

The Democratization of Investing

An OurCrowd overview of the industry in 2015

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Report by :



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The Democratization of Investing

An OurCrowd overview of the industry in 2015

Four major trends – the ascendancy of private companies, the soaring number of new opportunities, Israel’s continued tech boom, and the growth of crowdfunding – are reshaping the landscape of investing and driving rapid growth for OurCrowd

I. Introduction

The world of business and investing is now experiencing sweeping, disruptive change. The most dramatic trend: the sudden ascendancy and dominance of private investing.

For years, early investors in public companies were rewarded with tremendous stock gains— 600 times or more in the case of companies like Microsoft or Oracle.

No longer. Now, the outsized returns are going to private investors, not stockholders. While private companies with valuations of more than \$1 billion were once so rare they were called ‘unicorns,’ there are now more than 140 such companies, including giants like San Francisco-based Uber (\$60 billion)¹ and China’s Xiaomi (\$46 billion).² Even for companies that have recently gone public, like Facebook and Twitter, virtually all of the returns have gone into the pockets of private investors, not stockholders.

This shift has profound consequences. Suddenly, the estimated 130 million ordinary Americans who buy stocks and bonds (and scores of millions more around the world) have been shut out of the greatest current opportunity for building wealth. Instead, the gains are going only to a few thousand people who are rich and well connected enough to be private investors.

It has also contributed to the second major trend—rapid growth in venture capital investments and M&A opportunities around the world. For instance, the amount of venture capital more than doubled globally to over \$135 billion in 2015 compared to 2013,³ as investors raced to grab a share of these private returns. And the pace of M&A activity has been “feverish,” say UBS strategists, climbing above \$4 trillion for all sectors for 2015.⁴

The third trend: Israel, in particular, has become a hotbed of innovation and entrepreneurial activity. Google’s 2013 purchase of Waze, the social-mapping location-data startup in Tel Aviv, for \$1.15 billion, is just the tip of the iceberg.⁵ Israel has become a global leader in cleantech, agtech, the Internet of Things, Big Data, medical analysis, optics, drones, and other sectors. Venture capital investments in Israeli companies have soared more than 100 percent in the last two years, to more than \$5 billion in 2015. Dozens of major multinationals, from General Electric and General Motors to Siemens and Johnson & Johnson, have bought at least one Israeli startup. And in the last two years, more than half a dozen companies have made exits worth more than \$1 billion. For example, Mobileye’s 2014 IPO valued the driverless car software company at \$7.6 billion.⁶

¹ <http://techcrunch.com/2015/10/24/one-more-billion/>

² <http://www.xconomy.com/national/2015/12/22/the-big-value-creation-trend-of-2015-qa-with-jonathan-medved/>

³ <http://www.valuewalk.com/2016/01/aggregate-venture-capital-deal-value-hits-record-high-in-2015/>

⁴ <http://www.cnbc.com/2015/11/04/ma-hits-another-high-and-goldman-is-the-big-winner.html>

⁵ <http://www.businessinsider.com/how-google-bought-waze-the-inside-story-2015-8>

⁶ <http://www.bloomberg.com/news/articles/2014-07-31/mobileye-raises-890-million-as-largest-israeli-ipo-in-the-u-s->

Finally, there's a fourth key trend that is reopening the door of opportunity for those millions of ordinary investors. That trend is the growth of crowdfunding, especially a form called equity crowdfunding. In the original type of crowdfunding pioneered by Kickstarter or Indiegogo about seven years ago, people supported clever ideas in exchange for rewards like T-shirts or movie tickets. In equity crowdfunding, in contrast, people become actual investors, acquiring equity stakes in private companies. And in the most rigorous form of equity crowdfunding, companies like Israel's OurCrowd and San Francisco-based FundersClub and CircleUp are open only to accredited investors—and also evaluate companies much as traditional venture capital firms do.

Call it the democratization of venture capital. For the first time, ordinary people with \$10,000 to \$150,000 to invest have a shot at the enormous potential riches from investing in private companies.

Crowdfunding in general is growing dramatically, rising from \$6.1 billion in 2013 and \$16.2 billion in 2014, to an estimated \$34 billion in 2015.⁷ Equity crowdfunding is rising as well, to \$870 million raised by 6,063 companies between October 2014 and September 2015, up from \$386 million in 4,712 offerings in the previous twelve months.⁸ Equity crowdfunding is also getting a major boost from game-changing new regulations from the U.S. Securities and Exchange Commission (SEC) that go into effect on May 16, 2016. Those rules will allow many more people to invest in private companies.⁹

This report tells the story of these four crucial trends, explaining what they mean for companies and investors and how companies like OurCrowd are uniquely positioned to take advantage.

II. Private Investment Is King

In 2014, Netscape founder, entrepreneur, and venture capitalist Marc Andreessen famously proclaimed “the effective death of the IPO.”¹⁰

“There's been an absolutely dramatic change,” Andreessen explained. In decades past, companies typically went public fairly early in their lives. Those who bought stock early had the potential to realize enormous gains. For instance, Amazon.com went public in May 1997, less than three years after it was incorporated. It has since returned almost 24,000 percent to people who got in at the IPO price.¹¹

Now, however, companies are staying private far longer, growing into private behemoths. As Andreessen points out, “Microsoft went out at under \$1 billion, Facebook went out at \$80 billion.”

This doesn't mean that stockholders can no longer make money. Facebook's share price was \$97.51 by mid-January 2016, up from the May 2012 IPO price of \$38, for instance. But the vast majority of the company's returns went into the pockets of those who invested before the IPO.

In today's world of investing, that's become the new normal. As Andreessen succinctly says: “Gains from the growth accrue to the private investor, not the public investor.”

⁷<http://www.crowdsourcing.org/editorial/global-crowdfunding-market-to-reach-344b-in-2015-predicts-massolutions-2015cf-industry-report/45376>

⁸ <http://www.crowdnetic.com/reports/sep-2015-report>

⁹ <http://www.sec.gov/news/pressrelease/2015-249.html>

¹⁰ <http://www.vox.com/2014/6/26/5837638/the-ipo-is-dying-marc-andreessen-explains-why>

¹¹ <http://www.bloomberg.com/bw/articles/2014-07-24/ipos-get-bigger-but-leave-less-for-public-investors>

One chart, taken from a presentation delivered by Andreessen Horowitz, Marc Andreessen’s firm, starkly illustrates this profound change: ^{12,13}

Almost all the returns are now private

Old world tech giants returned plenty in public markets – new ones have not



The shift has a number of important consequences, and can be seen in a wide variety of industry data. The important trend is that IPO activity around the world plunged in 2015, while other forms of funding and exits increased. Venture capital, mergers and acquisitions, and equity crowdfunding all showed steep growth. And with startups staying private longer, unicorns (companies valued at more than \$1 billion) have gone from rare to more frequent.

After a record-breaking 2014, IPO activity globally fell in 2015 to a six-year low, according to Renaissance Capital.¹⁴ There were 1,218 IPOs in 2015, raising \$195.5 billion. That represented a 25% drop compared to 2014, according to Ernst & Young.¹⁵

- The decline in the U.S. was even steeper. A total of 173 companies went public, 41% fewer than in 2014. Capital raised fell 65% to \$33.3 billion, the EY report said. Many IPOs were cancelled amid poor market conditions in July and August.
- Tech sector IPOs fell the steepest, with only 23 in 2015, down 58% from 2014, as many companies found other ways to raise capital, thus erasing the need to go public.¹⁶
- There were only 12 energy IPOs, a greater than 60% drop from 2014.¹⁷

Notable U.S. deals included:

- [First Data](#): The payment-processing firm raised \$2.6 billion in the year’s largest U.S. IPO.

¹² <http://www.crowdfundinsider.com/2015/12/79263-this-one-graph-explains-why-the-definition-of-an-accredited-investor-must-be-changed-now/>

¹³ http://www.slideshare.net/a16z/state-of-49390473/27-27As_IPOs_are_delayed_returns

¹⁴ <http://www.renaissancecapital.com/news/renaissance-capitals-2015-us-ipo-annual-review-37648.html>

¹⁵ <http://www.irmagazine.com/articles/case-studies/21168/ipo-activity-dips-2015-us-declines-and-asia-grows/>

¹⁶ <http://venturebeat.com/2015/12/22/tech-ipo-were-mostly-mia-in-2015-but-some-that-listed-fared-well/>

¹⁷ <http://www.cnbc.com/2015/12/09/the-ipo-biz-farewell-to-a-lousy-2015.html>

- [FitBit](#): The fitness wearable technology company raised \$732 million on the New York Stock Exchange.
- [Atlassian](#): The software development collaboration tools company raised \$462 million.
- [GoDaddy](#): The website hosting service raised \$460 million.
- [Pure Storage](#): The flash storage products maker raised \$425 million.
- [Match.com](#): The group of online dating sites raised \$400 million.
- [Etsy.com](#): The online marketplace raised \$267 million.
- [Square](#): The mobile payment company raised \$243 million.
- [Box](#): The online secure information-sharing company raised \$175 million.

Asia-Pacific was the only region to see IPO activity grow in 2015, with the number of deals rising 20% to 673 and amount of capital raised increasing 8% to \$90.2 billion, according to Ernst & Young. In fact, Asia accounted for 55% of the world's IPOs and 46% of capital raised, mostly driven by demand in Chinese markets due interest rate cuts and the new trading link between Hong Kong and Shanghai. That new link brought more foreign investment to the mainland-based markets.

In 2015, China, including Hong Kong, saw 46 IPOs in the technology sector, raising \$5.1 billion, according to EY.¹⁸ This is up from 33 Chinese tech IPOs in 2014, that raised only \$2.8 billion.¹⁹

The largest Asian deals were mostly in the financial sector, but tech companies also saw several offerings. Notable deals included:

- [Huatai Securities](#): China's largest stock brokerage raised \$4.5 billion in Hong Kong.
- [GF Securities](#): Another large Chinese brokerage raised \$4.1 billion in Hong Kong.
- [Orient Securities](#): Another Chinese brokerage raised \$1.6 billion in Shanghai.
- [Kunlun Tech Co.](#) raised \$232 million on Shenzhen.

III. Greater Opportunities for Venture Capital and M&A

With few IPOs and a much higher proportion of returns coming from private companies, one result has been major increases in venture capital investments and mergers and acquisitions. In addition, innovation continues to create ever-greater opportunities. Here are the details:

1) Venture capital is up, enabling companies to stay private longer and creating far more unicorns.

Preqin reports that in 2015 the aggregate value of venture capital deals increased for the third successive year to stand at \$135.8bn, up from \$93.5bn in 2014 and more than double the \$57.1bn in 2013. Although the 9,202 deals recorded in the year is similar to both 2013 and 2014 (9,785 and 9,811 respectively), average deal size is up to \$18.4mn in 2015 from \$12.4mn in 2014. Asia, in particular, has seen a significant uptick in venture capital deal activity, as Greater China recorded 1,605 deals, more than in Europe (1,373). The most recent KPMG report confirms this story

¹⁸ [http://www.ey.com/Publication/vwLUAssets/EY-global-ipo-trends-2015-q4/\\$FILE/EY-global-ipo-trends-2015-q4.pdf](http://www.ey.com/Publication/vwLUAssets/EY-global-ipo-trends-2015-q4/$FILE/EY-global-ipo-trends-2015-q4.pdf)

¹⁹ [http://www.ey.com/Publication/vwLUAssets/ey-q4-14-global-ipo-trends-report/\\$FILE/ey-q4-14-global-ipo-trends-report.pdf](http://www.ey.com/Publication/vwLUAssets/ey-q4-14-global-ipo-trends-report/$FILE/ey-q4-14-global-ipo-trends-report.pdf)

agreeing that venture capital in Asia is growing more dramatically than elsewhere, hitting \$28.4 billion in the first nine months of 2015, up from \$6.5 billion for all of 2013.²⁰ Most of that is in China.

Investors are focusing on big companies and making big investments. Indeed, financing rounds worth more than \$100 million are on the rise, with 170 of these so-called mega rounds in the first nine months of 2015, a joint KPMG/CB Insights report said.²¹ For instance:

- Uber saw two rounds worth more than \$1 billion each.²²
- In the healthcare sector, Zocdoc raised \$130 million in a recent VC round to score a \$1.8 billion valuation.²³
- In financial technology, SoFi, the student loan refinancing company, raised \$1 billion led by Japan's Softbank.²⁴

The large amounts of private investment created 23 new unicorns in the third quarter and another nine by the end of the year. There are now, as of mid-January, 144 unicorns, according to CB Insights.²⁵

2) Mergers and acquisitions are hot.

Strategists at UBS said that M&A activity has been "feverish," climbing above \$4 trillion for all sectors for 2015.²⁶

Even in Israel, M&A was on fire. In 2015 Israeli high-tech exits hit \$9.02 billion - up 16% from 2014 proceeds with VC-backed exits reaching an outstanding \$4.98B – the highest annual amount in 10 years.²⁷

Why? The key reason is that, with IPO activity down and venture capital up, investors are increasingly turning to mergers and acquisitions as their exit strategy. In fact, much of the M&A activity was driven by private equity groups selling startups they had invested in. Some details:

- The global technology M&A deals in the first nine months of 2015 totaled \$269.7 billion, 14% more than for all of 2014. The Internet-of-Things was seen as particularly valuable. The sector had four of the five deals in the third quarter worth more than \$1 billion, accounting for 61% of the quarter's total dollar-amount in M&A deals.²⁸
- Private equity groups reported in August that they had sold 100 tech companies in the first 8 months of the year. Those companies were mainly based in the U.S., and were valued at \$52.7 billion, the highest on record, according to Dealogic.²⁹

Notable deals included:

- Dell acquired EMC for \$67 billion.³⁰

²⁰ <https://home.kpmg.com/xx/en/home/insights/2015/10/venture-pulse.html>

²¹ <https://www.cbinsights.com/research-q3-2015-venture-capital-report>

²² http://www.nytimes.com/2015/10/24/business/dealbook/uber-said-to-plan-another-1-billion-in-fund-raising.html?_r=2

²³ <http://blogs.wsj.com/venturecapital/2015/08/20/zocdoc-valued-at-1-8b-in-new-funding-round/>

²⁴ <http://businessvaluationtools.com/blog/2015/09/sofi-raises-1-billion-in-venture-capital-led-by-softbank/>

²⁵ <https://www.cbinsights.com/research-unicorn-companies>

²⁶ [http://www.ey.com/Publication/vwLUAssets/ey-hidden-gems-and-big-data-drive-value/\\$FILE/ey-hidden-gems-and-big-data-drive-value.pdf](http://www.ey.com/Publication/vwLUAssets/ey-hidden-gems-and-big-data-drive-value/$FILE/ey-hidden-gems-and-big-data-drive-value.pdf)

²⁷ <http://www.ivc-online.com/Research-Center/IVC-Publications/Exits-Report>

²⁸ [http://www.ey.com/Publication/vwLUAssets/ey-hidden-gems-and-big-data-drive-value/\\$FILE/ey-hidden-gems-and-big-data-drive-value.pdf](http://www.ey.com/Publication/vwLUAssets/ey-hidden-gems-and-big-data-drive-value/$FILE/ey-hidden-gems-and-big-data-drive-value.pdf)

²⁹ <http://blogs.wsj.com/moneybeat/2015/09/25/pe-firms-see-most-tech-exits-ever-via-ma/>

- Avago acquired wireless chipmaker Broadcom for \$37 billion.³¹
- Freescale Semiconductor Ltd. merged with NXP Semiconductors in deal valued at \$11.8 billion.³²
- Fidelity National Information Systems bought SunGard Data Systems for \$9.1 billion.³³

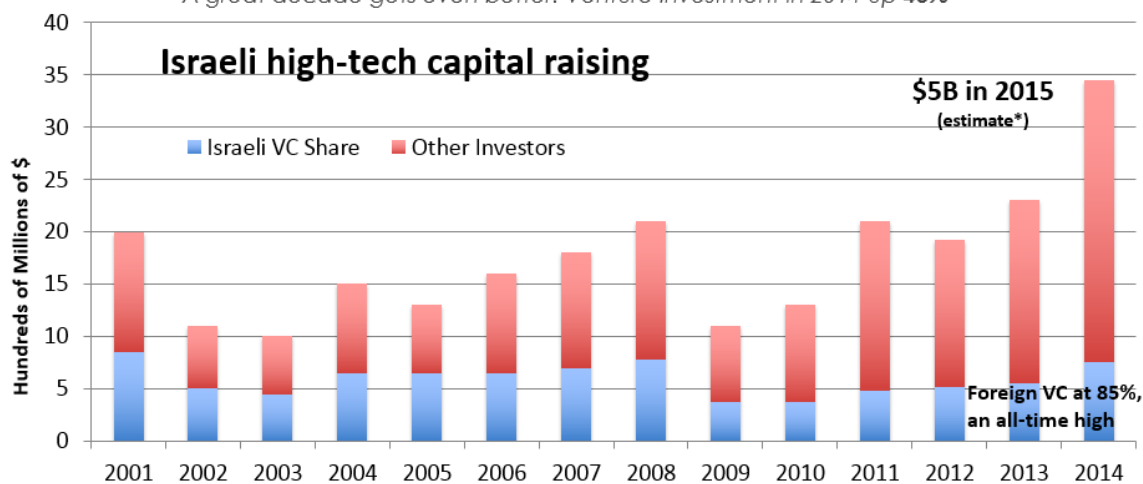
IV. Expanding Opportunities in Israel

The ingenuity of entrepreneurs—and the opportunities to invest—have never been greater. That’s especially true in countries like Israel and Australia, where much of the investment capital is coming from outside those countries.

Israel especially is seeing a tech boom. One simple measure is the dramatic increase in venture capital investments in the country’s companies. The estimated more than \$5 billion for 2015 is more than double the VC investments in 2013, with the percentage of money coming from outside of the country at an all-time high. Investors include prominent private equity firms like Blackstone, KKR, Apax Partners, and Francisco Partners.

Israeli High Tech Investment: 2014 Record Year despite war

A great decade gets even better: Venture Investment in 2014 up 46%



Source: IVC Quarterly Survey, Q4 2014, IVC Research Surveys 2010-2014

*OurCrowd estimate: \$5B in 2015

Meanwhile, companies have been able to raise significant amounts of money in the public markets. For example:

- SolarEdge: Solar energy production optimizing company raised \$126 million on Nasdaq.
- Trendlines: Medical/Agricultural incubator (an OurCrowd portfolio company) raised \$25 million in Singapore listing.
- Kitov Pharmaceuticals raised \$13 million on Nasdaq.

³⁰ <http://www.bloomberg.com/news/articles/2015-10-12/dell-to-acquire-emc-for-67-billion-to-add-data-storage-devices>

³¹ <http://www.bloomberg.com/news/articles/2015-05-27/avago-said-near-deal-to-buy-wireless-chipmaker-broadcom>

³² <http://www.bloomberg.com/news/articles/2015-03-02/nxp-semiconductors-to-acquire-freescale-for-11-8-billion>

³³ <http://www.bloomberg.com/news/articles/2015-08-12/fis-agrees-to-purchase-sungard-in-deal-valued-at-9-1-billion>

Driving this growth in investments is a new wave of innovation. Israeli companies are gaining prominence in the growing attractive hardcore technology areas like drones, optics, cyber security, cleantech, agricultural tech, Big Data, financial tech and medical devices.

One particularly promising area for Israeli companies is creating solutions to the some of the world's greatest challenges. Take the urgent need for clean, safe water. With companies like IDE Technologies,³⁴ which is building desalination plants from Chile to India, and Amiad Water Systems,³⁵ a leader in filtration technology, "I don't think it's overkill to say that Israeli entrepreneurs are disrupting and reinventing how the world creates and conserves water," said Amir Peleg, founder of leak detection software startup TaKaDu in a recent story in *Bloomberg Businessweek*.³⁶

Another strong area for Israeli companies is the Internet-of-Things—the sensors, software, and other technologies that allow everything from cars to appliances to be connected to the Internet. Innovation Endeavors, an early-stage venture capital firm backed by Alphabet Executive Chairman Eric Schmidt, recently took what it describes as "three-month deep dive into the space."³⁷ The rigorous analysis turned up 330 Israeli companies and concluded that Israel is becoming a "global leader in the Internet of Things." 11 of the companies listed turn out to be OurCrowd portfolio companies. "Most of the IoT activity in Israel plays to the country's unique strengths in areas such as healthcare, science, and cyber security, in new and interesting ways," Innovation Endeavors reported. "We found that if Israeli entrepreneurs can capitalize on their existing IoT-related proficiencies, they can dominate in this space."³⁸

Some examples:

- Argus Cyber Security is building a "firewall" for the connected car, preventing hackers from seizing control remotely.³⁹
- Consumer Physics has developed the first hand-held molecular sensor that can measure the physical world. It can determine the number of calories in a piece of food or authenticate precious metals, and send the information to a smart phone.⁴⁰

Successful exits are another indicator of the strength of Israel's technology sector. Google's \$1.1 billion acquisition of Waze in 2013 was the most prominent example, but as the following chart shows, it was far from the only one:

³⁴ <http://www.ide-tech.com>

³⁵ <http://www.amiad.com>

³⁶ <http://www.bloomberg.com/bw/articles/2015-01-08/takadu-helps-israel-be-a-most-efficient-water-manager>

³⁷ <http://www.innovationendeavors.com/thoughts/israeli-internet-of-things>

³⁸ <http://www.innovationendeavors.com/thoughts/israeli-internet-of-things>

³⁹ <http://argus-sec.com/company/>

⁴⁰ <https://www.consumerphysics.com/myscio/>

BILLION-DOLLAR EXITS, 2013-15*



\$900M
NASDAQ



\$930M
HeartWare



\$1.2B
D+H



\$900M
Apax



\$960M
Covidien



\$1B
SHANGHAI



~\$800M
IBM



~\$900M
Rakuten



\$1.7B
NASDAQ



\$8B
NYSE



\$1B
NASDAQ



\$1B
Google

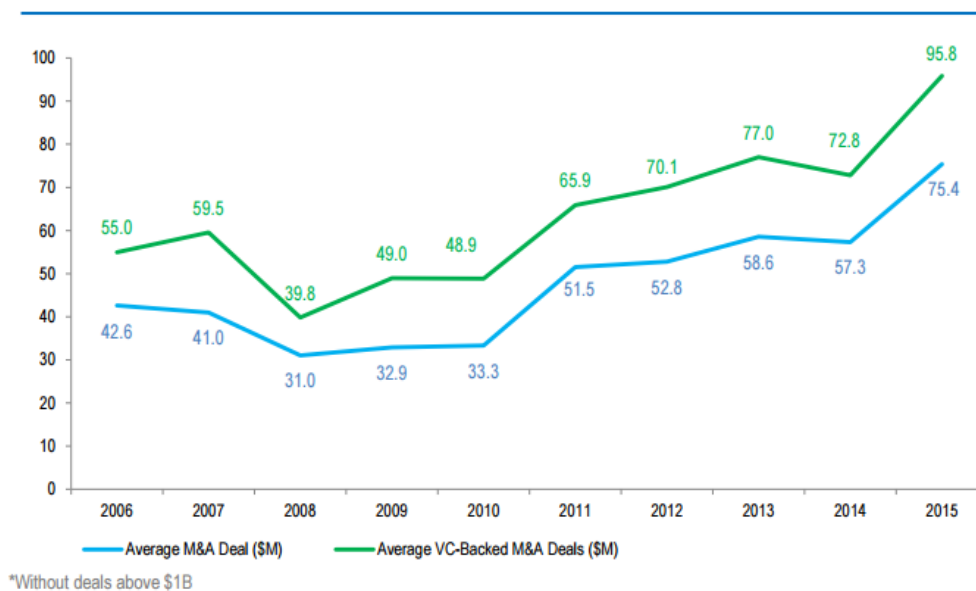


\$1.2B
NASDAQ

*Approximate value;
includes peak market
capitalization post-IPO

Equally important, the values of the exits are increasing as companies are acquired or go public.⁴¹

IVC Report: Average Israeli M&A Deals* 2006-2015 (\$m)



Source: [IVC-Meitar High Tech Exits 2015 Report](#)

Many prominent global companies have bought at least one Israeli startup. The list includes Twitter, Dell, General Electric, General Motors, Philips, Siemens, Yahoo, 3M, Procter & Gamble, Johnson & Johnson, Berkshire Hathaway, Oracle, Samsung, Facebook, AMD, Veolia, Avaya, John Deere, SanDisk, IBM, AT&T, Symantec, Alcatel, McAfee, CitiGroup, Cadence, Apple, Microsoft, Barclays, Vitesse, ChemChina, Groupon, Medtronic, eBay, Intel, Kodak, Cisco, and Amazon. Many have bought several. Microsoft, for instance, has acquired five Israeli companies in just 2015 alone.

M&A activity for Israeli tech in 2015 totaled \$8.4 billion, in 96 exits, up from \$5.76 billion in 2014, according to a report from the IVC Research Center.⁴²

Here are some of the notable recent deals:

- Fundtech was acquired by Canada's DH for **\$1.25 billion**.
- Valtech Cardio was sold to U.S. -based Heartware for **about \$1 billion**.
- CCam was bought by Merck for **\$605 million**.
- Lumenis was acquired by private equity fund XIO Group for **\$510 million**.
- ClickSoftware was bought by Francisco Partners Management for **\$438 million**.
- Annapurna Labs was sold to Amazon for **\$360 million**.
- Adallom, a cloud security firm, was, bought by Microsoft for **\$320 million**.
- Red Bend Software was bought by Harman International Industries for **\$200 million**.

⁴¹ <http://www.ivc-online.com/Portals/0/RC/Exits/2015/IVC-Meitar%20Exits%20Report%202015-Final.pdf>

⁴² <http://www.timesofisrael.com/exits-for-israeli-tech-firms-hit-near-record-levels-report-shows/>

- Equivio text analysis company was bought by Microsoft for at least \$150 million.
- CloudOn was bought by Dropbox for \$100 million.
- Pebbles Interfaces, a virtual reality startup, was bought by Facebook for \$85 million.
- Intellinx, a fraud detection company, was bought by Bottomline for \$67 million.

A final important trend is the growth of connections between Israel and other countries like Australia and China. Australia plans to open one of its two high-tech incubators in its Ideas Boom project in Tel Aviv, with the other being in Silicon Valley. And Chinese investment in Israeli high tech is growing at 50 percent annually, to an estimated \$500 million in 2015, according to the IVC Research Center.⁴³

V. Equity Crowdfunding Comes of Age

The trends—and the underlying data—described in this report paint a picture of new landscape for investing. Most of the returns are now coming from private, not public companies. And with private valuations going through the roof, venture capitalists, angel investors, and other private investors are the only ones getting really rich.

Venture capital has historically been a closed game. Only an estimated 300,000 people⁴⁴ have made at least one angel investment in the last two years in the U.S., for instance. That's a tiny number compared to the more than 130 million Americans^{45,46} who own stocks, or the estimated 10 million American accredited households with more than \$1 million of investable assets, or \$200,000 in annual income.

Now, however, there's a way for those millions of ordinary investors to get into the game and to realize some of those outsized returns from private companies.

This new way is called equity crowdfunding. It promises to democratize the world of innovation finance and create a new model for building companies.

Crowdfunding, of course, got its start with sites like Kickstarter and Indiegogo, where would-be entrepreneurs and artists could ask the larger world for funding. People who sent in money didn't get much in return. Sometimes the contribution was considered a donation; in other cases, contributors got tokens like T-shirts, or were first in line to receive products when they finally came to market.

Meanwhile, those crowdfunded entrepreneurs who hit it big made millions of dollars.

Consider virtual reality start-up Oculus, which turned to Kickstarter for funding in 2012. In early January 2016, the company announced the reward for its early Kickstarter backers. Those who pledged \$275 or more will get a free Oculus Rift virtual reality headset, which can be bought for \$599.99.^{47,48}

⁴³ <http://www.bloomberg.com/news/articles/2015-12-01/chinese-investors-pour-money-into-israeli-technology-startups>

⁴⁴ <http://www.angelcapitalassociation.org/faqs/>

⁴⁵ <http://www.gallup.com/poll/182816/little-change-percentage-americans-invested-market.aspx>

⁴⁶ <http://datacenter.kidscount.org/data/tables/99-total-population-by-child-and-adult#detailed/1/any/false/869,36,868,867,133/39,40,41/416,417>

⁴⁷ <http://www.wired.com/2016/01/oculus-kickstarter-backers-get-a-free-rift/>

⁴⁸ <http://screenrant.com/oculus-rift-price-pre-orders-free-kickstarter/>

Compare that to the gains reaped by Oculus co-founder Palmer Luckey. After selling Oculus to Facebook for \$2 billion in 2014,⁴⁹ Luckey was worth \$700 million.⁵⁰

Equity crowdfunding gives the backers of crowdfunded companies an equity stake in the companies, turning those backers into actual venture investors. If equity crowdfunding had been available for Oculus, the early investors would have reaped a share of Oculus' \$2 billion.

1) New regulations fling open the door to equity crowdfunding

The path to equity crowdfunding has not been easy or smooth, however. The biggest challenge has been the complicated and murky regulations that govern who is allowed to invest in private companies and that put in place safeguards to protect both investors and companies. In the U.S., the Securities and Exchange Commission barred small investors—those not considered 'accredited'—from taking equity stakes.

That's why new regulations laying out a clearer path to equity crowdfunding in the U.S., Australia, and other countries are so important. What follows is a guide to the new rules for each country and region, and what they mean.

THE UNITED STATES

In the U.S., a long-awaited SEC framework for expanding equity crowdfunding to individual investors was approved in October 2014, and will go into effect on May 16, 2016.⁵¹

The new rules are an amendment to the 2012 JOBS Act, which was designed to encourage funding for small businesses. The JOBS Act essentially legalized equity crowdfunding by raising the number of shareholders a company can have before it is forced to go public. It also removed a ban on using advertisements to solicit investors. Under the JOBS Act's Title II, equity crowdfunding was limited to accredited investors—i.e. those who can show that they have an annual income greater than \$200,000 for two years in a row or are worth \$1 million or more.

The new SEC rules for Title III are game-changing, because they allow non-accredited investors to get into the action.

Some key provisions:

- Small investors will be able to buy up to \$2,000 in equity through crowdfunding every 12 months.
- Those with incomes over \$100,000 per year are permitted to invest up to 10% of their income in crowdfunding offerings, up to a limit of \$100,000 per year.
- Companies can raise up to \$1 million each year, and issue equity without registering with the SEC.

The 600-page rule includes a number of safeguards. Companies issuing the securities must use an SEC-approved funding portal or broker-dealer, and submit annual financial reports to the SEC. They must also provide information, like business plans and descriptions of their officers and directors, to investors and intermediaries like portals or brokers. In addition, companies cannot raise funds from both individuals and accredited investors at the same time.

⁴⁹ <http://time.com/37842/facebook-oculus-rift/>

⁵⁰ <http://www.forbes.com/sites/luisakroll/2015/11/18/americas-richest-entrepreneurs-under-40/>

⁵¹ <http://www.sec.gov/corpfin/announcement/cf-announcement---crowdfunding-testing.html>

Meanwhile, portals and brokers acting as intermediaries must register with the SEC and become a member of a national securities association, like the Financial Industry Regulatory Authority (FINRA). They cannot have a financial interest in the companies using their platforms to raise money, unless they receive that financial interest as compensation for providing their brokering services. They also are required to take steps to reduce fraud risk, and to provide information to investors, including educational materials that outline the investment process, types of investments being offered, and what data the fund-seeking companies need to disclose.

There are, however, several limitations to the proposed Title III regulations that may hamper the overall effectiveness. They include:

- An SPV would allow all investors to be aggregated in a single entity and represent one item on a capitalization (CAP) table. As it stands now, individual investors would be listed. That would diminish the chances of getting in bigger investors.
- The rules allow placement fees, rather than management or carried interest. If incentive is simply to raise the money, the interest and motivation of the crowdfunding portal to work post investment is reduced.
- The current regulations prevent non-US issuers from participating in Title III, limiting participating from Israeli and global startups.
- The \$1 million cap on what companies can raise in 12 months limits companies that are growing fast and that may hit the ceiling before 12 months.

2016 will be an interesting year as Title III offerings begin to emerge, with a view into how large a share of the market they become.

Crowdfunding companies such as OurCrowd will watch the Title III market carefully, but in the meantime will have an existing effective business serving accredited investors under Title II.

AUSTRALIA

At the end of 2015, the Australian government published a long-awaited proposal to legalize and regulate equity crowdfunding involving individual investors,⁵² though it has yet to finalize and enact the proposed legislation.

While equity crowdfunding has flourished under a regulatory framework that allows individual investors in neighboring New Zealand to participate since July 2014,⁵³ it still remains largely limited to accredited investors in Australia.⁵⁴

Under the proposed legislation, crowdfunding would be expanded. Here are the key provisions:

- Only public, unlisted companies that have AU\$5 million or less in assets and less than AU\$5 million in annual revenue may raise money and issue equity through such platforms.
- Qualified companies would be able to raise up to AU\$5 million per year.
- An individual's crowdfunding investment in each company per year would be limited to AU\$10,000.
- Investments must be through crowdfunding platforms licensed by the Australian government.

⁵² <http://www.crowdfundinsider.com/2015/08/72525-australias-proposed-regulations-for-equity-crowdfunding/>

⁵³ <http://www.crowdfundinsider.com/2014/08/46605-new-zealand-welcomes-equity-crowdfunding-snowball-effect-offers-shares-renaissance-brewing/>

⁵⁴ <http://venturebeat.com/2014/01/22/crowdfunding-assob/>

- Crowdfunding platforms cannot aggregate investors into a single vehicle.
- Individual investors have a five-day cooling off period before investment is final.

In addition to much excitement, the proposed framework has generated some critical comments. Some have told the media that limiting funding to public companies creates hassle and expense for small startups that must spend money to become public entities before they can engage in raising funds by selling equity.⁵⁵ Some entrepreneurs have also complained about the caps on investment amounts and the lack of SPV structures being supported.⁵⁶

EUROPEAN UNION AND UNITED KINGDOM

In 2015, the Capital Markets Union, which oversees financial markets across Europe, began discussing a crowdfunding framework for all 28 European Union states.⁵⁷ It may, however, be difficult for the EU to implement such a scheme due to the vastly differing national regulatory frameworks. Moreover, Jonathan Hill, the EU commissioner who is putting together the CMU, said recently that he currently does not favor regulating equity crowdfunding because that may limit the development of the new industry.⁵⁸

Meanwhile, the country where crowdfunding is growing the fastest is the United Kingdom, according to *CrowdFundBeat*.⁵⁹ Equity-based crowdfunding jumped 201% in 2014, *Crowdfund Insider* reported, with a 300% increase in investment-based and loan-based crowdfunding.⁶⁰ Active equity crowdfunding sites include Crowdcube⁶¹ and Seedrs.⁶²

The reasons why UK crowdfunding is growing so rapidly include: There aren't many other funding options for many startup companies. In addition, there are generous government benefits, in the form of Enterprise Investment Scheme (EIS) tax incentives, to those who participate in equity crowdfunding projects.⁶³

CHINA

The potential for equity crowdfunding in China is enormous.^{64,65} Already, there are a number of crowdfunding platforms, such as Choudao, AngelCrunch and DemoHour.⁶⁶ In September 2015, "a State Council document posted on the government's website called for expanding equity crowdfunding projects to help small companies raise funds as a "useful complement" to traditional equity financing while underlining the need to protect investors' rights and minimise financial risks," *Reuters* reported.⁶⁷

⁵⁵ <http://www.afr.com/technology/government-blows-it-chance-with-equity-crowdfunding-laws-20151203-glelmr>

⁵⁶ <http://www.crowdfundinsider.com/2015/08/72598-niederer-proposed-australian-regulatory-framework-for-crowdfunding-is-wrong/>

⁵⁷ <http://eurocrowd.org/2015/11/05/qa-with-esmas-chair-on-crowdfunding/>

⁵⁸ <http://www.crowdfundinsider.com/2015/09/74024-eu-commissioner-jonathan-hill-on-crowdfunding-dont-choke-off-growth/>

⁵⁹ <http://www.crowdfundbeat.co.uk/2015/06/07/crowdfunding-growth-the-united-kingdom-leads/>

⁶⁰ <http://www.crowdfundbeat.co.uk/2015/06/07/crowdfunding-growth-the-united-kingdom-leads/>

⁶¹ <https://www.crowdcube.com>

⁶² <https://www.seedrs.com>

⁶³ <http://www.crowdfundinsider.com/2013/06/16641-how-the-uk-uses-tax-relief-to-boost-entrepreneurs/>

⁶⁴ <http://www.crowdfundinsider.com/2015/10/75384-crowdfunding-in-china-potentials-challenges-risks-and-solutions/>

⁶⁵ <https://www.seedinvest.com/blog/futureofcrowdfundinginchina>

⁶⁶ <http://www.crowdcru.com/top-7-chinese-crowdfunding-sites/>

⁶⁷ <http://www.reuters.com/article/china-entrepreneurs-financing-idUSL4N11W01D20150926>

In addition, the China Securities Regulatory Commission proposed new crowdfunding rules in January 2015.⁶⁸ The details:

- Crowdfunding investments would be limited to people with net assets greater than 10 million yuan (\$1.5 million), or with assets worth RMB3 million (\$460,000), but annual income over RMB500,000 (\$77,000).
- Each investor would be required to purchase a minimum of RMB1 million (\$155,000) in an individual venture.
- Platforms used for crowdfunding must register with regulators and have net assets of at least RMB5 million (\$770,000).

2) Crowdfunding is growing rapidly

Fueled by the interest from individual investors and companies, along with the improving regulatory climates in the U.S. and elsewhere, crowdfunding is soaring. Total global investments have been doubling every year since 2010. They are estimated to reach \$34 billion globally in 2015, according to a report from Massolution.⁶⁹

Lending-based crowdfunding still dominates. But equity crowdfunding is growing at even a faster clip than is the overall industry.

- In the U.S., for instance, 6,063 companies raised \$870 million in crowdfunded equity offerings between October 2014 and September 2015. That's 2 ¼ times more than the \$386 million raised (by 4,712 offerings) in the previous 12 months, Crowdnetic reports.⁷⁰
- The average company raised and issued \$545,122 per round between October 2014 and September 2015, up from \$405,295 per round between October 2013 and September 2014.
- Services and Technology, and, more recently, financial services, are the top industries raising money on these platforms, by dollar amounts.
- Real-estate investments dominate the financial sector, accounting for \$208.3 million of the total \$870 million invested across all sectors.
- In the UK, the average firm raised 408,000 pounds per crowdfunding round. The U.K. even saw a crowdfunded exit. Startup E-Car Club, which raised 850,000 pounds from 63 investors through CrowdCube, was sold to Europcar, Europe's leading car rental agency.⁷¹

This rapid growth is expected to continue, as equity crowdfunding brings a new era of democratized investing to the business world. As TechCrunch.com writes: "Equity crowdfunding is, in short, one of the newest and most interesting funding systems in the world."⁷²

⁶⁸ <http://www.crowdfundinsider.com/2015/02/62055-china-draft-regulations-published-for-equity-crowdfunding-as-sharein-partners-with-bop-to-expand/>

⁶⁹ <https://www.crowdfunder.com/blog/trends-show-crowdfunding-to-surpass-vc-in-2016/>

⁷⁰ <http://www.crowdnetic.com/reports/jan-2015-report>

⁷¹ <http://news.europcar.co.uk/the-europcar-lab-takes-majority-stake-in-e-car-club/>

⁷² <http://techcrunch.com/2015/11/02/equity-crowdfunding-is-on-its-way/>

VI. OurCrowd in Unique Sweet Spot

The sweeping changes described in this report—the importance of private equity, the new regulations governing equity crowdfunding, and the expanding opportunities for investing—mean that equity crowdfunding is coming of age. Ordinary people now have the same opportunity to reap the outsized returns that used to go only into the pockets of a few rich venture or angel investors.

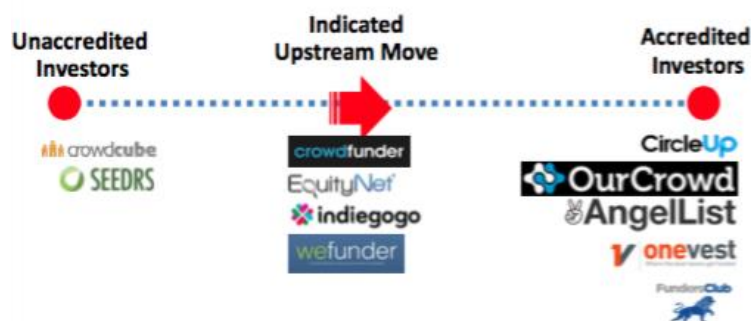
Indeed, equity crowdfunding got an endorsement in cold, hard cash in October 2015, when China-based private equity firm CSC Venture Capital gave a \$400 million check to funding platform AngelList for early-stage startup investments.^{73,74}

But it's important to understand that not all crowdfunding is alike.

Obviously, there's a vast difference between making a \$200 donation to a clever entrepreneur or artist through Kickstarter and investing \$20,000 for an equity stake in a startup using OurCrowd.

Even among equity crowdfunding companies, however, there are important differences. Does the crowdfunding platform accept only accredited investors, or open the doors to almost everybody?

The following chart shows how the major equity crowdfunding competitors are answering this question:



There are also differences in how much effort crowdfunding platforms put into vetting companies looking for investments, and how much management help is provided to the startups getting the investments.

These differences can be very important. More rigorous diligence may be a defense against fraud, for instance. In October 2013, after allegations of fraudulent conduct, the SEC took “emergency action to stop an ongoing securities offering fraud”⁷⁵ by an oil and gas company Ascenergy. The complaint alleges that “Ascenergy made the general solicitations on its own website and several crowdfunding websites, including crowdfunding.com, equitynet.com, fundable.com, and angel.co.”⁷⁶

An argument can be made that performing due diligence may uncover the bad actors looking to raise funds over crowdfunding portals.

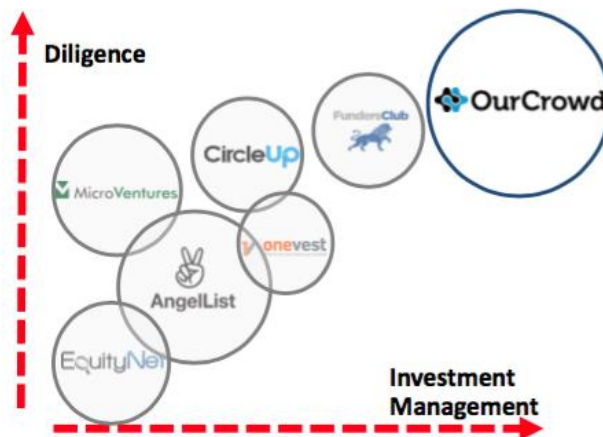
⁷³ <http://venturebeat.com/2015/10/12/angellist-gets-400m-from-chinas-csc-venture-capital-for-early-stage-startup-investments/>

⁷⁴ <http://www.cnbc.com/2015/10/12/angellist-receives-400-million-for-start-ups.html>

⁷⁵ <https://www.sec.gov/litigation/complaints/2015/comp23394.pdf>

⁷⁶ <https://www.sec.gov/litigation/complaints/2015/comp23394.pdf>

There's also a strong argument to be made that startups can benefit from management help. That, after all, is a standard part of the venture capital investing model. But few crowdfunding platforms take that kind of active role in the companies they invest in. This chart shows how OurCrowd is unique in both vetting companies and providing management help.



OurCrowd believes that its strategy is the most effective in the equity crowdfunding space. Like venture capital firms, OurCrowd intensively researches companies seeking investments and selects only 2% of the opportunities it sees. In addition, OurCrowd invests its own money and works with management before opening the deals to accredited investors. It's a democratic venture capital model.

Here are some other crucial differences that set OurCrowd apart from the rest:

- The size of the rounds at OurCrowd is larger, with millions of dollars raised. One round in 2015 was \$15 million.
- OurCrowd takes board seats on portfolio companies. We fill them using an innovative mode of placing mentors and industry experts to represent the crowd.
- OurCrowd focuses extensively on crowdbuilding to mobilize the efforts, connections, and passions of the crowd. That enables the broader community, not just the investors in the company, to help push companies forward. The broader community, and investors, play roles in strategic hires, sourcing partners, additional funding rounds, and promotion on social media and in the press.
- Moreover, OurCrowd has engaged with corporate partners to an unusually strong degree. For instance, OurCrowd has signed a landmark arrangement with GE to co-invest, and is forging strong relationships with many other Fortune 500 companies who see the benefits of OurCrowd's model.

Interesting data points from OurCrowd:

- 44 out of 91 companies have already raised follow-on rounds
- 38% of active investors with more than 5 companies in their portfolio
- 78% of all OurCrowd portfolio companies include a strategic, corporate or venture capital co-investor
- Largest equity crowdfunding round was \$15M

For all these reasons, OurCrowd's approach is winning accolades. As crowdfunding expert Richard Swart told *Bloomberg Businessweek* in early 2015, "OurCrowd is hands down the most successful equity-crowdfunding platform in the world right now."⁷⁷

More important, the OurCrowd model is getting results. So far, investors from OurCrowd's 10,000 accredited members have deployed \$200M in 91 companies. The companies span a wide range of technologies, from energy and agtech to cybersecurity, healthcare, financial technology, the Internet-of-Things, and e-commerce.

A few highlights:

- **Consumer Physics**, named as one of the World Economic Forum's Technology Pioneers in 2015, is the hand-held molecular sensor developer, also singled out as one of Europe's hottest startups by Wired.⁷⁸
- **Zebra Medical Vision**, another of Wired's "hottest startups," has developed technology that enables computers to spot diseases on CT scans, MRIs, and X-Rays.
- **ElMindA**, which can transform neural data into visual 3D maps of brain activity, was named as one of the World Economic Forum's Technology Pioneers in 2015.⁷⁹ It also was listed as one of the "five most innovative brain tech companies and projects operating today" by Geektime.⁸⁰
- **MUV Interactive** has created a trailblazing "Bird" wearable that turns every surface into a touchable interactive screen through motion, touch, and voice.⁸¹
- **Lucid Energy** has installed turbines in the water pipes of cities like Portland, Oregon to generate clean hydroelectric power from municipal water systems.⁸²
- The investment opportunities offered by the dozens of OurCrowd portfolio companies like these have attracted other top-tier co-investors such as Khosla Ventures, Innovation Endeavors, Sequoia Capital, and Andreessen Horowitz.

In addition, four of OurCrowd's companies have already made exits:

- **ReWalk Robotics**, which makes wearable robotic exoskeletons that enable paraplegics to walk, completed a 2014 IPO on the NASDAQ.⁸³
- **BillGuard**, which created a spending-and-credit-tracking app, was acquired by marketplace lender Prosper. The deal showed "that alternative lending is going mainstream," *Forbes* wrote.⁸⁴
- **Trendlines**, a medical and agricultural tech incubator, completed its IPO on the Singapore Exchange in November 2015.⁸⁵
- **Nextpeer**, a social gaming startup, was acquired by Viber, a leading messaging, voice and video service in July 2015.⁸⁶

⁷⁷ <http://www.bloomberg.com/news/articles/2015-05-06/crowdfunding-s-hot-formula-passion-for-israel-facebook-dreams>

⁷⁸ <http://www.wired.co.uk/magazine/archive/2015/09/features/100-hottest-european-startups-2015-tel-aviv>

⁷⁹ <http://widgets.weforum.org/techpioneers-2015b/>

⁸⁰ <http://www.geektime.com/2015/09/03/in-honor-of-oliver-sacks-5-companies-revolutionizing-brain-tech/>

⁸¹ <http://www.israel21c.org/put-bird-on-your-finger-and-rule-your-digital-world/>

⁸² <https://magazine.good.is/articles/portland-pipeline-water-turbine-power>

⁸³ <http://www.bizjournals.com/boston/blog/bioflash/2014/09/rewalk-robotics-shares-soar-after-downsized-36m.html>

⁸⁴ <http://www.forbes.com/sites/maggiemcgrath/2015/09/25/prospers-30-million-billguard-acquisition-is-a-sign-that-alternative-lending-isnt-so-alternative/>

⁸⁵ <http://www.prnewswire.com/news-releases/trendlines-ipo-completed-with-strong-investor-interest-s387-million-total-proceeds-raised-300184473.html>

VII: Concluding Remarks from OurCrowd Founder & CEO Jon Medved

"Equity crowdfunding is finally going mainstream. Done right, it works. And it is changing the landscape of investing. Ordinary people with only tens of thousands of dollars to invest now have the same opportunities for major returns that were exclusively reserved for well-heeled venture and angel investors.

Moreover, the democratization of investing seems to be changing the types of problems and challenges that entrepreneurs are tackling. More and more, entrepreneurs are engaging with global issues, such as the need for clean water and clean energy. Meanwhile, many equity crowdfunding investors are as interested in helping the world as they are in making money.

We see this trend at OurCrowd. More than a third of our companies aim to have a social impact—and those companies are actually outperforming the rest of OurCrowd's portfolio.

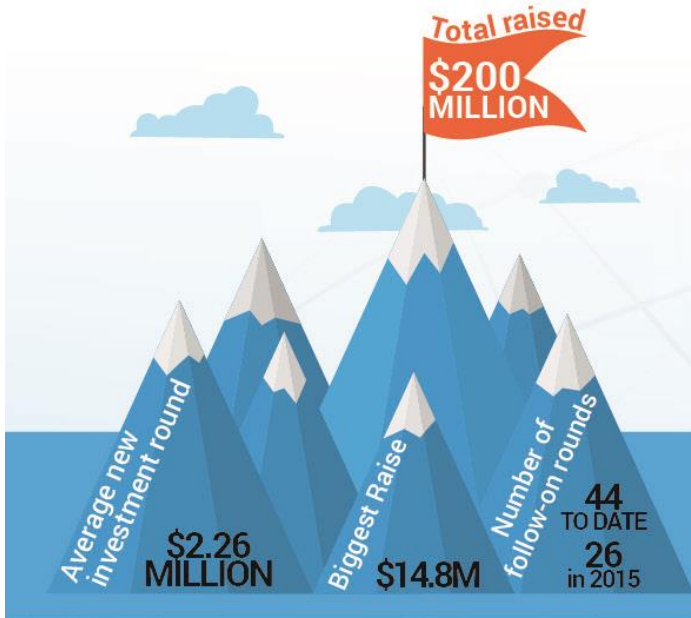
Equity crowdfunding, therefore, may not just be opening up investing to millions of people. It may also be helping to make the world a better place.

We are still in the very early days of equity crowdfunding. While we are excited by the rapid progress to date, I think most of us are still unaware just how big this opportunity can ultimately become.

I think we will all be surprised by the eventual size, importance and acceptance of equity crowdfunding. As access to capital is flattened around the globe, as deal flow is democratized, and as huge amounts of new money flow to great entrepreneurial companies, I think equity crowdfunding will take its rightful place as the fourth pillar of innovation finance—joining together with corporate finance, venture capital, and angel investment."

⁸⁶ <http://finance.yahoo.com/news/viber-acquires-nextpeer-boost-gaming-130000081.html>

OurCrowd 2015 Year in Review



How big?



TRENDLINES GROUP
SGX:42T, 2015

NEXTPeer
Acquired by Viber, 2015

BILLGUARD
Acquired by Prosper, 2015

REWALK
NSDQ: RWLK, 2014

Who?

10,000
ACCREDITED INVESTORS

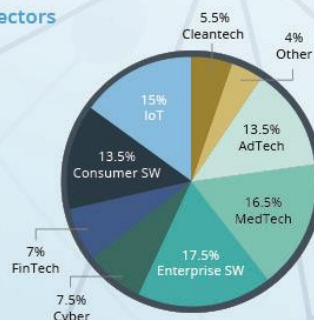
91
PORTFOLIO COMPANIES

100
EMPLOYEES WORLDWIDE

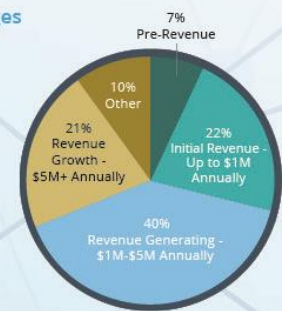
110
COUNTRIES OF OURCROWD MEMBERSHIP

Our Portfolio

Sectors



Stages



*As of December 2015



Global Offices:

Jerusalem
New York | San Diego
Toronto | Sydney



Global Top 10 Most Innovative Fintech Company - OurCrowd at #10 on the KPMG Fintech 100 List 2015



Most Innovative Companies of 2015
OurCrowd Portfolio Companies: EIMindA, Medaware, ReWalk, Freightos, Billguard, Zula



24 Israeli Companies You Should Watch For
OurCrowd, plus portfolio companies Billguard, Webydo, Cimagine, Consumer Physics



Innovation Award 2016 Honoree
OurCrowd Portfolio Company: Consumer Physics



100 Most Influential People in Israeli Hi-Tech in 2015 - OurCrowd Founder & CEO Jon Medved



The 27 Hottest Israeli Startups of 2015
OurCrowd named, along with portfolio company Webydo

To learn more, visit www.ourcrowd.com

About OurCrowd

OurCrowd is one of the world's leading equity crowdfunding platforms for accredited investors to invest in Israeli and global companies. Managed by a team of seasoned investment professionals and led by serial entrepreneur Jon Medved, OurCrowd vets and selects opportunities, invests its own capital, and brings startups to its accredited membership of 10,000 global investors. OurCrowd investors must meet stringent accreditation criteria and invest a minimum of \$10,000 per deal of their choice. OurCrowd provides post-investment support to its portfolio companies, assigning industry experts as mentors and taking board seats. OurCrowd has raised \$200M for its 91 portfolio companies, which include leading companies, such as mPrest, enVerid, Surgical Theater, Borro, Zebra Medical Vision, Consumer Physics (SCiO), BioCatch, and ReWalk, OurCrowd's first portfolio company to complete a successful IPO on the NASDAQ. Visit us online at: www.ourcrowd.com

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