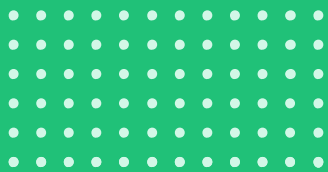


The Founder's Guide to

STARTUP

FUNDING in 2021!

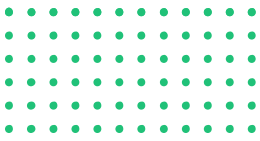


From Crowdfunding to Venture Capital

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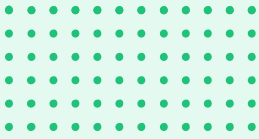
Introduction

29% of startups shut their doors due to the poor allocation of funds,

whether raising too much money or not enough at the proper stage of their lifecycle, according to an analysis of 101 failed startups by [CB Insights](#) (Source: [CB Insights](#)). And according to a Harvard study, by the time startups are three years old, 50% of founders are no longer the CEO, a decision usually made by the company's investors. Source: [Harvard Business Review](#)



These are clear signs that as a founder, it's important to constantly strategize your company's funding and make sure you know all of the funding options at your disposal, so you don't make a costly mistake that impacts your future.

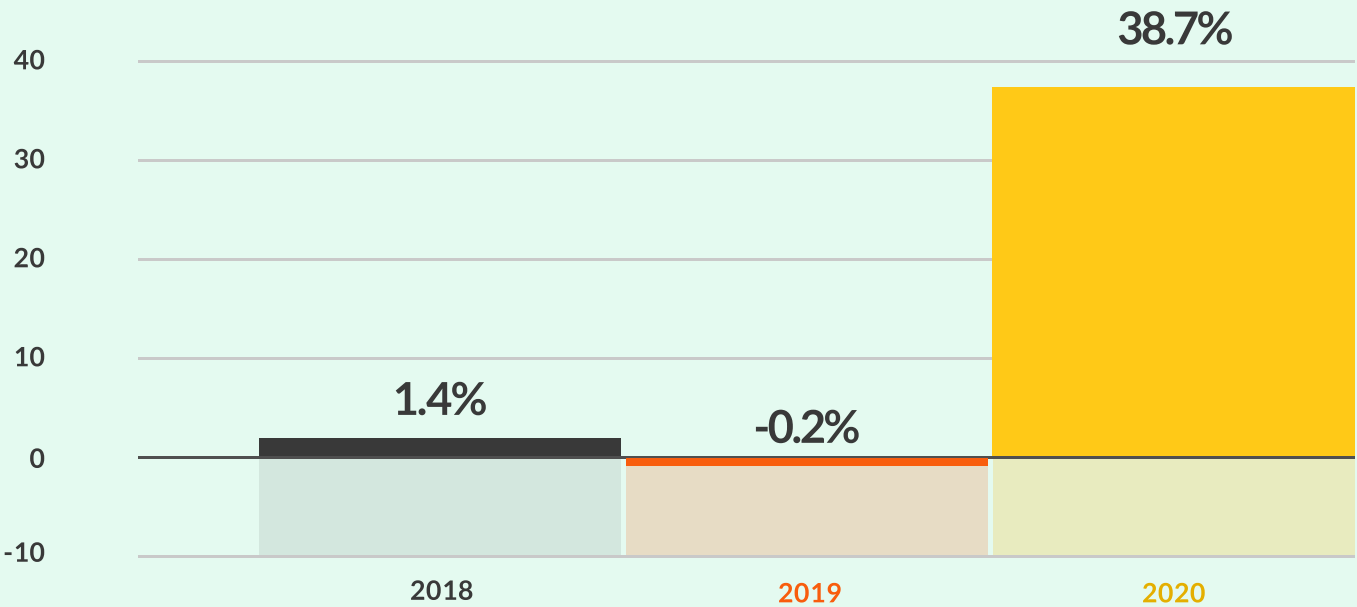


And today, the future is murkier than ever as a result of the pandemic. **The International Monetary Fund reported that this is the worst economic downturn since the Great Depression.** As of August 2020 in the U.S., 163,735 total U.S. businesses on Yelp closed since the beginning of the pandemic and 60% are permanent closures. That's nearly 100,000 businesses that do not plan to reopen. (Source: [Mimicnews.com](https://mimicnews.com))

100K
businesses will not reopen.
Source: mimicnews.com

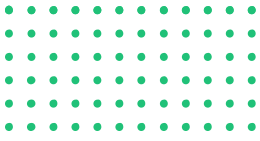
However, there has been an unexpected upside to the economic effects of COVID-19:

New Business Growth Rates (%)



Source: [US Census Business Formation Statistics \(Week 46\)](https://www.census.gov/newsroom/2020-08-11-us-census-business-formation-statistics-week-46)





As of November 14, 2020, new business formation has surged during the pandemic compared to the relatively nonexistent growth reported in 2018 and 2019. Furthermore, the year-to-year growth in the number of startups launched as of the 46th week (ending November 28, 2020) is the highest rate in the past 13 years.

Despite the challenges, 2020 has been a year of innovation with more individuals deciding to start entrepreneurial ventures and attempt to achieve their dreams. And with the influx of entrepreneurs, access to funding just got a lot more competitive.

We're
here
to
help.



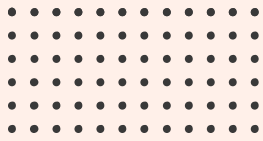


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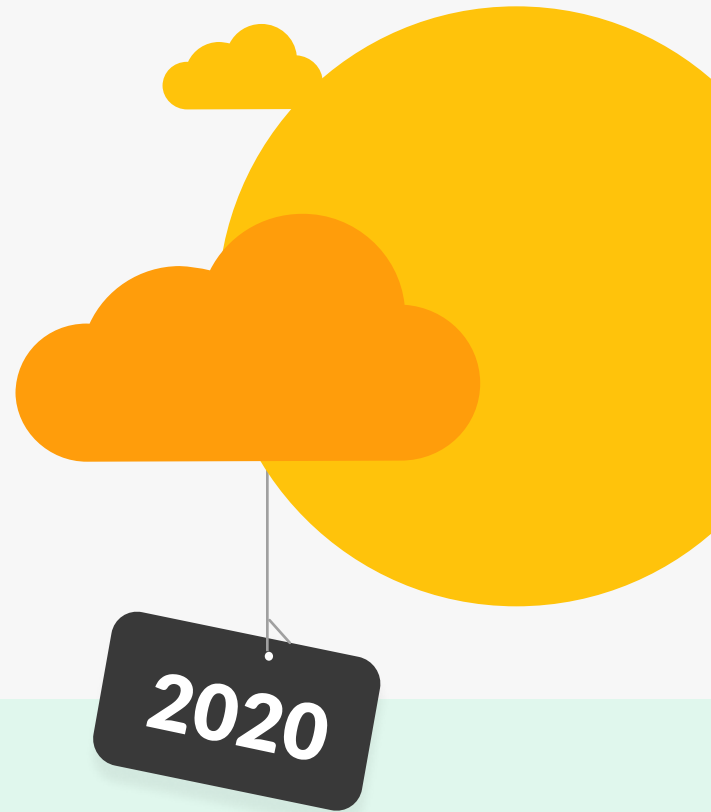
About StartEngine





Overview of Funding Sources

To help you weigh your funding options in an educated manner, we've broken down some of the most viable types of funding that are available to you, the cumulative value of those deals and the average deal size in 2020 through Q3.



Type of Funding	# of US Deals	Combined Deal Value	Average Deal Value
Friends and Family [1]	2,608,696	\$60,000,000,000	\$23,000
Angel Investments [2]	1,636	\$2,400,000,000	\$1,466,993
Early Stage Venture Capital [2]	2,351	\$27,700,000,000	\$11,782,220
Rewards Crowdfunding [3]	62,700	\$438,200,000	\$6,992
Equity Crowdfunding (Reg CF) [4]	665	\$133,300,000	\$200,451
StartEngine	260	\$120,000,000	\$460,000 (Reg CF) \$4,800,000 (Reg A)

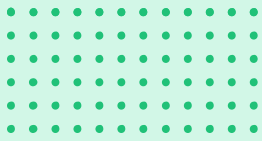
1: Number of deals and value by [Entrepreneur.com](#). Annual average by [DLA Piper](#).

2: NVCA Pitchbook [Venture Monitor Q3](#)

3: [Statista.com](#)

4: StartEngine Index [Q1](#), [Q2](#), [Q3](#)





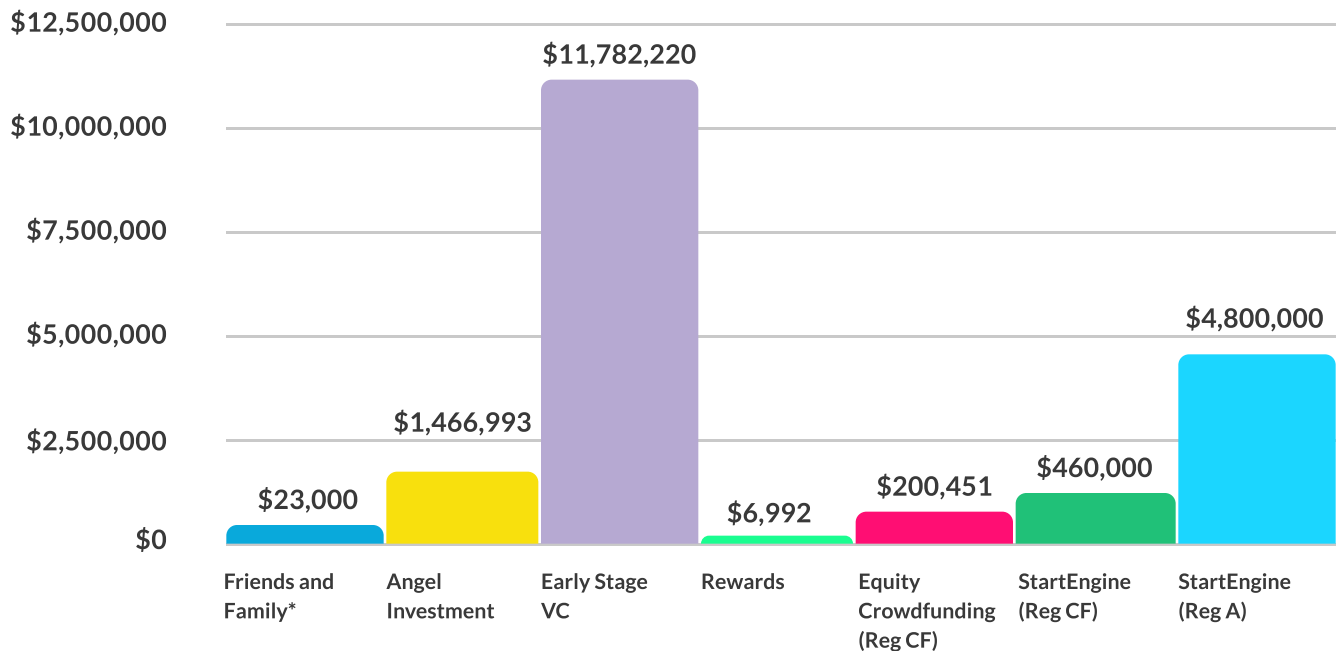
Friends and family financing is by far the largest funding option in terms of number of deals at 2.6M per year

with rewards crowdfunding coming in second at 62.7K. A major reason for the high deal volume compared to the other methods is the lack of due diligence. Generally speaking, any founder can raise from their friends and family, and rewards crowdfunding platforms have few restrictions on who can launch an offering. The other options, however, are much more selective with regard to who they choose to invest in or allow to raise funds on their platform.





Average Deal Size



Of these more selective options, early stage venture capital, which comprises deals from pre-seed through Series B (just under \$500K to \$25M+), has the highest deal volume and overall deal value because almost 60% of deals were above \$5M (Source: [NVCA Pitchbook Venture Monitor Q3](#)).

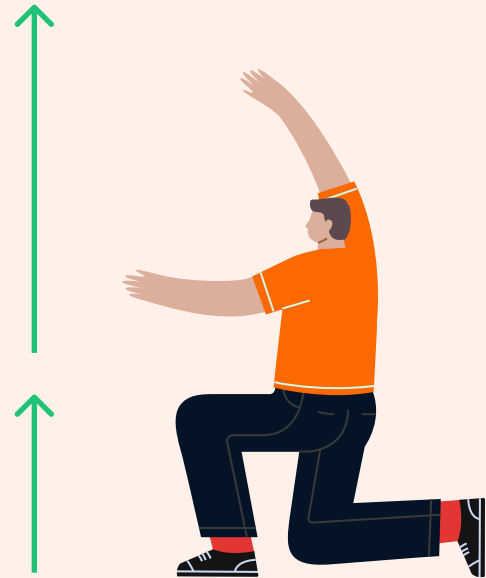
Equity crowdfunding is a relatively new source of financing that recently became legal in 2016, but has experienced significant growth in 2020. Equity crowdfunding is the only option here with a funding ceiling, which is why we have broken out the two Regulations (Reg CF and Reg A) we use at StartEngine because each regulation has a different funding maximum (\$1.07M and \$50M respectively).





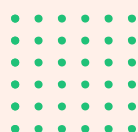
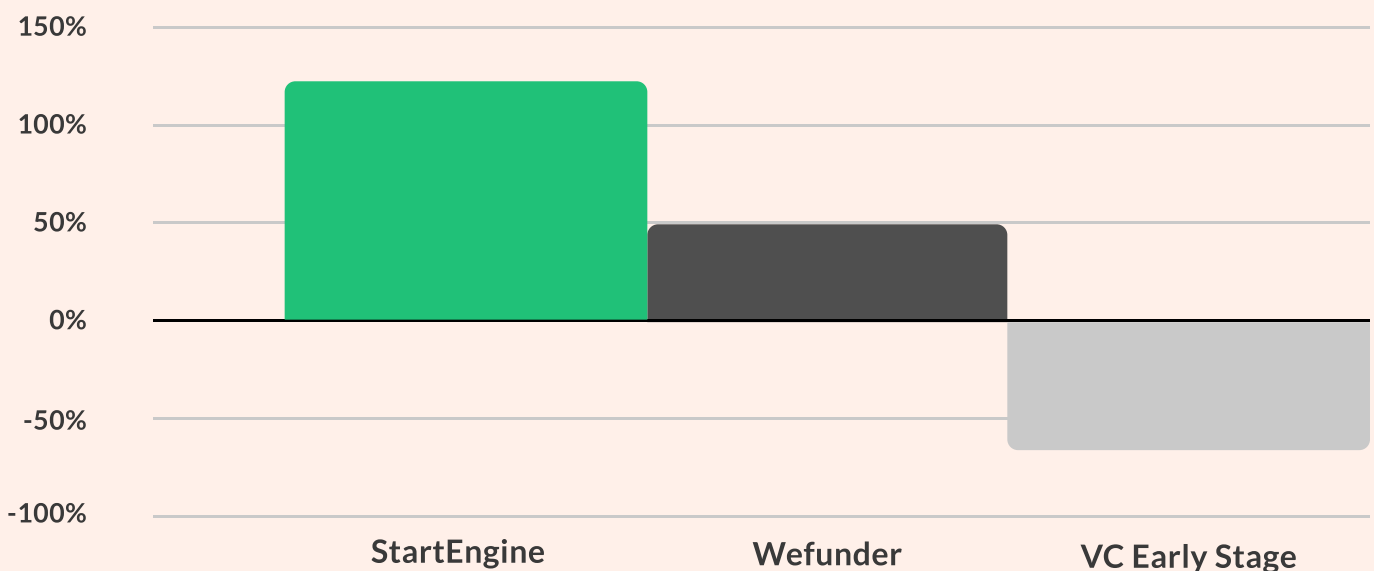
Overall VC deals dropped by 44% due to COVID-19 and early stage deals in particular declined by 57%, but equity crowdfunding saw growth.

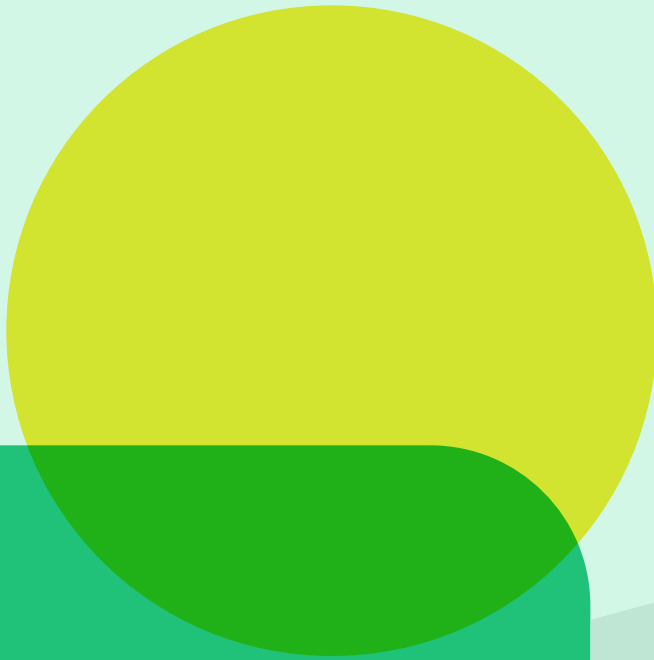
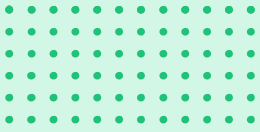
(Source: [Crunchbase](#), [Pitchbook](#))



The top two platforms in the equity crowdfunding industry achieved record growth numbers (Wefunder: 50%+ March thru April, 2020 and StartEngine: 119% Q1 thru Q3 2020. (Source: [Crowdfunder.com](#), StartEngine Index [Q3](#))

Performance During Covid-19



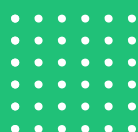


We believe that venture capital and equity crowdfunding will see significant growth in 2021.

Equity crowdfunding's growth will continue

due to upcoming regulatory changes to equity crowdfunding, allowing companies to raise more funding and individual investors to invest more, and VC activity will rebound as we get closer to a vaccine.

Now let's take a more in-depth look at the different funding sources available to you.





Friends & Family

of US Deals in 2020 (through Q3)
2,608,696

Combined Deal Value
\$60,000,000,000

Average Deal Value
\$23,000

Startup founders that do not have savings or assets to liquidate in order to fund their vision will often first seek funding at an early stage by tapping into their existing relationships. This stage of fundraising is often called the Friends and Family round.

A Friends and Family round typically results in anywhere from \$10,000 to \$150,000 in funding and allows a startup to get through its first few months of operation. The average friends and family investment is around \$23,000, and the valuation of the startup is typically between \$0.5 and \$1 million. (Source: [DLA Piper](#))

PROS

A Friends and Family round usually takes a shorter time to close, around two months, so it provides a speedier solution to the startup's immediate financial needs. This option costs less than other rounds because of reduced (or non-existent) transaction fees and lower legal fees due to the lack of due diligence and complex documentation. A Friends and Family round also helps maintain a certain amount of secrecy regarding your business idea.

CONS

If your business doesn't return a profit, or you're not able to pay back the loan a friend or family member has extended, you could lose more than money—you could lose a valuable relationship. Family and friends may believe they have more say in your business than you would like. And unless you hail from an independently wealthy extended family, there are significant caps on the amount of money you can raise.





Angel Investors

of US Deals in 2020 (through Q3)

1,636

Combined Deal Value

\$2,400,000,000

Average Deal Value

\$1,466,993

Angel investors are wealthy individuals that invest in private companies

and are generally high net worth individuals and are accredited investors, which means that they have a net worth of at least \$1M (excluding their primary residence) or have an annual income of at least \$200K over the past 2 years (Source: [Investopedia](#)). Angel investors may also be a part of an angel network of hundreds or thousands of individual investors.

PROS

Angel investors are accustomed to early stage investments and the struggle that comes with them. They can be instrumental in helping you move through the MVP stage and gain initial traction. They also invest in fewer deals than a VC, which means they may devote more time and energy to your company, and stick with you and your vision longer. And the level of scrutiny and paperwork in an angel investment is less than with traditional VCs.

CONS

At the early stages when angels tend to invest, they are able to secure a larger percentage of your business for less money, which comes with more influence over your business. As the graph on the next page indicates, almost half of all securities issued are preferred shares that typically come with dilution protections that can adversely impact your future cap table along with other preferential rights and privileges. It's harder to dictate favorable terms than with a friends and family round.

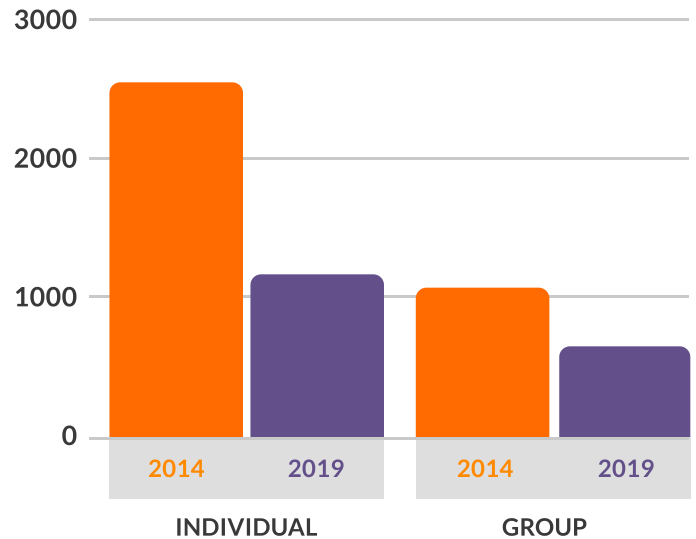




Angel Deal Count

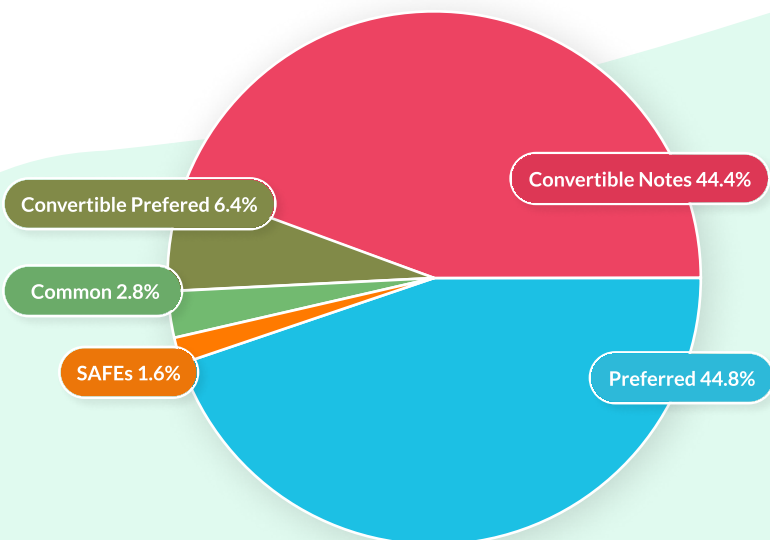
Angel investing has been robust over the past decade, with close to **\$3 billion invested** each year from 2014 to 2019

(Source: [State Science & Technology Institute](#)). However, overall participation in investment deals by angels have declined overall, and more sharply among individual angels (with more deal flow going to angel networks).



Source: [Pitchbook Analyst Note: Angels](#)

Angel Investment Security Types



This graph presents the types of securities preferred by angel investors and/or angel groups.

Source: [Angel Capital Association](#)



Venture Capital

of US Deals in 2020 (through Q3)

2,351

Combined Deal Value

\$27,700,000,000

Average Deal Value

\$11,782,220

VCs are investors or firms that manage a fund designed to invest in startups and later stage companies.

They are typically funded by huge university endowments, pension funds, and large corporations. To sustain their business model, VCs commonly seek companies that offer hyper-growth opportunities and can provide an outsized return on their investment.

PROS

VC investors have experience scaling companies and solving growth problems. They can provide mentorship that can be invaluable to help you make key strategic decisions. VC investors also provide credibility and networking opportunities with key industry contacts. **Partners at a venture capital firm spend as much as 50% of their time building their network** that includes PR groups and media contacts to assist the companies they invest in. VCs will sometimes participate in subsequent rounds of financing, making it easier to source and organize future funding rounds.





There are more than 1,300 active VC firms in the US that manage about \$444 billion in total assets

(a figure that includes not just early-stage deals, but all VC dealflow, including mega-deals of \$100M or more—there were 237 such deals in 2019). Source: [NVCA Yearbook](#), [Pitchbook Venture Monitor Q3](#), [NVCA Press Release](#)

VC deals are geographically concentrated in three states: California, Massachusetts, and New York, which account for more than 73% of total capital invested in the US (Source: NVCA 2020 Yearbook). The San Francisco Bay Area commands a strong lead in VC activity at 44%, followed by New York, Boston and Los Angeles (Source: [bizjournals.com](#)).

CONS

VC firms are notorious for pushing entrepreneurs to expand, and founders are often forced to assume high burn rates in order to achieve aggressive growth objectives. You will be required to issue equity to the VC (typically 20% to 25%) and may also need to give a board seat and other control and information rights (Source: [Techcrunch](#)). According to a Harvard study, **between 20% and 40% of founders do not remain in their original role** through exit (Source: [Harvard Business Review](#)). The odds are high that you will be replaced.

BETWEEN

20%
and
40%

OF FOUNDERS ARE
REPLACED

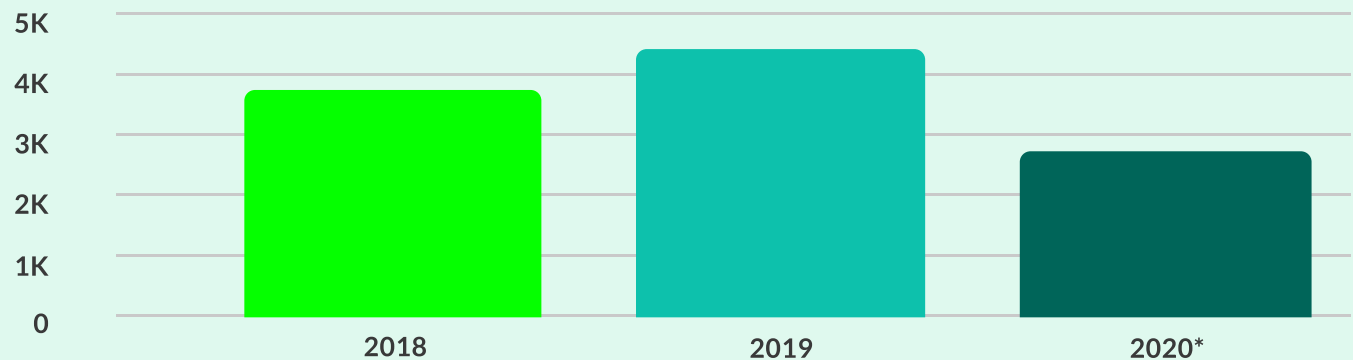




US Early Stage VC Deal Count

VC funding is also highly selective. VCs have indicated they receive about 1,000 proposals for every 3 or 4 companies they fund (Source: [Fitsmallbusiness.com](#)). About 5,000 venture capital deals were made in the U.S. in 2018, and roughly 3,000 of those companies already received venture capital in the past (Source: [NVCA Venture Monitor Q1](#)).

The chart illustrates the noticeable slow down in early stage VC financing activity, which shows that VCs are less willing to take risks on younger companies during the pandemic. This is consistent with the fact that even though VC deal counts declined, total new business launches grew significantly.



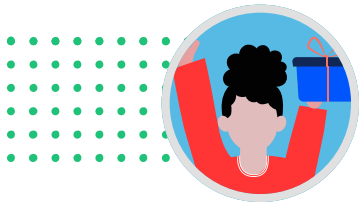
Source: [NVCA Pitchbook Venture Monitor Q3](#)

*As of September 30, 2020

There is a major lack of diversity. Only about 2% of VC investment goes to women-led startups (despite 39% of privately held businesses being women-led), and only roughly 3% of VC funding goes to black or Latino led startups.

Sources: [Techcrunch](#), [National Association of Women Business Owners](#), [Crunchbase](#)





Rewards-Based Crowdfunding

of US Deals in 2020 (through Q3)
62,700

Combined Deal Value
\$438,200,000

Average Deal Value
\$6,992

With rewards-based crowdfunding, anyone—artists, companies, non-profits, and more—can post a project on a platform

in an effort to obtain financial donations from the public. Backers of projects pledge funds in return for rewards such as pre-orders or select merchandise.

Currently, this type of crowdfunding is one of the most dominant forms of crowdfunding in the US, in terms of the capital raised as well as the volume of offerings. As of November 2020, the success rate on Kickstarter to fully fund a project was 38.30% (Source: [Kickstarter](#)).

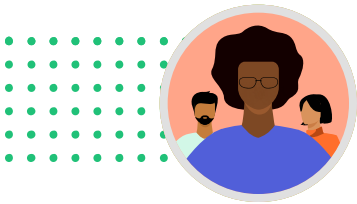
While the average funding size is just under \$7,000, that figure is diluted by the large number of individuals that launch small campaigns and isn't indicative of what a company could raise. Some companies have managed to raise millions in high profile raises.

PROS

Rewards crowdfunding is one of the cheapest ways to raise capital. Due diligence, financial reporting, and previous business experience are not necessary. The process is simple and doesn't require professional financial or legal help. You retain 100% of your equity and control of your company. Any exposure gained on the platform can help establish a customer base and brand awareness.

CONS

Platforms typically charge a percentage ranging from 5-13% of funds raised (Source: [Nerdwallet](#)). Rewards crowdfunding isn't the best option for businesses seeking large amounts of funding. Pitching your idea online exposes it to competitors. Companies such as Oculus and Flow Hive that have great success are most often B2C companies. For B2B companies, reward-based crowdfunding is a more difficult option with less historical success.



Equity Crowdfunding

of US Deals in 2020 (through Q3)
665

Combined Deal Value
\$133,300,000

Average Deal Value
\$200,451

Equity crowdfunding allows you to raise money from investors online, in exchange for a small ownership interest. **Anyone over the age of 18 can visit a funding portal website and invest in startups for as little as \$100.** Investors are also able to access liquidity and trade shares on secondary markets, such as StartEngine Secondary. Other funding methods do not offer potential liquidity to investors.

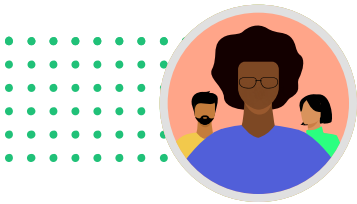
PROS

You can build an army of brand ambassadors through your investors. Most portals offer investor networks to help promote your raise and drive investment. You retain control of your offering terms, and there's no need to offer board seats or other controlling terms. You can have an open-ended raise to fuel continued growth and expansion. It's often cheaper and more time effective than traditional financing methods. Equity crowdfunding supports diverse groups of founders, companies and industries, and you can also give your investors access to liquidity.



Gain **thousands of advocates** for your business





Equity crowdfunding is the newest option for entrepreneurs compared to the other funding sources on this list.

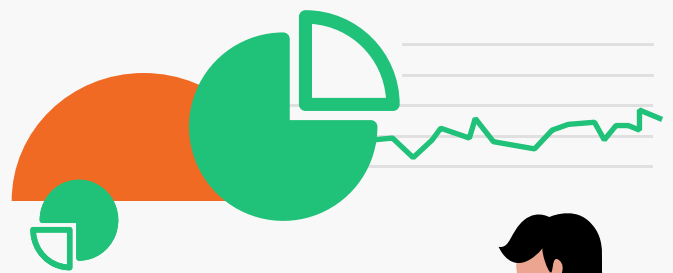
Regulation A+ and Regulation Crowdfunding—the two exemptions that make up the bulk of equity crowdfunding, went live in June 2015 and May 2016 respectively.

As of November 13, 2020, there were **61 regulated funding portals that you can choose from** (Source: [FINRA](#)).

However, unlike rewards-based platforms, most equity crowdfunding platforms are application-based, and not every company that seeks to raise money on one of these platforms is able to. For example, at StartEngine less than 1% of applicants meet our eligibility criteria. In general, equity crowdfunding raises can take anywhere from 90 days - 1 year in order to reach your funding goal.

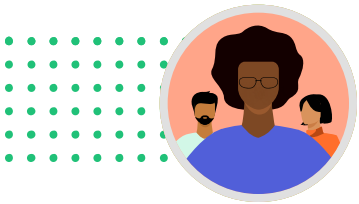
CONS

Most platforms lack other networks, mentorship and resources that VCs and some angel networks can provide. Your financials are available to the public for anyone to scrutinize. Platforms also charge companies a percentage of what they raise (for example, at StartEngine we charge 7%). You need to market your raise to attract investment; funding won't just come to you. For example, at StartEngine, on average **50% of what companies raise comes from StartEngine's community, and 50% comes from the company's community and advertising campaigns.**



You will need to **work to market your raise,** funding won't come in overnight.



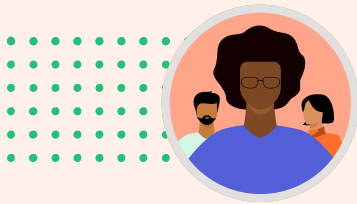


How It Works

Entrepreneurs have two options when thinking about equity crowdfunding. Regulation Crowdfunding (Reg CF) and Regulation A+ (Reg A)

contain rules providing exemptions from the SEC's registration requirements, which allows companies to use equity crowdfunding to offer securities to the general public without being subject to the stringent reporting and registration requirements of a public company.





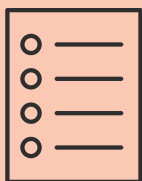
Let's look at the high level differences of Regulation Crowdfunding and Regulation A+:

	Reg CF	Reg A
Annual Funding Limit*	\$5,000,000	\$75,000,000
Cost to Launch	Potentially no upfront cost	\$80,000 to \$200,000
Time to Launch	4 to 6 weeks	6 months**
Financial Requirements to Launch	Reviewed financials	Audited financials
Ongoing Requirements	Annual report & financials	Annual report & audited financial statements, plus semiannual report with unaudited financials

Source: [SEC](#), [Reg CF](#), [Reg A](#)

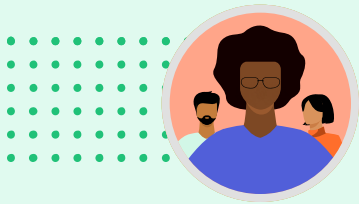
*The SEC recently announced upcoming changes that will increase the funding limits for Reg CF and Reg A+ to \$5M and \$75M. We expect those changes to go live in early 2021. Today, the limits for Reg CF and Reg A+ are \$1.07M and \$50M respectively.

**The timing to launch a Regulation A+ offering can vary widely, but generally speaking, it will take 30 days to compile the necessary documents, another 30 days to complete and submit disclosure to the SEC, and 90-120 days to get qualified by the SEC

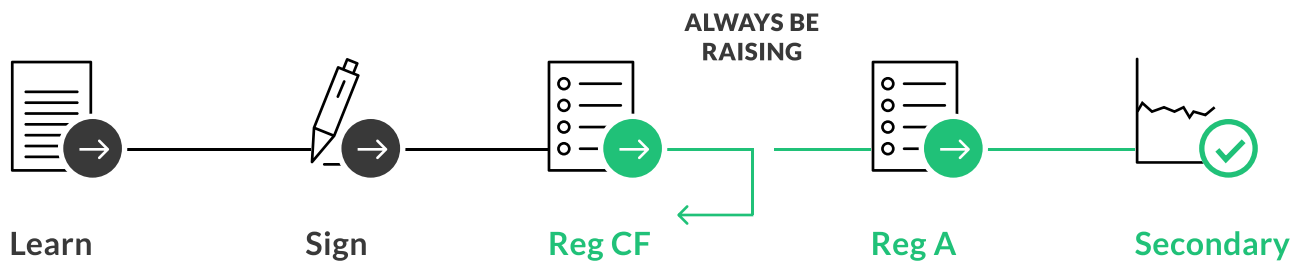


In both cases, you must file public documents with the SEC.

These documents include basic legal disclosures, information on key executives, the company's business plan, use of proceeds, the terms of the offering, and other pertinent information. These forms are public and can be found in the SEC's [EDGAR](#) database.

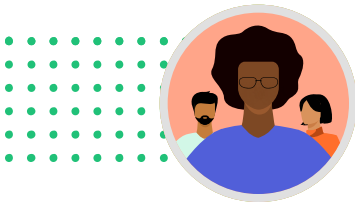


The StartEngine Process



We often recommend starting off by raising capital under Reg CF to take advantage of the lower cost and quicker timeliness compared to the higher expense and time restrictions that come with a Reg A offering.

In essence, Reg CF acts as a funding training course. You can get a feel for how to raise capital from the crowd while running your business. You can also explore marketing tactics and learn what types of messaging resonate with the general public. After you've secured operating cash under Reg CF, you can prepare the required documents for a Reg A campaign.



What to Expect

If you decide to utilize equity crowdfunding, here is what the process of using a funding portal looks like, using StartEngine as an example:

Step 1

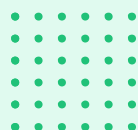
StartEngine reviews every company application internally to determine whether they meet our compliance requirements. If it's a good match, we'll move forward.

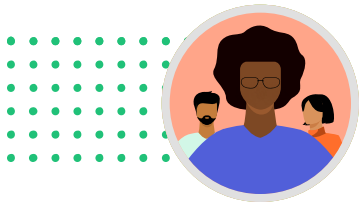
Step 2

Craft your story, which will include setting the terms of the financing—the type of security, its price and the valuation of your company.

Step 3

We request corporate documents like Articles of Incorporation and Board Resolutions for your fundraiser. If you need help finding a CPA or a legal firm to prepare your documents, you can also use one of our preferred vendors.





Step 4

Build and design your campaign page to attract investors.

Step 5

Utilize our in-house creative team to help you create, manage and optimize a paid advertising campaign to help you acquire investors from sources outside of the platform as well as from StartEngine's community of over 300,000 prospective investors.



Knightscope

Fully Autonomous Security Robots

Website Mountain View, CA

TECHNOLOGY

\$22,968,008

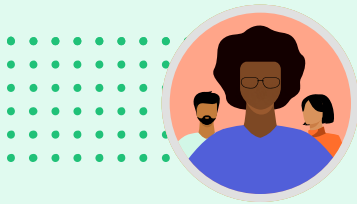
raised

\$27,862,996 total combined raise

10,799 Investors	\$340M Valuation
\$8.00 Price per Share	\$200.00 Min. Investment
Preferred Shares Offered	Equity Offering Type
\$50M Offering Max	0 Days Left

OFFERING CLOSED

This offering ended on July 22, 2020 and is no longer accepting investments.

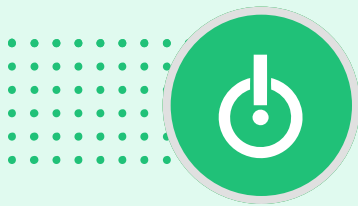


Conclusion

Presented below is a table illustrating the key value metrics that are important for you to examine when considering the best financing method to use for your startup:

	Friends & Family *	Angel Investors	Early Stage Venture Capital	Rewards Crowdfunding	Equity Crowdfunding	StartEngine
Accessibility to Founders	High	Low	Very low	High	High	Low
Due Diligence	None to Light	Moderate	Heavy	None	Light	Moderate
Range of Funding Size	\$10K - \$150K	\$100K - \$2M	\$2M - \$25M	\$1K - \$300M	\$30K - \$75M	\$30K - \$75M
Networking/ Mentorship	Little to None	Extensive	Extensive	None	None	None
Do Founders Control the Terms of the Raise?	Yes	No	No	Yes	Yes	Yes
Potential Liquidity	No	No	No	No	Maybe	Yes
Number of Deals (2020 through Q3)	2,608,696	1,636	2,351	62,700	665	260
Total Deal Value (2020 through Q3)	\$60B	\$2.4B	\$27.7B	\$438.2M	\$133.3M	\$120M
Average Deal Size (2020 through Q3)	\$23,000	\$1,466,993	\$11,782,220	\$6,992	\$200,451	\$460,000 (Reg CF) \$4,800,000 (Reg A)





About **StartEngine**

Our leadership has a proven track record.

Our Co-founder & CEO **Howard Marks** previously co-founded the video game company Activision, which has a multi-billion dollar market cap. Our **Strategic Advisor Kevin O'Leary**, or "Mr. Wonderful," is a renowned businessman and investor.



20,000+
SHAREHOLDERS

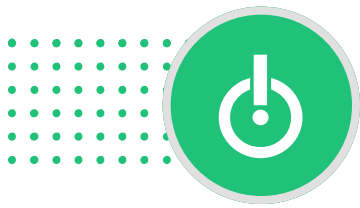


We lead by example.

StartEngine itself has raised over \$30M from the crowd, and we allow our 20,000+ shareholders to trade. We use that firsthand experience to help our customers raise capital.

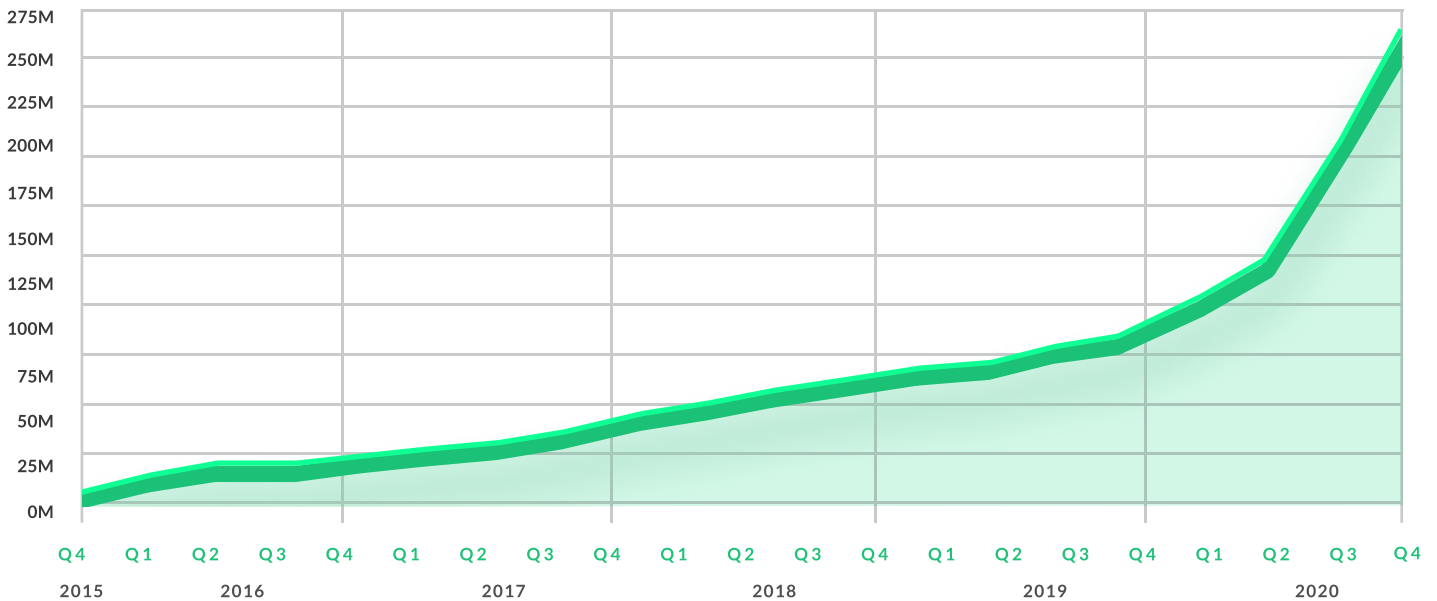
Seed funding to public trading, all in one place.

Companies can raise their first funding round on StartEngine and later give their shareholders the opportunity to trade, all on the same site.



Platform Performance

Amount Raised Over Time on StartEngine



As of December 2020, companies have raised over \$250M on our platform, over **\$136M in 2020.**

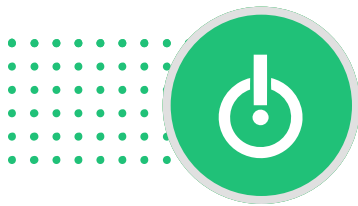
375+
Companies Funded

More than 375 companies have been successfully funded on StartEngine.

300K
Investors

There are more than 300,000 prospective investors in StartEngine's community.





StartEngine Case Studies



KnightScope

KnightScope designs, engineers, builds, deploys and supports award-winning crime-fighting fully autonomous security robots and offers them on a Machine-as-a-Service (MaaS) business model in the U.S.

\$24.3M
Raised

10,799
Investors



Farm.One

Farm.One grows rare produce in New York City urban vertical farms using hydroponics and LED lighting. We sell an enormous range of rare herbs, edible flowers and microgreens to NYC's best chefs. All grown locally, without pesticides, just minutes away.

\$446K
Raised

301
Investors

\$7M
Valuation Cap

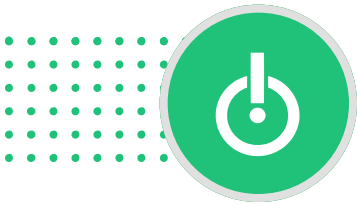


RED Mountain Resort

RED Mountain is an Endangered Species within the ski resort world. We have the snowfall, vertical drop, world-class terrain and 4-season fun to go boot-to-boot with the Big Guys, but have consciously maintained our mom 'n' pop/weird uncle feel for over 100 years.

\$1.1M
Raised

424
Investors



Value Added

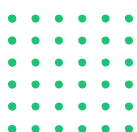
StartEngine provides 2 full time points of contact: an Account Manager to help with legal/financial technicalities and a Campaign Strategist who will be dedicated to the marketing components of your raise.

We contribute to 50% of the funds you raise (on average) from our investor network of 300,000 members.

We offer an internal digital ad agency with an average 417% ROI (up to 1000%+ ROI) that can help you run advertising campaigns on Facebook, Youtube, and other platforms.

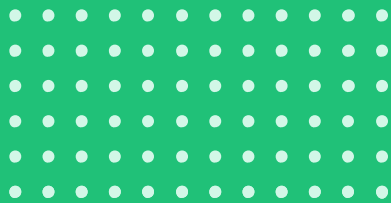
Companies are able to take advantage of rolling closes, which enable you to complete an unlimited number of disbursements of what you've raised to cover business expenses or reinvest into marketing your raise. In other words, you can use the funds you've raised as you continue to raise more funding.

Kevin O'Leary joined StartEngine as a Strategic Advisor, a shareholder and spokesperson and encourages both companies in and outside of his portfolio to use StartEngine for their funding needs.





THANKS FOR READING



The Founder's Guide to

STARTUP 
FUNDING in 2021

To start your raise, apply now at
www.startengine.com/raise-capital