

PROGRAMME: Raising Business Finance through Online Investments
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1. SUMMARY OF GOOD PRACTICE

▪ Overview & Aims

The 'next generation' of business investment, **Crowdcube is an equity platform rather than a loan platform.** Providing a **new way to fund start-ups and business expansion by crowdfunding for equity**, Crowdcube gives entrepreneurs a platform to connect with people and raise venture capital. Fully authorised and regulated by the Financial Conduct Authority, Crowdcube **bypasses the traditional ways of raising venture finance.** The scheme uses an online platform to attract lots of investors who can then select and invest smaller amounts of money into a person, company, product or idea.

Set up by two entrepreneurs who had difficulty raising finance themselves, Crowdcube view that the task of securing investment was notoriously confusing and very often a slow, difficult process which has become even more challenging in the current economic climate. Launched in 2011 in response to these challenges Crowdcube aims to:

- **Provide entrepreneurs with the opportunity to take control of fund raising** from their own network of friends, family, customers as well as the public.
 - **Give the general public the opportunity to become armchair 'Dragon's'¹** and build their own investment portfolio, providing them with a chance to support exciting new British businesses.
- **Key Resources**
 - **Programme Partners**
 - **Funding:** Commercial entity/set up with private finance
 - **Funding Body & SME Contribution:** Businesses can raise up to 100% of the investment needed through the instrument.
 - **Eligibility Criteria:** The scheme is open to all start-ups, businesses and entrepreneurs.
 - **Terms and Conditions:** Funding obtained ranges from a minimum of £10K (€12K) to a maximum of £2M (€2.4M) with variable repayment terms (based on the individuals exit strategy).

2. IMPLEMENTATION

A commercial enterprise itself, Crowdcube is run by a team of 17 technical 'back office' and advisory staff.

¹ Series in which budding entrepreneurs get three minutes to pitch their business idea to five multi-millionaires (Dragons) willing to invest their own cash - <http://www.bbc.co.uk/programmes/b006vq92>
 DIFASS Workshops Good Practice Factsheet 37 Creative Industries and Crowd Funding

▪ **Key Steps - How it Works.**

Businesses looking to raise finance prepare their ‘online pitch’ in the form of a succinct written introduction, achievements to date and a short (1-3 minute) video. Other more detailed information attached to the pitch giving serious/potential investors the information they want to see and assess includes ‘Full Financials’, ‘Financial Snapshot’, ‘HMRC EIS Contribution²’ and a Business Plan.

Designed to help **smaller higher-risk trading companies** to raise finance, the **UKs HMRC EIS Contribution or Enterprise Investment Scheme (EIS)**, works by offering a range of tax relief to investors who purchase new shares in high risk companies.

Like similar equity platforms, the pitch also includes information on share types. These include A Class (Ordinary Shares) and more recently a new B Class share to help the business deal with a large number of shareholders, (with no voting, no pre-emption rights or drag + tag rights), the equity stake offered and whether the investment is eligible for EIS relief. Other visual information includes a green indicator showing how much has been invested so far and how many days the business has left to raise the funds.

Businesses are able to get advice, feedback and support from Crowdcube who are also able to introduce applicants to partners if they need someone to create their video, write their business plan and prepare their financial information. Businesses are advised to get their own tax advice.

Like similar platforms providing a matching service for the business and investors involved, Crowdcube **report a range of secondary benefits** (i.e. outside of its main purpose of raising funds) from the platform:

For **entrepreneurs**, a **new way to raise finance** and access to a **UK wide investor reach** providing them with **easier/more cost effective** way to raise funds. The financial instrument also helps them **promote their idea** (the media like to write articles on successful companies) and **get good quality feedback** from a wider audience who may also go on to be prospective buyers.

Investors are provided with the opportunity to participate as an ‘Armchair Dragon’ and where appropriate, support their friends and family. Able to browse through projects and invest as little as £10, it’s simple to invest with a lower/spread risk providing a financial return.

▪ **Key Stats**

Launched in 2011, results to date are as follows:

KEY MEASURE	TOTAL
Applications Submitted	c 120 per month
Applications Accepted	c 30% of applications accepted

² For further official/government information on the UK Enterprise Investment Scheme (EIS) view <http://www.hmrc.gov.uk/eis/> and <http://www.youtube.com/watch?v=EfSmpFdn21w>

Funding Granted (to successful SMEs to date)	£20M (€24M)
New Jobs Created	1704
Member Investors (e.g. registered on the platform)	65,000
Average Investment	£2,800 (€3,400)
Large Single Investment	£250K (€302K)
Average Deal	£180K (€217K)
Biggest Deal	£1.9M (€2.3M)

70% of applications are rejected by Crowdcube at the outset. The current success rate of live pitches on the site is around 30%, which equates to around 30% of the 30% getting through and getting the funds needed. The average time for a pitch to reach its target amount is around 45 days although it can take from a couple of days to a few months. The application process is considered relatively easy with no listing fee or upfront fee, only a 5% success fee on completion. + £1,250 (€1500) legal fees and £500 (€600) admin fee.

3. KEY LEARNING POINTS & OPPORTUNITIES

Raising £12M (€14.5M) for 44 deals in the last 12 months and a leading online provider of equity finance in the UK and overseas, Crowdcube focus on both **entrepreneur and investor needs**.

– What worked well/Key Strengths

Great crowdfunding promotion

Provides opportunity to choose appropriate platform for business ideas

Large database of potential public and professional (i.e. institutions, business angels etc) investors registered on the platform.

– Challenges/What didn't work so well

Crowdfunding public awareness 'lag' across countries

Crowdfunding policy and regulation not clearly established in different countries, tax incentives on investment only apply in the UK

▪ Transferability

– Opportunities: Considered fairly transferable, (no bureaucracy, not expensive). Crowdcube themselves already have plans for international expansion and ultimately cross border investment underway, and are actively seeking European partners. Crowdcube may also be offering an opportunity for debt funding soon (i.e. in addition to equity funding), and publicising themselves as an investment platform.

– Threats: Limited number of crowdfunding platforms locally. Absence of crowdfunding stakeholders in some regions.

FURTHER INFORMATION:

DIFASS You Tube Channel: <http://www.youtube.com/watch?v=S060zzYGfrg>

UK Enterprise Investment Scheme (EIS): <http://www.hmrc.gov.uk/eis/>

'Non Bankers' Alternative Funding Portal (referred to in presentation) -

<http://www.alternativebusinessfunding.co.uk/>