Exploring Crowdfunding
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In November 2015, the Financial and Consumer Services Commission welcomed over 120 people to Fredericton. They heard from crowdfunding experts from across North America and local entrepreneurs who have used crowdfunding to grow their businesses.

Crowdfunding is a popular method of raising money using websites such as Kickstarter and Indiegogo. Crowdfunding can be provided by: donation, offering a reward, pre-ordering a product, a loan, and in some instances selling equity shares, debt or other eligible securities in an issuer. The latter is known as equity crowdfunding. Additional details about equity crowdfunding are provided on page 12. Crowdfunding has been used by charities, artists, video game developers, technology companies, and politicians to harness the loyalty of a crowd and rally them financially around a shared cause, product or project. It’s growing in popularity and has attracted the attention of New Brunswickers.

Speakers discussed all types of crowdfunding from rewards-based to equity-based, and how to integrate crowdfunding into their business planning. Participants were able to hear about tactics for starting their campaign, crowdfunding by the numbers, marketing, and preparing for what they will do with the new investment potential.

Participants learned that it is a new world of investing and crowdfunding is a modern tool at their fingertips. The event also reminded us of the importance of being informed. If you missed the event check out the podcasts and information at fcnb.ca/accessingcapital.
“This was an outstanding event, because it was so educational. What was so valuable about Fullsail was the depth of insight these people brought.”
— PETER MOREIRA, CO-FOUNDER, ENTREVESTOR INTELLIGENCE

“You need to be prepared. Stuff happens. If you go with the absolute bare minimum you are going to get burned.”
— GEORGE ROHAC, CHIEF EXECUTIVE OFFICER, BREADPIG, INC.

“When people were putting together a Broadway production, they would go to surrounding neighbourhoods and they’d sell the equivalent of shares.”
— JUSTIN BAILEY, CHIEF EXECUTIVE OFFICER, FIG.CO

“Deliver on your promises, give your backers your utmost respect and do not give crowdfunding a bad name.”
— KEN SETO, CHIEF EXECUTIVE OFFICER, MASSIVE DAMAGE

“All entrepreneurs should talk to 50 people who know nothing about who you are or what you do and see if you can convince them of your idea. If you can’t get 50% or more support then you may not have a great idea.”
— LEVI LAWRENCE, FOUNDER, REAL FOOD CONNECTIONS
SPEAKERS AND PANELLISTS

**David A. Shore**
David serves as Director of Investor Relations in Toronto, breaking new ground for OurCrowd and start-up investing in Canada. Prior to OurCrowd, David was a venture capitalist, angel investor and top ranked equity analyst.

**Jake Wildman-Sisk**
Jake received his BPHIL in Leadership and BBA from UNB where he was recognized as a Sir Howard Douglas Scholar and recipient of the Frank H. Sobey award. He works with the Right To Play, the United Way, the Pond-Deshpande Centre, and the New Brunswick Non-Profit Housing Association.

**Sally Ng**
Sally is a Start-up Innovator and former Executive Director at Planet Hatch. She volunteers with Up Global and the Startup Weekend organization. She is a 21inc. alumni and a member of the team that won the 2009 NBIF BreakThru Business Plan Competition.

**Ken Seto**
Ken is the CEO & co-founder of Massive Damage, Inc. Their first game, Please Stay Calm, was a big enough hit to grow the studio to 12 people in size.

Fresh off a very successful Kickstarter campaign for their upcoming game Halcyon 6: Starbase Commander, Massive Damage is primed for a year of revenue and growth that will redefine the studio.
Justin Bailey
Justin is the CEO of Fig.co, his work in video games includes experience publishing a variety of free-to-play, premium and mobile games, such as Broken Age, Massive Chalice, Middle Manager of Justice, and Dungeons & Dragons Neverwinter. Since 2008, he has secured over $100 million in financing from publishers, investors and crowdfunding.

George Rohac
George is the CEO of Breadpig, Inc., a sidekick-for-hire that supplies support and strategy services to creators and small companies. To date they have helped creators raise over $10,000,000 through crowdfunding. Outside of campaigns they advocate for creator rights and long-term financial sustainability.

Levi Lawrence
Levi is the founder of Real Food Connections and has eight years in the food and beverage industry as well as a business degree from UNB.

Real Food Connections is a local food business representing over 130 small and medium scale food producers. Their main priorities are Traceability, Accountability and Improving food culture and agriculture.

Peter McMath
Peter embodies the entrepreneurial mind. He is the Founder and CEO of Timbre Cases Inc.

Peter has spent three years building and leading the organization to become the world leader in premium musical instrument protection.
Massive Damage Nets $187,000

Ken Seto and his team raised $187,000 in a one-month campaign, exceeding his original goal of $40,000. He mentioned that about 50% was funded through the Kickstarter platform and the other half was funded through other investors. Seto focused his presentation on the five phases of planning and launching a crowdfunding campaign: research and data collection, analysis of the data, planning the campaign, launching the campaign, and running the campaign. His team looked at successful and unsuccessful crowdfunding campaigns that were used to launch similar games. They studied the companies’ campaigns and determined what these companies did well and what they didn’t do well paying particular attention to their spending and how they handled communications with their audience and backers.

Throughout the presentation, Seto reiterated the importance of momentum. To drive momentum during the campaign, they set their goal to $40,000 when they were actually aiming for between $80,000 and $100,000. Seto’s campaign launched with a lower goal as they felt it vital to post milestones throughout the campaign, such as when they hit 25% funded. This strategy provided the type of feedback that potential backers required to spur interest in funding the game.

Seto shared three main messages he hopes attendees took from his presentation: “Deliver on your promises, give your backers your utmost respect and do not give crowdfunding a bad name.”
George Rohac:
“Be Honest and Upfront”

George Rohac and his team have worked on nearly 50 crowdfunding campaigns over a variety of avenues such as books, movies, television, toys and animation. Rohac started off his presentation by explaining that crowdfunding is more than just receiving money. There is a lot of work before the campaign begins for it to be successful.

“Seems like a magical cure all,” says Rohac. “It’s actually a lot of work.” He broke down common misconceptions, problems, shortfalls and how to avoid them so that participant’s campaigns can be the best possible.

Rohac shared the four things you need to consider when determining how much money you need to raise:

1. How much do you need to produce the product?
2. How much you will need to create the rewards?
3. How are you shipping the rewards?
4. Have you looked at tax considerations?

He recommends setting a goal that falls between the minimum amount you need to create the product and the amount you will need to help prepare for those unexpected issues.

“You need to be prepared. Stuff happens,” says Rohac. “If you go with the absolute bare minimum you are going to get burned.”

Rohac shared that you should not be spending a large portion of your profit to produce your reward. He says when you are choosing the rewards for your campaign, the cost should never exceed 20% of the contribution and the shipping costs shouldn’t exceed 15%. Rohac’s final tip is to always be honest and upfront with your backers. “Make your campaign special,” says Rohac. “It is important to engage with your audience.”
**Shoring up Investors at OurCrowd**

David Shore and OurCrowd have invested more than $170 million into 80 companies in their portfolio with more than 10,000 accredited investors from more than 68 countries.

During his presentation, Shore discussed the necessary steps to prepare your company for an investment round. The six key criteria they review when considering investing in a company are: team, market, value proposition, traction, sponsorship, valuation.

They look at who is on the team as they are the ones that will be driving the company forward. Shore says OurCrowd looks for serial entrepreneurs because they are the ones that have done it before. They have made the mistakes and overcame them and they know what it takes to have a successful start-up company. Shore also studies the company’s market. They do not want to invest in a company with a niche or small market. They want companies that have an opportunity to address large markets with the potential for significant growth.

The next step is reviewing the company’s value proposition. They look at what the start-up actually does. Shore shared that OurCrowd does not invest in pharmaceutical companies as that can be a very complicated process. The team looks at traction next. Shore says they want something that is beyond a science project; more than just an idea, although it doesn’t have to be revenue generating. The product requires some level of traction such as a working demo or a prototype. The company needs to show OurCrowd its path to revenue generation. Shore says they also look at funds raised-to-date.

The other two key criteria OurCrowd examines are sponsorship and valuation. They look at the company’s support team including advisors, lawyers and accountants. Finally, OurCrowd takes all this information and determines what it believes to be the company’s value.
Justin Bailey Discusses the Good, the Bad & the Ugly

Justin Bailey gave a brief history on crowdfunding as people often think that it is a new way to invest. He notes crowdfunding has actually been around since at least the 1800s with Broadway productions. “When people were putting together a Broadway production, they would go to surrounding neighbourhoods and they’d sell the equivalent of shares,” says Bailey. “Those who funded the production would receive a portion of the ticket sales.” Crowdfunding takes this practice and simply puts it online.

Double Fine Adventure was the first big Kickstarter crowdfunding campaign. Bailey says they were approached by film group Two Player Productions and they suggested crowdfunding. They thought they would be able to raise $400,000 which would have been unprecedented at the time. On the first day of the campaign, Double Fine raised $1 million, making them the fastest campaign to reach the $1 million milestone. They finished the campaign with $3.3 million and 100,000 backers. Bailey says this campaign helped Double Fine create a tight-knit relationship with their community and provided a more stable business.

Bailey also discussed rewards and equity-based crowdfunding. He says the good side of awards based crowdfunding is you are not using dilution financing and you are not giving up ownership of the studio. The bad, he says, is that it is easy to disconnect between the budget and the campaign goals. Bailey also notes that it is easy to lose control of the message since it is public. Bailey says the ugly is the failures. “When it fails, it fails big and it fails publicly.” He also points out that there are many costs associated with running a crowdfunding campaign.
Real Food Connections
Levi Lawrence raised money using multiple ideas including a crowdfunding campaign he debuted four years ago on Indiegogo. His objective was to garner support from his stakeholder group where he set a goal to raise $20,000. He was very successful and actually raised $27,000 from 112 contributors (averaging $240 per investor). After all costs associated with the raise he had usable capital of $17,500. Levi also attempted an equity raise where he was able to gather $282,000 from 190 investors. Again he worked with his stakeholder group which included customers, peers, competitors, suppliers and other stakeholders by offering them a chance to buy shares in his company. Levi noted the process was incredibly time consuming but the results beat his expectations.

Timbre Cases Raises $30,000
Peter McMath used crowdfunding to pre-sell his handcrafted guitar cases. He put together a Kickstarter campaign with the goal of raising $30,000 in 30 days. The campaign proved successful as he reached his goal on the final day. Though it required more time and effort than was anticipated the results led to additional sales and clearly validated this company’s value proposition.

Oasis Farmery
Jake Wildman-Sisk and his business partner planned to grow local and organic food using aquaponics. Their goal was to raise $10,000 to finance this idea and to build a prototype. Although they have since extended their goals and mandates, the funds raised helped them reach their goal. They successfully brought in over $12,000 through Indiegogo.
Sally Ng moderated the discussion among the panellists and took us through a number of critical crowdfunding questions.

**Did you raise enough money to fund your goals?**

**Levi:** His goal was not to raise enough to complete the entire project but to validate the idea.

Levi said if they tried to raise a larger amount the whole thing likely would have failed.

**Peter:** His purpose was not to fund his guitar case business, it was simply to pre-sell his product and raise his profile throughout the region.

He said it was actually a small percentage of the total funds they raised through traditional methods. He also reminded the audience not to lose sight of integrating marketing, public relations and appearing at relevant trade shows and events.

**Jake:** Crowdfunding was certainly enough to help Oasis Farmery get started. But, they expanded and needed more financing in the future.

**Why are we not seeing more east coast companies using crowdfunding?**

**Levi:** Discussed equity crowdfunding specifically and noted most business owners are concerned about having a larger number of shareholders. He also noted the time commitments were significant.

**Peter:** Shared that there is a big misconception related to crowdfunding. He admitted crowdfunding wasn’t an easy way to raise money. He said unless it goes viral (which is rare) it is hard and takes time. He said the expression “you build it they will come” is not really true for a crowdfunding campaign.

“One needs to put traditional marketing, branding and public relations to work including word-of-mouth. Crowdfunding may be new technology but your value proposition does not change.”

“In some cases it is harder to raise money as the product may not yet exist.” He also said, “much of the work happens in the planning before you launch.”

**Were most of your investors local?**

**Levi:** Yes.

**Peter:** “To build a cult following there is much work required before and during the campaign.” It was his visits to trade shows, and travelling around the world that provided him potential customers that supported him during this campaign.
Start-up Equity Crowdfunding

Equity crowdfunding involves investors backing a business in exchange for shares or another eligible security.

Equity crowdfunding is not available on sites such as Kickstarter and Indiegogo. Offerings are listed on funding portals which are subject to conditions put in place to help protect investors. These include disclosure and risk warnings the funding portal must share with investors, how the funding portal handles investors’ money, fees and commissions, and more. Funding portals cannot receive a commission, fee or other amount from the investors. The portal cannot provide advice or recommendations about a particular investment unless the portal is administered by a dealer registered with FCNB.

There are six jurisdictions that offer the Start-up Crowdfunding Exemption: British Columbia, Saskatchewan, Manitoba, Québec, New Brunswick and Nova Scotia.

The exemption supports FCNB’s efforts to foster the New Brunswick Capital Markets and provides appropriate protections to safeguard investors from the risks of investing in issuers during early stages of their development. The issuer’s costs associated with relying on the exemption will be lower than a traditional public offering making this a viable alternative source of capital for some growing businesses. The objective of the exemption is to allow issuers access to a broad range of potential investors by offering equity shares, debt or other eligible securities to the public through a portal.

Key features of the exemption:

- The portal will be subject to a number of conditions including that it will be required to maintain adequate books and records and hold investors’ funds separate and apart from the funds used to operate the portal.
- The maximum that can be raised under a single start-up crowdfunding distribution is $250,000. In addition, the issuer, along with any issuers closely related to it, is restricted to no more than two start-up distributions in a calendar year.
- Investors will be limited to an investment of $1,500 per distribution and they must sign a risk acknowledgement form.
- Investors will be provided information about the issuer and the offering such as: the intended use of the money raised, the main risks of investing in the issuers’ business, and information on the issuers’ directors, officers and significant owners.
- Unlike some other types of public offerings of securities, there is no requirement for the issuer to file financial statements with FCNB.

Complete requirements and more details are available at FCNB.ca.
Rivers Corbett @RiversCorbett
Hanging out at #Fullsail2015 learning about #crowdfunding Ground breaking fundraising for entrepreneurs #nomorenosfrombanks

Christina Allain @ChristinaAllain
Full house at the #Fullsail2015 event on #crowdfunding organized by @FCNB_ in #Fredericton.

PlanetHatch @Planethatch
Awesome to have @cvent social wall platform streaming live @FCNB_ #Fullsail2015 event! #crowdfunding

UNB IBEC @unbibec
“Build trust & legitimacy” sound advice for a successful crowdfunding campaign from Ken Seto #Fullsail2015 @UNBusinessAdm @JDHarriman

Gilliane Nadeau @UncorkedNB
@kenseto breaks #crowdfunding campaigns into 5 manageable steps. Research, analysis, design, launch & campaign mgmt. #Fullsail2015

Ashley @AshleyxJack
Hearing from David Shore @CrownePlaza Fredericton #Fullsail2015
Reach Out

We hope you enjoyed hearing the homegrown crowdfunding stories shared by our New Brunswick panellists and insights provided by our expert speakers.

Our Fullsail initiatives focus on capital markets education, research, reporting and providing advice that leads to building the infrastructure needed to improve access to capital in New Brunswick. We often work in conjunction with like-minded stakeholders, such as Planet Hatch and Pond-Deshpande Centre.

The capital markets have come a long way since we started our Fullsail initiatives in 2006. If you would like more information on crowdfunding, you can request an educational presentation for your group, or to read the latest Capital Markets Report, visit fcnb.ca/accessingcapital or call us at 1 866 933-2222.