



Important Considerations When Using Regulation Crowdfunding for Financing

By Marilea Campomizzi, CPA

Imagine you own or are running a startup company. (For some this won't be a difficult image to visualize—you're living it 24/7.) You're trying to decide how to fund the growth of your business. You have an idea you're passionate about. You've done your analysis and there's a market out there dying for your service or product. Maybe you already have some devoted customers who love to rave about you and your company. You've researched a variety of sources for financing your growth...friends and family, angels, bank financing, venture capital, private equity, joint ventures...they're all on the list. You've decided regulation crowdfunding could be the best fit. But what platform do you choose, what are the first steps to take, and what are some key items to consider when using regulation crowdfunding?

Based on the Financial Industry Regulatory Authority (FINRA) website, as of July 11, 2018 there were 43 funding portals that were registered with the Securities and Exchange Commission and members of FINRA. (This list does not include companies registered as broker-dealer firms, which are also able to offer regulation crowdfunding on their platforms.) For this blog, we spoke to just a few of the 43 funding portals to get some insights on these questions.

Which platform do you choose and what are some key items to consider?

Some sites may be easy to rule in or out depending on your startup's industry or focus. For example, Small Change focuses purely on real estate investments. CrowdFund Mainstreet-wants issuers who will "take advantage of the long-term opportunity to be active in the small business community and help mentor those that will come after" according to its CEO and founder, Michelle Thimesch.

Other sites have had successful raises with industries across the spectrum. While Wefunder has had the most success with breweries and technology companies, they've also had companies in movies, cryptocurrency, themed entertainment, energy, social network, health care, manufacturing and industrial sectors raise \$1 million, which is the maximum amount available in a round through regulation crowdfunding.

According to Thimesch, in addition to having a platform aligned with your mission, you should consider the level of support available through the site. Jonny Price, director of business development at Wefunder, explains that issuers should look for ongoing assistance throughout the fundraising process, whether it's crafting a beautiful campaign page, settling on terms of the offering or filing documents like the Form C. Price says issuers should also consider how easy it is to use the website and whether there will be someone available when you need them. "At Wefunder, we've hired a strong team over the last 6 months to provide more hands-on, tailored support to our founders, and we've invested heavily in automating and streamlining as much of the entire process as possible."

Given that regulation crowdfunding was implemented in May 2016, another key consideration is the expertise of the platform. According to Price, "Wefunder's founders helped write the JOBS Act in 2012, and were in the Rose Garden with President Obama when it was signed into law, so we're proud to see ourselves as leaders in this domain." And while CrowdFund Mainstreet is a newer platform, founder Michelle Thimesch has 20 years of experience as an attorney.

Once you've selected a platform what should you do to prepare for your campaign?

According to Thimesch, “The most important thing to have figured out before starting a campaign is what to offer. At CrowdFund Mainstreet, we believe that issuers should craft an offering that is suitable for their company and their investors. Each company is unique and their investment offering should reflect careful consideration of the best strategy for their path to success.” Price agrees and notes that “It’s great to launch with a clear fundraising plan, and do the prep work ahead of time. This Fundraising Playbook provides some ideas and tips, and our Wefunder team is on hand to provide advice and guidance, both before the campaign launches, and as it unfolds.”

What’s the biggest hurdle when raising money through Regulation Crowdfunding?

Andrew Carnegie said “Anything in life worth having is worth working for.” This appears to ring true with StartEngine-CEO and co-founder Howard Marks who noted that “The biggest hurdle is overcome when the CEO is really engaged in the crowdfunding campaign and raises the noise constantly. This is the main reason why they raise money.” Price had a similar line of thought: “Raising money on any regulation crowdfunding platform takes work...You need to be willing to put yourself out there, and hustle. The most successful founders on Wefunder actually enjoy this fundraising process—they see it as a tremendous opportunity to market their business and engage a community of champions and supporters.”

At Skoda Minotti, we’re excited to work with startup companies, and we appreciate the insights and contributions of Thimesch, Price and Marks from their experiences with regulation crowdfunding. Our firm’s experience in providing compiled, reviewed and audited financial statements since 1980 can assist issuers with the requirement for reviewed financials if raising over \$100,000 or more, and audited financials if raising over \$500,000 through two offerings within a 12-month period.

If you’re an issuer and you’ve enjoyed this blog, please reach out to us. We are looking to produce a similar piece with perspectives from issuers who have raised money through regulation crowdfunding.

Do you have additional questions about regulation crowdfunding-or want to see if it makes sense for your company? Please contact Marilea Campomizzi, CPA, at 440-449-6800 or email Marilea.