

Crowdinvesting: invest, co-own and build global leaders out of Slovakia

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Crowdfunding has become increasingly popular over the past decade, yet it has been with us for centuries. The Statue of Liberty in New York or the Czech National Theatre are both examples where communities funded an idea or a project. The latest innovation in crowdfunding is equity crowd investing allowing investors to invest in and own a share in privately held companies or real estate.

While equity crowd investing is already developed in markets like UK and US, the possibility to buy a share in a company one likes or believes in is new to the region of Central and Eastern Europe (CEE). Platforms like Conda, Crowdberry or Fundlift allow private investors to become part of a company; for companies to gain capital for growth, attract new customers or ambassadors of their brand and even attract new talent into the company.

Shared entrepreneurship

In 2016, Tomáš Žáček, co-founder of the company behind the self-sustainable micro-home Ecocapsule, had hundreds of global demands, four colleagues and almost no budget. Not eligible for bank financing and too early for an investment fund.

In what has become one of the largest crowd investing campaigns in CEE, Ecocapsule being among the most innovative Slovak companies, accepted 11 private investors as new co-owners. An investment totaling 750,000 EUR enabled the company to produce the first pieces of the now worldwide renowned self-sustainable and mobile micro-house. Some of the investors also supported the company on its growth path by helping with sourcing components, development, distribution in Southeast Asia, identifying suitable factory locations or potential clients. The second investment round, launched in June of this year, will be used for serial production and was still open for new investors at the time of writing this text.

Private investments and co-ownership actively supporting value creation

With 2,75 million EUR from dozens of investors in two investment rounds, Ecocapsule's funding story best represents what equity crowd investing is about. Investors become part of the company's entrepreneurial story and are able to actively participate in increasing the value of their investments.

Crowdfunding of the modern era initially supported startups, mainly by funding the development of new products. Crowdinvesting as a discipline evolved from crowdfunding, to satisfy investors who did not want to just buy a single product but were interested in purchasing a direct stake in the company.

From high-risk, high-return startup ventures, it evolved into other investment areas such as small and medium-sized enterprises (SMEs), real estate or even artwork. This diversification offers the opportunity to allocate capital and choose investments with various risk-return profiles. In general, real estate is considered the safest, SMEs relatively less risky while startups present the highest risk.

A crowd investment example of an SME is CreativePro, one of the world's leading live marketing agencies operating in CEE, originating from Bratislava, Slovakia. In 2017, the company raised capital from investors, who also add value by helping the company grow. Investors in this company have recently been paid out their first dividend.

Another example of the variety of investment opportunities crowdinvesting offers beyond startups is a project called "Dúbravská oáza", a high-quality retirement facility for senior citizens with the need for uninterrupted care. This facility, with a scenic location in the woods of Bratislava, combines the features of an SME with a strong real estate component with the land and buildings offering investors increased security.

Equity crowd investing during the lifetime of a company

Expanding into new markets, developing a new product, increasing manufacturing capacity or even expanding the team in today's competitive environment is challenging. All of these challenges require, at some point in time, external funding to support and assist the company in becoming a globally successful business.

When seeking private equity investments, companies usually turn to business angels, venture capital or other investment funds, but increasingly also to the general public via crowdinvesting. Over the lifecycle of a company - startup or SME - crowdinvesting tends to follow first financing by family members and friends and is a precursor to or invests alongside first institutional investors (venture capital funds).

For most crowd investors, financial returns are only part of their motivation to invest. Overall, it is a combination of emotional engagement, social impact and financial return by investing

into selected companies, ideas and brands they trust. Through crowdinvesting and the active support of investors, a company often attracts not only financial capital but also new customers, suppliers, team members or advisors, all of which are beneficial for further growth and success.

Not only online

Most of the platforms focus on providing investments from a larger crowd of rather small investors (e.g. Crowdcube, Seedrs, Fundlift, Conda). They work mainly online with automated processes focused on user friendliness, intuitive and simple collection of information. The activity of these platforms usually ends with a successful closing of an investment. Not all of the platforms work closely with companies after the closing of the investment; the management of the investment is usually handed over to the company itself, which might not have the necessary experience.

Selecting the right investors who match the needs of a company in terms of knowledge, know-how and network is required in order to steer it on the path to growth and success. That's the approach of selected few, very professionally oriented crowd investing platforms. They focus on establishing personal relationships among the investors and the company, manage the investment and keep working with the companies after the investment is closed to secure investors' rights and help the companies grow. Such platforms offer more customer intimacy - investors can meet founders, discuss their business in great detail in person, which helps in the decision-making process.