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ACCELERATING ENTREPRENEURIAL SUCCESS PODCAST

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Nathan Rose

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John Bowen and Nathan Rose
Episode #170

AESNATION.COM

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Best of success,



John Bowen
Co-founder, AES Nation

John Bowen: Well, as entrepreneurs we all want to grow our business, we want to accelerate our success. As we're serving our clients well oftentimes we need capital. Now, the best capital is organic capital when we got great cash flows and all this but as we're having and accelerating our growth oftentimes we need capital. There's a new source of capital that is really just becoming available all around the world. Many of us as entrepreneurs are talking about it and it's crowdfunding. I wanted to learn more.

Rather than just me learn it I thought I'd invite our 10,000 fellow entrepreneurs to join us as well and get an expert that can really share with us what's happening. He's an ex-investment banker, reforming. He's a perpetual traveler but what he's here for is he's a crowd funding expert. He's going to share with you when and if this is the right way to get the capital to accelerate your growth even more. I'm John Bowen, we're all about accelerating your success. Stay tuned, you do not want to miss this.

I am so excited to have you here. You're out there and I know you're busily working on a new book. I saw the galleys and I was just ... This is an area that has been really interesting for me and for my fellow entrepreneurs. First of all, thank you for making time to join us today.

Nathan Rose: It's absolutely my pleasure, John. It's great to be here and great to be with your listeners.

John: Well, it's something ... I just came from a conference, Nathan, with Genius Network and this is Joe Polish's mastermind group. I think there was over 300 CEOs there. Peter Diamandis, author of Bold and Abundance was talking about not only human longevity, all these things, but the need for capital and crowdfunding. You're kind of on the lead ... Not kind of, you are on the leading edge. This is ... Particularly as a former investment banker you know how revolutionary this is. Before we dive into what we all want to know as entrepreneurs, everybody's always interested. How did ... Particularly, you are a traveler. As a matter of fact, before I turned to the call I had asked where are you in the world? You've seen an awful lot; you have a lot of experience. How did you get to becoming this crowd funding expert?

Nathan: Well, when I was working in investment banking we did a lot of different transactions. We do corporate bonds, we do mergers and acquisitions, we did some early stage IPOs. Initial public offerings for these early stage companies were the kinds of things that really got me to be excited because you're helping out people with great ambitions, great dreams, and helping them raise the capital to make it a reality. When I saw this new thing called Equity Crowdfunding come along I was really excited. It was enough to convince me to quit my job and go off on my own.

Around about the same time I'd read a book that many of your listeners will be familiar with, Tim Ferriss', "4-Hour Work Week" and because of that I decided that I would try to run this business completely location independent. I haven't yet managed to achieve four hours of work per week and, frankly, I don't think I'd want to and I don't know any of my friends who ...

John: Well, I actually do know Tim fairly well. I can tell you he chooses to work more than four hours too. He's one of the hardest working guys I know, but it's a great concept to work toward.

Nathan: It's a great title to sell a book, you got to hand it to him. Yeah, so that's my story. I've been traveling now for the last 24 months living in air BNBs full time. Traveled to around 20 countries and what I've seen and what I've gained an understanding of has been the global landscape for this new form of crowdfunding. A lot of people are familiar with the text data into Gogo type of crowdfunding but this equity crowd funding I think has a lot of exciting potential and there's big changes that are happening.

John: Well, let's start right in and dive into this, Nathan. We're more and more of us as entrepreneurs. One of the things I love about crowdfunding in the way it originated, particularly Kickstarter in Indiegogo, I just love it for proof of concept. I'd love you to contrast what they've been doing in crowdfunding and now what we're talking about today in this Equity Crowdfunding.

Nathan: Sure. The Kickstarter's and Indiegogo's of the world are grouped together as rewards crowdfunding as in you put your money towards some kind of product or some kind of cause to donate to. After that reaches its targets that product or cause gets the money delivered to them. The difference with Equity crowdfunding is the people putting the money in end up becoming investors in the company itself, so you get shareholders. This allows you to raise much more capital typically and it also means that it's suitable for many more businesses. Even some businesses which found that they couldn't raise capital through Kickstarter now have this new channel open to them to raise money through the internet.

John: Well, and one of the things, I grew up in financial services. When I first saw this I'm wondering back. There was a short period, for about two years I did investment banking as well. The services that we're providing, the capital and the excitement, there's an awful lot of due diligence in the work and packaging. A lot of entrepreneurs, Nathan, are kind of, they get excited about this concept of equity funding. Then they go, "Geez," they're contrasting with what traditionally is done, certainly it's going to open up more. Maybe tell us some of the rules from around the world, what are we seeing evolving because this is such an evolving area. By no means is it done and finished type thing.

Nathan: Absolutely. It's doubling in value about every year now. The big change that took place in the US in May was the passage of Title III of the Jobs Act. That enables an entrepreneur to raise up to one million from the general public in any 12-month period. The big change is that now you can actually market these offers directly to the public so that's people who aren't even meeting a sophisticated or high net worth accredited and best type test. Thus, change means that there's a much bigger audience now for entrepreneurs to raise capital from. But, as you said, because it's an offer of securities there are rules in place to make sure that statements are not deceptive or misleading.

Companies who want to use this are going to find pretty quickly that, yeah, they do have to disclose a lot. Particularly in a place like the US, there's a form that you need to fill in with the regulators to disclose all of your businesses, material contracts, material transactions, market size, strategy to go into that, the rest that are associated with that. If we look further afield, there are different levels of capital that can be raised. In the UK, for example, the limits that an entrepreneur can raise is five million Euros ... Funny that ... Yeah, five million Euros, not pounds in the UK. In New Zealand it's two million dollars. In Canada, Canada's not complicated but the main crowd funding exemption there is one and a half million Canadian dollars, so yeah, it depends where your company is incorporated as to what a company can do.

John: It gets exciting when you can go direct to the public. Obviously, you're going to need an expert if you're going to raise this but let's just ... I guess I should do the legal disclaimers. We're not giving legal advice, da, da, da, da. This is stuff ...

Nathan: They need it.

John: Yeah, none of us on AES Nation are ever doing that. This is really to get us thinking about this. We want you to be aware of those ways of accelerating your success and then go with your professional advisers and really see if this is right. Nathan, let's talk about who's doing Equity Crowdfunding and having success with it. How does one of our fellow entrepreneurs really know whether this is something that they should be doing?

Nathan: Yeah. I think it's open to businesses which are systemized and which have scalability potential. If there is some kind of reliance on the founder then in equity investors is a list for you, in any case, but particularly for crowdfunding. I would break the two groups for whom Equity Crowdfunding is best for into two categories. I'd say there's the local businesses which have a strong crowd already. These would be businesses such as consumer items. You might have beer companies or fashion items, these sorts of things because I've got a large email list and they can market directly to them.

The other kind of business is totally different. They are the really scalable potential unicorns, the ones who are out there to hit a home run. They're maybe in financial technology, medical devices, these sorts of businesses which means that they're actually more attracting investors of a different risk profile typically. These are people who are happy to put \$1,000 into something which has a very high chance of not succeeding but in the case if it does succeed will massively increase in value.

John: I go to looking ... Nathan, I'm thinking about the traditional crowdfunding, the Kickstarters, Indiegogo, and there's so many failed campaigns that go on.

Nathan: Yes.

John: I think a lot of mistakes a lot of entrepreneurs made, at least early on, less likely now, but I want to talk about it from the Equity Crowdfunding, that you broker them into kind of two groups. I'm going to say one that has an audience, that's already engaged, and another that is just, let's call it a sexy idea or concept maybe. It would be nice if it's a little bit proven but there's something there. How important is it to have an audience now with who's raising money today?

Nathan: I think it's very important to have this audience but I think the difference between equity crowd funding and the Kickstarter, Indiegogo model is that with Equity Crowdfunding if you bring some of the audience to the race, as in you get to 25, 30, even 50% yourself, you can rely on the investors who are just hanging out on the platform to a much larger degree. On Kickstarter, Indiegogo you've got thousands and thousands of campaigns going on at the time. If your campaign is not doing well it's going to be buried of the 10th page and no one's going to see it. Well, with Equity Crowdfunding there are a smaller number of these campaigns going on at any one time. If you can show traction and you can show that you've got a crowd, you've got ... In the case of the 60 ideas as you called them, if you can show that you've got a smart money angel investor backing you then that's a really good validation for the rest of the crowd to follow along behind them.

John: Yeah, that's a great distinction, Nathan, because my experience in crowdfunding I have not done it personally, I have had some good friends raise seven figures and some failed to raise \$50,000. The big thing there has ... The mistake so many entrepreneurs make is they're thinking the platform, "Geez, I'll go on Kickstarter, Indiegogo or one of the others and they're going to get me out there." Well, if you don't have that initial traction with your audience you are not going to be successful, I mean, it's just not going to happen. I hadn't thought about it from the perspective that you said. That because there's less deals and then I'm sure, I look at ... I've bought a number of things over Indiegogo and Kickstarter but it's not something I'm really passionate I'm looking at and shopping.

If I'm one of those I want to participate in Equity Crowdfunding as an investor I'm going to be hanging out at the platform looking at this. That's a huge distinction.

Nathan: Absolutely. That, I think, goes to the importance of choosing the right platform. As you said, with a rewards crowdfunding platform you've really got to bring all of the people yourself to the platform, which for some people makes them wonder what value the platform is really giving them. They're just taking a fee and they're having to do all the work. Well, with some of the best equity platforms, if they've got an established audience who are hanging out there and looking for things to invest in then that's a real value add. You should be much more careful, I think, about the choice of platform you end up going with.

John: Yeah, I know. As you're saying it I think it's critical. It is just so important to really understand kind of this whole process. Give me some of the considerations. Let's say that one of our fellow entrepreneurs or I'm looking at raising capital. I'm not but let's say that I am. No it's more for the ... Not for you, Nathan, the regulators. I'd say, "No, we're not making an offer of anything," but if we were raising equity with what I've read with the new regulation here in the states or if I'm in one of the other countries that I now have this opportunity. I didn't realize, UK, that's five million Euros. That's a substantial kind of first round ... Have a little seed capital from family and friends instead of going traditional angel that might be a better opportunity. Same here in the states.

I'm going, "Boy," you get excited. You know as a former investment banker, and I'm a guy that's raised billions of dollars, it takes a lot of work. It's distraction and the CEO. I'm sure we've got some of our fellow entrepreneurs going, "Boy, this is great." What are the considerations and also I'm going to use a term we used to use in investment banking? What are the gotchas?

Nathan: Yeah, yeah for sure. I would say to do a really thorough analysis of the pros and cons of Equity Crowdfunding in the first place. Just because it's new and just because I'm talking about it doesn't mean that it's automatically the best thing for every business to do. If you've got an angel investor who's sitting there and is ready to cut you a check, well that is going to mean there's a lot less distraction for your business. I think one of the big advantages directly for crowdfunding is the ability to do marketing and fund raising at the same time. That's always been something that's been seen as two separate things, you raise the funds and then you go off and do your marketing with the funds. Doing it together, that's fantastic.

As I said before, spend the time to find the platform that's going to help you the best. There's a range of considerations there but the types of deals that they've done in the past is going to be a good guide as to what success your type of company is going to have there as well.

John: Help me out with ... One of the things that all of us as entrepreneurs were typically quick start kind of people. When we decide we need capital oftentimes we needed it actually yesterday. What is the ... Kind of contrast the timeline for the typical angel investor raising money, and I know this is a wide range, and the same with going through traditional kind of investment banking services with the Equity Crowdfunding timeline.

Nathan: I think you're looking at a timeline of around about 2-3 months just in the preparation phase. Then remember that the campaign itself is going to be live for, say, 30 days, 45 days after that. You've really got to plan in advance before you actually need the capital. A lot of entrepreneurs will see these campaigns, see them live and all the money that seems to be pouring in and it looks so easy but every start-up that I've talked to ... Put it this way, no start-up that I've talked to said that it was less work than they expected.

John: I've only known just a few. Yeah, raising money, I've never had anybody say it's less work than they expected, any form of raising money.

Nathan: No, no. No, it's a lot of work but because the marketing benefits are there you can justify the exercise. Some of the companies that I've talked to say that even beyond the money it's given them such great exposure to not just new customers but new potential partners and board members. Having their company out there in a public forum is a lot of benefit to a start-up. A start-up or a growing business of any kind, raising capital and getting exposure are often number one and number two on their list, crowdfunding list.

John: Then you got to run the business at the same time. This is why the timeline and not getting distracted is so important. How do you get attention? This is fairly new but there are definitely firms that are going out and raising capital now. How do you make yourself more attractive both to the platform and the ultimate investors?

Nathan: I think you should look at it as needing to do a lot of the same things that you do in any kind of capital raising. You should make sure you've got evaluation which makes sense. I think one common mistake that people make is because it's still got the word crowdfunding in it people approach it, crowdfunding, as if it was exactly the same as if it were a Kickstarter campaign. They try to do the whole campaign with just social media and it just doesn't work. No one, very few people are going to put \$1,000 into a company they've never heard of because a tweet has shown up on their feed.

They might if it's a really cool, new invention which has gone viral, which is what Kickstarter and Indiegogo are so good at, but what else works for Equity Crowdfunding? I think if you can show the investors who you've got on your side that going to be a really big tick in the box. I think as well, even though it's an online platform you can still do a lot of work in the offline world. You can go to seminars which are organized by the crowdfunding platform. You can

get on a plane and reach out to people who are recommended to you by the platform itself. Even though it looks really new there's still a lot of really strong parallels with traditional fundraising.

John: One of the things in traditional fundraising is momentum. This is something that it's ... Because what happens is we all want to work with a winner. Even when we're talking about crowdfunding some little product. I'm looking around to see if I have anything on my desk that I bought from Kickstarter but I don't, but I've bought ... They're almost all impulse buys under \$100, there's obviously some that are much more substantial. What happens, and I'm kind of ... I usually don't buy until, if it's not somebody I know I don't buy until it's just about funded because I want the confirmation of the crowd, I want to know that they're going to actually get funded. I don't want to waste time and energy and all that stuff. Even then, some of them fail but we'll go to that in a second.

How are you seeing the most successful entrepreneurs use Equity Crowdfunding? Are they using momentum, how are they getting started, and kind of keeping that going so that it gives that really the excitement of being part of a winning offering?

Nathan: You're absolutely right that momentum is the most critical thing to get in Equity Crowdfunding, in angel investing, and Kickstarter Crowdfunding. What are some things you can do? If you've got some people committed before the offer stops that's going to be really helpful. You can actually schedule some of them to come in not just day one but on day two or day six or just whenever your campaign looks like it needs an extra boost. You can have a few extra bullets in the gun which whenever your campaign looks like it's flagging, can help.

Another thing you can do is, if things are looking like they're going a little slowly you can sometimes change the offer in the middle of the campaign. I know one company in Britain that does extremely successfully, they were a honey company. They decided that, half-way through the offer that anyone who invested 1,000 pounds would get themselves a lifetime supply of honey. You can imagine, people who had put in smaller amounts suddenly bumped their amount up to exactly 1,000 and it just really struck a chord with people. I think look for some incentive to get people on-board beyond the company itself. Also, make sure that the company itself is attractive. Ultimately, if you don't have an attractive investful company then all the marketing tactics in the world don't really do too much. It's going to supercharge your success but the success itself has to come through the innate nature of being a good business.

John: Nathan, what about ... The thing that I worry about in any raising of funds, so important in business to have positioning and to really have that success. Again, we all want to be part of a winner and working with ... What happens if even with the best laid plans we fail?

Nathan: Yeah, fantastic question.

John: Yeah, because none of us want to look bad.

Nathan: None of us want to look bad but I will say that this is one of the disadvantages in Equity Crowdfunding. You're putting yourself out there in a public forum. Yeah, if you fail everyone will know about it. Whereas if you fail in a boardroom or in a private deal then it's kept in-house and it's not in the public domain. Even so, it's not the end. You can use the lessons from the campaign to look at ... I think it can be one of the most powerful ways of taking some time for introspection whenever you've had any kind of business failure. You don't just go away and go into your shell, you pick yourself back up and say, "Why did it fail? Was our evaluation too high? Does our business model need some work?" These are important questions to be asking. Sometimes a failed offer can be the time that you need to make that public.

John: Let's say we're going to be successful and we complete the offering. One of the things, "Okay, we got the money." So many entrepreneurs make the mistake of, "Okay, we're done and I'm going to just go do my work now." How do we keep ... Because this is a little different. Even in traditional investment banking we've got to keep the investor informed in a private offering. Particularly because they're now along with us, depending on your business model you may need more capital down the road. That would be a great source, all that. Here oftentimes, I think the honey example is a great one. I guess they're not going to be probably that good at customers anymore but they could be marketing apostles, raving fans.

These are people that are really into what you're doing. It seems, not being an expert in this myself but I'd love to get your thoughts on, how do you keep that kind of momentum going and communicating when there's a balancing act? Having had small investors in some of the businesses I did they can really be demanding on information so there's a balancing act. What are you seeing the most successful ones do, Nathan?

Nathan: Well, you don't want to be like the relative who only shows up when you're asking for money. You want to be communicating.

John: Do you have one of those too?

Nathan: Well, maybe when I was in college maybe I was that relative. Yeah, you want to make sure that whenever you're talking to your shareholders you're sharing your good news and your bad news. I think people are very understanding as long as you're honest. Even if you end up going through the raise the things are slower than you think, well be honest and don't just go into your shell. People are forgiving when execution goes badly but they're really,

really going to get worried if there's complete silence. I would say you need to communicate with your investors at least every three months with a short update.

You talked about the idea that they're demanding. That's true but I think one of the whole points of crowdfunding is to get engagement with your users and new investments. Engagement is a two-way thing, it doesn't mean just you talking to them and them passively accepting it. It means them feeding back to you what they think, and that can be one of the best sources for learning and development in your business too.

John: Well, Nathan, let's go into the next segment. We'll call it the book of the day. I want to put up on the screen and what I'd like to just ... What's in your book because I'm very motivated to look at this. I've got multiple companies, certainly we're working with a lot of financial advisers. This is something that's really important to understand as all entrepreneurs. It's not going to be right for everyone but it's important to understand. For the right people this is going to be a pretty amazing tool.

Tell us what's in your book, how we can get your book, what's in your book that's going to help entrepreneurs, business owners, be even more successful in evaluating whether this is right for them.

Nathan: Well, the point of the book was to explain Equity Crowdfunding from the ground up. I don't assume any prior knowledge. I assume that a business might have heard of the word Equity Crowdfunding but wants to know what it is, how it works, whether it's for them. Then if they decide that it is for them, to go through the steps of choosing a platform, forming a marketing campaign, and then what happens after the campaign, whether they're successful or whether they've failed. To do this research for the book I've interviewed 20 start-ups from around the world, start-ups and grown companies and I've talk to 12 Equity Crowdfunding platforms, including one from the US. That's Republic which has grown out of Angel List. They're an offshoot now doing Title III crowdfunding.

Because crowdfunding is so new in the US it's by necessity got a lot of international examples in there, particularly from Europe where the biggest Equity Crowdfunding markets are. What it shows is a very diverse range of types of companies that have used it. There are banks in there, there are beer companies in there. There's a pet ... Dog bowl company in there. There's all sorts of business models and companies. From reading this I think you'll see what they did, what results they had, what challenges they had. A lot of them go into a lot of detail actually about what they found hard about the process.

Yeah, I think anyone who reads this book will leave with a good understanding of Equity Crowdfunding and next steps on how to actually do it.

John: Then let's go to the next segment. What I'd love to hear is, Nathan, how did you and your group really provide resources? If somebody wants to go beyond the book and really look at this ... You've done a lot of the homework. Traveling the world and really having these conversations and seeing what's working and what's not working.

Nathan: Yeah. Well, as you mentioned there's the book. I'm also putting together an online course and people can also reach out to me and get one-on-one coaching. All you need to do is go to the website, fill in the contact form. We'll work out what exactly you need. I can help out with any aspect of Equity Crowdfunding. As you say, I've scoured the world for the best examples of how to do it. If you need help, particularly with what your company could be valued at, forming your marketing campaign, I can help.

John: This is great, Nathan. For everyone, you can see above, my name ... Or above me, aesnation.com, the link. We'll have full transcript, the show notes of everything that Nathan and I covered as well as a link to the book. How you can best get that and really reach out to Nathan as well. If you're driving, remember Don't take notes now, do it, aesnation.com. Go there. I want to share kind of my take away. I've always been interested in crowdfunding; I've participated as a user. Does Equity Crowdfunding ... I think it's going to be really big here in the states and it is already around the world. It's going to take a little while; we've been in a period of a lot of regulations. This is kind of so new and having the government get a feel of how to make this all work.

It is going to be something that's very significant that we should all be paying attention to if we have fast growing business. We're going to need capital along the way, and depending on the scale this may be something that is very interesting. We heard a number of different considerations. I'd rather go through the transcript but more importantly get the book because this is ... If you're at all thinking about this, looking at the platforms, what worked, what didn't work, and whether you should have an agent to kind of evaluate this. Then to me one of the most important things we got talking about is the campaigns.

We've got to get our firms ready, we've got to get them packaged, we still have to do the memorandums and everything else. Then it's really kind of a ... In the US we go into a quiet period with raising capital. Here it's a change. You're marketing to the public and sharing this and you're sharing your story as well as raising capital. It's going to present both new challenges but an awful lot of opportunities. Nathan, I really appreciate this, this has been a great ... There are very few experts in this area. You've blazed the trail, you've put the miles in, the hard lessons to bring this all together and make it a really good forum for our fellow entrepreneurs to consider whether this is right for them. Then, if so, really have a path to execute, so thank you.

Nathan: John, you're absolutely welcome. I hope your listeners got value out of what I said. It's been an absolute pleasure chatting with you today.

John: Well, it was great and I want to encourage everyone, this is ... There's so many things we have to do as an entrepreneur. One of the keys things is we've got to keep our companies well capitalized so that we can serve our clients, our customers well. We get to do well by doing this but there is nothing more challenging than having a very successful company that's growing like crazy with a lot of opportunity. It eats capital very quickly. Living in Silicon Valley I see that all the time. With that, your clients and all your future clients and your future investors are counting on you. Don't let them down, we wish you the best of success.

A Second Opinion on Your Finances

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John Bowen
Founder and CEO
Financial Advisor Select