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THE ULTIMATE STARTUP GUIDE BY peopleperhour

PART 1: STARTUP FUNDING TRENDS

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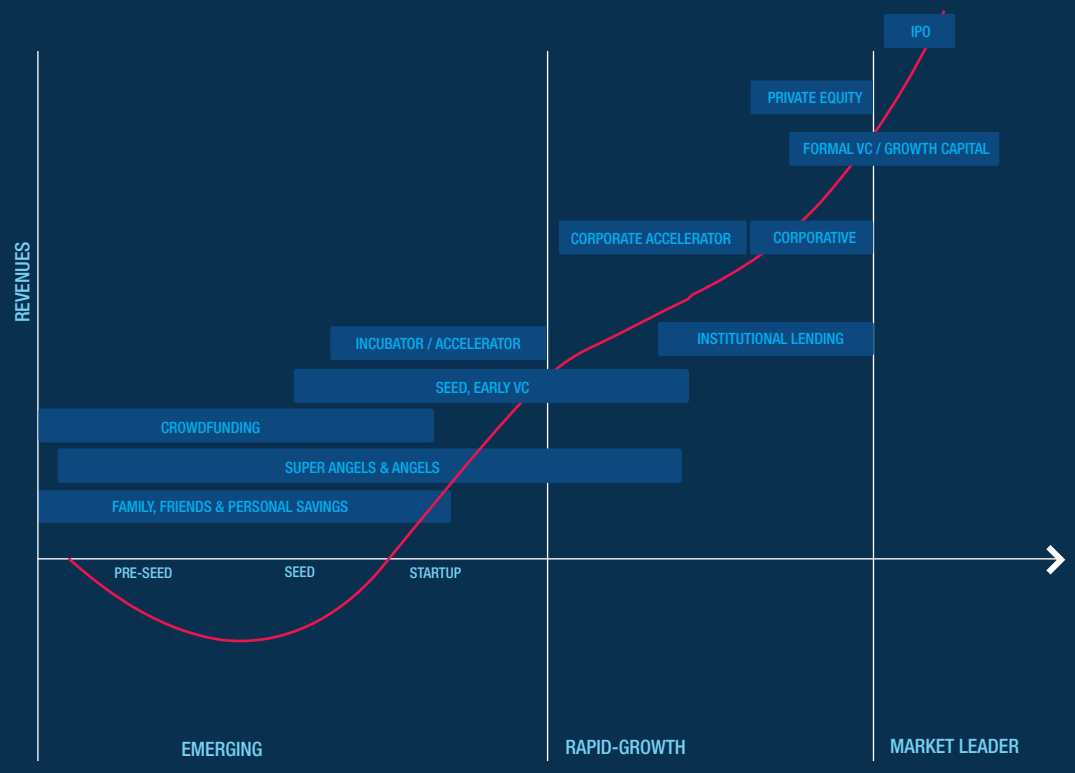
The latest trends in the startup fundraising ecosystem, and what this means for your startup:

A massive transformation is underway in the startup-funding ecosystem; the shift towards democratizing fundraising has meant that startups at every stage of the development cycle have greater access to capital than ever before. This new generation of fundraising has seen unprecedented growth of 167% in 2014, with an estimated global funding volume of $16.2billion (USD) rapidly proving to be a force capable of bridging the liquidity gap, and reducing industry fragmentation for early stage startups. The economic downturn of 2007 was a defining period in the fundraising ecosystem, and ultimately the marker responsible for changing the course of fundraising. Consequently, we have observed VC's opting to de-risk their portfolios to later stage revenue generating firms, angels and super-angels are stepping in to fill the gaps where they are participating in much larger early-stage rounds, and finally, crowdfunding has seen explosive growth as an innovative new funding vehicle for very early stage startups and SMEs alike.

- Crowdfunding has emerged as the new paradigm for early-stage funding
- Angels and super-angels are increasingly taking a larger share in early-stage (pre seed, seed and follow-on series A)
- Venture capital firms are more risk averse, opting to invest in later stage ventures who demonstrate a short path to revenue generation

DEVELOPMENT STAGES OF STARTUP



Crowdfunding the new paradigm for early-stage funding:

Accessibility and speed are the key drivers behind both the emergence and explosive development of crowdfunding platforms. Increasingly, crowdfunding has become a vehicle for a low intensity startup investment platform. These platforms offer early-stage ventures the ability to mitigate risk and scope market readiness very early on. They also provide potential investors transparency of discovery and the ability to openly track take-up and development. These collaborative marketplaces are rapidly organizing themselves into efficient funding platforms that have proven to reach critical mass. Crowdfunding platforms offer a range of opportunities for startups, hardware ventures seem to find tremendous success on reward-based platforms such as Indiegogo, where product scope and take-up can be tested quickly, prior to scaling up production. Service and technology based ventures are highly sought after through the equity-based platforms such as AngelList, where clear unit economics are evident and traction is visible.

THE UK ALTERNATIVE FINANCE INDUSTRY

	MEDIAN AMOUNT	AVERAGE GROWTH	£ 2012	£ 2013	£ 2014	2025
P2P BUSINESS LENDING	73,222	250%	62m	193m	749m	Total Crowdfunding platform estimated to swell 96 ($b)
REWARD-BASED CROWDFUNDING	3,766	206%	4.2m	21m	26m	
EQUITY-BASED CROWDFUNDING	199,095	410%	3.9m	28m	84m	

Source: Nesta, 2014

According to the World Bank the global crowdfunding market potential is likely to exceed $96b by 2025, or comparatively 1.8X the size of the global VC industry. Given the explosive growth over the last two years, we anticipate global funding volumes to exceed $30 billion in 2015 alone, on track to take over the World Bank estimate in the next 5yrs with an additional estimated 5 billion people coming online.

Top Trending crowdfunding platforms for early-stage ventures:

Reward-based: individuals contribute towards a specific project with the expectation of receiving a tangible reward (product) at a later date in exchange for their contribution. Average platform growth (UK) 206%.

Leaders in this space: Indiegogo
Founded in 2008
$40 million Series B fundraising round announced last January.
Hosted over 350,000 campaigns, distributing millions of dollars globally.
The most successful campaign HIVE, raised over $6.3 million ($2.18 million of which was raised in 24hrs).
Over $200 million has been raised by campaigns through VC's
Interested in moving into equity based crowdfunding sphere.

Equity-based: sale of a stake in business to a series of investors in return for an investment, vast majority fall within startup stage of development. Average platform growth 410%

Leaders in this space: AngelList
Founded in 2010.
Largest seed fund globally, $24m round A raised.
90 syndicates.
Monthly volume of $10m.

P2P Business lending: debt-based transactions between individuals and existing SMEs with many individuals contributing towards fulfilling one loan. Average platform growth (UK) 250%

Leaders in this space: FundingCircle
Founded in 2010.
£595,456,940 loans funded so far.
Average stage of development of early venture ~2yrs.
Loan volumes are tripling YoY.
22 million funded loans per month.
Funding Circle is now the 5th largest net lender to businesses in the UK.
Businesses typically access finance in 12 days.

Angels and super-angels are increasingly taking a larger share in early-stage (pre seed, seed and follow-on series A rounds):

Angels and super-angels are quickly becoming more significant with much larger pools of capital to draw upon. We are seeing Angels beginning to become more organized and accessible on platforms such as AngelList where Angels are able to leverage their networks to raise much higher amounts of capital, while simultaneously defraying risk by syndicating deals. Moreover, we are observing that Angels are rapidly expanding their presence into very early-stage startups, and increasingly opting to stay on for follow-on rounds. The average seed investment for Angels is typically between £100-500K but, increasingly we are seeing syndicated deals of £1.5m+. Angel deals by company stage in across the UK in 2014 saw participation in Seed at 23%, Startup 14% and Series A at 53%, according to the UK Business Angels Association.

> These large, high-priced private financing rounds are the defining characteristics of this tech cycle.' – **Bill Gurley**

Venture capital firms are more risk averse, opting to invest in later stage ventures who demonstrate a short path to revenue generation:

The traditional VC model has changed dramatically over the last several years; in part due to the economic downturn which led to de-risking of portfolios but, also largely due to the diminishing costs of starting a business. Many of today's fast -growth businesses do not have significant technological or manufacturing investment requirements, thus the time and cost requirements to prove concept have declined dramatically in recent years. Consequently, VC's are targeting later-stage investments that are closer to exit when the product or service can be rapidly scaled. Trending sectors for investment in 2015 are by far information technology and consumer services, where there is an immediate connection to consumers and provide rapid scalability. As companies are choosing to stay private longer, more late-stage capital than ever before is being deployed. Non-traditional actors such as hedge and mutual funds are choosing to diversify their portfolios by investing in late-stage private companies.

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Commercial Services

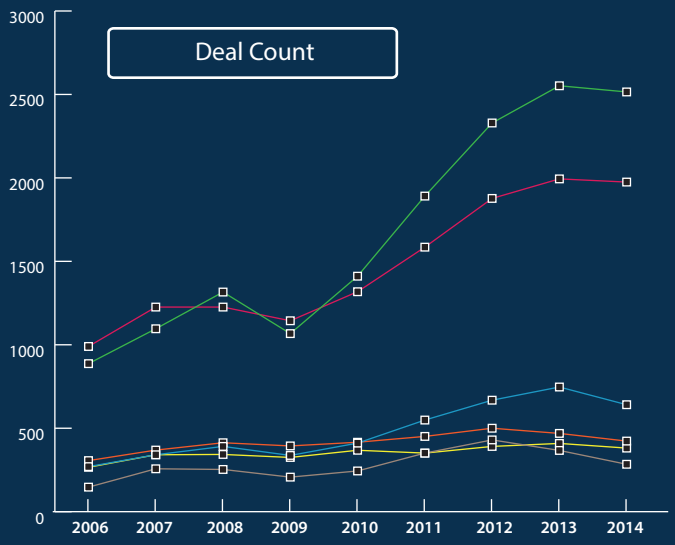

Healthcare Devices and Supplies

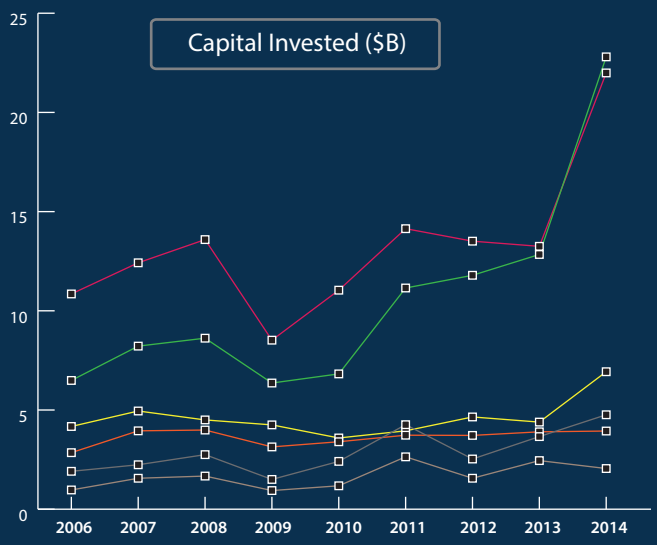

Media

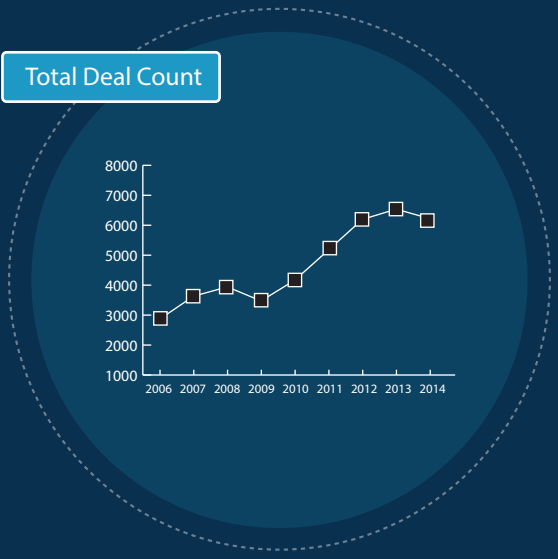

Pharmaceuticals and Biotechnology

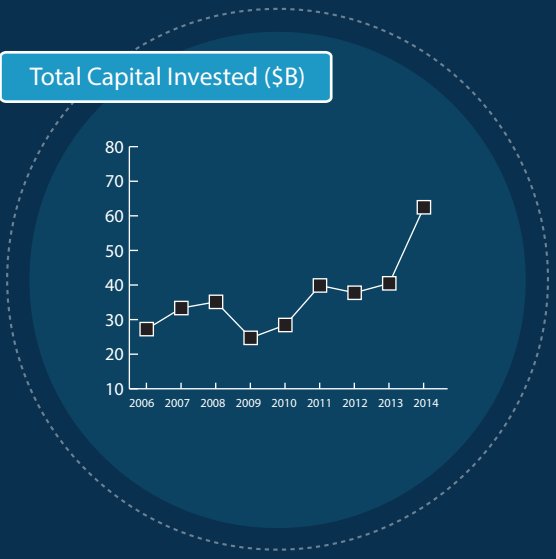

Software


Non-Core VC









Source: Pitchbook 2015

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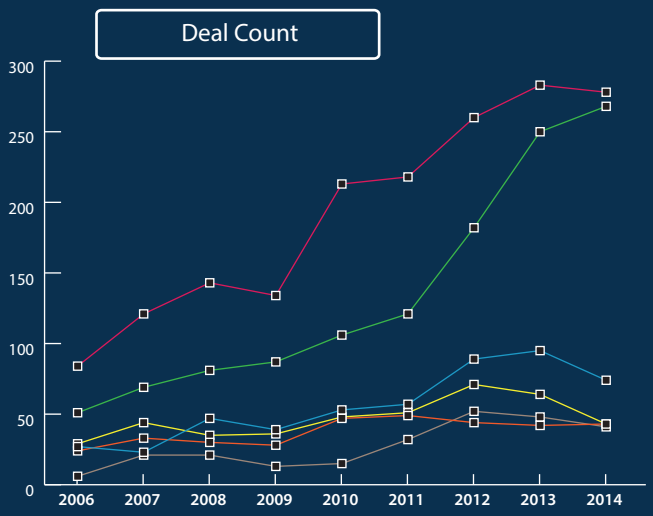
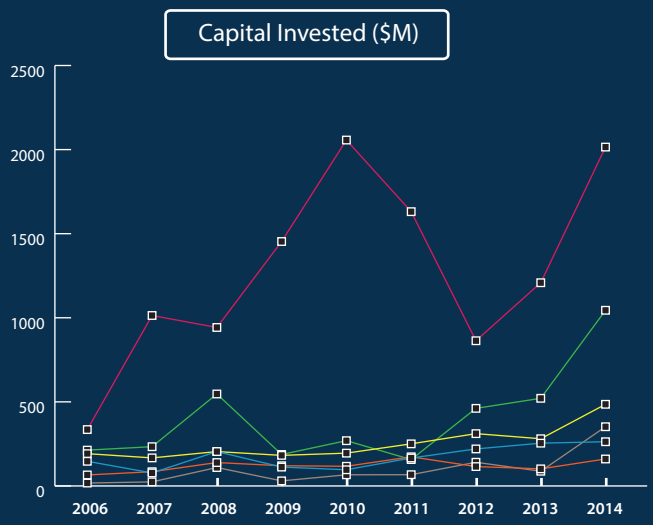
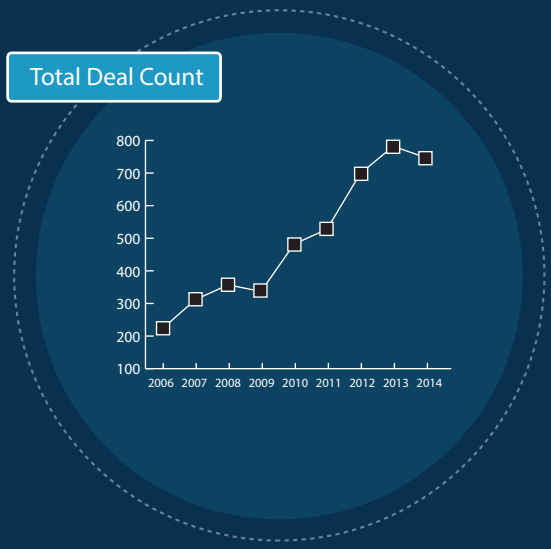
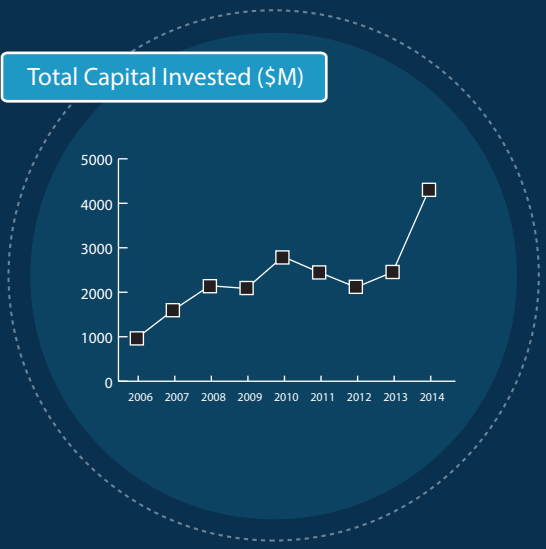




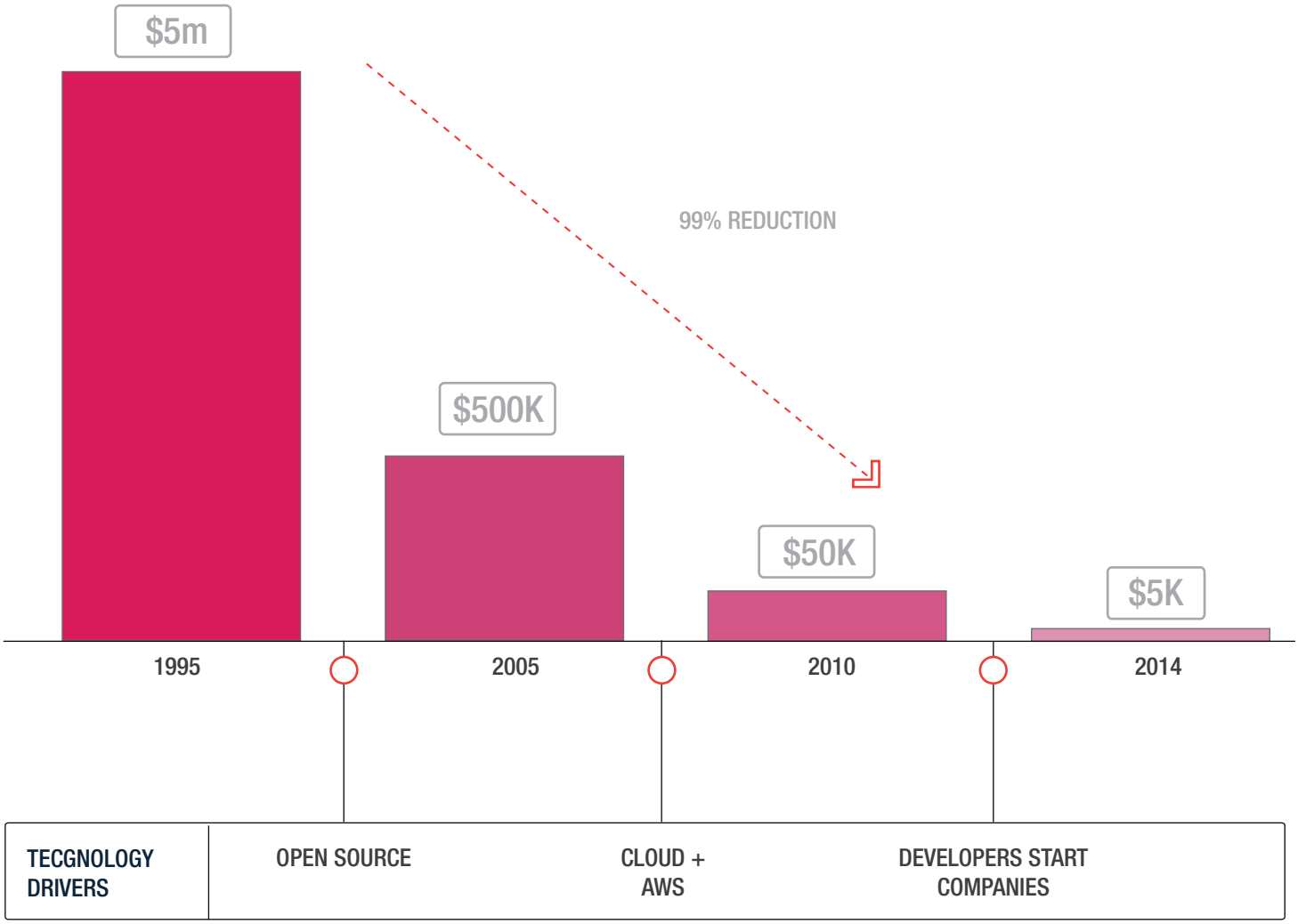




Source: Pitchbook 2015

Over the past four years the amount of seed investment has increased by over 200%. Furthermore, it's worth noting that these larger seed rounds are not resulting in longer periods between Seed and Series A, and 2014 saw median Series A round size increase significantly (Tomaz Tunguz, Red Point Ventures).

FALLING COST OF TECH ENTREPRENEURS LAUNCHING PRODUCT



This new wave of disruptive innovation in the collaborative economy is proving to be a tremendous force that will continue to transform the funding landscape as more and more VC's and Angels opt to utilize crowdfunding networks as an investment platform. We will see this having a major impact on the global economy as promising startups will increasingly have access to greater sources of capital, improving the innovation cycle. Similarly, sophisticated investors will be operating with greater transparency of process, diminished search and discovery periods. The future of the alternative finance world is only just beginning, an exciting frontier for startups!

i Massolution, 2015

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