

Equity Crowdfunding: ***The next wave of innovation finance***

Jon Medved
IOSCO SME Workshop
September 29, 2014

Enter crowdfunding



crowd·fund·ing

noun \ 'kraüd-,fən-dīŋ \

Definition of CROWDFUNDING

: the practice of soliciting financial contributions from a large number of people especially from the online community



Donation



Equity



Debt



Reward

Market Disruption: Crowdsourcing in Finance

Massolution: Crowdfunding portals will raise \$5.1 billion in 2013 – nearly double the amount raised in 2011

World Bank October 2013 estimate places global crowdfunding at \$95B by 2025

- Consumer Lending
- Rewards-based
- Donations
- Venture Capital

“Venture capital-type crowdfunding is the wild card for 2013. It could raise more than a billion dollars ...”

Source: Massolution Crowdfunding Industry Overview 2013

Source: Deloitte TMT Predictions 2013 “Let’s get together: crowdfunding portals bring in the bucks”

Source: World Bank “Crowdfunding’s Potential for the Developing World”



Reward-based crowdfunding's impact

Crowdfunding as the new seed round



Pebble: the big splash

Kickstarter: \$10.3M / May 2012

E-Paper Watch with deep smartphone integration

Proved the ability for a great idea that major brands ignore to get off the ground via online donation crowdfunding

Donation crowdfunding is a way to pre-sell and to prove the existence of a market

Reward-based crowdfunding: Where is the Reward?

The recent acquisition of Oculus raises questions



Andreessen, Spark, Matrix Partners back Oculus Rift with \$75M Series B... then Facebook acquires the company for \$2B

December 2013 ... March 2014

After raising \$2.4M from Kickstarter, Oculus Rift gets the attention of major investors



Pays \$2B for company and Original crowd funders get nothing

Now investors are asking why do I only get a tshirt?

Naturally, this plays into the rise of equity crowdfunding platforms

The Story of Consumer Physics (SCiO)



Miniaturized near-IR spectrometer, allowing for first hand-held molecular sensor. Applications: measuring nutritional information in foods, identifying allergens, authenticating precious metals and leathers, etc.

<https://www.kickstarter.com/projects/903107259/scio-your-sixth-sense-a-pocket-molecular-sensor-fo>



The Story of Consumer Physics (SCiO)



Crowdfunded seed round on OurCrowd - \$375k raised | 2013

Launched consumer product on Kickstarter in 2014

Opened follow-on via OurCrowd – raised \$3.3M within two weeks

Product launch - \$2.8M in preorders

KICKSTARTER



12,958
backers

\$2,762,571
pledged of \$200,000 goal

0
seconds to go

SCiO



Product launch on Kickstarter at \$200 price point saw **over \$1.2M in pre-orders within a week.**

Rave reviews in media: VentureBeat, CNN, Bloomberg, Forbes, BBC, Fox, Gizmag, TechCrunch
Validation of strong demand for consumer-friendly health-focused devices at ~\$200 price point.

Equity Crowdfunding: Broadbased or Accredited Investor?

- Broadbased:
 - » To allow any investor to participate in equity crowdfunding regardless of financial ability or sophistication
 - » In the US awaiting release of final JOBS Act Title III regulations
 - » In UK (and elsewhere) currently underway
- Accredited Investor:
 - » In US, Limiting investors to Accredited Investors according to 506 D
 - » Several platforms operational, following issuance of “No Action” letters
 - » Some using JOBS Act Title II public solicitation provisions, others not

Rise of equity crowdfunding

- Explosion of platforms – OurCrowd, Angel List, FundersClub, CircleUp, etc
- We are pioneering a new model for consumer startups: leveraging both equity and reward crowdfunding



What is the best model for private company investment via crowdfunding?

- Smaller version of IPO
 - » Heavily regulated/approved portal/Jr BD
 - » Company is issuer
 - » Less curation/more self service
 - » High Overheads associated
 - » Placement fees/no upside or portal investment allowed (conflicts)
 - » Limits on investment
 - » No post raise monitoring or reporting
- Venture Capital Model
 - » SPV model/investors aggregated
 - » Managed by professionals under current Venture exemptions
 - » Low overhead due to less regulation
 - » Management fees/Carried Interest real motivator
 - » No limits on investment
 - » Board seats/Reporting/Guidance post raise

Issues to consider when devising crowdfunding regulations?

- Do you want to open up Venture and Angel Investing to more investors while retaining what works about the model?
- Do you want to focus on broadbased or accredited investors?
- Do you want to take fees from companies or investors?
- Are these placement fees (like Broker dealers) or Management and Carried interest (like VC's)
- Do you want to aggregate investors/one name on cap table?
- Do you want there to be investor representatives on boards?
- Do you want portals with “skin in the game”—ie commit their own funds
- Do you really want to limit amounts of funding (say \$1M?)

What do SME's need from investors?

- Is it just cash?
- Do they need coaching, guidance, Board governance?
- Do they need help building the next round and finding other investors?
- Should the company be “venture friendly and ready” for the next round?
- Do they need help with strategic introductions to other funders, partners, hires, etc.?

The Accredited Investor Opportunity: Is it in danger?

It is estimated that 9-10 million accredited households in the US (6.7% of all households)* are eligible to invest in private securities by meeting the current criteria for accredited investors (\$200K annual income, \$1M net worth excluding home)

It looks as though the SEC will soon receive recommendations from its Investor Advisory Committee that may recommend a **tightening** of these criteria. According to recent reports this may include raising the annual income, or net worth, or percentage thereof that can be invested, as well as adding a potential financial sophistication element as well

Do we want to shrink the pool of accredited investors or grow it?

How many accredited investors have invested so far this way?

Is there a problem with the current angel investors?

Do we want to first focus on making equity crowdfunding work for this group?

OurCrowd Overview

- ✓ Global leader in equity crowdfunding, just 19 months after launching
- ✓ Almost \$100M raised for platform and portfolio
- ✓ Raised over \$65M for 51 companies
- ✓ 25 companies with over \$1m raised, 5 deals over \$3M
- ✓ First follow-on deal funded in 4 hours, 14 follow-on deals on OurCrowd, with 16 of our portfolio doing follow-ons total
- ✓ High-quality, continually improving pipeline of new & international deals
- ✓ 6000 Accredited investors, 600 active
- ✓ Average active investor committed to almost \$100K on site
- ✓ Experienced investment team - 150 years VC experience

“Crowdfunding for real investors” (TheStreet.com)

Growing Differentiation from the rest of the pack

- Currently Selecting 2% of the deals we are pitched
- We always Co-invest with crowd
- Accredited investors only
- Managed investments via SPV
- Good for companies (one check), Good for investors (protections, rights)
- Truly International (active investors from 30 countries)
- Focus on Follow-on rounds bearing fruit
- Mentors program is unique
- Taking Board seats in 65-70% of companies
- “Crowdbuilding” resonates and works
- Co-investor list is indeed impressive
- **Our goal is to be the “smart money” in crowdfunding**

Two options for individuals to invest in start-ups

	Venture Capital	Angel investing
Access to Deal flow	Top deal flow <input checked="" type="checkbox"/>	Limited
Due diligence	Professional <input checked="" type="checkbox"/>	Limited
Legal	Dealt with <input checked="" type="checkbox"/>	Need to deal with
Rights	Protected <input checked="" type="checkbox"/>	Common shares
Commitment	Large	No <input checked="" type="checkbox"/>
Fees	Heavy	No <input checked="" type="checkbox"/>
Discretion/Choice	No	Yes <input checked="" type="checkbox"/>

OurCrowd offers the best of both worlds - the professionalism of VC and the flexibility and low entry price/freedom of Angel investing

	Venture Capital	Angel	OurCrowd
Access to Deal flow	Top deal flow <input checked="" type="checkbox"/>	Limited	Top deal flow <input checked="" type="checkbox"/>
Due diligence	Professional <input checked="" type="checkbox"/>	Limited	Professional <input checked="" type="checkbox"/>
Legal	Dealt with <input checked="" type="checkbox"/>	Need to deal with	Dealt with <input checked="" type="checkbox"/>
Rights	Protected <input checked="" type="checkbox"/>	Common shares	Protected <input checked="" type="checkbox"/>
Commitment	Large	No <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>
Fees	Heavy	No <input checked="" type="checkbox"/>	Lower than VC <input checked="" type="checkbox"/>
Discretion/Choice	No	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>

OurCrowd

A hybrid of venture capital and crowdfunding



2000+ companies
per year



Researching and
selecting only the best

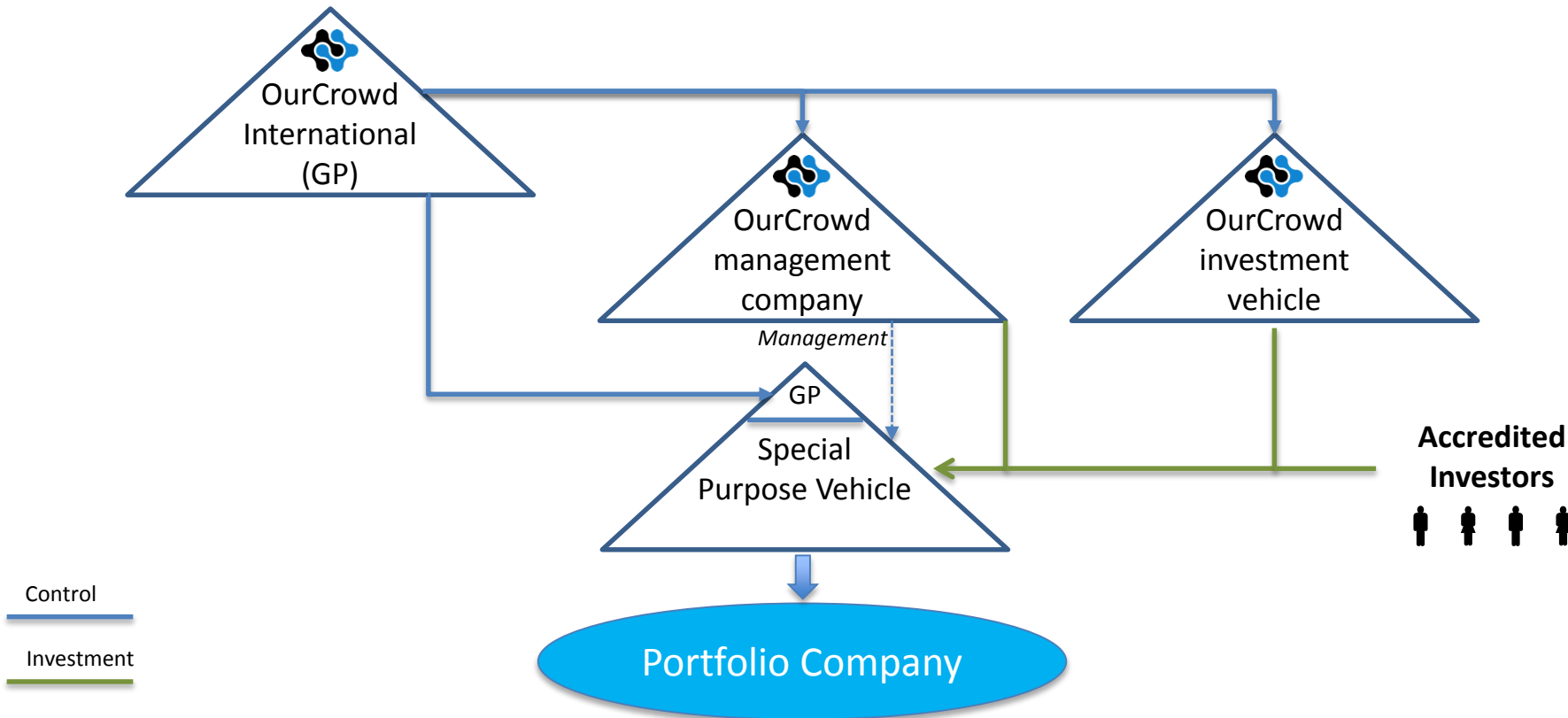


OurCrowd invests
its own money



Open the deals
to the crowd

OurCrowd's Investment Model



World-leading stats

50

Companies
in portfolio

\$65M+

invested

6000+

members

30+

countries

14

Up-rounds

Co-investors



OurCrowd's Portfolio – 51 companies



ReWalk

- Multi-billion dollar market within victims of spinal cord injury
- Exoskeletons for personal (at-home) and rehab (clinic) use
- First exoskeleton in market to be fully FDA-approved

Enabling paraplegics to walk again

<https://www.youtube.com/watch?v=2Xd27c-pz4Y>



NASDAQ: RWLK

Surgical Theater



SURGICAL
THEATER

Applying the science of flight simulation to advanced CT/MRI imaging tech, allowing surgeons to perform a 3D simulation of the surgery prior to operation

Surgical Rehearsal Platform is the only FDA-approved player in its market

Reducing surgical errors and costs with F-16 simulator technology

Surgical Rehearsal Platform: based on highly differentiated simulation



Surgical Theater's core technologies are powered by the flight simulation pioneered by its founders, Moty Avisar and Alon Geri. With the medical help of Dr. Warren Selman, Surgical patented a solution that is miles head of any simulation technology available on the market today.

Surgical's team [featured on CNN here](#)

BT9



Intelligent Supply Chain Solutions

Real-time, granular monitoring of perishable goods transport

Addressing market where tens of billions of dollars of food is wasted annually due to supply chain issues

Real-time monitoring infrastructure for the cold supply chain industry



Wireless sensor tag

BT9 offers a “full stack solution” – they own and manage the full range of technology used to provide data and analysis to their customers. This includes the disposable sensor tags, the communications hardware, and the data/analysis service.

BT9 already operates in over 40 countries and is approaching 300 customers, including General Mills, Total Produce, UniVeg, Fyffes, and Zespri.

Feeding the world: water



Farmers waste hundreds of millions of dollars worth of water – driving up prices and reducing supply for those most in need of affordable water – because they're spraying water uniformly across their fields. A mobile app that enables farmers to finely control where their water goes is already saving countless cubic meters of water internationally.

Varigate – the world's most affordable water

Need for water tech impact

Water is the next “big thing”



Only one country recycles 75% of its water. By comparison, #2, recycles just 11% of its water.

Great need for these “green innovations for water management; these innovations can be decisive in managing scarce water resources” – **Angel Gurría, OECD Chair**

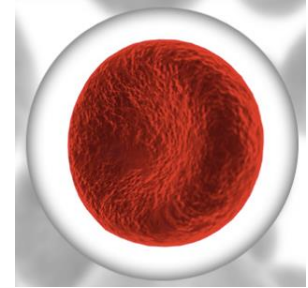
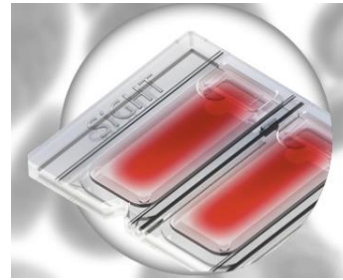
Fighting the most deadly killer: malaria



Malaria has killed millions in the past decade and is among the diseases with the highest toll on human life and economic activity worldwide. Despite this, diagnostics tools used in the prevention and treatment of malaria worldwide remain expensive, slow, and insufficiently accurate for mass implementation. SightDX's computer vision technology reduces the time to diagnose from several hours to minutes, while being more accurate and substantially cheaper.

Interdisciplinary strengths

Sight Diagnostics represents the convergence of two key Israeli strengths: life sciences/biology and machine vision/advanced algorithms



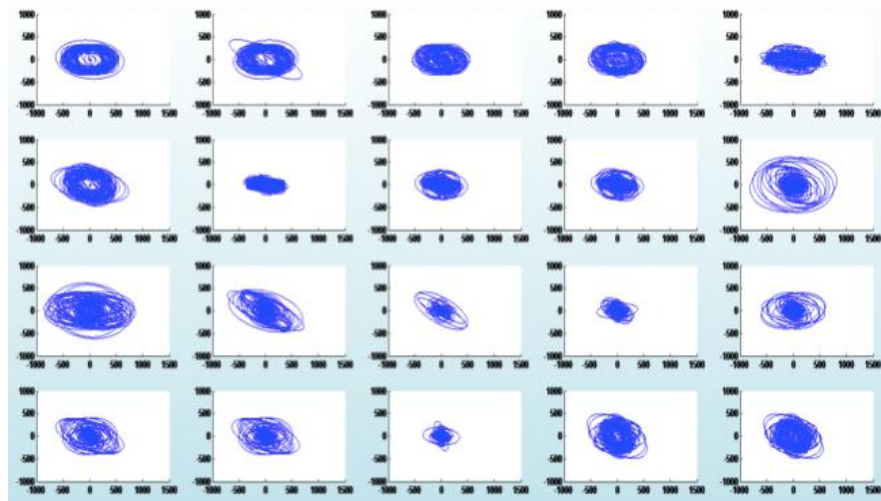
The story of SightDX being founded and built by a diverse group of people pooling their personal intellectual strengths is the archetype of the Israeli startup.

BioCatch: Cyber Security



- Identifying fraud through mouse/keyboard/touchscreen input monitoring
- Individuals' input style creates a "signature" that is highly unique
- Already in use by major financial institutions

Biometric monitoring to catch fraud online



Disappearing Cursor Challenge:

Monitoring over 350 parameters around a user's reaction to a disappearing cursor to differentiate the normal user from a fraudster.

Abe's Market: *E-Commerce*



AbesMarket.com

- Rapidly growing e-commerce site for natural, organic products
- Over 13,000 SKUs
- Trusted source for conscientious consumers; building a tribal user base

The destination for natural and organic products online



Richard Demb & Jon Polin:

Experience in founding, building, and selling brands.

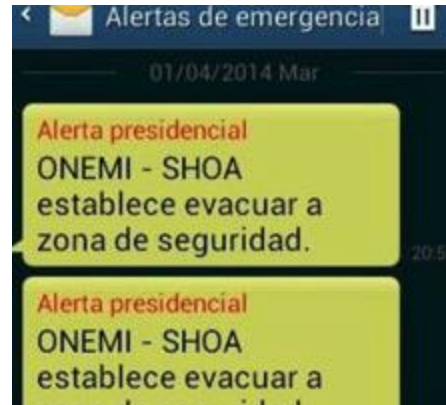
- Clorox
- Capital One
- Popcorn Indiana

Saving lives by alerting to danger in real time



Unique demand for the fastest, most innovative technologies in emergency alerting forced eVigilo to produce the world's leading mass alerting system that is now used by governments around the world as a core part of their disaster preparedness plans.

Case study: Chilean earthquake '14



Chile's 2010 earthquake and tsunami took over 520 lives as millions were left without means to communicate or be alerted to the post-quake tsunami for up to 12 hours. In the minutes after the 2014 earthquake, Chile activated eVigilo's newly-implemented system and effectively alerted several million people in tsunami zones to evacuate.

Highcon



Moving conventional packaging production from analogue (die-cutting) to digital process (one-button operation). Opens new possibilities for packaging – short and medium runs, high-value packaging in small quantities, labor savings, etc.

Co-investors: Benny Landa (Indigo, \$800M acquisition by HP)

Broad expertise in digital printing



From a team of entrepreneurs like those that brought Scitex, Jemtex Printing, Objet, XMPie, and Indigo to the world market, securing major exits to multinationals like HP and Eastman Kodak. Indigo, which HP acquired for \$800M to absorb its digital printing technology, was started by Benny Landa, a Highcon investor.

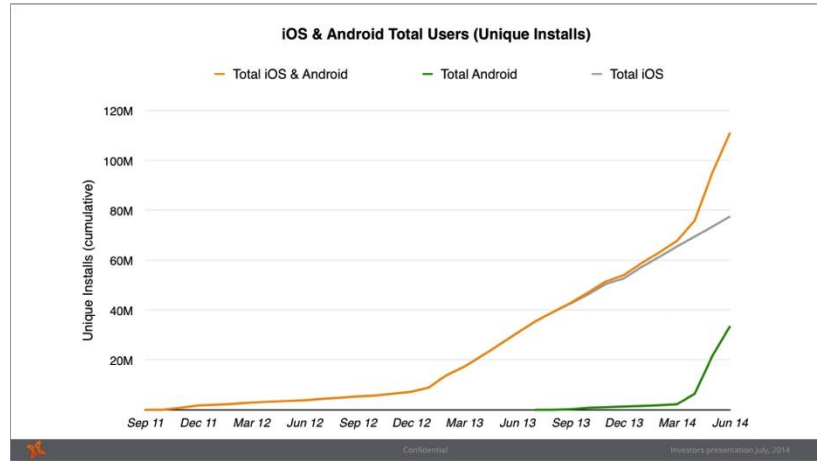
Current opportunity: Raising \$15M for expansion. Strategic investment possibilities.



Fastest growing mobile multiplayer network for Android and iOS with over 110M users.

Provides back-end for developers to quickly deploy their games as full-blown multiplayer games in 10 lines of code, without the headache of maintaining server load themselves.

Evaluating NextPeer's virality

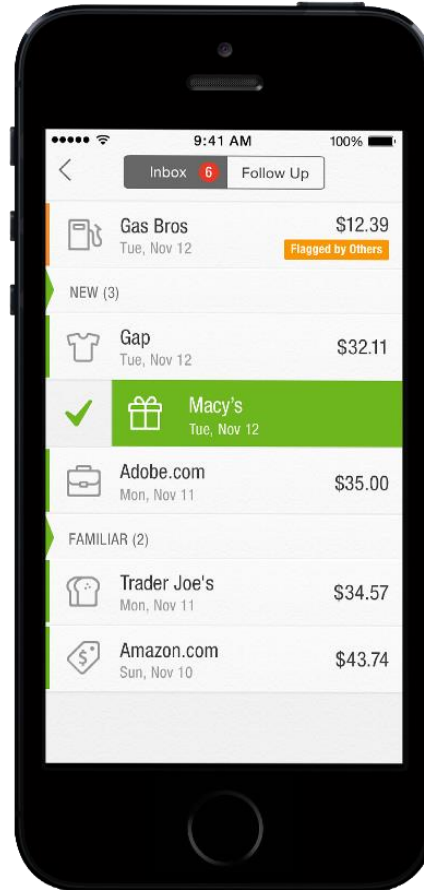


NextPeer's user adoption rates surpassed 1.5M per day during recent peak periods, as reported in a VentureBeat article looking at the network's explosion. By providing the backend for game developers to make engagingly multiplayer products, NextPeer is able to "latch onto" the growth of viral games like 2048n or Candy Crush and grow as the games pick up gigantic user bases.



Crowdsourced credit card fraud detection

- Banks catch only 1/3 of card fraud and largely analyze only at the moment of transacting – about \$3.5B
- BillGuard’s “post-transaction monitoring” approach opens a \$26.5B segment of additional fraudulent and “grey” charges to analysis and detection
- Co-Investors: Bessemer, Khosla, Peter Thiel, Eric Schmidt



About the app

- **#1 personal finance app globally:** solid & consistent 5-star rating, set to surpass 1M users in 2014
- **Industry-leading engagement & retention:** the app’s award-winning UI makes checking fraud as addictive as checking Facebook. Average of 7 log-ins per week and 40% 90-day retention, or 4X the industry average.
- **Crowdsourced “neural network”:** similar to anti-spam technologies, BillGuard uses patent-pending algorithms to interpret input from 1M+ users and learn to predict fraud

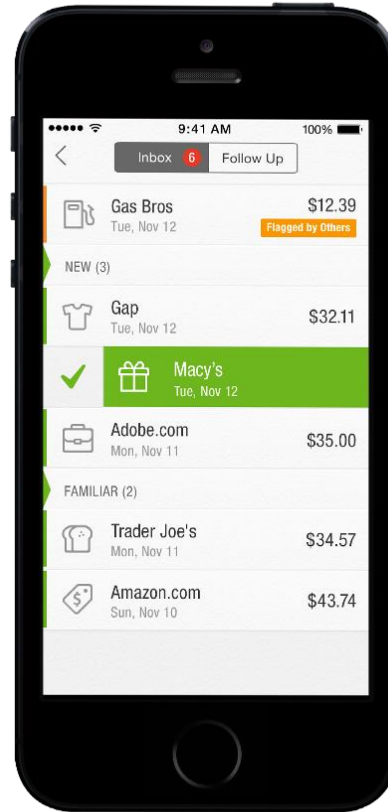
http://www.youtube.com/watch?v= ynH_rvWHXw

BillGuard: Mobile Applications / FinTech



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Crowdsourced credit card fraud detection



What they're saying

"Startup Touts a Credit-Card-Hack Warning System"
The Wall Street Journal

"App for Spotting and Disputing Dubious Charges"
The New York Times

"Know when your credit card info could have been stolen with BillGuard"
Geektime

"BillGuard Launches iPhone App To Help Credit Card Users Catch And Dispute Grey Charges"
TechCrunch

"6 Simple Apps That Make Saving Money Easy"
Business Insider

MUV: Consumer Electronics

MUV
interactive

- Multi-environment, multi-channel control of digital interfaces
- High precision, remote interaction with touch and voice
- “Bird”- small finger-attached device

Turning any surface into a touchscreen

A look at MUV's product



CEO Rami Parham demonstrates MUV's fine-detail control over a projected image. MUV's solution is both available in a small, unobtrusive add-on, as well as a sensor capable of being embedded within projectors by OEMs.

http://www.bloomberg.com/video/this-start-up-can-turn-your-sofa-into-a-smartphone-n8L7tE86RkaaikXT3y2_Sw.html



Semicon/components company whose product enables effective voice communication and recognition in even the most noisy environments. “Optical microphone” monitors vibrations on speaker’s throat and face, helping to isolate speech from background noise.

Technology implementation update



Yechiel Kurtz, CEO, held a successful meeting with President of **Samsung Mobile R&D group**. VocalZoom will be running tests with engineers in Korea in May 2014.

Strategic investments at this stage in the company’s development are an **open potential**.



Revolutionizing team communications with cross-platform mobile messaging application. Called “Whatsapp for business”, Zula’s core value is its focus on consolidating communications for teams into one location and focusing on team-centered functions above those offered by existing consumer solutions.

Co-investors: Microsoft Ventures, Mort Meyerson (EDS)

Founders are giants in the comm. space

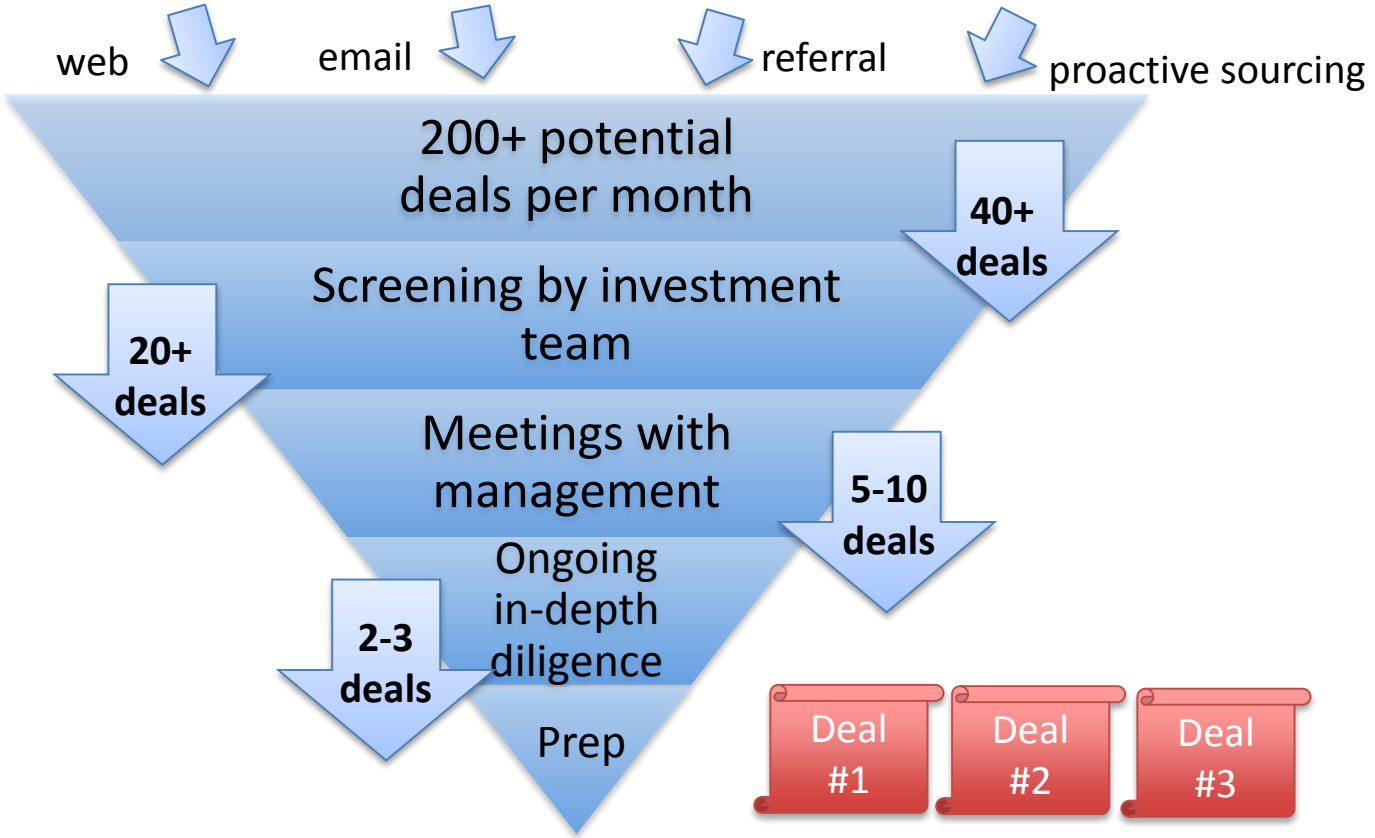


Above: Jeff Pulver, Chair & Jacob Ner-David, CEO

Jacob Ner-David founded and exited three communications companies, the largest of which was Delta Three, which he took to IPO on NASDAQ with a market cap of ~\$1.8B.

Jeff Pulver was the co-founder of Vonage and pioneer of VOIP technology and early legislation.

Deal flow – OurCrowd invests its own capital in every deal



6 Key Investment Criteria

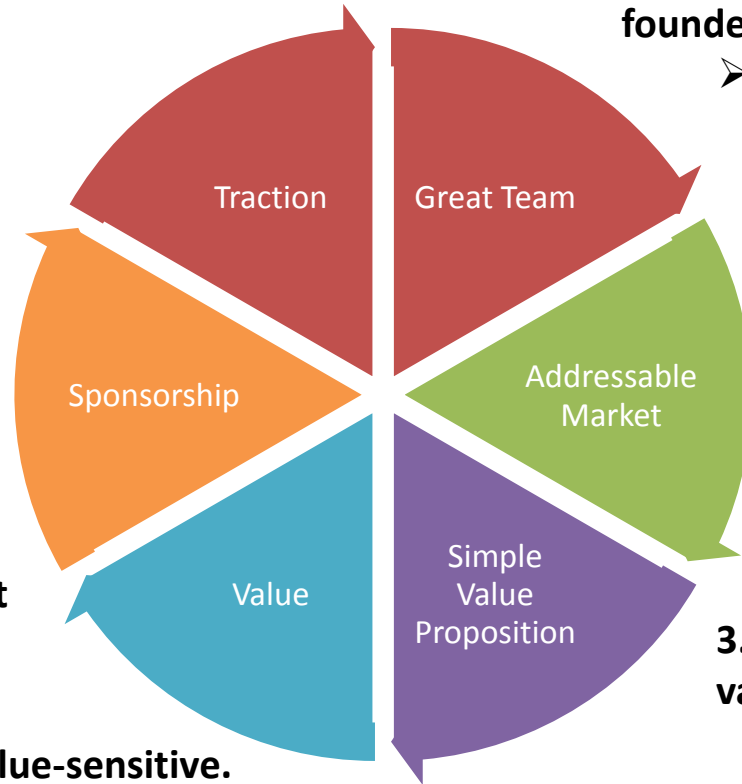
4. Traction: Investing in early stage companies, but not just ideas or pre-prototype.

- Early product, users, customers, partners & revenues

5. Sponsorship: Investing in startups/building early stage companies is a team sport.

- Board, advisors, **smart investors**

6. We seek “deals” and are value-sensitive.



1. Great team: Successful startups are founded by great people.

- We pay special attention to successful serial entrepreneurs.

2. Market: The startup must address huge market growing like a weed.

- No arcane ideas addressing niche markets.

3. Easy to understand: a simple value proposition.

- Easily understood by us AND by “our crowd”.

Diversification across stage



Co-investing with leading angel investors



Peter Thiel

PayPal



Eric Schmidt

Google



Mort Meyerson

Dell
EDS



Gigi Levy

888
Amdocs



Ori Sasson

Apax
Genesis



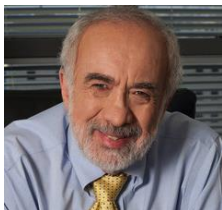
Ajay Shah

Silverlake Sumeru
Shah Capital Partners



George Conrades

Akamai



Benny Landa

Indigo



Yigal Jacoby

Allot Communications

Co-investing with leading investor groups

Top-tier funds and institutional investors



Co-investing with leading investor groups

Top-tier funds and institutional investors



Announcing Strategic Co-Investment Agreement with General Electric Ventures



- GE will co-invest with OurCrowd in select early stage companies in the areas of energy, healthcare, software and advanced manufacturing
- Investing on the same terms as our members/investors.
- First time major corporation has made such a commitment to an equity crowdfunding platform
- Huge validation for OurCrowd.

Sue Siegel, GE Ventures CEO :“OurCrowd has created a unique platform for dynamic early stage origination and funding. They offer a quality investment environment and the partnership will give GE increased access to early innovation.”

OurCrowd's Portfolio Reserve

- Allows investor to easily, quickly build portfolio of investments without having to choose each investment
- Automatically places you into each deal in a simple and easy to use methodology
- Protects and Reserves allocation which can be critical in high demand deals
- Investors can choose to opt out or increase amount for each individual investments as they see fit
- Single set of documents to sign
- Starting at \$100,000 with 10 investments of \$10,000 each
- Special programs for Family offices can be structured up to \$5,000,000

OurCrowd Economics

- All Fees and Carry are only on funds invested, there is no fee for membership, registration, no commitments, nor fees on committed capital
- All Fees are taken on a per investment basis, individual investors build their own portfolio and are responsible for portfolio allocation thus economics are per investment
- Fees
 - » 2% annual management fee on funds invested for 4 years maximum, taken in advance (total of 8%)
 - » 4% fee reimbursement pool for direct coverage of costs such as SPV registration, annual renewals, etc.
- Carried Interest
 - » 20% carried interest after return of full investment (including fees)
 - » 25% after return of 5X investment

OurCrowd's Leadership Team



Jon Medved *Co-Founder & CEO*

- Washington Post: "one of Israel's leading high tech venture capitalists"
- 12 exits >\$100M
- Co-founder, CEO of VRNG
- Founder & GP Israel Seed Partners, \$260M AOM



Elan Zivotofsky *General Partner Investments*

- 15yrs experience in Israeli investing
- Managing Partner at Prelude Israel
- Former Head of Technology Banking, Lehman Brothers Israel; formerly top analyst at Goldman



Audrey Jacobs *VP Americas*

- PR at Porter Novelli
- Indpt. Consultant – media relations



Evelyn Rubin *BizDev Partner*

- Sr Associate JVP
- Dir BizDev at CipherIT
- Sr Editor, Seeking Alpha



Pini Lozowick *General Partner*

- General Partner at Alta Berkeley
- Among first employees at Broadcom, Dir. Marketing
- Founder and GM of Verisense
- 5 exits; total value \$3B



Danna H Mann *Partner, Head of Investor Rel.*

- Global Marketing, Estee Lauder
- VP BizDev, JVP Properties
- Kellogg-Recanati EMBA



Zack Miller *Partner, Investor Community*

- Seeking Alpha, Lending Club, LearnVest, Wall Street Survivor, Covestor, SigFig
- Frm Sr. Editor at Seeking Alpha



Gadi Mazor *General Partner & CTO*

- Serial entrepreneur in mobile/wireless
- US Senate Advisory Board
- RIM entrepreneur of the year 2013
- Ex-8200

Mentor Program



Eli Campo

- GM Israel @ LivePerson (NASDAQ LPSN)
- SVP @ Shopping.com/Ebay Israel



Morry Blumenfeld

- Managing Director, GE Medical Israel, other GE exec roles
- Noted consultant in medical space, active in industry and academia



Josh Wexler

- GM at Rubicon Project
- Serial entrepreneur in new media / adtech space



Henit Vitos

- Founder Kontera (Singtel, \$150M)
- Adtech serial entrepreneur



Dan Vilenski

- Frm President, Applied Materials Israel
- Frm Exec Director, BIRD Foundation



Mike Berman

- President Cardiology @ Boston Scientific
- Serial entrepreneur in medical device space



Raanan Gewirtzman

- CEO Broadlight (sold to Broadcom \$200M)



Ron Moritz

- GM @Microsoft
- SVP CTO @Symantec
- SVP Chief Security Strategist @CA



Lou Kerner

- Wall Street's first social media analyst
- Founding partner, social internet fund

Press Coverage

Forbes

“... one of the largest crowdfunding organizations on the planet”

Forbes



“company trying to change the way startups are funded”

CNN Business 360

The Street

“Crowdfunding for real investors”

thestreet.com

Inc.

“The hottest equity crowdfunding operation in the world”

Inc Magazine

WALL STREET JOURNAL

“Widening pool of angel investors to main street”

Wall Street Journal

Bloomberg

“Medved's latest mission is to blow up the exclusivity around tech fundraising”

Bloomberg BusinessWeek

Press Coverage in 2014



Conclusions

Crowdfunding

- Equity crowdfunding taking the world by storm
- Companies already leveraging equity + reward financing for launching consumer startups
- As internet finance democratized stock trading, equity CF will democratize private shares

OurCrowd

- World leading equity crowdfunding platform
- Best of venture capital world + power of the crowd
- 6000+ members strong
- Over \$65M in invested capital