

Crowdfunding Will Make 2013 The Year Of The Gold Rush

The following guest post is by David Drake, founder and chairman of LDJ Capital, a New York City private-equity firm, and of The Soho Loft Capital Creation Events series, a global events and media company.

While 2012 was an amazing year for crowdfunding, 2013 should outdo it. Here are my half dozen predictions for the year – and why this new form of capital formation will continue to soar.

1. The Global Crowdfunding will double in annual revenue to \$6 billion in 2013

Crowdfunding was exploding quietly in 2012 for the non-believers and loudly for the embracers between March 8, 2012 and President's Obama signing of the JOBS Act into law on April 5, 2012. Some of the largest sites in the world for rewards and donations – Kickstarter, Indiegogo, Grow VC and RocketHub – saw their daily traffic and donation amounts double within a few months. Kickstarter has had its issuers raise a cumulative \$200+ million in sales 2008-2011 to reach an additional \$145+ million to a total of \$345+ million by year end 2012. To give you an example, LendingClub reached \$75+ million per month in debt lending as a crowd funding platform in November 2012. It is the largest U.S. peer-to-peer lender and will hit an additional \$1 billion in loans 2013 vis-a-vis the cumulative \$1 billion it lent since inception 2007.

The global predictions in 2013 for the debt crowdfunding industry are strong. LendingClub will add almost \$1 billion in 2013 to the total of \$3 billion reached in 2012. There are 34 additional debt crowdfunding firms growing globally, including Zopa (\$400 million since inception) and Prosper (\$250 million). The balance of the \$1.25 billion will come from donations and rewards-based crowdfunding, which will provide the bulk of growth in 2013 and 2014.

2. The EU will embrace crowdfunding laws

Led by the Directorate General for Enterprise and Industry, the EU Commission will have a couple more workshops Q1-3 2013 and create a proposal towards making crowdfunding for equity a legal option by Q4 2013. It will take EU 1,000 days to make such a law legal from the day a proposal is created. My prediction is that the EU is lethargic in pan-European law implementations.

3. Crowdfunding platforms will turn into a commodity

The 700+ crowd funding sites today will increase to 1,500 by Q2 2013 and quietly contract under the hood to 200 well-financed and revenue-generating sites by Q1 2014. Sites like Crowd Valley with 300 plus private label crowd funding platforms offered free to organizations will start charging for these services. These private label extensions will lead to the growth of more community sites using crowd funding but the back end technology will be run by a few dozen leading platforms. In parallel we will see 1,000 more sites using crowd funding with free API technology from firms like CrowdTilt which allows any site to start group charging and collecting money from several projects and thousands of donors.

4. M&A will not fuel Crowd Funding in 2013, but international expansion will

Crowdfunding firms are poorly funded, with few assets to be purchased. The lack of standardized valuations for crowdfunding sites makes 2013 a year where we see growth but M&A will mature to grow fastest in 2014. M&A in 2013 will probably kick up little dust, just as it failed to do in 2012. We have seen some acquisitions but those are more of acquiring the liabilities of running sites and spending more money to drive traffic. Crowdfunding platform assets will not mature in 2013. Crowdfunding has one inherent challenge – a bottomless pit cost requirement to drive traffic to your site. Next year will see a the gold rush: International expansion firms will grab market share and organically grow with innovation being the discernible advantage. Kickstarter launches in the UK, Indiegogo is already in Germany and several other countries. We will see more international expansion by US companies in the field. Meanwhile, more leading international firms, like Crowd Valley and Give2Gether, will push into the US, while Kickstarter and Indiegogo get as much as 30% of their revenue from abroad.

5. Broker-dealers will lead the “Rich Man’s Crowd Funding” strategy

The smallest broker dealers will consist of crowdfunding for equity players licensed with FINRA that use “Rich Man’s Crowd Funding.”

What’s that? Currently you raise private capital mainly through SEC exemptions. Most common is Regulation D, 506 which allows you to have only 35 non-accredited investors and an unlimited amount of “rich people” allowed to invest. To be accredited you have to have earned \$200,000 (\$300k for married couples) the last 2 years or have a net worth over \$1 million (and you must exclude the value of your home). Reg D, 506 as we call it, stood for \$900 Billion in capital raised in 2011.

The large distribution online promised by crowd funding technology will empower broker dealers to differentiate and use the crowdfunding as a tool for their clients. It was presented to the National Investment Banker Association Spring 2012 and today we have seen recent movements of SoMoLend and CrowdFunder, which signed up with the leading broker dealer Gate Technology whose back end crowd funding platform is run by visionary CEO Vince Molinari. We will see the two to three dozen crowdfunding-for-equity pure plays partner up with broker dealers in Q1 2013 and start pursuing SEC broker-dealer transactions under the Rich Man’s Crowd Funding option, as everyone waits for crowdfunding to become legal.

We predict Crowd Funding for Equities will not become a legal SEC / FINRA regulated program in 2013 but rather by January 2014 because of the byzantine processes required for the SEC and FINRA to interpret the JOBS Act and implement the law. See Obama's 10 Steps with SEC & FINRA to Legalize US Equity Crowd Funding.

6. By July we will see issuers raise \$1 million in capital per week

By year end we will see a total of 104 startups in 2013 having raised a minimum \$1 million through crowd funding in 2013. Crowdfunding will be a generally accepted tool to raise capital and the general public explosion will come in 2014 when corporate America officially embraces it.
