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EQUITY-BASED CROWDFUNDING IN FINLAND



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EQUITY-BASED CROWDFUNDING IN FINLAND

This thesis investigates crowdfunding in Finland, with an emphasis on the equity-based model. Our goal is to examine equity-based crowdfunding as a phenomenon and find out what kinds of companies have successfully completed a financing round during the year 2013.

We chose equity-based crowdfunding as our topic of research because it's a very new and emerging model of financing, and thus not much research has been conducted on it.

The research was carried through a questionnaire sent to thirty companies that had successfully completed an equity-based financing round during the year 2013. We received responses from nine companies.

The results show that the companies are of the opinion that equity-based crowdfunding is a very effective and unique model of financing that enables low-risk corporate funding. According to our research, a typical, exemplary company to receive equity-based crowdfunding in Finland in 2013 would have been an IT-company that had operated for 5,5 years and had 8 employees. It would operate in the B2B-market with a revenue of ~250 000 euros and be evaluated on a financing round at ~3,5 million euros. The company would operate in 6 countries, seeking international growth and corporate acquisition.

KEYWORDS:

Crowdfunding, Equity-based crowdfunding, Crowdfunding platforms, Start-up, Growth Company, Funding

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OSAKEPOHJAINEN JOUKKORAHOITUS SUOMESSA

Tämä opinnäytetyö tutkii osakepohjaista joukkorahoitusta Suomessa. Tarkoituksena on perehtyä osakepohjaiseen joukkorahoitukseen ilmiönä ja tarkastella millaiset Suomalaiset yhtiöt ovat toteuttaneet onnistuneen osakepohjaisen joukkorahoituskierron vuoden 2013 aikana.

Valitsimme osakepohjaisen joukkorahoituksen aiheeksemme, koska se on varsin uusi rahoitusmalli Suomessa ja siksi myös varsin vähän tutkittu.

Tutkimus toteutettiin lähettämällä kysely kolmellekymmenelle onnistuneen rahoituskierron toteuttaneelle yritykselle, joista yhdeksän vastasi kyselyyn.

Tulokset osoittavat, että yhtiöt kokevat joukkorahoituksen hyvänä ja erilaisena rahoitusmallina, joka mahdollistaa niille pieniriskisen rahoituksen. Tyypillinen osakepohjaisen joukkorahoituskierron toteuttanut yhtiö oli keskimäärin 5,5 vuotta IT-alalla toiminut yritys, joka työllisti 8 henkilöä. Yhtiön vuoden 2013 liikevaihto oli keskimäärin 250 000 euroa ja sen rahoituskierroksella käytetty valuaatio oli ~3,5 miljoonaa euroa. Yhtiöillä oli toimintaa tai niiden tuotteita levitetty keskimäärin kuuteen maahan ja ne tavoittelivat kansainvälistä kasvua sekä yrityskauppaa.

ASIASANAT:

Joukkorahoitus, Osakepohjainen joukkorahoitus, Joukkorahoitusalus, Start-up, Kasvuyritys, Rahoitus

TABLE OF CONTENTS

1.0 INTRODUCTION	7
1.1 The objective of the thesis	8
1.2 Research Questions	9
1.3 The Structure	10
2.0 THEORETICAL FRAMEWORKS	11
2.1 History of Crowdfunding	11
2.2 The legal recognition of crowdfunding	12
2.3 Investment-based crowdfunding and authorization	14
2.4 Different types of crowdfunding	14
2.4.1 Donation-based crowdfunding	14
2.4.2 Peer-to-peer lending	19
2.4.3 Equity-based crowdfunding.....	23
3. METHODOLOGY	29
3.1. Research Methodology.....	29
3.2 Research Design and Data Collection.....	30
3.3 Reliability, Validity and Generalization	31
4. EMPIRICAL ANALYSIS OF THE RESEARCH	33
4.1 Fields of industries	33
4.2 The ages of the companies	35
4.3 Number of employees	36
4.4 Companies' customer base	37
4.5 Companies last year's revenue	38
4.6 The targets for the venture round	40
4.7 Company valuation before the venture round.....	41
4.8 The percentage of company equity given up for the venture round.....	43
4.9 The reasons for applying for a venture round.....	45
4.10 Previous sources of funding	46

4.11 Different channels of funding considered	48
4.12 Main purpose for financing	49
4.13 Companies' main objectives after venture round.....	50
4.14 The number of countries in which the companies operate	52
5. Conclusions of the study	54
5.1 Research Findings	55
5.1.1 Common characteristics of companies that have successfully received equity-based crowdfunding	55
5.1.2 The size of financing rounds, the valuations of companies and the amount of capital stock given up.....	56
5.1.3 The importance of the venture round to the companies' internationalization.....	56
5.1.4 The characteristics of a typical company to receive crowdfunding ...	57
5.2 Suggestions for Further Research.....	57

APPENDICES

Appendix 1: Questionnaire Form

FIGURES

Figure 1: Reward-based crowdfunding flow chart (KickStarter, n.d.)	16
Figure 2: Peer-to-peer lending process cycle (LendingClub, n.d.)	19
Figure 3: Reported Loan Purpose, Lending Club.....	20
Figure 4 : Total Loan Issuance.....	21
Figure 5: Chart of company growth stages (FIBAN, n.d.)	24
Figure 6: Fields of industries	33
Figure 7: Bar chart showing the operating history of companies in years	35
Figure 8: Number of employees.....	36
Figure 9 : Companies' customer base	37
Figure 10: Last year's revenue.....	38
Figure 11: The maximum and minimum targets for the venture round by company	40
Figure 12: Company valuation before the venture round by company.....	41
Figure 13: The percentage of company equity given up for the venture round .	43
Figure 14: The reasons for companies to apply for a venture round.....	45
Figure 15: Companies' previous sources of funding	46
Figure 16: Different channels of funding considered.....	48
Figure 17: Main purpose for financing.....	49
Figure 18: Companies' main objectives after venture round	50
Figure 19: The number of countries in which the companies operate.....	52

TABLES

Table 1: Three biggest crowdfunding companies in Finland	27
Table 2: Cross-comparison table	39
Table 3: Equity given up, Amount of money raised, Company valuation	44
Table 4: Example company to receive crowdfunding.....	57

1.0 INTRODUCTION

International financial markets fell into crisis in 2008. The global economy was affected widely and also the Finnish economy fell into deep recession. The Financial Crisis, as the name suggests, was a very strong global economic crisis that had most to do in the capital and financial trade markets. Finland also felt the effects of the crisis and the attainability of funding got more difficult; with financiers tightening the terms and conditions of available funding, a lot of companies were affected by this distraction in the financial market. (Kauppakamari, 2014)

As a result, the structures of corporate financing changed considerably. Even though the origin of the financial crisis was outside of Finland, the disturbance in the financing market also transmitted into the domestic market through the international financing system. The escalation of the crisis also led to difficulties in the banking sector and the business between banks became more expensive with added risk premiums. As a result, the credit allowance of both households and companies grew more restricted in a number of countries. The bank financing that was then available had much stricter terms (interest margin, collateral requirements etc.) than before the crisis. (Pankki, 2013)

Especially small and medium-sized companies have been struggling with financing after the bank crisis started in 2008. This has created a great demand for new financing models to substitute the bank's old models. (Niemeläinen, 2012)

Crowdfunding has been growing incredibly fast in the last few years, offering much needed options for small and medium-sized companies to receive funding without banks. In Finland crowdfunding is still taking its baby steps but because of the constantly evolving demand, the field grows very fast; from 2011 to 2012 alone, the rate of growth was 65% percent. (MoF, 2014)

When talking about Crowdfunding, there are four different types of them: Equity-based crowdfunding, Donation-based crowdfunding, Lending-based crowdfunding and Reward-based crowdfunding. From these models only equity-

and lending-based models are suitable for companies when they are considering corporate financing. This is because the Donation-based and Reward-based models are mainly meant to be used for creative projects and not profit-seeking business ventures in the sense that the equity-based and lending-based models are. (CrowdfundInsider, n.d.) We will present each one in-depth in the Theoretical Frameworks section of the thesis.

At the moment there are not many platforms where small and medium-sized companies can obtain bonds (lending based crowdfunding) in Finland, but one worth mentioning is www.yrityslainat.fi which is Vauraus Ltd.'s web-based marketplace for companies and investors.

Equity-based crowdfunding, which is currently more popular among the growth companies than the bond market, is another option for companies to get crowdfunding. Equity-based crowdfunding offers great opportunities for companies to grow fast. For investors, the most attractive perks of crowdfunding are the immense opportunities of getting rich and being a part of something new and innovative.

1.1 The objective of the thesis

In our thesis we have chosen to concentrate on equity-based crowdfunding in Finland, and more precisely, what kinds of Finnish companies have been able to raise a successful crowdfunding round from investors.

The reason why we chose equity-based crowdfunding in Finland as our topic was because we have noticed that it is a rising trend among the financing markets, and we are interested to research its effects on corporate financing in Finland. As our method of research, we chose to use a mix of qualitative and quantitative research approaches because it serves our research and our relatively small target group best.

According to the statistics released by the three biggest crowdfunding platforms in Finland (Vauraus, Invesdor and Venture Bonsai), in the year 2013 there were

about 30 companies who successfully received equity-based crowdfunding via a venture round in Finland. (Vauraus, n.d.) (VentureBonsai, n.d.) (Invesdor, n.d.) This group of companies eventually formed out to be our audience for the questionnaire.

We hope that this Thesis can give guidelines for companies considering crowdfunding as a part of their financing. Companies planning to apply for a venture round can compare themselves with companies that have successfully completed one. We seek to find out some general information about the companies and their financing history and how they got to this point.

1.2 Research Questions

Our research questions for the thesis are:

1. What kinds of companies have received equity-based crowdfunding in Finland?
2. How much money did they manage to raise via a crowdfunding round?
3. How much capital stock did the company give up?
4. According to the companies themselves, how important was the completion of the venture round to the company's internationalization?

The research will be executed by a questionnaire presented to the executives of a selected group of companies who received a venture round during the year 2013 through one of the three biggest equity-based crowdfunding platforms. The three biggest platforms in Finland are Vauraus Suomi Ltd, Invesdor and Venture Bonsai. For obvious business and privacy reasons, the results of the questionnaire will be handled anonymously and thus individual companies cannot be distinguished from the results.

1.3 The Structure

In the first part of the thesis we are going to dive into the history of crowdfunding. We will explain what crowdfunding is and how the modern, organized form of crowdfunding started. Following the history part, we examine the legal regulations of crowdfunding, explaining how the legal recognition of it has changed over the last few years and how it currently differs in the U.S and Finland.

The second part of the thesis, Theoretical Frameworks, introduces and explains the four main types of crowdfunding. We will introduce each of the types separately, explain the main characteristics of them and tell which type of crowdfunding is suitable to whom. We will also present some of the biggest crowdfunding platforms that operate in the U.S. or Finland.

The part “Equity-based crowdfunding in Finland” contains an overall comparison between the biggest three service providers in Finland. This contains important and insightful information about the different players in the domestic sector of crowdfunding. These financing companies are in fact the ones that executed the venture rounds for the companies surveyed in the questionnaire part of this thesis.

In the third chapter, the methodology used for the research is presented and reasoned. In this part we will go through the research design and data collection methods.

The fourth part of this thesis is the Empirical Analysis of the Research. In this section the findings from the research will be presented and analyzed. The reliability of the data gathered will be discussed and argued. We will also see whether this information can be generalized and interpreted on a broader scale.

The fifth part of the thesis will be the conclusion of the study. The answers for the research questions will be provided and the research findings summarized.

2.0 THEORETICAL FRAMEWORKS

2.1 History of Crowdfunding

According to Investopedia, the definition of crowdfunding is as follows:

“The use of small amounts of capital from a large number of individuals to finance a new business venture.” (Investopedia, n.d.)

Systematic, organized crowdfunding has its roots in the 18th century Germany, where a phenomenon called Praenumeration took place. It was a collective business model in the local book trade. In Praenumeration, an author or publisher proposed to sell a book in advance which writing was still underway. By doing so, the buyers effectively financed the publishing costs of the book and, by having committed their money to the project, were entitled to have their books upon the completion of the writing process. This was, in its general outlines, the same formula that crowdfunding has nowadays. (Corsten, 1987)

Modern crowdfunding first emerged in 1997 when British rock band, Marillion, used online fan donations to fund a \$60,000 reunion tour. (Feinberg, 2013) Since then, crowdfunding has grown massively, especially during the last couple of years. (Milliken, 2014)

Contemporary crowdfunding utilizes social networks such as friends, coworkers and social media contacts to effectively market the business to large crowds in order to get the attention of potential investors. Crowdfunding opens up broad new possibilities to reach investors outside the immediate circle of founders, relatives and business angels that have traditionally funded businesses. (Dresner, 2014)

In Europe, the amount of money collected via crowdfunding has seen a rise of 65% between 2011 and 2012. (Commission, 2014) The Ministry of Finance of Finland tells about the growth of the sector in the domestic market in its Report on Crowdfunding Survey. The size of the crowdfunding market in Finland in 2013 was valued at two million euros. Compared to the global market, however, it was still very modest; the worth of the global market has been assessed at 2,7

billion U.S Dollars. The sector has seen some remarkable growth, and the rate of the growth is expected only to increase, especially after the JOBS Act, an act to boost entrepreneurship and start-up companies' growth in the U.S, was introduced. At the current moment, the western world, namely European countries and the USA, are the center of the growing trend. It is expected that this phenomenon goes worldwide. In Finland, crowdfunding is a steadily rising form of financing even though the amounts of capital collected via it have stayed relatively small. (MoF, 2014) (Cunningham, 2014)

2.2 The legal recognition of crowdfunding

A couple of years ago the Finnish authorities or American authorities did not see the need to supervise crowdfunding with any specific laws. Recently the authorities have recognized that the sector is already huge and will continue to grow exponentially –which is why the sector has seen law and regulations come into effect. (SEC, 2013)

When arranging a venture round, be it on a crowdfunding platform or not, there are a few basic legal factors to consider before proceeding. In Europe, the rules are generally very similar between countries because of the European Union's and the European Economic Area's regulations. (ECN, 2013)

Before organizing a venture round it is paramount to be aware that the company complies with the current legislations and rules of the company's domestic country, but also the countries where the venture round is being offered to investors.

“In general rounds of less than 100,000 euros are good to go without a prospectus in all EU/EEA countries. As for rounds between 100,000 and 5 million euros, national prospectus rules need to be investigated. In Finland a prospectus under the national prospectus rules needs to be prepared when the size of the round is 1.5 million or more.

In addition to the euro limits described above, there are other exemptions from the prospectus requirements. Most commonly used are the “private placement”

exemptions, which allow offering of shares to qualified (or professional) investors or to less than 150 non-qualified investors per EU/EEA member country without a prospectus.” (Hemmilä, 2012)

Albeit a prospectus exception applies, a firm starting a venture round has to meet the valid information requirements. It's established in the Finnish Securities Markets Act, that a firm needs to provide enough relevant information for weighing the shares' value. This is mainly to avoid the issue of misleading marketing.

Quoting the Finnish Securities Markets Act:

“The prospectus shall provide sufficient information to the investor for the making a founded assessment on the securities and their issuer as well as on the possible guarantor. The prospectus shall contain essential and sufficient information on the assets, liabilities, financial position, result and future outlook of the issuer and the possible guarantor as well as on the rights attached to the securities and other factors with a material effect on the value of the securities. The information shall be presented in a logical and easily comprehensible form.”
(FinLex, 1989)

It is of utmost importance to go by the information requirements to avoid unwanted consequences, such as suspension of the venture round or other legal troubles. There are already examples of companies who were not following the regulations accurately enough and thus had to suffer the consequences. Sometimes information requirements are even imposed on companies. An example is a Finnish startup from October 2012 that was forced to cease the marketing of its shares because of a lack of necessary information. (Hemmilä, 2012)

The suspension of a venture round can have critical consequences on a company's business plan, and they might have to completely reanalyze the situation and alter their plans.

The operational models and their development are supervised by the following domestic authorities: Ministry of Finance, Ministry of Employment and the Economy, the Ministry of the Interior, the Financial Supervisory Authority, Competition and Consumer Protection Office.

2.3 Investment-based crowdfunding and authorization

The Financial Authority of Finland defines the laws and regulations considering investment-based crowdfunding. The current protocols are regulated as follows:

“Investment-based crowdfunding service is an investment service for which the service provider must be authorized according to the Investment Services Act, if the investment object related to the service is a financial instrument as referred to in chapter 1, section 10 of the Investment Services Act (such as a share or bond) and if the service provider offers an investment service as referred to in chapter 1, section 11 of the Investment Services Act.

Lawful investment service requiring authorization consists of reception and further transmission of orders related to financial instruments (chapter 1, section 11, subsection 1(1) of the Investment Services Act). Such transmission of orders is considered to include a service the purpose of which is to bring together parties to a business transaction related to a financial instrument in the manner that enables execution of a transaction between these parties”. (Finanssivalvonta, 2014)

2.4 Different types of crowdfunding

There are four main types of crowdfunding; Equity-based, Donation-based, Lending-based, and Reward-based crowdfunding. From these models only equity- and lending-based models are suitable for companies when they are considering corporate financing. In this chapter we will present all four types and provide examples on scenarios suitable for each model.

2.4.1 Donation-based crowdfunding

Donation-based crowdfunding is divided into two subdivisions; reward-based crowdfunding and charity crowdfunding.

2.4.1.1 Reward-based crowdfunding

Reward-based crowdfunding is a very popular platform for funding various projects, productions and releases. Reward-based crowdfunding, as the name suggests, is based on a reward for the backer/investor of the project. This reward is usually a product or an exclusive item related to the project that the backer assisted funding. Reward-based crowdfunding is an unmistakable platform to know whether or not the product has demand in the market, as it's directly seen in the sum of money backed by investors. If the target sum is not met, the money usually goes directly back to the investors and the project is cancelled.

Reward-based crowdfunding is illustrated in Figure 1 and follows a series of steps:

1. The entrepreneur/business publishes the project plan on a crowdfunding platform i.e. Kickstarter with a set deadline
2. The initiator(s) tries to incentivize investors via promotion
3. The funding round is started and carried through, with usually multiple reward options available relative to the investment sum for the backers
4. The project is started with the funding from the campaign or put back to the drawing board if not enough money has been invested
5. The project itself is executed
6. The project is completed and the backers receive their rewards (Miller, n.d.) (Cebulski, 2013)

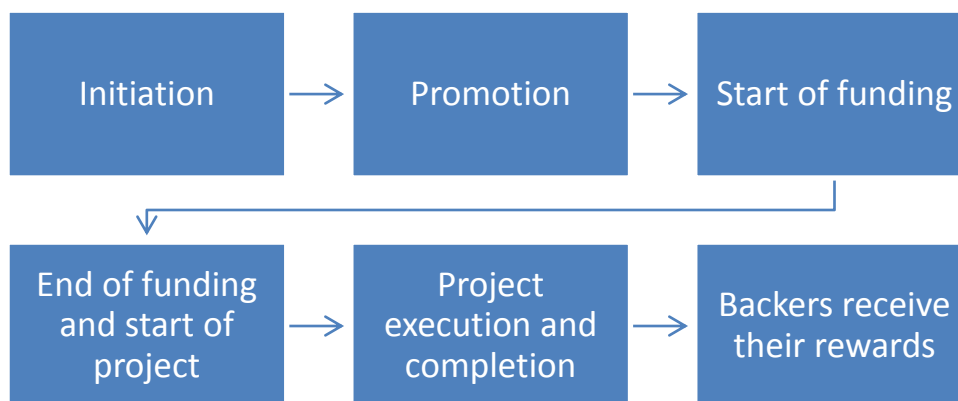


Figure 1: Reward-based crowdfunding flow chart (KickStarter, n.d.)

A project can also have different levels of funding targets. An example of this is an ongoing Kickstarter campaign for the game *Outcast Reboot HD*, in which there are various levels called “stretch goals” on the overall funding target. If investors pledge 600,000\$, the initial minimum target amount, the game will be made and released on PC. If pledged 750,000\$, a Mac/Linux version of the game will be made. If pledged 950,000\$, the game will get Next-gen enhancements – effectively refining the graphical side of the game with modern graphics technologies. The stretch goal of 1 million dollars will enable VR (virtual reality head-mounted display) support, whereas 1.35 million dollars will see the game released on the newest next-gen console platforms. The final stretch goal of 1.7 million dollars will enable the developers to make an entire new game world on top of the initial game.

In addition to different stretch goals the pledge sums are usually also leveled, often in a very incentivizing way. For *Outcast HD* one can pledge anywhere from 20\$ to 10,000\$, with rewards changing anywhere from just getting the core digital release of the game to the inclusion of a VR set or having an own piece of soundtrack composed for the game. (KickStarter, n.d.)

Reward-based crowdfunding has also seen daylight in Finland, albeit there isn’t a domestic channel for that kind of financing yet. Even though it’s not yet a very popular funding channel here, it’s constantly growing. An example of a Finnish reward-based crowdfunding success story is *Wishbone* – a headphone cord

organizer that was funded through Kickstarter. It managed to surpass its target of 10,000\$ and reach a total of 29 858\$ raised. (Wishbone, n.d.)

Reward-based crowdfunding is often a platform for creative content and products – usually funded projects are either music, films, videogames or innovative tech. For more corporate type of projects, peer-to-peer lending or equity-based crowdfunding are generally used.

2.4.1.2. Charity Crowdfunding

Charity crowdfunding has actively existed in the modern society for way longer than any other crowdfunding model, even though it might not have actually been called crowdfunding. Charities have always pooled money from many individuals, organizations and companies in order to form a big pool of money to use for a greater cause. (Young, 2013)

Even though this is charity, there are still immense chances to do very profitable business in the sector of charity crowdfunding. Until now, platforms for crowdfunding have only implemented systems that accept non-profit donations from individuals. However, as stated by Feinberg almost 60 billion dollars are donated to non-profit causes worldwide, which evidently begs the question whether a platform for also organizational/corporate non-profit ventures is needed. A CSR-centered (Corporate Social Responsibility) website CSRwire.com supports the thought:

“Corporate social responsibility (CSR) officers and private foundation boards are always seeking nonprofit projects that align with their missions, and crowdfunding offers these entities a highly-searchable, easy-to-use model for sourcing and vetting worthwhile causes” (Feinberg, 2013)

In the modern world of business, where CSR is almost a must because of the increased awareness of the environmental effects that accrue from running businesses and the need to be perceived “green” in the eyes of the public, it is essential for companies to donate into causes that “align with their missions” and seem good in the eyes of the public and bring good P.R. for the company.

This need has been often fulfilled by straight donations to causes, but a platform for combined non-profit causes has not existed until July 2013.

Uruut is a crowdfunding service platform based on crowdfunding for non-profit organizations that accepts donations from individuals, as well as organizations, foundations and businesses. In the spring of 2014 it's still quite small, but has a lot of room for growth especially if bigger corporations start to utilize the service to channel their donations. Bigger corporations usually have whole CSR teams that define their donation targets and causes to support.

A service like Uruut could very well be a needed business model to address the risen demand for CSR services; a service provider that handles the complete package of CSR for a corporation, from forming budgets to selecting and evaluating causes to the handling of money and execution of the initial causes. (Uruut, n.d.)

The line between reward- and charity-based crowdfunding is a bit blurred, but it can be outlined that the main difference between the two is that the charity-based model offers no compensation for the invested money, whereas in the reward-based model there is usually a concrete reward that is worth money; for example a download or a physical item when the project is finished.

2.4.2 Peer-to-peer lending

The second of the four types of crowdfunding is peer-to-peer lending. The idea is simple; people who got investable money lend it with interest to people who need money. Overall, this is what banking used to be all about. Even though peer-to-peer lending is still a relatively new way of financing, there has been a rapid increase in the demand since the bank crisis escalated in 2008, after which the credit allowance of both households and companies got more restricted.

In USA there are several companies which offer marketplaces for peer-to-peer lending. At the moment, the number one platform used for peer-to-peer lending is Lending Club. (Davidson, 2013) Since the company started in 2007, it has issued more than four billion dollars' worth of loans and there has been over 380 million dollars of interest paid to investors. The process cycle is represented in Figure 2:



Figure 2: Peer-to-peer lending process cycle (LendingClub, n.d.)

Lending Club offers its services only for individuals in the form of consumer credit. According to Lending Club statistics, 83,7 % of borrowers use their loans to refinance existing loans or pay off their credit cards.

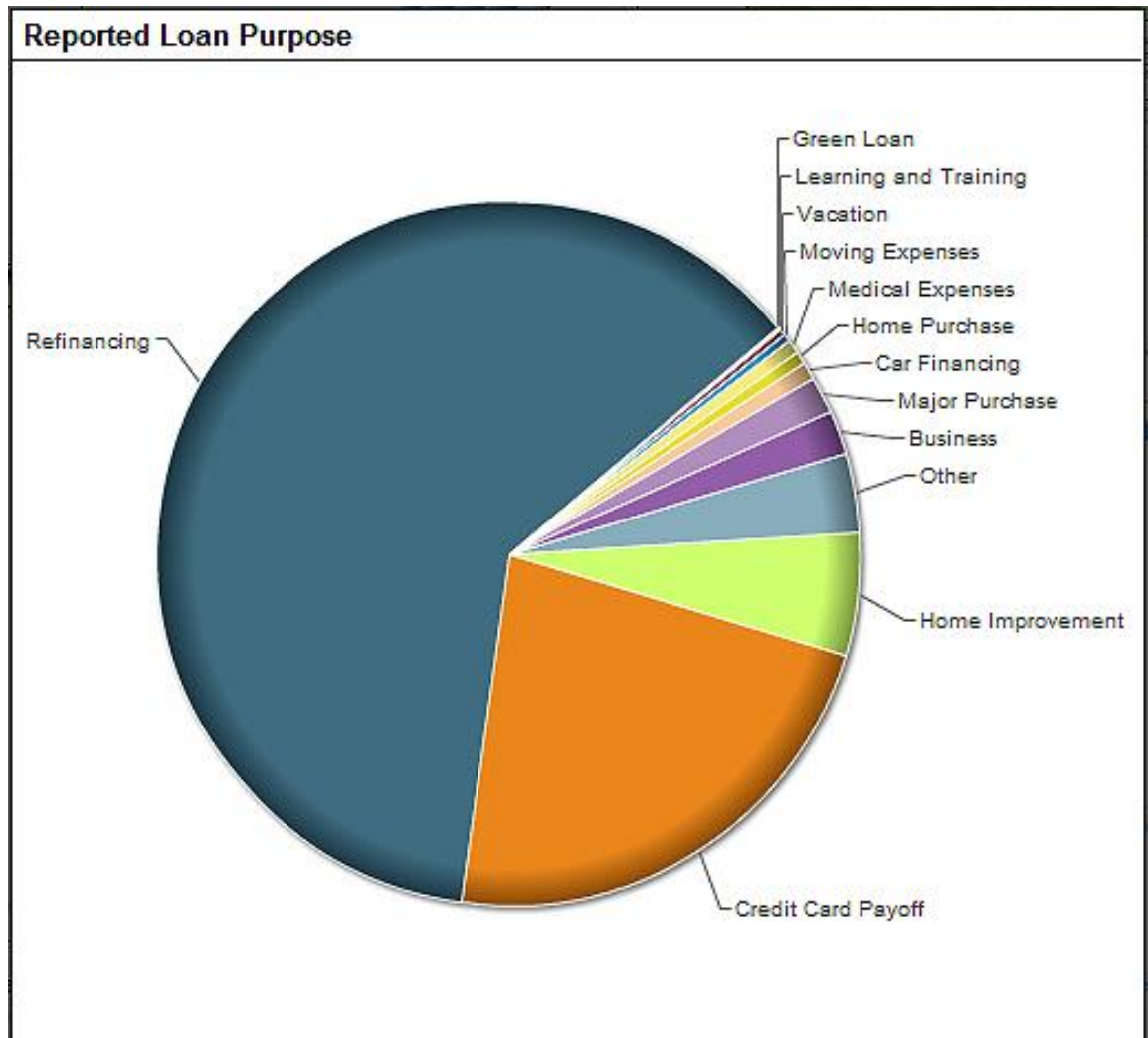


Figure 3: Reported Loan Purpose, Lending Club

The United States has been known for its relatively loose credit allowance culture, with people often owning several credit cards that have their credit limits topped. The interests on the credit card debts are often extremely high, especially if the payments are delayed. (Carter, 2012) As seen on figure 3 above, almost 25 percent of all loans have been issued for Credit Card Payoff

purposes. The figure is quite whopping, when taking into account that this sums up to 1 billion dollars, and these figures are just from Lending Club alone. In total, lending Club has facilitated \$4,034,212,750 in loans as of 03/31/2014. (LendingClub, n.d.)

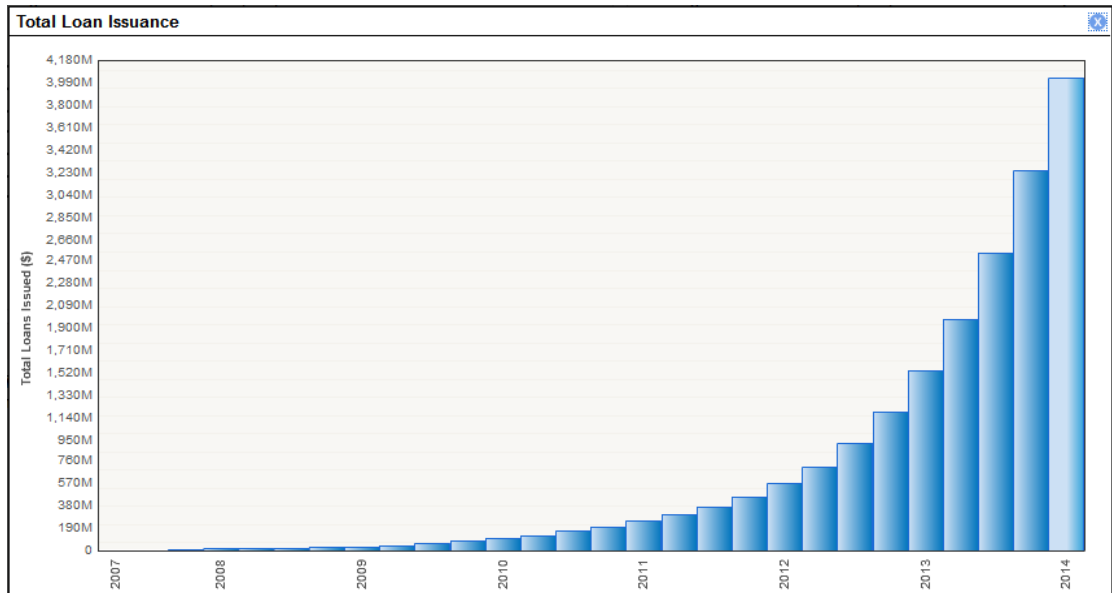


Figure 4 : Total Loan Issuance

The need for the service is evident and the company has been very successful. It has been highly recognized for its success and innovativeness. For example the company was named as one of Forbes' America's Most Promising Companies in 2011 and 2012. It also received an award as the 2012 World Economic Forum Technology Pioneer, and one of The World's 10 Most Innovative Companies in Finance by Fast Company in 2013. (LendingClub, n.d.)

Peer-to-peer lending in Finland

In Finland peer-to-peer lending is still in a much smaller scale than in the U.S, but it is growing steadily. (MoF, 2014)

There are a few platforms that offer peer-to-peer lending services in Finland. Currently the biggest one is Fixura Ltd (www.fixura.fi) which has issued over 25 million euros worth of personal loans and over 2,5 million euros of interest has

been paid to investors. Fixura launched its service in 2010. The service works only for individuals as consumer credits. (Fixura, n.d.)

At the moment the only actor in the market who offers lending-based crowdfunding for companies is Vauraus Suomi Ltd who launched its bond service (www.yrityslainat.fi) in 2013. (Koivikko, 2013) Yrityslainat.fi offers possibilities for companies and entrepreneurs to get loans and for investors to invest in SME companies' bonds. The loan periods vary between 6 to 60 months and the loan principal repayments and interest are paid monthly to investors. By mid-April 2014, yrityslainat.fi has issued loans worth over 4 million euros and there are over 100 000 euros worth of interest paid to investors. (Yrityslainat.fi, n.d.)

The bond-service offers an alternative source of funding for companies who need to make continuous investments in order to survive in ever toughening competition. Access for funding is vital to firms' competitiveness and growth. According to Statistics Finland the investment rate of companies kept declining last year and fell in the third quarter from 24 to 22 percent compared to the last year's third quarter. (Tilastokeskus, 2014)

The ever-declining availability of financing has been widely reported. In February 2014 the Chamber of Commerce of Finland carried out a survey for 130 business executives. Over 25 percent of them tell that it has been more difficult than before for their companies to get financing. 14 percent of the executives told that planned investments had to be postponed or cancelled because of the evident financing problems. In most of the cases the investment would have been worth 500 000 to 5 000 000 euros. Because of this, new financing models are desperately needed in the market to ensure the growth of economy and financial welfare. (Öhrnberg, 2014)

Yrityslainat.fi, the peer-to-peer lending service hosted by Vauraus Ltd, is a direct response to this risen demand of corporate financing. Something worth mentioning about the high demand for the SME companies' bond-market, is the

fact that Vauraus got financing from Tekes, a government-ruled institution, to support the development of the online-marketplace. (Vauraus, n.d.)

2.4.3 Equity-based crowdfunding

In order to understand Equity-based crowdfunding, it is important to know how venture capital investment works. In this chapter we will first provide an overview at the business angel investing in Finland and then look into equity-based crowdfunding both in Finland and the U.S.

Business angel investing

Business angels usually invest their own money in start-ups and growth companies. They are often highly experienced business professionals who, in addition to just investing money, can offer their extensive knowledge and networks to aid in a business venture. Also, the value of the sweat equity provided by a business angel can prove to be as precious for the company as the initial monetary investment. (Danmayr, 2014)

The Finnish Business Angels Network (FiBAN) is the biggest organisation for business angels in Finland. Altogether they have more than 270 members. They reported that during the year 2012 FiBAN members invested over 14 million euros to Finnish start-ups and growth companies. The number of exits in the same year was 30, from which over 50% of them yielded profit. The most common business sectors invested were ICT and mobile technology. Almost half of the investments were second-round investments. (FiBAN, n.d.)

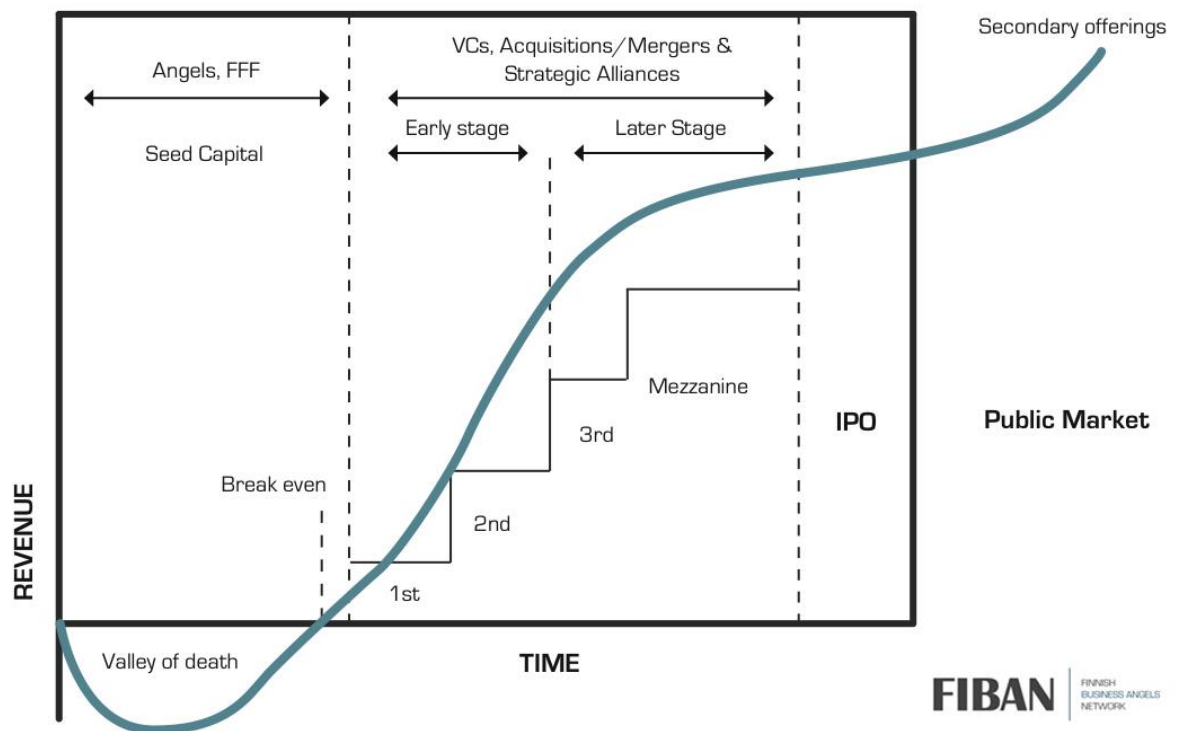


Figure 5: Chart of company growth stages (FIBAN, n.d.)

Figure 6 shows us growth stages of a company. According to FiBAN statistics 23% of the investments are seed capital and rest early stage investments. (FIBAN, n.d.)

Equity-based crowdfunding

Since 2012 crowdfunding has expanded its area of impact to equity-based financing. In US it was made possible by President Obama who signed the JOBS Act on 5th of April 2012. The reason for JOBS acts existence was to boost entrepreneurship and start-up companies' growth which suffered a major hit during the financial crisis. (Forbes, 2014) (Cunningham, 2014)

The JOBS Act got a second part on September 23th, 2013 permitting the companies to publicly advertise their need for financing and investors. More precisely defined it enables equity-based crowdfunding when it is executed by a licensed actor or if it's done by using funding platform with SEC registration. (Sec.gov, 2012) (Sherwood Neiss, 2013)

There are currently dozens of portals in the US that offer equity crowdfunding services and connect investors to the companies that seek funding. The first one, which was launched as a channel for start-ups in 2010, is company called Rock The Post. It has raised around US \$78 million in total and is growing quickly. (RockThePost, n.d.)

Risks and opportunities

Equity-based crowdfunding has also opened up the possibility for basically anyone with extra money to get involved with a high-potential growth company at an early stage. Essentially it means high-risk, high-reward. When talking about equity-based crowdfunding, one of the most commonly asked questions concerns risk management. Professional investors and business angels are often used to weighing risks, but risk management may turn out to be quite difficult for inexperienced investors.

There are few rules of thumb for risk management:

- If a company without revenue is looking for seed funding, the risk is oftentimes much higher than with companies who have active cash flow and a proof of concept.
- A skilled management team that efficiently leads the company is as important as the core product they are selling. A bad management team can prevent the success of a great product, and a great management team can make an average product triumph.
- When investing to a start-up, one must make sure that they are investing only as much as one can afford to lose. One needs to make sure that the ratio is well in relation to their total investment portfolio.
- “Don’t put all the eggs in the same basket”. Always remember to divide your investments into several different companies in order to minimize the risk. (Prive, 2013) (Carlson, 2009)

Equity-based crowdfunding in Finland

In Finland there are few companies which offer equity-based crowdfunding services. The three biggest ones are Vauraus Suomi, Invesdor and Venture Bonsai. Equity-based crowdfunding became possible in Finland in its current form when the new securities law was established at the start of 2012. After the new law was passed, a prospectus approved by the Financial Supervisory Authority of Finland is no longer required for financial rounds of less than 1,5 million euros. (Finanssivalvonta, n.d.)

On table 1, we have gathered some key information about the three biggest companies who offer equity-based crowdfunding in Finland. As we can see, all the firms are relatively young with less than four years of operating history.

Table 1: Three biggest crowdfunding companies in Finland

Company	Vaurus Suomi Oy	Invesdor Oy	Venture Bonsai
Founded	2011	2012	2010
Substitute	Shares	Shares	Shares
Area of operation	Finland	Nordic countries	Europe
Total money raised	~18 Million	~1,62 Million	~1 Million
Companies funded	17	12	<10
The commission collected from the company funded	4-7 % from a successful round depending on the total money raised. Also some share options.	5% + VAT, from a successful round, minimum of 3000 euros.	5 % + VAT from a successful round.
Minimum investment	Depending of the investment round, 3000 to 25 000 euros	20 euros, recommendation 200 to 500 euros.	Company decides, recommendation > 1000 euros
Average size of financing round	1 million	100 000	100 000 – 500 000
Average duration for venture round	1 to 3 months	2 to 3 months	3 months
Shareholders' agreement	Investment agreement required	If interested in after-market it is not recommended, otherwise yes.	Is recommended
Examples of companies that have received funding	Piceasoft, SingOn, Cleantech Invest	gTie Oy, Bryggeri Helsinki, Climbstation	Varaani Works Oy

(Vaurus, n.d.) (VentureBonsai, n.d.) (Invesdor, n.d.)

An interesting observation is that Vaurus is the only one of the three that currently operates exclusively in Finland. Invesdor operates in the Nordic countries and Venture Bonsai reports to operate in Europe. However, Vaurus has raised over seven times more capital than Invesdor and Venture Bonsai combined, in the same period of time.

The revenue model is generally the same for all three companies. A company that is taken in on a venture round will pay an average of 5% in commission from the total amount of money raised. On top of that, Vaurus is the only one who also demands to get an agreed amount of share options from the company funded upon the completion of the venture round.

Two factors that help to explain the huge difference in the total amount of money raised between the companies are the variation in the average size of a financing round and the size of a minimum investment. The minimum investment in Vaurus is 3,000 euros, which is 150 times bigger than Invesdor's minimum investment of 20 euros. Also, the average size of a financing round executed by Vaurus is typically 10 times bigger than the equivalent of Invesdor's, and 5 times than that of Venture Bonsai's. (VentureBonsai, n.d.) (Vaurus, n.d.) (Invesdor, n.d.)

An interesting thing to note is the fact that even only on the basis of table 1, the Finnish crowdfunding sector can be valued at over 20 million euros. This heavily contradicts with the Ministry Of Finance of Finland's reported valuation of 2 million euros as the total worth of the crowdfunding sector in Finland in the year 2013. (MoF, 2014)

3. METHODOLOGY

3.1. Research Methodology

Research, as a definition, means gathering information and analyzing it in an organized manner. The different ways of how a research is conducted are explained in the research methodology. Data collection and analysis can be carried through by several different ways; interviewing, surveying and observing. (Saunders;Lewis;& Thornhill, 2007)

Data can be categorized into two different subcategories: primary and secondary data. Primary data by definition means the data that is collected in the purpose of the research itself, meaning the main data gathered during the research. Secondary data means data that has previously been collected for another research but has relevant and usable information for the purpose of your own research. (Saunders;Lewis;& Thornhill, 2007)

In this thesis, the results of the questionnaire are considered as primary data. This part will serve as the basis for the conclusions of the research. The theoretical parts of the thesis are mostly considered secondary data.

Research methods are usually divided into two main categories: quantitative and qualitative. The idea of quantitative research is to get information that is general in nature and can be generalized on a wider scale outside the original sample data of the research. The information is usually analysed in a numerical form and mathematical statistics of the data can be formed. Quantitative data is usually processed in a way that seeks to eliminate any room for subjective interpretation and keep the research purely statistical and simple. (VirtuaaliAMK, n.d.) (Saunders;Lewis;& Thornhill, 2007)

Qualitative research, on the other hand, focuses on gathering data in a more open, complex and in-depth way. It seeks to understand the phenomenon that is being researched in a way where there is room for wider interpretation and different points of view. Data gathered by the qualitative approach is not usually meant to be generalized in the same way that quantitative data is, because the

conclusions of the research are often up to the interpretation of the researcher. (Tilastokeskus, n.d.) (Cohen Louis, 2007)

The approach to the research formed out to be a mix of the qualitative and quantitative research approaches.

Quantitative, because a great deal of the questions and answers in the research questionnaire are numerical and can be statistically analyzed. Qualitative, because some of the research questionnaire's questions leave room for interpretation due to the great qualitative differences between the companies, and because the data sample size is relatively small and not generalizable.

3.2 Research Design and Data Collection

Our research questions for the thesis are:

1. What kinds of companies have received equity-based crowdfunding in Finland?
2. How much money did they manage to raise via a crowdfunding round?
3. How much capital stock did the company give up?
4. According to the companies themselves, how important was the completion of the venture round to the company's internationalization?

We decided to carry the research through a questionnaire directed towards the companies that we chose as our audience. The companies were easy to find, since the information about companies that have received crowdfunding is publicly available and the number of such companies is still relatively small. There have been approximately 30 companies that have successfully completed a venture round and received funding from an investor crowd in the year 2013. In total, we got answers from nine out of the total thirty companies that have received equity-based crowdfunding through the three biggest equity-based crowdfunding channels in Finland.

The questionnaire itself was executed through Google Docs in the form of an online questionnaire sent to the executives of the researched companies via e-

mail. The reason we chose Google Docs as our research tool was because it was very easy to use, share and interpret.

The questionnaire's questions were designed to get easily interpretable, concrete information so that the companies could be effortlessly compared between each other. The questions were designed to provide answers to some key financial information, including the financial history, some main characteristics and future plans of the companies.

Graphs, figures, tables and statistics are used to help analyze and interpret the research findings. These methods are utilized to display the collected information in a more concrete and understandable manner. (Saunders;Lewis;& Thornhill, 2007)

3.3 Reliability, Validity and Generalization

The reliability of a research refers to the degree to which your research and data collection methods will out consistent research findings. The reliability can be determined by asking three questions, stated by Mark Easter by-Smith et al (2007).:

- “1. Will the measures yield the same results on other occasions?
2. Will similar observations be reached by other observers?
3. Is there transparency in how sense was made from the raw data?”

(Saunders;Lewis;& Thornhill, 2007, s. 149)

There are some factors of uncertainty that can threaten the reliability of the research; subject or participant error, subject or participant bias, observer error and observer bias. These factors concern timing, attitudes, autonomy and the analysis of the questionnaire. (Saunders;Lewis;& Thornhill, 2007)

Validity defines to what extent the data analysis methods can be considered to measure what they were originally set out to measure. It describes the type of the relationship between to variables, whether it is causal or not. The causality in a relationship, or lack of it therein, defines whether a variable in a given

situation is in direct relation and effective to another variable. To the validity of a research there are five generalizable threats; testing, history, mortality, instrumentation and maturation and ambiguity about causal direction. (Saunders;Lewis;& Thornhill, 2007)

Generalization means whether or not the results can be generalized; in other words, if the research findings can be utilized in similar conditions in another situation. (Saunders;Lewis;& Thornhill, 2007)

If our research were to be repeated on a different sample audience, the results could very different because of the inherent differences between the companies.

We think that other observers will have the same conclusions from our research and not much is up to interpretation because of the quantitative, numerical nature of data. The nature of the data also makes the research very transparent and easy to interpret.

4. EMPIRICAL ANALYSIS OF THE RESEARCH

This part of the thesis concentrates on the analysis of the results gained from the research. The results are presented in the forms of figures and charts that are elaborated and expanded in textual form.

The research questionnaire's questions are presented and analyzed one at a time. The questions are occasionally cross-referenced and cross-analyzed and viewed as divided parts of the whole research. The analysis presented here will be compressed and formed into findings that will be presented in the next chapter.

4.1 Fields of industries

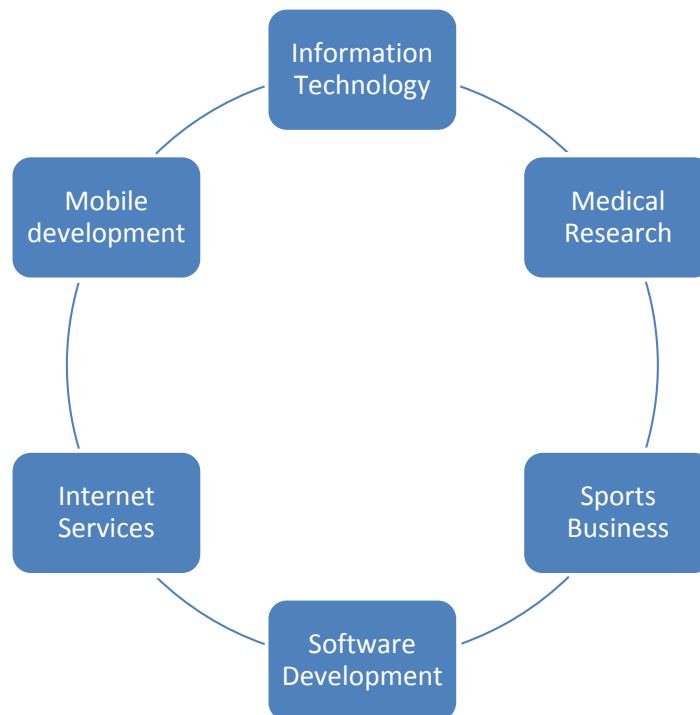


Figure 6: Fields of industries

We approached the companies in the form of a questionnaire and found out that all of the nine respondents were operating in some of the following six fields of business: Information Technology, Software Development, Medical Research,

Sports Equipment Manufacturing, Mobile development and Internet Services. When categorized in a more general and condensed way, we can say that four out of six industries reported by the companies can be counted as a part of the field of Information Technology.

The dominance of the field of Information Technology in the results was expected on our behalf. We've come to know by avidly following the startup scene in Finland that many of the Finnish startups and growth companies operate in the field of software, mobile and game development; therefore we expected to see a lot of them in the results. Perhaps the most famous, big new companies in Finland in the recent years have been videogame companies; everyone has heard of at least Rovio and Supercell, and the field is constantly growing. (YLE, 2013) (Tekes, n.d.)

Actually, many politicians, journalists and industry experts share the same view of the future of the industry, going as far as claiming the game industry to be Finland's future. (Kallionpää, 2013). Also, to support the claim, according to Vauraus, many of companies that have received crowdfunding during 2013 have operated in the area of question. (Vauraus, n.d.)

Because good business ideas can come from any sector, the companies that apply for venture rounds come from a wide variety of fields of business. They can really operate in just about any sector if they have a promising product or business plan, even if there are certain perceivable trends that weigh towards the field of IT in Finland. At the moment of writing, Invesdor has investable companies listed on their website that range from online marketplace solutions to restaurants and car motor services. (Invesdor, n.d.) We expected to see this kind of variety in our questionnaire results as well, and our assumptions turned out to be correct; while a trend towards IT is noticeable, there are also a sports equipment manufacturer and a medical research company that managed to successfully complete their respective financing rounds.

4.2 The ages of the companies

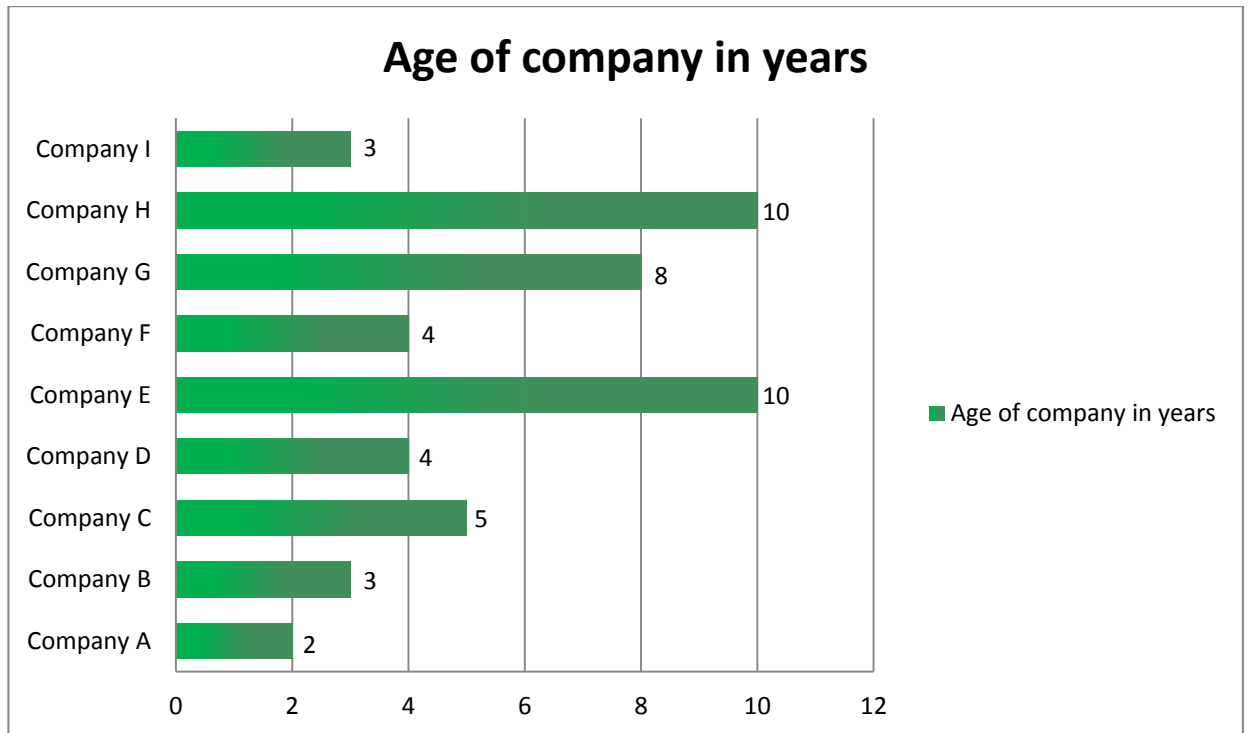


Figure 7: Bar chart showing the operating history of companies in years

The average age among the companies surveyed turned out to be 5.5 years, which is a bit more than we expected. In order not to distort the average, it's also worth noting that the ages of 6 companies were less than 5 years.

It was interesting to find out that when there were certainly many young companies among the results, there were also two companies that had already been operating for ten years and one that had been operating for eight years.

This is probably because even though the sector of crowdfunding is dominated by the funding of startups, especially the companies funded by Vaurus are not necessarily start-ups in the traditional sense, but more like growth companies that strive to go international and have a really good business plan that the investors believe in enough to invest in them. These kinds of companies can certainly be very young, but there are also firms that have been in the market already for as long as 10 years before completing a venture round.

4.3 Number of employees

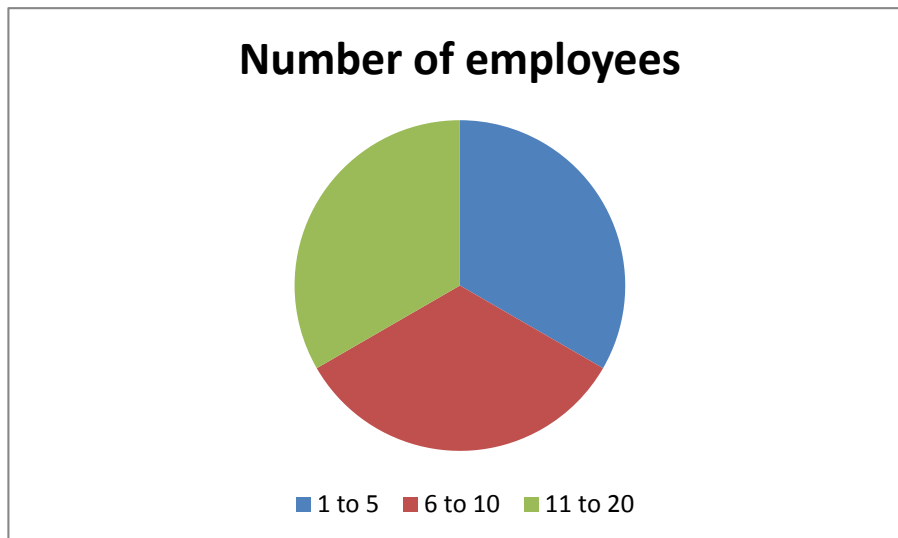


Figure 8: Number of employees

In the questionnaire, we asked about the number of employees that the companies have. The results divided evenly to three different size classes. There are three companies with less than 5 employees, three companies that employ between 6 to 10 employees and three that have from 11 to 20 employees.

A thing to note about the results is that there are no companies with more than twenty employees. According to the definition written by Statistics Finland, all of the companies surveyed are defined as small companies because they have less than 50 employees and their revenue is smaller than 50 million euros. (StatisticsFinland, n.d.)

The companies' relatively small amount of employees is explicable by their average time of operation which is only 5.5 years.

We were surprised that the results spread so evenly amongst the three categories; we initially expected that most of the companies would have less than ten employees. This was probably because we expected the majority of the companies to be pure start-ups with just a couple of employees and a business idea. It turned out, however, that the companies were more like growth companies that had already operated for a while. The relatively great deviation

in the revenues between the companies also supports the idea that the companies funded are in various different stages; some are just starting their businesses while some have operated for a longer period of time.

4.4 Companies' customer base

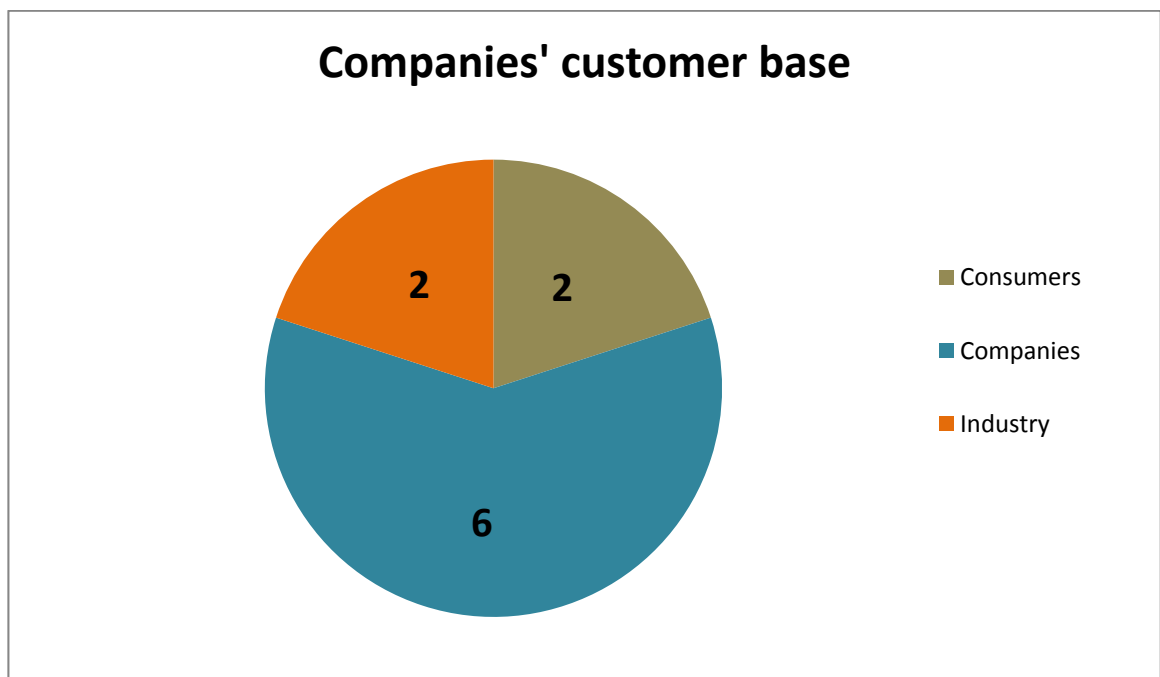


Figure 9 : Companies' customer base

When we examine the customer base of the companies researched we found that only two out of nine are oriented towards the consumer market and eight out of nine deal with business customers. Business customers can also be divided in a smaller category which shows as that two of the companies also work within industrial production.

An interesting result that we were not expecting was the fact that only two companies target the consumer market. We expected this number to be higher since the consumer market is undeniably huge. It is of course highly dependent on the product itself and the field of business in which the company operates, and for this reason we believe that no definite conclusions can be made about

the target markets that the companies who apply for venture rounds usually aim to do business in. If we surveyed nine other companies, chances are they could all be targeting the consumer market, and completely opposite conclusions could be made. This is why we think that these results are highly sample audience-dependent and variable between companies, and generalized conclusions can't be made based on these results.

4.5 Companies last year's revenue

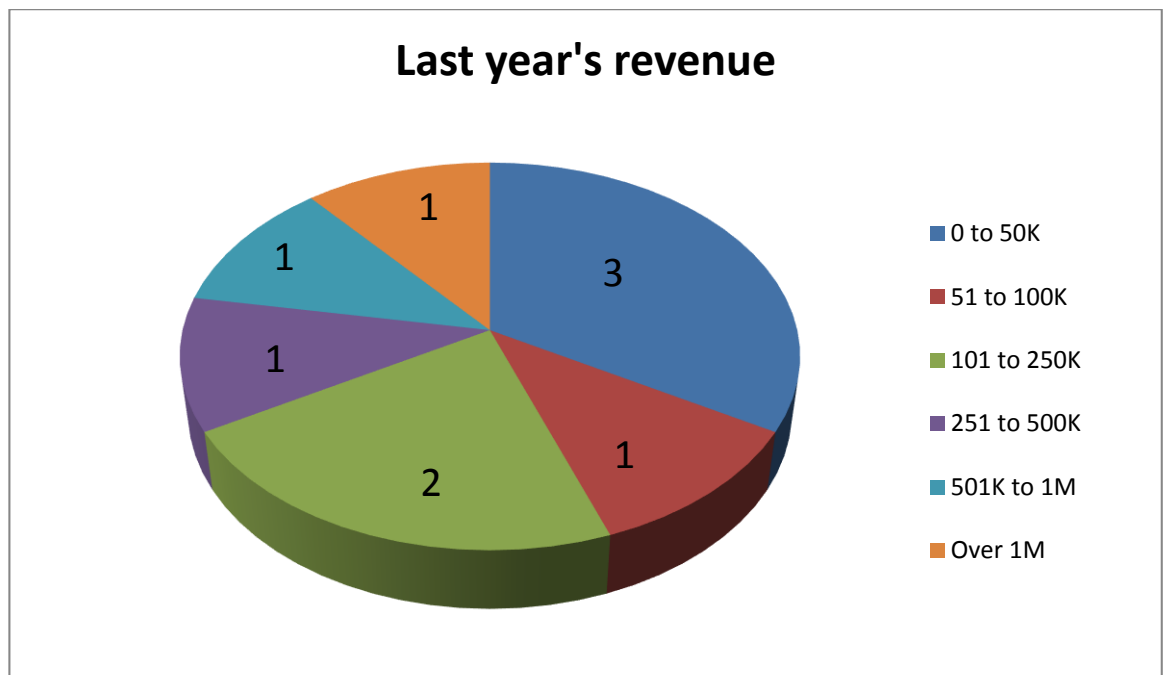


Figure 10: Last year's revenue

In relation to the topic researched, one important piece of information is the companies' last year's revenue. Three out of nine companies had revenue less than 50 thousand euros, three had revenue between 51 to 250 thousand, two companies had revenue between 251 thousands to 1 million and one company had revenue over 1 million euros.

The reasonably big variation in the revenues between the companies likewise supports the notion that the companies financed are in various different phases; some are just starting their businesses while some have operated for a longer period of time and some have managed to increase their revenue to a higher level while some are still starting out.

Table 2 shows us a cross-comparison between the companies' last year's revenues, numbers of employees and ages of companies.

Table 2: Cross-comparison table

Company	Last year's revenue	Number of employees	Age of company in years
A	<50k	11-20	2
B	>1Meur	11-20	3
C	251-500k	11-20	5
D	100-250k	6-10	4
E	<50k	1-5	10
F	51-100k	6-10	4
G	500k-1Meur	6-10	8
H	101-250k	1-5	10
I	<50k	1-5	3

(Ketoja & Pajunen, 2014)

An interesting trend to point out is that the factors are not directly comparable between each other – meaning that with a short operating history, it's possible to have a higher revenue and more employees than a company with a longer operating history, and vice versa. This further showcases the fact that the companies that have received equity-based crowdfunding are in various different stages.

4.6 The targets for the venture round

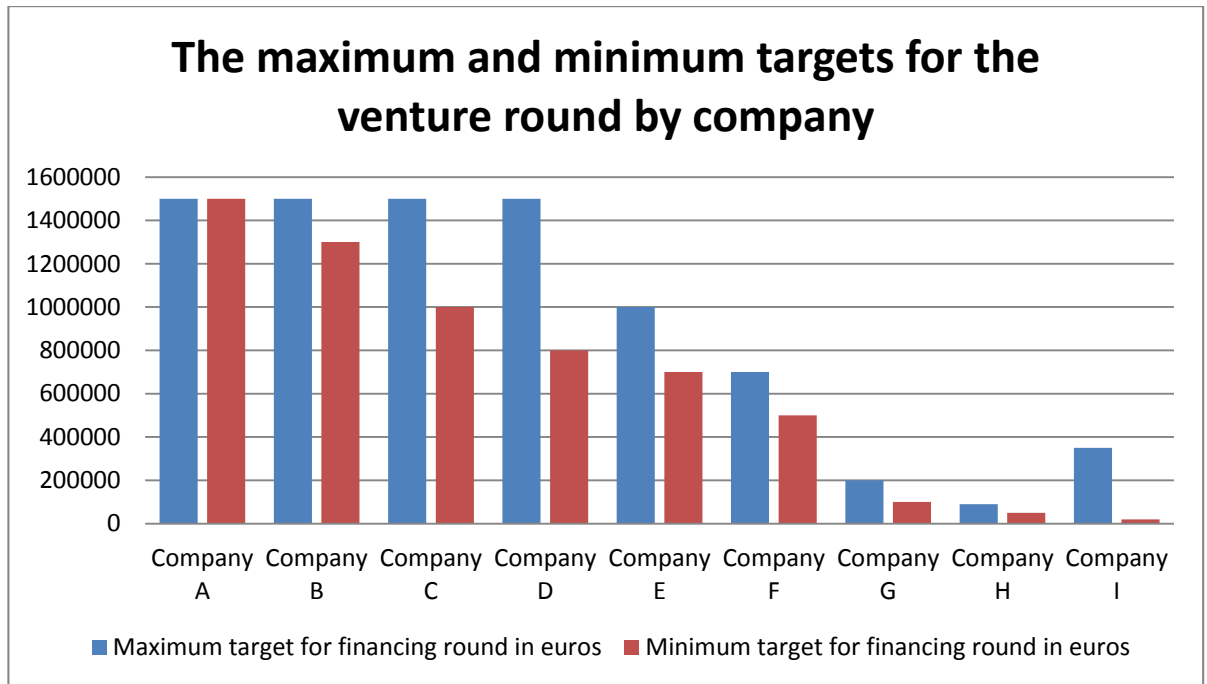


Figure 11: The maximum and minimum targets for the venture round by company

The questionnaire results show that there is a big variation between the minimum and maximum target amounts between the companies for the venture rounds. The smallest minimum amount of capital targeted is only 20,000 euros and the biggest minimum amount of capital targeted is 1.5 million euros.

Almost as big a variation can also be seen between the maximum amounts of capital targeted. The lowest maximum target is only 90,000 euros and the highest 1.5 million euros. Altogether there were four companies that reported to target for 1.5 million euros.

The reason for not targeting more than 1.5 million euros is evident. If the amount of money raised exceeds 1.5 million, a prospectus approved by the Financial Supervisory Authority of Finland is required. This would drastically increase the amount of work and bureaucracy, and it would slow down the process of gathering funds a lot, especially because then the audience that the venture round is offered and marketed to has to be limited to a certain amount of persons specified by the Financial Supervisory Authority of Finland. The aspect of time seems to be especially important when considering that when we

queried the companies about the importance of the completion of the venture round in the originally set timeframe, the answers' average was 4,5 on a scale from 1 (of very little consequence) to 5 (of major consequence).

The remarkable variation in size of the venture round among the companies supports the claim that crowdfunding is not only for companies that are looking for seed funding. Many of the companies have already a proof of concept and they mainly need capital to fuel their internationalization. Obviously a sum of 1.5 million euros enables doing business in a much larger scale than 20 000 euros does.

4.7 Company valuation before the venture round

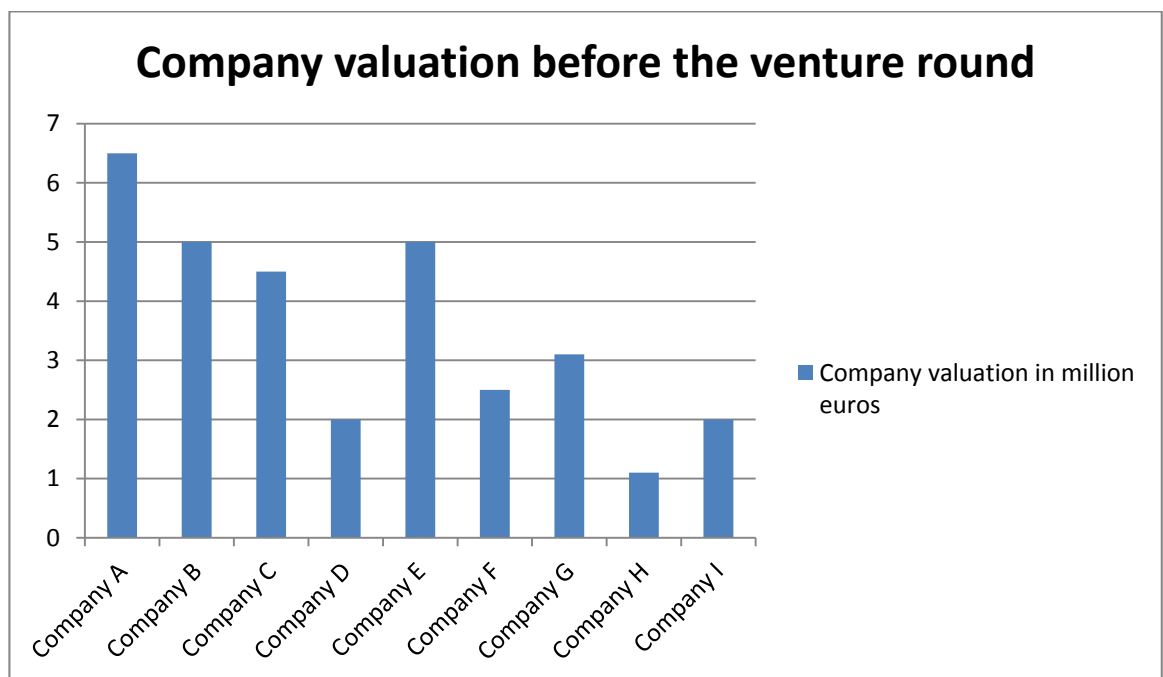


Figure 12: Company valuation before the venture round by company

In the chart above one can see the deviation between the companies' valuations. The highest valued company, Company A, was valued at 6.5 million euros and the lowest, company H, was valued at 1.1 million euros. The average company valuation was 3.5 million euros, which was quite a bit more than what we expected.

As mentioned earlier, defining the valuation of young company can be very challenging. There are few variables which can have a major weight in the process of estimating the current valuation of a company.

Often young companies do not own a lot of physical assets so the valuation can't be strongly based on those, but patents and trademarks may be counted as major assets. Another point of great value is the team and the so-called sweat equity poured into the company. Sweat equity means the amount of work done without salary in order to get the company to grow. Other important aspects that have to be considered when evaluating a company are the size of the market potential and the present competition.

An alternative way to assess the value of a more developed type of a start-up, that has already exceeded the so-called break-even point, is to calculate a company's gross income and to multiply it with a specified multiplier that is defined separately in each case. (Zwilling, 2009)

The valuations of the companies are estimated by themselves in all the leading crowdfunding platforms in Finland. (Poutiainen, 2014) (Kansalaisrahoitus, n.d.)

4.8 The percentage of company equity given up for the venture round

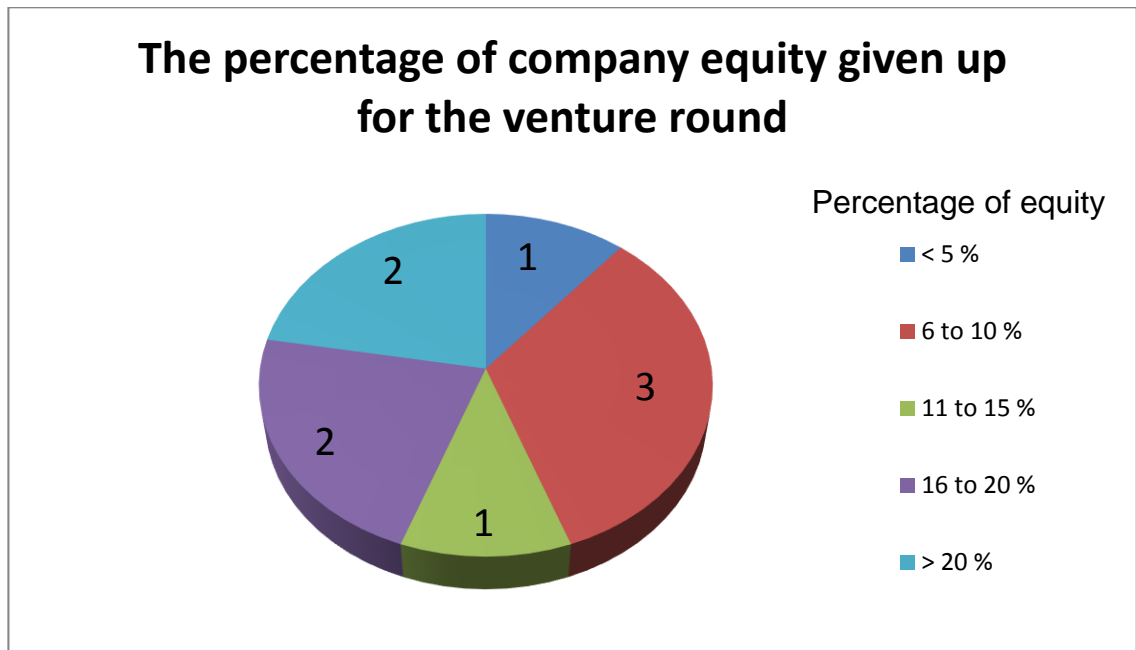


Figure 13: The percentage of company equity given up for the venture round

Venture-based crowdfunding is based on a model where companies sell a certain amount of their own shares for investors in order to raise capital for a specific reason. We asked companies about the amount of shares they were willing to sell in order to complete the financing round.

The results were divided quite evenly, but the most common amount of shares given up during the venture round was six to ten percent, which was the choice for three out of nine companies. Two companies gave up 16 to 20 percent of the company and two companies gave over 20 percent of their shares.

There are a few factors that have a major effect on how big a proportion of the company is being sold to the investors in a financing round. One important factor is the amount of capital targeted for, and the valuation of the company at the time of the financing. Valuing a company is very challenging especially if the company is young and does not have long financial history. Determining the valuation of start-ups is often strongly based on the future market potential rather than a concrete financial history. (Zwilling, 2009) The evaluation process

is usually carried through by both the company and the financing platform.
(Kansalaisrahoitus, n.d.)

Company	Percentage of equity given up	The amount of money raised	Company valuation
A	16-20%	1,5Meur	~6,5Meur
B	11-15%	1,5Meur	~11,7Meur
C	6-10%	1,5Meur	~4,5Meur
D	>20%	1Meur	~2Meur
E	16-20%	1Meur	~5Meur
F	>20%	700k	~1,7Meur
G	6-10%	140k	~3,1Meur
H	6-10%	64k	~1,1Meur
I	<5%	21k	~2Meur

Table 3: Equity given up, Amount of money raised, Company valuation

The table 3 cross-references the companies between the percentage of equity given up, the amount of money raised and the company valuations. It's interesting to see that Company B and Company I were both valued at 2 million euros, but the Company B managed to raise a million euros, whereas Company I only received 21 thousand euros. Obviously, a million euros enables a lot more for a growth company than 21 thousand euros does. It's also curious that the range of the valuations of companies that raised 1,5 million euros is so large; company B is valued at ~2,5 x the valuation of company C, when both companies raised the same amount of capital.

4.9 The reasons for applying for a venture round

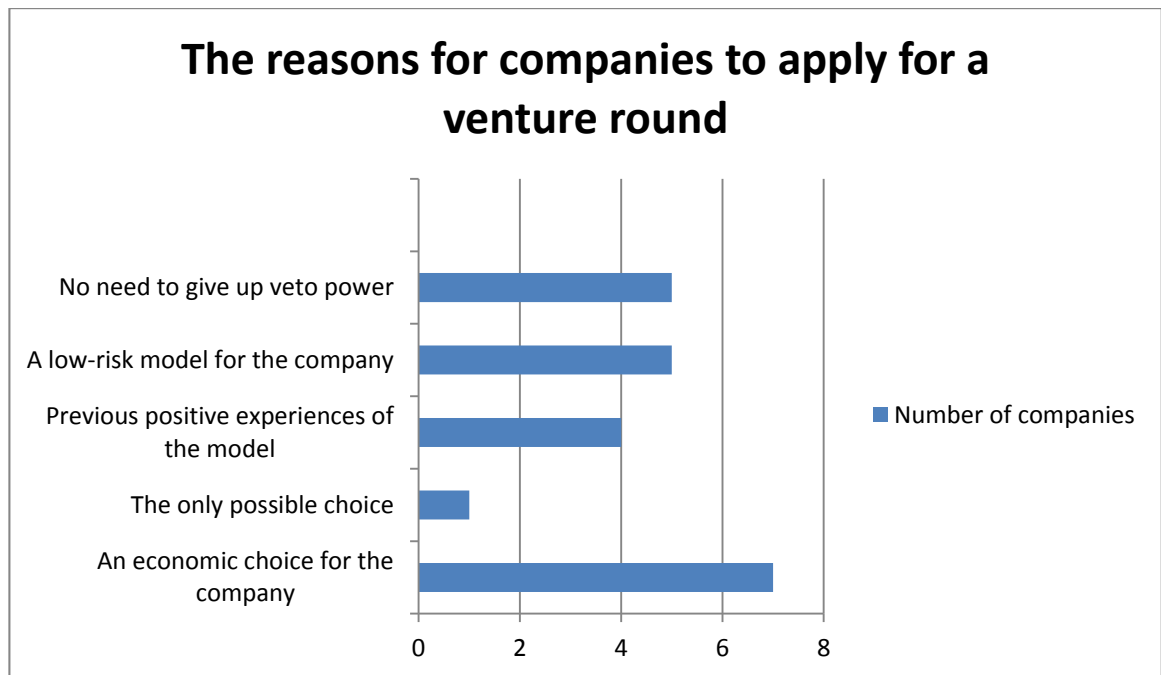


Figure 14: The reasons for companies to apply for a venture round

There are several reasons for companies to consider a venture-based crowdfunding as source of capital. We asked the companies for the most important reasons why they chose this model of financing. The following options were given; no need to give up veto power, a low-risk model for the company, previous positive experiences of the model, an economic choice for the company and the only possible choice.

Seven out of nine companies reported it to be an economic choice for their business. The second most popular of the reasons listed, indicated by five companies, was that it was seen as a low-risk model of financing. Five companies also emphasized the importance of not having to give up veto power.

An interesting thing to note is that four out of nine companies had previous positive experience of the model and reported it as a reason to apply for funding again. Only one company reported to have had no other options to finance their business.

4.10 Previous sources of funding

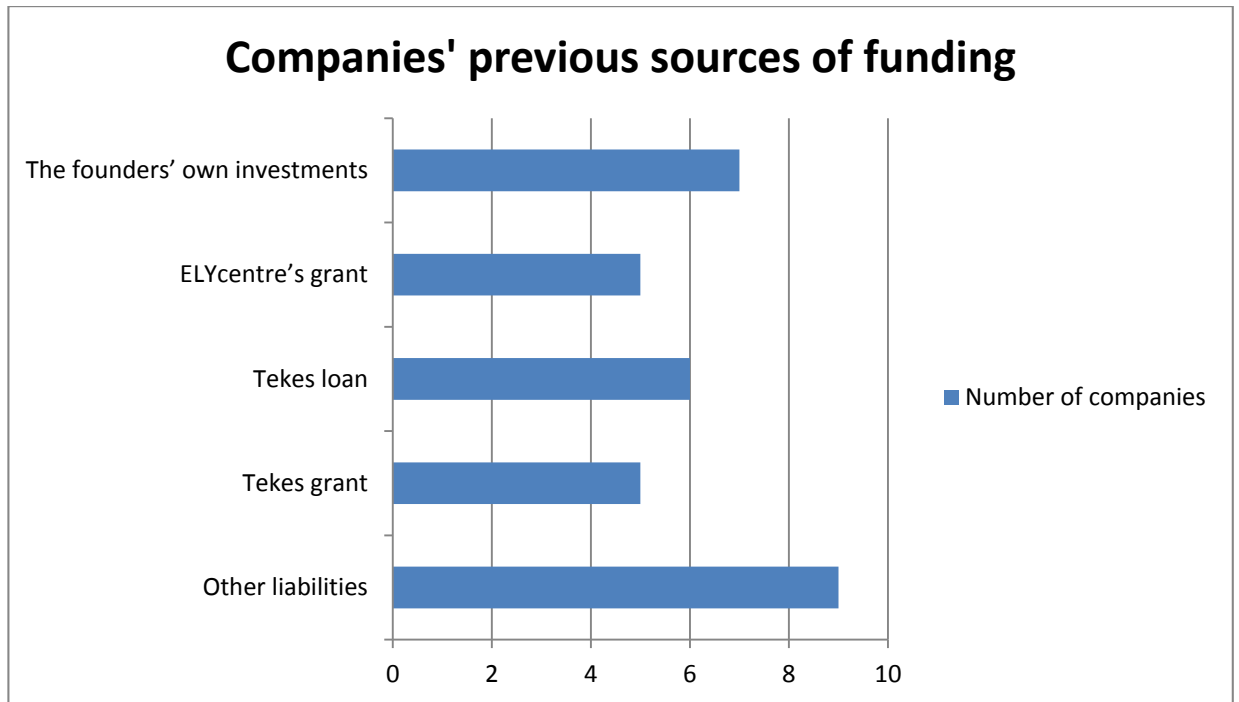


Figure 15: Companies' previous sources of funding

We asked the companies about their financing history. Many of the companies had had several different sources of finance previous to equity-based crowdfunding. The most common was companies' founders' own investments. Seven out of nine companies report that they invested their own money into the company, which is actually less than we expected. We assumed that the founders of each and every company would have invested some of their own capital in the venture as well.

The second most popular source of funding was a loan from the government-based funding institution, Tekes. Tekes is one of the most important funding agencies in Finland that offers two different types of funding for companies; loans and grants. A Tekes grant is an allowance that is paid bi-annually based on the amount of costs accrued from that period. A loan from Tekes is a venture loan that is granted with no securities, meaning that if the business idea fails and the company becomes insolvent, the founders are not liable to pay it back. (TEKES, 2014)

Six out of the total nine companies had received funding in the form of a Tekes loan and five had received Tekes grants.

A government-based institution similar to Tekes, the ELY-Centre, or the Centre for Economic Development, Transport and the Environment, also offers funding for companies in the form of grants. ELY-Centre's grants can be used for various purposes and are also an important part of the total funding constitution of the companies that we surveyed, with five out of nine companies having received funding from the institution. (Ely-Centre, 2014)

As expected, all the nine companies have also had other loans as a source of financing.

4.11 Different channels of funding considered

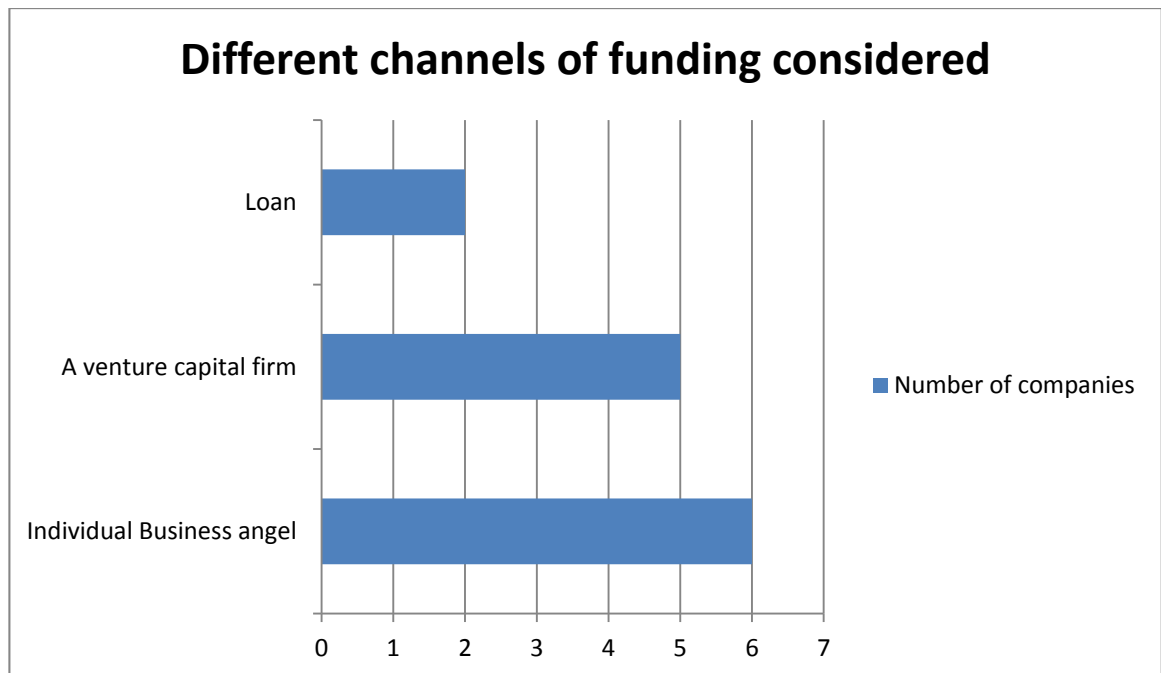


Figure 16: Different channels of funding considered

When asked from the companies about the different funding channels they considered before choosing equity-based crowdfunding, three different options were reported. Six out of nine companies considered taking in at least one business angel, five out of nine considered a financing round through a venture capital firm and two companies considered financing their businesses with loans.

As we can see from Figure 16, there are many reasons why venture-based crowdfunding was chosen over the other models of financing, but the main reasons were that it was considered a more economic choice for the company, and the fact that they didn't need to give up veto power was also a deciding factor.

These reasons could be considered as remarkable since almost without exception business angels demand a board seat and veto power when investing in a company. (Gennari, 2004) This might, however, not fit the bill among some of the companies that have clear visions of their business and want to execute their plans according to their original vision. These kinds of

companies, that want to grow fast, don't want any additional roadblocks in the form of bureaucracy or differences in views between shareholders to get in the way of success.

In equity-based crowdfunding the shares given out to investors are usually specified in the shareholder document to have no veto power. This makes it a very carefree and effective alternative for the founders when compared to the ones where the company has to give up parts of their deciding power out to external investors.

4.12 Main purpose for financing

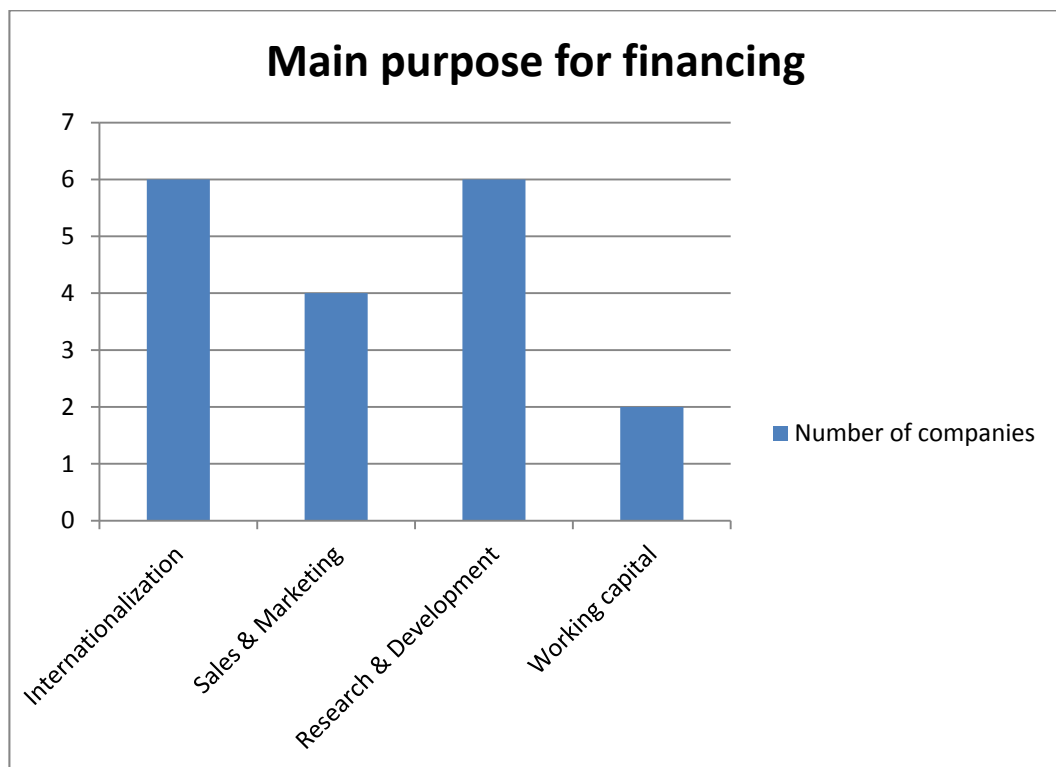


Figure 17: Main purpose for financing

Six out of nine companies report the need to fuel their internationalization as one of the main reasons for financing. Funding Research & Development was also perceived as an equally important objective, and it got the same amount of responses. The third most popular object for financing among the companies researched was sales and marketing, which was a choice for four companies.

Two companies reported the need of working capital as one of the main reasons for financing.

It shows up from the questionnaire results that the size of the venture round and the main use for the acquired capital were not interdependent; instead, the intended uses for the capital were very similar regardless of the amount of money applied for.

The pattern seen in the results of our research was also stated by Airaksinen in Taloustaito, a Finnish financial magazine. Companies usually apply for venture rounds to fund their research & development, internationalization or to otherwise finance and expand their businesses. (Airaksinen, 2013)

4.13 Companies' main objectives after venture round

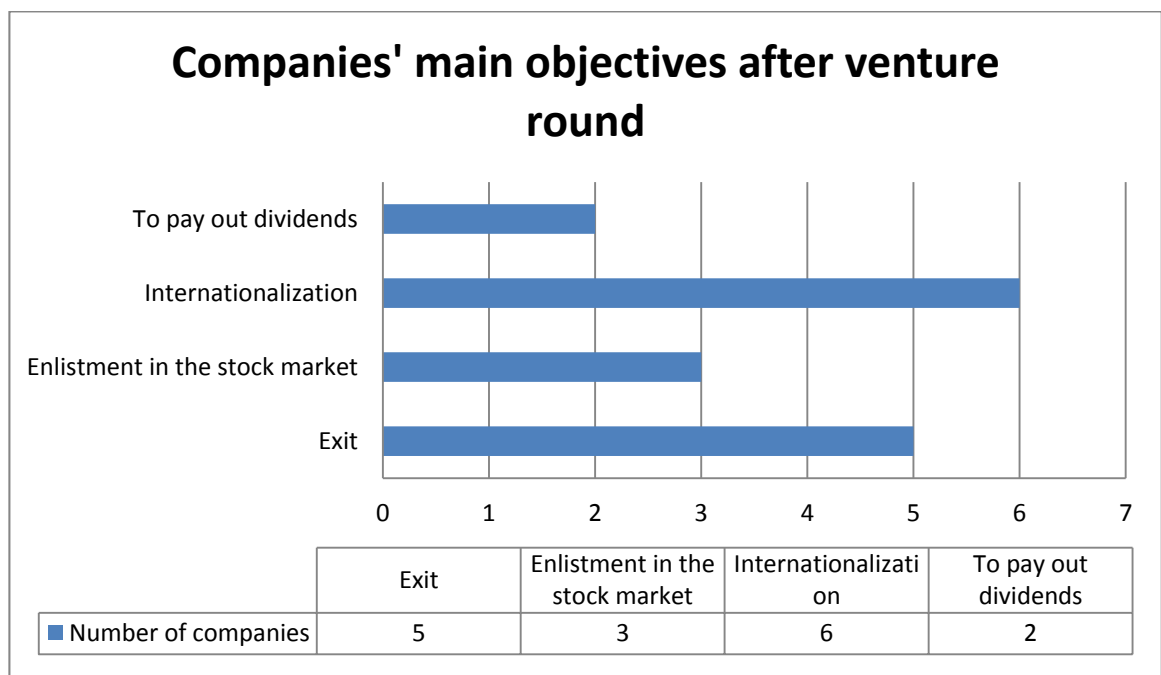


Figure 18: Companies' main objectives after venture round

The results show us that six out of nine companies aim to get international and five of them strive for an exit (corporate acquisition). These two objectives can be seen to go hand-in-hand since an exit usually occurs when the company has grown remarkably enough for some bigger player from the same industry to become interested in it and consider an acquisition.

One of the more surprising things that show up in the results was the fact that one third of the companies surveyed also report enlistment in the stock market as their objective. It was not something we were expecting on such a wide scale. Another very interesting observation that can be drawn from the results is the fact that only two companies out of the total nine report that their goal is to build a company strong enough to pay out dividends. This rather surprising result actually goes in line with the other results, because if the company aims towards an exit, it usually means investing all the profit gained directly back to the company in order to enable fast growth, rather than to pay dividends to the shareholders.

The nature of the companies also reflect the nature of the investors; based on the questionnaire results, and providing that the companies have given the investors a realistic picture of their objectives, it also seems that most investors want to play the “high-risk, high-reward” game instead of betting it safe and seeking for an annual stream of income in the form of dividends. Altogether, we can see that at least according to their future goals, most of the companies and investors are quite ambitious.

4.14 The number of countries in which the companies operate

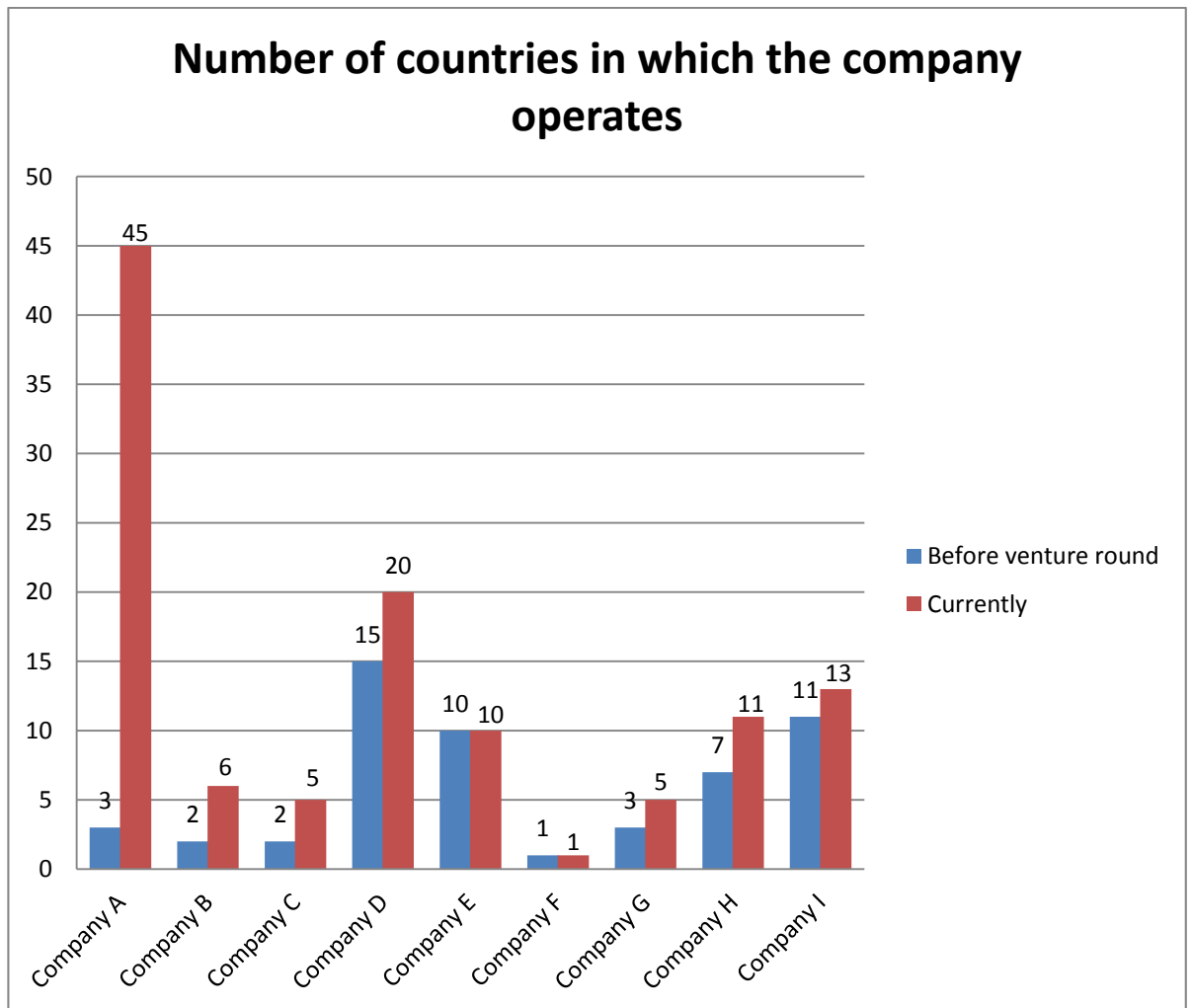


Figure 19: The number of countries in which the companies operate

One of the main reasons for a lot of the companies to apply for a financing round is the incentive to go international. Internationalization is expensive, and a venture round is a great way to finance such a big investment.

One can definitely draw a conclusion from the research results; only two of the nine companies financed have not expanded their business into other countries than the ones that they were already operating in before the venture round. The remaining seven have all expanded considerably, with the average amount of new countries adopted after venture round being 2,5 countries per company. Company A has been excluded from this calculation since its increase from

operation in 3 countries to operation in 45 countries would distort the average; an increase of 42 countries is almost 17 times bigger than the average of 2,5 of all the other companies.

5. CONCLUSIONS OF THE STUDY

In our thesis we chose to concentrate on equity-based crowdfunding in Finland. Our focus was to find out what kinds of Finnish companies have been able to raise a successful crowdfunding round from investors.

Our research questions for the thesis were:

1. What kinds of companies have received equity-based crowdfunding in Finland?
2. How much money did they manage to raise via a crowdfunding round?
3. How much capital stock did the company give up?
4. According to the companies themselves, how important was the completion of the venture round to the company's internationalization?

The research was executed by a questionnaire presented to the executives of a selected group of companies who received a venture round during the year 2013 through one of the three biggest equity-based crowdfunding platforms. We sent our questionnaire to 30 companies from which we received answers from nine. The three biggest platforms in Finland are Vauraus Suomi Ltd, Invesdor and Venture Bonsai. For obvious business and privacy reasons, the results of the questionnaire were handled anonymously and thus individual companies cannot be distinguished from the results.

We set out to research the effects of equity-based crowdfunding as a phenomenon of corporate financing in Finland. As our method of research, we chose to use a mix of qualitative and quantitative research approaches because it was the most suitable way to gather relatively statistical information from a reasonably small target group.

We hoped this thesis would give a basic overview of the companies that have received equity-based crowdfunding in Finland. One of the main purposes of the research was to collect useful information for companies considering crowdfunding as a financing model.

5.1 Research Findings

5.1.1 Common characteristics of companies that have successfully received equity-based crowdfunding

When we began researching the companies that had received equity-based crowdfunding during the year 2013, we ended up observing the companies based on four main characteristics. These characteristics help us to define the common attributes of the companies and put the attributes into a simply comparable form, from which conclusions can be made.

Based on our sample, the research shows that the most popular field of business among the companies that received equity-based crowdfunding during the year 2013 was the field of Information Technology.

The dominance of the field of Information Technology in the results was expected on our behalf. From daily following of financial releases in Finland, we know a lot of the startups and growth companies in Finland operate in the field of software, mobile and game development, so we expected to see a lot of them also in the results.

Before the execution of the research, we predicted the average age of the companies that had received equity-based crowdfunding. We expected there to be a lot of relatively young companies and startups. Our own estimate was 3-4 years, but the research yielded an average operating history of a company to be 5,5 years. Again, in order not to distort the average, it's worth noting that 6 out of 9 companies had an operating history of less than 5 years, and three out of the nine companies researched had already been operating for more than eight years.

The results of the questionnaire show that there are three companies with less than 5 employees, three companies that employ between 6 to 10 employees and three that have from 11 to 20 employees. All the companies can be defined as SMEs, and none of the companies surveyed have more than 20 employees.

An interesting result that we were not expecting was the fact that only two of the total nine companies target the consumer market, while the rest of the companies mainly work in the B2B market.

The last year's revenue of the companies researched varies from a few thousand to just over a million euros. Most of the companies have revenue smaller than 250 thousand. The reasonably big variation in the revenues between the companies supports the notion that the companies financed were in various different phases; some were just starting their businesses while some had operated for a longer period of time and had also managed to increase their revenue to a higher level.

5.1.2 The size of financing rounds, the valuations of companies and the amount of capital stock given up

The amount of capital raised during the financing rounds ranged from 20 thousand euros to 1.49 million euros. The deviation between the companies in the amount of capital stock given up was also great, ranging from six to twenty percent of capital stock given up. The main factors contributing to the amount of capital stock given up were the size of the venture round and the current valuation of the company.

The valuations of the companies before the initiation of the financing round varied between 1.1 million and 6.5 million euros. The average valuation of the companies was 3.5 million euros.

5.1.3 The importance of the venture round to the companies' internationalization

The main purpose for the companies to seek funding from an equity-based financing round was to fund their future research & development, fuel their internationalization and boost their sales & marketing.

Enabled by their newly acquired funding, most of the companies strived to actively internationalize their business and ultimately make a successful exit.

Some of the companies also strived to enlist in the stock market and two out of nine sought to grow profitable enough to be able to pay out dividends.

Based on the results, we can draw some definite conclusions about the importance of the financing round. It has been crucial for each and every company and it has enabled most them to expand their business to new countries – one company even managed to expand their business from 3 to 45 countries.

5.1.4 The characteristics of a typical company to receive crowdfunding

In order to demonstrate a typical company to get equity-based crowdfunding in Finland, we conducted a table based on the averages of our research results.

The typical Finnish company to receive crowdfunding in 2013

Age	5.5 years
Last year's revenue	< 250 Thousand
Number of employees	8 employees
Business field	Information Technology
Target market	B2B
Estimated valuation	3,5 million euros
Objectives after funding	Internationalization and exit
Number of countries in which the company operates	6 countries

Table 4: Example company to receive crowdfunding

5.2 Suggestions for Further Research

A good topic for further research would be to study what kind of opportunities crowdfunding has to offer for investors, rather than companies. One could study

the investors' position in the crowdfunding process, how they are protected by law and how profitable investing on start-ups has been and can be for investors.

Another very interesting topic for future research would be to investigate the growth of the companies' valuations from the point of the execution of the initial equity-based crowdfunding round to the point of the possible corporate acquisition or enlistment to the stock market.

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APPENDIX 1: QUESTIONNAIRE FORM

For how long has your company had operation?

What is your company's field of business?

How many employees does your company have?

1-5, 6-10, 11-20, 21-50, 51-100, over 100

What is your key market?

–Individuals, Companies, Organizations, Industrial, Other

What your company's scale of revenue last year?

0-50k, 51-100k, 101-250k, 251-500k, 500k-1M, over 1M

How did you end up seeking funding from crowdfunding channels?

An economic choice for the company, the only possible choice, we had previous positive experiences of the model, a low-risk model for the company, no need to give up veto power, other

What other channels of funding did you consider?

Bonds, Individual Business angel, A venture capital firm, Other

From what sources/channels has your company's previous funding consisted of?

The founders' own investments, Tekes grant, Tekes loan, ELYcentre's grant, other liabilities

What was your minimum target for the venture round in euros?

What was your maximum target for the venture round in euros?

How much money did you manage to raise via the venture round?

How much company equity was given up for the venture round?

0-5%, 6-10%, 11-15%, 16-20%, over 20%

What was the company valuation before the venture round?

What was the main purpose for the financing?

Sales & Marketing, Internationalization, Research & Development, Human Resources, Working capital, other

In how many countries did your company operate before the venture round?

In how many countries does your company currently operate (after the venture round)?

How important, on a scale from 1 to 5, was the successful completion of the venture round in the original timeframe?

1, 2, 3, 4, 5

What kinds of objectives does your company have for the future?

Exit, enlistment in the stock market, internationalization, growing the company profitable enough to pay out dividends, other