



**Disruptive Innovation:
How Crowdfunding Will Transform Early-
Stage Consumer Investing**

November 2012

- What is crowdfunding?
- How will crowdfunding disrupt investing?
- What is CircleUp's approach?
- Case study: Little Duck Organics

What is Crowdfunding?

Crowdfunding is a very broad term – not all aspects of crowdfunding are relevant for all businesses



Crowdfunding is the process of aggregating small individual contributions to meet a larger financial goal of an organization, group or individual.

Crowdfunding Landscape Overview

There are hundreds of different crowdfunding sites launching in the next twelve months, most with different focuses



The JOBS Act will have a profound impact on early stage investing and finance in general....in good and bad ways

The JOBS Act has impacts for companies at every stage of development

- Will allow companies to go public more easily through IPO on-ramp (i.e. Trulia)
- Change in general solicitation will impact mega buyout funds just as it will CircleUp (\$900B market in 2011)
- Crowdfunding could transform early stage \$25-50B investing market....or may be irrelevant

If implemented well, the JOBS Act will help both investors and small businesses

- General solicitation will provide accredited investors (institutional and individual) with choice
- Empowers companies by providing information transparency – investors must demonstrate their value add beyond capital as more investment \$\$ enter the market

However, still major uncertainties for how the SEC will define the rules

- For General Solicitation (Title II)
 - Will the old system (self-accreditation) be permitted to continue?
 - Will there be restrictions on advertising and increased filing requirements?
- For Crowdfunding (Title III)
 - Can SEC define rules that make it attractive for companies, while protecting investors?
 - information transparency (i.e. background checks, ID verification) vs. impractical (audits for companies raising \$500,000)
 - Will portals be required to register as broker dealers?

- What is crowdfunding?
- How will crowdfunding disrupt investing?
- What is CircleUp's approach?
- Case study: Little Duck Organics

Current informal fundraising market for non-tech is inefficient and unfair

For Companies

High search costs

- 6-12 month fundraising process distracts from business

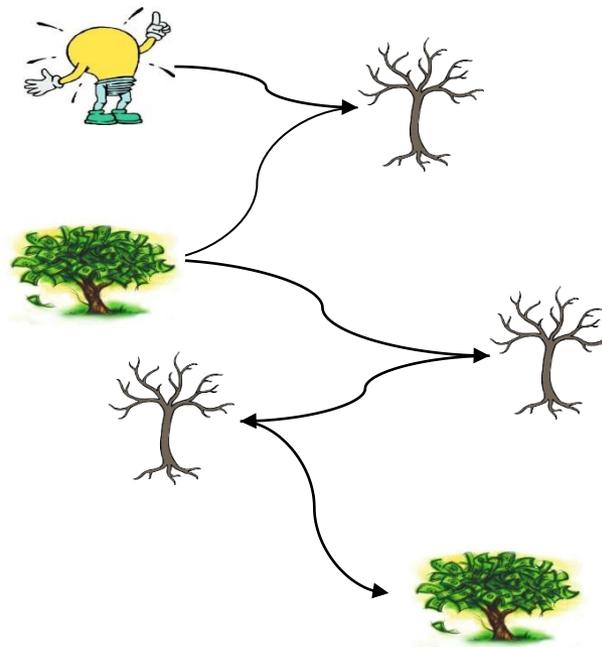
Less institutional interest in CPG & retail startups

- Investors are typically limited to friends & families

Transaction reinvented for each entrepreneur (docs, etc)

- “Hasn’t this been done before?”

The Fundraising Trail:



Lonely (Potential) Investors:



For Investors

Wasted time and energy

- Investors forced to network to find investment opportunities

Existing sites ineffective

- Either non-equity solutions (i.e. gifting), or networking only

Lack of peer community confirmation

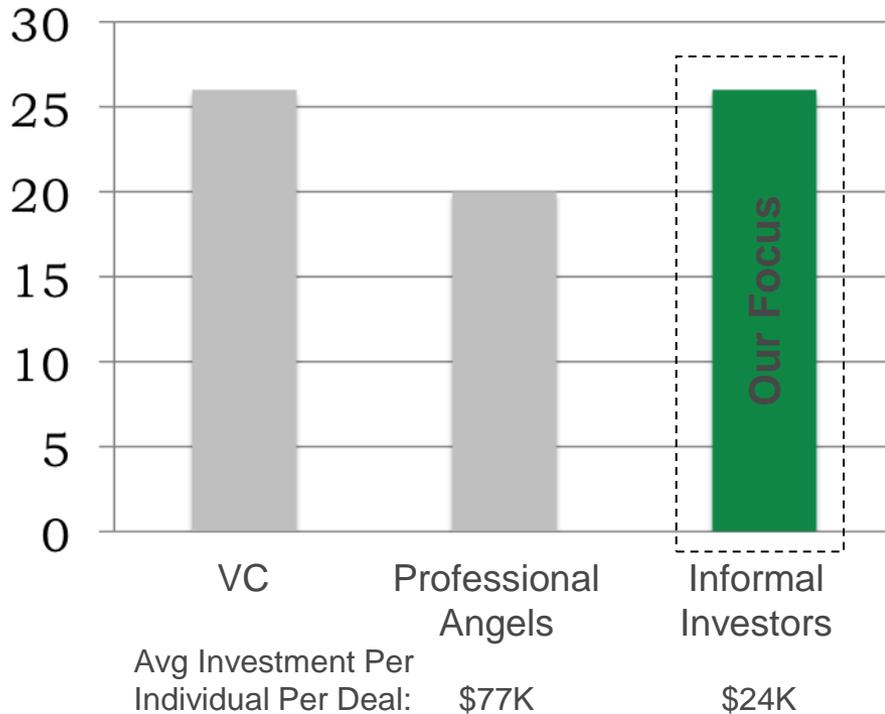
- “Am I crazy to invest in this?” a common mental barrier

Market Size and Potential

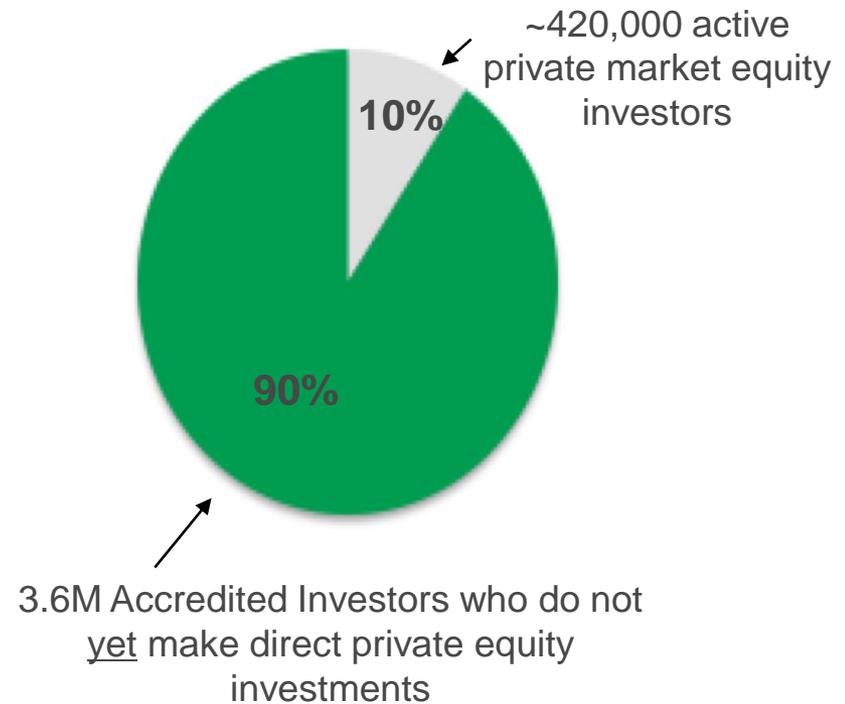
Despite inefficiencies, the informal investment market is large today...

...with significant potential to grow

**Total Investment By Investor Class
2010 (\$B)**



Accredited Investor Market



A \$25B growing market, with latent potential in existing legal environment

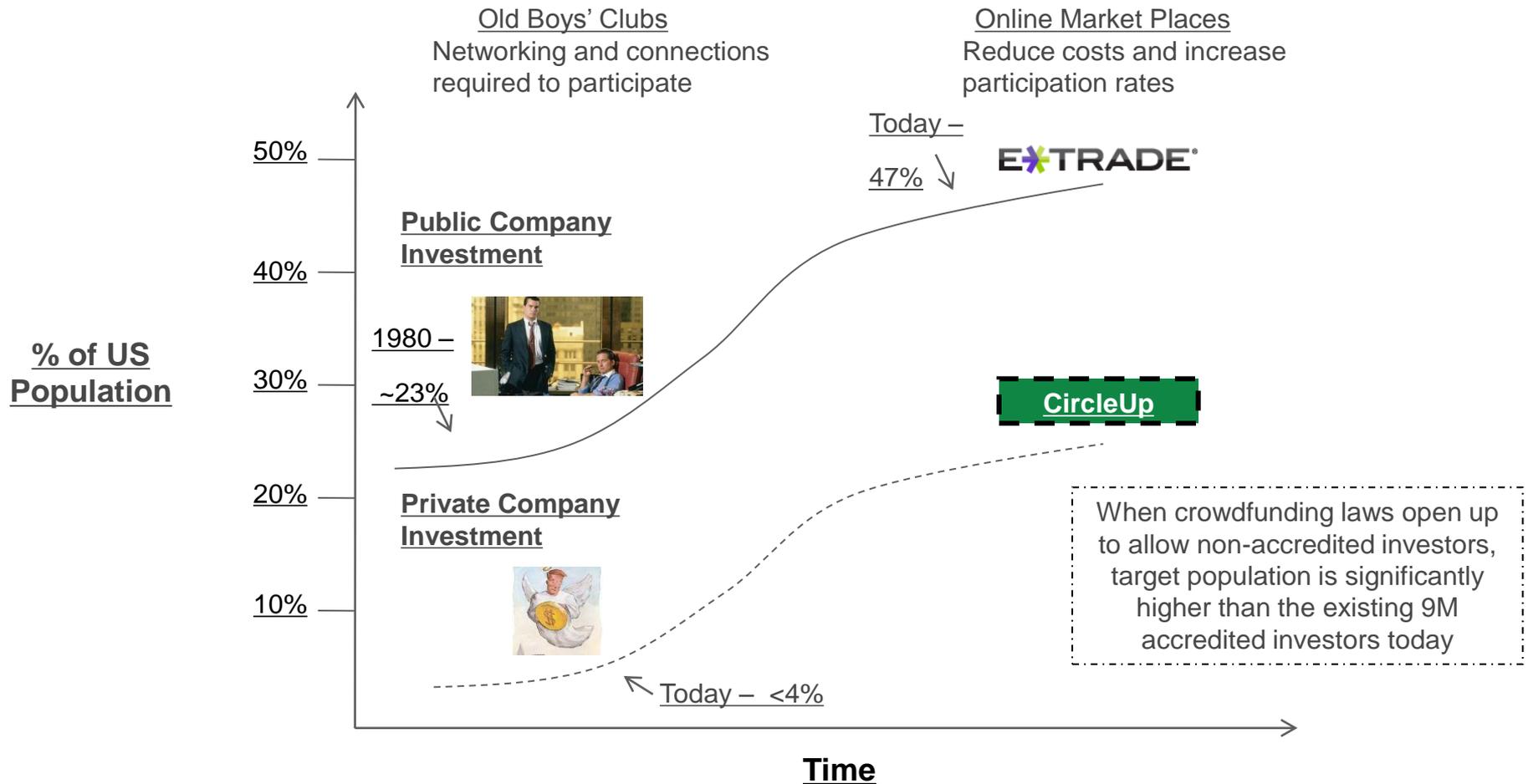
*Current SEC regulations allow only accredited investors to invest using the site. "Active" includes investment made over the past three years. Accredited investor is defined as someone that 1) made \$200K in each of the last 2 years with expectation of making \$200K in current year, 2) has joint income of \$300K with spouse in each of the last 2 years with expectation of jointly making \$300K in current year, or 3) has individual net worth, or joint with spouse, of at least \$1M today

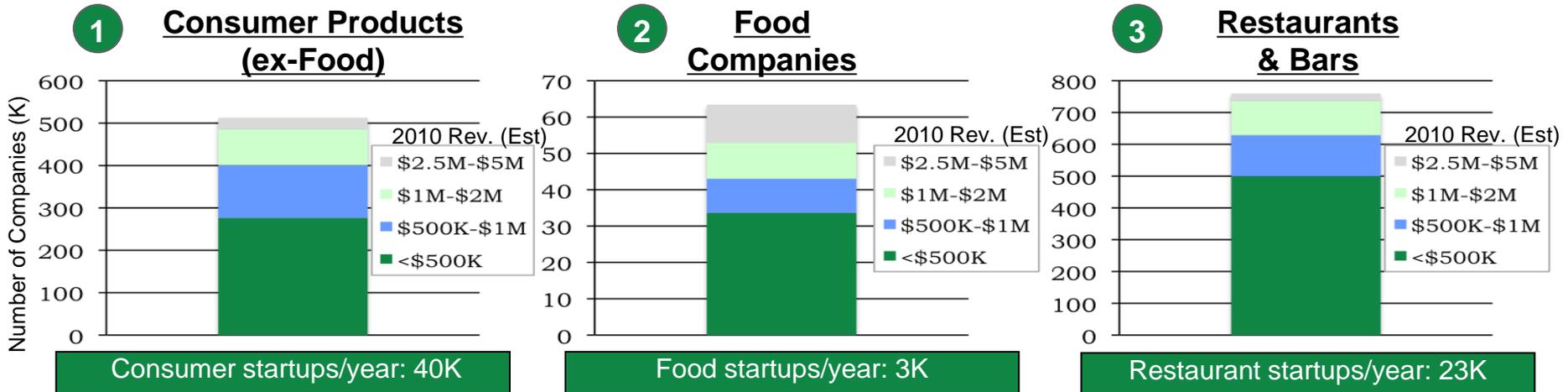
Note: Informal investment is largely friends and family investment; excludes angel investment

Source: Ventures Lab, Forbes, Global Entrepreneurship Monitor, Federal Reserve Survey of Consumer Finances, Angel Capital Association, RightSideCapital.com

Future Market Growth

Longer term, we believe technology and policy changes will open up the asset class, increasing participation as we have seen in public market investing

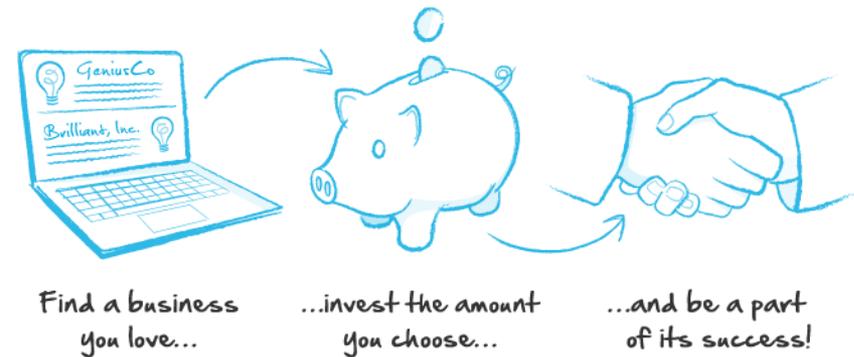




- ❑ Angel opportunities in other industries, especially tech, taken by industry insiders and professional investors
- ❑ Consumer is underserved – 20% of US economy but only 4% of angel funding
- ❑ Inefficient early stage environment – 100's of PE firms investing in companies with >\$10MM in revenue, almost none looking at smaller brands
- ❑ Easier for individual investors to understand consumer businesses, diligence them and make great decisions
- ❑ Angels investments in consumer companies have returned an avg. of 3.6x over 4.4 yrs according to Kaufman Study.
 - Early stage consumer product investing can be an attractive asset class but requires diversification

- What is crowdfunding?
- How will crowdfunding disrupt investing?
- What is CircleUp's approach?
- Case study: Little Duck Organics

- ❑ CircleUp is an online social marketplace that helps small consumer and retail companies raise money directly from a community of individual investors



- ❑ We are focused on companies that:
 - Are in consumer products (food, personal care, pet products, apparel) and retail/restaurants
 - Have \$1-10 million in revenue in the current year
 - Are looking to raise \$100,000 to \$3.0 million in growth equity
- ❑ Companies on the platform are heavily curated
 - Less than 2% of companies that apply are listed on CircleUp

Ecosystem for Early Stage Consumer



CircleUp has an active network of investors, advisors and users

Consumer Products Investors



Consumer Investment Bankers



Consumer Entrepreneurs



Partnerships with CPG Multinationals



Unannounced Major Partnership

- CircleUp focuses on earlier stage companies, before they are ready for institutional capital
 - Operate at funding stage (<1M check size that is impractical for large funds)
 - We have developed value-add partnerships to help companies scale more quickly, in order to hit size required by institutional investors
- Heavily curate the brands that are presented to investors
 - Success of the platform requires creating value for both companies and investors

Key Attributes for Prospective Companies

Historical Sales Growth
Gross Margins
Brands Strength
Offering Structure

Channel Penetration
Management Team
Recurring Revenue
Exit Prospects

Benefits to the CircleUp Platform



“They not only found great investors for us but also made it a lot easier to convert investors we already knew. Whether it was the stamp of approval from CircleUp, or the ease of use, we just found success came more quickly than raising money offline. I definitely recommend CircleUp!”

- Alison Bailey Vercruysse, Founder, 18 Rabbits

For Investors

- Ability to make multiple investments with lower fees (vs. typical 2%/20% fee structure in funds)
- Access to deals that they may not have heard about or come across through their own network
- Companies have gone through a high level of vetting by seasoned consumer investment professionals before being allowed on the CircleUp platform
- The opportunity to build and diversify their private investment portfolio by investing in a different asset class

For Companies

- Ability to access capital – smaller companies are often viewed as too small by institutional investors and too risky for bank financing
- Passionate investors that can act as brand champions, helping to grow its presence in the marketplace
- Smart investors, many with strong consumer backgrounds as entrepreneurs or professional investors, that can provide significant strategic advice and support

- What is crowdfunding?
- How will crowdfunding disrupt investing?
- What is CircleUp's approach?
- Case study: Little Duck Organics

- Little Duck Organics
 - Brooklyn, NY based brand
 - High-quality organic kids snacks
 - Strong base of existing investors, looking for additional value-add partners
 - Original goal: \$750,000 raise (convertible note)
- Excellent results on CircleUp
 - Raised ~\$1,000,000 (oversubscribed) in ~7 weeks
 - Value-added investors through CircleUp
 - Excellent PR (CNBC, Fox Business, Crain's News, etc) to help drive brand awareness
 - Expanded partnership network that will be valuable over the long-term



CircleUp

Invest in a consumer business you love.
Be a part of its success!

[Join now](#)

- ▶ How it works for Investors
- ▶ Post your company

Log In | Join

AS FEATURED IN ...

TechCrunch | Forbes | WALL STREET JOURNAL | The New York Times | The Economist | FORTUNE | CNBC

[MORE PRESS...](#)

CIRCLEUP SUCCESS!

Episencial just closed their round on CircleUp!

What the consumer experts say about CircleUp

"I love CircleUp! 30 years ago Ben & Jerry's raised money through our Vermont community in a similar model. Having passionate customers, friends and supporters as part of our business was important to our success."

"If I were growing a small consumer company today, I would definitely use CircleUp."

Need

Case Study: Little Duck Organics



Little Duck Organics | Highest Quality Organic Kids Foods

- ★ Trailing twelve month (TTM) revenue up 90%
- ★ Grew from 2 Whole Foods regions in 2011 to 7 regions today, with strong same store sales
- ★ Impressive list of existing investors - including Tom First, co-Founder of Nantucket Nectars

Zak Normandin, owner
Brooklyn, NY
littleduckorganics.com

Company Overview

Team

Forum

Gallery

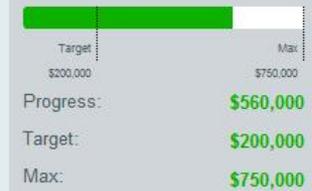
Documents

INVEST

PASSED COMPANY CHECK

Think about your all-time great dads—your Tom Bakers, your Bryan Mills, your Clark Griswolds. Those dudes were awesome. Really Awesome. Back in 2009, with two new baby girls, Zak Normandin was working on ... [READ MORE](#)

Investor Presentation



8 days left to invest!

Convertible Note

Equity offered NA

Share this with a friend

Investors



Mutual friends with entrepreneur



Invest

Unfollow

Sample

Case Study: Little Duck Organics



Little Duck Organics | Highest Quality Organic Kids Foods

Zak Normandin, owner • Brooklyn, NY • littleduckorganics.com

- 1 Investment Amount
- 2 Investment Documents
- 3 Personal Information
- 4 Confirm Investment

Ready to invest?

Make sure you've done your due diligence, then get started with the form on the right.

You may invest between \$15,000 and \$20,000

Investment Amount: \$

Please note that this company is using a convertible note and thus the valuation is less applicable.

Continue

You will be asked to confirm the investment again.



10 days left to invest!



Convertible Note

Equity offered

NA

Note: CircleUp has a requirement that investors that invest larger amounts must talk directly with the management before investing. No legal limit on amount of investment.

* <https://circleup.com/c/little-duck-organics/invest/>

*****APPENDIX*****

Some things to consider when choosing a crowdfunding site

- **What type of crowdfunding makes the most sense for you?**
 - Donation based is great.....but rare for an established high-growth consumer company
- **Pay attention to the community....**
 - Who are the site's investors and partners? What are the backgrounds of the management team? Do people that understand your business believe in this crowdfunding portal?
- **Be aware of adverse selection**
 - Certain industries don't need crowdfunding –e.g early stage tech. If a site offers those types of opportunities to investors, be cautious. It usually means they will get lower quality investors to their site
- **Security is important- do you feel safe?**
 - Pretend you're an investor on the site. Do you feel safe? If not then move on, because investors will.
- **How will the crowdfunding portal help you after close?**
 - Investor relations tools, PR, brand name, introductions to partners and the broader ecosystem around the crowdfunding portal. There are ways the right portals can help you beyond just

CircleUp team comprised of experienced private equity professionals from TSG Consumer Partners, Encore Consumer Capital, and JH Partners.



Ryan Caldbeck – CEO

- Encore Consumer Capital, TSG Consumer Partners, Bain Capital
 - Private equity investment professional focused on small to mid-sized consumer businesses
 - Deep experience helping consumer entrepreneurs and investors through the fundraising process
- Boston Consulting Group
- Stanford MBA, Duke BA



Rory Eakin – COO

- Humanity United / Omidyar Network
 - Advisor and investor with a strong passion to help entrepreneurs achieve their goals while helping the broader economy
 - Critical team member that helped to scale Humanity United
- Boston Consulting Group
- Stanford MBA, University of Cape Town MA, Princeton BA



Ben Lee – Director of Business Development

- JH Partners
 - Evaluated middle-market private equity investments in consumer products and retail businesses
 - Significant experience working with entrepreneurs on financing needs and in various operating roles at portfolio companies
- Thomas Weisel Partners (Investment Banking Group)
- Harvard MBA, Stanford BS