

Entrepreneurship, Innovation, and Finance:

New growth avenues in developed economies

新たな成長に向けたアントレプレナーシップ・
イノベーション・ファイナンスの融合

Special Session/特別セッション

Armin
SCHWIENBACHER

スキマビジネススクール教授

Professor, SKEMA Business School



SKEMA BUSINESS SCHOOL

(Equity) Crowdfunding: Anything to Celebrate?

Armin Schwienbacher
SKEMA Business School

RIETI/Tokyo
September 26, 2019



Crowdfunding is not
only about financial
returns.

The Million Dollar Homepage™

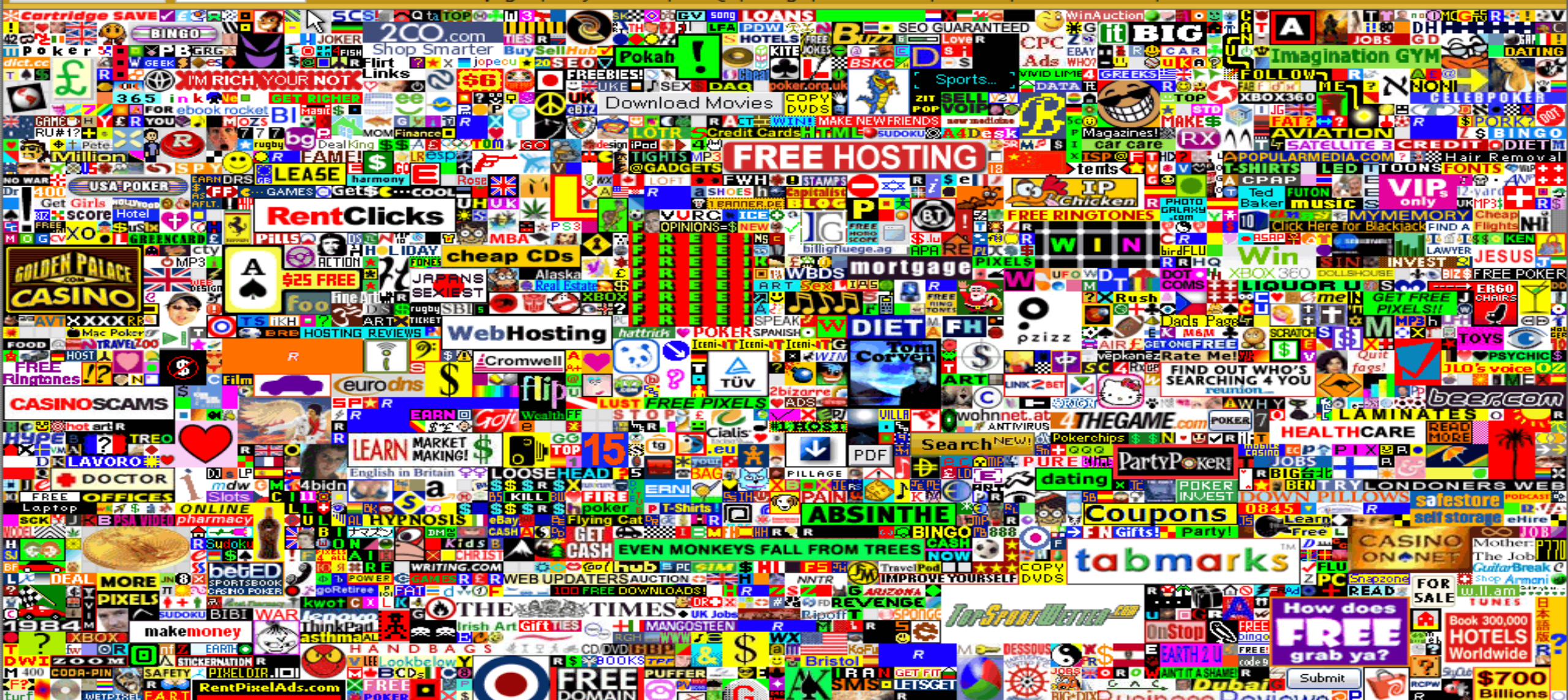
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Different Forms of Crowdfunding

Forms of Crowdfunding

Non-financial
Compensation

Financial Compensation

Donation-based

Rewards-based

Profit sharing-
based

Crowdlending
(loan-based)

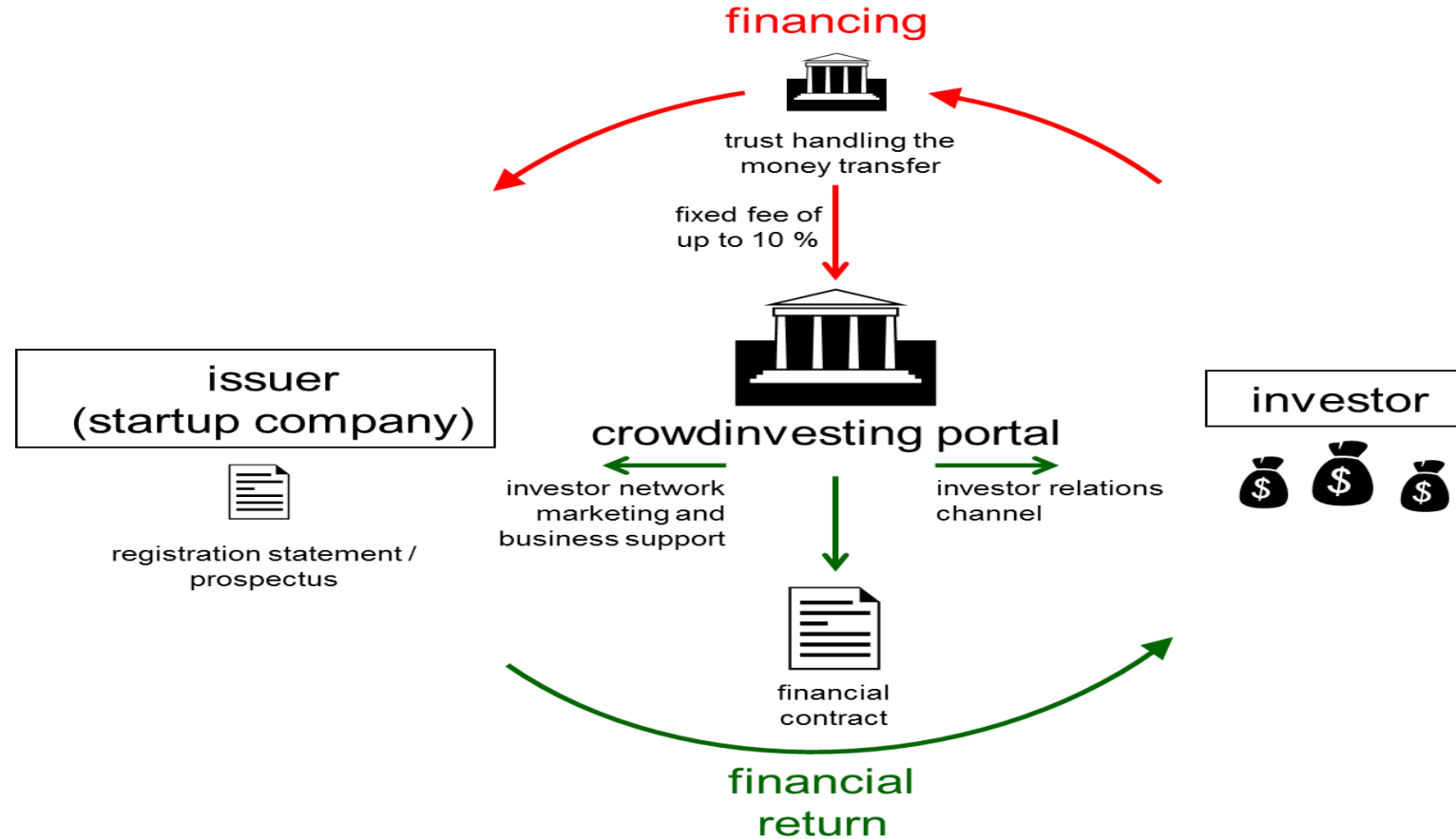
Crowdinvesting
(securities-
based)

Focus on Equity Crowdfunding (ECF)

European evidence – anything to celebrate?

Why was Europe ahead of the US (this time)?

Structure of ECF Transactions



Source: Hornuf and Schwienbacher (2014): "Crowdinvesting – Angel Investing for the Masses?", Handbook of Research on Venture Capital: Volume 3. Business Angels.

Equity Crowdfunding: 10 Years Old Already



L'ACTUALITÉ DE LA FINANCE PARTICIPATIVE

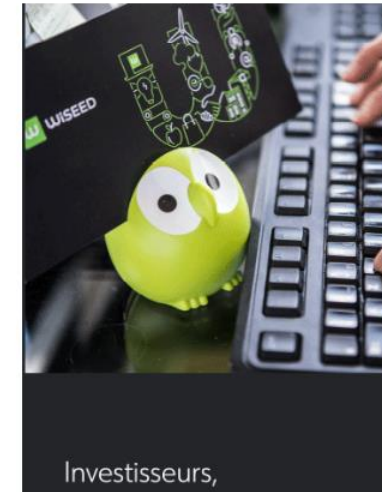
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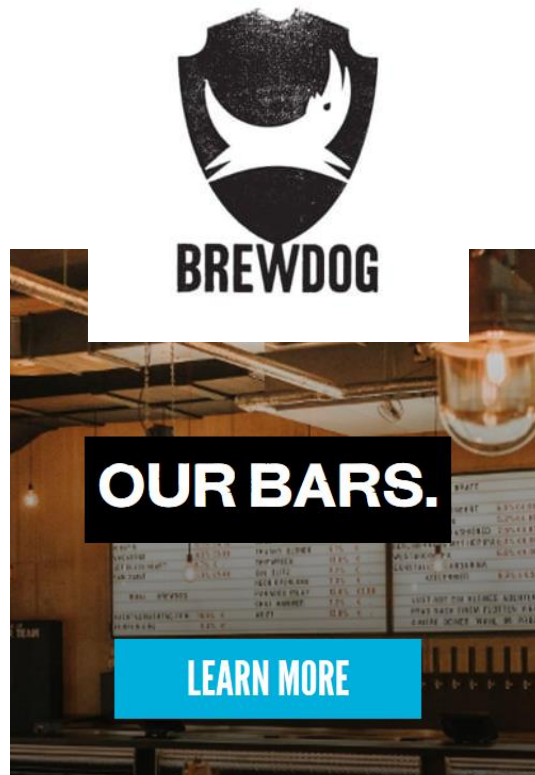
WISEED



Pour ses 10 ans, WiSEED fait peau neuve !

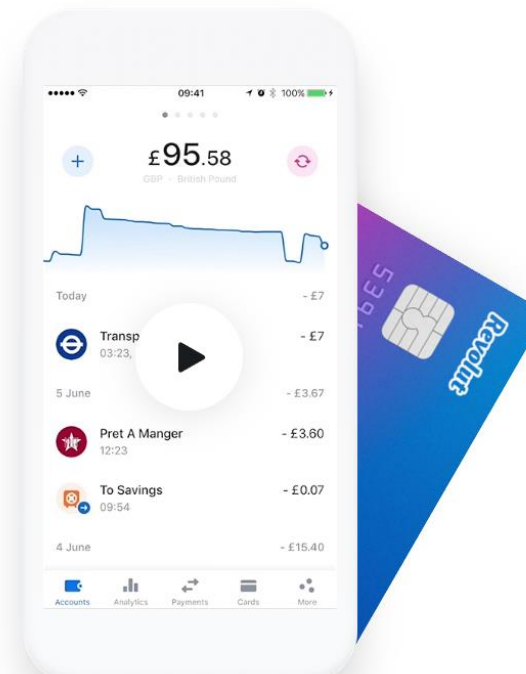


First Unicorns



BrewDog valued at £1bn after investment from San Francisco-based private equity firm

Revolut



Revolut becomes Britain's first digital bank unicorn

First Platforms Going Public

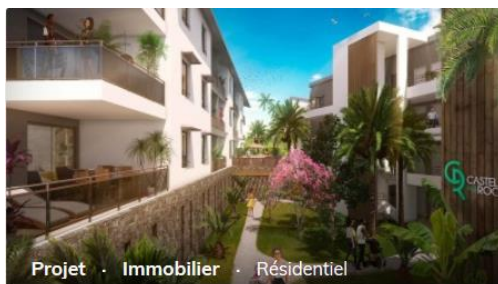
FINANCIAL TIMES

Funding Circle seeks valuation of up to £1.8bn in IPO

P2P lender's flotation to test investor appetite for new generation of fintechs

SEPTEMBER 19, 2018

Increased Diversification by Platforms



Projet · Immobilier · Résidentiel

CASTEL ROC Par OCEANIS PROMOTION

Réalisation d'un ensemble immobilier de 68 logements à Sainte Clotilde (La Réunion).

Financé

Par 737 WiSEEDers

Projet financé	Janv. 2018	10% annuel	795 intéressés
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[Anaxago Ventures] Première ICO dans le portefeuille d'Anaxago

SmartHab annonce le lancement de son ICO

Some Key figures

Crowdfunding is growing rapidly: from \$3 billion in 2012 to \$16 billion in 2014, \$95 billion in 2025 (projected)

- High popularity of lending-, reward-based crowdfunding
- Equity-based crowdfunding less developed (around 3% of total volume), but same growth; also more heavily regulated
- Governments have helped promoting equity crowdfunding through specific regulation.

In France: around 300 platforms (all types combined) launched so far!

- Many did not live long.
- Market consolidation in place

Still Many Challenges

Ensure that crowd investors obtain appropriate risk-adjusted return

- Research still based on indirect measures (follow-on funding, failure rate)
- Similar to VC: Many losses need to be covered by a few home-runs
- Need to facilitate exits: lack of secondary markets (blockchain as solution?)

Platform profitability and efficiency

- Most platforms still too small; national-based
- New EU initiative
- Bringing in institutional investors?

Economic value-adding of crowdfunding?

- Does it fill a funding gap?
- Can it promote entrepreneurship in society?
- Need to take a long-term perspective

“Testing the Waters” Policy

“Testing-the-waters” (TTW): soliciting indications of investor interest prior to filing disclosure material.

- A way to assess investors’ appetite for funding and make the crowd participate in the selection

JOBS Act: Title III (Regulation of Crowdfunding) and Title IV (Regulation A+)

- TTW only for Reg A+

Ongoing debate to allow TTW be extended to all types of offerings.

- Policy debate has been going on without guidance of empirical evidence

Using data from the French platform WISEED, our study shows:

- Massive retractions: only 18% of the money committed is actually transformed; women are far more trustworthy than men
- However, at the aggregate level: it is a good predictor of campaign success

Take-Aways

While equity crowdfunding has matured, still many challenges and needs to adjust the business model of platforms.

- It belongs to the fintech movement of digitalization of finance.
- How much should we allow the “crowd” to participate in equity crowdfunding?
- What is its contribution to SME financing, innovation, and society?

Research-wise:

- Crowdfunding, and fintech more generally, allows to study investor behavior in a much better way than before.
- As data will become more easily available, this research area will grow further.



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armin.schwienbacher@skema.edu

