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Raising Capital through Equity Crowdfunding

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Equity Crowdfunding ("ECF") is a way of raising funds, primarily through the internet whereby an investor receives shares in return for their investment in the company which promotes the business.

In 2015, the Securities Commission ('SC") released the guidelines on Regulation of Markets under Section 34 of the Capital Markets and Services Act 2007 ("CMSA") to regulate Equity Crowdfunding ("ECF') in Malaysia, making Malaysia the first country in the Asia-Pacific to legislate ECF.

In the same year, the SC approved six (6) ECF operators, local and foreign to launch the ECF platforms. These operators are, Alix Global, Ata Plus, Crowdonomic, Eureeca, PitchIN and Propellar Crowd+.The move by the SC has made raising capital through equity crowdfunding more convenient to issuers in Malaysia.

The first step to tap into this market is to be properly prepared. A well planned campaign will generate and maintain the interest in the company. As such, it is pertinent to research on the potential interest in the project/ idea before embarking on crowdfunding. Research on the ECF platforms which will best suit your business ideas/project. Some ECF platforms are more well-known than others which could potentially lead to a larger target audience.

Other ECF platforms may be niche players which may reach a smaller but more relevant audience who is more likely to participate. Therefore, picking an appropriate ECF platform is important to the capital raising exercise.

If you are a start-up company or small business planning to into the ECF market, you must realise that great ideas are not enough to raise money. In reality, the business owner will need to be more pragmatic about the amount that needs to be raised and the time frame needed to raise it. As such, it is best to have a business plan highlighting the amount of money needed and the various milestones of the project. Raising capital through ECF in stages keeps the target amount more achievable and the timeline to raising the funds shorter. In addition, raising capital in various stages helps manage the expectations and the deliverables of your backers. If expectations are met, your original backers will continue with your next stage of capital raising making it much easier.

For an ECF platform to get the buy-in from credible investors, it is also important to note that valuation is important. Existing shareholders tend to value the company too high to retain more equity. However, in doing so, the company will face negative response, therefore reducing the chance of the offer succeeding and potentially resulting in a waste of time and money. Fair valuation will not only attract credible and sophisticated investors, but may provide the company with a credible corner-stone investor. Start-ups and small businesses need these cornerstone investors as co-investors as it provides comfort that the business already has the commitment of a cornerstone investor and the crowd money is merely a top-up investment.

With the SC's set limitations on how much companies are permitted to raise - RM3.0 million in a 12-month period - and how much retail investors are allowed to invest - maximum of RM5,000 per issue and a total amount not exceeding RM50,000 in a 12-month period - through crowdfunding, a company raising funds through this channel could end up with 600 additional shareholders after one year. This is assuming there are no angel investors or sophisticated investors in the mix as well.

How Equity Crowd Funding Works

$ 1,000,000

1. A Company creates its online profiie and submits its funding campaign.

2. Crowdfunder platform reviews and approves campaign

3. Campaign Launch: Investors review the company, participate in the conversation, commit to invest.

100%

4. Companies approve and close investor commitments, documents signed, funds transferred.

Managing these shareholders may be time-consuming but with proper channels of communication, it can unlock benefits to the company in terms of brand value exposure, which can lead to a larger pool of investors in a second capital raising. Further, knowing your shareholders may be beneficial, as your shareholders may offer experience, expertise and a large network of supporters which you can tap on. An open channel of communication will also ensure that shareholders are there to support you through difficult times.

For ECF to be successful in Malaysia, there must be sufficient deal flows and quality businesses coupled with credible investors to create a vibrant platform.To achieve this, ECF operators need to play a role in ensuring that quality businesses with sound business plans are admitted and sufficient due diligence has been undertaken before a company can be accepted into the ECF platform. Business owners must be cognisant that undertaking this route of capital raising is not merely looking for cash to fund the business ideas but also for marketing benefits of a public offer and harness its network and support base.