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Centre of Competence for Sustainable Finance

Do equity-based crowdfunding platforms offer a better source of early-stage financing for sustainable startups in comparison to venture capital funds?

Bachelor Thesis in Business and Finance

Simon Marques

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Abstract

Startups with products and services aiming to reduce the environmental impact of modern society play a vital role in tackling climate change. However, an efficient allocation of funds is needed to bridge the early-stage funding gap these innovative startups face. Traditionally, venture capital has taken on that job, but with the rise of equity-based crowdfunding and the need for environmentally conscious decision making, the validity of this role has been put into question. This thesis explores whether equity-based crowdfunding could provide a better alternative for sourcing early funding. By leading qualitative interviews with founders of such innovative startups, valuable insight is gained into their experience raising funds for startups with environmental sustainability driven purposes. The results indicate that there are two areas founders should focus on when determining the value of running an equity-based crowdfunding campaign. One being a selection of criteria, such as the experience of the founder or whether the product is mass consumer oriented. The other being the aspects of crowdfunding, like the effect hundreds of crowdinvestors have on the shareholder structure, that in turn may have adverse effects on future funding opportunities. This suggests that founders need to critically analyze their startup and weigh the potential adverse effects that follow a crowdfunding campaign before deciding which funding route to take.

Keywords: equity-based crowdfunding, venture capital, early-stage funding, funding gap, environmental sustainability

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List of Abbreviations

3F	Family, Friends and Fools
ARD	American Research and Development
CEO	Chief executive officer
CF	Crowdfunding
EBC	Equity-based Crowdfunding
EU	European Union
GPs	General Partners
IRR	Internal rate of return
KPMG report	KPMG Venture Pulse Q4 2020 report
LPs	Limited Partners
SEC	Securities and Exchange Commission
SMP	Single Market Programme
SPY	Standard & Poor's Depositary Receipts S&P 500 exchange traded fund
USA	United States of America
VC	Venture Capital
VCF	Venture Capital Fund

1. Introduction

The ever-growing world population and several technological innovations have caused explosive economic growth over the past half century. Unfortunately, this has been happening at the cost of our environment, with greenhouse gases nearing the equivalent of 50 billion tons of CO2 being emitted into the atmosphere in 2016 alone. Almost 75% of emissions came from the production of energy to power the industry and our buildings, as well as to enable transport. These emissions have led to serious air pollution and increasing average temperatures across the globe; also, they are growing globally year by year (Hannah Ritchie & Max Roser, 2020). It is clear that this development needs to be stopped. Therefore, many countries have signed agreements such as the Paris Agreement, where 190 countries pledged to keep global average temperatures well below 2°C pre-industrial levels (United Nations, 2016).

However, it is also evident that in order to meet these goals, innovation will be required. For example, one essential way to reduce emissions is to stop burning fossil fuel for energy, which can be achieved by using renewable energy sources. A major issue with this is that electricity needs to be able to be stored in an efficient manner for which there is not yet a feasible solution at a large scale (Meng, Zhou, Dinçer, Yüksel, & Wang, 2021). Startups and small businesses take on an essential role in bringing innovative products and services to the market and contribute to a solution of this environmental issue (Taghizadeh-Hesary, Yoshino, Kim, Morgan, & Yoon, 2021). Recent years have seen a boom of startups with products and services that reduce emissions, efficiently harvest renewable energy sources, focus on recycling, or solve a plethora of other problems, leading to a more environmentally sustainable tomorrow.

These "sustainable" startups are faced with the same issue as any other startup, namely finding funding in an ecosystem where demand heavily outweighs supply (Preston, 2007). Historically, venture capital funds (VCFs) have provided this early-stage capital. But with recent adverse events in the financial ecosystem, such as the financial crisis in 2008, a funding gap has opened up once again, making it harder for these innovative startups to survive (Belleflamme, Lambert, & Schwienbacher, 2014). An alternative way of securing funds has become popular among European startups in the past decade, called equity-based crowdfunding (EBC). EBC lets startups sell equity to the public in the form of a 30-day campaign, where investors can invest amounts as little as $10. This results in an easy way for startups to raise money. It also gives retail investors the opportunity to invest in early-stage startups, a right previously only given to accredited investors (Vulkan, Åstebro, & Sierra, 2016). In turn, VCFs have come under some scrutiny with respect to their suitability in correctly and efficiently allocating their funds to innovative sustainable startups (Gaddy, Sivaram, Jones, & Wayman, 2016). This leads to the research question of this thesis:

“Do equity-based crowdfunding platforms offer a better source of early-stage financing for sustainable startups in comparison to venture capital funds?”

This thesis attempts to answer this question by interviewing the founders of both venture-backed and crowdfunded startups, trying to get insight into their funding experience and the reasons that led them to pursue one or the other route. The qualitative research is complemented by an extensive analysis of existing literature, reports and statistics, providing a solid base of knowledge on the subject of venture capital and crowdfunding in theory and practice. The results show, that while there is no “one size fits all” answer, there are clear criteria relating to the founder and/or the startup in question that speak for the pursuit of EBC as the source of early capital. There are also a few consequences of EBC, which, as the research shows, could have potentially adverse effects on future funding plans. These need to be accounted for by the founders.

2. Theory

2.1. Stages of Start Up Funding

The funding of a startup takes place in so called rounds, with usually each one becoming larger than the last. The amount of rounds a startup has depends on the funding requirements and the goals of the startup. Crunchbase, a popular database for information on companies, provides a list with these rounds and categorizes them into stages.

Table 1: Round and stage categories based on Crunchbase (2021)

Round	Stage
Angel	Seed
Pre-Seed	Seed
Seed	Seed
Series A and Series B	Early-stage Venture
Series C +	Late-stage Venture

Table 1 shows these different stages and categories listed in order of occurrence. The focus of this thesis will lie on seed rounds, which are categorized in the seed stage.

2.2. Pre-Seed Funding before Crowdfunding

Preston (2007) states that the number one challenge that entrepreneurs face when starting up and growing their business is gaining access to capital. There is a vast number of options entrepreneurs have at their disposal to get their start up funded. Before turning to more formal sources, entrepreneurs should start by asking friends and family for capital (Klacmer Calopa, Horvat, & Lalic, 2014). This group of people is often referred to as family, friends and fools (3F). Fools implying their unsophisticated nature and willingness to expose themselves to the high risk of investing in a young company (Abrams, 2017). If 3F is not an option, the first outside funding source that may come to mind would be asking a third party for a loan. However, conventional lenders such as banks demand some sort of collateral and proof of being able to generate the funds needed to service the debt. According to the findings of Cotei and

Farhat (2017), early stage startups are typically not able to provide either of these securities. So where can innovative entrepreneurs source the funding they need if they have exhausted their own funds and those of 3F? There seems to be an issue with a lack of funding for amounts exceeding the limits of private financing but not yet reaching the lower limit for a bank loan. The Macmillan Committee, which was originally put in place to investigate the cause of the great depression of the 1930s (Gordon, 1972), released the "Report of Committee on Finance and Industry" also known as the "Macmillan Report" which highlighted this problem for the first time, calling for the formation of "a company to devote itself particularly to the smaller industrial and commercial issues" (Frost, 1954, p. 182). Frost (1954) took up this issue of the absence of funding opportunities for early-stage business ventures in his research and ended up labeling it as the "Macmillan Gap". In today's day and age, the Macmillan Gap has dramatically decreased as more investors have found interest in providing liquidity to high-risk early-stage ventures. The so called "funding escalator" provides insight into the different sources of capital that are available to innovators to reach the next step with their startup.

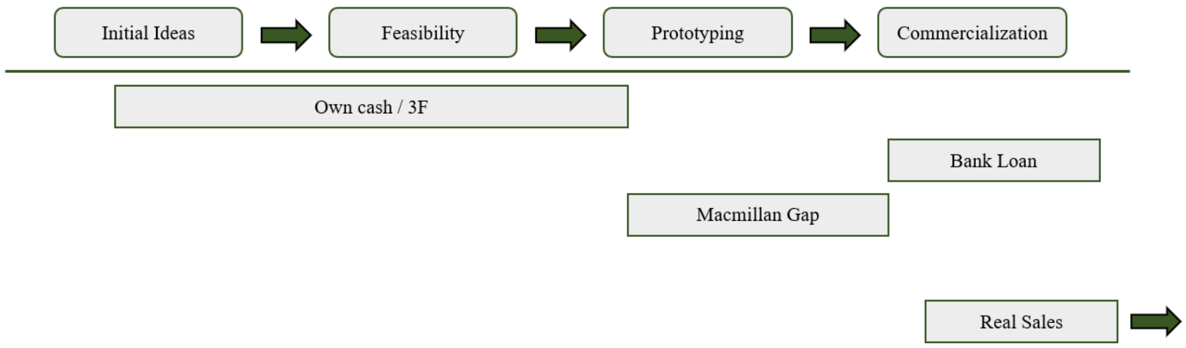

Figure 1: Funding escalator 1930s based on Harrison (2013)

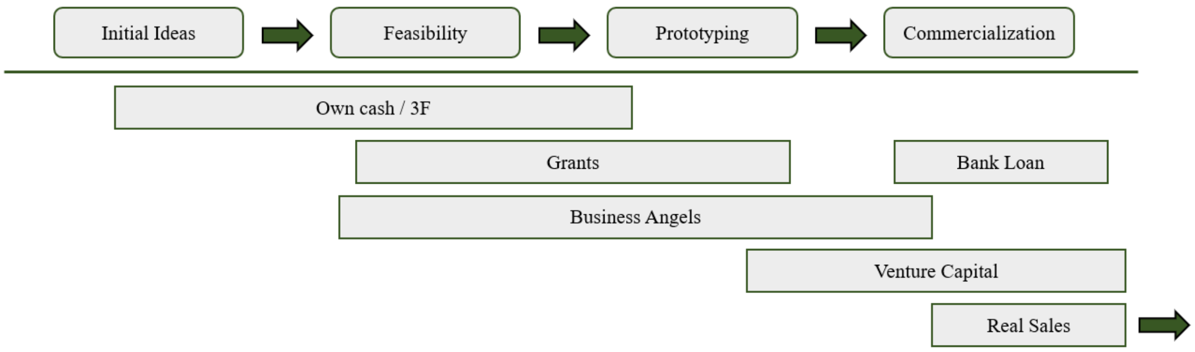

Figure 2: Funding escalator pre-2000 based on Harrison (2013)

Figure 1 shows the funding escalator from the 1930s, with a clear gap between own funds and the bank loan eligibility, titled as the Macmillan Gap. Figure 2 shows how grants, business angels and venture capital have moved in to fill that gap.

Grants are usually given out by public entities or charitable foundations. The European Union (EU) for example runs the “Single Market Programme” (SMP) which is managed by the European Innovation Council and SMEs Executive Agency. They are mandated to provide €4.2 billion to small and medium sized enterprises (SMEs) until 2027. The SMP aims to foster the uptake of innovation and the level to which global and societal challenges are addressed as a part of its initiative of maintaining the competitiveness of the European single market (European Commission, 2018). The United States of America (USA) has the United States Environmental Protection Agency as well as the Department of Energy. Both agencies have, as of the writing of this thesis, 32 grants posted on the grants.gov website.

While grants can satisfy the initial funding needs of a new startup, they remain a purely financial aid, without any strategic element. Figure 2 shows that there is an additional way to secure funding during that very early stage of the startup, namely business angels. As Prowse (1998) puts it, a business angel is an individual who provides risk capital to small and non-publicly traded firms, sometimes becoming large shareholders. Mason and Harrison (2008) go a bit further in their definition of a business angel by concluding that business angels are typically very active in the companies they invest in. They provide an added value with experience they gathered in successful ventures of their own, the network of contacts they have built, and their industry related know-how. According to Mason (2006), the typical angel investment is north of £10k, or roughly $14k. However, there have been investments in excess of £100k ($140k) as well. Mason (2006) also asserts that business angels typically invest in two to five startups, making up 5% to 15% of their total investment portfolio.

2.3. Venture capital

According to Chkoniya, Somenzari, Fernando Munoz Gonzalez, and Gabriel (2020), venture capital (VC) can be defined as financial capital allocated to a project with a substantial risk and an adequately high return. Zider (1998, p. 132) has a slightly different take on the matter: “In essence, the venture capitalist buys a stake in an entrepreneur’s idea, nurtures it for a short period of time, and then exits with the help of an investment banker”. Regardless of the exact definition, VC is the final step in the funding escalator from figure 1 and provides the last piece of funding before a company is mature enough to be able to emit bonds, take on a line of credit or fund itself by going public (Zider, 1998).

2.3.1. Venture capital in the past

In order to understand the role VC plays today, it is worth taking a look at the industry’s history. The VCF widely acknowledged as being the first of its kind is American Research and Development (ARD) (Gompers, 1994). Gompers (1994) expands that before ARD, the task of financing young ventures fell mainly on the affluent families of New York. The Rockefellers, Vanderbilts, Whitneys and Morgans heavily financed the establishment of the railroad infrastructure and the steel industry but were also involved in banking and oil. The investment strategy of ARD was to invest in companies with very high research and development costs, hence the name, and the first majorly successful investment they made was the acquisition of 77% of the Digital Equipment Company, which turned their initial investment of $70k into

$355m over a span of 14 years (Gompers, 1994; Hsu & Kenney, 2005). The success of that investment made it one of the most important moments in the history of VC and established that this way of investing could clearly be extremely profitable (Nicholas, 2016). Apart from ARD’s exit from Digital Equipment Company in 1971, the 70s were notable for the history of VC for one more reason. In 1979, an amendment was made to the “Prudent Man Rule”. This rule originally prohibited pension funds from taking part in VC (Gompers, 1994). Gompers (1994) shows that with the entrance of institutional funding for VC, the capital raised by VCFs increased nearly 13-fold from 1978 to 1988, with capital sourced from pension funds making up 46% of the total invested amount. The “Prudent Man Rule” amendment would not be the last time a change in policy would cause a transition in VC. One of the more impactful of such changes came when the newly elected President Clinton began to reroute $30b originally meant for Cold War purposes to “build the road to a digital future” in 1992 (Goodnight & Green, 2010, p. 122). The Dot-Com bubble that followed shortly thereafter caused an inflow of $93.7b over five years, equating to a 15-fold increase of capital allocated to the VC industry (Sohl, 2002). Of course, a majority of these advances were eliminated when the bubble popped in 2001/2002, causing the first negative 12 month return in VC history. Sohl (2002) continues by stating that due to these losses, VCFs used the funds they had left to bridge the companies already in their portfolios, rather than investing in new startups.

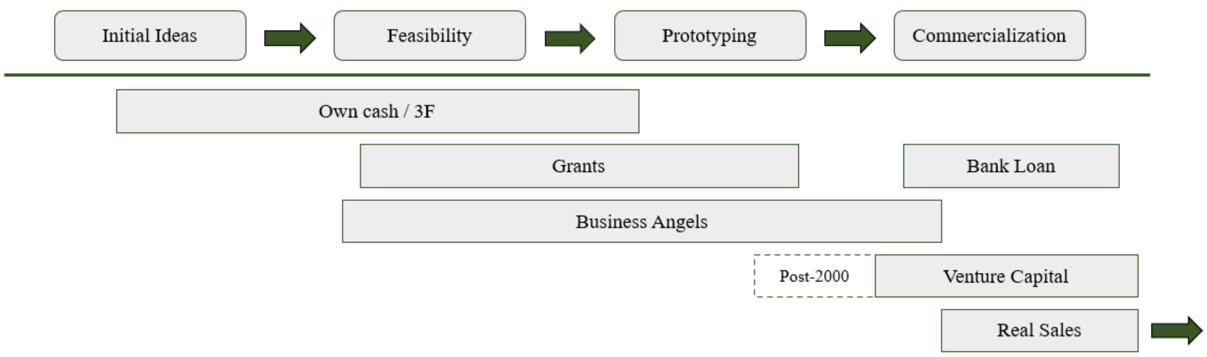

Figure 3: Funding escalator post-2000 based on Harrison (2013)

When applying this development to the funding escalator from figure 2, the overlap of VC and business angels has gotten smaller, as shown in figure 3. This development stretched the funds of business angels farther and potentially prevented some startups from securing the funding they would have gotten otherwise.

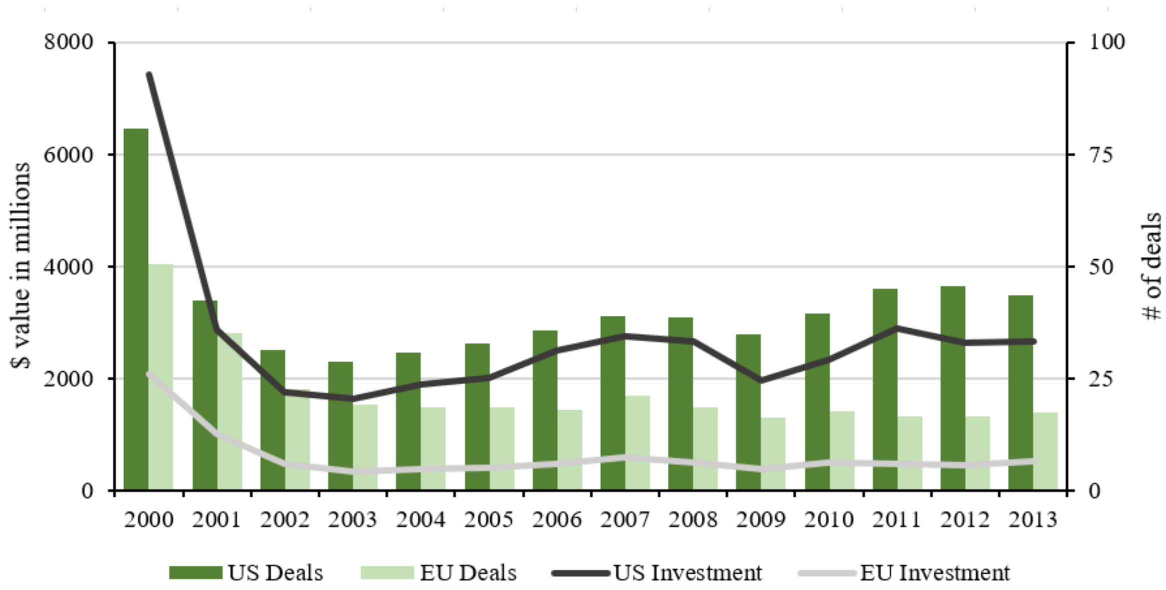

Figure 4: Graph on amount and size of VC investments in EU and US based on Wilmerhale (2014)

The following few years were rather uneventful, and saw a slight recovery take place. Figure 4 shows that the US market recovered from a low of $19.9b in 2003 to $31.4b in 2007 and the European market, which fell from $25.9b in 2000 to $4.3b in 2003 was able to recover to $7.3b in 2007. The fallout caused by the financial crisis in 2008 did not impact the VC industry as significantly and VC deal numbers were above pre-crisis levels within a year. The deal size however took longer to recover, and with the exception of 2011, remained below pre-crisis levels. This is partly due to the overall decrease in funding required for early-stage rounds because of the technological advances made during that time, reducing the costs to run a business drastically. The other reason for lower deal sizes was the trend back to financing more early-stage startups, reversing some of the adverse effects the Dot-Com bubble had on the funding escalator (Wilmerhale, 2014). This positive trend was not able to compensate the obliteration of personal finances following the financial crisis and the effect it had on startup funding in general, which will be discussed in chapter 2.5.3 of this thesis.

2.3.2. Venture capital today

With the current monetary policies in place globally due to Covid-19, it has become increasingly easy to access cheap money (European Central Bank, 2021; FRED, Federal Reserve Bank of St. Louis, 2021). This has a strong influence on the capital available to funds (Aryoubi, Hildebrand, & Meser, 2020), which is corroborated by a report from PwC (2021) that shows a historical first quarter of 2021 in terms of both amount of deals and total investments, with the amount of deals increasing from 102 to 184 and the total VC invested doubling from $19.2b to $39.8b. The same report also highlights a central issue to the topic of this thesis, and that is the underperformance of seed rounds. While the number of series A – E+ deals have increased by 34% on average, the number of seed rounds have decreased over the past six years by 26%. Over the same period the median seed round size has increased 5% more than the median size of later stage rounds. Therefore, it is possible to conclude that the trend in VC of focusing on already established companies, which, as mentioned before, first came up after the Dot-Com bubble burst, has picked back up again and has been especially predominant in the past couple of years.

The vastly different industries, stages and geographical areas where VC is invested today has created a heterogenous industry (Elango, Fried, Hisrich, & Polonchek, 1995). Their research has shown that there are significant differences between funds which invest more heavily in later stage rounds and funds which invest predominantly in seed/early-stage rounds. One main difference being the amount of assistance provided to the startup they invested in, which was higher for earlier stage startups and lower for later stage startups. Another pattern that was noticed, albeit with a lower statistical significance, was that the expected internal rates of return were higher for funds which focused on earlier stage investments than those of funds which focused on later stage investments. This thesis will focus on funds which mainly invest in seed/early-stage startups.

2.3.3. How venture capital funds work

A VCF is essentially an asset class for institutional investors as well as very wealthy individuals to invest in (Ramsinghani, 2014). These funds are raised by the general partners (GPs) of a venture capital firm, who are either raising their first fund or an additional one to the many they already have (Kamps, 2020). According to Kamps (2020) the first step to raising capital is to establish an investment thesis according to which the fund will allocate its capital. This investment thesis will be built on what the GPs believe the next decade will bring in terms of high growth industries. It is meant to convince future limited partners (LPs), who are the investors in the fund, that the fund in question is capable of providing adequate returns and are aligned with their investment ethics (Kamps, 2020). According to Ramsinghani (2014), the LPs will then compare this investment thesis to the GPs industry experience, make their own assumptions in regards to the underlying market conditions before deciding on whether they want to invest or not. He goes on to state that 52% of VCFs complete this fundraising within a year and that 70% are successful in raising their targeted fund size. It is important to note that a VCF is what is referred to as a closed-end fund (Ramsinghani, 2014). This means that all the money is raised at once, and once the fund is closed, no additional investors are able to join (U.S. Securities and Exchange Commission, 2021). The return LPs expect from a VCF is between 25% and 35% annualized (Zider, 1998) which, when taking the typical lifetime of a VCF of seven years (Stuck & Weingarten, 2005), yields a total return of 376% – 717%, averaging out to making more than five times the invested capital over those seven years. As a comparison, the Standard & Poors’s Depositary Receipts S&P 500 exchange traded fund (SPY), designed to track the movement of the S&P 500 index and open to any individual to invest in returned an average of 6.5% yearly since the beginning of the 21st century (Yahoo! Finance, 2021). Compounding that return over seven years gives a total return of just over 55%, roughly 10% of what LPs expect to see from a VCF. This shows how high the expectations imposed on GPs are and leads to the question of how it is possible for them to be met.

Taking into consideration the very low chance of success even in well setup companies (Zider, 1998), the only way a VCF can possibly achieve such returns is to diversify the funds across multiple startups and hope that at least one of them makes it big (Stuck & Weingarten, 2005). However, for the VCF to make any money off an investment, there needs to be some kind of liquidity event, more commonly known as an exit (Kamps, 2020). Schwienbacher (2010) provides the five types of liquidity events usually encountered in the VC space:

- Initial Public Offering (IPO)
- Trade sale
- Management Buyout
- Refinancing (or secondary sale)
- Liquidation

While the route which is chosen depends largely on the growth the venture was able to achieve up until that point and the current economic cycle, Schwienbacher (2010) continues, the most common and researched exit routes are the IPO and trade sale; a trade sale is when a corporation acquires the venture for diversification or synergy purposes. Gompers (1995) research shows that although the IPO is far more lucrative than a trade sale, providing an internal rate of return (IRR) of 60% while trade sales only lead to an IRR of 15%, it is more common to exit via trade sale than via IPO. One reason for this strong difference may be that companies that go public tend to receive more funding rounds leading to the IPO taking place when the company is already more “mature”, while venture capitalists tend to identify companies which are not suitable for an IPO early and try to find a corporate buyer for those to reduce unnecessary additional capital expenditures (Gompers, 1995). On the other hand, trade sales are also suitable for startups without the required outlook for growth to survive but with other valuable assets other corporations would like to acquire. Such examples are strong brand recognition or the acquisition of the startup's human capital, resulting in so called "acquihires" (Kamps, 2020). Using and roughly approximating these IRRs results in a portfolio performance as outlined below.

Table 2: Sample fund return calculations based on assumptions made in text

	IPO	TRADE SALE	BUST	TOTAL
$ INVESTED	20	10	70	100
PAYOUT YEAR 7	27X	2.5X	0X	
GROSS RETURN	540	25	0	565
NET RETURN	520	15	-70	465

Table 2 shows that even though 70% of the funds capital was invested in startups that returned nothing at all, a gross return over seven years of $565 on each $100 invested is still achievable, resulting in an IRR of 28% which is just above the lower bound expected return. Not all that money goes to the LPs though. The fees in VC can vary from fund to fund in the exact numbers, but they all share the same structure: There is a yearly management fee on all assets under management of 1%-2% and a performance fee of typically 20%, also referred to as the "carry" (Cumming & Johan, 2009).

Having established what the GPs and LPs stand to receive from their investments, it is time to switch sides and think about the benefits the startups can get from receiving VC during their early stages. Startups at this point are in a large transitional stage. They have already proven their technology can work and are now focusing more on getting to market (Hand, 2005). Venture capitalists can help in this area by professionalizing management and providing a network of potential customers and suppliers, and they do this in a startup they already prescreened and deemed more likely to survive (Chemmanur, Krishnan, & Nandy, 2010). T. F. Hellmann and Puri (1999) found that venture capitalists were able to help innovative startups in particular bring their product to market faster, solving one of the main issues startups face during this stage of their growth. In later research, T. Hellmann and Puri (2002) concluded that venture capitalists play a significant role in bringing in outsiders as the new chief executive officer (CEO) of the startup. Of course, the quality of these actions is largely dependent on the competence of the venture capitalists executing them, which is why Bygrave and Timmons (1992) wrote that the source of the funding is much more important than the actual amount of funding received. The importance of choosing the correct VCF can also be seen in the results of previous research, with some showing great results from VC funding and others finding that VC assistance did more harm than good (Jeong, Kim, Son, & Nam, 2020).

2.4. Crowdfunding

Belleflamme et al. (2014) see crowdfunding (CF) as a subcategory of crowdsourcing. They define crowdsourcing as issuing an "open call" to a large group of people, referred to here as the "crowd", in the hopes of finding a solution to whatever the underlying business' current issues are. Examples of companies using pure crowdsourcing are Threadless, who find new t-shirt designs by hosting competitions online or InnoCentive, who provide a platform for corporations to publish their R&D problems and in turn offer scientists a financial reward and recognition if they are able to solve them (Brabham, 2008). Belleflamme et al. (2014) then go on to state that when these issues are a lack of funds for a project, this "open call" to the "crowd" is called crowdfunding. Hossain and Oparaocha (2017, p. 4) boiled down a vast variety of definitions of crowdfunding, including the one above, into the following: "Crowdfunding is an Internet-based funding method for the realization of an initiative through online distributed contributions and micro-sponsorships in the form of pledges of small monetary amounts by a large pool of people within a limited timeframe". They go on to differentiate between four different types of involvement, namely donations, pre-purchases, loans and investments. These four variations will be explained in detail in chapter 2.4.2.

2.4.1. History of crowdfunding

Crowdfunding as it is described by (Hossain & Oparaocha, 2017) is still a nascent technology, and the idea of reaching out to a large number of potential investors at once in a cost efficient way would have been described as a pipe dream just a bit more than a decade ago (Kallio & Vuola, 2020). This is confirmed by the Google trend results for the term "crowdfunding" from February 2010 to September 2021.

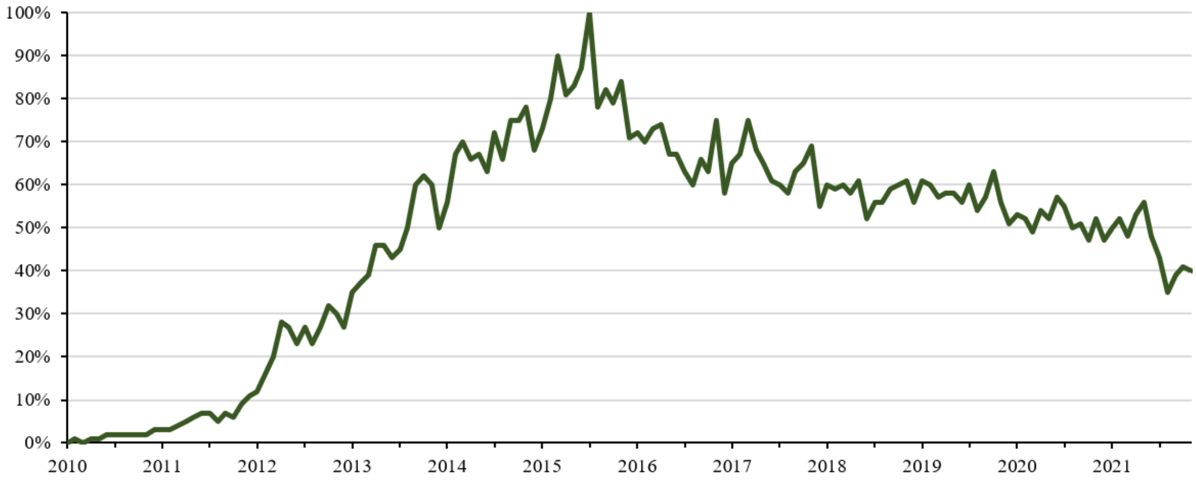

Figure 5: Google trends result for "Crowdfunding" from 2010 to present, based on Google (2021)

Figure 6 shows that there was peak interest for crowdfunding in 2015, the reason for which will be explained later in this chapter, but also that before February 2010, the search volume for "crowdfunding" on Google was almost nonexistent. However, crowdfunding in its most basic form, pooling the capital of a large group of people together to fund something, is not new. Perhaps the most notable crowdfunding campaign was launched in 1885 by none other than Joseph Pulitzer. When funding for the statue of liberty dried up mid-construction, he offered to write the name of every donor who helped in raising the remaining $100k needed to finish in an issue of his newspaper (Moreno, 2004; Short, Ketchen, McKenny, Allison, & Ireland, 2017). This success story is often cited as the counter argument to the proposition that crowdfunding was born with the internet (Rouzé, 2019). Although it is essentially true that this was a successful open call to the public far before the times of the internet, some sort of platform still has to exist in order to make such an open call to the public (Short et al., 2017). Joseph Pulitzer had the New York World to issue his open call, which he had transformed to the most popular newspaper in New York City at the time (Park, 1923). It was only with the popularization of the internet that ordinary individuals gained access to a platform as well, which allowed them to easily communicate to the "crowd" (Brabham, 2008). Possibly the first time someone utilized the web as a platform for crowdfunding was when Marillion, a british band, financed their US tour by preselling their album on their website in 1997 (Rouzé, 2019). However, for Brabham (2008), what really changed the landscape for crowdfunding was the switch to web 2.0, enabling any user to publish content on the internet. Following Marillion's example, many creatives financed their projects this way in the early years of internet-based crowdfunding and it did not take long for people to see that this could be built into a business (Kappel, 2009). Kappel (2009) goes on to list a few of the businesses that provided a platform for creatives, mostly within the music industry, to secure funding for their projects. One of them is called "Sellaband", a German company which allowed musicians to fund the recording of an album by selling a fraction of the royalties the album would go on to make (Guenther, Johan, & Schweizer, 2018). Agrawal, Catalini, and Goldfarb (2011, p. 5) describe the business of Sellaband as a "platform for artists to engage in entrepreneurial activities with a community of investors". This type of funding is called "ex-ante crowdfunding" and was the first step towards equity-based crowdfunding, giving Sellaband its reputation as the "granddaddy" of modern crowdfunding platforms such as Crowdcube or Seedrs (Kappel, 2009).

2.4.2. The four types of crowdfunding

Sellaband was by far not the only platform making crowdfunding their business and by 2011, Kickstarter, Gofundme, AngelList, Kiva and 472 other platforms were operating globally, raising a total of $1.47b up to that point (Giudici, Nava, Rossi Lamastra, & Verecondo, 2012). The four platforms named above are all crowdfunding platforms but each one is inherently different from the others (Zhao, Harris, & Lam, 2019). In chapter 2.4, four different types of involvement are listed: Donations, pre-purchases, loans and investments. Each of these types of involvement have gone on to create the four types of crowdfunding present in the modern-day crowdfunding ecosystem (Shneor, 2020).

Gofundme falls into the category of “charity-based” or “donation-based” crowdfunding, where funders donate to a campaign without any expectation for pecuniary or material compensation (Salido-Andres, Rey-Garcia, Alvarez-Gonzalez, & Vazquez-Casielles, 2021). The largest category in terms of money raised on Gofundme are medical campaigns, where contributors can help cover the medical costs of other individuals (Klein, Tran, & Riley, 2020). This makes charity-based crowdfunding the only type of crowdfunding where capital flows to individual people as well, and not just to companies or other legal entities.

Kickstarter is a platform where people can pre-purchase a product, and is the largest reward-based crowdfunding platform, with over 93k successful campaigns to the tune of $2b (Mollick, 2015). Different tiers are set in advance for each funding amount and cannot be changed once the campaign has been launched (Qiu, 2013). These tiers usually consist of different bundles including the main product the startup wants to fund, with higher tiers including more/better accessories and/or more units of the product itself (Zhang & Chen, 2019).

Kiva on the other hand hosts pre-screened profiles of local entrepreneurs from developing countries, and connects them with a network of global lenders who are willing to lend a minimum of $25 (Berns, Figueroa-Armijos, Da Motta Veiga, & Dunne, 2020; Moleskis & Canela, 2016). Platforms like these provide what is referred to as “lending-based” crowdfunding (Zhao et al., 2019). This type of crowdfunding is in stark contrast to the first two types listed, as the lender expects a monetary return, while participants in charity-based or reward-based campaigns expect either nothing at all or just a product and perhaps a sign of gratitude from the fundraisers (Kuti & Madarász, 2014).

AngelList offers a platform for startups to sell shares of their company online, and was one of the first "equity-based" crowdfunding (EBC) platforms (Zhao et al., 2019). Although startups are increasingly using this type of crowdfunding to source capital in their early stages (Walthoff-Borm, Schwienbacher, & Vanacker, 2018), it is still very small compared to the other types (Yasar, 2021). The next chapter will provide a deep dive into this type of crowdfunding, as it is of main importance to this thesis.

2.4.3. Equity-based crowdfunding

Fairlie (2013) points out that the credit crunch of the late 2000's, combined with the downfall of the US housing market, where home equity made up 60% of American's private wealth, caused a severe restriction in access to venture capital, as well as to capital from both 3F and business angels. When comparing the original funding escalator to the funding escalator in a post-2008 world, visualized in figure 7, it is apparent that capital originating from the traditional routes of startup finance has become scarce for young ventures.

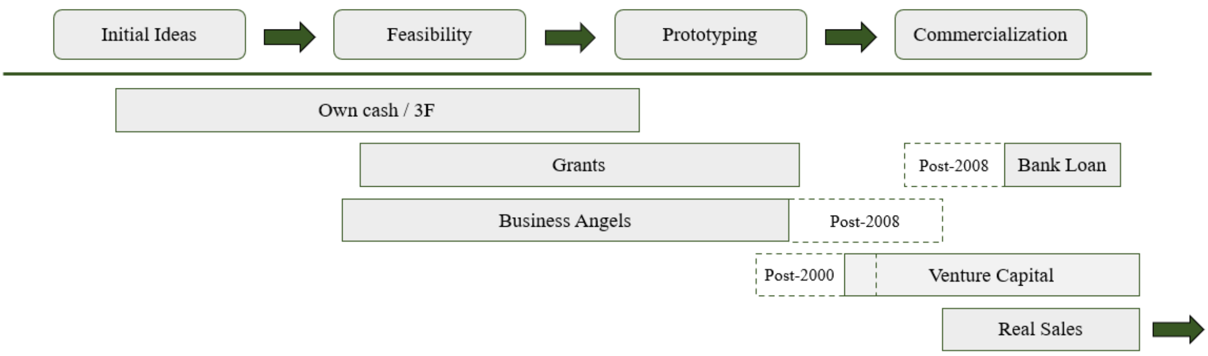

Figure 6: Funding Escalator post-2008 based on Harrison (2013)

A new, alternative form of startup funding was needed, which is where EBC comes into the picture (Wilson & Testoni, 2014). EBC is when startups use online platforms to reach out to the public, pitching them their business plan and offering an equity stake under certain predetermined conditions (Vulkan et al., 2016).

One key challenge with this way of funding is that it seems to be quite similar to what an IPO is, offering the shares of a company to the public, and IPOs on the main stock exchanges are heavily regulated by the SEC in the USA and comparable listing authorities in European countries (Ritter, Signori, & Vismara, 2013). These regulations can all be traced back to the Securities Act of 1933, also known as the “full disclosure” statute, which aimed to protect retail investors and limit the power and influence of financiers after the stock market crash that led to the Great Depression (Mahoney, 2001). The Securities Act made an exemption to these regulatory requirements by distinguishing between accredited and non-accredited investors, as Finger (2009) explains, the former of which had to either have an individual net worth of at least \$1m or an annual income of at least \$200k. Finger (2009) explains that as long as the shares were “privately” placed among accredited investors, the underlying company did not have to comply with these strict regulatory disclosures that were imposed on other companies which wished to place shares “publicly” among non-accredited investors as well. This is where the regulatory clinch lies for EBC, either the offering of shares were to be considered public, which would require the startups to submit all of the necessary documents to the national listing authorities, or the offering were to be considered private, narrowing down the possible investor base to purely accredited investors. The “Jumpstart Our Business Startups Act” (JOBS Act) signed into law by President Obama would change all that and not just jumpstart business startups but also EBC (Stemler, 2013). Title 3 of the JOBS Act, appropriately named “Crowdfunding”, loosens the salary and net worth requirements for investors in placements of shares on regulation conforming online platforms. An important condition being that the total value of shares placed over a 12-month rolling period does not exceed a specific amount (U.S. Securities and Exchange Commission, 2017). This act was signed into law in 2012 but did not become operative until the SEC approved Regulation Crowdfunding in 2016 (Heminway, 2021). The maximum amount that can be raised in a 12-month rolling period has since been raised to \$5m by the SEC and similar regulation in the United Kingdom (UK) has set an upper limit of £8m (roughly \$10.9m) (Rossi, Vanacker, & Vismara, 2020). Löher (2017) lists the biggest EBC platforms in Europe today as Seedrs and Crowdcube which are both UK based and Seedmatch, which is based in Germany. The typical minimum amount that can be invested is $10, with an upper limit only being imposed by the net worth and/or salary of the investor and of course the regulatory limit (Rossi et al., 2020).

Through EBC, over $2.5b have been invested on Crowdcube and Seedrs alone with campaign sizes starting from $150k and ranging up to the high seven figure amounts (Crowdcube, 2021; Seedrs, 2021). This shows that EBC has been able to provide a valuable alternative funding source for young startups, filling in gaps left behind by business angels and venture capitalists in the funding escalator as shown in figure 8 (Belleflamme et al., 2014).

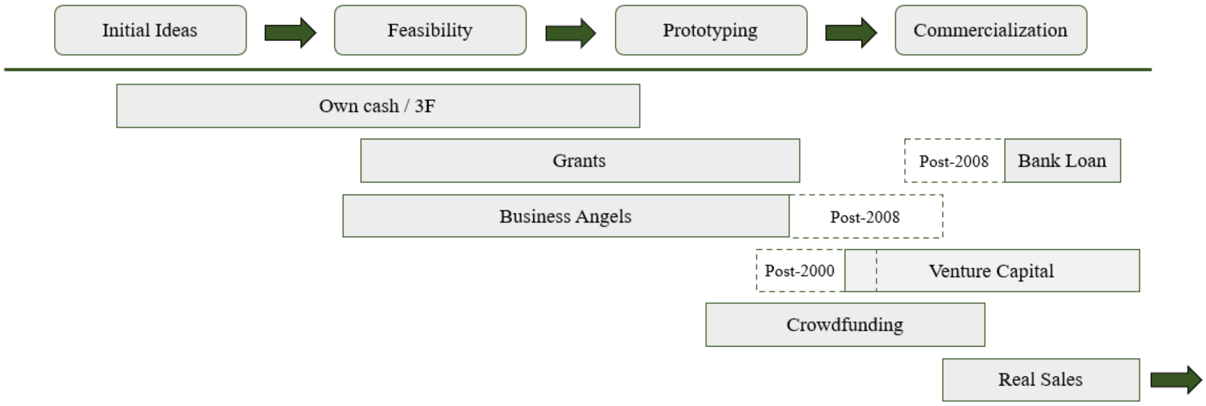

Figure 7: Funding escalator including crowdfunding based on Harrison (2013)

However, there are some key differences to what conventional VC and business angel investments were able to provide, which will be highlighted in the next chapter.

2.4.4. Differences to conventional venture capital

The most obvious difference between EBC and conventional VC is that the startup is exposed to much more people, leading to, as Kuti and Madarász (2014) put it, a kind of social media for startups. A benefit connected to this social media aspect of EBC is that founders can obtain market feedback and even get marketing exposure at a reduced cost, due to media coverage or word-of-mouth recommendation (Belleflamme & Lambert, 2014).

From a financial point of view, it is important to note that startups are not legally restricted in the maximum amount of money they can raise when sourcing capital from VCFs. As mentioned in the previous chapter, this is not the case for EBC campaigns, and the upper limit varies for different countries.

Another noteworthy difference is the investor’s inclusion on the startup’s capitalization table. There are two different types of shareholder structures associated with EBC, a direct and a nominee shareholder structure (Butticè, Di Pietro, & Tenca, 2020). Walthoff-Borm, Vanacker, and Collewaert (2018) define these two structures as follows: Direct shareholder structure means that each crowdfunding investor becomes a legal shareholder of the startup they invested in, while in a nominee shareholder structure, all of the investors are represented by a nominee, who holds and manages the shares of the crowdfunding investors. The benefit of nominee structures is that the startup does not have to communicate with the 100s of individual investors but only with one nominee, which is usually the crowdfunding platform itself (Coakley, Cumming, Lazos, & Vismara, 2021). Campaigns can also differentiate between ordinary voting A-shares and non-voting B-shares on top of the two different structures (Cumming, Meoli, & Vismara, 2019). This gives startups much more flexibility in structuring their capitalization table and allows for control of the distribution of voting power. Cumming et al. (2019) go on to highlight, however, that these liberties are limited to startups which launch their campaigns in the UK, as offering shares with voting rights is forbidden in Germany as well as the USA. This inability to participate in the voting processes is in stark contrast to what venture capitalist demand from the startups they invested in. There, according to Klausner and Litvak (2001, p. 8), they actually have control rights “disproportionate to their shareholdings”, including the right to hold and appoint board seats and being able to veto major management decisions.

A major benefit that nominee structures provide is that they enable secondary markets, where shareholders in nominee structures can sell the shares to other investors who are interested in a startup, but missed the opportunity to invest in the campaign (Lukkarinen & Schwienbacher, 2020). Secondary markets in VC are rising as well but are in no way as structured as the platform internal exchanges on Crowdcube or Seedrs (Andrieu & Peter Groh, 2021).

As mentioned in chapter 2.4.3, the GPs of a VCF analyze the market, make predictions on which industries look the most promising, establish an investment thesis and then go out and start screening startups. Therefore, for each startup that wants to obtain VC funding, there needs to be a VCF with a suitable investment thesis. Although crowdfunding platforms do perform due diligence to make sure the campaigns are not fraudulent, they do not prohibit possibly less promising startups to run a campaign, leading to more opportunities for startups that might otherwise get neglected by VCFs (Ralcheva & Roosenboom, 2020).

3. Methodology

The dataset used to find suitable startups to interview was generated using Crunchbase and consisted of European companies, all of which ran a funding round with either the type "equity crowdfunding" or "seed" between the years 2013 and 2017. The reason this specific time frame was selected is that the shortest amount of time that could have passed since completion of the round until now is 3.5 years and at most 7.5 years. During that time, the founders will have been able to make observations on the impact their choice of funding has had on future business and elevates the quality of information gained through the interview. The industry filter was set to any industry which could include startups with a purpose of environmental sustainability. Environmental sustainability was specifically chosen as the area of research due to their importance in tackling climate change. These include but are not limited to "renewable energy", "cleantech", "water purification", "recycling" and "waste management". The industry tags for each startup were then compared with their description and if necessary, a startup was removed from the list if their focus was not (enough) on environmental sustainability. The dataset was further constricted by setting a maximum and minimum amount of money that had to have been raised through the EBC or VC seed round. As shown in table 1 of chapter 2.1, Crunchbase includes angel investments in the seed round category. Since angel investments do not belong to either VC of EBC, they are unwanted in the dataset. The minimum investment amount is therefore set to $250k which, referring to the amounts mentioned in chapter 2.2, should eliminate most of the angel investments within the dataset. The upper limit of $2.5m was set in order to keep the startups comparable. VC investments can be much higher than $2.5m even for "seed" rounds but most EBC campaigns run for less than $2.5m, with the average EBC campaign in Europe in 2015 being just over $575k (European Commission, 2016). The last adjustment that was made was to filter out any investor types other than VCFs and micro-VCFs since this thesis is strictly interested in conventional VC. Applying these filters reduced the dataset to 108 companies which were contacted and asked for an interview by e-mail.

The method used for the qualitative analysis was the Eisenhardt method. This method allows for theory building using case study research and an initial definition of a research question from a small sample size (Eisenhardt, 1989). Given the nascency of crowdfunding as a research topic in academia, and as an industry in general, this approach is especially suitable because of the leeway it gives for shifts in the research question as the case study research progresses and more topic specific knowledge is acquired (Eisenhardt, 1989). Eisenhardt explains that when sampling cases from the population a random selection is not preferred. Due to the small sample size, it makes more sense to specifically select cases with “polar types”, where the process being researched can be clearly observed (Pettigrew, 1990). For this thesis, the polar types are venture-backed startups and crowdfunded startups. Unfortunately, due to the low response rate of the startups in the dataset previously described (8 out of 108 answered the request, whereof four agreed to an interview, all of which were crowdfunded), it was necessary to expand the time span in which the funding round took place to include more recently funded startups. Focusing on venture-backed startups, another 35 startups were contacted, out of which three venture-backed startups agreed to an interview. In total, four crowdfunded and three venture-backed startups were interviewed for this thesis.

The analysis is split into a two-step process, beginning with the within-case analysis (Eisenhardt, 1989). For this part, qualitative interviews were conducted on the funding history of the startup in question. The reasons behind why they chose to go down a specific route and which factors, endogenous or exogenous, had an impact on these reasons were the main focus of the discussion. Interviews were chosen as the primary source of information due to their efficacy in describing how a system works or fails to work, which fits the research question at hand. Furthermore, doing it in the form of qualitative interviews, meaning semi-structured interviews, allows the questioning to be adapted to the circumstances of each specific founder/startup, leading to more depth, coherence and density of material (Weiss, 1995).

Each interview was recorded on zoom and was at least 30 minutes long. A transcribing software was used to automatically transcribe the audio file from the zoom recording. The generated transcription was proofread to correct any errors the software made. When using the Eisenhardt method, it is important to become familiar with each individual case, before moving on to the second step and looking for cross-case patterns (Eisenhardt, 1989). To do this, these transcripts were then re-read and any message with substance was highlighted. Using excel, each of these “messages with substance” was coded and listed in a spreadsheet, where the codes were listed in the rows and each case study had its own column. To identify the cross-case patterns, the transcripts were then read again, and each occurrence of a code was recorded for each case study in the spreadsheet. For example, if an “incubator” coded message came up in case study “A”, the cell in the “incubator” row and the case study “A” column was marked with an “X”. After having consolidated all the data, the codes where organized and categorized into themes. Once all the codes were categorized, the observation was made that the founders’ statements on EBC could be grouped into two buckets. One being founder-specific and startup-specific criteria that speak for or against the inclusion of EBC in the early-stage funding strategy and the other being the consequences that arise through the inclusion or exclusion of EBC in the early-stage funding strategy. The former providing insight directly related to the research question, and the latter providing additional information that startups should consider when deciding on which funding route to take. Having gained this extra insight, a second iteration of coding took place, where all the codes were first split into these two buckets, and then separately processed and assigned appropriate themes. These themes were further analyzed and where necessary combined to establish the criteria in the case of a theme belonging to the first bucket or consequences in the case of a theme belonging to the second bucket. Using the excel spreadsheet, the number of times each criteria/consequence was mentioned in the interviews was tallied up and utilized along with discretionary judgement to create an order of importance among these criteria/consequences. The order established is the order in which they are mentioned in the results section.

4. Conclusion

4.1. Findings

4.1.1. Criteria

When asked for the reasons behind the funding strategy chosen, the founders were all in agreement that it strongly depends on what industry and market the startup is in: "The key thing is, how did you get your first bit of funding, and that has a lot to do with the market that you're targeting, the type of technology you're using and the peculiarities of each business model". "We […] believe that direct to consumer brands and companies should always raise through crowdfunding", is how one interviewee explained his decision to use crowdfunding. He also mentioned that especially for startups with a "completely new product" these crowd investors can represent a group of potential "early-adopters" which are crucial for providing constructive feedback on the product early on. Apart from providing feedback, most founders also mentioned that in case of a business to consumer (B2C) startup, a crowdfunding campaign can also have significant marketing effects: "If you have […] something consumer driven, then maybe you can actually have this marketing scheme as well, because you start to have, you know, thousands of people that invested a small ticket in you, and they will promote you and use your service". Especially "mass market compatible" products are suitable for such purposes. In contrast, business to business (B2B) startups cannot capitalize on this effect: "When I do another fundraiser for people that actually aren't going to benefit me, you know, as consumers, because it's B2B, the time it takes to do the marketing, I could have gotten two or three clients for that". This seems to show in the B2B crowdfunding space in general, with one founder saying that "[…] if you look at the B2B space crowdfunding, there's not much, you know, crowdfunding is very good for product based or consumer based startups, because you've got your consumer […] at the same time as your investor" and that when she asked the crowdfunding platforms to provide examples of successful B2B startups with successful crowdfunding campaigns, they were not able to provide any.

On the question of whether the sustainability of a product, be that environmentally or socially, played a role in the availability of funding for either VC or EBC, the founders partially agreed, saying that “if your story has an ESG angle […] and the investor can relate to it, then yes, definitely crowd-based funding is a good option”. However, almost all founders said that the times when “impact” investing was niche are over. “If you see the amount of funding that is pushed into the ESG space, it is growing day by day”, says one founder. Another founder had to self-fund for four years in the mid-2010s, because the VCFs back then “couldn’t fit [her business model] into the classic spreadsheets”. “Then the race came about”, she says as she explains how she ended up being offered £1.7m ($2.31m) in her seed round, £1.2m ($1.63m) more than what she was looking to raise. A key factor however seems to be the actual technology of the product: “[…] the environmentally sustainable sector, which used to be challenging, is now mainstream. I think the key differentiation in startups its between hardware and software. Hardware is extremely more challenging than software”. There is “very much a big difference” between software startups and hardware startups and one founder admits that if his mainly hardware-based startup did not also have a software element to it, he would “need to find different types of investors, and maybe not conventional VC”. This is due to the fact that “most venture capitalists don’t like hardware”, they are “afraid of hardware” because of how capital intensive they are.

Apart from the industry and technology of the startup, the amount of outside support that the founders were looking for was a major topic of discussion. All the venture-backed startup founders clearly stated they have been and still are looking exclusively for “smart money”. “We want smart investors”, says one founder, “we need constant backing for a period of time”. From “they all have very good backgrounds of bringing technologies to market” over “venture capitalists are more to connect you with other people, companies and so on, than really giving you advice, unless it’s in terms of fundraising” to “they just let you get on with it […] prod you and challenge you where you need it”, the helpfulness of venture capitalists perceived by the founders varied strongly. One of the more extreme takes on venture capitalists was: “Most people in the VC world have never built a business in their life […]. And to be honest, they’ve built what I regard as a rather parasitical model”. Something everyone agreed on is the fact that crowdfunding investments can be considered “dumb money” or “money without advice”. One of the reasons that came up while discussing the crowdfunded founders forwent the opportunity for additional advice was their previous experience: “I’ve got a lot of experience in both founding and funding companies going back 30 odd years or so […] so I’m just effectively applying the lessons I learned”. Of the four founders of crowdfunded startups interviewed, three mentioned that they had already successfully exited a previous venture, while from the three venture-backed founders, only one mentioned previous startup experience and that it was in a completely different industry. Another reason why additional advice was not deemed necessary was the presence of ample support from incubators and accelerators. One founder with both incubators and accelerators on board stated they “didn’t lack this VC sort of intros or VC help to accelerate” and that they had to reject additional investments offered “because we already had so much advice and strategy and so on” and that at one point “you have to focus on executing, not strategizing and speaking to other people”. Even venture-backed founders admitted that there is such a thing as too much advice, “if you have someone that really wants to give you a lot of advice, that can also be a distraction”. It also came up that experienced entrepreneurs might “just need the cash” and that crowdfunding “is a great way for them”.

One of the more restrictive criteria that was mentioned was the amount of funding a startup is aiming to raise. The maximum funding amount allowed for crowdfunding varies strongly from country to country, a UK-based founder citing that “there is a limit of €8m ($10.9m) […] in a

12-month rolling period", a polish founder notes that he would have been limited to just €1m ($1.4m). Another UK-based founder mentions that although the upper limit is £8m, even getting £6m ($7m) would be like "hitting the jackpot". Another monetary aspect of crowdfunding that came up frequently was the amount of money that crowdfunding platforms suggest the founders bring in themselves. In fact, each of the founders crowdfunding campaigns launched with at least 80% being already provided: "To be honest, Crowdcube and Seedrs tell you […] you have to be over 60% to 80% of your campaign subscribed for the launch of the campaign, so that […] retail investors see a successful campaign already and just jump in". This prerequisite was a challenge for one investor, who recalls that he "really struggled to get early checks" having only raised £120k ($139k), barely making that 60% of the £200k ($231.7k) campaign target, "we really felt that it was going to be difficult to get to the £200k mark".

The final criteria closely related to the amount of money a crowdfunding campaign can reasonably raise and was said to have a significant impact on the choice of funding were the growth aspirations the founders had for their startups. Two of the three venture-backed founders stressed the fact that they were targeting very high growth and want to become "the leader internationally" in their industry and that in order to achieve that kind of growth "a big load of cash" is required, which the crowdfunding platforms would not be able to provide. Another aspect of that would be the possibility for follow up investments. For crowdfunding such investments can only exist in the form of another campaign, while there are numerous VCFs able to follow up their investment with additional funds with the founders saying, "we need someone as the lead [investor], from who we can get follow up", and "usually to grow and grow very fast, you want a VC that can do a proper follow up, not a few 100k euros, but actually […] a few million even".

4.1.2. Consequences

Apart from providing insight into the criteria startups should meet to get the most benefits from EBC, the founders also mentioned a few of the consequences that could follow when running a crowdfunding campaign or getting VC. Something all of the venture-backed founders were especially worried about was the impact equity-based crowdfunding has on the capitalization table. Whether it was the additional administrative tasks they generate or the implications on a future IPO they might imply, the thousands of investors that could end up in the capitalization table was one of the main reasons the venture-backed founders did not pursue EBC. "We are quite overwhelmed with the amount of technical and market development we have to do and having a lot of shareholders creates more administrative tasks than what we would like to do at this point" or "you could end up having 1'000 investors on your cap table, and from an administrative of view, that is a nightmare for a venture capitalist" were some of the explanations given. Two of the founders did not know about the nominee structure, with the third mentioning it, but remaining with his sentiment that it was still more effort: "So you are not actually having thousands of shareholders in you cap table, but still, we are not sure how to handle that". Of the four crowdfunded founders, only one did not use a nominee structure, saying they were "happy to have the shareholders directly on our [capitalization table]". When asked why, he referred to bad past experiences with the nominee structure when working with angel syndicates but admits that they will face some issues when trying to exit, saying: "It's a manageable thing, it just makes it complicated". A benefit of the shareholder structure was the absence of a new large shareholder as it would be the case if a single VCF provided the funds instead of 1'000 individual investors.

Another consequence of crowdfunding that may have future implications was the valuation. Apparently, founders can get much better valuations for their startup when running crowdfunding campaigns. This is however not necessarily a good thing, especially when future investors do not think the valuation is justified. One founder recounted, that when he was talking to potential future investors, they said they would not take a crowdfunding valuation "at face value".

4.2. Discussions & Limitations

The aim of this thesis was to question the suitability of the venture capital system for the early-stage funding of startups with an environmental sustainability driven purpose and to analyze the ability of equity-based crowdfunding to be a legitimate alternative source of capital instead. Through qualitative research, it was found that this question does not have a yes or no answer, and that the extent to which EBC can be considered in the place of VC is heavily dependent on specific criteria. The research shows, that the sustainability aspect of startups does not necessarily restrict a startup's chances to access formal investment in this day and age.

The four main criteria that can be interpretated form the results concern the industry the startup is in, the previous experience of the founders, the growth goal the founders have laid out and the amount the founders are looking to raise. EBC is especially valuable to B2C companies, with products geared towards the mass market, where the campaign can almost be considered a part of the startups marketing strategy. Founders with previous startup experience are less dependent on active investors and can benefit from the purely financial aspect of EBC. The funding amount is possibly the most restricting aspect of crowdfunding. If the amount required is in the high seven digits, it will become increasingly difficult to raise that amount of capital from EBC platforms. This represents a serious issue for high growth startups especially outside of the UK, where regulatory funding limits for EBC are set much lower. However, this issue is being dealt with, as the new European legislation on crowdfunding will go into application on November 10th, 2021 increasing the upper threshold across the EU to €5m ($5.78m).

In terms of consequences, the impact on the shareholder structure should be considered when using EBC. Although the nominee structure resolves some of the issues regarding the administrative tasks, these findings show that it is still an issue for VCFs considering investing in the startup and may lead to significant legal costs when trying to exit the investment. The valuation achieved through EBC should also be questioned, and future investors may not agree with the validity of that valuation.

Due to difficulties reaching founders of startups in the original dataset, more recently funded startups had to be considered for the interviews. This reduced the comparability between the individual startups due to the constant change in the EBC landscape regarding achievable funding amounts and regulatory limits. Although this thesis is not able to provide definitive proof that these four criteria apply, it does provide the qualitative groundwork for future quantitative research on these subjects. With more extensive research, it would also be interesting to build a framework for founders looking to raise early-stage capital to follow. Additionally, although the effects of the shareholder structure on future funding opportunities have been mentioned on the side in previous literature, there is no in-depth analysis of this effect and to which extent it exists. This should be further investigated as it has significant impact on the future of a startup.

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Appendix A

Interviewer

Hi, Daniel. Hi Sam. How's it going? Good, good yourself. Good. Good. Thank you. Do you mind me recording the interview? I'll have to transcribe it everything for my thesis. And of course you'll everything will be anonymized. But it would help me out a lot if I could have a recording of it all. Yes. Okay, cool. Sounds good. Okay, so first off, I would like to introduce, introduce quickly the thesis topic that I'm working on. And after that, I would like to get a brief overview of as much detail as you can give me, of course of the funding history of of Buffalo grid. And today, we would just get into like an open discussion on all things, crowdfunding and funding in general. And so okay with you?

Founder

Sure, sure. Sure. All right.

Interviewer

So my thesis topic is to analyze whether equity based crowdfunding provides a better source of early stage funding for sustainable startups in general, when compared to more conventional funding through funds or venture capital funds. And for my qualitative research, I'll be interviewing various different sustainable startups and kind of getting their take on the whole subject of equity based crowdfunding and how it kind of differs from from the other types of funding that they've secured. And kind of gaining more insight on on the benefits and drawbacks of of the whole system itself. Okay. And yeah, I would love to get, like I said, a brief history of how you've secured your funding, basically, since you started and, and then we can go from there.

Founder

Cool. Well, I mean, I will start with the caveat that each startup has a very particular funding history. While there's a path that works in most of the cases, like if you can get a seed round, and then a series A, and then a Series B, that is just like the most straightforward path. But the key thing is, how did you get your first bit of funding and that has to do with a lot of the market that you're targeting the type of technology that you're using, and the peculiarities of each business model. So having said that, in our journey started with an integrator investment, so as a background from that, I had a successful exit before founding buffalo grid, in a company called article technologies. And article technologies had as well, a very peculiar funding history, which I haven't seen succeed in many locations, which was just getting an integrator check, plus grants and competitions and that was enough to get us to a maximum. So following that success. The first thing that I did when funding before Wade was to get another incubator, check Learning to enter check, follow angel investment that angel investment. Four was followed by crowdfunding. And that crowdfunding investment was followed by our seed round by venture capital. And we are in our bed with our CVC.

Interviewer

Okay, it's only laughing because it's funny how inaccurate the pitchbook data and and crunchbase data is on on some of these funding rounds, but Okay, so you Okay, Angel and then crowdfunding and then and now you're working on the VC securing venture capital investment.

Founder

We already have secure venture capital investment. That's our seed round. Okay. And we heading next year towards our series a, which will be venture capitalists again.

Interviewer

And then but the crowdfunding you did was was that was equity crowdfunding or product? equity, no equity equity preferred. Okay, good.

Founder

We have some equity. Yeah, we did Kickstarter, and we did a crowd. CrowdCube is equity and we raised half a million pounds. Kickstarter was for a product and we sold 20,000 pounds worth of products. So they're completely different exercises.

Interviewer

Yeah. The product crowdfunding was also to kind of

Founder

donate devices.

Interviewer

Yeah,

Founder

yeah.

Interviewer

Okay, good. Good. Good.

Founder

That was more of PR, not PR that's the wrong term, "visibility". Access the resources that are getting resources.

Interviewer

Yeah, that's interesting that did it. Was that only for the product crowdfunding or also for the equity crowdfunding? How much of a like a marketing thing was the equity crowdfunding?

Founder

I lost you there last few seconds?

Interviewer

Sorry. Yeah. So the the equity crowdfunding on crowd on crowdcube? Was there also a marketing angle to that whole deal?

Founder

Not really, not really was more just to get investment? I mean, again, this is all very subjective, to the company and the business model. So if you have a craft beer, yes, it's really good to make a crowdfunding campaign where your customers will become your investors.

Interviewer

Yeah, yeah, no, no very

Founder

unique business model where we are targeting frontier markets, bottom of the pyramid users in the poorest countries in the world. So it was more just about security, investment, nothing to do with marketing. Our our users are not going to be seeing crowdcube.

Interviewer

Then what was like the what were the main drivers for you to decide on, on running a crowdfunding campaign, instead of maybe gaining that those funds from another angel investor or for somewhere else?

Founder

Well, in my experience, there's there's thresholds, the thresholds of funding that are obviously there will be exceptions all the time. But generally speaking, trying to raise more than 200,000 pounds of angel investments investors is very, very difficult. And angel investors in that region of 15 to 20 20 to 50 50 to 100,000 pounds investment, and you can get a couple and then you get about 200 300,000 pounds in Devon max. If you want to read more, then it's very resource intensive to get in from angels.

Interviewer

Okay. So,

Founder

Unless you have a very rich network of angel investors, then it is very, very difficult to raise that amount from angels. So therefore, you need to get them there. Then you have the threshold of crowdfunding, which it's from 100,000 to 5 million, I will say. And then you have the seed rounds with venture capital and, and seed rounds. I mean, when when we were the with the when we did our seed, the average was around 2 million pounds, or 1.5 to 2 million pounds. Nowadays, you see seats of six to 8 million is not uncommon. And so but again, that depends completely on type of business. And the point and the younger business model and, and customers customers sector.

Interviewer

Can I ask the rough amount of what your seed round was?

Founder

Our seed round was 1.3.

Interviewer

Okay. So that still would theoretically be within those kind of the area where you could theoretically also run a crowdfunding campaign for those funds. Is that something that ever crossed your mind? Or was that just to like,

Founder

Yeah, well, those bright those figures are the current ones. I was saying like the ourcrowd campaign was made in 2016. Where, yeah, what we needed to raise. It was too, too big for angels, too low for VCs was the other point VCs, is not going to invest a 100,000 pounds in a company. So it's all these thresholds of the right amount of funding the right stage of the company. And that combined together to see which is the best funding source.

Interviewer

So the previous startup that you had, Can you spell it? How is it spelt? The one the way you already had exited?

Founder

artica.

Interviewer

During those times, I assume there wasn't such other crowdfunding really wasn't a thing yet.

Founder

That wasn't a thing yet.

Interviewer

Okay, so how back then, how would you have tried to, let's say, let's rewind the clock. And let's say you're doing buffalo grid during when you were doing artica? How would you have tried to bridge the gap that you would have had without, without crowdfunding the option of doing crowdfunding since you said they'd like there's, it's too high for Angel. It's too low for VC. Yeah, I will.

Founder

Yeah, I would have tried to get as much angels as possible. match it with with grants. And competition. That's that's the only way.

Interviewer

So is you could say that the crowdfunding kind of fill this fill a gap? of kind of? Yeah,

Founder

Yeah,I believe so, yeah. I mean, the state, again, is that there's the, it all depends on the business, like I can get an amazing idea for a software service that requires very little capital to use of test, then has an explosive growth that I can get a seed round straightaway. And that's, that's, again, that's what I would if I were to start again, a business today, that's what I will do, just really make sure that the funding that I can secure, and it's enough to get me to a growth stage where I can secure a large seed round.

Interviewer

Yeah. Do you think that that is kind of a issue that I guess your I guess buffalo grid isn't even really, because I'm doing sustainable and more into the area of like environmental

Founder

sector, the Secretary I mean, nowadays, environmental sustainable, used to be challenging now is is mainstream, I think is the key differentiation in startups a are between hardware and software. And having run to hardware startup companies, hardware is extremely more challenging than software. And because you have to do exactly the same market validation on exam, it's exactly the same user growth. But on top of having a digital product, you have a physical product and a physical product, just like a digital product can go wrong in too many places. But instead of being able to just fix a bug and update a new version, you have to recall systems and replace them and invest in tooling and it is extremely more capital intensive. Exercise than when you're starting. You don't have so that is the I will say that that is the key. The the two main sectors in any startup, whether you have any hardware involved or whether you are just software base service.

Interviewer

Okay? And then yeah,

Founder

so and then the sector becomes a separate at the extra point, right? So, obviously, you will have FinTech, where there's monitor despair. And you will have the tourist sector, which before the pandemic was amazing, all the airbnbs. And all that kind of stuff was booming like crazy nowadays, obviously, it took a hit. So sectors come and go. And as you pointed out, the sustainable and green deck before was niche today is completely mainstream. All those change as time goes by.

Interviewer

Is that so? Is there also. Because when I was doing the literature review, I read up on kind of the whole clean tech boom in the late 2000s. And how there was a hype around renewable and everything, but then, more or less, because what you what you outlined, that it's always, almost always huge upfront costs, and then Not really. Yeah, mind blowing returns that are promised that it kind of dive like this down again, like the whole VC area kind of wasn't really that interested in any more in investing in that industry or in that sector? Because it was the returns were big enough. Would you say that that nowadays has kind of swit changed back and

Founder

well, to an extent, but not not massively? I mean, at the end of the day, if you see a list of unicorns, the amount of green sustainable companies will be minimal. Yeah. All unicorns are the “Transferwise” of the world with fintechs. FinTech services. Deliveroos of and sort of whats the term. Sort of mainstream users in big a big scale, can get through those volumes.

Interviewer

Yeah. And then so

Founder

when it comes to sector, for instance, I mean, you've probably seen it already. The latest, a unicorn is a campaign, which was a complete a very small startup before the pandemic. And it's, it's it's a sort of a zoom, Sarah service where you can have more interactive teleconference, which has completely nailed it over the pandemic, and this is an unicorn today.

Interviewer

Yeah. Yeah, it's, it's, it's interesting, because just to ask the beat the seed round that you did now. Was that with a venture capital fund that is specifically tries to target more sustainable or mission driven startups? Or is that just VC like any other and just happens to like your idea?

Founder

It's just like any other I mean, we were really lucky to have LocalGlobe as our, our lead investor, LocalGlobe, if you see their portfolio, they're involved in everything, but it's one of the most reputable funds in Europe. And, and having the backing of of reputable funds helps a lot in securing your funding funding. What it's not like they're specialized in sustainable things not not at all. It's just complete. Like another thing like venture capitals will, generally speaking, that's last brace, precisely their core business model, right, and have a very wide approach to investment to secure the returns to their LPs.

Interviewer

Yeah, for sure. The so it's just a diversified portfolio in the end, is it also a strategic partner in the sense of what you're trying to achieve? Or in? In what sense? Could it be considered in a strategic partner? Is it just pure financial?

Founder

Yeah, no, I mean, it's, it's, it's always the same, right? You want you want smart money as much as you can. And that's my money means funds that can provide you with a connection that can provide you with the support that can provide you with the resources and can provide you with a network to secure your growth. And that's Yeah, it's never about a check. an amount in the bank. Okay.

Interviewer

Did do the VCs care at all that you had previous crowdfunding campaigns, equity based crowdfunding campaigns or is it doesn't doesn't matter really matter?

Founder

It does not matter it, I wouldn't say they mind, whether it's a crowd to campaign or not. But it is about the structure of your cap table. That is a key thing. If you have if you made a crowdfunding, crowdfunding exercise, and you end up with 500 investors, and out of those 500 investors, and 50 have voting rights, and every time you need to pass a resolution, you need to get the approval of 50 different individuals, yes, VCs are not going to have anything to do with you. While in the other con, if you have a crowdfunding campaign with 5000 investors, but they actually structured with a nominee and staying within your cap table. So you actually only require the permission of the crowdfunding platform as one entity that lives with all investors. That definitely is not unprogrammed. Or sometimes they even don't, those a crowd funders don't even have voting rights. It's all it's all about how you structure the decision making in the company, and the ownership of the company, even your crowdfunding round you, you lose 40% of your equity, then that makes you an investor because again, when it comes to rounds of funding, one of the key things that venture capitals will say is that its structure. So you, you need to be able to, to follow that path that I was telling you, if you you're going to get a seed round, you're going to be diluted 30% and you're gonna grow, and you're gonna get a series A and that series A is gonna dilute you another 30%. So where are you going to be after series A or you're going to own something? Or you're going to be left with nothing? Because you have diluted yourself too much in the early stages. Yeah. And that's, that's what you need to look after.

Interviewer

Do you personally think that there is a specific, like a sweet spot on how, how much percent to offer in a crowdfunding campaign?

Founder

Not Well, I mean, there's, I mean, a crowdfunding campaign is usually a very an early stage, around, whether it's whether it's the equivalent of a seed round, or, or, or even the equivalent of an angel in friends and family around. It's very rare to see the rounds that are the equivalent of series A, and then those you can only see with very mature companies that are actually using the crowdfunding summary as a marketing exercise by the likes of what's the spears of craft beers that are super popular?

Interviewer

Yeah, I've seen their campaigns as well, I forget the name, but I

Founder

And whats this other guy's name, citymapper, for instance, those are examples of very mature companies that have gone into Crowdcube for a very large round, but just they can just get away with it because they are in that stage of growth, and they're targeting as a marketing for the rest of the of the spectrum. It's, it's that equivalent of friends and family or, or seed round, and you would like to be ideally under 20% dilution.

Interviewer

Okay. Do you think that with how the whole market for equity based crowdfunding has has evolved over time, that it could evolve into something that for specific segments or for specific companies could fully replace the seed rounds as a, like a standard way to kind of run it that you just don't even really pursue?

Founder

I think it's already there. Yeah. And there's so many, I mean, I don't have the numbers and I can I will not dare a guess. But there's so many companies getting the initial funding from crowdfunding platform as they are from venture capital.

Interviewer

Now and then, and then, series A basically just because of the funding amount obviously isn't really possible anymore.

Founder

Yeah, series A currently is, I mean, again, you have to be very generic with with the brackets, but I will say 6 million plus , to get a crowdfunding of 6 million plus it's just hitting the jackpot.

Interviewer

And I mean, also there's regulations that prevent you from going over a certain amount, right? I don't believe so. But I'm not sure. I thought there was like,

Founder

outer limits on crowdfunding? I mean, I've done it a couple of times. But that's as far as my expertise.

Interviewer

Okay. Yeah. No, I thought there was some equity base, I'm pretty sure there's an upper limit, because of basically, if if there wouldn't be an upper limit, it would be similar to going not public, obviously. But I mean, it's almost like an IPO. Right? Where you publicly offer shares to your company, without really doing any of the any of the due diligence, and that filling out the regulation forms that the the market. Yeah, probably. Yeah. So that's, that's super interesting. So the, the seed round? How much of a strategic I mean, yeah, obviously, you said you want the more smart money, the better. But did you are let's, let's formulate the question like this. Did you gain any strategic help through any of the investors from the crowdfunding campaign? Or was that? Was that purely financial? No, very,

Founder

very little, very little expertise from the crowdfunding so? Well, that they are? Yeah, I will say that that's definitely one of the downsides. Because you will get? Well, I mean, again, it's carried by exceptions, you could be extremely lucky. And out of those 300 people that you also become your investors, then 20 in your sector, and know your business well, and can be really supportive, it does happen. And you actually have a bigger chance to get many people's involved. But on a general basis, your venture capital will have all the expertise by default. So you don't need to get lucky with a crowd to get access to that level of support.

Interviewer

And at certain point, especially when you're trying to get like real growth, you need the expertise, or I mean, the expertise of a expert is kind of necessary, right?

Founder

Yeah, of course. I mean, yeah, we have experienced that when, when you are, when you're having your quarterly sessions with venture capital, that have hundreds of business that have walked the path that you are starting to walk, they certainly give you a lot of guidance. And that is critical for the success of a company.

Interviewer

The so I take it you you ran the crowdfunding campaign in a nominee structure in that case?

Founder

Yeah.

Interviewer
Okay. And that was purely because of your or Yeah, you think that that makes you more investable for later funding stages? Or was there other it was,

Founder
it was a default setup. I mean, crowdfunding already recognized that challenge. And that's how they structure their funding next year. Well, crowdcube, specifically, is I believe there's other platforms where you can not have that nominee structure. But yeah, I mean, it's just the normal, the normal approach.

Interviewer
Have you had any issues with that? But with

Founder
no, no joy actually has been very smooth sailing with, with our crowd investors and with the crowd platform and overall, overall speaking, I mean, it is a bit of maintenance required, but just like any other other investor,

Interviewer
because I take it, the crowdcube in the end still has to get those votes from the individual investors, right. It's not that they can just decide on their own they still need to relay that information, but that ministration is just on their end and not on yours.

Founder
Well, no, no, it's in the company cycles. The voting rights. You ask you set up the parameters in your in your crowdfunding campaign, so I can determinate that I'm not going to give any voting rights to anyone that doesn't invest More than 10,000 pounds in the company and that narrows it down dramatically. So our crowdfunding, usually your average? I wouldn't dare to say that. But yeah, like, most of the time investments are less than a few 1000 pounds, single digits, pounds. I mean, no, if you see ours is 90% on their 100 pounds, really, then 10% of hundreds 1000s. And then the big checks, okay, it's about sort of the structures, obviously, you don't give voting rights to every 10 pounds that you get. And you set up those parameters, and then you narrow it down. And when you have 20 people that need to vote, you have to make a

special resolution for them. Of course, then you have your Articles of Association, and your percentages of approvals that are required to pass to pass things. And you can tailor that to your own wishes usually is 75 to 50%. So if you have 50%, sometimes you don't require even the approval of that 3% of investors in graduate they will have voting rights. And but it all depends, it all depends on how you set it up. I mean, we do have several investors with voting rights. And it's always we have to manage them and communicate every single point in decision that we take and what I mean, it's, it's not a terrible exercise, because again, they're not hundreds of people, we're just talking a handful of investors who don't have rights

Interviewer

as a are those other others investors otherwise acting as angels in other invest like, and they just use crowdcube as a way to find new investments and kind of have a platform that's structured other than having to deal with companies on a per company basis? Or are those just random people whose think they want to invest a bunch of money. And

Founder

I think that most of the cases will be just random people because again, it's all these brackets of investment. Like a we're talking about 5 10 1000 pounds is very rare to get a 50,000 pound check on a crowdcube. So these are investors that are not invest in like normal ranges to major syndicates, where they invest in 20 50 100,000 pounds.

Interviewer

Okay, sorry, that I missed on a study before. Okay,

Founder

very few investors will put more than 10,000 pounds. Yeah, the point I was trying to make very few will invest more than 10,000 pounds, you can put a threshold of the voting rights on the amount that they invest. So the guy that invest 10 pounds doesn't get voting rights, the guy that invests more than 10,000 pounds, they get voting rights, therefore you limited? Well, it's not about limitation. It's about if you invest enough, you have a say in the company.

Interviewer

And sorry, if you've already answered this before, but how many ended up ended up having voting rights from your crowdcube

Founder

campaigns? Just a handful of people. And I don't have the numbers in top of my head, but there is not that many.

Interviewer

Okay. Now, it's interesting how different companies do it differently, because the other one that I talked to, they didn't run a nominee structure, but because they had already. They did something like syndicate rooms, and where they pool different angels together and then achieve a higher they did I think in a mount, similar to your crowdfunding campaign. But still with angels. I'm not 100% sure on that, but around there. And but then, because the administration was tricky to kind of communicate with multiple different people. They are no sorry that because the syndicateroom, like the lead investor, the relaying of the events of the messages and of the voting. didn't work at all. They ended up not doing the nominees structure. But in that case, so you still directly communicate with the vote of investors from the crowd campaign. Yeah, when voting matters.

Founder

Yeah. So every investor gets communication from us, no matter whether you invest 10 pounds, or 100,000. But when there's voting matters, which I mean, it's very rarely we have had to vote in exercise in five years. of operations. We do require the voting of only those guys.

Interviewer

Yeah, of course. And those they then give that their votes to you or to the

Founder

Directly to us. We have to manage all that.

Interviewer

And then so the nominee structure in that case is only on the cap Table Table. Correct. Okay. Okay. Understood. Understood. Okay. So let's see what else if I missed anything. But just in general, what do you see as the main benefit and main drawback of running the crowdfunding campaign? Maybe other than that it fills a gap funding gap, if there's anything else?

Founder

Well, yeah, that's certainly that's the main one, the funding gap situation, the crowd, a crowd funding exercise gives you much more visibility. Wow, is debatable as well. A proper seed round with a well known investor will give you much more visibility than crowdfunding. I guess a very good advantage of a crowdfunding is when when the investor is your customer. Yeah, immediately becomes a marketing exercise in the process of raising your funds. So that's a massive advantage for those companies targeting those investors as our customers. Know. Another advantage well is the size of the crowd. So as we were saying, there will be people that are investing because they're interested in the sector that you're in, and they can come in with expertise. The challenge there is that you need to be able to filtrate their expertise, right. If I go to my business, I know they can tell me things that I don't know about growth or financing or marketing. If I have this investors that is telling me that has massive experience in financing. I need to know whether that's actually true, or actually relevant, or is it just like, Oh, actually, you might know something about other sector, but that doesn't have nothing to do with us. So you need to sort of integrate that information.

Interviewer

Yeah. Okay. Then, just really quickly, before, do you have some time left or? Yeah, got another couple of five minutes. Okay, good. Would it be possible to get the the pitch deck for the crowdfunding campaign? Or is that complete? Yeah, I'll send to you. I mean, he was available on the platform. Obviously, we have we have closed a campaign. And yeah, that would be nice. Thanks, Andy. Would it be able to get the one that you send out to the VCs as well? Or is that a different story?

Founder

Yeah, I don't find that, to be honest. I mean, I give my current pitch very handy. But as you can imagine, I have done hundreds of pitch decks, and the seed round was over two and a half years ago. So I will need to be digging. I mean, it should be just a couple of folders away. So I'll do a search and see if I can find

Interviewer

and that will be super helpful. Just briefly, do you think those Deaf those are strongly different from each other? Or they are mostly the same? Just with some

Founder

very different I can tell you that already because there are different stage? Yeah, I mean, Kalki was 2016. seed round was 2018 to two years in a startup journey is is a massive amount of development.

Interviewer

Okay, just to basically put it into a category the crowdfunding campaign for you was just more or less a bigger pre seed Angel like investor, correct. investment. cedre. Yeah. Okay. Cool. I think that was more or less it. Now. Daniel, if, if anything would come up. Would you be down to have another like maybe 2020 minute discussion, maybe a month down the line? Okay, then then I can contact you on the same email as before. jasha. I'm here. Sounds good. All right. Well, with that, I think I'm done. I'll be in contact and if you could send me the pitch decks of course it would be super helpful. And thanks a lot for your time. No worries. Thank you. All right. Have a nice day. Bye

Appendix B

Founder

Hi, I'm sorry, man, I just got out of another meeting.

Interviewer

No worries, no worries, I'm glad you could make the time. So let's just jump right into it. As I said, I'm interviewing founders of sustainable startups on their funding history and kind of the fundraising process how it was for them. So to get it started, Could you briefly go over your funding history of Stockholm water? And Yep, and we can go on from there.

Founder

You have a quick question. You're doing this as an academic project or what? It's part

Interviewer

of my studies? Yes, it's.

Founder

So we started in 2018. And we were, of course, supported by soft funding in the beginning to renew energy, which is a European network of governments and companies. Along with that, we had conditional soft funding from state institutions like we know why in Sweden, and also with with, with an institution from where we were a spin off kth holding, which is the investment arm of kth, Royal Institute of Technology. And beyond that, we raised our first bridge round that we call it with kth holding when we took an equity stake. And then further, we had another seed round, wherein we had five investors, five investment groups actually coming in this was earlier this April, which helped us to get engaged in a friendly introduce the first products into the market, and basically gain market traction. So I knew that going into more funding later on, maybe next year.

Interviewer

Okay. To talk about the, the investor groups or any of those venture capital firms, or are they because I kind of looked into it a little bit. And it seems as if they most of them are some kind of business Angel network type of thing.

Founder

Yeah, I would say almi invest is not really Angel network, they do big investments to Swedish government backed VC firm. And to office, they call themselves Stockholm business angels. It's basically a group of people who have a fund. So it is organized like a VC firm. And just like any, any other VC firm, how it operates, somebody puts in money, and then they invest based on the money that they have. The pure Angel network is basically cm systemically angels, wherein each person comes in and owns a certain amount of shares. The others, there is an institution which which invest in us.

Interviewer

Okay. Let's, let's get to know, the you mentioned that you were a spin off originally. Does that have an impact on which founding funding routes you can take? Or do they have some kind of saying, we support this kind of funding on this? Not really this kind of funding? Or are you free to do whatever you want as soon as you spin off from whatever organization

Founder

now the system in Sweden is based such that the patents that your company is based on is not the university never owns any patents? It's always with the founders and the the inventor so the university almost has no rights to say what we can or cannot do with the company or we can walk out. So I would say not at all, it's basically our choice.

Interviewer

Do you think that you are certain doors are more open for you as a spin off, university spin off, then maybe Somebody that just started off by themselves.

Founder

I was definitely because the questions I've always asked when, because most investors are very suspicious creatures. So they don't want to, they obviously don't believe that what you have is real. And we were introducing the new technology to the market, then we will, saying things we chivalric, it's magic. And that's not possible. And I guess what what worked in our favor is that we were backed by kth Royal Institute of Technology, which is the biggest Technical University in Sweden and one of the top 10 in the world in certain fields. So that way, that really helps us to helps them to know that since it's a technology oriented company, that the technology is sound, it's not, it's not fake. Now, if you want a technology oriented company for more FinTech or something like that, then I don't know, I don't think the institution actually plays that much of a role. It's the it's the experience of the founders track record and stuff like that. But in case of technology oriented, especially for new new technologies, I guess it does matter when it comes from an institute rather than just some random person.

Interviewer

Okay, so there's just some specific signaling effect. If you come from a university that whatever you're you're pushing basically isn't, is a true technology that actually works.

Founder

Yeah, I would say not just any. Yeah, not just any university, I'm sure they go by University reputation when kth is God has the best reputation in Sweden. So that really helps. I mean, think of it as you coming from some XYZ University in us versus coming from MIT. And straightaway, if you say, this was developed at MIT, everybody's gonna say, Okay, this is good, for sure.

Interviewer

Now, I saw that you you were able to get some awards as well, in the past? And did you think that those awards also, it's similar to the university spin off aspect, also play into the legitimacy of your technology, and also have a significant role on securing funding? as well.

Founder

I would say the awards by themselves don't help you secure funds. But what it does is it gives you It gives you visibility. So people, many investors, many organizations, they keep a track of these things, and when they see that, or some company has wanted to contact you. So it helps you to make connections, but definitely not close connections. Because once you make it, whether you close it no depends on how they assess your technology. And that has nothing to do with the award.

Interviewer

That makes sense for sure. Now, as I mentioned, I'm also looking into the equity based crowdfunding, and I was wondering how much have you heard of it? And how much do you know of equity based crowdfunding?

Founder

You know about it. And we didn't want to think we did think about going into it very early on. But we decided not to. I even contacted certain people who do these crowdfunding and steer programs in Finland, for previous companies and got good valuations and stuff, but we decided not to go for it.

Interviewer

Why

Founder

it's a strategic decision in that sense. So we are we are we have coming up with a new technology, right? It's not about collecting different technologies, putting them together and building a new product. It's actually a new technology, which is then built into a new product. Everything is done in house, that's and so so we need constant backing of investors for a period of time. And typically, when you go for crowdfunding, what happens is you may get overvalued quite a bit. Because that's you don't consider that intelligent funding, intelligent investors and then it becomes more difficult to get back into the VC network. Because then they're like, guys, you guys have screwed up and we cannot value you as much as they are going backwards. And then you have too many shareholders we have to worry about shareholders are a big pain in the ass, literally. So you don't want to have too many shareholders when you're such a small company and you don't have the management. Power to to actually manage so many people. You need to dedicate more time to technology development, and market development.

Interviewer

Okay, so you intentionally want it to go down the VC route for their advice role in the whole startup process in their like strategic support through management and Yeah, I guess through like the the to get the value that a VC should provide to a startup instead of getting the dumb money that crowdfunding would provide?

Founder

Exactly, because we wanted smart investors. That's why the investors that we chose me if you see everybody, the people who are in the board, they all have very good backgrounds of bringing technologies to the market. And we wanted that kind of backing because then they are your shareholders then understand some of the problems that that come with it. And it's not purely about why isn't? Why aren't you at, you know, this my share value why isn’t it just going up like this. So it takes time to do that. And that's one of the reasons why we decided not to go with go with Smart Money is, you know, investors right in this crowdfunding, which could have given us a lot of money at a higher valuation, but then may have created more problems for us later on.

Interviewer
Okay. Did you the the funding that you received before doing the seed round? Were those already strategic investors as well? Are they providing management support? And basically, they kind of know how, as well, that you may as I don't want to assume too much, but maybe some management knowledge that you are missing as purely technological founders?

Founder
Yeah, the InnoEnergy and kth holding they provide business coaches to us, we're basically helping us to manage because obviously, we we didn't know anything about the the startup network and the opportunities and you know, the laws and regulations and everything. And so we had a lot of help, I would say that we wouldn't have been able to come through had it not been for the early support that we got through InnoEnergy and KTH Holding.

Interviewer
And that wouldn't have been sufficient to keep on going. I'm just asking, because they would that no support, not have been sufficient to keep going if you then went on to the crowdfunding, where you get a lot of money, but just not enough support, basically. Strategic wise.

Founder
Yeah, I mean, these supports are timed in the sense that they won't last forever. So I mean, within it, we had a time period of three years, three to four years within which then they can, they cannot keep supporting you all the time. So they have new companies which come in, so they invest in you, and then they bring you to a point where you're supposed to manage by yourself, right. So you can't count on having that support continuously. And for us, as a company, already, we are quite overwhelmed with the amount of technical and market development work that we have to do. And, and having a lot of shareholders creates more administrative tasks than what we would like to do at this point.

Interviewer

Yeah. The so there's also, obviously on crowdcube, for example, you can I don't want to it's not like advertisement or anything, but on Crowdcube, you will be able to offer b shares, for example, with no voting rights, and then as a nominee structure where you only have one line item in the cap table. Is that, were you aware of that back then? Or was that it's still even with that option? It wouldn't have been attractive for you just simply due to this strategic element missing from an investment like that.

Founder

Yeah, we were aware of the B shares didn't know about the second option. They said I guess we were not aware of it at that point. But I guess I think from our perspective, we were still looking at critical investors were coming on board and we needed them and we did hire a business financial consultant who worked with us and in the end when we spoke to investors and we told them about the crowdfunding they said sorry, but we will not consider that as as intelligent as we've considered as dumb money. So whatever valuation you get there, we cannot do not take that valuation at face value.

Interviewer

So the follow up investors. You mentioned that before, I guess I didn't catch on to that completely. So the follow up investors basically said that they would not follow the valuation that the crowdfunding would have maybe gotten you? Yeah, that's Yeah,

Founder

I mean, we didn't we didn't go with every investor document a couple of investors who said that sorry, we will not consider this as, as a valuation, which is valid.

Interviewer

That's okay. That's very interesting. I haven't heard that before from anybody else. Okay, so let's see, what else what else? That kind of answers that question. And the the future funding plans. You mentioned, you're already considering a next round. That will obviously be like a series a type of situation.

Founder
Yeah, I mean, it depends how we want to do it, we might do another small round before going to a series A. So give to give us a little more runway and build up for before series a. So we are in negotiations now with our current investors to do that.

Interviewer
How valuable do you think is the follow up investment deal that you get or maybe rather get from from venture capitalists? Is that something that is also played a role when deciding to go down the venture capital route?

Founder
So your question is, how important is it to that,

Interviewer
that like when, when deciding to do the venture capital funding instead of the crowdfunding, since you said that you will need constant constant influx of money does like the opportunity of rather getting the follow up investment from the venture capital funds? Does that play a role as well in the decision? Or was that not really?

Founder
Yes, I mean, in the sense that it's not, I don't mean that we need constant influx of money for long periods, but we will need, we will have some subsequent rounds of investment. So we will have an A round. And maybe we'll even have a B round. And in these cases, we will need one of them at least to be strategic investors, because we also that's also a way of how we want to build our business. So and have getting strategic investors. Keeping that in mind, it did play a role in deciding not to go with crowdfunding.

Interviewer
Were the strategic investors, those people that were saying they wouldn't consider the valuation from crowdfunding or was that just general investors? Were you already in talks with strategic advisors?

Founder

Basically we were in talks with some strategic investment parties at that time. Um, but this was not a comment from strategic investors. It was something that we heard from basically these are like investment bank bankers who were also investing

Interviewer

Okay, okay. Okay. Were they was that but that wasn't already for IPO talks. Now. Yeah,

Founder

these are these are companies which which manage the value of high net worth individuals and make investments on their behalf?

Interviewer

Okay, okay. Cool. Um, I think we are also slowly out of time and I've covered most of my points so with that unless you have any burning questions for me and what my research is about.

Founder

I would like to know and I would love to know, does this come out? I mean, what are you going to do with this and I know so

Interviewer

yeah, so it most likely won't be published. But I'm working with the the CSP at the University of Zurich the Center for Sustainable finance and private wealth and and they're obviously interested interested in this subject so it'll be kind of grounds for ongoing research more or less. But for me, obviously, it's an academic as part of my academic progress and but if you're interested, obviously I can I can send you the results of whatever I find out in the process.

Founder

That would be interested. Yes, definitely. Cool. All right. People who can mean those?

Interviewer

For sure for sure. All right, um, so Kotick, thanks a lot for your time. I really appreciate it. I know you're busy and yeah, all the best with with Stockholm water. And yeah,

Founder

Have a nice weekend. All the best with your with your study.

Interviewer

Thanks a lot. All right. Bye bye.

Appendix C

Interviewer

Thanks for taking the time.

Founder

Like I can't connect with just tries to connect, but it never connects to any call. So

Interviewer

Well, I hope it works this way as well. Yeah. All right. So as I said, I'm writing a research paper on kind of the parallels between venture capital funding and equity based crowdfunding. And the goal of the research is to kind of find out what role equity based crowdfunding plays within the sustainable startup like early stage fundraising market. And I've already interviewed the equity based crowdfunding startups. And now I'm interviewing venture backed startups. So that's where we get to sunroof and our short brief interview here. And so basically, what I would have liked to know is a brief funding overview of what kind of funding you have received in the past and kind of get your insights on how that fundraising experience was for you. And then also take a look into the future kind of what what are the next steps that that applied for sunroof? And then maybe talk about the Euro awareness and have an open discussion about fundraising and equity group based crowdfunding in general? Is that okay with you? Sure. Sure. All right. So yeah, then take it away with a brief overview of the of your fundraising history.

Founder

Yeah, sure. So. So the company was started by my my brother, construction engineer, and he came up with a way how to construct a building integrated solar roof. And, but he has this as a side project, and I am an entrepreneur before. So I'm one of the cofounders of a very early delivery hero, which acquired food that ENI in Switzerland orders. And that's been part of the company. And after I did that an exit, I've done a few investments myself. So the first investment founder of God was actually from me to kind of give the company some money to see if there's a product market fit if if this can be more than five projects, to my brother's construction company. And actually, yeah, standalone company that has interesting product. So the first investment was from me. And after basically one year, we saw that there was quite, quite good traction, and that we want to do something bigger. So I decided to follow on, and my brother also invested some cash. So we continued for another almost a year with own cash.

And yeah, and then we started to go out to venture capital. We started with a seed round in 2020. So in May of 2020, we did our first kind of external VC backed fundraising. And we took in 2 million euro followed on with another 2 million euros by end of 2020. So and this was from from venture capital firms and a few Angel and in 2021, in April, we closed another 5 million euro from from from another lead investor. So this would be not maybe the kind of an extension of that previous round, but but kind of a late seed round not really serious a round. And from the size, you could say that, like 5 million euro would be Thursday, but we were very early stage still with the company. So there was still a lot of things to figure out and stuff like that. So we treat that as a seed round. And that was close to April. And now we are actually fundraising again. So we want to take in 25 In euro within the next six months, and this would be kind of serious A round as we call it. Yeah, and, and looking at investors that are doing series, a series AB and also starting to look at even other types of funds, even private equity that could be interested to invest, because we, we think that we will raise approximately 100 million euro within the next 36 months. So, I would expect that if we raised 20 to 25 million euro, put in six months, then around 24 months after that we should close another 60 to 80 million euro. Yes, that's that's the brief history on the on the future plan.

Interviewer

So a pretty accelerated path. If I can say so myself, then. I was wondering on crunchbase and as well as on pitchbook, it says that you were founded in 2013.

Founder

Yeah, yeah. So it was that the side project part of the business? Yeah, exactly. So my brother started the company in 2013. But it was, like, he built the first group on his own house had this tight credit because he had his own construction company. So basically, this was never giving given any proper attention. Yeah, so So I would say till 2018 this was not something that was, you know, very active. But if he had customers that were ordering a house from him, or, you know, stuff like this, then that he asked if they would be interested in this solar roof, and some customer wanted it and, and so also that that was basically the level of business. So whenever he had customers, and he could pitch the product, and they agreed that that was the sales volume that the company has a lot, not a lot.

Interviewer

Okay, um, so you mentioned that you've already had successful exits before. Usually, the companies take on venture capital for some kind of strategic guidance or help with the management side of things. I assume, in that area, you've already gathered some expertise. So how much of a support system has venture capital been for you in sunroof? For sunroof, in particular? And And may I ask the previous exit that you had? I assume you also took on venture capital there?

Founder

Yeah, yeah, for sure. So, like the biggest plug was from delivery hero. So basically, that's what, at the IPO and pre IPO we acquired basically, 1 billion Euro in funding in different ways. Sometimes through acquiring a competitor without cash or sometimes. Yeah, sure. counsel. So yeah, for sure, but I mean, there's there's a few things with with capital VCs and investors. So we have a few types of investors. So for example, InnoEnergy is a European energy, startup accelerator, and investor. And they have, they have like five or six offices around Europe are focused on investing in renewable energy. Yeah. Not from the energy business. None of our co founders see into energy opened up a lot of doors, contact network. They become a radar for a lot of different startups and products. They have been very helpful to you know, support us in accelerating our knowledge and contract project base and network in the energy startup. And when we have wanted to accelerate the pure product development, things that they in the virtual power plant, then they have been very quick on thing or Hey, here are a list of virtual power plants, startups. Maybe these could be acquisition targets or partners or whatever. So So this is one part, then we know that in the space, there's not a lot of there's not a lot of competitors yet. And there's certainly not a global leader, the people are thinking of adding cultures to the integrated solar roofs now thinking about solar. And, yeah, not not the leader in Europe. And, yeah, and we want to take the space, we want to really become the leader. So we want to accelerate the growth. And to do that, we need to, you know, some funders with cash from investors, and not with our own cash or cash flow the company could generate, we could, we could assure to, you know, slower growth, funded ourselves and grow organically, but that would be too slow to become the leader, because there are so many other companies that are fundraising and growing fast, so we would never be able to grow as fast with our own capital. That's one reason. And then we also have when we fundraise and we talk with investors. So you know, InnoEnergy is one investor that has the exposure, deep exposure into the energy thing. So they are very helpful in this area. We are looking at investors right now that have kind of deep contact or RDP, connected real estate development within the commercial real estate, because we are today focusing on residential and we will want to grow outside the residential into commercial, if you have an investor, you kind of get a cool position to get interesting projects. And it's very important in the beginning to get reference projects. So they might open up a few reference case project for us that will open the doors and confident for future customers that we we've done you know the types of projects and so on, so that that will be helpful. And then we have a few angel investors. So we have a few people that are experts from certain areas. These are, we have, for example, one cmo from one massive company, he had only in the marketing department, across the globe, he had 100 people because it was operations in 40 countries. So I mean, this is a super experienced cmo and having that kind of person close, he can help us in the marketing area. And we have these types of people, we have senior partners from McKinsey. So they have a different angle on things. So they have become our kind of inofficial advisory board. And by investing they're incentivized to help us talk. So, this is how we think about who we take in. And yeah, and then of course, we also want investors that are that have a good reputation. So, because a VC that has a good reputation is opening the doors much easier for the next investor because if you're going for the series A round or series B round, they are always asking who has invested in you before and if you can show that you have a decent or a very good investor that has believed in you and have invested that builds credibility in you. And that opens up quite a lot of doors and also the usually good investors have the contact to VC companies or you know, VC funds that are investing in the later stages to help to grow into the next stage, the interest to the investor. So, and, you know, if they have a good relationship, they can talk, you know, outside kind of the official discussions and discuss our case. So they are helping in the process to, to to go in and then also we're looking at big companies that can do follow up. And that's very important because if you have a VC that only invest once and then you're going for the next round and they cannot participate now In one case, maybe you would not need to go to outside investors, you could just raise capital from your current investor, which is kind of the easiest way to to acquire VC company. But if you're raising and you have investors and they are not investing that's not a good signaling to other new potential investors, they always ask why why they Why are they not investing. And of course, you can say that they cannot do follow on, or You know, they're or whatever reason it is, he either it is they maxed out what they can invest per per company, and that's also okay. But, you know, that is basically a signaling that is not very good. And usually to grow and grow very fast, you want to also VC that can do proper follow up, not a few 100,000 euros, but actually, they can follow on with a few million even. So, at the stage we are right now. So I think that a lot of different things, but it's all good, the more the better, that's all good.

Interviewer

So that's really interesting for sure that they kind of to give a summary of it. In order to turbocharge the kind of growth that you're you're aiming for, in order to become the market leader in the market that you're you're in, you need to pick every investor very precisely, basically, and each investor needs to be the correct one or else needs to bring his own value basically, or else it achieves that goal may still be possible, but it just be harder, is that a good summary of it?

Founder

Correct, it's very important and what is also something that's worth mentioning. Because I have also experienced from having both good and bad investors in my previous companies. And one thing that we all are also looking at a lot is the chemistry, we get what we have with the funds. So if the investor has, you know, if we have a good chemistry, we discuss the, you know, basically it's like with, with your friends or co workers, if you have good chemistry that, that helps a lot, if you don't have good chemistry, now that's gonna be very hard to work together. And I don't know what I've seen some statistic, I don't know how reliable that was, but maybe that was more of a joke, kind of, but there was like, that the usual timeframe that you work with the VC is on average longer than the average marriage in Europe. So So then, if, if that's true, then you really want to have someone that is, you know, that you like to work with. And some VCs are also you know, more founder friendly, some are less founder friendly. So it's not always, you know, the best terms we got, we actually accepted a worse valuation that we had for four point sunroof in the previous round. But we we chose that because we wanted to get the fund we wanted to work with because we know they are very good, they have really good track record, we have really good chemistry. So there's no it's not always the best term sheet that we get. But it's also a lot important what how it is to work with them. And I mean, we have now also in the process for the next fundraising, we have opened an office in Austin, Texas to see if we can show a product market fit in the US to both show our ambitions. But also if we are fundraising, big amount soon, then it will be easier for us we think fundraising in the United States, because there's a lot of great sentiment for these kinds of businesses there. Right now they are used to big round and so on. And we have one VC that has said that they are not sure about the US if they invest they would like to discuss it. Now that for me is signaling that that might be an issue that they have a different vision of how to grow the company and that you would focus locally and let's say that if we are in Sweden, Poland or Germany they would probably lean towards okay be the leader in these markets that will be and are still massive markets that will be super good anyway, don't you know grow anymore and just focus there, but we want to you know, really be the leader internationally and that's not enough. We want to, we think we have the capacity, and we'll have capacity in terms of people money to grow. So so you know, so if you feel that you have these kind of mismatch, also with the VCs, and that might also be something that do have to be with aware of, and not, not only not accept every money that wants to join your company

Interviewer

in two questions in regards to that first one is do you Are you aware of any qualitative differences between venture capital in Europe and venture capital that that's based in the United States? And and is that also something that as you mentioned, it's easy, it might be easier to raise more money in the United States than in Europe? Is it just a funding thing? Or is it also a quality of support aspect to it?

Founder

Well, I believe that in the US, this this is this is purely like from our personal experience. So it's not something though, this is just personal experience and how we think, but I believe that the US started much earlier with venture capital than Europe. In many cases, although you have a lot of ecosystems in in Europe that has a lot of VC funding, and they have decades of investing. So it's not you know, they're not early birds, but I think still the US are more advanced or reduced to investing, then you have the massive scale, always in the United States. So they're also much bigger usually. So tickets, you know, 20 50 100 million euros or dollars, that not, you know, particularly huge amount for for, for us, big us investors. But in Europe, 20 million euro ticket that a large round 100 million that needs to be, you know, then you're in the top companies that are raising, you know, largest amounts in Europe. So, so that's also one thing, and then I, I believe that they are also quicker. Somehow, so. And, yeah, so this would be this would be how, how we feel about it. And then now, especially with the Joe Biden administration, you know, they're being very bullish on climate change. wants to really double down on this. There's a lot of impact investors, and the sentiment is very good. You have so many big forces that, you know, makes it more attractive, attractive to invest in this space. So we just see that there's a lot of love a lot of things happening in the US. Yeah, we believe that there will be a lot of capital there. Interesting, that

Interviewer

quicker is, in a sense quicker to market or quicker in closing the funding round or quicker in waves. So

Founder

I think they're generally quicker of deciding and closing. The feeling like, if it's not a fit, they'll tell you. It's quite quick, quite quick. Sometimes even it's like after 15 minutes or 20 minutes in a call. If they hate this, go to hardware heavy or this is you know, this is too much energy space, or this or that and this stuff. They are they're, you know, they're not in Europe, you have a lot of these funds. They're like, listening to all your pitch, and they sent me materials will discuss internally and blah, blah, blah, and then it dragged out in time and then so I think there are just more quicker decisions

Interviewer

and got it being a hardware based company, that sort of thing else that I wanted to pick up on.

Founder

Yeah, there was a software I was delivering it. Yeah, we have three previous conferences.

Interviewer

So how does that differ in fundraising? Are there do you need to ask completely different people do the same people invest in hardware and in software for how it was that experience as are more or less purely software driven company this time around

Founder

this summer? Yeah. Yeah, that's a that's a? That's a very good question because that is very, very much a big difference, actually. And we see that most VCs don't like hardware. They like software, they like these kind of businesses. And they are afraid of hardware, also, because it's often very capital intensive. And you also get kind of an extra dimension of the business where we have hardware because you start to have logistics, supply chain, the warehouse, it becomes a little bit more tricky, I would say. So they, they are not super happy about investing in these kind of businesses. And we've had a few funds that don't, even if they love the idea, and they know us and our track record as well. And we have some investors that have, because we want to, we want to connect all the rooms into virtual power plant and the virtual power plant, that's basically a software software solution. Yeah. But it is a hardware enabled software solution. But anyhow, we know that we have some investors that have said that we really are doing a stretch investing in summer, because we are usually, you know, we don't want to invest in, in hardware, but because you have this virtual powerplant software, idea that, on top of that, we believe that might be a very big business in the future, and so on, then we, we still want to, we still want. So we have had to underline the software parts that are coming. The idea around this and how these also building a competitive edge and network effects. If you have more resources under management, then you have more power and more beta. So So this has been important to underline to get VCs interested because if it would be purely hardware, truly solar roof, we would need to find different types of investors, and maybe not traditional VC.

Interviewer

Got it really quick before we run out of time, equity based crowdfunding and maybe leading into that question, have you ever had the need for just capital? Like, or we talked before about always choosing investors that bring value to the firm but and given your explosive? growth in funding rounds? I assume that the answer to this question is no. But still, I'm going to ask Have you ever had the need for just capital without any attached advice? Or just basically a quick influx of money?

Founder

Yeah, I would say so. Even even great VCs and so on, they usually have anyhow, a limit of how much they can actually support you, at least in terms of knowledge and advice. And we're also rapidly growing, we have experienced team, we're hiring senior people, VCs are more to connect you with other people, companies and so on than really giving you a lot of advice. Unless it's advice in terms of fundraising, then they're usually helpful because they, they know how other things VCs and how to approach things. And sometimes it's also very good to have done capitals, like without advice. Because if you have someone that really wants to give you a lot of advice that can can also be a distraction and annoying. So it's not a it's not it's not always, you know, very bad to have, you know, dumb capital that those entering and and that's called like crowdfunding that or capital without advice. Maybe that's the best return. For sure, but with with crowd funding, what I would be so for me, there's there's two, there's three things that for me, crowd funding is not attractive. One One thing is that if you want to grow a lot, then you would probably need a lot more capital than you can raise through crowdfunding. And VCs are looking at your funding track record. So who are who have you Where have you taken in capitalism, and I think crowdfunding would not The best. I think that this might be very strange for VC like, why did you crowd fund instead of going to a VC? Is that just easier? So I think that could raise a question mark, then the limit of the capital. So I think that in a lot of countries is the limit of one euro per million euro.

Interviewer

At the moment in the UK, it's a, it's an 8 million upper limit over a rolling period of 12 months.

Founder

Okay. So I think in Poland, that has been 1 million euro or something like that

Interviewer

it's definitely different for different countries, that's for sure.

Founder

Yeah, then you have these limits as well, which is, you know, depending again, on the company, but you know, if we want to raise quickly, a lot, maybe this is not the best. And then I think crowdfunding could be interesting, if you have, let's say that you're starting a food ordering site, or, you know, something consumer driven, then maybe you can actually have this marketing scheme as well, because you start to have, you know, 1000s of people that invested at small ticket in you, and they will promote you and want to use the service. And they'll do kind of get this. But we really would not get that with, with some hope we don't see that value. And I will also be afraid of having a lot of these small owners, I guess that they are through an SPV. So you're not actually having 1000s of shareholders in your cap table. But still, we're not sure how to how to handle that. At this stage. That would be not it, that would be quite a lot of things to handle for small investors. So yeah, so that could be the thing. I guess for for me in terms of

Interviewer

I mean, yeah, for in the with a track record of sunroof, it definitely doesn't fit necessarily anywhere in there, especially with the both of both of the rounds being so close to each other. I assume you didn't have that much issues, raising the capital through venture capitalists. Oh, yeah. So I guess if if you can get it through VC and easily through VC, then that might be usually the preferred way. But um, but yeah. I think I think that was more or less it for my end. Let me quickly go through my notes. And second. Oh, yeah. One more question that I wanted to ask is, but have you ever seriously contemplated the crowdfunding thing? Or is that just something that you now when you think about it now, these are the things that would speak against it?

Founder

For sure, for sure, this has been something we've considered, we've even considered to potentially launch side projects and crowdfunding to try to raise capital for in a vehicle that would give them capital we can use in sunroof, of course, with the benefit for those investors that would not be diluted for for us. And so and the example here would be, as we're looking at, how could we give? How can we launch a service that we call the roof for one euro, so imagine that you want to renovate your roof, or you're building out and you would like a sunroof, and we could give you that for one euro. But then you're paying it off over installments, but the size of the installments are equal to the value of the electricity the route of producing. So basically, the roof is paying off itself, because you would anyhow need to pay for the electrical bill. So So this would be a way for people to get a sunroof, one euro, but we would need to find that this can be tricky in in the beginning to launch. So we could recruit, for example, some bank and then crowdfunded. And then people are investing and they know that they're investing in this lending vehicle for sunroofs, for example. So this could be a way that we have thought about it wherever considered The dream, maybe we can do that through an Ico or different proposal for sure. We're thinking about how we can create the funding in different ways. So it's less diluted for us and attractive.

Interviewer

It's in this concept as well is obviously much more mass market compatible as well, right? So the whole crowdfunding thing that you mentioned that and I've heard that from others before, and there's papers on it as well, about the marketing aspect and accessing or getting access to a large pool of people that that have an actual interest or that are that interested that they would put their own money on the line, basically, for this company. And that the marketing aspect really only works when you have a product that that's for the mass market, basically, that you can sell in large amounts, and that there's the current sunroof product that you have, I assume costs a bit to install in the new house. And it's obviously not as mass marketable as as a sunroof for $1 rupee, right.

Founder

Exactly. challenges. Got it.

Interviewer

All right, like well, thanks a lot for taking the time out of your day to have this talk with me. If you have any questions for what I'm doing, go ahead. And otherwise, for my end, that would be it.

Founder

would be interesting when you're done and have written, please share your work and would be interesting to read about it.

Interviewer

I'll put you on the mailing list.

Founder

All right, thanks. And good luck.

Interviewer

Thanks a lot. All the best with sunroofs. And yeah, have a nice rest of your day. Bye bye. Cheers. Buh bye.

Appendix D

Founder

Hi Simon

Interviewer

hi May, how are you doing?

Founder

I'm good. Thank you. Sorry, I'm a bit late.

Interviewer

No worries, no worries. Cool. So let's jump right into it. And I said, I'm doing a research to do some research on equity based crowdfunding and kind of what role it plays within the early stage fundraising ecosystem for especially, specifically sustainable startups. And at the moment, I'm interviewing venture backed startup. So that's where you come into play. And what I would have liked to know from from your perspective and from globe chain is basically your brief little funny history and basically what your plans are for the future and then we'll go on from there if that's okay with you.

Founder

And so We've been going six years turning six years first four years self funded. Because interestingly, there was nothing about sustainability, no market cap. And then we got VC funding, I'd say probably early 2019, because we got it end of 2018. So we got VC funding of 750’000 pounds. And that's all we've done today. So we generate revenue, and obviously, like living off that at the moment, and then the future is actually I'll probably start to raise probably it's a bit too close to Christmas now probably January. We do a race arrays and between two and five mil haven't quite decided yet.

Interviewer

Okay. So there was the venture, the VCs are actual VCs are they're also Angel networks. Among those, we have

Founder

no angel investors in our thing. So it's basically three VC funds to our he is very small, and one is my lead VC, which is um, yeah, they're just they're just the normal VC. No, he is nothing.

Interviewer

Got it. Is that a? I guess was it just like the funding that you'd needed at that point was among the was was around 1 million? And that was something that the VC was able to provide you? Or were there other reasons why you didn't pursue angel? Angel funding first?

Founder

Yeah, so so this is probably all I would interest you. So six years ago, there was it was there was nothing really about sustainability. And like social impact funding, there were a couple of like impact VCs. But I'd say that like series A, there was like bridges, one or two, not many. And the psychological barriers and the perception of impact companies in those days weren't as weren't as like Hots as they are now. Right. So. So that was, that was a challenge for us, because I'm a sole female ethnic founder, which is very low, it's like naught point, 8%. Last year went to ethnic minority. And that's not even social impact. So you can imagine how difficult social impact because people perceive it as a charity and a nice to have. And it wasn't that kind of hardcore, VC funded business, like a CRM system, or a dating site or whatever, wherever else, you know, people are selling in these days. So from a VC perspective, they couldn't get they couldn't fit it into the classic spreadsheets, you know, the analyst, because it was an unknown business model, because we were doing something very different, where I couldn't prove the size of the market. And, you know, basically, we had a bit of product market fit, but it wasn't enough for, you know, basically risk averse VCs at the time. So I self funded it for four years. And I did that because a VC said to me, bring two clients paying 40k, and we'll give you 150k. And I was like, I don't think so. So that was that was my thinking. Also, in those days, there wasn't really many angel investors like Twitter wasn't the Twitter you see now where you can, you know, every all angel investors are out at networks and stuff, there wasn't anything really like that was very limited. So unless you had a good network, which I don't have, I don't come from that kind of privileged backgrounds. It wasn't a choice for me, because I couldn't find anyone. And then the race came about, actually, I was looking at half a mil, and in the end, actually, I got off at about 1.7 million, but I just couldn't fit them in for that round of equity. If that makes sense. It was it would basically just make us a bit too overvalued at that stage. So when I decided to go for those three VCs, because I like them, basically. And they get, you know, we negotiated the terms, it was founder friendly. And so that's the reason I skipped the high net worth. And when I decided to do VC that actually was a conscious decision to skip that Angel round, for a reason. Because I've gone through that business model to a point where I knew more than an angel VC and, you know, when you're talking to angels, you know, it's really about the taxation, or, you know, there's a bit of philanthropy involved, or they've got, you know, they want to diversify their portfolios for personal reasons. There wasn't many angels that knew this market, right? So I was finding myself educating the angels more than you know, and I'm like, if I'm trying to persuade you over a market, because you're trying to understand because you have a feeling this could be good, but it's just, it's a lot of work for me, and you could be a nightmare on my board. So that's the reason.

Interviewer

Yeah, the one like, main part of the whole thing that I'm kind of looking into and the value of VCs as well, is kind of the give and take, right so and obviously, something that has been has shown with the crowdfunding startups, as some of them have are serial entrepreneurs, they already know what basically everything that they're doing, and they, they don't really need anymore.

Founder

Exactly. They just need just money and you get a better equity on the crowdfunding. But the crowdfunding for me at the time I looked at it it's it's, it's a bit deceiving with like the crowdfunding very early days worked very well, you know, for the first ones that had the great PR in the mainstream media now you don't really hear about like synthesis has been the way it works really, I find is a little bit on the line of like not not the truth, right? Because they say to you bring in your investors, which you have the privilege of being charged for, put the money up, and then go for your 100k rights, and do all the marketing and spend all of it like the crowdfunding site don't actually do much. And we're b2b. So if you look at the b2b space crowdfunding, there's not much, you know, crowdfunding is very good for product base or consumer based products, because you've got your consumer client at the same time as your investor. And a consumer growth is very different from a b2b growth. So that was one of the reasons I don't like the way they sell crowd preference. I also in the past, it was actually quite highly complex. I mean, you could end up having 1000 investors on your cap table. And from an administration point of view, that is a nightmare for VC. So if you did six, seven, who are successful, you go for a proper VC round, the VCs are going to look at that cap table. And it's good that they're gonna look and go, that's expensive to clean up, you know, and if it's not done properly, you've got issues, right. So there was there's too many kind of moving parts in that if we'd been successful if we'd done a crowdfunding, but for me, the time and effort and the marketing and the spend, you have to put to market, a b2b, and no crowdfunding site could actually provide us an example of a successful b2b business similar to us in our space that had successfully done a crowdfunding. So that's the reason I didn't do it, as well.

Interviewer

Yeah, the b2b part definitely is interesting as well. It's the I don't think I've interviewed or looked at startups that were b2b either. Yeah, exactly. And especially like, even, even, not B to B, but then not like mass market solutions as well. So for example, another startup that I'm interviewing is in the solar panel industry, and they do like hold roofs, obviously. And you can't, that's not something that you can sell to a lot of people at once, right? So because, like the whole upfront investment, everything is expensive to do. It's super, I know, there's there's one that's pretty that has done like, I don't know, five campaigns, like this beer company. And, and for them, it's, it seems to be worth it, obviously. But then again, I mean,

Founder

right? So when you when you get talking to them, like, we know, we know, one of one of startups that I know who did a campaign like he did 750,000 we didn't tell you was 400,000 pounds of that was his own money. And then he said it was an absolute nightmare to get the whatever else left, you know that the remaining cash, and then this is the way the technique for crowdfunding now. You know, because it's so diluted. And you know, they take fees for everything. So, but but it's really they're taking fees for free money, because they're not doing any of the work. And for me, I just thought Why would I waste my time providing my investors and putting it on there and messing my cap table up and creating a massive, like legal cost for me, when I do another fundraise for people that actually aren't going to benefit me, you know, as consumers, because it's b2b. The time it takes to do the marketing, I could have got two or three clients for that. The amount I'm raising anyway, the only benefit is the get away with giving less equity, right? But I agree like serial entrepreneurs that just need the cash because they're just, they're not reinventing the wheel. And it's a great way for them, you know?

Interviewer

Alright, then to come back to you to your funding history, the VCs, how has that relationship been for you with the Howard supporters? Have they been able to give you How much were you able to take away from it? For for blockchains purposes?

Founder

Yeah, I mean, look VCs, a VCs, right? Like, not all VCs are equal. And you could you could really depends on your expectations of what you're expecting them to do. And I think we've been lucky with the VCs we've got you know, very kind of, they just let you get on with it kind of thing. And then kind of like prod you and challenge you where you need. They also quite good at the seed stage, I would say in providing education around things that you need. to scale, my VC is particularly different because we, it's to a 2 million pound funds, and we have a share option in the fund ourselves. So basically, it encourages us to help each other in the fund that we get updated. So our shareholders basically have the funds that were in so, you know, government, we don't do well, our counterpart might become the unicorn, and then we get we get money for that. So so that's good. That's one of the reasons I took them on anyway. But I think what's been quite disappointing not this is not them. I think, as an industry is the UK and European VCs. They're very risk averse. So it's still early days for a company like us to, to raise and get a lead investor, they all seem to want to follow, and nobody seems to want to put their neck out. And for me, my argument is, if we're doing the higher revenue, that they claim, they wanting it like a seed stage, I won't bother with them, you know, I'll go and find a VC in the US because my expectation of help is going to be low, because I know my business better than them, right? So me, it's like, what do you need the VC for? I mean, the VCs are good at certain levels. But I think where you're going to benefit from the VC strategically, it's probably like a Series B, European Series B, because that's when you're really truly at scale, and you need the strategy and the contacts, right? Because every VC claims, they can promise you with x y, Zed, but I've not really seen a VC do that to a point. You know, I think my VC has done it a couple of times with people that I haven't been able to reach, you know, from a corporate level, yeah. Yeah, but not every, you know, VCs these days, it could be me, and you decide tomorrow, let's set up a fund, because we've got some high net worth and some LPs, and give us nine months to get certified and regulated. And it's done, you know, so got a lot of that in the market. And that's not useful, because in the UK, and eu 4% of our VCs have operational experience, you need operation experience, you can't call me talking to a VC that's just an MBA and have a spreadsheet, you know, I have no respect for that, you know, if if they don't have the experience and the portfolio to back it up? Yeah. The US market, they've been there, done that a little bit. It's harder, but, you know, they they've seen so many

Interviewer

Have you been in contact with American VCs.

Founder

Yeah. So we've just started actually, obviously can't travel the moment, but that's my ama, you can get hold of senior people quicker, they're more open to have a conversation with you. And they don't play this kind of FOMO game as much as they do here. You know, it's very much like startup Chase, the VC, you know, in Europe and thing, and I'm like, you know, don't have time for that, actually. You know, like, have a conversation rather than just take information and research for a competitor. You know, there's, there's a little bit of that going on.

Interviewer

Okay. It would, would that be? Do you have plans on branching out if you're not in the US yet, right? Oh, yeah,

Founder

we're in New York and Texas.

Interviewer

Okay. Okay. Okay. Got it. Yeah. Because the there's this like, local bias, right, where VCs usually don't want to invest in startups as there are in Europe. But then if so, if you're already in, it doesn't really matter where your headquarters are, as long as you're doing business within the area.

Founder

Exactly. Yeah, that's the that's and that's why I'm going to travel early next year just to gauge if that mindset change. There are some VCs we've spoken to that are interested in follow on, right, but I haven't actually spoken to the main the main players in kind of like West Coast yet, so you know, and don't forget b2b space. There's a lot of consumer VCs, right so you got to cut that in half and push those VCs away and unfortunately some of them are very good VCs but just not not in our market so already the pie is smaller than you think.

Interviewer

Yeah, for sure. b2b is definitely something I need to like the that whole segment it's definitely something I need to look into more as well because it's interesting because it doesn't really yeah it's just a different industry I guess they'll be a

Founder

different industry and the value of other companies and you know they do need experience like we are marketplace right SAAS new on marketplace so that requires a VC to have knowledge of like two kind of models and understand how how will they grow? I don't think in the UK in Europe, they're in any shape or form Yeah. But you know, it's not it's not we're not reliant on them. Let's let's put it like that, you know, they'll catch up. But um, but it is, it is issue for me when I'm looking at VCs because I'm like, Oh, this is an interesting VC. And they don't do b2b, or they do just SAAS software. But it's, you know, it's not something they would probably look at so that the pot is very small, actually. And he can go and then even smaller when you need to find a lead investor, right? Because a lot of these funds are quite small, so they'll never lead.

Interviewer

Yeah. What are your like, General Growth? Was the growth outlook? How much? And how fast you want to achieve more growth? Is it something that you're kind of like turbo charging? Or is it somebody kind of letting have a natural flow?

Founder

No, we, I think in the next, like, two to three years, we can be global, our system is pretty robust. So really, the funding will go into like people in talent execution of different regions, and just like the speed the marketing side, so So obviously, we can improve what we're doing on like, ESG data and, you know, product product features. And we've got a couple of areas where, like, potentially this interesting revenue streams, but but you know, ultimately, you know, if you look at most companies, they were, they won't be going at that speed unless they had a big load of cash, right? Like that. Just no one can do it like that. You need the cash to do it. Yeah. So you take a decision before you take the VC funding? Are you going to be a business that grows like that? And are you going to be a revenue business? Are you going to be a business, there's just as growth and figure out the financial model when you IPO? Yeah, right. That's what that's what people have to think about. And actually, it's not heavily emphasized at the beginning of your journey. Because if you kind of get that wrong, or you don't know where you're taking your business that does really like could screw you over, right? Like if you get on the wait, and actually kind of didn't need the VC routes.

Interviewer

Exactly. That's because the I had an interview this morning with the solar company, a solar panel company, and they really wanted to turbocharge this thing, right? So they something but like the next 12 months, 100 million or something like that, then they're doing like 10. Now, so it's so they definitely wanted want to do that. Right? But then obviously, some other people just do want to have their company and obviously yours. There's way more sustainability aspect to it, then then a solar panel company would have right? So they're obviously doing something good, renewable energy and everything, but with the whole. I'm not going to call it waste. It's really a waste management.

Founder

Circular Economy. Yeah, exactly.

Interviewer

So that's definitely. Maybe, maybe it's wrong to assume it. But usually, it's just, it's more how you call it. You do it out if you do it for the good as well. Right? So it's not only to build a big company and maximize impact.

Founder

Yeah, it's basically like, we have like commercial with a conscience, right? So exactly of like doing business that everybody is looking at now. But at the time, it was quite a kind of, like, out there thing, you know, it's like, are you a charity? And I'm like, No, you can't scale it up. But you know, there was a point in the lifecycle of the business. I thought, I'm like, Where do I want to take this company rights as a marketplace. And unfortunately, you have to kind of, you know, could either do this (makes a flat line with arm) for ages and just, like, be happy with a salary? Or it could do this (makes a steep incline with arm), right. So to do this, you need VC? Exactly. You know, you need you need huge chunks of money, and you got to go aggressive, like no fear in it. But um, but yeah, just the market wasn't ready to take a risk on it. Now. They're all like sniffing around, still trying to understand it. But that for me, you know, we need somebody as the lead, like, we can get follow on, we need somebody in the lead that really, truly kind of gets where this economy's going, right. And it's not just about being an impact VC, right. And actually, the irony is no impact VC wanted to fund us back. You know, a couple of years ago, it was just the make it was an agnostic VC. And actually, I quite like that, because they weren't trying basically for me, it's not it's not a niche sector. This is going to be business as usual. Yeah. So you know, everyone creating sustainability funds or ESG funds, it's just on a bit of a fashion thing, right?

Interviewer

To quickly get a understanding of what what globe trade actually does, it is just taking the old furniture and sell stuff that businesses don't need anymore, and re locating them to either charities or foundations or other businesses that happened to have a use for them is basically more or less than

Founder

22 systems, not just furniture. We do a lot of construction material. Since construction, retail and hospitality, we do medical equipment as well. So they will list it, alerts get sent to our members that you write nonprofits and small business and individuals. So we have individuals take as well, they'll request it as a booking system, a chat function, and you can split quantities, they'll request them pick up a note, actually, we just launched logistics. So we offer couriers, now we can track the items. And so that's one service. And then we have something called internal reuse, and loaning, which is global. And that works like an asset inventory system. So you can reuse on loan items, or assets, internally, within organizations or supply chains. So warehouses, whatever. And that could be however big you want it really cross border. So it's two levels, one is hidden, so you don't see the items. And when you can press a button, you can switch it to the public market. And the USP we have is we collect ESG data on the impact. So we break down social, economic and environmental impact where the items go in or who took it, what they did with it, if helped with upscaling employment levels, we get videos, and we collect that in a report for the corporate that's used for bond risk, credit financing, impact investing.

Interviewer

Okay, got it. It's interesting. And they those simple, the first one that you mentioned, just relocating of, of the equipment that's just within the nationwide, it's just within the country. And

Founder

you can actually do cross border, so we have charities in Africa, take from UK, they do a lot of the medical equipment for compliance reasons. So that goes to rebuild hospitals in like places like Sierra Leone and Guinea, Kenya, we've got Garner, we've got Ukraine, Libya, and Poland at the moment. So they do take from the UK. But I'd say probably 80% of it is localized local supply chains or national supply chain. So so like, for example, Switzerland, we've had a lot of requests bizarrely, to work with some luxury product people in Switzerland. But with that, you probably need cross border NGOs. And I haven't seen a poor NGO in Switzerland. So it's a different dynamic, you know, but that that scenario of landlocked countries, you cross border is a lot easier, you know, we can integrate freight cargo.

Interviewer

And then the transport is covered by the donating organization.

Founder

It's it's the recipient of the one that's taking the items pays for logistics, because they're getting the items for free, not selling items. And that way, it allows very, very little like, no shows people making a commercial decision on the value of the products. Yeah, and so they they have to pay for logistics,

Interviewer

and you make money with listing fees.

Founder

Yeah, we charge annual is that for SAS part, which our annual or project fees to list the items, it's not per listing as such, we have an ad hoc for listings, but for the big enterprises, we charge them per location.

Interviewer

Got it? Um, well, for a really, really interesting company. It's a I really like the I really like seeing the circle economic aspect of everything. And it's a pleasure to have a woman in my interviews as well, obviously, it's a rare sight. No, it was it's something I'm also doing a descriptive analysis of like a data set from, I think it's 2013 to 2017 and just steep seed stage funding. And one of the criterias to see how many are have female members in the board and and magazine, you need to look at

Founder

the rows report was the one in 2019. So that was that came out just after I got funding. And basically we were one of only 1% of females and not forget ethnic females that got more than half a mil and then another report came out and I can't remember the name of it just this year. And it showed in COVID. One point this was for UK or Europe, I can't remember 1.7% was female only out of the X amount of billion. And then it was naught point 8% for black ethnic. So those reports could be quite useful for you because they split the the seed or basically there's a lot of money in seed stage at the moment because it's become the thing and the returns are better, right? But then there's a lot of money in the late stage scale up because of what COVID created the m&a is and that's the thing that the middle that kind of growth period is still quite tricky, and that's why you see the data dip, dip a little bit that I remember Paul send you it, but it's a very good one. It breaks down a lot of things.

Interviewer

Yeah, please do I'm writing it down, see if I can find it myself. But if you do find it,

Founder

find it. Yeah, a lot of people posted it on LinkedIn stuff was done by it like an external organization.

Interviewer

Got it. Alright, well, thanks a lot of is all for my end. If you have any questions, go ahead. And otherwise, yeah,

Founder

good luck with it. Let us know when it's published.

Interviewer

I'll do it so I'll do so. All right. All the best May. Thanks a lot.

Appendix E

Interviewer

Here we go. All right. Okay, so I don't know how much I already said in the message. But basically, it's a Bachelor's thesis that I'm writing on the subject of crowdfunding. And basically, I'm analyzing the value of that equity based crowdfunding has for early stage startups, especially with a sustainable kind of driven purpose. And comparing that to some startups that didn't end up choosing to do crowdfunding get went straight into venture capital, or basic, comparing venture capital, funded startups with crowdfunded startups,

Founder

God you and just start for the matter of context. What bachelor's? Are you studying?

Interviewer

I'm doing banking and finance, banking and finance. Cool. Yeah. At the University of Zurich. Okay, so basically, what I usually do in the beginning is ask you to provide a brief funding history, if you can have Pac Man assign the right ID. And then we'll go on from there and have a basic and open discussion of what crowdfunding was for you how it ended up working, what other ways you secured funding, and basically a little bit of what your future plans are of also, regarding funding situation.

Founder

Sure. So in a nutshell, we incorporated JC in October 2019, after being selected part of the antler business acceleration program. So basically, anchor is sort of like venture builder VC, that invest in companies that that are solving the biggest problems that human can face today with technology. So I applied as a person, not as a project to, to antler, and I met my co founders, man, Karen and Chris, they're. So the first check that we received was basically a BC. And that was, in October 2019. When we secured our, when we secure a pre seed round, we raised 120,000 pounds at 1.2, post money valuation. And the reason why we did it is because first you reduce a lot of risks, you reduce the basically funding risk. So at the beginning, you need funds, and VC provides access to funds straight away after the second month of the project, or when you join the program. So that's pretty cool, then you, you reduce, then the product market fit risk, because they make sure that you are literally solving a problem that exists not just an idea that you wanted to build a new went ahead building an idea that does not solve any problem. And also it reduces the co founder risk, because you get to interview a lot of people, and you get to meet and partner and, you know, see if you can work with multiple persons before you incorporate the company. And it's a wonderful time to assess the different skill sets that your other co founders have. And then you match with a person that fits you the most, and so on. So that was early days of VAT. And then six months after that we launched not in Well, basically three months after that we launched our first iOS app, it was a minimum viable product. And then we pitched to more than 500 VCs in London, in what anther call set a demo day. And this was January, February 2019. Now sorry, 2020 just before COVID so the intention was like literally after taking these first funding, round from antler that pre seed we, we went out there to the public and pitch to a lot of VCs in London and raised some funds and we did we had like I don't know 2030 pitches with VCs and we would, we weren't able to secure funds from any of them. We were in conversation, we see serious partner level conversations, with three of them, but after COVID, like all of the conversations went to halt, and and in the end, one of them wanted to close, close the fund, close around with us, but they were just saying, hey, like, let's just wait a few more, and so on and, and you know that the startup was about to die because we needed funds to literally keep the startup alive. So we went to the crowdfunding way. Number one, and most importantly, because like, literally, there were no other funding opportunities out there. But number two, which is also equally important. We also really believe that direct to consumer brands and and companies should always raise in crowd funding, because these people are your early adopters, these people are the ones that are going to take the time to give you feedback on the product and service that you're building. And these people are going to be the one that will recommend your product to their friends and it's marvelous and fantastic way to to get you started with and fast pace your your growth and your your development. So we went to Seedrs, we considered Seedrs because a lot of FinTech companies were raising on Seedrs at that time and they reached out to us as well. And there was good communication between Sears and JC. And basically in September 2020, we launched the seed round, we wanted to raise 200,000 pounds. And we ended up raising 736,000 pounds with a campaign that was massively oversubscribed. And we get the opportunity to raise from more than 1000 investors that believed in the vision in the in the app that we had built, and in the team that we put together, so so it was pretty cool to see the development. And six months after that we did a top up to a seed round with other, let's say, Angel syndicates, because they're not VCs, they weren't like VCs, but they're like Angel syndicates. Some of them in fact focused one of them in Portugal, another one in Silicon Valley. And, and another that is not in fact, we're also doing Silicon Valley and one in Portugal and the rest with celebrities and high net worth individuals. So so we ended up raising 1.2 million in total at 4.7, post money valuation and that was the seed round of vag and going forward I believe that early next year, we're looking to we're going to be looking to raise funds again. And and and most likely we're going to go their crowdfunding approach as well. If we are fortunate enough to receive a check from a VC we're going to take it definitely. But the reason why we want to go crowdfunding again is because you get a lot of users the day you launch given that we're an app, we need those users we need that feedback and we need that those adopters to to do something and this is especially relevant for companies that are creating a completely new product that has not yet been invented and and is not common right because you need these like literally early adopters like tech savvy people that want to take the risk of using a service that is that is like literally not known before so so that's why we're considering going crowdfunding again. And and yeah, we're going to look to do it. I think first quarter next year.

Interviewer

Very interesting. So just to quickly check the the seed round that you mentioned the total amount that is together with cedars and the angel investment that you mentioned right those two boats that is combined gave those what was one number you said 1.2 million, 2 million. Yeah. And then like 700 something is from crowd cedars and the rest is from the angel round.

Founder

Yes, exactly.

Interviewer

Okay, um the oversubscribed Part. Did you set the goal? Because I've heard this from other founders as well. And crowdcube apparently actually tells this actively to the to the campaign. The people who run the campaign? Did you set the goal? intentionally low, unable to get a oversubscription? Or was that an actually like an unexpected influx of money past what you were trying to raise?

Founder

To be honest crowdcube and Seedrs tell you like, literally you have to be over 60% to 80% of your campaign subscribed, for the for the launch of the campaign, so that like literally retail investors see a successful campaign already and just jump in and you're in over funding day one. So that's the way that we're seeing campaigns being launched nowadays, but like for us, we really struggled getting like early checks. So we had honestly we had like 120,000 pounds of soft commitments, let's say, people that the angels that that told us, hey, like I give you 25 here to engage here and there and so on. And, and we really felt that it was going to be difficult to get to the 200k mark. Because we thought that, you know, we had to reach out to our own network and so on and we've already deed and like literally that was the most we can get like 120 so we said like let's let's see if we can drive it further down the road and and it was a complete surprise to be like 100% oversubscribed in the first week. I think in sec in the in the second day. That was like pretty cool. Okay, were there unexpected, but then going 200 300 400 or 300. And something, it was like completely unexpected. And but we didn't stop the campaign. So like literally we were 200 already oversubscribed. And we didn't start the campaign because we said to ourselves, like if people are giving us money, let's let's take the money, it's gonna be difficult. road ahead. So why don't we just take take the money and let it run. So we'll let it run. We let the campaign run for a bit more than a month. And then we closed it until we until we got to 1000 investors. So at what point we were like insane 100 investments, and we said let's get to 1000. Closer to just close it. Yeah.

Interviewer

Cool. So was that? Did you already have a plan lined out? With? What money that you would do? What? Especially if that? Or was the intent? Was that more money than you kind of knew what to do with? Or did you already have a kind of lined up button already kind of also thinking about next rounds? Okay, we have the funding round for crowd, crowdfunding, let's say 400,000 or not even. And then. And then you were already thinking about the next steps. And those were just kind of sped up in that case of an over subscribes. campaign.

Founder

So we did a model where we incorporate between half and 1 million of expenses for the following 12 to 18 months. So yeah, we started with an objective of 200k to see if we could like raise some funds and, and if we raised only 200k, then we would narrow down or we would cut back on some expenses, but actually the model, it already incorporated a ticket of at least 500k.

Simon Marques 13:49

Okay, okay, so that was basically you went right to the, to the middle of that kind of perfect landing. Exactly. Okay, and then you just did to top up around with the angels to get over that 1 million mark to kind of secure funding for all of your objectives that you had lined up for the next 12 to 18 months in that case.

Founder

So so there's a one legal term on the documents, whenever you close around that it says that you can raise additional capital at the same valuation with the same documents without having to go back to your investors and sign the documents again and you know, like let them know that you're raising more funds and then being all the lawyers and we set up a maximum level of half a million pounds. And then given that we received some so much interest in the crowdfunding campaign, we ended up taking these money this extra morning and using it as as x ray in the sun and part of the seed round. So So mainly it was because we had the opportunity And we receive a lot of inbound interest and we just took it. And so we've completed within the timeframe.

Interviewer

Yeah. Okay. Okay. The the crowdfunding campaign in that case did also accelerate like other interests from from angels. Did you also get more interest from VCs then as well? Or did you hear back more from VCs as well? Or was this angel syndicate?

Founder

No, it was more Angel syndicates, more high net worth individuals, but like a lot of VCs were aware of what was going on. Literally JT, we pitch to most VCs in London, and multiple VCs in Berlin, or in like Europe, why? Because given that, we have the antler network. And the other partners make sure that the older portfolio companies get exposure to pitch to VCs across Europe. So So in the end, we ended up pitching to most of them, and they already had a bat on the map. So So yeah, I think that the crowdfunding campaign did generate additional phone calls to VCs, but not not that many, it was more like we were in the mind of all other investors, mostly retail and, and also like Angel syndicates, we pitch to the London Middle School, Angel syndicate. And we pitch to the Harvard business angels, London syndicate as well. And we've got investment from few members of them as well. And definitely having raised the on Seedrs opened a lot of doors, and gave a lot of confidence from other investors to pour in. And also the crowdfunding campaign helped us to get a few articles such as a TechCrunch article that we, that we got, and the TechCrunch article, the more confidence to other investors from the US to, to chip in. So so it's it kind of accelerated the confidence that people have on on investing in your in your startup, because you're already publicly known. And you're already publicly accepted. And you were already publicly successful.

Interviewer

Yeah, especially with what you said those direct to consumer products, where it's kind of already a pilot, right? You are, you kind of test the waters and the people, it already shows that a lot of people are interested in this kind of thing. And it kind of shows investors that this is something that could be successful in the future, especially with the direct to consumer products are definitely really interesting in a crowdfunding sense, through that kind of marketing potential that crowdfunding kind of generally ends up having, if you wanted it or not, right?

Founder

Yeah, it's a good test. But in the end, it's a hypotheses. And it's, it's, it has to be yet tested, because it's not like directly directly proportional. If you're raising crowdfunding, then you're a successful app. That's, that's incorrect. Like we had 1000 investors, and they were super excited about what we were building and so on. But it does not mean that we can get 100,000 users or a million users. So there were like, 100 1000 people that believed in you. So a strong team saw a potential in the products or like, an interesting market and want to give you an opportunity, but that does not mean that the product will be successful.

Interviewer

Yeah, sure. The years like strategic part of it is usually you'd have a early on, you get some kind of angel investment. You get some VC investment as well to kind of help you along the way with crowdfunding that sometimes falls away and you don't really have as much of active participation from from investors. And I guess that's another question I wanted to ask you really quick. How many people did you do you have a single line items on your shareholder sheet and how many are bunched together as cedars are all of them

Founder

once? We have like, then? No, like 12 so people that ended up by investing more than 20 K Yeah, we we put them directly in our capital table, or cap table. So yeah, we've got like 1212 of them directing or got a one then the rest are just done in the seedrs nominee structure.

Interviewer

All right. And do you have any kind of like, communication with those 12 people and

Founder

yeah, so so given that we started in antler, we had a lot of advice from them. So we received a lot of advice from Antler. And we have we have these monthly meeting with one of the partners of antler, and they open a lot of doors, if we require them, they help us with office space with recruitment. So we've got a lot of resources there. Obviously, we've got ex-CEOs of banks, and current ceos of banks invested in Yayzy. So basically, these angel investors are also super resourceful. And they have opened a lot of doors. And moreover, we applied to the London Business School incubator because I'm an lbs alumni. So we have like, during 2022 2021, we had, we were part of the program and they opened like so many other doors. So in general, we didn't lack this VC sort of intros or these VC help to accelerate because we have all these other resources. And we were also part of the UK Global Entrepreneurship Program. So they give you like advice to, to set up the company here in the UK and open as many doors as you required. So like, in some kind of way, like entrepreneurs need to reach out for help and resources. And we also were accepted to another incubator, like the pirates, dolphin University incubator, then we had to reject that because we already had so much advice and strategy and so on, that sometimes it just takes a lot of time to deal with that. And, and you have to focus on executing, not on strategizing and speaking to other people. So I would guess that if you're resourceful and you open a few, they're here, the doors here and there, you can get as many advice advices as you like,

Interviewer

Yeah, for sure that I talked with another startup that went straight to crowdfunding. And that's just because they didn't really need any, they already had everybody on board that they need to kind of everybody was already experienced in that field and knew what they're doing. And it's definitely an interesting case for crowdfunding to hop in when, or, or with low growth companies where you don't necessarily need any more advice you already have most of your strategic partners invested as business angels, or maybe some kind of early other rounds, you just need a little bit more money to get to the next stage. Right. So that's definitely interesting, as well with the incubators or the accelerators. If you're already have a lot of exposure there, then crowdfunding my you don't really need that much more advice in form of VC or in form of other business angels, necessarily. I mean, probably sometimes it helps, but it's not required. And in those cases, crowdfunding definitely has its own little place. Exactly. Interesting. Quickly, another topic, you also are pharma, smart. It's also something that you founded, right?

Founder

Yeah. straight after my bachelor's degree, I co found that other an online pharmacy at now is the leading online pharmacy in Mexico.

Interviewer

Okay, and that was just straight, without any funding or just a platform that we went.

Founder

We raised from friends and family, half a million dollars, back then it was a lot of money.

Interviewer

All right, interesting, but you know, nothing. And that was enough for you to get started and, and to business.

Founder

Exactly. Yeah, and I, I will that startup, basically was straight after college. I had other two co founders, I decided to do like a full time job as an equity trader at Citigroup. And my other two co founders run the startup, basically. So I became only likes involving the medium and long term of that venture. So yeah, I didn't operate

Interviewer

that startup. Okay, and are you still involved now there or did you? Yeah,

Founder

so not we haven't texted yet.

Interviewer

All right. Interesting. Let me quickly check my notes but I believe we covered most of the things that I wanted to cover the the accelerators that you that the antler I mean, I probably could find this out myself, but what are their terms for their startups that they they guide,

Founder

they take 10% equity, and they give you actually 80k in cash. So basically, you end up paying like 40k for the program. So you, you get 1.2, post money valuation, but you receive 80,000 in cash. And, and basically, you get free office space and mentorship and advisors and whatever you need to accelerate your business.

Interviewer

Yeah. Oh that Yeah. You mentioned that the first check 120k for and then okay

Founder

awesome Simon. Do you have any burning questions?

Interviewer

No, that is it I let you get on with the rest of the day. Thanks a lot for your help Pedro and all the best.

Founder

Thank you Simon. Same to you, man.

Interviewer

Yeah, sure bye bye bye

Appendix F

Interviewer

I think that should work. Yes. Perfect. Okay. Good. So to quickly, where was I. Yeah. So with that being said, I would like to introduce myself first and then the thesis topic that I'm working on. And then I'll just ask you some questions about Company A, your role within the company and kind of like the funding history and the decisions behind the the reasons that lead to decisions on which kind of funding route to take that okay with you?

Founder

Yeah, that's fine. And is the, when you publish your thesis, is it going to be anonymized? or?

Interviewer

Yeah, yes, of course. It's also probably not going to be like, openly published. It's a Bachelor's thesis. So that's it might be somewhere but I don't think it would be like published published on like Elsevier or something like that. Okay, cool. So my name is Interviewer. I'm in the final years of my studies at the University of Zurich. I'm studying banking and finance with a minor in economy. And then, so I'm writing my topic on kind of like the differences of the funding that early stage startups gets and kind of the different opportunities that especially venture capital and crowdfunding, equity based crowdfunding, can can give to startups what the benefits aren't the drawbacks. So I'm kind of I'm interviewing specific, sustainable sort of startups, on what kind of led to their decisions, either if they only did crowdfunding, or they had VC and crowdfunding or like all different types. Mainly, that's what I'm kind of researching. And so I looked into various different companies, and one that stood out is Company A. One thing that I found particularly interesting is if the pitchbook data is correct, is that you, you switch back and forth. So there was a, you had multiple different funding types, of course, he had to grants and angel investors, but you also had specifically venture capital funding, and then crowdfunding or equity, equity based crowdfunding, and then you went back to the venture capital funding, is that correct?

Founder

Yeah, just to give you a history, so we, the company has been doing setups since 2011, so almost 10 years, when we started the companies, so as CEO, it was basically his own money, and some family and friends who put together a small amount of money. After that, we've done till now, nine rounds of funding. Most of the funding have been through what we call high net worth individuals. So basically, rich people who have money to invest. Then we started becoming a bit more sophisticated, and started doing what we call funding through platforms, which is, again, split into two. So high net worth was mainly you directly connect with the people and you talk to them through your own network. But then, as you become bigger and bigger, the size of the funding you need goes higher. We started using platforms like syndicate rooms in the UK, which already has a lot of high net worths on the platform. And you publicize your fundraise on that platform, and then people invest in you. So that we did two rounds for that. And then we went to what we call crowdfunding or retail investors, which is a new app. When we did it. It was a new thing in UK. Because there's a lot of regulations imposed on what you can market to the public. There are fundraising. And the reason, yeah, so we did that. We did two rounds of that. And I think now we've gone past the point where individual or retail investors can put money into the company, just because the sheer size of the funding we're looking at. And so now the last round we had was through venture capital, or or corporate venture capitals. Where they would they put money series a funding back in April 2020? into into RT

Interviewer

Okay, so so before that before the syndicate room and, and crowdfunding, would it be something that you could label as angel investors basically provided the funding? Okay. So previous Okay, that's fine. And then so kind of what I take from that is you domain influence or the main, how do you say, reason behind what type of funding you kind of pursue in this case was, what's the actual funding round size that you were trying to achieve? Would that be correct?

Founder

I would say the two factors are, and it's a very pretty standard are a well documented process in various literature you'll find is, is the size as well as the level of risk in the business. So initially, the risk is almost quite high. But the the amount of money you're looking to raise is small as well. So angel investors are the kind of people which will fit the best into them. And then just keep growing that, then you reach a certain point where you become a bit more mature, and then you start reaching these platforms, because then you have a story behind you, too. And the size of the money you're looking to raise is also matches the kind of money these platforms can raise, like, you don't want to go to a platform to raise 200k or 300k kind of money. Because just the sheer transaction costs will be too high. It's better when you reach out to people directly. For those kind of investment, when you once you start raising a few millions, like 1 million, 2 million, 3 million, then you you need a bigger pool of investors to come in. So that's why you reach these platforms. And once you reach 10s of millions, that's when these kinds of platforms become too small. And then you go into venture capital funds, and then you only have like two or three investors will come into your company in a particular round. Whereas when you do fundraising through angel investors or through these syndicate rooms, kind of platforms, you can have people investing 5k 10k kind of amounts, and you have like 50/60 investors coming in together.

Interviewer

Okay, the step to the syndicate rooms first and then the crowdfunding was there like a what? What was is there a specific reason why went to the syndic rooms first and then you chose the crowdfunding platform? And for for reference, which crowdfunding platform did you use to

Founder

sway us the crowdcube? Yeah. And I think now they come the most with seedrs as well. Okay, basically. So I think they are now the biggest crowdfunding provider at least in in UK.

Interviewer

Okay, yeah. Yeah. So before there were the seedrss and crowdcube

Founder

queue. We looked at both. And we found crowdcube to be better suited. no particular reason. Okay. But the reason we went to angel investors first and then crowdcube is like angel investors, the very well known part, and we had been doing it for the past five, six years, reaching to a platform like syndicate rooms and all is essentially the same thing, but you're just leveraging a platform which has a group of angel investors already in it. So are our efforts becomes lesser in terms of reaching out and marketing, but then syndicateroom takes a fee for doing that. Yeah. But then we thought about the crowdfunding option as because I would say that there were two main things for that. One is the amount of money we're looking to raise was something a crowdfunding platform can fund. Like the first time we did, we were looking to raise 3.7 million. The next time we did we were looking to raise 3 million So that was within the kind of range which crowdfunding platform can typically raise, at least at that point.

Interviewer

Yeah. Quickly, you probably know this better than I do. The regulation on crowdfunding, as far as I know, on equity based crowdfunding is that there's an upper limit of 5 million pounds I believed in, in the UK, right? And,

Founder

yes, there is a limit of 8 million euros. And that's a pre Brexit number. So it may have changed after Brexit, okay, but what happens is, if you go above 8 million euros in his in a 12 month rolling period, then you have to do a what is called a prospectus, which is basically, that's a lot of legal due diligence, you have to go through documentation needs to be prepared. And the platforms like crowdcube, and all they're not geared up to do that, plus the cost of transaction just becomes exponential. But if you're below 8 million, then you can do it through these platforms.

Interviewer

Okay, and then if the that 12 month rolling period runs out, you can basically start again, right. Okay, so that's just on

Founder

the wrong on the 12 month part, but that's what I remember.

Interviewer

Yeah. It's interesting, because when I first started looking into the whole subject, I kind of like I didn't really even really combine the two. But obviously, if you do this over and over and over again, it's it's similar to an IPO, right? Or it starts getting similar to an IPO where you kind of market your shares to the to the masses in the end. And if you do it repeatedly, then because I thought that it was a 8 million, or 5 million, whatever amount is in cap, yeah, exactly. So the rolling period, I didn't know that. It's interesting. I think it's a rolling one, but

Founder

I may be wrong, I may be wrong in that. So that was one reason. But the second I would say reason for us was the kind of sector or the kind of technology we are developing. So plastic waste recycling, that was at the time, and still is a very hot topic in the general public.

Everybody wants to be seen to be contributing or they feel good when they contribute towards something which helps in environmentally plastic recycling. At the time, the program from David Attenborough around blue planet, everything was was made live. So people, it was a very hot topic for the people that if we look at in 20 18 19, plastic waste plastic recycling was was among the top searched words at the time. So this was in our mind that this if we go to the public with this fundraise, then it will be very attractive for for people to come in. Because people are putting in all the way from 10 pounds to like 50,000 pounds. Individual.

Interviewer
Do you think that that kind of applies to sustainable startups in general, where the whole subject is kind of emotionally charged? And people like to think about it and like to be active about the whole area and are more likely to partake in a crowdfunding platform? In general, if it's has to do something with sustainable or social missions?

Founder
Yeah, and I think this is now gradually transitioning not just for crowd or retail investors, but also for sophisticated and institutional investors as well. Like if you see the amount of funding which is now being pushed into ESG space, is growing and growing day by day. Now companies have mandatory investors have mandatory targets are dedicated funds, which can put on put their money only in ESG. companies. But yes, I would say in my view, if your story has a ESG angle to it for for retail investors, and the investor can relate to it, then yes, definitely a crowd based funding is a good option.

Interviewer
That were you ever approached by any venture capital funds or I mean, yeah, of course, it's only now that you're kind of looking into the funding sizes that venture capital funds would be interested in providing but when you were now During this series a funding round, where you're directly approached by venture capital funds that wanted to invest into sustainable areas? Or did you have to go out and kind of look for a suitable investor?

Founder
I think it's mostly, or how the industry setup is the is the company raising the money reach out to the potential investors? I think investors still hold a more bargaining power or so there's more people who are looking for money and less people who are supplying the money. There are that

was the case where recently so mostly it is the company reached out to the investors, because investors always looking to put money, but they don't know whether this company is looking to raise money now or not. So hence, how it typically works is you the Select ask, we would reach out to potential investors. And then the conversation goes, goes on from there.

Interviewer

And was that to specifically investors that are looking to make sustainable investments or was it across the board,

Founder

it was across the board, but we there was a specific category like ESG investors in our efforts to raise the money. Like for us one of the key investors we were looking for was what we call strategic investors. So these are not investors who have pure financial return in mind, like your black rocks or your fidelity's or are some of the venture capital funds, but these are companies who will have a strategic interest in Company A as well. So, for us, it was the company which we ultimately got investment from was nasty. So nowadays, a Finnish oil recycling refining company. So they have a very, I would say a strategic interest in what art he does, because we make all from plastics.

Interviewer

Yeah, in regards to that, just quickly, the the product side of it, the wood, they then basically refined that your end product, your

Founder

Yes, or they will be a customer as well for the oil. And then they will further refine the oil and then sell it to in the petrochemical value chain.

Interviewer

Okay, so it's almost like vertical integration of your, your business in that case, for them.

Founder

Yes, we will be upstream of them. Like typically refinery will buy oil from crude oil, or other oils from suppliers. So we will be another supplier to them.

Interviewer

And it's your product, I basically are identical, not identical, probably, but is the end product that results from refining the hydrocarbons that you produce the same as if you would get crude oil.

Founder

Now there will always be some differences. Because of like, in some properties, our product is better than crude oil. And some properties Our product is worse than crude oil. And also when you say crude oil, that's also not a defined thing as well. If we're talking about crude crude oil from Middle East or Venezuela, then our product is much much better crude oil from like Brent, from the North Sea. And then in some properties were better in some properties were not

Interviewer

is your goal to mainly produce these oils or as I understand it, you can also produce the pellets that can then be remade like plastic can be produced plastic products can be produced out of those pellets, right?

Founder

That's, again, a trajectory for us. But I would say for the next 10 years, our goal is to produce the oil, okay? Or even just provide the technology which does that like we don't want to own and operate these assets are these machines which take plastic waste and convert into oil. We want to sell this machine to waste company and let them do it. Okay, it's interesting. Yeah. So we are more like what you will call a caterpillar Komatsu where we make machine and we sell it to, Whosoever wants it, and do the maintenance and other things.

Interviewer

So for the for the refinery, it's not even really a direct vertical integration basically, for them, it's like a few steps before whatever they are getting is the machine, you're just producing the machine and you're not really giving them the oil that they will then be refining. Basically,

Founder

in the in the medium long term, yes, we do have a few machines, which we will own and operate ourselves like the rest of like the first machine of every version that we develop. And that's why we have nesters and off tech partner for those machines. But our primary business model is to not own and operate these machines ourselves, but to sell it to them, sell it to the waste man industry.

Interviewer

So interesting. To get back to the actual topic of the thesis, but it's really interesting to what you're doing. And it's it's a really interesting product for sure. I didn't even know that you. That's possible. I mean, I obviously knew that it originally comes from plastic oil, but that you can kind of reverse engineer back into I didn't know that. But it's really interesting. Yeah, so basically, we've kind of talked about most of the things that I wanted to talk about, maybe the the angel investors that you were in contact with, in the beginning of the of the company's history, were those active during the crowdfunding campaigns as well, or were those completely different investors.

Founder

Now some of them were so a very customary clause for any or illegal arrangement for any company with its existing investors is something called a preemption. So where whenever, like, in our case, whenever he wants to raise any new money, we, our existing shareholders have the right to put that money in first. And if they say no, then only we can raise that money from any new investor. Okay. And the reason you do that is whenever you raise new money, your existing shareholders dilute appear. So basically, what you do is you offer them an opportunity to keep their percentage share holding the same in the company by investing more money. And if they say no, then you can offer the same opportunity to a new investor. And what we saw in our crowdfunding rounds, or any subsequent round, especially, like, through syndicate rooms, is that only a very few of the old investors will come in again. And mostly what we found was new investors came in and invested money into our team.

Interviewer

Okay, so by basically running a crowdfunding, what is that compatible with running a crowdfunding campaign? Even like the Could you give the past investors that investing opportunity in form of a crowdfunding campaign? Or is that kind of something that has to happen before you even run the campaign? Is that okay? They want this many shares of the amount you want to raise, they'll buy and then the rest you put on a crowdfunding campaign? Or how does that work?

Founder

Yeah, so what we what we did was you, you reach out to your investors, and say, we want to raise this much. And you asked for a preemption waiver in advance. And then if somebody wants to put in, then they can, they can put in the money as well, where our existing shareholders get priority. So let's say we want to raise 3.3 million. So we offer that 3 million to our existing shareholders, but you offer at the same time to new investors as well. And if the sum of both these options is more than 3 million, then your existing investors get priority over any new new investors.

Interviewer

Okay, so then, let's just say this was the case. So yeah, so you run the crowdfunding campaign. you publish it. And at the same time your existing investors are thinking about investing in advanced basic or investing as well, if they would then take up 1.5 million, and the crowdfunding plan campaign is also successful and is able to secure the whole 3 million, then would you then have to go back to the crowdfunding campaign and tell them okay, we can only take up 1.5 of these million of this whole amount? or How do

Founder

you do? The two ways you can do that? One is, you you first offer the 3 million, let's say to all your existing shareholders, but for a limited period of time, and there are statutory limitations in the company's articles. You say, okay, you have 20 days, to weather to put any weather tell us if you want to put any money or not. Right? Let's say you receive offers to put money up to 1 million. Once you once that deadline is done, then you open up your crowdcube platform, and say we're already 1 million pre funded, we're raising 3 million in total. So we're only looking to get 2 million from crowd platform. So your bucket is already 1 million full when you open it up. That's one way. The other way you can do it is you start both of them simultaneously. But your money comes only in, in, in 111. Like the confirmation from investors will come not all in one go. But they will keep in trickles. So let's say you said you will open your cloud platform for 28 days. But by day 15, you've already reached your maximum limit of 3 million. And at that point, you say, Okay, I'm pre pre terminating my, my round. And whatever investors have confirmed by the time they are in, and investors who haven't confirmed they're out, okay. Like we did that for, for the first crowd round we did. Where were you basically oversubscribed. So typically, like crowd, crowd queue would open a opportunity for 28 days. And then they will see if it is going well, they will extend it for is not going well, then they will terminate it. But what because of the great response we had in 20 days only we were fully subscribed. So we had to terminate. And then there are a lot of investors who are reaching out to us and to crowdcube saying, Oh, I wanted to put money as well. I was thinking we'll put it in the last day or the second last day, because people typically wait to see how everything's going and then put them on the last instant. But we had to say no to them.

Interviewer

Okay, I think you can also you can get more than 100%. Right? But then you just basically offer more shares in relation to the amount that's been oversubscribed, right?

Founder

Yes. Yeah. Like it's, you can get it, there are two things which you then need to do first of all, one is if you're raising, let's say 5 million, not 3 million is an example, then the valuation of the company still the same? So is it justified enough to raise 5 million at the same valuation? When originally we were saying 3 million is enough is enough for the company? Because then you're diluting more, I know you're raising more money, but you're done. You're diluting at a lower valuation, you can raise the 2 million, let's say six months, one year after when the valuation of the company has gone up a bit. Yeah, that's one decision. And the second is there's always a lot of legalities, you have to go through. Like if we certainly increase the funding amount from 3 million to 5 million, you have to go back to your board, your shareholders and everybody again to seek the consent here. We will raise more money now.

Interviewer

Yeah, get that everything approved. That makes Yeah. That's really interesting. I thought that you would just basically emit more shares, basically. So if you have a say, let's say it's 5% and 5 million, and then you get 6 million that is just basically that you're offering end up offering 6% of the of the total shares for those 6 million. Yeah, so typically,

Founder

a company will make a decision how much you want to raise and normally they will stick to that or not. But what so like, and you may have studied this in your in your IPO, a company will go out and say I want to raise 50 million pounds. And they will raise 50 million plus minus 10% plus like 10%. But if there is a huge demand, like the subscription is almost 100 million, what happens then is then instead of increasing the quantity, you start increasing the price, because the demand is more. So you say, Okay, I'm still going to raise the same amount, but at a higher valuation.

Interviewer

That makes sense. Yeah. And just quickly before the time runs out that we have here, and you mentioned that you decided on crowdcube, instead of cedars it. Can you elaborate on that decision? A bit?

Founder

Yeah, it was a very, what we looked at was, first of all, what's the subscription base for both these companies like how many registered investors do they have? Second, we looked at what is a average or median size of money, these platforms are raising from their past history. Because we were looking to raise let's say, 3 million, and if one of the platforms on average, was only raising 400,000 pounds, yeah. And the other one was raising 1 million pounds, then we'll obviously go with one, which is raising bigger. But the third one, which I would say is a pretty important one was just a reference. So one of our existing shareholders had referred crowdcube to us saying he had invested through crowdcube in some other company as well. So that gives a further I would say validation to even if you have to equal companies. That which one do you go for you go for one, which has been recommended to you. Make sense?

Interviewer

I think I covered more or less everything that I wanted to talk about. I wanted to ask you, if anything else would come up that I'm interested in or if like interesting questions, come up with other CEOs CFOs. If we could schedule another maybe 30 minutes, call some sometime down the line to talk about those things again. Would that be possible?

Founder

Yeah, sure. Just drop me an email. Or I may not. If I'm not responding on email, just give me a call. If you don't have Do you have my number? I don't know. That's great. Just put it in the chat.

Interviewer

With the countries.

33:18

Yeah. Thanks.

Founder

So you can number so you can just drop me a message. And then I can probably respond more promptly. That's awesome. Thanks

Interviewer

a lot. Do you have any questions for the topic or for me at all? Maybe before we finish it off?

Founder

Yeah. Just interested. What, what is the I know the kind of study, you're doing another topic, but what I tried to analyze in this.

Interviewer

Right. So I'm specifically looking into sustainable startups. And I want to kind of find out if crowdfunding, equity based crowdfunding as a pretty novel funding source could kind of kickstart the kind of how to say, the success rate of, of sustainable startups again, so there was like this hype in back in early 2000s, late or two in the 2000s for clean tech. And there was like these specifically clean tech VCs, but then the returns were kind of marginal and it's not it wasn't really that promising and then with tech and everything. And basically kind of rethinking about is VC really the best way to fund these kinds of ventures? And maybe, if maybe, does equity based crowdfunding kind of offer a more suitable better option for especially in the early stage for these startups to receive funding and also kind of get the publicity that they want, right? Because I mean, for VCs, as you said, strategic partners, for sure are important. But then you can kind of rule out a lot of the bigger ones right away, because they just want their, like 30% 30% IRR. And so that's kind of what I'm looking into, is the model of conventional venture capital. funding the correct model for sustainable startups in particular.

Founder

Yeah, so just okay. I think maybe we just do add a few things here. So one, I agree that if you are a company, which is in the attention of the public, then it's good to raise money from crowd because the investor from the crowd funding platform or a retail investor, because the risk is distributed across so many people, the money can still come in. Whereas if you're trying to raise

1,000,002 million, 3 million from just one investor, and if your risk profile for the, for the company's very high than it is a difficult sell. So that's one thing, but what is also important for crowd based companies is that which helps is that if your company's is also as a is a b2c company, as well, so like we are b2b, yeah. But if you're a b2c, they're not then that that's also helpful for the company to generate some customer basis. Well,

Interviewer
they do. But for you, this wasn't really a big problem

Founder
for us, because we are a b2b. So for us, the investor is not the retail, the customer base for us, but in many companies. Like if you look at the case study for munzo, the UK online, challenger bank, one's always a big fundraiser through crowdcube. But I think the one of the reasons they do it is because they are a retail bank. And that's one of the ways they want to generate publicity get customers, a lot of the other banks like NatWest, Lloyds and all they've also done it in delivery did it? Because again, they're a B to B to C kind of company. They raise money as part of their IPO, from retail investors as well.

Interviewer
Yeah, it's interesting. It's almost like, it can almost kind of serve as a marketing instrument, right. So you can kind of get your name out there. And yeah, and also offer something in return and something else that's just other than a product, right? Not like Kickstarter, and everything where, okay, yeah, you can buy their special phone or whatever. But it's, it's nothing more material. It's kind of your part of the part of the whole thing, then.

Founder
And the The other benefit of crowd based funding is that because one single shareholder doesn't get too much stake in the business. There's not too much change in how the businesses control or management is run. Before and after the funding.

Interviewer
Yeah, in that regard, if you have time, and I was wondering, what did the previous investors think about that, getting so many new investors on board through the crowdfunding campaign,

Founder

because they didn't have any, because any before crowdfunding, we have mostly high net worth individuals. But again, because they weren't, they didn't have too much stake in the business or they were not part of the active running of the business, they didn't have any concern, they were mostly passive investors. But once you get a VC in the business, they will most probably be sitting on your board or they will ask you for regular meetings. And then the dynamics of the board or yours, your management changes, because they are investing quite a large amount of money as a single entity. So that's another dynamic which needs to be considered how to in comparison to a retail investment, because you raise a million from let's say, 100 people, the nobody is big enough to have any influence on the company if you raise million from one individual investor and the investor will probably want a few other things. Like when when you do a VC investment there are some additional I would say vetoes and conditions which the investor will put on the company. Like they may say, we will have the right to appoint a person on your board. We want to be consented before you do an IPO. We want to be consented before you issue any share options to your employees, or for changing salaries. We want you to send us your budget every quarter. So we know how much money you have and where you're spending those kinds of things. Whereas with high net worths or retail investors, nothing's nothing like that happens.

Interviewer

How is that specifically, in your case? structured with with crowdcube? Do they do they have like a proxy vote? Or how does it work? No control at all? No.

Founder

crowdcube is mainly just a platform for us. Now, we don't have any relationship with crowdcube on our share register. So there are two ways you can do a crowdfunding. One is you set up a nominee structure crowdcube becomes a nominee and all the retail investors are under that nominees on our shareholder share register, you will just see crowdcube as one investor, and then they will have like 1000s of investors sub investors under them. For us, that's not the case. We specifically went for the option of having no nominee but directly a relationship with our with the actual investor. So crowdcube doesn't have any legal relationship with us now.

Interviewer

How many are those in your case? The individual we

Founder

have around 3000. Crowd base investors who came through crowdcube? Yeah. On top of that, we have around 300, high net worth individuals. So it does become and that's one of the if I start talking about then what the drawbacks is that you're sort of administrative issues, it starts to then come in, because you have such a huge retail buy as a huge shareholder base. Which is, which is a challenge for us. But again, everything has its pros and cons.

Interviewer

To what is the relationship like with these individual investors? Are there certain ones that actually hold enough equity to kind of have a specific or not like, an actual say, but are more involved in certain things? Or are they all too small, basically, share wise, to really be involved in any sort of? Yeah, evolution of the company.

Founder

Yeah, and none of the individual or retail investors have any input in the day to day running or anything of the company, what we basically do is every quarter yoosh, we send out a shareholder update to all our investors or shareholders. It's only the series A investors which is venture capital and the strategic investor who came in, they involved in like, they sit on our board. So as part of the investment agreement, and they had the right, and they exercise that to have one individual from each of them to be on board.

Interviewer

And, like, there's no voting process in that case for for certain items. Year End, for example.

Founder

So they vote on all matters, which the board is required to vote, so they are a board member. So

Interviewer

no, sorry, I mean, the crowd, no, there's no voting or no voting on anything on that part. Okay.

Founder

Not on the running of the business, but you really need to get shareholder consent if it changing anything in the articles legal structure of the company. Yeah. So the the only for any company, the only con relationship which you have with your shareholders is the Articles of Association. That's the contractual relationship between the company as an entity and the shareholders in which you can put special rights for certain shareholders or you can have just a general right once you get more sophisticated investors like venture capital or private equity But then on top of your articles, you get these investment agreements as well, which will give them as shareholders certain special rights, like veto sitting on the board and all those things.

Interviewer

Okay. Okay. Interesting. And then maybe to to run it off the word, do the series A investors have any opinion on previous rounds such as the crowdfunding round? Or is that basically they don't really care since they don't have much say anyways, how the independent individual shares are split across investors?

Founder

No, they don't have any say. Like from for their point of view, if you see it's probably a good thing that they are among the top shareholders in the business.

Interviewer

There isn't one that holds like just for 5.6 million pounds of total.

Founder

Yeah, it's like the series A investors that are second and third biggest shareholders in the company.

Interviewer

As an on the other interesting aspect, I guess it's kind of it's, it's really actually beneficial. For other people, I was always kind of thinking that maybe there's some kind of kind of almost representative to allow for retail investors to join the company. But then again, as you say, if they don't really have much say then for them, it's just a lot of people holding a very minor shares of equity, which, yeah, we'd have to pull together perfectly to have any kind of influence, if any at all right?

Founder

Yeah, yeah. Okay, that's the benefit. But it comes with this issue, as well once said, when we when you're trying to exit, like sell the business to another company, or you're trying to do an IPO and all, if you have such a large shareholder base, then the whole process becomes very complicated, because you have to get consent from all those shareholders. It's not that there's four or five individuals you can go to, and take the decision very fast. But I agree a deal.

Interviewer

I have a call and discuss it on a call. Yeah, that makes sense. Is that something that in a, if you would have the nominee structure where crowdcube would kind of have in that case, you would have a proxy vote right for all of the investors that

Founder

became the nominee structure? Yes. But I think those things also start to become legally complicated if you're really trying to exit the company, as well. Because there are certain things which you can't force a shareholder to, even though on a majority basis, the nominee has decided to take certain action.

Interviewer

Is the splitting of the shares across various different events? Which is something that you actively wanted in that case like that, or? Or did you actively not want a shareholder relationship with crowdcube?

Founder

Now, I think what we, the reason we didn't went for the nominee structure is because previously, what we'd experienced and because we do have a nominee structure like with syndicate rooms, one of the other platforms we used. And what we found with them is any kind of communication we do with our shareholders, it first goes to syndicate room, because they are on our share, register. And then syndicate room has responsibility to then designate that further to the individual shareholders under them. Any kind of other communication like on preemption, everything we do, it again becomes a bit complicated, because it has to go to syndicateroom first and then to the individual shareholders. And we weren't very happy with that kind of setup, because so many of the communication was not getting through. So we consciously decided that we don't want a nominee structure. We are happy to have the shareholders directly on our shared register. And I think technology plays a big role in that, because now you have things like mail merge and online share registers and all where it's easy to administratively manage such a long shareholder base. But we still it's an odd case for us, and we know the kind of shareholder structure we have currently Well pose challenges to us when we're trying to exit or do an IPO. It's it's a manageable thing, but it just makes it complicated.

Interviewer
Is that is that a goal? Is it a goal to go public some time down the road?

Founder
Yeah, yeah. Definitely.

Interviewer
Specifically public. Okay. No, like corporate takeover. It's you want to be public?

Founder
No, it's not that we are rigid. corporate takeover. That's something which may happen, which may not happen. But we're always open for that. But IPO is something which we as a company can control. Right? When we want to do it, what valuation and so how Normally, we think and most of the companies thing is that let's target to do an IPO. Because that's something which we can control. And in the journey, if there's an offer comes to buy the company out or something, then we'll consider that. But at least if you target for IPO, then you have a exit strategy for your current shareholders.

Interviewer
Yeah. Is that something that you kind of automatically? This might be a stupid question. But is it something that you kind of automatically decide on as soon as you take on sophisticated outside investors that you will some point down the line have to do an exit in form of a buyout or or going public?

Founder
I think when so when we have discussions with either high net worth investors or with venture capital investors, that question always comes in. So you, you explain to them what is our plan? Like Typically, what they'll ask is, okay, what's your exit strategy? You say, okay, takeover by

a petrochemical company, or we do an IPO. And the other thing they'll ask is, what's the timeline for that exit? Because individual investors, they don't have a deadline. But they do have a certain expectation, like, if I put my money now, I probably want to get my money out in five years, or three years or something. So they will ask that question. venture capital funds, some of this funds are close ended. So they will have to exit at certain point in time. So that's why for them an exit strategy is also important. Is that something that not found, but you're not legally bound? Yeah. IPO in a certain time.

Interviewer

Okay, it's no more to kind of get get their investment more or less? is a? Is that something that you also I'm just scrolling through your crowdcube. campaign over here? Is that something that you also make public on a crowdcube campaign, the exact exit strategy and timeline that you're pursuing? Or is that something that is kind of left out on on those platforms?

Founder

I think you give a very generic thing on the on the exit on the crowdcube platform. But a number of investors will ask you questions on the platform. And so you give them a response that this is our expectation for the exit.

Interviewer

So you have a you have communication between you and individual investors that are interested. Yeah.

Founder

So as soon as you your profile, or your, your campaign goes live, people can call you, they can send you messages, which move private messages or public messages in a forum like just like Facebook and all Yeah. And like when we did these campaigns, they were two people fully deployed on this, who were just responding to these questions, okay. Because you have to respond very quickly, and in a correct manner as well, because otherwise people lose interest. In especially in a retail platform section,

Interviewer

this short, short attention span. Do okay, because that kind of answers what I was kind of thinking about that the more unsophisticated investors that might partake in a crowdcube or a seedrs campaign don't necessarily have the same goals or aspirations in terms of exit as as you say, like, isn't that important as it would be for a VC for example, right? Like a VC will kind of go in and ask you specifically, okay, well, as you said, what what's your target? When do you want to exit and then, but then I'm going to assume that people that invest 10 pounds on crowdcube are As adamant about these types of information, they know that,

Founder

yeah, so the the level of due diligence and communication on is, is very different when you raise money from a VC and retail investors, the VC will do a lot of due diligence on the company, they will get lawyers who will do legal due diligence, they will get accountants who will do financial due diligence, and they will get engineer to do technical due diligence. And it takes a minimum of six to eight months to close that kind of process. Whereas with retail investors, it's nobody will come to your site, the most they will do is maybe give you a call, because the amount they're investing is not worth it for them to do all the activities. And then they will make the investment decision. So it's one of the good things about raising money from retail investors or to a cloud based platform is that it's a time bound process. So you, you decide how much you want today is you get in touch with crowd Q, and then you run a campaign for a fixed amount of time. And then either the campaign is successful, or it's not.

Interviewer

You kind of know that within those 28 days, you have the funding amount or not. Right?

Founder

Yeah. But with the VC and all, it's not a time bound process, you, you can keep running it until you find the right venture capital investor,

Interviewer

and potentially still fail after five months. Right. So it's, it's not even a guarantee that if you go down the route and kind of figure it out with with this specific investor that that you're going to get that amount, right.

Founder

Yeah. What are the benefits? What we see is again, I should have highlighted that is that typically, most of them will invest more money into the company in future rounds as well.

Whereas, yeah, yeah, for for long rounds, as a retail investor. It's not guaranteed. We don't expect them and even if they do, it will be a very small amount.

Interviewer

And it's almost it's it kind of has to go through another crowdfunding platform. Right? You can partake in an actual series, funding round with with $5,000. Yeah, that's really interesting, because I was kind of thinking that, I guess it's way more, it's still way more sophisticated than I was kind of assuming. First, the level of investors that are kind of active on these crowdfunding, I'm sure there's a lot of people who kind of just say, okay, don't really care, I just want to support the cause, basically, and, and give you 100 pounds, or whatever the minimum amount is to invest. But there are definitely quite a bunch of other investors that definitely do want to pursue an exit or have a strong interest in in getting that money back. Either because it's a large amount, or because they're kind of more professionally pursuing that investment opportunity, right?

Founder

Because if you see most of the retail investors who come on these platforms, have people who are basically investing any. If I use the term spare money they have, like, they can invest it out. And even if they lose all of that, they are not, like impacted quite similar. They're not significantly impacted by that. Because then, I would assume most retail investors know it's still a very high risk investment for them. For for venture capital, it's it becomes a different thing, because the amount of money they're investing is in millions. And most of the venture capital funds are run by managers who also raise money from somebody else. Yeah, it's not even their own money. Yeah. So that's why for them, it's a more rigorous process, they want to involve in the management and all whereas a retail investor, like in an IPO, if I buy shares in BP, it's a small investment I'll make, I really don't care too much about how the companies run and all. I do have an expectation that some point, at some point, I will sell those shares, but it's not something which I'm monitoring or looking into on a daily daily basis. So so much more passive investment.

Interviewer

Yeah, for sure, too, because I was kind of almost like philanthropic approach, right? Because that is, especially in the area of sustainable startups, where it's you could expect people kind of giving the money away, not in with with the premise of maybe getting it back someday but not with the expectation necessarily.

Founder

Yeah, I wouldn't use go so far philanthropic, because people do invest money only if they like, the story, the thing is a lot of commercial interest and the company will succeed. They won't just put money if they feel this is not good enough in terms of making profits. Yeah. So like, what we noticed last, when we did the crowdfunding round was we had to put out some good commercial news, like we did this deal, or we did this deal of this investors put a huge amount of money. And then you see a sudden, suddenly a surge in retail investment that needs to be there. Which basically attracts the money for through retail investors.

Interviewer

You You ran two campaigns on crowdcube. Did you? Was there any specific lesson that you draw drew from the first one that you applied on the second one? Or did you notice differences on when running a second campaign where people already knew you ran the first one? Like how did those two campaigns compare?

Founder

Yeah, the first campaign was, was a more easy sell for us, because that was the first time. So it was a, we were approaching the retail investors. At that point, we had like 1 million of investment just from one company at that point, which again, is a good news for the retail investors. And that's why we closed around, even before the full time ran out. The second time when we went It was a more difficult sell, because then people start comparing. Okay, this is what you said this on the basis of which you raise money last time, or you haven't performed you haven't you have delayed and this and that. So why should we put money so it's a more difficult sale? If again, you haven't delivered on what you promised, very similar to an IPO or a public company. But again, we had some good news coming out, during those campaigns that we did this deal or this this much, much money has come from the government in terms of grants, that creates the demand.

Interviewer

Do you think there could be a in regards with this one year rolling period? Do you think there could be a maximum amount of crowdfunding campaigns that a company could really successfully run before it's kind of like old news or kind of that the interest dies out in running crowdfunding campaigns? I think if

Founder

you have great success from the previous time, then I think you can run it again, people will invest again. I don't think you can run more than one campaign in a 12 month period, because it just becomes too small to show any kind of progress. But yeah, if you're doing great, then you can come again and again, which you will see at Union crowd cube, some companies keep coming back, because they have good results to show. But then I think if you keep coming back, and you do run into the problem that you as company grows, you will be looking to raise more and more money and, and things of the detail platforms has that means depth. Or to really keep keep raising the amount of money which you're looking to raise.

Interviewer

Yeah, unless Yeah, basically, sometimes, at one point, you're going to run out of subscribers on the platform itself as well. Right, as you know, nobody's gonna have one to reinvest and reinvest. Or maybe not all of them. Yeah, for sure.

Founder

So you're gonna need one example, which you can look at on crowdcube is a company called Blue Dogs. It's b&b income. Again, the good results, the cloud platform, investors, they like them. So they keep coming back. But for brewdog, that's also a marketing strategy as well. For them.

Interviewer

Do you think there's, I mean, in regards to the whole marketing aspect of it, wouldn't it product crowdfunding situation be almost more applicable or how do you see that? Are you What's your take on that? Basically, the differences between when you should run a product crowdfunding and when you should run an equity crowdfunding campaign. In this case, brew dogs would be they could might as well say, okay, we're trying to raise money, you can buy a box of beer in advance, or whatever it is, or kind of like a Kickstarter situation.

Founder

But I think some of those companies do that, like, if you buy, if you invest x 1000 pounds, then you do get a crate of beer from them as free or you get 10% discount or something. Those kinds of campaigns are run by some of these companies. If that's what you're asking,

Interviewer

it's like a mixed with a reward. Crowd. situation.

Founder

Yeah. And again, many of these companies also do, what they do is, let's say, even if they're trying to raise 20 million, they'll probably raise 19 from venture capital and raise 1 million from crowd investors, just to create some marketing for them, and at the same time, raise more money.

Interviewer

Yeah, that's interesting. I honestly never really thought about it, about running those campaigns simultaneously, but obviously makes a lot of sense. And, and taking the marketing aspect into regard I think I might, I think that might be something that's I've kind of overlooked up until now, the whole marketing aspect of the situation, if you look at,

Founder

like marketing is pretty important when you do retail investors, so you need to have good publicity, good news, you need to focus on getting some articles in the Financial Times and all and if possible, get some public television appearance for your CEO. And we did all those things, because that really pushes up the excitement or interest. But if you look at Monza, what typically they've done they've raised quite large amounts. But what they do is they already pre agree investment. So let's say they want to raise 50 million, they probably just creatively 45 million already with an investor, they have confidence that if they go to crowd platform, they will raise the remaining five, so they just open the campaign for five only. And raise that money very quickly. Give us a marketing and money at the same time. They don't even so what I've seen moms have done their whole round close in a few hours.

Interviewer

They don't even really go on to the crowdcube anymore, right? They run it themselves, or it looks like they run it themselves.

Founder

They will not be doing it anymore. But I think a couple of years back they were doing things like that.

Interviewer

This would be an old thing. Okay. Well, that's that's all really, really interesting. Assignment. I do need to Yeah, for sure. Sorry, taking up way too much of your time already. Thanks a lot for for your time and interesting discussion. And as I said, if anything comes up, I'd appreciate the opportunity to talk again. Alright, Have a nice weekend. Bye.

Appendix G

Interviewer

Okay, perfect. Um, yeah. So basically what I've been doing is I've been contacting startups like yours, and and asking them for interviews and kind of figuring out, first off, what's the funding history. So which previous funding has been achieved, and then kind of the main drivers that led you to decide on running a crowdfunding campaign, whether that was a decision that was made between something else and crowdfunding or if it was just a logical choice, like the next step within the funding ladder, basically. And yeah, just have a discussion going on from there. If that's okay with you?

Founder

So do you want to do you want to do you asked me specific questions, we'll do this. We'll have a discussion. I didn't mind which way.

Interviewer

Oh, it would be more of an open discussion. So first off, I would like you to give a brief funding history of Viritech.

Founder

Sure. Well, so Viriech was founded in December 2020. And the round that we did on crowdcube, was our first funding round. So we didn't have a friends and family or sort of pre seed or anything like that, we just went straight out and raised capital from my network of private investors and from from the crowdcube community, targeting a million pounds, and we ended up raising 1.1 million in round numbers. Why did we go that route? Well, I've got a lot of experience in both founding and funding companies over the years going back 30 odd years or so. And the climate has changed a lot in that time. So when I started my first business in the 90s, I raised Actually, I raised $250 million worth of investment capital for a fund that I was building. And 150 million of that came from Credit Suisse. Quite local to you. And the point is that raising large amounts of capital, because I came from an investment banking background was a relatively straightforward process. And then also, later on, I found another business in 2006. And I raised 15 million capital for that for 25% of the company with nothing more than an idea on the back of an envelope. In other words, raising large amounts of capital was much easier years ago than it is today. And what's happened since is that the market has become focused around a model that says around the Lean Startup model, but that pretty much dominates the market now. So it's, it's actually a complete bloody pain in the ass. Because what happens is that most startups find themselves the CEOs and founders and most startups find themselves spending most of their time raising capital for the first few years, actually, it's really awful, actually, you have to raise a little bit of capital, you have to prove a little bit you raise a bit more prove it raise more, prove it. Now, it's good in the sense that stops founders from out raising large amounts of capital and then blowing it all away. And that is no business Of course, I understand there's a discipline in doing that. But it's a hugely inefficient process, because raising capital is very time consuming. And so moving on my career in the last three or four years before I started, Viritech, I had worked with a number of early stage tech businesses. Tech in the broad sense, now one was in clean, sort of clean tech company, producing an aqua solution that replaces kerosene hydrocarbons and industrial solvents. And another one is a medical robotics company, another one's an IoT company. So a bit of a mixture. But all technology driven companies all have early stage startup. Well, one wasn't the startup at all early stage in terms of funding. And so I've got used to a very different format for funding now, which is you just raise at small amounts. And, and I've used crowdfunding before successfully. So this wasn't the first time I've used crowdfunding. So when it came to Viritech its different because instead of advising, I'm the founder and the CEO of the business. So I'm effectively just applying the lessons I learned the last four years funding early stage companies as opposed to the larger companies. I have my own that I'd funded in the past. So why do we I mean, this is very my idiosyncratic view of life was out of MIT MIT that immediately, but the way I look at it is this. The VC world started in the US, and it was primarily started by entrepreneurs who wanted to put money back in and reinvest in new companies and just sort of effectively leverage this previous success. And they brought a lot of combination of capital and experience to the table. The VC industry, certainly in the UK, and I suspect it's probably the same elsewhere in Europe, but certainly in the UK. The VC industry is not really built that way at all. This industry in the UK is a pale copy of what they have in the US and it's mostly mostly people are mostly it comes as people who come from an investment banking or accounting background or consulting background. And what I'm saying is that most people in VC world have never built a business in their life. And to be honest, they've built what I regard as a rather parasitical model. They dictate a lot of the terms on as to how a business should be built. They insist upon preferences over other shareholders, and they do a lot of things that I think are very negative and very unhelpful to developing early stage companies. So with the companies that I work with, we don't allow VCs to invest in them, we simply won't work with them. And because we won't work with them, we have to have another way to fund the businesses. And the other way to fund the businesses is what I'm doing now. So I've got a network of investors, some of them are friends, and some some of them people invested in businesses that I built before I helped to build before. So I have a, you know, I'm always confident I could raise. I mean, let's say, a half million to a million pounds for anything that I want to do. Because I've got a breadth of investors who will probably invest average ticket 50,000 a time or something like that. And using that as a sort of, as a foundation crowdcube or crowdfunding works very well. Because the crowd, you know, obviously, I'm sure you you understand that the tricks of the trade in crowdfunding, you really have to build momentum, externally. And then you go on looking for a relatively modest amount, and the crowd builds momentum, and you raise the targets and the crowd, the crowd funding drives forward. I my understanding is that typically crowdfunding provides about 30% of the funding in any particular round. That's an average number I was given. In the Viritech campaigns, our first campaign, we got 60%, though a little bit over 60% of our funding from from the crowd, I think. So we did quite well in that. And we also cut the campaign short. So it's a 30 day campaign, I think, memory, we've closed it after 18 days, so we could raise more, we just stopped at that point. So I'm a big fan of of that combination. But there's another reason that's very specific to Viritech. And that is that for the same, partly for the same reason I mentioned about not liking to use VCs, or not wanting to work with VCs. And by the way, I would also not be particularly mad about working with Angel networks, either, because there are some Angel networks that are quite good. They're quite serious, because they've got some big ticket riders. But there are a lot of angel networks that are full of people who on a good day will invest 5000 pounds, a lot of the time, they don't invest anything, and they all want to tell you how to run your business. And I have I haven't a lot of time for that. So we don't we don't really look to Angel networks either. But what I do believe in, and it's part of the strategy for Viritech is that the healthy way to fund companies is to take them public early. And so plan with Viritech is to look to list the company at an early stage, and at the moment, the plan is to list it on the aquis exchange in London in 2022. Now, that's not a hard commitment to do that, because circumstances may change along the way. For example, we have a growing number of strategic partners who I think we're showing increasing interest in potentially investing in the business. So we may take some strategic investment, but but we certainly have in our mind that we will look to list the business early stage, I would be amazed if we go beyond 2023 without listing the company. So one of the things that you need to have, well need to have, good, it's sensible to have if you're going to list a company, or if you do not do this and take a company to market and raise five or 10 million pounds and find that most of that has come from two or three institutional investors who will just sit on it and they'll do nothing with it. They will trade it alternative already and there'll be no performance in price at all. And there'd be no liquidity in the market and your share price will go nowhere. So the recommendation of By the way, this is somebody you should think reaching out to see if he would give you an interview. Different sort of crowdfunding, but Alistair Haynes, who is the CEO and founder of aquis, is probably not probably I think he is the most visionary person in the in the stock stock market. Businesses that weren't there. He has a very, very visionary sense of how stock markets can help early stage technology companies and, and he's doing some great stuff to throw into the mix. One of the things he's done is to ban short selling on his market. So early stage companies don't get get put under the hammer by by speculative investors. Anyway, Alice's advice. Strong advice is that when you list you really should have a strong retail investor base. So the second part of the strategy for Viritech is one of the reasons we use crowdfunding in the very first round, it's because I want to have a lot of investors. Now, the beauty of doing it through crowdfunding is that you don't end up with them all in your cap table, because they come through a nominee company. So with crowd crowdfunding round, I think we had just under 1400 investors in the round. And then we're back for four of them who've invested over 20,000 pounds each, they're all in the nominee company. So actually got one line item with 14 nearly 1400 investors in there. But those are all investors who when we take the company public will become effectively part of our retail investor base. So we're now going to, we're just in a job for you excited to launch a second round of capital, when we're doing this, we haven't expected to we're doing this because the business is just accelerating very rapidly. And our growth, growth plans are increasing. So we're going to do an interim round, launching at some point in October, I expect, and excuse me, and we will do crowd a crowd, crowd cube component to that again, same reason. My aim is by the time we list this company, I want to have at least 5000 retail investors invested in the company. So that's a quick summary of my thoughts. So don't like VCs, very keen on companies being listed early. very keen on retail investors. And crowdfunding is a very neat way to to, to go from your early stage funding towards your your target of having a retail destination list listed company. It's the perfect, perfect way to take that pool.

Interviewer

That's really interesting, quite different to the other frameworks that other people have used. So definitely useful for this thesis as well. The you said only four investors will be are within the shareholder structure and the rest is all in one line item. Right.

Founder

That's from from the crowd q campaign. So yeah, yeah. So with crowdcube you can set it where you want to, but we set that recently we set the threshold that any investment 20,000 or above can invest directly below that they will go in the nominee

Interviewer

on crowdcube the campaign says that your 245% overfunded. You've mentioned though, that you had set the goal of 1 million I believe and and overshot that just a bit. So did you set the campaign minimum to lower in that case, right, lower than the actual goal that you had?

Founder

Everybody that is, that's that's how that's part of the game. I mean, that's the way all of these crowd campaigns work. It's, it's I find it a little bit odd, but it's, you know, whether whether it's Seedrs whether it's crowdcube, or whoever, they all work on the same principle to the crowd invest on the back of momentum. So I can't remember what we what we launched, I think we launched with a target of 400 and had 350 you know, already in the bag, we hit the 400 very quickly. And they just kept growing from that. But the back of our minds was that we wouldn't we would take up to think we shouldn't pick up from 1.5 million we got 1.1 because the campaign so you'll typically have a target and you'll have a maximum

Interviewer

Yeah, so the basically that's interesting that we've kind of using the herding mentality that's present on these crowdfunding campaigns and your you already then you start off with basically 90% funded if you say that your 350,000 they already had in the bag and then 400,000 min goal with that stuff because I don't see it after the fact obviously, with that say like already 90% funded in that case, or Yeah, okay. Yeah, yeah. Yeah. Um,

Founder

I mean, I Give you an example. I think there was a company that came on crowd who just before us. That was also hydrogen. I think they were called h2 Power Girl or H to go power Carnival, which were and it was. They came on from memory, they said that their target was 400,000 pounds and that they were 100% funded at launch. And they raised two and a half million pounds on platform.

Interviewer

interesting concept, kind of, I don't know. Interesting, for sure.

Founder

I don't disagree with your conclusion.

Interviewer

It's just strange, because obviously it's it makes sense. Kind of use that almost a fallacy to a point. But um,

Founder

I think I think in terms of disclosure, it's okay. I've been an investment banker, I I'm a stickler for disclosure. I think at the end of the day, what he's saying is that you're there, I think it would be better if it said initial target, probably. But it is certainly the case when we when we went on 350, or whatever it was targeted for 100. I think that's what we put on. But I mean, this is what we were advised to put on there were advised by the crowdcube people to do this. Had we close at 400 and said, Well, okay, that wasn't a great campaign. But we've hit our target up again, we'll find some capital elsewhere. So I mean, but it is it is absolutely part of how you drive them into your drive momentum by the crowds sensing. This is a successful campaign. We bought it.

Interviewer

Okay. To switch course really quick. Premont? I think it's called is that your consulting firm?

Founder

I suppose you could call it that. Yes. That's the company through which I work with the early-stage companies. Yeah,

Interviewer

yeah. Um, so do you? Did you use crowdfunding there for other companies as well? You said,

Founder

yeah. One of the companies, I can't remember, I don't have very much to do with as Robbie says, because I'm full time working on on Viritech and Viritech was one of the projects I was working on and as part of that, I decided, actually, rather than doing it as a project with other people, I was going to launch it as a business and as far as a shareholder in Viritech. So there's the two closely connected. But I don't I don't spend any time day to day on astronomic companies anymore. I'm on the board. A couple that I don't I don't really have much involvement in. But there were two companies one is safe solvents, which is that I mentioned a company that makes an aqueous solution that replaces hydrocarbon solvents based solvents. And the other one is a company called freehand which is a medical robotics company makes an early sort of entry stage medical robot for keyhole surgery.

Interviewer

And both of them used also crowdcube for early stage funding. Oh,

Founder

yeah, yeah, they both ran successful campaign. I was less directly involved in the campaigns, I was more involved in the sideline because I was an advisor to the companies. I didn't run those campaigns, whereas the Viritech campaign, I ran it myself.

Interviewer

Okay, then, obviously, in the past venture capital, and you mentioned your your take on venture capital, but in theory, venture capital would provide strategic partner and kind of structure the way to going public, and what have you. You disagree with that philosophy, as you mentioned?

Founder

Well, I think it's it. I don't disagree with the philosophy actually, I think US venture capital is very interesting. And I expect that in 2022, I'm going to the states in November, wrote on a roadshow, specifically targeting VC investors in Silicon Valley and generally, in California, I think us VC is very different. The problem is that the version of VC we have in the UK is not a healthy structure at all, is it? It's a very different sort of thing. I think it adds a lot less value. It's it's very predatory in my view, and I don't like it. So.

Interviewer

Yeah, so that was what I was going to ask basically, the reason why I don't want it is it's, it's still the all of the costs of having a VC with not many of the advantages that are out there.

Founder

I think that's exactly right. I think it's exactly right. The valuations in the seats are very different because when VC investors in the states get behind something, they really get behind it. And it's because they understand the sector, they've probably got a lot of experience in the sector. They know how to back it and they back it with maximum enthusiasm. I think VC investors in the UK just they're just basically playing a one in 10 game you know, we back enough we'll get one that works. And, and I don't think they bring very much about They don't bring a lot of value in terms of helping to drive the valuation because they, they tend to be pretty conservative in their valuations. They're very limited in the types of businesses they want to invest in. And they try to impose predatory terms on the company on the other investors. And I, I just think that, you know, for me, that's not something I want to get involved with.

Interviewer

That definitely makes sense. The other company that you were a board member of entropy limited,

Founder

yeah, entropy is still around it. So entropy, stuff started out thinking that it was going to build an IoT product. And they got very bogged down in the development of that product. And we tell No, you're not going to build an IoT product, because anybody can build that you can get those new by those 10 opinions. You know, from China, what you're going to build is going to build a platform that has real value platform, which is able to extract and manage data that other people don't have access to. Anyway, they continue to plow down the same path of trying to build their own their own tracker. And we said, well, not much point as being your advisor, if you don't want to listen to our advice. And we parted company, not not not, not with animosity, but just said, Look, this isn't really very practical. I mean, we still between my own investments and asteroids, we still own about somewhere between 15 and 20% of that company. And they've gone through a very long period of not going but going anywhere very much. They certainly are not in the process of building a tracker anymore, what they're doing now is they're actually they formed a partnership with a large Japanese company to build a, an IoT platform to provide trusted trader technology for to solve the problem of Brexit. In other words, they've done exactly what we told them to do three years ago, but they just took three years digging their own way, waste wasting their own time, but anyway, look at I'm very pleased to see them now emerging in partnership with a big Japanese company doing what we said they should do, which is producing great technology for pr, pr tracking tracking processes. And, and hopefully, because the UK post Brexit problems are so enormous that there'll be a big market for their product and and that company will come back to life and be valuable as well.

Interviewer

The I am asking because the you mentioned, I'm just reading your LinkedIn profile here, that they had issues raising capital as well. And was it this one?

Founder

Yeah. Well, I was said that might have been installed as well. I

Interviewer

sorry, I messed it up. Yeah.

Founder

This one was one way that we let that one go. Because Because the basic was two things, were you in it, it was it needed capital, at the beginning of 2020. Do just just when COVID was hitting, and it was just a terrible time to raising capital. But also to be frank, but the fact the founder pretty much checked out. And I don't see a lot of point in sticking with the company when the founders society wants to do something else. So the founder, started because he didn't he couldn't take taking the income from a camp, he started doing consulting work. And when pushed to, you know, get back involved in the company, he sort of said, well, I've moved on. And so what if you've moved on? Certainly moving on to so we let that one go.

Interviewer

Okay, so that wasn't something that theoretically could have been solved with. With crowdfunding?

Founder

We did. We did. We tried. We tried. We tried in late 2019. And it's a crossover. I can't remember the exact dates but the late 2019 going into 2020. We tried launching a small campaign on crowdcube. And it didn't catch on at all. Okay, but I let you know that that's that's the only it was a very, it was a very interesting idea. And I think it could have been successful. But But whenever the founder ceases to be fully engaged, you find a close shot

Interviewer

closure. Why do you believe that the crowdfunding campaign in decades wasn't successful when you've had so many other successful ones?

Founder

Because I think they hadn't, they hadn't. They hadn't. They hadn't produced anything that was sufficiently tangible to get the crowd really interested and the Trump travel was. So when we launched Viritech, you could say that we hadn't produced in the very tangible, but we did have a very clear strategy, and we had some very good technology and a very accomplished CTO. And what we've done in the last few months is to do exactly what we said we're doing deliver some really exciting progress. And in fact, now I am in the next week or so there'll be there'll be a new video out which I can share with you and you're gonna see what we do. Doing. So the thing with n Swan was that their product was or that their proposition was to create a sort of team work environment, or infrastructure or platform, which I think would have been very effective. But they didn't, with their first capital, which it was the main investor in the first round of capital. They didn't spend it very wisely, they didn't build the technology in a way that people really understood. And so we're looking at this and say, Well, actually, we need to change the technology, we need to raise more capital. And I think there was just there just wasn't anything. It was too much of a still a vision, and just didn't capture anyways, these things happen. And I tried to help but a certain point, you just say, Well, I have to let that go and wrote off my investment.

Interviewer

Okay. Would that be something that would, in theory be more suitable in an American landscape for a venture capital company to get involved in? Especially when you compare with like, the tangible part of the whole thing that maybe in venture capital fund could be like, they would understand it better than the crowd would?

Founder

know, I think absolutely. It that is actually the great shame of it, that didn't go that route. Because, you know, it was in the space of enterprise collaborative enterprise collaboration software, I mean, think about teams, and all the things that are the tools that we use, it wasn't the video conferencing, but it was it was very much enterprise collaboration software. And actually, I still think it was probably the most advanced in its thinking of any of them. But it didn't it, it just didn't gain the traction it needed to and the founder had been working on it for some years, when I met him, I put in 100,000 pounds to help him move it along, and brought in one or two friends put some money in as well. And he didn't spend it wisely, because his CTO really wasn't that good. And the product they produced with that money wasn't that good. And then I said, Well, I think we need a different CTO involved. And then we tried to build a plan to build something much more user friendly. And during the course of that process, the founder had gone off in terms of job consulting, and sort of lost interest in which point, there wasn't much I could do in business. And actually, I'm glad that it won't go down. Because when I decided to let that one go down, it definitely were the space in my portfolio, and I started Viritech, and I couldn't be more excited, Viritech is amazing.

Interviewer

to circle back to Viritech quickly. The strategic, Do you already have everybody on board that kind of took to as a strategic partner within the company? Or do you have strategic partners that just aren't investors? Or you have? Because you mentioned that crowdfunding crowdcube campaign was the first one you did? And obviously you had raised 350,000? After game with are those 350,000? To those make up all of your strategic partners that are invested in the firm? Or do you have other strategic partners that aren't investors,

Founder

those that the private investors in total, and 440,000. Eventually, I think we launched about 350 of that raise, and then about another 100, Kenny. Now, those are just private investors. Well, there's one of those companies, I suppose, but still, they're friends of mine, rather than strategic investors know, the sort of strategic investment I'm expecting is if you look at a company like serious power, which is an aim listed company that make make fuel cells, they have a specific technology that sets them apart and feels as if you look at a company like our cell, which is a Gothenburg company, spun out of Volvo, I think now listed on NASDAQ, that makes fuel cells and you look through their investors you'll find Bosh is an investor in both companies, for example, I think in serious power snam the Italian energy company is an investor. If you look at companies like REMAX the, you know, REMAX the automotive company in Croatia that make battery electric powertrain is that they really, in a sense, they do what we do, but they do it in battery electric rather than fuels or electric. They've got strategic investment from from VW Porsche, they got strategic investment from high end di. So what tends to happen with technology companies like Viritech, is pretty quickly some of the big players the OEMs, and the tier ones looking thing are these guys producing some really interesting technology which could be valuable to us. And they get involved and they they probably start using the technology and they make a strategic investment and we've got enough people like that now engaged with what we're doing. We're excited by what we're doing. So I think it would be logical in the next year or so you know, some of those in some of those companies will Want to invest

Interviewer

so you don't really feel a lack of strategic guidance with just investing or having having crowdcube investors anything that's missing at all like

Founder

no but you got to remember this is not my first rodeo I've been doing exactly for 30 years I'm probably a little different to some of the founders

Interviewer

so that is an interesting concept for sure that something that I've kind of thought about myself is that crowd funding can also just be for for companies that aren't as high growth as like tech companies that don't really need any more strategic advice. They already have their angel investors they have their early investors or even as a strategic partner on board but they just need some a little bit more money to get to the next stage right so in your case that kind of applies but it's already from the beginning you don't really need any strategic advice through through equity shareholders you just need the capital to get the business started.

Founder

Right? Yeah, that's true. So yeah, we definitely have a bit of an outline for that.

Interviewer

But I mean they exist and it's a good it's a good point for sure. Um, let's see what I have. As you mentioned ain't like Angel syndicates didn't really come weren't in question either because you The size is too small right?

Founder

yeah there are some there are one or two Angel networks in the UK which are pretty chunky they can make they can make significant investments and I have I have sort of background conversations with them and haven't brought them into the into Viritech that might do in the future i'm not i'm not interested in the in the in the small angels because that is a lot of time raising very little money and it's not worth the hassle

Interviewer

yeah and there's probably still I mean it's for them it isn't the best of either because they probably want like want to advise right it's just not they don't have don't really have any interest in just giving you money otherwise they would just I guess they would just Cuban

Founder

I it's a problem I've never watched but there is a program in the UK called Dragon's Den on television you may have heard of it. It's a television program about people pitching to raise capital in a sort of dramatic environment on TV and some experienced investors who sit there with their their pile usually on a stupid TV format. Anyway, my conclusion is that the Angel Angel industry in the UK has been completely inspired by Dragon's Den and you've got these bunch of people who you know who on a good day might be able to invest 5000 pounds who love to play Dragon's Den you know they just think it's the it's it's fun for them to sit there and quiz and question and advise people on how to run their businesses and I haven't got life's too short

Interviewer

the the different investment philosophy between United States and Europe is definitely a pretty big component in the whole crowdfunding scene especially I mean, I mean it is the largest I believe in the UK right the the whole crowdfunding space basically lifts in the UK

Founder

did I can't remember not because somebody else reached out about crowdfunding or was it you? Did I did I recommend you. Contact Hannah Forbes?

Interviewer

No, you didn't.

Founder

Okay, well on LinkedIn look out for she's now got her PhD, Dr. Hannah forms ha double N A h, forms fo b s. Because she worked with me on my crowdcube first crowdcube campaign, and she was just finishing her PhD on crowd. I didn't know what it was. It was purely on crowdfunding or on crowdsourcing. Anyway, she she is she is a leading expert in the area and she's very nice person and I'm sure she'd be delighted to have chatting.

Interviewer

That's a good contact, you know, which university or where did you get your doctorate?

Founder

She did I think Liverpool, Liverpool.

Interviewer

There's a few things like masking I can I hang on a sec, I

Founder

can give you her email. I will tell you what it was what it is. Yeah, so Oh, no, no, I actually I know the email I've got for now reach out to her on LinkedIn because the email I've got for her is with a consulting business that she was doing some work with and she's not with me lameness.

Interviewer

I found her Dr. Hannah Forbes founder at the funding crowd conference. I'm sure that's Yeah. Yeah.

Founder

untapped. Reach out to her and tell her tell her that you started to be I suggested you come back.

Interviewer

Do you possibly have a email for for elessar Haynes, the other person you mentioned from the stock exchange, or is that just Somebody that

Founder

no I do I do, but I'm probably shouldn't just give that out. I think I think, but why don't you just go through their website because yeah, yeah. Let me think about that for a sec. No, I'll give it to Alice. Alice's. He's an investor in Varitek, he went monitoring that so you can see he spoke to me so it's it's a pain. If you get a chance to speak to him, he's really outstanding. And actually, before you do, look him up on YouTube and look at some of the stuff we do actually, if you reach out to him, we could do, you know, put some context other than

Interviewer

just his reference material sounds Yeah,

Founder

yeah. Cuz he has some really, really good stuff here. He's some of the interviews. He's done. He's outstanding.

Interviewer

Sounds good. All right. Well, I think that is all from my end. If you have any other questions regarding the research I'm doing or anything else, feel free?

Founder

No, it's nice to speak something jerky. I used to spend a lot of time there when I before I raise capital from Credit Suisse. I work for a subsidiary of those in London, Credit Suisse First Boston banking agency, as

Interviewer

I saw,

Founder

I spent a lot of time and had a lot used to have a lot of friends and

Interviewer

I worked at Credit Suisse. sounds funny queens, are you? Yeah, I made at home.

Founder

Oh, that's amazing. That's amazing. Well, my gosh, all my buddies are gone. I mean, the people that made the investment in the fund that I ran. So that was that was there was a guy, there was a guy called pricing service. Give me a sec. That's right. They got out of my head. No, was that also that I can't remember what his surname was water was. Water was one of the big cheese's in Credit Suisse in those days, and he reported to me reported to know that I'm amazed he's gonna have my head. And that's just my mind. I'm sorry, it is all gone. But But, but I'm actually I was one of the people. So one of the people that I can certainly recall the name of from that period was I ran a program securitizations. Before I did the deal that Credit Suisse invested in, I ran a program with securitizations, a lot of which was sold into the Swiss capital market. Through the through the syndicate desk and Credit Suisse. And the two people there was a guy called Rudy's endo, I'd known from my days that my day is at csfp, and a chat that worked for him his jacket Alex Molson, a French guy, who also studied in Zurich, and then he went to the Polytechnic, and then he joined Credit Suisse. And Alex is still a very good friend of mine. And he was actually the first person to invest in Varitek. So really? He these days, he works for Standard Chartered Bank in Singapore, I think. But yeah, so my connections back to Zurich and Credit Suisse still still still existence sometimes.

Interviewer

It's good to hear good to hear. Well, thank you very much for the for the talk. It was really interesting discussion and super helpful for my thesis. Now, if anything would come up, could I hit you up again? And maybe it doesn't really have to be a call, but just some questions for email.

Founder

Yeah, for sure.

Interviewer

Sounds good. All right, then. I hope you have a wonderful rest of your day. And yeah, Have a nice weekend. All right. Thanks. Thanks. Bye.