Equity crowdfunding – a case study

This section provides a fictional case study applied to equity crowdfunding

Oscar's Plastics Factory

Setting the scene

Oscar owns a large plastics business in Spain, with 20 full time employees on the factory floor and another 10 in sales and administration. He had been thinking about expanding his operations to other European markets, but in order to do that he needed capital to expand the capacity of the factory and hire more staff to manage the expansion. In total Oscar calculated that he needed about €1.2million. Oscar had approached some private equity and VC funds one or two of which were interested, but wanted a 26% stake in the company and involvement in the strategic decisions, including a very ambitious expansion plan that Oscar felt could put his business at risk. After searching for alternatives, Oscar came across equity crowdfunding and realised it could be a way to raise the necessary capital without the need to relinquish so much control.

Planning the pitch: days 1-10

Oscar began by searching for everything that he could find on equity based crowdfunding, what it was and how it worked. He also researched which sites offered it and under what conditions and fees. He decided to give it a try, aiming to give away less of his company, and less control than expected by the venture capitalists. Oscar chose a crowdfunding platform with a large number of investors already on the platform but in the knowledge that he could not rely on them alone. In order to get their interest and attention he would need to bring his own crowd too – those who knew him and his business would help to raise his profile with other investors. He decided that aiming for a €1.2m target was reasonable, and that based on forward valuation, offering a total of 20% of the company would be fair and sufficient. Oscar knew that the platform would check the accuracy of his underlying numbers, but that it is up to the investors to decide on the valuation itself. He therefore took care to explain the reasoning behind his valuation.

Creating the pitch: days 11-30

Oscar spent a lot of time working out the most direct and relevant way to present the numbers. He worked closely with an advisor, recommended by one of the platforms he spoke to, who was able to give him valuable and objective feedback at each stage in crafting and honing his plan. Oscar realised that he would need to lead with a short, two or three minute, video. He hired professionals and the video was shot in a day with scenes from the factory floor, products and Oscar's commentary. Oscar checked and rechecked his campaign for gaps or inconsistencies. He also got some very good feedback on his campaign from the platform's advisors and they answered his technical and legal questions. Oscar heard from various people on and offline that they were very interested in his proposition. He also had conversations with a few key people keen to invest and when he realised that between them they would be likely to give him a flying start of 20-30% he knew he was ready to launch his campaign.

The fundraising period: days 31-60

Oscar made sure he was active on social media promoting the campaign and making it visible. He found that his crowdfunding quest and the stories around it piqued the interest of local journalists and he was also featured in a national trade journal.

Post-campaign: Days 61 - 80

Oscar quickly reached almost 30% of his target– mostly from those already familiar with him and his business, who knew that his campaign was launching. Within a three weeks or so he reached his target. Rather than commit further equity, an option he had considered and planned for, Oscar decided to finish the campaign early and take it off the platform with a successful outcome. The first thing Oscar did was to thank all the people involved and welcome them as new co-owners of the company. He worked with the platform, which had all the systems in place to issue share certificates and deal with the other formalities.