the researched information shall now be used to answer the research question whether equity crowdfunding is a possible replacement for traditional financing sources in Germany.

So far, the investment raised through equity crowdfunding platforms in Germany has not yet reached a volume of € 100M. Despite having shown a strong growth over the past year, a considerable gap to the volume raised in the UK can be seen and the funding needs of German start-ups and the *Mittelstand* in general strongly outperform the funding available through equity crowdfunding. On behalf of the businesses, which might raise funds, a preference for internal funding solutions as well as a strong bank dependency has to be considered, questioning a broad interest in the alternative funding solution. The questionable interest from the fundraisers is paired with traditional investment habits on behalf of the German society and a rather slow adaption of new approaches and solutions.

Facing challenges both from the side of the investors as well as the fundraisers questions how strong equity crowdfunding can become in Germany. At the moment, it can be assumed that this alternative funding type will not replace traditional financing sources in the German market, based both on the yet not-sufficient volume and the doubts concerning the funding approach itself.

However, equity crowdfunding may be successful as a niche-funding source and be established as viable funding for certain types of businesses. By satisfying funding needs of these companies, equity crowdfunding can experience a strong growth in Germany. Based on the results from the case study, companies which can be seen as promising users of equity crowdfunding are companies operating in a high-technology context, both manufacturing companies as well as service businesses. High-tech companies are an important contributor to the German economy and therefore companies, which offer an interesting innovation and a promising business plan may attract the support of the society and therefore of investors. Both young start-ups as well as more established companies aspiring to belong to the *Mittelstand* or having already entered this group of companies can be seen as future users of equity crowdfunding. High-tech start-ups, which have developed an innovative concept and potentially

already have a working prototype, may have received supportive grants or funding from friends and family and even business angels, however these traditional equity sources are now exhausted and traditional debt funding in the form of e.g. bank loans is still hard to attract. In these cases, equity crowdfunding may offer a helpful solution to secure go-to-market funding and act as a bridge funding solution while no other funding options are available.

On the other hand, high-tech companies with an established track record and a proven business model may need money for internationalization or scaling objectives. Since the German *Mittelstand* has already been using alternative funding options (e.g. corporate bonds, participation certificates), equity crowdfunding can be marketed to this target group as a suitable solution, which enables the company to receive new funding while at the same time benefitting from the contributions of the crowd and media attention through the equity crowdfunding campaign.

Overall, equity crowdfunding may not replace traditional financing sources in Germany, however it can be seen as a valuable addition to the available sources of funding for certain types of companies as described above. In order to guarantee a future for equity crowdfunding in Germany, potential future regulations have to be set-up in a way, which enables both the crowdfunding process and protects the investors to enhance the interest of investors' in this new asset category.

5.3. Replacement Potential in the United Kingdom

As for Germany, a case study was used to analyze the general conditions, which are faced by the equity crowdfunding scene in the United Kingdom. In this case, Crowdcube was used as a representative example to get insights into the set-up of a platform as well as the companies looking for funding through this platform. The variety of the researched information shall now be used to answer the research question whether equity crowdfunding is a possible replacement for traditional financing sources in the United Kingdom.

The amount raised through equity crowdfunding in the UK is strongly outperforming the volume raised in Germany, amounting to around € 400M and being fuelled through a large number of campaigns. The alternative finance scene is growing strongly in the UK and sees a variety of different manifestations with P2P-Lending being one of the most important aspects and equity crowdfunding seeing high growth numbers. These new funding approaches have also attracted considerable attention from the British

government, which is aiming to resolve the current funding gap by supporting innovative approaches. Therefore, equity crowdfunding seems to operate in an environment, which is actively looking for new funding solutions. This may indicate that equity crowdfunding can be a more relevant replacement for traditional financing sources than in Germany, however at the moment it is still only catering to a small amount of businesses looking for funding with the funding gap determined by the British government outperforming equity crowdfunding volumes by 2.5. In the context of equity crowdfunding in the UK, consideration should be given to the development of a new bubble: the strong growth of the new investment type has attracted large media attention and equity crowdfunding seems to be a promising investment with returns potentially outperforming the investment several times in the case of an exit. However, these exits have so far been scarce and uneducated investors might not be able to adequately judge the risk connected to an equity crowdfunding investment, which locks in their funds in the long-term without having to provide any dividends. Therefore, high-quality information on the companies raising funds should be requested and adequately analyzed by the platforms and investors should be advised concerning the risks. Currently, these processes are already implemented on British platforms, however the advertising conducted on these platforms strongly underlines the benefits of equity crowdfunding investments, while presenting the risks in a less straightforward approach.

As in the case of Germany, certain companies seem to be well suited for equity crowdfunding campaigns. High-tech companies represent a certain share of campaigns on Crowdcube, however these companies may focus less on equity crowdfunding in the UK since a variety of other funding options is available, with many grants and accelerators supporting high-tech ideas.

Platform set-ups, which take offline selling approaches online and thereby increase both the range of available products as well as the size of potential customer groups as well as platforms, which connect individuals with certain shared preferences online seem to be a promising approach in the UK.

Furthermore, food and drink niche products, especially small independent breweries and food items for health-conscious individuals have gained considerable traction. This could be seen as funding, which follows current trends to get “hip” products to the market.

Equity crowdfunding may appeal to a larger crowd in the UK than in Germany, both in

terms of investors given the availability of tax benefits as well as in terms of businesses, which might use this innovative funding approach, however it is still a niche-offer so far. The most relevant aspect for UK equity crowdfunding at the moment is a proper observation of the market in order to avoid the creation of a bubble, which leaves investors losing their money.

5.4. Equity Crowdfunding as Bridge Funding

Assuming the representativeness of the two platforms analyzed in the case studies can lead to conclusions concerning the funding set-up of companies before they start equity crowdfunding campaigns. While almost all the companies use funds from the founders, less than half of them are able to secure traditional equity funding from angel investors or family and friends and percentages for venture capital support are even lower. This indicates a lack in the availability of traditional equity funding sources or a volume, which is not large enough to satisfy the needs of the companies.

Additionally, traditional debt funding in the form of bank loans is used by a very small group of companies. This fact can be attributed to the reluctance of banks to fund young start-ups, which are typically not capable of conforming to certain covenants. Such debt funding may only become available to these companies during a later development stage.

Based on these observations, it can be concluded that *equity crowdfunding is currently not replacing traditional financing sources, but is rather increasing the number of available sources and helping companies to secure funds in new and different ways when traditional sources cannot be used*. Looking back at the initially introduced funding escalator shows that equity crowdfunding can be allocated as a suitable funding source in the area of the structural funding gap during the seed- and early-stage (see chart 9). Equity crowdfunding is still in a nascent stage, however it may grow in the future and transform into a potent competitor to traditional financing sources, potentially becoming a strong rival and eating in the traditional domains of these funding approaches. It has to be observed whether equity crowdfunding will thereby be limited to certain groups of companies like high-tech businesses or may become a suitable solution for an array of businesses from high-tech to social endeavors.

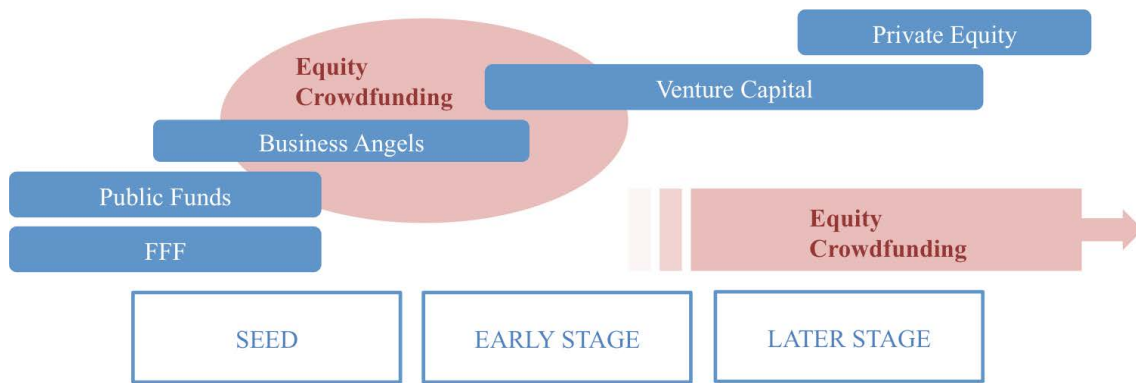


Chart 9 Equity Crowdfunding on the Funding Escalator

In addition to equity crowdfunding being used as bridge funding when no other sources are available, *companies in a later development stage might discover equity crowdfunding as an alternative to other traditional sources*. These companies may try to benefit from the involvement of the crowd and the media attention caused by an equity crowdfunding campaign. Such a development remains to be observed during the next years.

However, several aspects have to be considered in order to enable equity crowdfunding to become a potent competitor of traditional financing sources: The reporting on equity crowdfunding campaigns has to be improved in order to adequately cover all failing companies, any exits, future crowdfunding campaigns of companies and the development of the companies in general. This enables investors to gain insights into the investment class and will help to both grow the investment class and increase investors' trust in it.

Additionally, more successful exits have to be observed. In Germany, investments are limited in terms of time and usually generate a basic interest payment. However, the return of UK investors is based solely on a successful acquisition of the company or a buy-back offer from the owners. In case these events do not happen, investors' money is locked into the investment in the long run without generating any return. The issue of being locked in long-term investments could also be overcome by establishing a secondary market on which equity crowdfunding shares (as well as other alternative investment types) can be traded.

6. The Future of Equity Crowdfunding

This research conducted on equity crowdfunding with a special focus on the German and British crowdfunding scene has led to the conclusion that equity crowdfunding in

its current stage can be seen as a bridge funding for young companies when they cannot secure funding from traditional sources and might develop into an alternative funding source for more established companies. Several recommendations, improved reporting, more exits and development of a secondary market, were given. These ideas should help to improve the status of equity crowdfunding and enable its growth and success in the future.

In addition to these recommendations, three areas of consideration play an important role for the future of equity crowdfunding in the opinion of the author: Education, facilitation and incentivizing of usage as well as observation and reporting. These topics and their influence on the growth of equity crowdfunding do not only represent topics of needed improvement, but can also be seen as interesting areas of further research.

Education efforts should target three different groups: companies should be informed about the possibility to use alternative finance, especially equity crowdfunding, to secure funding for their businesses. Banks should learn about including referrals to equity crowdfunding platforms into their recommendation for companies, which are refused traditional funding like loans. The society has to learn about this new investment opportunity in order to have a sufficient crowd willing to invest in the businesses.

From the perspective of facilitating the usage in Europe, a European legal framework for equity crowdfunding should be considered in order to enable international crowdfunding campaigns and increase the crowd capable of investing. The development of a secondary market also falls into this category of facilitating the future success of the new asset class. Additionally, the growth of equity crowdfunding may be supported by incentive structure like tax reliefs as they are already being used in the UK.

In order to ensure the protection of investors and improve their trust into equity crowdfunding, independent observers should compile information on equity crowdfunding campaigns and the future development of these companies to understand the success potential of the new funding source. Additionally, the development of an equity crowdfunding framework might be a helpful solution to ensure that each company trying to secure funding through a campaign is obliged to report the same in-depth information, which enables investors to conduct their own due diligence.

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V. Appendixes

Appendix 1: Overview Equity Crowdfunding Campaigns Seedmatch

	Name	Volume (in €)	Closing Date	Failed Company	Failed Funding	Follow-up Funding	Buyback-Offer	Buyout-Offer	Add. Interest	Exit	New Company
1	Cosmopol-shop.com	93.250	31.10.11								1
2	Smarchive	100.000	02.12.11			1					1
3	BluePatent	100.000	15.11.11	1							1
4	Neuronation.de	56.000	31.10.11			1					1
5	Easycard	100.000	16.03.12								1
6	Sugarshape	100.000	23.02.12			1					1
7	Lingoking	100.000	02.02.12								1
8	Lifeaction	100.000	22.05.12			1					1
9	Mutisun	100.000	15.04.12								1
10	Userlike	100.000	25.03.12								1
11	Nextsocial	100.000	21.06.12	1							1
12	easypep	100.000	21.06.12			1					1
13	Larovo	100.000	14.06.12								1
14	rankseller	100.000	03.08.12			1					1
15	Bringmeback	100.000	23.07.12								1
16	Bloomy Days	100.000	31.05.12			1					1
17	Front Row Society	100.000	18.09.12			1					1
18	Musiclogistics	100.000	31.08.12								1
19	Leaserad	100.000	10.08.12								1
20	betandsleep	100.000	09.11.12	1							1
21	maddog comics	100.000	08.11.12								1
22	Honestly	100.000	19.09.12			1					1
23	Foodiesquare	100.000	28.11.12			1					1
24	Tampons for you	100.000	27.11.12	1							1
25	Caramelized	100.000	10.11.12	1							1
26	Protonet	200.000	29.11.12			1					1
27	Leaserad 2	220.000	08.12.12				1				
28	Refined Investment	100.000	09.12.12								1
29	carzapp	250.000	14.04.13	1							1
30	eTukTuk	250.000	20.03.13								1
31	miBaby	250.000	26.01.13			1					1
32	Front Row Society 2	250.000	15.05.13			1					
33	Erdbär	250.000	04.04.13						1		1
34	Refined Investment 2	350.000	28.03.13					1			
35	Aoterra	1.000.000	41.437			1					1
36	Tollabox	600.000	10.06.13	1							1

83	Lampuga	820.250	26.12.15									1
84	Rotorvox	546.750	07.11.15									1
85	Belsonno	-	15.09.15		1							
	TOTAL	24.647.000		13	3	23	1	1	2	1	1	70
				Failed Company	Failed Funding	Follow-up Funding	Buyback-Offer	Buyout-Offer	Add. Interest	Exit	New Company	

Appendix 2: Overview Equity Crowdfunding Campaigns Seedmatch:

High-technology Categorization & Funding Set-up before Campaign

Classification according to Eurostats - High-tech aggregation by NACE Rev.2

H High-technology (Manufacture of basic pharmaceutical products and pharmaceutical preparations; Manufacture of computer, electronic and optical products)

MH Medium-high-technology (Manufacture of chemicals and chemical products; Manufacture of electrical equipment; Manufacture of machinery and equipment n.e.c.; Manufacture of motor vehicles, trailers and semi-trailers; Manufacture of other transport equipment)

KIS-H High-tech knowledge-intensive services (Motion picture, video and television programme production, sound recording and music publish activities; Programming and broadcasting activities; Telecommunications; computer programming, consultancy and related activities; Information service activities; Scientific research and development)

KIS-F Financial knowledge-intensive services (Financial and insurance activities)

	Name	High-Tech	Platform	Self-funded	Bank	VC	Angel/ Shareholder	EQCF	Grants
1	Cosmopol-shop.com	-	P	x					
2	Smarchive	KIS-H		x	x				
3	BluePatent	KIS-H		x					
4	Neuronation.de	KIS-H		x					x
5	Easycard	KIS-F		x					
6	Sugarshape	-	P	x					

7	Lingoking	KIS-H		x					
8	Lifeaction	KIS-H		x	x				
9	Mutisun	H		x					
10	Userlike	KIS-H		x					
11	Nextsocial	KIS-H		x					
12	easypep	KIS-H		x			x		
13	Larovo	KIS-H							
14	rankseller	KIS-H		x					
15	Bringmeback	KIS-H		x					
16	Bloomy Days	KIS-H		x					
17	Front Row Society	-	P	x					
18	Musiclogistics	KIS-H		x					
19	Leaserad	-		x	x		x		
20	betandsleep	KIS-H	P	x					
21	maddog comics	KIS-H		x					
22	Honestly	KIS-H		x			x		x
23	Foodiesquare	-		x					
24	Tampons for you	-		x					
25	Caramelized	KIS-H		x					
26	Protonet	H		x					
27	Leaserad 2			x	x		x	x	
28	Refined Investment	KIS-F	P	x					
29	carzapp	H		x			x		
30	eTukTuk	MH							
31	miBaby	KIS-H	P	x			x		
32	Front Row Society 2			x			x	x	
33	Erdbär	-		x					
34	Refined Investment 2			x				x	
35	Aoterra	H		x		x	x		
36	Tollabox	-		x			x		
37	Roomsurfer	-	P						
38	Kryd	KIS-H							
39	Changers.com	H							
40	Honestly 2			x			x		x
41	easypep 2			x			x	x	
42	Paymey	KIS-F		x			x		
43	saustark design	-		x			x		
44	Lendstar	KIS-F		x			x		
45	foodiesquare 2			x				x	
46	miBaby 2			x			x	x	
47	e-volo	MH		x			x		x
48	secucould	H		x					
49	covus pro	KIS-H							
50	fraisr	-	P	x					
51	unglaublich	-		x					
52	Lottohelden	KIS-H		x		x	x		

53	Allbranded	-	P	x					
54	Paymey 2			x			x	x	
55	Kernenergie	-		x					
56	goodz	-	P						
57	Ledora	H		x			x		
58	Geile Weine	-							
59	MyCleaner	-	P	x					x
60	Protonet 2			x			x	x	x
61	OvulaRing	-		x		x	x		
62	Front Row Society 3			x			x	x	
63	secucloud 2			x		x	x	x	
64	Smartview360	KIS-H		x			x		
65	Krassfit	-		x					
66	Von Wilmowsky	-		x			x		
67	vibewrite	MH							
68	bonaverde	-		x		x		x	
69	Oaklabs	KIS-H		x					x
70	Flowkey	KIS-H		x			x		
71	atalanda	-		x					
72	riboxx	H				x	x		x
73	Bleecker Street	KIS-H		x			x		
74	Wawibox	KIS-H		x					
75	Classiqs	-	P	x		x	x		
76	Cloud&Heat 2			x		x	x		
77	CineApp	KIS-H		x					
78	Controme	MH							
79	Kidisto	-	P	x					
80	Miasa	-		x					
81	edicted	-		x		x			
82	saustark design 2			x			x	x	
83	Lampuga	MH		x					
84	Rotorvox	MH		x		x	x		
85	Belsonno	-		x			x		
	TOTAL			74	4	10	33	12	8
				Self-funded	Bank	VC	Angel/Shareholder	EQCF	Grants

(based on Seedmatch.de and data from Bundesanzeiger.de)

Appendix 3: Overview Equity Crowdfunding Campaigns Crowdcube

	Name	Volume (in €)	Date	No. of Investors	Share Typ	Tax Relief	Failed Company	Follow-up Funding
1	Bubble & Balm	75.000	2011	82	B	EIS	1	
2	Personal Development Bureau - Phase 1	25.000	2011	68	B	EIS		1
3	Kammerling's	180.000	2011	85	B	EIS		1
4	Personal Development Bureau - Phase 2	25.000	2011	20	B	EIS		
5	The Rushmore Group Ltd	1.000.000	2011	143	B	EIS		1
6	Bigbarn CIC	12.000	2011	58	B	EIS		
7	Edge Forecast Software	15.000	2011	22	B	EIS		
8	The Rushmore Group Ltd - Extended Offer	500.000	2011	70	B	-		
9	Universal Fuels - Phase 1	100.000	2012	1	B	EIS		1
10	Red Advertising Ltd	125.000	2012	64	B	EIS		1
11	Oriental Rugs of Bath	30.000	2012	36	B	EIS		
12	Righteous Ltd	75.000	2012	82	B	EIS		1
13	Get Site Tracked	100.000	2012	29	B	EIS		
14	The London Distillery Company Ltd	250.000	2012	44	B	EIS		
15	Dr Jackson Natural Products	15.000	2012	12	B	EIS		
16	Southern Dreams Limited	25.000	2013	12	B	SEIS		
17	Brüpond Brewery	35.000	2013	45	A	SEIS		
18	Escape the city	600.000	2013	394	B	EIS		
19	Front Up Rugby	100.000	2013	64	A (5000), B	EIS		1
20	Front Up Rugby (Extended Pitch)	23.000	2013	7	A (5000), B	EIS		
21	Universal Fuels - 2	50.000	2013	122	B	EIS		
22	Red Advertising Ltd - 2	97.490	2013	49	A	EIS		1
23	Kinopto Limited	35.000	2013	23	A	EIS	1	
24	Icomply Limited	49.820	2013	32	A (10000), B			
25	iNeed	49.000	2013	40	A	EIS, SEIS		1
26	Financial Fairy Tales Limited	19.750	2013	21	A (2500), B	EIS		
27	St Vibes	249.000	2013	49	A	-		
28	Righteous Ltd - 2	141.460	2013	82	B	EIS		
29	E-Car Club Ltd	100.000	2013	63	A (15000), B	-		
30	The Thoughtful Bread Company	55.000	2013	34	B	EIS		
31	iNeed - 2	56.950	2013	50	A	EIS, SEIS		1
32	Green & Pleasant	123.450	2013	59	A (5000), B	SEIS		
33	Ovivo Mobile Communications Limited	150.000	2013	69	A	EIS, SEIS		1
34	Kammerling's Investment	325.000	2013	64	A (5000), B	EIS		

	Holdings Ltd							
35	East End Manufacturing Ltd	150.000	2014	71	A	EIS, SEIS		1
36	The Rushmore Group Ltd - Ext + 2	500.000	2014	73	A (25000), B	EIS		
37	Inspiral Visionary Products Ltd	250.000	2014	119	A (25000), B	EIS		
38	Crowd Mortgage Limited	57.600	2014	51	A (2000), B	SEIS		1
39	Angel Alerts Ltd	49.750	2014	26	B	SEIS		
40	Lawbit Ltd	398.330	2014	160	A	EIS		1
41	Crowdcube Limited	319.950	2014	163	B	EIS		1
42	Wild Trail Limited	168.170	2014	106	A	EIS		
43	Stakis Daycare Nurseries Ltd	101.230	2014	47	A	SEIS		
44	Flossonic Limited	126.850	2014	113	A (5000), B	EIS, SEIS		
45	Crowd Mortgage Limited - 2	91.760	2014	74	A (2000), B	SEIS		1
46	Affresol Ltd	135.900	2014	120	A	EIS		
47	Carbonlights Solutions Limited	100.000	2014	34	B	SEIS		1
48	Crowdcube Limited - 2	1.500.000	2014	262	A (100000), B	EIS		1
49	Quantock Brewery Limited	120.000	2014	130	A	EIS		
50	Red Advertising Ltd - 3	180.000	2014	35	A	EIS		1
51	Hop Stuff Brewery Ltd	58.120	2014	72	A (1000), B	SEIS		
52	Hug & Co Ltd	35.380	2014	8	A (2000), B	EIS, SEIS		
53	Ovivo Mobile Communications Limited - 2	414.000	2014	109	A	EIS		
54	Quality Practice Ltd	169.849	2014	45	A (15000), B	EIS, SEIS		
55	Water Babies Musical UK Limited	998.620	2014	42	B	EIS		
56	Seek & Adore Ltd	69.400	2014	59	A (25000), B	EIS		
57	iNeed - 3	37.450	2014	27	A	EIS, SEIS		
58	GF Foods	163.000	2014	23	A (25000), B	EIS, SEIS		1
59	Front Up Rubgy - 2	104.160	2014	107	A (5000), B	EIS		
60	Silfred Ltd	145.610	2014	70	A (10000), B	EIS		
61	Zovolt	91.150	2014	112	A (5000), B	EIS, SEIS		
62	Cell Guidance Systems	290.910	2014	138	A (5000), B	EIS		
63	Asset Match Limited	289.960	2014	100	A	EIS		
64	Little Brew	109.350	2014	160	A (5000), B	EIS, SEIS		
65	Hab Housing Limited	1.972.560	2014	640	A (25000), B	EIS		
66	Crowd Mortgage Limited - 3	33.620	2014	59	A (5000), B	EIS		
67	Pizza Rossa Ltd	440.000	2014	119	A (10750), B	EIS		1
68	Jive Bike (Jam Vehicles Ltd)	160.050	2014	57	A (15000), B	EIS, SEIS		
69	Playcart	150.000	2014	42	A (15000), B	EIS, SEIS		
70	Compare and Share Limited	151.570	2014	157	A (10000), B	EIS, SEIS		1
71	Solarmass	119.450	2014	95	B	EIS,		

						SEIS		
72	Newgalex Services	212.730	2014	122	A (2000), B	EIS		
73	Atlantic Kitchen	125.190	2014	82	A (5000), B	SEIS		
74	Property Moose	169.010	2014	104	A	EIS		
75	Lets Rent	116.900	2014	121	A (5000), B	SEIS		
76	Angelberry	199.480	2014	103	A (5000), B	EIS		
77	Purple Harry	80.310	2014	155	A	EIS		
78	Tidy Books	105.610	2014	116	A (10000), B	EIS		
79	4x4 Aviation	56.450	2014	30	A (5000), B	SEIS		
80	Disarmco	149.480	2014	124	A	EIS, SEIS		
81	Beerbods	151.490	2014	101	A (5000), B	SEIS		
82	East End Manufacturing Ltd - 2	249.270	2014	226	A	EIS		
83	eMoneyUnion.com	427.580	2014	100	A (5000), B	EIS		
84	Lawbit Ltd - 2	168.260	2014	179	A	EIS		
85	Sporting Mouth	224.650	2014	46	A (10000), B	EIS, SEIS		
86	Earwig Academic Reporting	132.630	2014	61	A (2000), B	SEIS		1
87	Dine In	306.950	2014	93	A (5000), B	EIS		
88	Crumpet Cashmere	163.410	2014	112	A (5000), B	EIS	1	
89	Pulmorphix	124.910	2014	103	A (5000), B	SEIS		
90	Seeme	25.690	2014	44	A (1000), B	EIS, SEIS		
91	WallJAM	113.650	2014	103	A	EIS		
92	Fantoo Limited	216.460	2014	132	A (15000), B	EIS, SEIS		
93	Clear Water Revival	179.850	2014	131	A (15000), B	EIS		
94	Red Advertising Ltd - 4	484.350	2014	86	A	EIS		
95	Blanco Nino	121.550	2014	87	A	EIS, SEIS		
96	Rib Club Global	157.590	2014	36	A (2000), B	EIS		
97	Up Investments - The Crowdfunding Hub	137.390	2015	59	A (3000), B	EIS		
98	Ecco Recordings	140.390	2015	82	B	EIS		
99	EstatesDirect.com	493.550	2015	181	B	EIS, SEIS		
100	Stacking Systems	94.740	2015	85	A (5000), B	SEIS		
101	Best of All Worlds - BOAW	428.330	2015	67	A	-		
102	Orsto	70.320	2015	84	A (2000), B	SEIS		
103	Empiribox	57.780	2015	52	A (5000), B	EIS, SEIS		1
104	Workabode (The City)	118.760	2015	177	A (10000), B	SEIS		1
105	LocalPropertyIndex.com	159.960	2015	38	A (7500), B	EIS		
106	Thor Drinks	43.810	2015	44	A (5000), B	EIS, SEIS		
107	The New Craftsmen	164.530	2015	65	A (5000), B	EIS		
108	Crowdfunder	486.270	2015	346	A (50000), B	EIS, SEIS		1
109	JewelStreet	188.120	2015	71	A	EIS		
110	BerryWhite	291.380	2015	172	A (10000), B	EIS		

111	Chupamobile	740.030	2015	122	B	EIS		
112	Plan Bee	105.480	2015	167	A (5000), B	EIS		
113	myBarrister	168.630	2015	80	A (5000), B	EIS, SEIS		
114	Scaramouche & Fandango	149.089	2015	72	B	SEIS		
115	LOVESPACE	1.562.960	2015	257	A (25000), B	EIS		
116	Zero Carbon Food	580.810	2015	482	A (25000), B	EIS		1
117	Monsieur Notebook	92.020	2015	77	A (5000), B	EIS		
118	Rollerscoot	207.720	2015	92	A (10000), B	EIS		
119	Bookbarn International	45.360	2015	54	A	EIS		
120	Health-Connected	160.940	2015	69	A (5000), B	EIS, SEIS		1
121	OpenDesk	308.370	2015	151	A (10000), B	EIS		
122	Enistic	340.860	2015	205	A	EIS		
123	Shamba Technologies	112.600	2015	144	A (5000), B	EIS		
124	Stickyboard	55.620	2015	55	A (1000), B	EIS		
125	FarmDrop	748.880	2015	352	A (25000), B	EIS		
126	E-Sign	64.760	2015	99	A (5000), B	SEIS		
127	Crowdcube Limited - 3	5.000.000	2015	146	B	EIS		
128	Peach Lettings	74.550	2015	92	A (3500), B	SEIS		
129	Powervault	150.000	2015	19	A (10000), B	SEIS		1
130	Renovagen	262.250	2015	155	A (10000), B	-		
131	Cauli-Rice	498.710	2015	285	B	EIS, SEIS		1
132	easyProperty.com	1.358.680	2015	376	Ordinary	-		
133	Water-to-Go	191.910	2015	187	A (5000), B	EIS		
134	hubbub	395.470	2015	176	A (5000), B	EIS		
135	IRebel	1.542.660	2015	293	A (25000), B	EIS		1
136	Pip & Nut	120.000	2015	81	A (5000), B	SEIS		
137	Shopwave	340.170	2015	214	A (25000), B	EIS		
138	LendMeYourLiteracy	171.060	2015	98	A (10000), B	-		
139	Cgon	158.890	2015	115	A (7500), B	-		
140	Sustainable Power	1.836.400	2015	80	A (5000), B	EIS		
141	Odyssey	929.610	2015	199	A (10000), B	EIS		
142	Astar Pets	350.770	2015	133	A (25000), B	EIS		
143	London Velvet	54.960	2015	70	A (1000), B	SEIS		
144	Rollasole	269.240	2015	135	A, C	EIS		
145	Soupologie	199.280	2015	119	A (5000), B	EIS		
146	meetonvc	203.010	2015	43	A (5000), B	EIS		
147	Innovation Makers	179.690	2015	87	A (2500), B	SEIS		1
148	Cell Therapy	689.246	2015	297	A (50000), B	EIS		
149	Twenty Something London	156.410	2015	127	A (10000), B	EIS		
150	The DoNation	167.440	2015	209	A (5000), B	SEIS		
151	SuperJam	308.180	2015	367	A (25000), B	EIS		
152	Beara Beara	203.540	2015	131	A (5000), B	EIS		
153	Wavy Technologies	150.000	2015	37	A (5000), B	SEIS		
154	UBREW	110.730	2015	125	A (5000), B	SEIS		

155	My Mate Your Date	145.560	2015	132	A (10000), B	SEIS		1
156	VideoGram	55.920	2015	64	A (5000), B	SEIS		
157	Grub Club	288.560	2015	270	A (10000), B	EIS		
158	Fidel	220.240	2015	203	A (5000), B	EIS		
159	EarlyBird	126.550	2015	126	A (2500), B	SEIS		1
160	Terence Woodgate Lighting	195.590	2015	157	A (5000), B	-		
161	Luxtripper	152.650	2015	61	A (10000), B	-		
162	Minor Figures	148.890	2015	81	A (10000), B	SEIS		
163	DeskBeers	121.900	2015	184	Ordinary	EIS		
164	The Good Egg	253.540	2015	244	A (5000), B	SEIS		
165	AutoTrip	146.030	2015	126	A (10000), B	SEIS		
166	Fabric	133.120	2015	105	A (250), B	SEIS		
167	Bitreserve	6.360.516	2015	149	A	-		
168	Carbonlights Solutions Limited - 2	199.950	2015	94	B	EIS		
169	Lickalix	231.340	2015	209	A (5000), B	EIS		
170	Mindflood	175.060	2015	152	A (5000), B	EIS		
171	Rough Runner	178.900	2015	144	A (25000), B	-		
172	Pizza Rossa Ltd - 2	159.250	2015	119	A (14500), B	EIS		
173	gamesGRABR	454.734	2015	221	A (20000), B	EIS		
174	The Solar Cloth Company	967.130	2015	392	B	EIS		
175	CHOC+	168.570	2015	184	A (5000), B	EIS		
176	Aevha London	149.990	2015	77	A	SEIS		
177	Sandows	124.390	2015	110	A (5000), B	SEIS		
178	Soul Tree Wine	365.010	2015	219	A (10000), B	EIS		
179	Encllothed	459.840	2015	325	A (20000), B	EIS		
180	The Crowd	449.570	2015	243	A (10000), B	EIS		
181	Firestar	150.520	2015	142	A (5000), B	SEIS		
182	Powervault - 2	707.590	2015	265	A (10000), B	EIS		
183	raterAgent	134.050	2015	133	A (3500), B	SEIS		
184	Cauli-Rice - 2	434.020	2015	307	A (15000), B	EIS		
185	LettingSupermarket.com	243.860	2015	44	A (1000), B	EIS, SEIS		
186	Compare and Share Limited - 2	122.550	2015	214	A (10000), B	EIS		
187	Mr. Sherick's Shakes	279.950	2015	229	A (2000), B	EIS		
188	The Pressery	144.340	2015	60	A (5000), B	SEIS		
189	Pull'd	102.230	2015	107	A (1500), B	EIS		
190	The Bellfield Brewery	178.800	2015	166	A (10000), B	SEIS		
191	Flavourly	506.911	2015	351	A (20000), B	EIS		
192	Facewatch	484.620	2015	148	A	EIS		
193	FloodKit	135.550	2015	110	A (5000), B	SEIS		
194	JustPark	3.514.110	2015	2702	Ordinary D	-		
195	Health-Connected - 2	142.920	2015	64	A (5000), B	EIS		
196	Alchemiya Media	117.320	2015	153	B (1000), C	SEIS		
197	Nom Foods	142.270	2015	135	A (8000), B	EIS		
198	Rebus Investment Group	816.790	2015	109	A (5000), B	EIS	1	
199	Otti Prams	89.310	2015	135	A (1000), B	SEIS		

200	Growler Beers	107.130	2015	114	A (1000), B	SEIS		
201	Fourex	670.760	2015	424	A (5000), B	EIS		
202	Shoot	472.570	2015	267	A (10000), B	EIS		
203	MEEM	709.900	2015	282	A (5000), B	EIS		
204	Tempus Energy Technology	623.230	2015	235	A (5000), B	EIS		
205	Staks	83.310	2015	106	A (1500), B	SEIS		
206	Wrap it up	759.660	2015	568	A	EIS		
207	Good & Proper Tea	184.990	2015	95	A (3500), B	EIS		
208	MIPIC	168.140	2015	59	A (10000), B	SEIS		
209	Droplet	549.020	2015	298	C (200000), D	EIS		
210	ShortCutQ	124.530	2015	178	A	SEIS		
211	Camden Town Brewery	2.750.860	2015	2173	A (25000), B	EIS		
212	Chirp	733.810	2015	332	A (5000), B	EIS		
213	Tripplesworth	148.780	2015	87	A (5000), B	SEIS		
214	Hybrid Air Vehicles	2.196.870	2015	911	A	EIS		
215	arc-on	79.510	2015	101	A (3000), B	EIS		
216	Cornerstone	876.810	2015	229	A (5000), B	EIS		
217	Keuken	150.170	2015	159	A (1000), B	SEIS		
218	adzuna	2.112.916	2015	481	B Preferred, B Ordinary	EIS		
219	Savvy Foods	85.010	2015	127	A (500), B	SEIS		
220	Workabode (The City) - 2	158.750	2015	192	A (10000), B	EIS		
221	Psonar	316.340	2015	76	A (1000), B	EIS		
222	Ideas Britain	169.900	2015	139	A (5000), B	EIS		
223	Notes Coffee	908.400	2015	368	A (5000), B	EIS		
224	Sugru	3.388.150	2015	2375	A (20000), B	EIS		
225	Pavegen	1.903.400	2015	1474	A (25000), B	EIS		
226	FieldCandy	417.170	2015	188	A (5000), B	EIS		
227	LUMO	256.520	2015	174	A (3000), B	EIS		
228	Innovation Makers - 2	439.060	2015	157	A (2500), B	EIS		
229	Brew, A Pub for Tea	179.310	2015	292	A	EIS		
230	Cape Fisheries	136.390	2015	121	A (750), B	SEIS		
231	FitMiBody	75.230	2015	144	A	SEIS		
232	kwiziq	200.000	2015	67	B	EIS		
233	Filmore & Union	864.870	2015	295	A (10000), B	EIS		
234	lingos	148.830	2015	82	A (10000), B	EIS		
235	ZigZag Global	124.320	2015	116	A (1000), B	SEIS		
236	Himachal	76.170	2015	148	A	SEIS		
237	MonetaFlex	169.270	2015	133	A	SEIS		
238	Earwig Academic Reporting - 2	248.570	2015	112	A (10000), B	EIS		
239	Cake	1.054.110	2015	258	A	EIS		
240	som saa	700.000	2015	101	A (10000), B	EIS		
241	Stockflare	454.800	2015	274	A (1000), B	EIS		
242	Clippings.com	845.620	2015	129	B Preferred (200000), B Ordinary, A	EIS		

					(25000)			
243	mara Seaweed	507.375	2015	240	A (10000), B	EIS		
244	451Life.com	156.380	2015	95	A (500), B	SEIS		
245	Synap	195.940	2015	140	A (5000), B	EIS		
246	StaySafe	532.800	2015	195	A (5000), B	EIS		
247	A Suit That Fits	876.700	2015	463	A (10000), B	EIS		
248	Hochanda	1.962.744	2015	275	C	EIS		
249	Evogro	282.350	2015	229	A (5000), B	EIS		
250	Emoov.co.uk	2.622.360	2015	765	Seed, C Ordinary Shares	EIS		
251	CoControl	149.790	2015	124	A (10000), B	SEIS		
252	HonestBrew	401.220	2015	426	B Ordinary, C Ordinary	EIS		
253	ioLight	242.180	2015	249	A (3000), B	EIS		
254	Alexi	176.590	2015	156	A (1500), B	SEIS		
255	Vulpine	1.006.510	2015	582	A (10000), B	EIS		
256	Growing Underground	243.190	2015	309	A (5000), B	EIS		
257	Brewdog	814.815	2015	1072	B	-		
258	Alquity	578.340	2015	379	Preferred Ordinary, B	EIS		
259	Wool and the Gang	1.013.920	2015	492	Ordinary, Seed Preferred 3 (25000)	EIS		
260	GF Foods 2	182.400	2015	143	A (2500), B	EIS		
261	EarlyBird - 2	303.340	2015	185	A (3000), B	EIS		
262	InYourStride	118.160	2015	92	A (3000), B	EIS		
263	HiCI	124.360	2015	90	A (3000), B	SEIS		
264	Faction Skis	775.870	2015	222	A	EIS		
265	Empiribox - 2	112.530	2015	111	A (5000), B	EIS		
266	Chrysalis Vision	329.010	2015	196	B	EIS		
267	Cadence Performance	594.780	2015	228	A (2000), B	EIS		
268	ONGallery	322.740	2015	136	A (5000), B	EIS		
269	hen	147.830	2015	139	A	SEIS		
270	My Mate Your Date - 2	85.820	2015	97	A (2500), B	EIS		
271	Seadog Productions	415.390	2015	346	A (2500), B	EIS		
272	Po-Zu	199.940	2015	119	A (5000), B	EIS		
273	1Rebel - 2	2.916.020	2015	433	A (25000), B	EIS		
274	Run an Empire	123.040	2015	120	A (10000), B	SEIS		
275	OpenPlay	168.660	2015	122	A (5000), B	EIS		
276	Taste	83.610	2015	192	A (2000), B	SEIS		
277	The Village Haberdashery	98.070	2015	261	A	EIS		
278	The Stable Musical Theatre UK	64.560	2015	109	A (5000), B	EIS		
279	GINX TV	569.090	2015	193	A	EIS		
280	Crowdfunder - 2	1.317.900	2015	912	A (10000), B	EIS		
281	Cat in a flat	50.610	2015	72	A (5000), B	SEIS		
282	ChargeBox	505.940	2015	155	A (5000), B	EIS		

Appendix 4: Overview Equity Crowdfunding Campaigns Crowdcube:

High-technology Categorization & Funding Set-up before Campaign

	Name	High-Tech	Platform	Self-funded	Bank	VC	Angel/Shareholder	EQCF	Grants
1	Bubble & Balm	-							
2	Personal Development Bureau - Phase 1	-		x					
3	Kammerling's	-		x			x		
4	Personal Development Bureau - Phase 2	x		x					
5	The Rushmore Group Ltd	-		x					
6	Bigbarn CIC	-		x					
7	Edge Forecast Software	KIS-H		x					
8	The Rushmore Group Ltd - Extended Offer	x							
9	Universal Fuels - Phase 1	-		x					
10	Red Advertising Ltd	KIS-H		x					
11	Oriental Rugs of Bath	-		x	x				
12	Righteous Ltd	-		x					
13	Get Site Tracked	KIS-H		x					
14	The London Distillery Company Ltd	-		x			x		
15	Dr Jackson Natural Products	H		x					
16	Southern Dreams Limited	-		x					
17	Brüpond Brewery	-		x					
18	Escape the city	KIS-H	P	x					
19	Front Up Rugby	-		x			x		
20	Front Up Rugby (Extended Pitch)	x							
21	Universal Fuels - 2	x		x				x	
22	Red Advertising Ltd - 2	x		x				x	
23	Kinopto Limited	KIS-H		x					
24	Icomply Limited	KIS-H		x	x				
25	iNeed	KIS-H	P	x					
26	Financial Fairy Tales Limited	-		x					
27	St Vibes	-		x					
28	Righteous Ltd - 2	x		x				x	
29	E-Car Club Ltd	-		x		x			x
30	The Thoughtful Bread Company	-							
31	iNeed - 2	x		x				x	
32	Green & Pleasant	-		x			x		
33	Ovivo Mobile Communications Limited	KIS-H		x					

34	Kammerling's Investment Holdings Ltd	x		x			x	x	
35	East End Manufacturing Ltd	-		x					
36	The Rushmore Group Ltd - Ext + 2	x		x				x	
37	Inspirational Visionary Products Ltd	-		x			x		
38	Crowd Mortgage Limited	KIS-F	P	x					
39	Angel Alerts Ltd	KIS-H		x					
40	Lawbit Ltd	-	P	x			x		
41	Crowdcube Limited	KIS-H	P	x					
42	Wild Trail Limited	-		x					
43	Stakis Daycare Nurseries Ltd	-		x					
44	Flossonic Limited	MH		x					
45	Crowd Mortgage Limited - 2	x		x				x	
46	Affresol Ltd	-		x					
47	Carbonlights Solutions Limited	MH		x			x		
48	Crowdcube Limited - 2	x		x				x	
49	Quantock Brewery Limited	-		x			x		
50	Red Advertising Ltd - 3	x		x		x		x	
51	Hop Stuff Brewery Ltd	-		x					
52	Hug & Co Ltd	-		x					x
53	Ovivo Mobile Communications Limited - 2	x		x			x	x	
54	Quality Practice Ltd	-	P	x					
55	Water Babies Musical UK Limited	-		x			x		
56	Seek & Adore Ltd	-	P	x			x		
57	iNeed - 3	x		x				x	
58	GF Foods	-		x			x		
59	Front Up Rugby - 2	x		x			x	x	
60	Silkfred Ltd	KIS-H	P	x			x		
61	Zovolt	H		x					
62	Cell Guidance Systems	H		x					
63	Asset Match Limited	KIS-F	P	x					
64	Little Brew	-		x					
65	Hab Housing Limited	-		x			x		
66	Crowd Mortgage Limited - 3	x		x				x	
67	Pizza Rossa Ltd	-		x					
68	Jive Bike (Jam Vehicles Ltd)	MH		x			x		x
69	Playcart	KIS-H		x					
70	Compare and Share Limited	KIS-H		x					
71	Solarmass	MH		x					
72	Newgalex Services	-		x	x				x
73	Atlantic Kitchen	-		x					x
74	Property Moose	KIS-F	P	x					
75	Lets Rent	-	P	x					

76	Angelberry	-		x	x				
77	Purple Harry	-		x	x				
78	Tidy Books	-		x	x				
79	4x4 Aviation	MH		x					x
80	Disarmco	MH		x	x				
81	Beerbods	-		x					
82	East End Manufacturing Ltd - 2	x		x				x	
83	eMoneyUnion.com	KIS-F		x					
84	Lawbit Ltd - 2	x		x				x	
85	Sporting Mouth	KIS-H	P	x					x
86	Earwig Academic Reporting	KIS-H	P	x					
87	Dine In	-	P	x					
88	Crumpet Cashmere	-							
89	Pulmorphix	MH							x
90	Seeme	-	P	x					x
91	WallJAM	-							
92	Fantoo Limited	KIS-H	P	x			x		
93	Clear Water Revival	-		x	x				
94	Red Advertising Ltd - 4	x		x	x	x		x	
95	Blanco Nino	-		x	x				x
96	Rib Club Global	-		x					
97	Up Investments - The Crowdfunding Hub	KIS-F	P	x					
98	Ecco Recordings	KIS-H		x					
99	EstatesDirect.com	KIS-H	P						
100	Stacking Systems	MH		x					x
101	Best of All Worlds - BOAW	KIS-H	P						
102	Orsto	MH		x					
103	Empiribox	-		x					
104	Workabode (The City)	-		x					
105	LocalPropertyIndex.com	-	P	x					
106	Thor Drinks	-		x	x				
107	The New Craftsmen	-		x			x		
108	Crowdfunder	-	P	x					
109	JewelStreet	-	P	x		x			
110	BerryWhite	-		x					
111	Chupamobile	KIS-H	P	x					
112	Plan Bee	-		x		x			
113	myBarrister	-	P	x					
114	Scaramouche & Fandango	-		x					
115	LOVESPACE	-		x					
116	Zero Carbon Food	-		x					
117	Monsieur Notebook	-		x					
118	Rollerscoot	MH		x					
119	Bookbarn International	-	P	x					
120	Health-Connected	KIS-H		x			x		

121	OpenDesk	-	P	x					x
122	Enistic	MH		x	x				
123	Shamba Technologies	MH		x			x		
124	Stickyboard	KIS-H	P	x	x				
125	FarmDrop	-	P	x			x		
126	E-Sign	KIS-H		x	x				
127	Crowdcube Limited - 3	x		x		x		x	
128	Peach Lettings	-		x					
129	Powervault	MH		x			x		x
130	Renovagen	MH		x					x
131	Cauli-Rice	-		x					
132	easyProperty.com	-	P	x			x		
133	Water-to-Go	MH		x			x		
134	hubbub	KIS-H	P	x		x			x
135	lRebel	-		x					
136	Pip & Nut	-		x			x		
137	Shopwave	KIS-H		x		x			
138	LendMeYourLiteracy	-	P	x					x
139	Cgon	MH		x			x		
140	Sustainable Power	MH		x			x		
141	Odyssey	-		x			x		
142	Astar Pets	-	P	x			x		
143	London Velvet	-		x					
144	Rollasole	-		x			x		
145	Soupologie	-		x					
146	meetonvc	KIS-H		x			x		
147	Innovation Makers	-		x	x				
148	Cell Therapy	H		x			x		
149	Twenty Something London	KIS-H	P	x					
150	The DoNation	KIS-H	P			x			
151	SuperJam	-		x					
152	Beara Beara	-		x					
153	Wavy Technologies	MH		x					
154	UBREW	-		x					
155	My Mate Your Date	KIS-H	P	x			x		
156	VideoGram	-		x					
157	Grub Club	-	P	x			x		x
158	Fidel	KIS-H	P	x			x		
159	EarlyBird	-		x					
160	Terence Woodgate Lighting	-		x					
161	Luxtripper	KIS-H	P	x					
162	Minor Figures	-		x					
163	DeskBeers	-		x			x		
164	The Good Egg	-		x					
165	AutoTrip	H		x					x
166	Fabric	KIS-H	P	x					

167	Bitreserve	KIS-F	P	x			x		
168	Carbonlights Solutions Limited - 2	x		x			x	x	
169	Lickalix	-		x			x		
170	Mindflood	H		x				x	
171	Rough Runner	-		x			x		
172	Pizza Rossa Ltd - 2	x		x			x	x	
173	gamesGRABR	-	P	x			x		
174	The Solar Cloth Company	MH		x					
175	CHOC+	-		x	x				
176	Aevha London	-		x					
177	Sandows	-		x					
178	Soul Tree Wine	-		x	x				x
179	Enclothed	-		x					
180	The Crowd	KIS-H	P	x					
181	Firestar	-							
182	Powervault - 2	x		x			x	x	x
183	raterAgent	-	P	x			x		
184	Cauli-Rice - 2	x		x	x			x	x
185	LettingSupermarket.com	-	P	x					x
186	Compare and Share Limited - 2	x		x				x	
187	Mr. Sherick's Shakes	-		x			x		
188	The Pressery	-		x					x
189	Pull'd	-		x			x		
190	The Bellfield Brewery	-		x					
191	Flavourly	-	P	x			x		
192	Facewatch	KIS-H	P	x			x		
193	FloodKit	-		x					
194	JustPark	KIS-H	P	x	x				
195	Health-Connected - 2	x		x			x	x	
196	Alchemiya Media	KIS-H	P	x			x		
197	Nom Foods	-		x					
198	Rebus Investment Group	KIS-F		x			x		
199	Otti Prams	-		x					
200	Growler Beers	-		x					
201	Fourex	MH		x					
202	Shoot	KIS-H	P	x	x				
203	MEEM	H		x			x		
204	Tempus Energy Technology	KIS-H		x					x
205	Staks	-		x					x
206	Wrap it up	-		x	x				
207	Good & Proper Tea	-		x				x	
208	MIPIC	-	P	x					x
209	Droplet	KIS-F		x			x		
210	ShortCutQ	-		x					
211	Camden Town Brewery	-		x	x				

212	Chirp	KIS-H		x					
213	Tripplesworth	-		x	x		x		x
214	Hybrid Air Vehicles	MH		x			x		x
215	arc-on	-		x					
216	Cornerstone	-		x			x		x
217	Keuken	-		x					
218	adzuna	KIS-H	P	x		x			
219	Savvy Foods	-		x			x		x
220	Workabode (The City) - 2	x		x			x	x	
221	Psonar	KIS-H	P	x			x		
222	Ideas Britain	KIS-H	P	x		x	x		
223	Notes Coffee	-		x	x		x		
224	Sugru	-		x	x		x		
225	Pavegen	MH		x			x		
226	FieldCandy	-		x			x		
227	LUMO	MH		x			x	x	
228	Innovation Makers - 2	x		x	x			x	
229	Brew, A Pub for Tea	-		x			x		
230	Cape Fisheries	-		x			x		
231	FitMiBody	-							
232	kwiziq	KIS-H	P	x			x		
233	Filmore & Union	-		x	x				
234	lingos	-	P	x			x		
235	ZigZag Global	KIS-H		x					
236	Himachal	-		x					
237	MonetaFlex	KIS-F	P	x					
238	Earwig Academic Reporting - 2	x		x				x	
239	Cake	KIS-H		x					
240	som saa	-		x	x				
241	Stockflare	KIS-F	P	x			x		
242	Clippings.com	-	P	x			x		
243	mara Seaweed	-		x			x		
244	451Life.com	KIS-H	P	x					
245	Synap	KIS-H	P	x					x
246	StaySafe	KIS-H		x			x		
247	A Suit That Fits	-		x			x		x
248	Hochanda	KIS-H		x			x		
249	Evogro	MH		x			x		
250	Emoov.co.uk	-	P	x		x	x		
251	CoControl	KIS-H		x					x
252	HonestBrew	-	P	x			x		
253	ioLight	H		x			x		
254	Alexi	KIS-H							
255	Vulpine	-		x	x		x		
256	Growing Underground	x		x			x	x	

257	Brewdog	-		x	x		x		
258	Alquity	KIS-F		x			x		
259	Wool and the Gang	-	P	x		x			
260	GF Foods 2	x		x	x		x	x	
261	EarlyBird - 2	x		x					
262	InYourStride	KIS-H	P	x					x
263	HiCI	MH		x					
264	Faction Skis	-		x	x		x		
265	Empiribox - 2	x		x			x	x	
266	Chrysalis Vision	KIS-H		x			x		
267	Cadence Performance	-		x			x		
268	ONGallery	-		x			x		
269	hen	-							
270	My Mate Your Date - 2	x		x	x		x	x	
271	Seadog Productions	KIS-H		x					
272	Po-Zu	-		x			x		
273	1Rebel - 2	x		x	x		x	x	
274	Run an Empire	KIS-H	P	x		x		x	x
275	OpenPlay	-	P	x					
276	Taste	-		x					
277	The Village Haberdashery	-	P	x	x				
278	The Stable Musical Theatre UK	-		x			x		x
279	GINX TV	KIS-H		x			x		
280	Crowdfunder - 2	x		x				x	
281	Cat in a flat	-	P	x			x		
282	ChargeBox	MH		x			x		
		High-Tech	Platform	Self-funded	Bank	VC	Angel/Shareholder	EQCF	Grants