Spark Crowdfunding

"The easiest way for Irish companies to raise new venture finance."

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1. BENEFITS OF EQUITY CROWDFUNDING

1. Raise money in a short time period – typically 30 days.
2. Raise money at a lower cost than other methods of fundraising.
3. Generate free publicity for your company by promoting the crowdfunding campaign.
4. Attract Investors, Evangelists and Customers.
5. Reach investors far and wide.
6. Obtain valuable feedback on your Product or Growth Strategy.
7. The fundraising process is streamlined and transparent.

2. WHAT IS EQUITY CROWDFUNDING?

Think of Equity Crowdfunding as an online version of Dragons' Den. A company seeking to raise new money to finance its growth plans offers a fixed amount of shares to the 'crowd' in return for a fixed amount of money. The crowd then subscribes for shares in the company and if the target amount of money is reached the company issues new shares to the investors.

Example

BigShot Limited is looking to raise €100,000 in return for a 20% shareholding in the company. It starts a campaign on a crowdfunding website. Investors can subscribe for as little at €10 or for all of the €100,000 that is available, but, with crowdfunding, it would be typical to have hundreds of small to medium sized investors. Let's assume that 500 investors pledge an average of €200 each. An investor who invested €10,000 would get 1/10 of the 20% on offer (i.e. 2% of BigShot), whereas an investor who only invested €1,000 would receive 0.2% of BigShot. The larger the size of the investment, the larger the shareholding the investor receives in BigShot.

3. WHAT IS THE DIFFERENCE BETWEEN EQUITY CROWDFUNDING AND P2P LENDING?

The key difference between equity and debt crowdfunding is that with the equity model the company gives away shares in the company but does not have to repay the money in the form of a loan repayment. With equity crowdfunding, the investor owns part of the company and the amount s/he receives back depends on how well the company performs.

An equity investor is effectively holding out for a windfall on a sale of the business and/or dividend payments. There are also certain tax reliefs associated with equity investment (such as the EIIS in Ireland). However, it is important to note that Shareholders are typically the last to be paid (if at all) if the company gets into financial difficulty.

With P2P (i.e. Person to Person) Lending, the lender receives regular principal and interest payments over a fixed term, such as 3 years. The rate of interest paid by the company depends on the perceived risk of the loan to the company. However, the person lending to the company does not receive any shares in the company. The maximum return is the principal lent plus the interest repayments.

Every investment will involve a level of risk. Each investor must assess the potential return with the level of risk of financing a particular project through crowdfunding.

4. WHAT IS THE DIFFERENCE BETWEEN EQUITY CROWDFUNDING AND REWARDS CROWDFUNDING?

With equity crowdfunding, the company is selling shares (i.e. equity) in the company to outside investors. There is another type of venture funding called Rewards-based Crowdfunding in which a company raises funds but, instead of selling shares in its company, it gives the Investors a 'reward' based on the size of the investment. For example, a company with an idea for a new video game wants to raise €100,000 to design and manufacture this. Rather than giving away shares in the company, what they could do is reward 'donors' with a free version of the game when it is produced.

5. IS YOUR COMPANY SUITABLE FOR EQUITY CROWDFUNDING?

Not every company is suitable for equity crowdfunding. Investors will only purchase shares in a company if they believe the company will be worth a lot more when it is eventually sold or floated on the stock market.

If your company cannot demonstrate to investors that they are likely to get a high return on their investment, then equity crowdfunding is not suitable. A high street shop with limited capacity for expansion in that area would not typically appeal to investors looking for a high return on their investment.

Similarly, 'lifestyle' businesses, with limited scalability, where the owner(s) run the business to fund their lifestyle, as opposed to trying to build it up, would not be suitable for equity crowdfunding. Professional services businesses, such as Solicitors, Accountants, Doctors or PR Agencies would fit into this category and would not be suitable for equity crowdfunding.

Companies which can demonstrate scale potential, ideally in an international context, are ideal businesses for equity crowdfunding. Consumer products and technology applications would be ideal examples.

6 EQUITY CROWDFUNDING IN IRELAND

Equity Crowdfunding is a regulated service in the UK and the USA. It is not as yet regulated in Ireland, although this is under review by the Irish Department of Finance and we would expect to see a regulatory infrastructure introduced in Ireland in the next 12-18 months.

7 HOW DO I GET STARTED?

Although it has experienced huge growth rates in the UK and the USA over the last 5 years, equity crowdfunding is a relatively new concept in Ireland. The first thing to determine is whether your business is suitable for equity crowdfunding or not.

If you're satisfied your business is suitable and you have a good story to tell, you then need to decide how much you would like to raise and how much of your company you are willing to give away.

There are a wide range of other factors to consider, such as how best to present the company or the time commitment required to manage the crowdfunding campaign for 30 days, so it's best to study the product carefully before making a decision.

Spark Crowdfunding can help you with all of this. Contact us for a free, no obligation consultation.

8 ABOUT SPARK CROWDFUNDING

Spark is an Irish-based equity crowdfunding platform which connects companies looking to raise funds with investors seeking new investment opportunities. We simply act as a facilitator, although we are always on hand to assist with the mechanics of the campaign – before, during and after.

One particular area in which we can add considerable value is in relation to the marketing of your online crowdfunding campaign. We have specific expertise in the areas of digital marketing, social media marketing and online PR. We can also make videos for specific use during your campaign. Online promotion is critical to the success of a campaign.

Spark does not give any investment advice in relation to the companies raising funds through equity crowdfunding. Investors make up their own minds in relation to company valuations and company prospects, taking into consideration their own financial circumstances and attitude to risk.

Additionally, Spark does not hold any client funds. Only if a crowdfunding campaign achieves its investment target will funds be accepted from investors and these funds (less our fees) are immediately sent to the company at completion.

Finally, Spark takes no trading risk with its own capital and does not take a stake in companies raising funds on the Spark platform.

9 RISK WARNING

Investing in start-ups and early stage businesses involves risks, including illiquidity, lack of dividends, loss of investment and dilution, and it should be done only as part of a diversified portfolio. Spark Crowdfunding is targeted exclusively at investors who are sufficiently sophisticated to understand these risks and make their own investment decisions. You will only be able to invest via Spark Crowdfunding once you are registered as sufficiently sophisticated.

CONTACT US

info@sparkcrowdfunding.com

Dublin - 01 44 33 944

www.SparkCrowdfunding.com