

The Relevance of Crowdfunding as a New Instrument in the Context of Alternative Financing Options

Varna, 28. May 2019

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Präsident

AVCO – Austrian Private Equity
and Venture Capital Organisation

Introduction to AVCO

Context: How does the Capital Market work?

European Market for Private Capital: Crowdfunding, Venture Capital and Private Equity

Crowdfunding as an Alternative Form of Financing

Which financing path is suitable for my idea and financing growth?

AVCO – Short Introduction



AVCO – Austrian Private Equity und Venture Capital Organisation

- Umbrella organisation representing the Austrian private capital industry
- Supports a broad range of equity financing for sustainable growth and job creation
- Strives for understanding and acceptance of the economic importance of private growth capital

Goals & Tasks

- Enhancement of the competitiveness of Austria as a location for VC/PE funds (f.e., Fund-of Funds, legal framework)
- Lobbying, PR activities, financial literacy
- Providing information and know-how

101 Members

- PE/VC funds, fund management companies, business angels, banks, family offices
- Service provider, professionals, other umbrella organizations

Introduction to AVCO

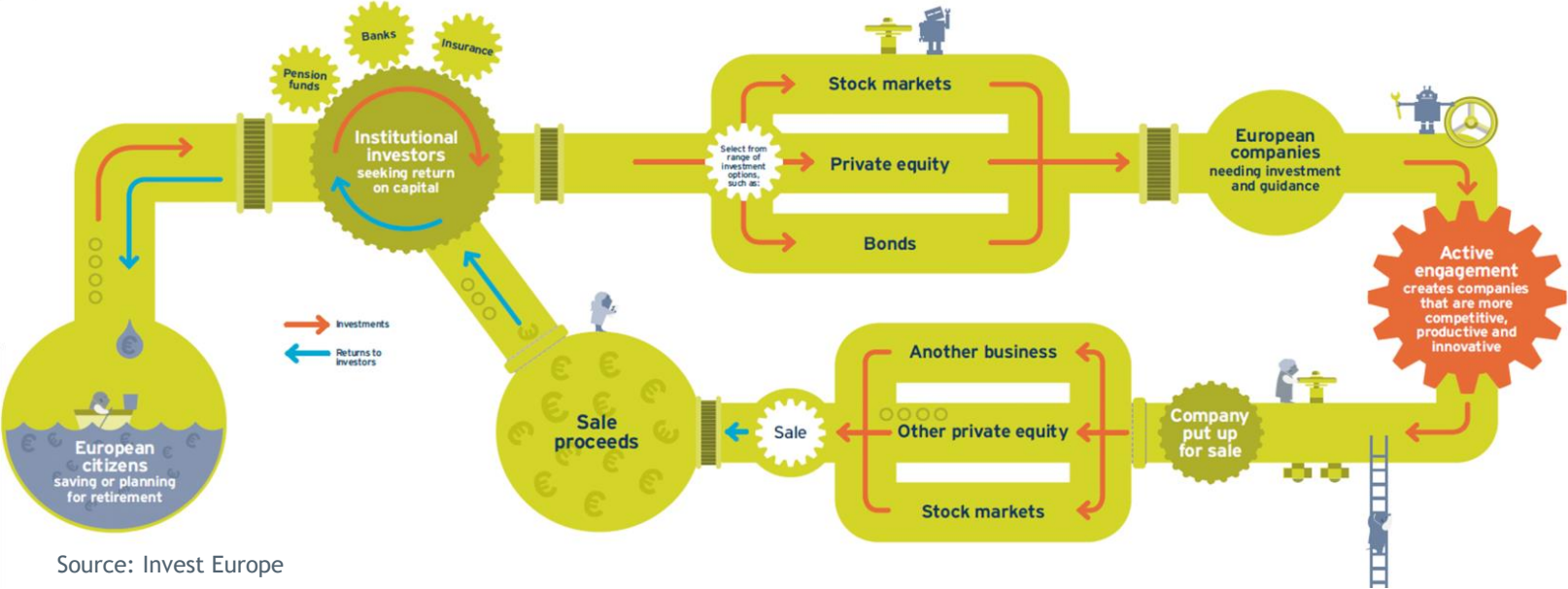
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Capital Market's Role in Europe's Economy: How Does It Work?



Source: Invest Europe

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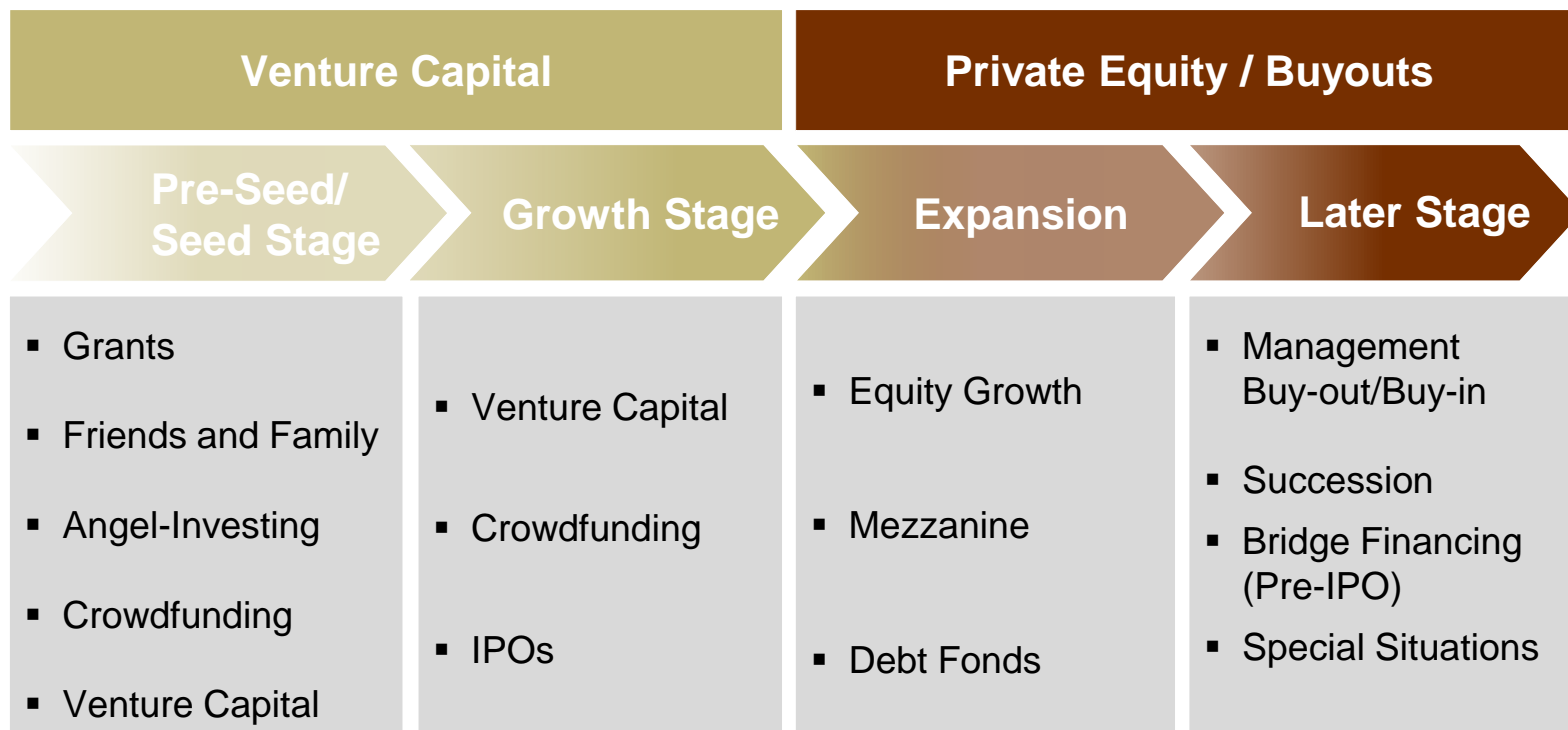
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Alternative Financing Options

A number of different funding options help accelerate startups and grow SMEs, depending on their stage of development:

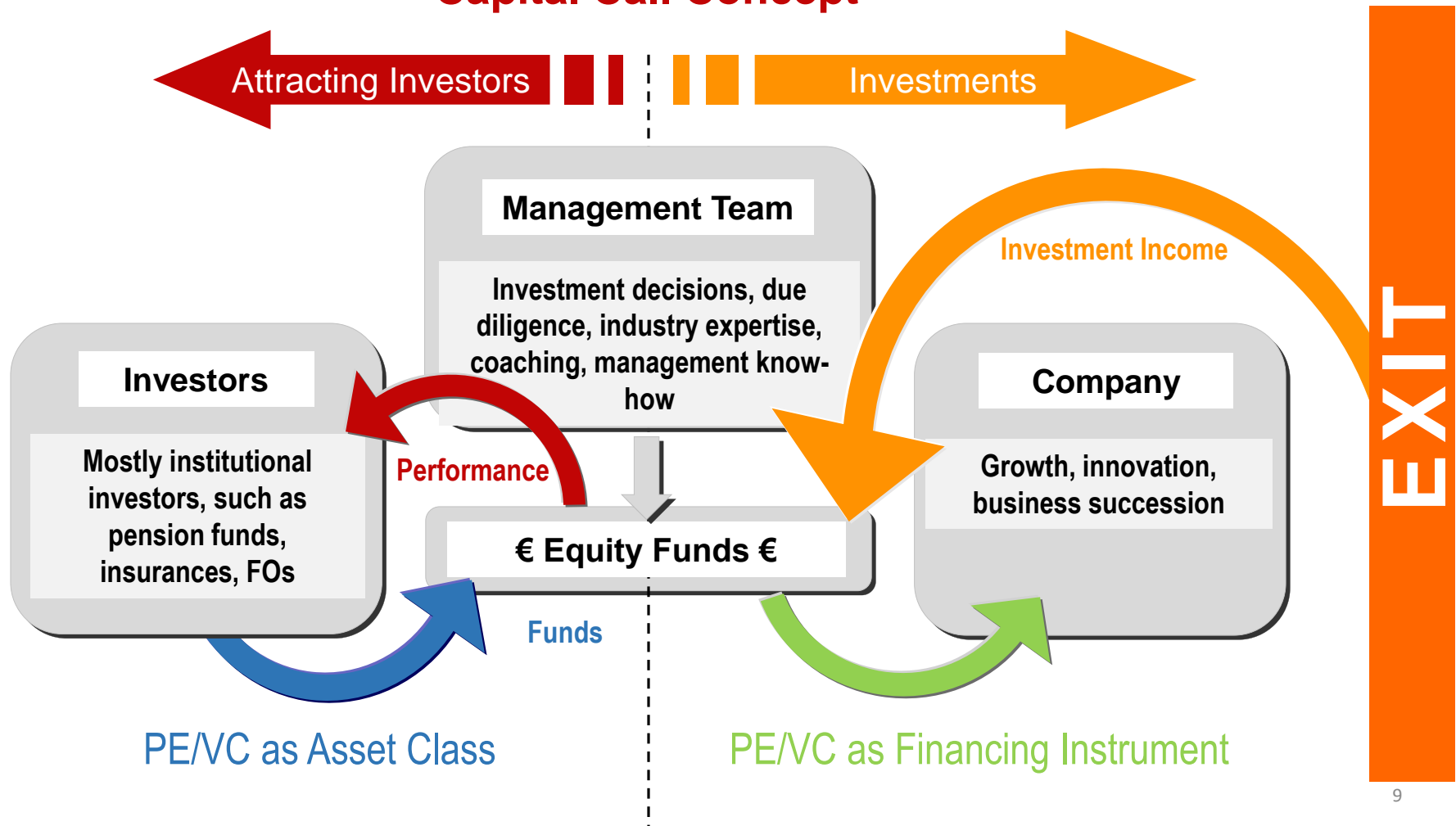
- Friends and Family
- Angel Investors
- Government grants
- Crowdfunding
- Incubator and accelerator programmes
- Venture Capital
- Growth Capital
- Debt and mezzanine
- Leveraged Buyouts

Risk Capital - Financing Phases

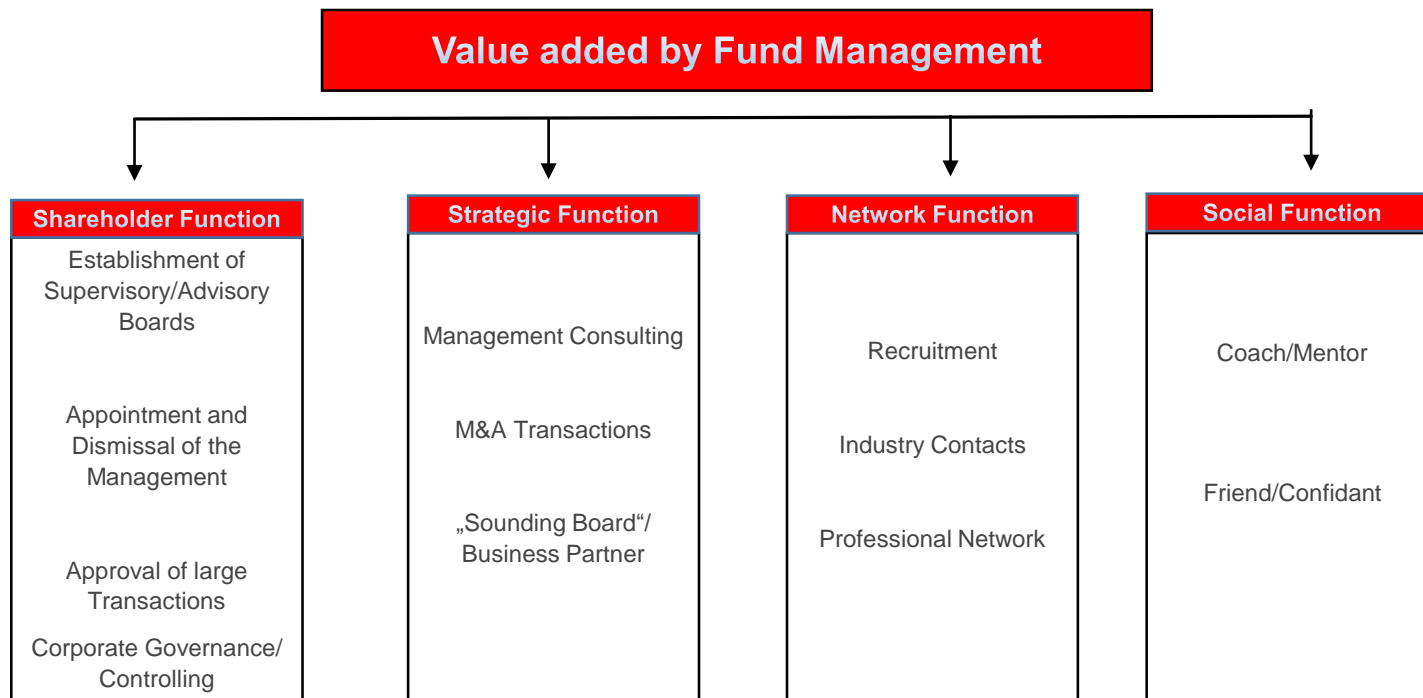


Risk Capital - More Than Money

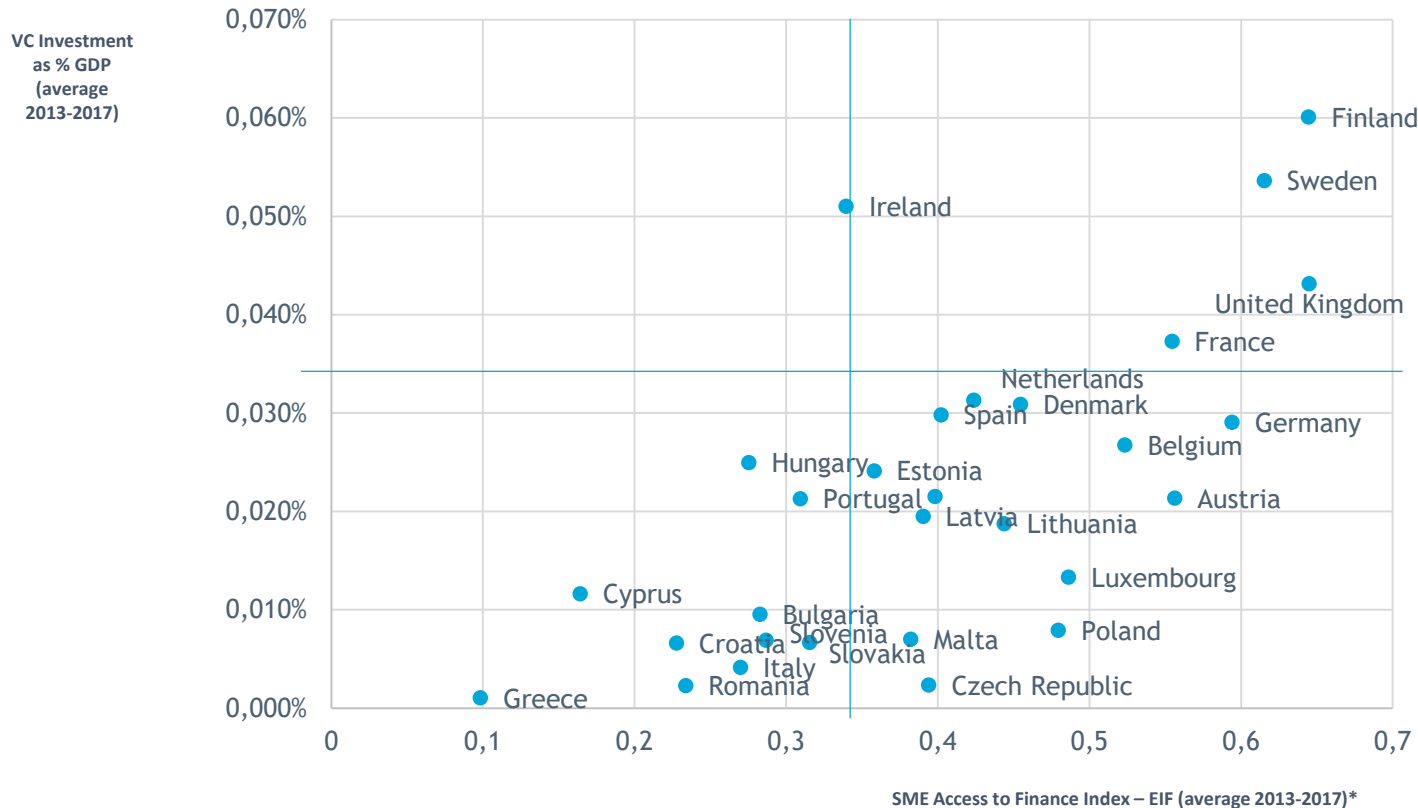
Capital Call Concept



Risk Capital - More Than Money

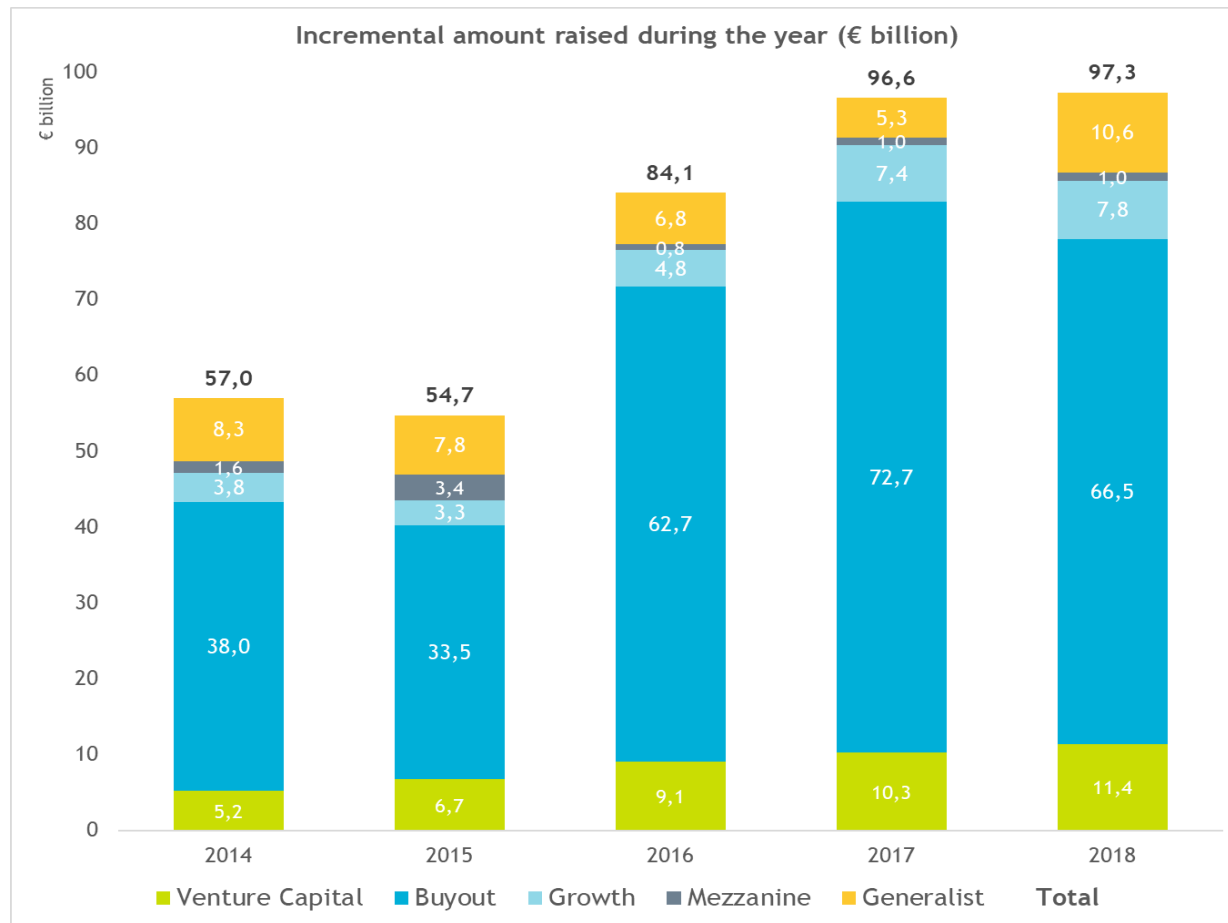


Access to Finance Differs by Geography



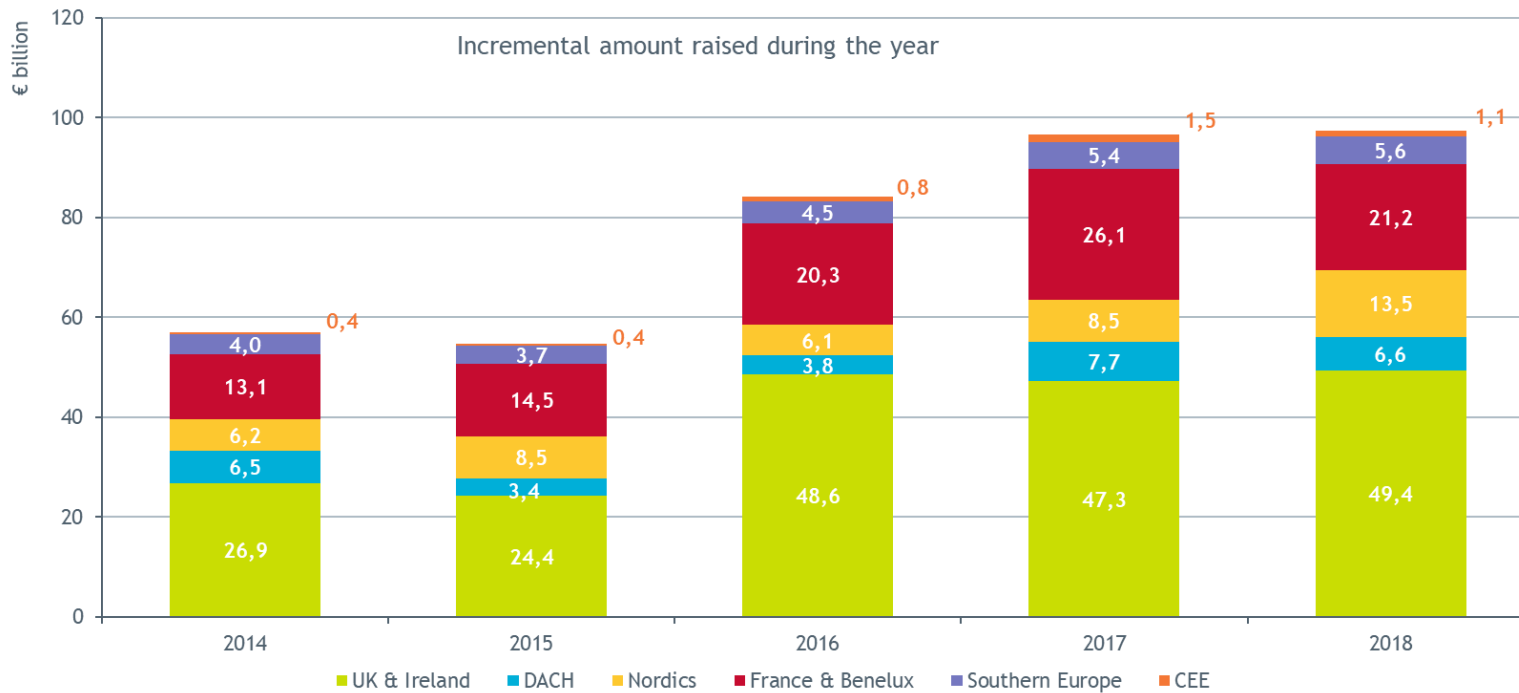
Source: Invest Europe PEREP_Analytics | AVCO (June 2018)

Total Fundraising for Europe



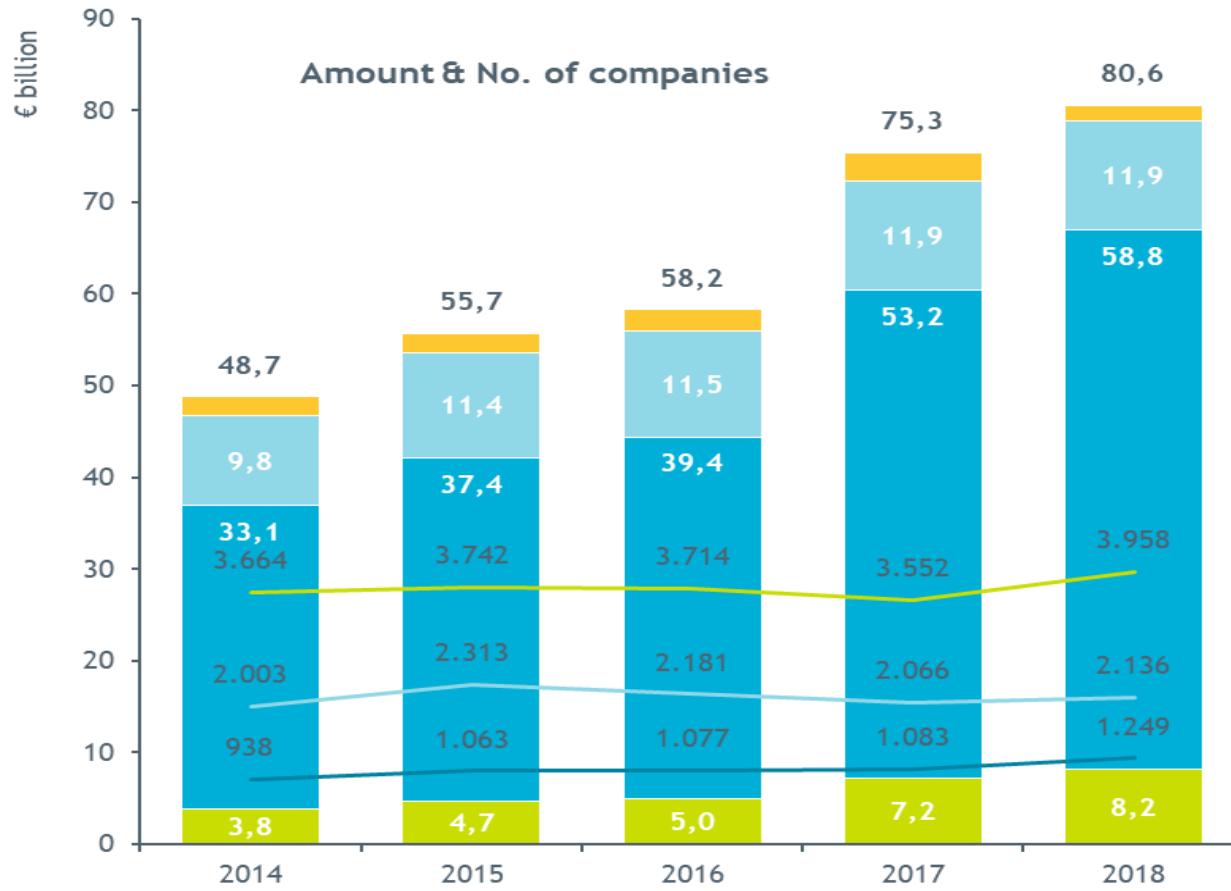
Source: Invest Europe PEREP_Analytics | AVCO (May 2019)

All Private Equity - Funds Raised by Region of Management



Source: Invest Europe PEREP_Analytics | AVCO (May 2019)

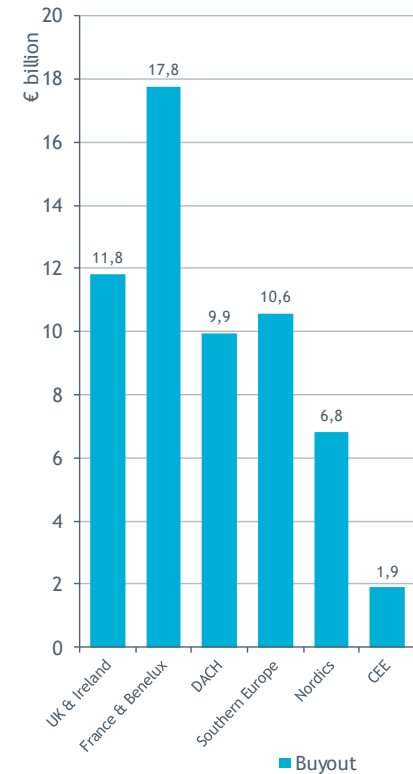
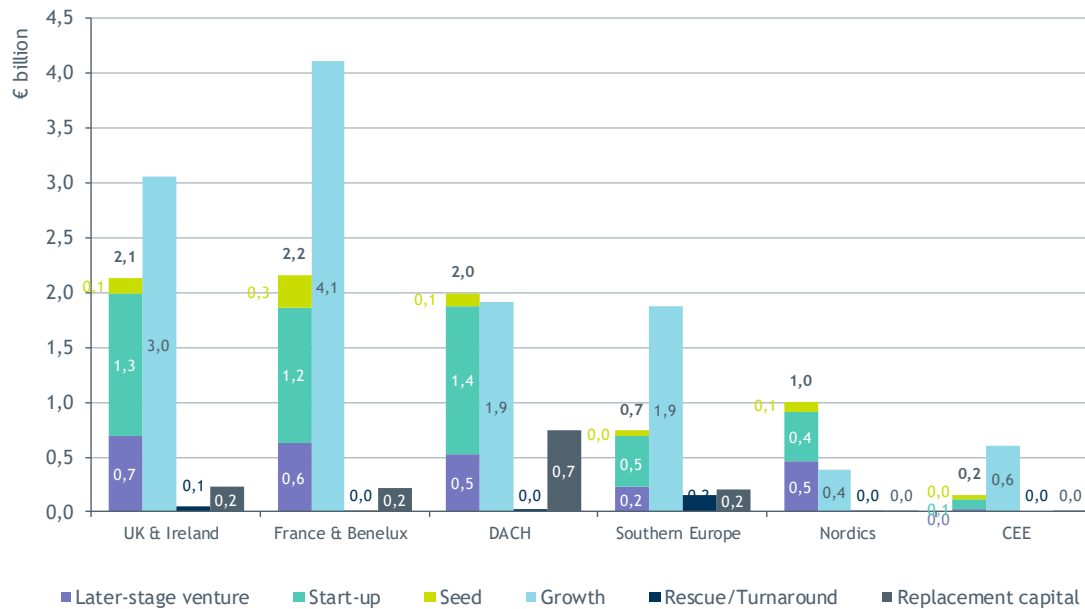
2018 European Investments – Market Statistics



Source: Invest Europe PEREP_Analytics | AVCO (May 2019)

Investment by Stage and Region

2018 - Market statistics - Amount



Source: Invest Europe PEREP_Analytics | AVCO (May 2019)

Investment in CEE

Table 4: Type of investment in CEE vs Europe, 2017 (in € thousands)

	2017			
	Total CEE	% of total	Total Europe	% of total
Seed	33,224	0.9	649,142	0.9
Start-up	47,948	1.4	3,456,980	4.8
Later stage venture	27,203	0.8	2,329,856	3.2
Total venture	108,375	3.1	6,435,978	9.0
Growth	591,270	16.9	11,512,586	16.1
Rescue/Turnaround	1,663	0.0	353,273	0.5
Replacement capital	6,640	0.2	2,236,917	3.1
Buyout	2,791,698	79.8	51,183,546	71.4
Total 2017	3,499,645	100.0	71,722,299	100.0
Total 2016	1,639,682		55,472,502	

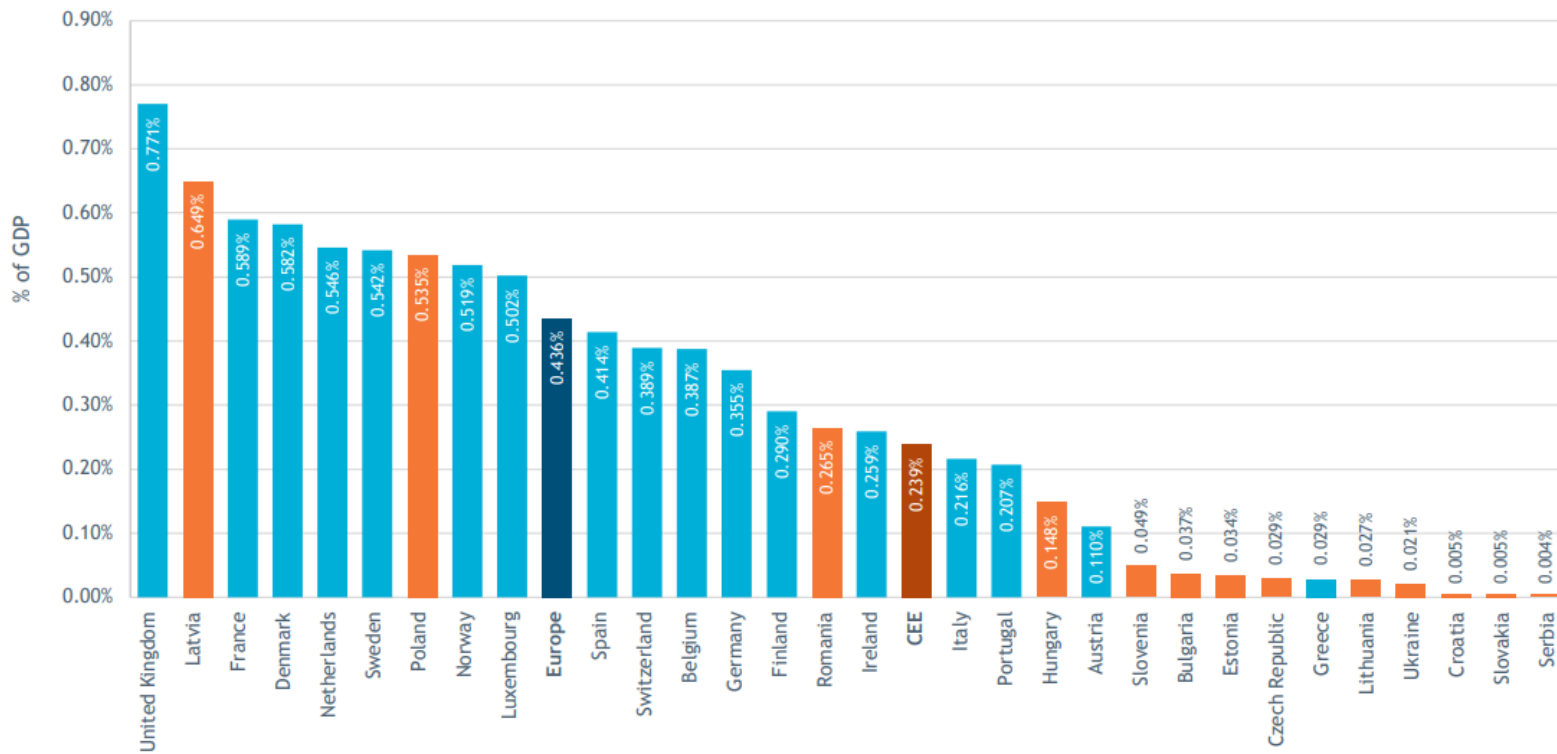
Table 5: Type of investment in CEE, 2016-2017 (in € thousands)

	2016		2017	
	Amount	Number of companies	Amount	Number of companies
Seed	14,615	59	33,224	119
Start-up	85,163	167	47,948	46
Later stage venture	12,964	21	27,203	9
Total venture	112,742	239	108,375	173
Growth	319,833	57	591,270	50
Rescue/Turnaround	0	0	1,663	1
Replacement capital	18,457	4	6,640	1
Buyout	1,188,650	42	2,791,698	35
Total	1,639,682	341	3,499,645	257

Source: Invest Europe PEREP_Analytics | AVCO (May 2018)

Investment in CEE

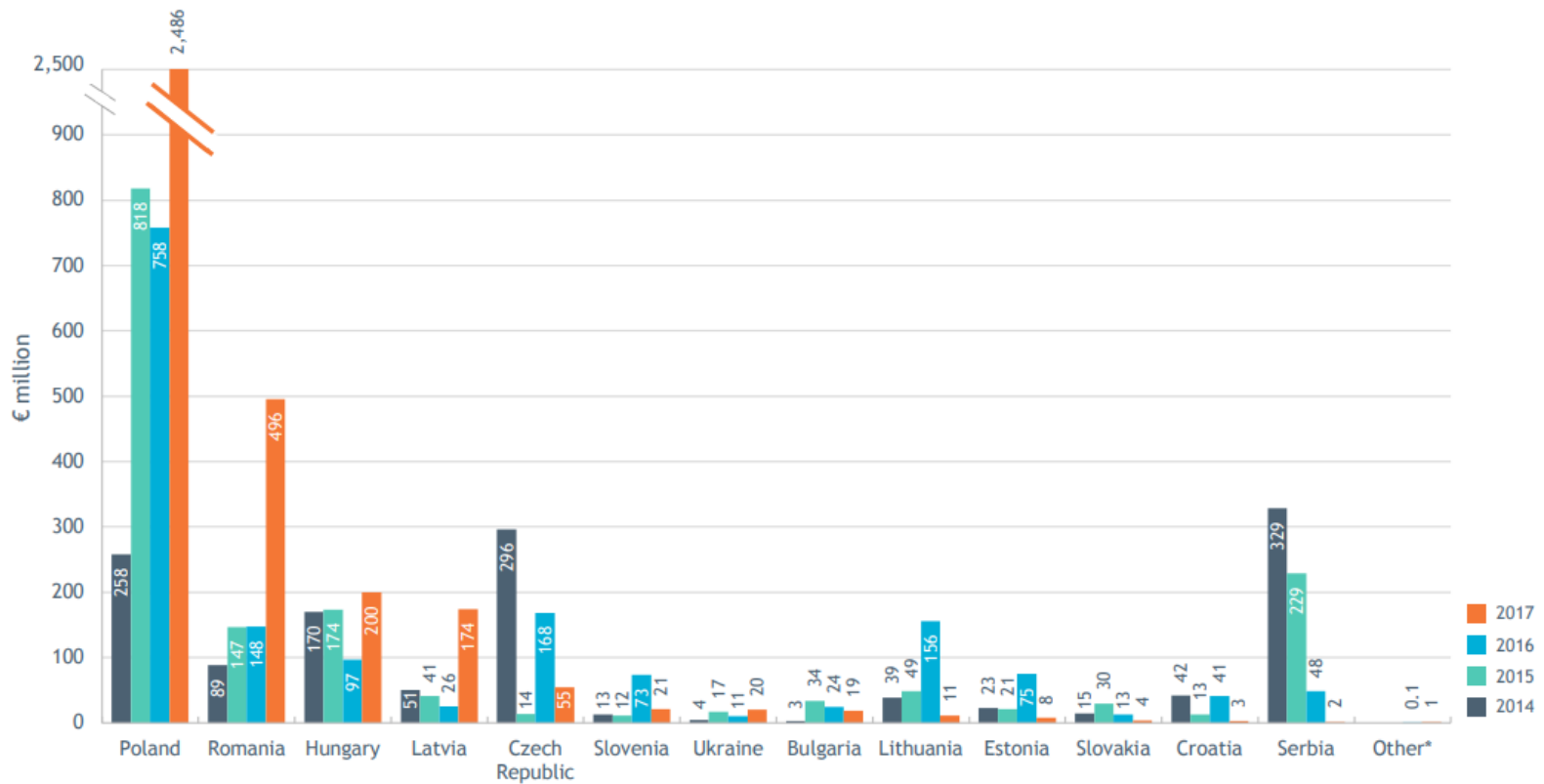
Figure 8: Private equity investments as a percentage of GDP, 2017 (by country of destination of investment)



Source: Invest Europe PEREP_Analytics | AVCO (May 2018)

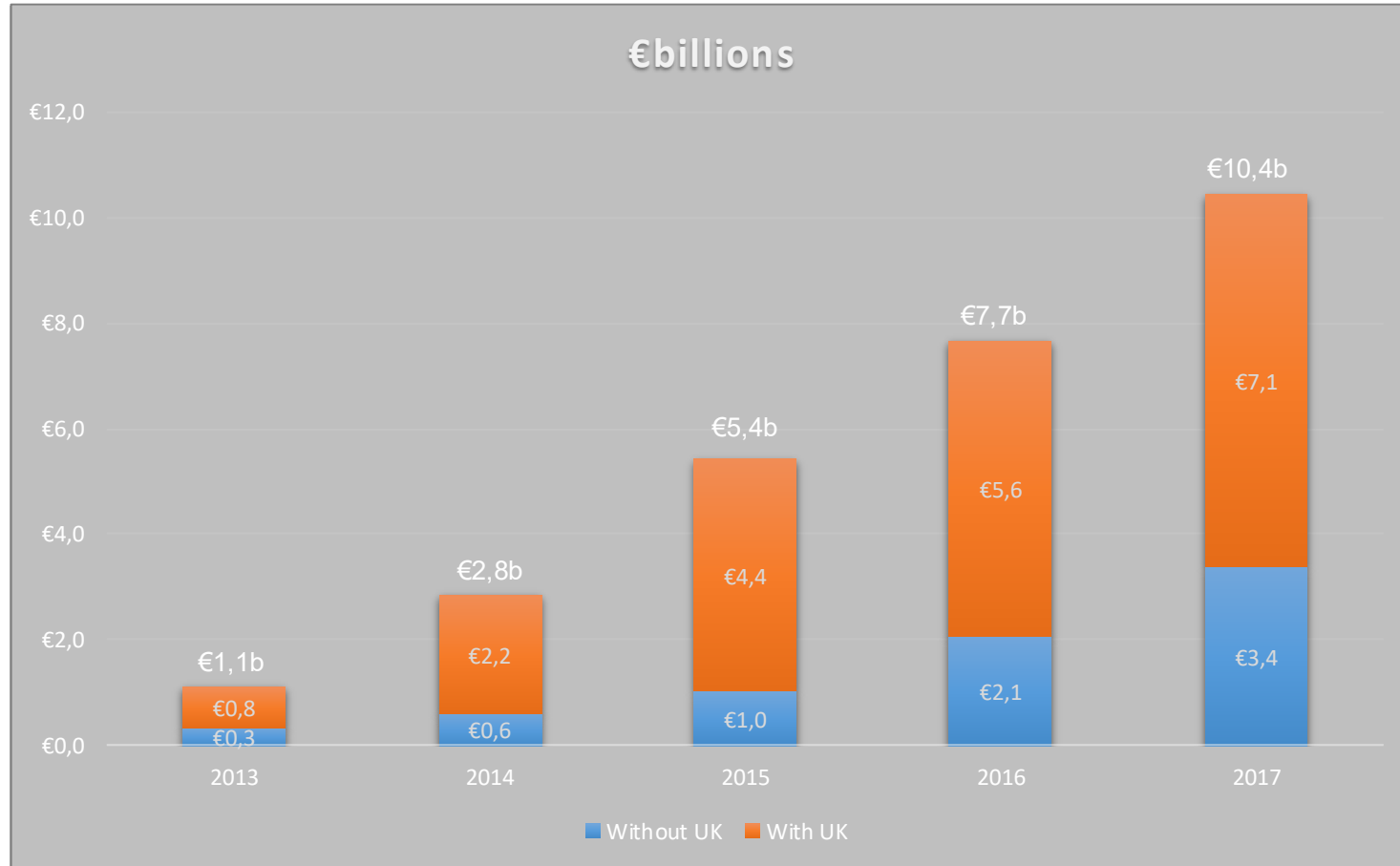
Investment in CEE

Figure 6: Annual investment value in CEE, 2014-2017



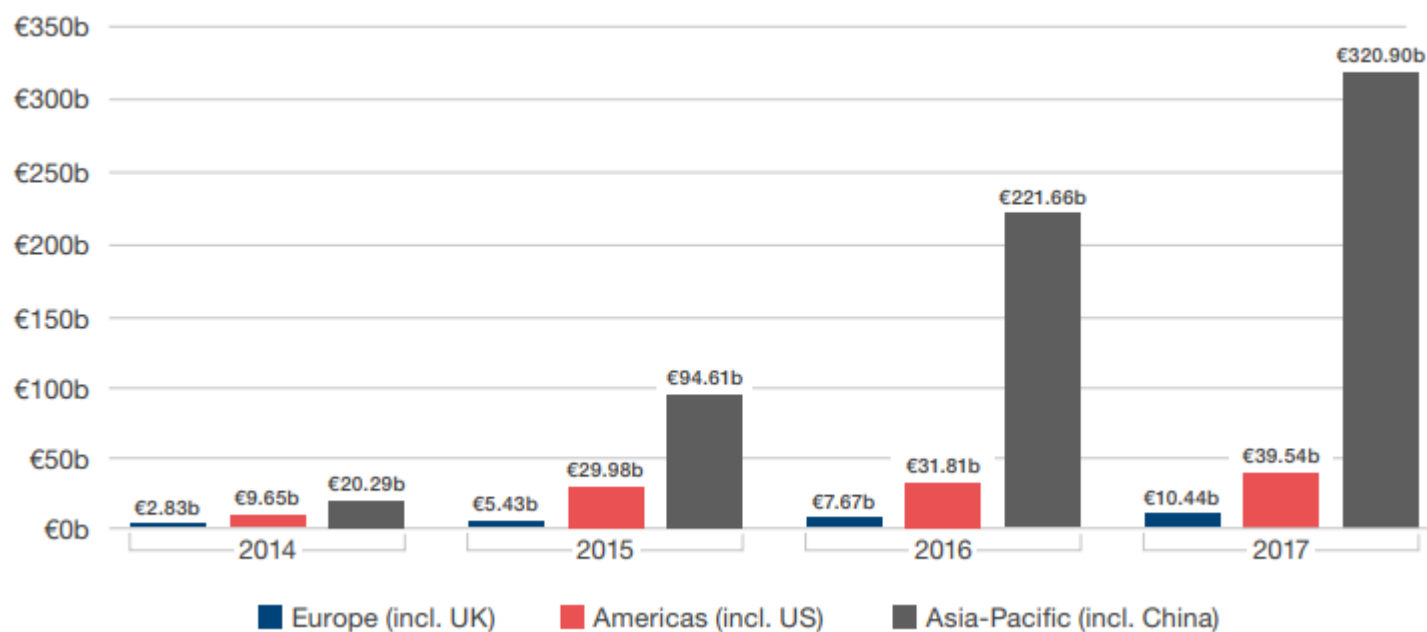
Source: Invest Europe PEREP_Analytics | AVCO (May 2018)

Total European Online Alternative Finance Market

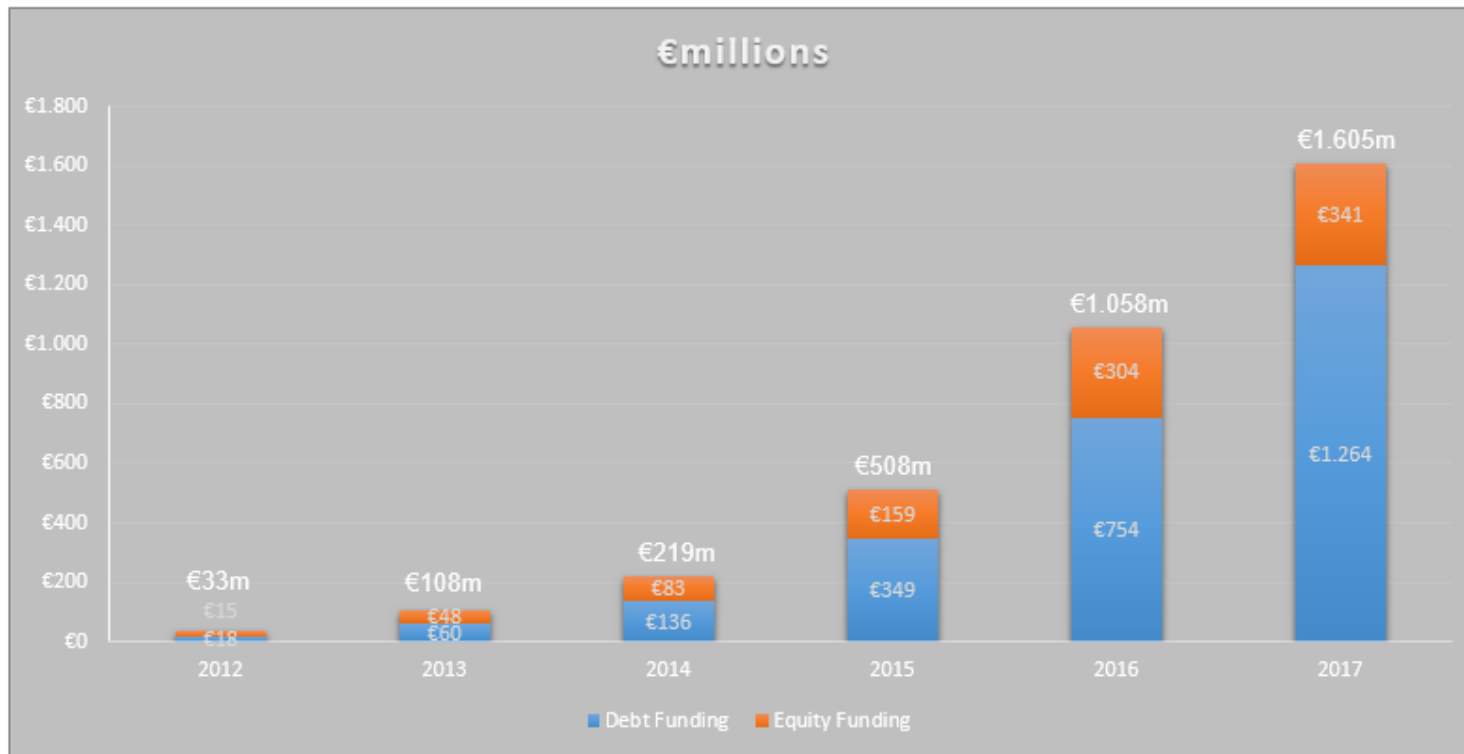


Source: The 4th European Alternative Finance Benchmarking Report 2017

Regional Alternative Finance Market Volumes 2014 – 2017 (€billions)



Debt vs Equity Online Alternative Business Finance



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Crowdfunding as an Instrument of Alternative Form of Financing

Crowdfunding is a comparatively new method of financing:

- Online platforms connect “bottom-up” businesses with potential investors; often complementary to other forms of finance
- Key trends: Proliferation of regional and local platforms and innovative, technology-based financing solutions (ICOs, STOs, etc.)
- As a result of online features, the geographic accessibility of the crowd is global
- Some platforms provide flexible portfolio packages depending on risk appetite of the investor
- Success of crowdfunding depends on businesses with sound creative ideas, top-quality execution plans, thoroughly planned online campaigns and professional service of the investor base

Crowdfunding Options

Prominent crowdfunding options:

Equity-based crowdfunding (-investing)

- Entails a financial compensation. Investors are usually invested by means of participatory certificates or as silent partners. Particularly popular in the early-stage financing of start-ups

Lending-based crowdfunding

- Similar to a loan. Investors can expect the return of their capital within a specified period of time. In most cases, the interest rate is determined on the basis of supply and demand

Donation-based crowdfunding

- A “fundraising variant”. The aim is to finance projects from the creative, cultural and art scene, or social projects. The contributors receive either only a small reward or none at all, except for the feeling of having done “something good”

Reward-based crowdfunding:

- Money does not flow back to the investors, either, yet these receive at least some material or non-material reward, such as a thank-you goodie or a prototype

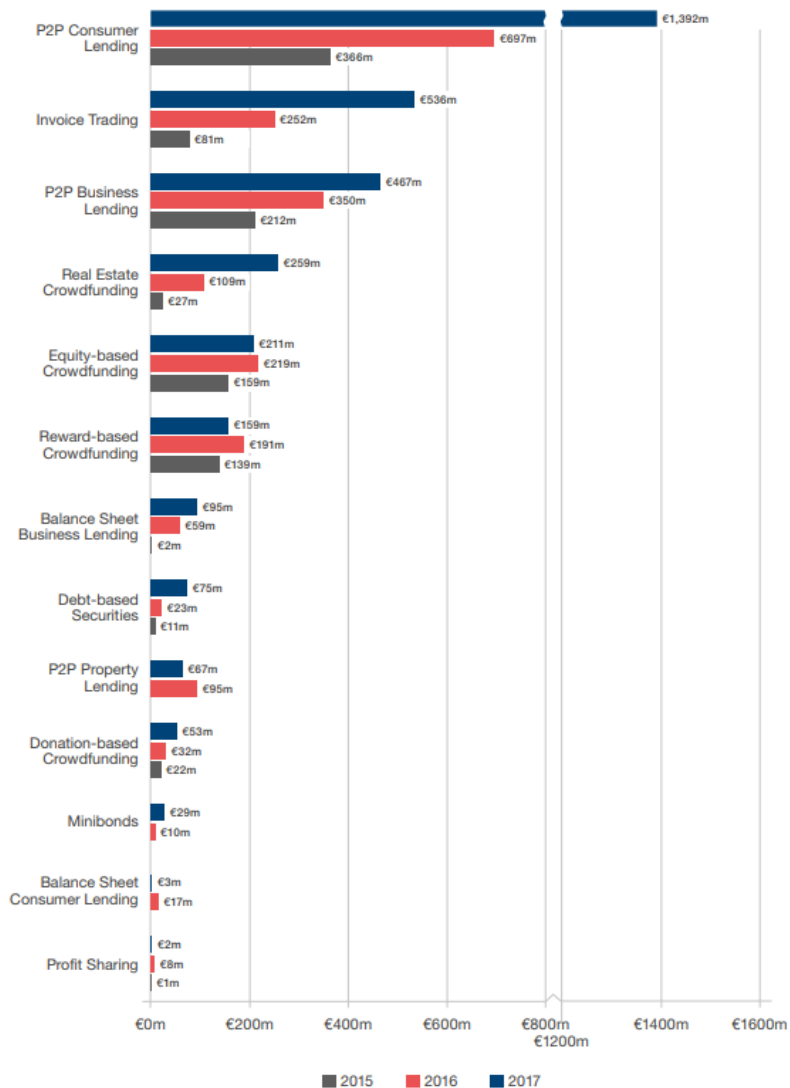
European Taxonomy

Alternative Finance Model	Definition	2017 Volume	2017 Market Share
P2P Consumer Lending	Individuals or institutional funders provide a loan to a consumer borrower.	€1,392.38m	41%
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes at a discount.	€535.84m	16%
P2P Business Lending	Individuals or institutional funders provide a loan to a business borrower.	€466.60m	14%
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.	€258.75m	8%
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.	€210.93m	6%
Reward-based Crowdfunding	Backers provide funding to individuals, projects or companies in exchange for nonmonetary rewards or products.	€158.80m	5%
Balance Sheet Business Lending	The platform entity provides a loan directly to a business borrower.	€94.84m	3%
Debt-based Securities	Individuals or institutional funders purchase debt-based Securities, typically a bond or debenture at a fixed interest rate.	€75.20m	2%
P2P Property Lending	Individuals or institutional funders provide a loan to a business borrower.	€66.57m	2%
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material	€53.14m	1,60%
Other (Minibonds, Profit Sharing, Balance Sheet Consumer Lending)	Volumes raised through other alternative finance models, including Community Shares, Pension-led Funding, crowd-led-microfinance and other model's.	€56.09m	1,72%

Alternative Finance Volume by Model in Europe 2015-2017 (€millions)



AUSTRIAN PRIVATE EQUITY AND VENTURE CAPITAL ORGANISATION



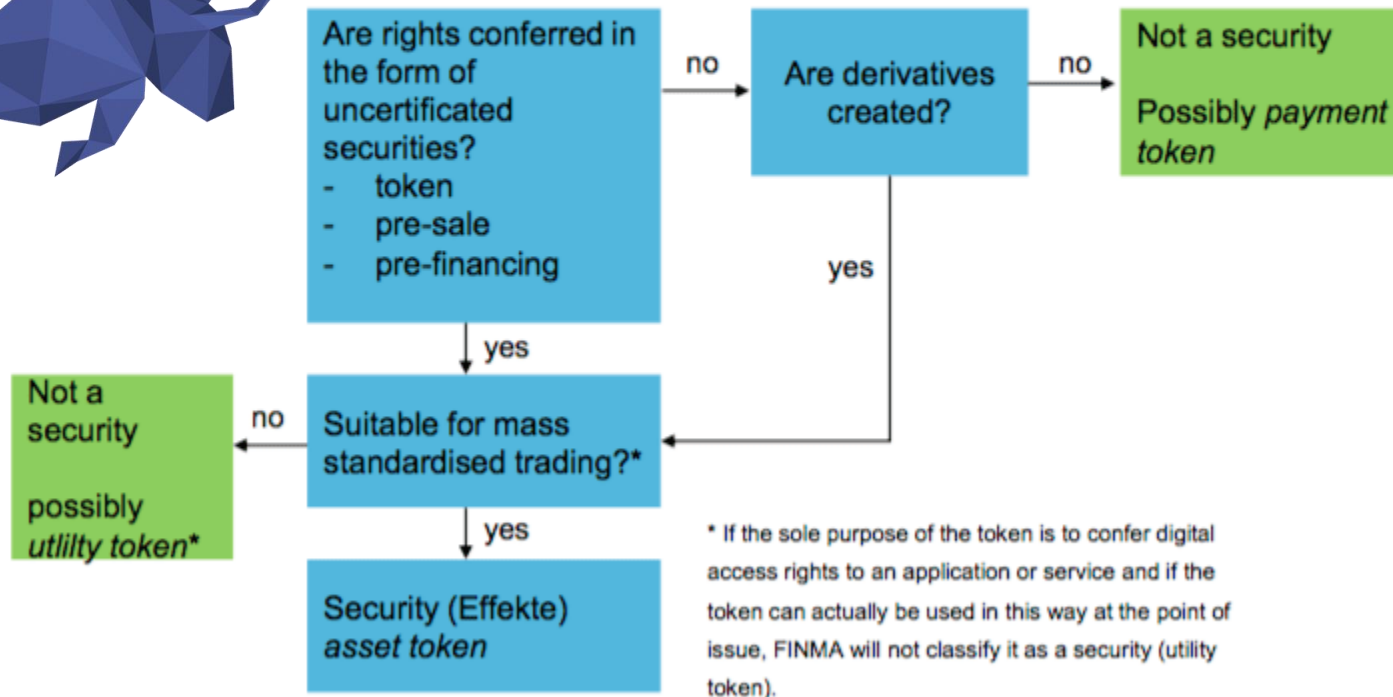
Source: The 4th European Alternative Finance Benchmarking Report 2017

Security Tokens – Next Big Thing

Supervisory and regulatory framework



Tokens under securities law - overview



* If the sole purpose of the token is to confer digital access rights to an application or service and if the token can actually be used in this way at the point of issue, FINMA will not classify it as a security (utility token).

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Which Financing Path is Suitable for My Idea

Key questions from the point-of-view of a start-up or SME:

- How quickly do I want/need to scale the business? Can I go global and how?
- How much capital does the business require to develop a competitive product, reach critical mass, a defensible market position and positive cash flows?
- What is the right financing mix? What share in the company will investors get (valuation)? What amount of debt, if any, can we service?
- What advice and handholding support/coaching does my business need?
- What is the right investor profile? What can they contribute other than capital?

Challenges to Crowdfunding

There are a number of challenges - to develop trust and professionalism - that will determine the future of crowdfunding:

Input of human element and support

- How is the connection between investor and company defined?
- What contribution can the platform make to company building (coaching)?

Amount and detail of due diligence

- Is there a state-of-the-art analysis?
- What are the quality standards applied to due diligence?

Investor rights and best practice corporate governance

- Who protects the interests of the investor?
- Who scrutinises the performance of management?
- Who assures transparency and compliance with regulations and laws?

How can an investor diversify his risk when investing in crowdfunding schemes?

Code-of-conduct and/or regulatory framework for platforms to assure quality standards?

Questions / Discussion

