SAVING CAPITALISM TOGETHER: WEFUNDER AND REGULATION CROWDFUNDING

JONNY PRICE, WEFUNDER

(Lightly edited transcript; reading time: 11:25)

Dave Bayless of Human Scale Business spoke with Jonny Price of Wefunder.

Dave Jonny, what does Wefunder do, and who does it serve?

Jonny Wefunder is an equity-based crowdfunding platform. We've been around for a few years now, and we make investments in startups and small businesses between $50,000 and $1,000,000. We serve both sides of the marketplace. On one hand, you have founders, entrepreneurs, and small business owners who are looking to raise capital. So, they can raise money from a crowd of investors on Wefunder. We talk about providing entrepreneurs with money and also customers. When an entrepreneur gets funded by a thousand investors through their Wefunder campaign, that's a thousand potential customers. It's a thousand brand ambassadors. It's a thousand evangelists for your company.

On the other side of the marketplace, we also serve investors. And this is really central to the company's mission and charter as a public benefit corporation. Until recently, ordinary citizens could invest in large companies on the stock market, and wealthy people could invest in private companies like Facebook, in the early days. But, ordinary people couldn't invest in private companies that were just starting out and growing quickly.

The JOBS Act that went through Congress in 2012 was rolled out and implemented. It allows ordinary people to invest in startups for the first time—or at least the first time in 80 years. A lot of these fast-growing tech companies, that have been the preserve of angel investors and venture capitalists, have grown very quickly in the last few decades and created a lot of wealth. With Wefunder, we're now allowing ordinary citizens to participate in that wealth creation and to invest in small businesses and entrepreneurs in their community who they believe in. So in that way, we're serving both founders and entrepreneurs by giving them access to capital and customers, and we're also serving investors. You now have a chance to participate directly in the economic development in their communities and in the growth of startups and small businesses.

Dave One of the phrases that looms large on the Wefunder website is "regulation crowdfunding." What does that mean exactly, and what are the implications of regulation crowdfunding for what you've just described?

Jonny Regulation crowdfunding is a component of the JOBS Act. The JOBS Act went through Congress in 2012. Actually, the Wefunder founders—Mike Norman, Nick Tommarello, and Greg Belote—were instrumental in helping Congress draft legislation for the JOBS Act and were in the Rose Garden when Barack Obama signed it into law. There are a number of components of the JOBS Act, but the one that gets us most excited as a company here at Wefunder is called regulation crowdfunding. That's what was rolled out and implemented in May 2016. It took a few years for the SEC to figure out how to roll this out in a responsible and smooth way. But since May 2016, ordinary citizens have been able to invest in startups through platforms like Wefunder, and that is regulation crowdfunding. Regulation crowdfunding is what enables ordinary citizens to invest in startups and small businesses.

There are certain restrictions. So, for example, an investor can't invest more than a certain dollar amount or more than a certain percentage of their wealth or their income. Founders can raise only up to $1.07 million from unaccredited investors. They can go on to raise more money from accredited investors on a platform like Wefunder. So, there are certain restrictions around how regulation crowdfunding has initially been rolled out. But that's what we mean by regulation crowdfunding.

It's really cool for me to see America embracing this as a concept for a number of reasons. It's working really well in my home country of the UK. The biggest equity-based crowdfunding platform in the world is Crowdcube. They've had a lot of success with a few more years of runway now. It's a really, really exciting space here in America. It's a much bigger market than in the UK. You might even say the US has a much more entrepreneurial culture than in the UK. I think it provides a lot of opportunities, as I mentioned earlier, both for founders to raise money from a community of supporters and also for individual citizens to invest in small businesses they believe in.

Dave One of the slogans I came across when your website is, "It's time to save capitalism together." Tell me about that. What does Wefunder mean?

Jonny That's a great question. I love that slogan—it's time to save capitalism together. Honestly, above all, that's why I now work at Wefunder. Before this, I was leading Kiva's US lending operations. Kiva is a nonprofit also here in San Francisco that does crowdfunded microloans. Wefunder has a very similar mission.

So, what do we mean by it's time to save capitalism together? For me, we're talking about both sides of the marketplace here. So, on the founder side, on the entrepreneur side, there has been a pretty alarming decline of entrepreneurship in America over the last few decades. The rate of small businesses being started has been dropping since the great recession in 2008. The rate of small businesses starting actually dropped below the rate of small businesses closing. At Kiva and now at Wefunder, I think we believe that a big part of the challenge and the reason for that is that entrepreneurs have been struggling to access capital. What we're trying to do here is to say, "Yes," and invest in companies that might currently be hearing, "No."

As someone from a nonprofit background who's extremely mission-oriented, I think about three lenses where the types of investments and the allocation of capital that's happening right now in our economy for startups and small businesses is challenging. The first is from a gender lens. I heard a stat a couple of weeks ago—my friend, Rodney Foxworth at BALLE, read this in a blog post—that 2% of venture capital in 2017 went to all-women founder teams but 79% went to all-male founder teams. On the ethnicity side, only 1% of venture capital goes to African American-owned businesses. From the geographic side, 77% of venture capital today goes to three states: California, New York, and Massachusetts.

Whether it's gender, whether it's ethnicity, or whether it's geography, at Wefunder, we see ways in which our existing allocation of investments for startups and small businesses is not as equitable as it could be. Just as in a political system where you have a democracy rather than a monarchy or an aristocracy, we believe you give people a voice and you get more equitable, inclusive political decisions. Well, from a financial perspective, if you can democratize the decision-making and if you can have individual citizens casting votes of $100 at a time on which small businesses and startups are getting funded and access to capital, then maybe we can come to more equitable investments and allocations of capital. So that's what we mean by it's time to save capitalism on the founder side.

Then on the investor side, there are huge challenges right now. These are well documented and very well known, I'm sure, to every listener around wealth inequality. Startups are a source of wealth creation. Until May 2016, the only people that were able to participate in that wealth creation where wealthy people, which kind of perpetuated the cycle. Now I should stress that investing in startups is highly risky, and you should only invest what money you can afford to lose. But the idea that now ordinary citizens can participate in the wealth created by startups is also what we mean when we talk about saving capitalism.

Dave You'd mentioned that Wefunder is a public benefit corporation. What does that mean, and why is it important and relevant?

Jonny — A public benefit corporation is slightly different from the B Corp (designation). B Corp is a nonprofit that gives an accreditation based on a number of questions and factors that companies answer to certify themselves as a B Corp. A public benefit corporation is a legal definition. Wefunder has a charter—if you go to https://wefunder.com/charter, you'll find it—and we are registered as a public benefit corporation in the state of Delaware. That means it's actually legally in our charter to do the right thing and have a positive impact on society. Investors can actually sue us if we deviate from that charter.

Dave — Let's drill down a little bit into the kind of fundraising that the Wefunder platform facilitates. What kinds of businesses are a particularly good fit for raising capital using Wefunder?

Jonny — We really do run the gamut. We have tech companies that might be invested in by VC firms. Balance, for example, is a digital wallet for crypto-tokens that funded $1,000,000 on Wefunder last year. Then on the other side of the equation, we have what you might call local economy businesses where it might be a revenue-share deal is more appropriate than an equity investment. A good example of that is a brewery in Boston called Hopsters. They have a really unique experience where—as well as a rocking bar—you can go and brew your own beer. They also raised a million dollars. Their founder was just really excited to engage his community in Boston as investors in the business. As I mentioned earlier, if you can get your customers to invest in your business, that turns them into more engaged customers and ambassadors for your brand.

I think about four characteristics of what makes a good business on Wefunder. The first is that a company has a really engaged audience, which may well be reflected in social media engagement or just a super-engaged customer base. A really great example of that company is an absolutely unique business in Santa Fe, New Mexico, called Meow Wolf, which is a collection of artists. They're an example of a business that had a massive community of people that were just in love with their brand.

The second characteristic is strong investment case. Usually, businesses that fundraise on Wefunder have some traction, some revenues, some users, some growth they can point to that will get investors excited. Not always—we've done investments in pharmaceutical companies that are developing drugs or medical devices who need to get FDA approval, so it's going to be a few years for them to go through that process. But the vast majority of businesses on Wefunder do have some traction.

The third characteristic, I would say, is a really strong founding team. They're just outstanding entrepreneurs.

Then the last thing—they "get" Wefunder. They really like the idea of engaging their customers and their community and our investors in the success of their business as investors.

Dave — You've talked about some of the amounts of capital raised on Wefunder and some of the related limitations. You've also mentioned that people raise equity, presumably in the form of common or preferred shares, and also a revenue-share structure. Tell me more about the kinds of transactions that are supported by the platform.

Jonny — The most common agreement, I believe, is what's called a SAFE: a Simple Agreement for Future Equity. This is an instrument that was popularized by Y Combinator in the last couple of years and is where investors have the option to buy shares at a future valuation. Then the terms of a revenue-share deal might be 1.5x over a seven-year maturity, where a local economy business will pay 10% of their revenues every quarter until they've paid investors back 150% of their investment.

We have standard templates on the Wefunder platform that entrepreneurs can use. Sometimes, they'll have their own lawyers, and they'll want to provide their own instrument and terms, and we can certainly accommodate those as well.

Dave — You talked about how companies that have had success with the Wefunder platform really embrace the notion of engaging with their existing audience as well as your community of investors. That seems to imply the process of raising capital on Wefunder requires more than posting an offer and sitting back to watch the money roll in. How does the process work, and how long might it take?

Jonny — Yeah, absolutely. As I mentioned, we now have 150,000 people with Wefunder investor accounts. For campaigns that are doing well, we send an email to—I think it was 100,000 people on our email list—showcase some of the companies that are doing well and that we want to promote to our network of investors. But all that being said, very, very rarely is there an instance where you just put the campaign up and watch the million dollars role in, and that's certainly not the expectation that we want to set. The businesses that do well on Wefunder have a network and will be committed to actively promoting their campaign to that network to get the ball rolling. It's a nice, virtuous cycle because the more effort than an entrepreneur puts in and the more traction they're getting with their own network, then the more that builds credibility in the eyes of our investors.

The average campaign on Wefunder raises $200,000 or $250,000. On average, that takes two months. Meow Wolf, I think, holds the record on Wefunder for fundraising a million dollars in 48 hours.

I learned a stat recently that 49% of investors in campaigns are making their first investment. That, for me, is like the ceiling of investors that are coming from the founder's own community. Probably, of that 49 %, some of them are in the founder's own network or in the company's network. Then, some of those are in the next layer out.

Dave While you're a mission-driven organization, Wefunder is a for-profit company. So how do you make money?

Jonny We charge 5% in cash fees and then 2% on the same terms as investors to companies if, and only if, they successfully raised on the platform. So there are no fees to going live on Wefunder. Companies that do regulation crowdfunding do need GAAP-compliant financials that have been reviewed by an independent CPA. So, that usually does have a cost.

Let's say you raise \$200,000, then 5% of that—which will be \$10,000—is the fee that Wefunder gets in cash. As the entrepreneur, though, you get \$190,000. Then we take a 2% investment—so that's \$4,000. So let's say it's a revenue-share deal. Then Wefunder would get paid back as if we had made a \$4,000 investment along the same terms as all of the thousand investors that crowdfunded the campaign.

Dave Though crowdfunding is a term that's become popularized over the last decade, I imagine most of us think we know more about it than we really do. In your experience, what are the misconceptions people have about crowdfunding, in general, and Wefunder, in particular?

Jonny I think when people think of crowdfunding today, they think of Kickstarter, and they think of Indiegogo, and they think of perks-based crowdfunding. I now think of four components of crowdfunding where one is perks-based crowdfunding. But then you also have donation-based crowdfunding. DonorsChoose is a really cool example of donation-based crowdfunding to crowdfund teachers' projects. Then you have debt-based crowdfunding. Kiva is a great example of that. And then you have equity-based crowdfunding like Wefunder. So for me, crowdfunding can represent any of those four components.

The second thing I would say around misconceptions is sometimes I think people—it can swing both ways—either they think, "Well, I just put my campaign up on the website and then watch the money roll in," and that's almost never the case. But, on the other hand, I think there can be an impression that this is too much work. One thing that I'm excited about at Wefunder is our success rate of campaigns that we launched is pretty high. The truth, I think it's somewhere between those two extremes.

Dave If I'm an entrepreneur whose company is getting some traction, under what set of circumstances should I be thinking of raising equity or revenue-based capital using Wefunder?

Jonny Really consider it if the idea of getting your community to invest in your business and now be partners in the growth and success of your business—if that idea is appealing to you, and if the idea of getting the brand of your business and providing the opportunity to invest to our crowd of thousands and thousands of investors, who you don't yet know and who don't yet know about your business, if getting them engaged in your success and that marketing benefit is also appealing to you.

So, I think it makes more sense for B2C companies than B2B companies. We certainly have had B2B companies raise on the platform. But I think companies for whom a really engaged audience is just going to be really exciting is certainly the sweet spot.

I was talking to one of our scouts, and he said something that really struck me as well. He said, "You know, if you have three angel investors invest in your business, that's three people who are making connections for you and really trying to help you make the business go. If you turn one of those investors into a crowdfunding raise, you still have the first two angel investors—who have deep connections and expertise,—but now you also have a thousand people—that, maybe, invested $500 each—and some of those thousand people might be experts in your industry or really passionate about your business or the product that you're building, and at the least that's a thousand people that know you and your brand and hopefully are engaging as customers and brand ambassadors."

So if that excites you as an entrepreneur, and if you are philosophically aligned with getting crowd and community people to invest in your business, then absolutely check it out. Wefunder.com.