Crowdnetic®

Advanced Technology and Data Solutions for the Global Alternative Finance Industry.

Title II Turns Three

Crowdnetic's Annual Title II Data Analysis

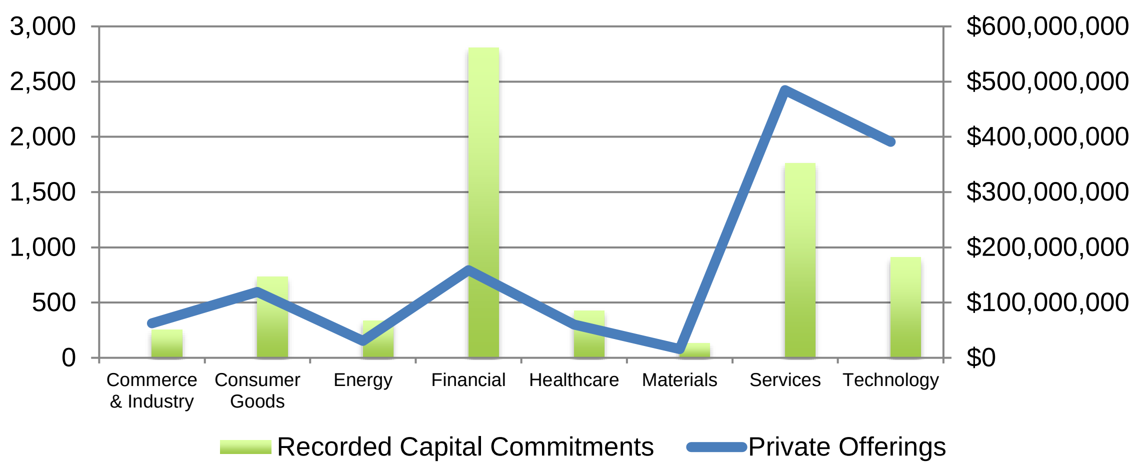
for the period ending September 23, 2016

I. Summary

It has been three years since the rules implementing Title II of the Jumpstart Our Business Startups Act ("JOBS Act") became effective,[1] ushering in a new option for private companies seeking to raise capital publicly. Through CrowdWatch—Crowdnetic's centralized platform for the analysis of private offerings conducted online—Crowdnetic has aggregated and normalized 6,613 Title II offerings from 16 leading platforms[2] since September 23, 2013. These offerings have generated more than $1.47 billion in capital commitments in the aggregate.[3] Although the number of new offerings has declined from year to year, the annual aggregate amount of recorded capital commitments has increased each year, with more than 40% of the 3-year total having been recorded during the previous 12-month period. Cumulative success rates have also increased from 20.2% (year 1) to 26.3% (year 2) to the current rate of 30.5% (year 3).

II. Industry Snapshot

Chart 1: Snapshot of Total Offering Activity Through Year 3



1 https://www.sec.gov/rules/final/2013/33-9415.pdf

2 The intermediaries included in this data are, in alphabetical order: Alchemy Global; AngelList; Crowdfunder; CrowdStreet; DarcMatter; EarlyShares; EquityNet; MicroVentures; Onevest; OurCrowd; Patch of Land; Prodigy Network; Realty Mogul; Seed Equity; SeedInvest; and Wefunder.

3 For the purposes of presenting an overview of total offering activity, all data presented in this report include both active offerings as well as those that have been tracked through our platform but are no longer listed. Unless otherwise noted, all data represent cumulative amounts, covering the period from September 23, 2013 through September 23, 2016. Capital commitments mentioned throughout the report represent the amount of capital that investors have indicated they would like to invest. Subject to the terms of the particular offering, these commitments may be non-binding and investors may withdraw their interest before the closing date. In addition, and also subject to the terms of the particular offering, commitments might not come to fruition for other reasons, including, but not limited to: failure of the issuer to meet its target by the closing date; issues relating to accredited investor verification; modification of offering terms; and other reasons.

Consistent with the results from the previous two years, the Services and Technology sectors continue to outpace the six other sectors combined, in terms of total number of offerings (blue line in Chart 1 above). Together, these two sectors represent two-thirds of all offerings across all sectors.

At the end of the first year of Title II data, the Services Sector had received the highest level of capital commitments, followed by the Technology Sector. This trend changed after year 2, when the Financial Sector—buoyed in part by growth in the real estate industry— claimed the primary position. The Financial Sector has maintained the leading position after year 3 by more than $200 million in recorded capital commitments (green bar in Chart 1 above), benefitting from continued success in the Real Estate Development and Real Estate Investment industries. Real estate is a tangible and well-known commodity with a proven track record in the long term, and it continues to generate strong investor demand. Some real estate offerings also combine interim cash flows with pre-determined timelines for the repayment of principal, which provide additional incentives to certain investors.

III. Success Rates and Averages by Sector

In comparison to the success rates recorded after year 2, the year-3 success rates have increased in each of the 8 sectors, with the highest gains posted by the Financial Sector. Year-2 cumulative success rates in the Financial Sector were 42.4%, the highest posted by any sector that year. As shown in Table 1 below, the Financial Sector again generated the highest success statistics through year 3, with a 55.9% success rate. This rate is 13 percentage points higher than the next-highest success rate (in the Energy Sector) and is more than 25 percentage points higher than the overall sector-wide cumulative success rate of 30.5% through year 3.

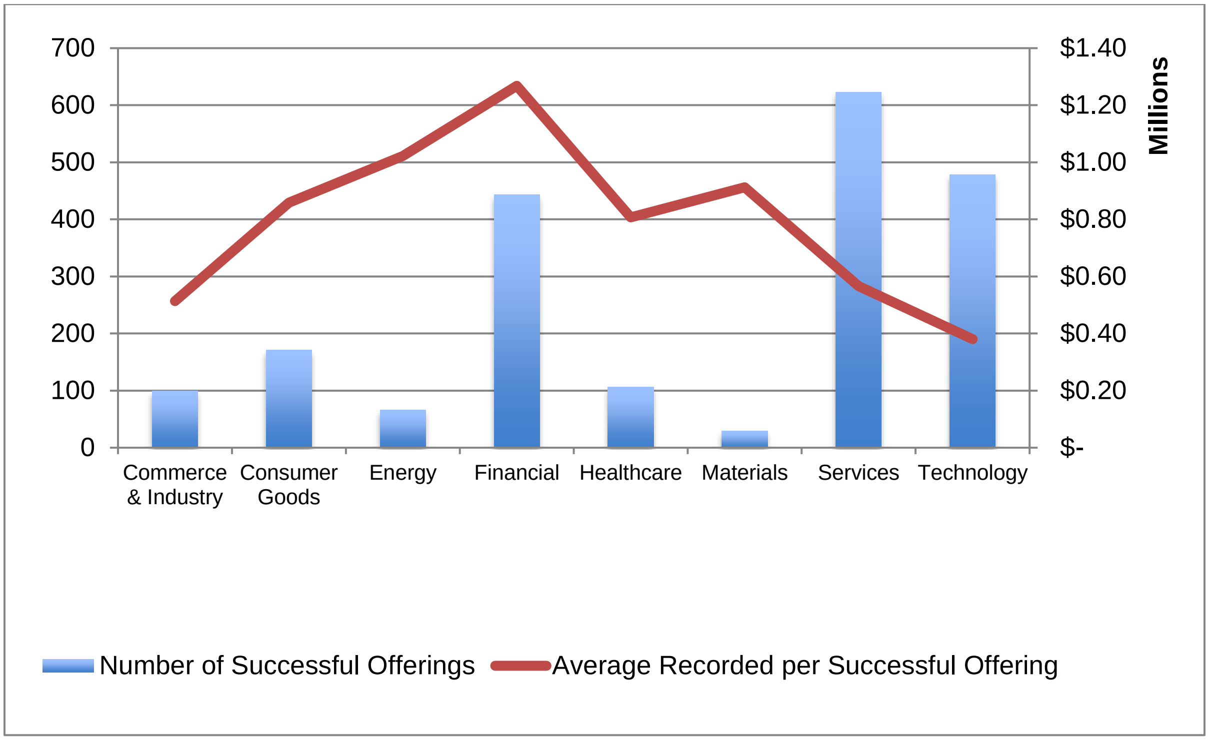
Table 1: Success[4] Statistics by Sector Through Year 3

	# of Offerings	Recorded Capital Commitments	# Successful	Success Rate	Average per Successful Issuer
Commerce & Industry	313	$50,836,341	99	31.6%	$513,498
Consumer Goods	595	$146,882,646	171	28.7%	$858,963
Energy	154	$67,467,100	66	42.9%	$1,022,229
Financial	793	$561,755,390	443	55.9%	$1,268,071
Healthcare	300	$85,572,124	106	35.3%	$807,284
Materials	79	$26,454,250	29	36.7%	$912,216
Services	2,423	$352,646,698	623	25.7%	$566,046
Technology	1,956	$181,798,639	478	24.4%	$380,332
Total	**6,613**	**$1,473,413,188**	**2,015**	**30.5%**	**$731,222**

The Financial Sector also posted the highest average capital commitments per successful issuer, at $1.27 million, which is 73% higher than the overall average across all sectors. These findings are consistent with the overall success and continued growth of the Financial Sector, supported in particular by the strong numbers generated by the Real Estate Development and Real Estate Investment industries. Total commitments in the Financial Sector represent more than 38% of total capital commitments across all sectors through year 3. Average capital commitments per successful issuer have also trended upward since year 2 in all sectors except the Energy and Materials sectors, which are the two smallest sectors in terms of number of offerings and capital commitments.

[4] For the purposes of this analysis and as used throughout this report, the term "success" is defined as receipt of a positive amount of recorded capital commitments by an issuer. Success is not a percent-of-target test. Using target as a measure of success might unnecessarily exclude certain highly successful offerings that generate significant amounts of capital commitments but do not reach or exceed target. In addition, establishing a percentage threshold would impose a degree of arbitrariness and inconsistency, in light of the variation in targets.

Chart 2: Number of Successful Offerings and Average Capital Commitments Per Successful Issuer By Sector



The aggregate average capital commitments per successful issuer across all sectors have increased from $545,122 through year 2 to $731,222 through year 3, representing an increase of 34%. Continuing the trend established after year 2, the year-3 statistics show that not only is the success rate increasing across all sectors, but the aggregate average amount of commitments is also increasing.

IV. Yearly Comparisons

Table 2: Offering and Success Comparisons Over Time[5]

	# of New Offerings	Annual Recorded Capital Commitments	Cumulative Success Rate	Cumulative Average Per Successful Issuer
Year 1	4,712	$385,840,413	20.2%	$405,295
Year 2	1,351	$484,174,636	26.3%	$545,122
Year 3	550	$603,398,139	30.5%	$731,222
Total	**6,613**	**$1,473,413,188**		

Table 2 above shows offering and success statistics for three years of Title II activity. While the number of new offerings has declined from year to year (71% decrease from year 1 to year 2 and 59% decrease from year 2 to year 3), there has been an increase in annual recorded capital commitments over the same time period of 25% in both years. Cumulative success rates and cumulative averages per successful issuer have also grown over the three years, with averages per successful issuer increasing 34.5% through year 2 and 34.1% through year 3.

Many factors may combine to explain the concurrent decrease in number of new offerings and increase in annual capital commitments. As Title II ages and begins to gain a foothold, it is able to attract larger, more successful, or slightly later-stage issuers, as opposed to numerous smaller seed-stage companies in the earlier years that might have been testing out the new capital formation tool. Also, as Title II offerings gain traction as a new asset class, certain investors—who might have been in a "wait-and-see" posture— may be more comfortable committing larger sums to the companies that seem attractive to them. The real estate industry might also account for some of the divergent trend, as it has been at or near the top of the list of industries in terms of total capital commitments. Investors may be increasingly noticing the earlier successes of Title II offerings in real estate, and this awareness might be attracting more capital to Title II offerings in both Real Estate Development and Real Estate Investments. Those two real estate industries have combined to

[5] For new offerings and annual capital commitments (columns 2-3), Year 1 represents data from 9/23/2013 through 9/30/2014; Year 2 represents data from 10/1/2014 through 9/23/2015; and Year 3 represents data from 9/24/2015 through 9/23/2016. For cumulative data (columns 4-5), Year 1 represents data from 9/23/2013 through 9/30/2014; Year 2 represents data from 9/23/2013 through 9/23/2015; and Year 3 represents data from 9/23/2013 through 9/23/2016. The one-week difference in certain ending and starting dates in Table 2 has not had a statistically significant effect on any of the reported results.

account for 26.3% of total capital commitments that we have tracked since inception of Title II.

V. Top 10 Industries Across All Sectors

Social Media has held the number one position for highest number of offerings in each of the previous three years of Title II activity. Interestingly, though, this industry has yet to crack the top 10 listings by capital commitments. It is possible that the large number of new and existing social media platforms and applications makes it more difficult for new social media entrants to break into an already crowded industry. It is also noteworthy that five of the top 10 industries on this list are technology-based: Social Media; App Software; Digital Media/New Media; Online and Mobile Gaming; and Business Software & Services.

Chart 3: Top 10 Industries by Number of Offerings

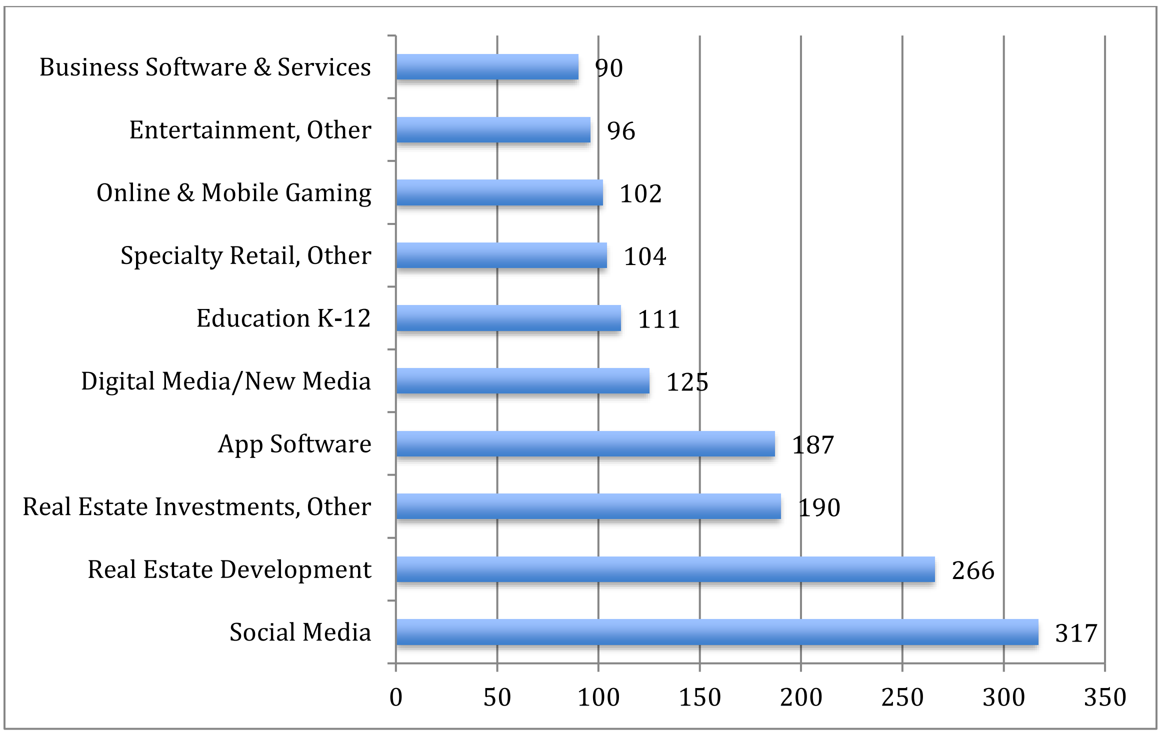
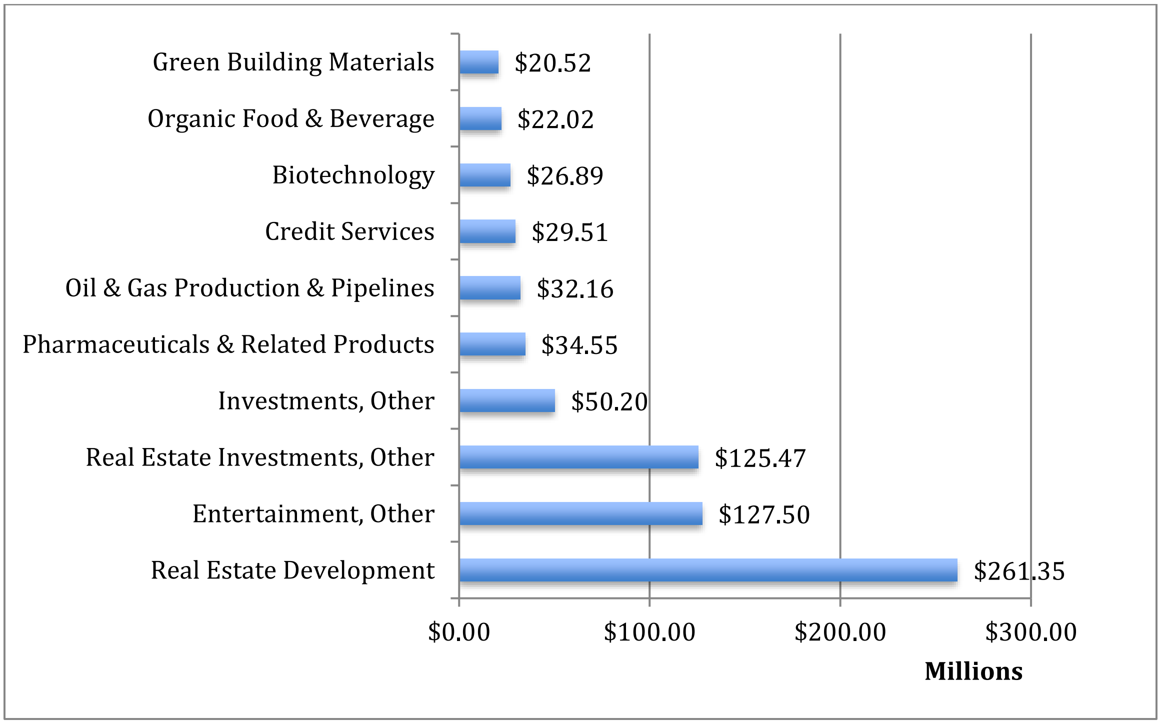


Chart 4: Top 10 Industries by Recorded Capital Commitments



For the previous three years of Title II activity, Real Estate Development and Real Estate Investments have consistently placed in the top two or three positions when ranked by total recorded capital commitments. For aggregate data through year 3, these two real estate industries have maintained their placement in the top three, with Real Estate Development holding onto the number one position with more than twice the amount generated by the next-leading industry. With a proven track record over time, real estate continues to generate strong investor demand. Real Estate Development and Real Estate Investments have combined through year 3 to account for more than $386 million in capital commitments, representing more than one-fourth of aggregate capital commitments across all industries. Real Estate Development and Real Estate Investments cement their dominance by appearing in the top 3 spots in both rankings by highest number of offerings and largest amount of total capital commitments. It is also interesting to note that only three industries (Real Estate Development; Real Estate Investments; and Entertainment, Other) appear on both lists, indicating that the companies that are attractive to entrepreneurs are not necessarily the same ones that are attractive to investors.

As shown in Tables 3 and 4 below, success rates in Real Estate Development and Real Estate Investment are among the highest, at 74.1% and 71.1%, respectively. Social Media, which leads the list in number of offerings, has only a 14.8% success rate, which is less than half the aggregate success rate of 30.5% across all sectors and industries. Average commitment amounts in the two standout real estate industries also exceed the overall commitment average per successful issuer of $731,222. Only one other industry (Entertainment, Other) in Table 3 also exceeds this overall average.

The industries listed in Table 4, ranked by capital commitments, would be expected to exceed overall success rates and average commitment amounts per successful issuer across all sectors and industries, and in fact they all do so. The Pharmaceuticals & Related Products industry leads the average commitment roster with $4.3 million per successful issuer. This industry, though, is among the industries on the list with the smallest number of successful offerings, thereby allowing a few highly successful offerings to have a larger impact on the overall average.

Table 3: Success Statistics for Top 10 Industries by Number of Offerings

	# of Offerings	Recorded Capital Commitments	# Successful	Success Rate	Average per Successful Issuer
Social Media	317	$13,486,265	47	14.8%	$286,942
Real Estate Development	266	$261,352,665	197	74.1%	$1,326,663
Real Estate Investments, Other	190	$125,469,758	135	71.1%	$929,406
App Software	187	$9,927,612	43	23.0%	$230,875
Digital Media/New Media	125	$7,057,180	32	25.6%	$220,537
Education K-12	111	$1,428,950	13	11.7%	$109,919
Specialty Retail, Other	104	$10,975,584	33	31.7%	$332,593
Online & Mobile Gaming	102	$6,948,931	26	25.5%	$267,267
Entertainment, Other	96	$127,502,830	39	40.6%	$3,269,303
Business Software & Services	90	$6,738,450	29	32.2%	$232,360

Table 4: Success Statistics for Top 10 Industries by Recorded Capital Commitments

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Real Estate Development	266	$261,352,665	197	74.1%	$1,326,663
Entertainment, Other	96	$127,502,830	39	40.6%	$3,269,303
Real Estate Investments, Other	190	$125,469,758	135	71.1%	$929,406
Investments, Other	68	$50,198,340	29	42.6%	$1,730,977
Pharmaceuticals & Related Products	26	$34,550,656	8	30.8%	$4,318,832
Oil & Gas Production & Pipelines	35	$32,160,600	15	42.9%	$2,144,040
Credit Services	21	$29,510,036	9	42.9%	$3,278,893
Biotechnology	50	$26,889,506	17	34.0%	$1,581,736
Organic Food & Beverage	14	$22,017,500	10	71.4%	$2,201,750
Green Building Materials	14	$20,524,700	8	57.1%	$2,565,588

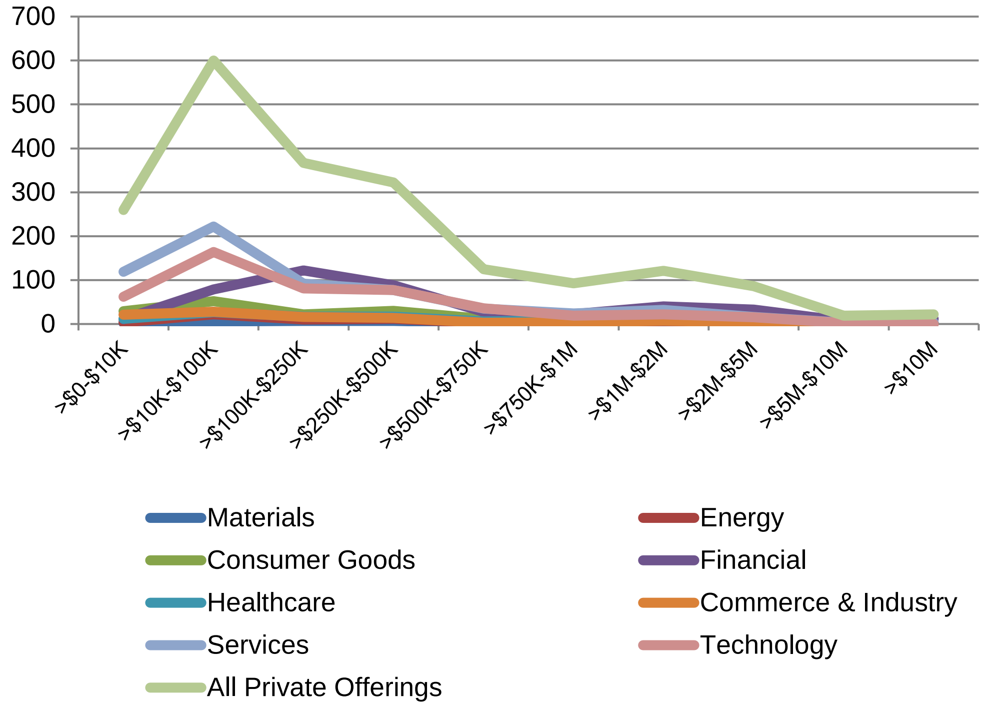
Chart 5: Top 10 Industries by Average Recorded Capital Commitments per Successful Issuer

Chart 5 above presents a different line-up of industries as those shown in Chart 4, as these are ranked by average capital commitments per successful issuer as opposed to aggregate total capital commitments. Despite the success of Real Estate Development and Real Estate Investments as measured by other metrics, these two industries do not appear in the ranking by highest average capital commitments per successful issuer and in fact would show up in the 19th and 34th positions in this particular ranking, respectively. These highly successful real estate offerings typically have somewhat lower targets and investment amounts overall, as compared to the industries listed above.

It is noteworthy that the Healthcare sector has garnered the top three positions in Chart 5. With advances in medicine and continued increases in life expectancies, these and other health-related industries may continue to experience strong investor demand. The green building industry has also attracted higher levels of investment per successful offering, with Green Construction and Green Building Materials locking up two of the top ten positions on the list both this year and at the end of year 2. Investors may not only be seeking out companies with the potential for a strong return but may also be attracted to supporting sustainability and the environment in the name of promoting the public good.

VI. Distribution of Capital

Chart 6: Distribution of Capital by Sector and Amount



The consistent trend over the previous three years has been that the majority of successful offerings have received capital commitments in the $10,000 to $100,000 range (light green line in Chart 6 above). For the second year in a row, the Financial Sector (purple line) peaks in the range of $100,000 to $250,000, due in part to the successful real estate offerings, including those in the “fix and flip” category.

Table 5: Capital Ranges by Sector

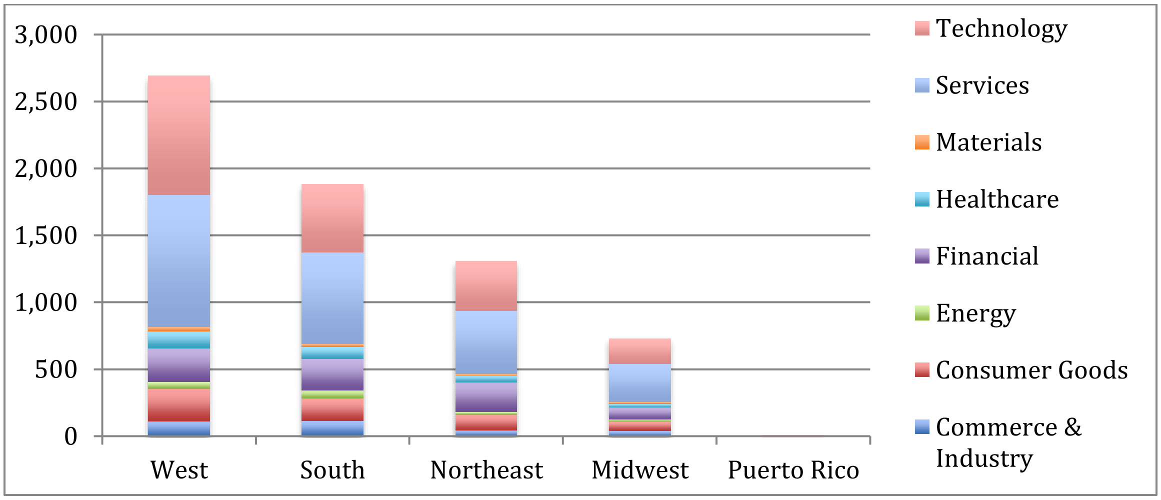
	$0	>$0-$10K	>$10K-$100K	>$100K-$250K	>$250K-$500K	>$500K-$750K	>$750K-$1M	>$1M-$2M	>$2M-$5M	>$5M-$10M	>$10M
Materials	50	2	6	7	7	3	2	0	0	1	1
Energy	88	4	22	10	12	2	5	3	6	1	1
Consumer Goods	424	29	52	22	30	12	7	10	4	2	3
Financial	350	11	79	122	88	28	23	40	33	7	12
Healthcare	194	12	27	17	17	6	9	7	8	1	2
Commerce & Industry	214	21	28	16	14	3	4	7	4	2	0
Services	1800	119	222	92	77	35	24	32	16	3	3
Technology	1478	62	164	81	77	36	19	22	15	2	0
All Private Offerings	4,598	260	600	367	322	125	93	121	86	19	22

Table 5 provides detail on the distribution of commitments received by sector. Crowdnetic has tracked 466 offerings that received more than $500,000 in capital commitments. Of these 466 offerings, 248 (53%) have generated more than $1 million in commitments. The cumulative three-year data also show that the Financial Sector has overtaken the Services Sector for the most number of offerings receiving commitments in the greater-than-$1-million range (92 and 54 offerings, respectively, through year 3, compared to 45 and 46, respectively, through year 2). The Financial Sector has doubled its output of offerings at that level, due in large part to the many highly successful offerings in the Real Estate Development and Real Estate Investment industries.

VII. Geographic Distribution

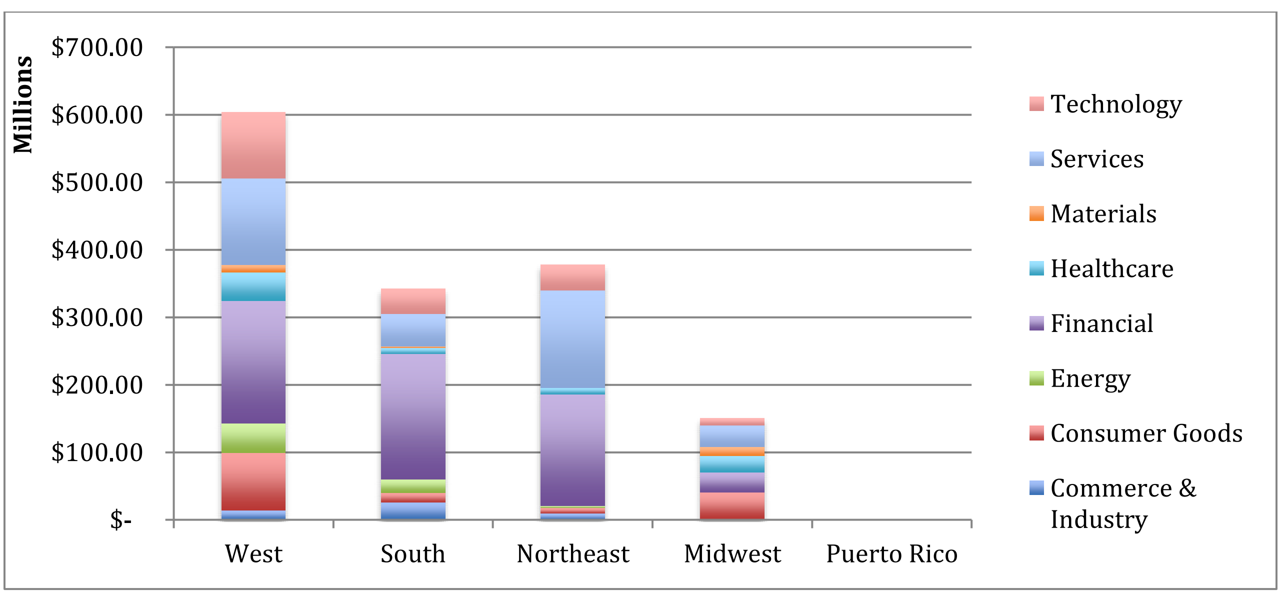
Consistent with the results from the previous two years of Title II data, the western region still dominates the rest of the country in terms both number of offerings as well as amount of capital commitments. This trend is due to the concentration of offerings from the San Francisco Bay area, including Silicon Valley. There are, however, regional differences by sector, as noted below.

Chart 7: Number of Offerings by Sector and Region



As shown in Chart 7, which displays the number of offerings by sector and region, the western region leads all other areas in every sector except Energy and Commerce & Industry. The south leads in the Energy sector, due to a proliferation of offerings from Texas in oil and gas production as well as other forms of alternative energy. The west and the south are nearly identical in the Commerce & Industry sector, with the south inching ahead by just one offering. In the Financial sector, the top three regions share somewhat similar percentages of total offerings: west (31.4%); south (29.4%); and northeast (27.6%).

Chart 8: Recorded Capital Commitments by Sector and Region



With regard to capital commitments, however, the west leads in four of the eight sectors: Technology, Healthcare, Energy, and Consumer Goods. In the Services Sector, which is by far the largest aggregate sector nationwide, the northeast leads the other regions in capital commitments, bolstered by many successful offerings from New York. The mid-west leads in the Materials Sector, due in part to the presence of natural resources in that area. The west, south, and northeast regions are fairly comparable in the Financial Sector, with the southern region narrowly inching into the first position: west (32.4% of total commitments); south (33% of total commitments); and northeast (29.4% of total commitments). This is due in part to an increase in successful real estate offerings in the southern region over the previous year. The south also leads the country in terms of capital commitments in the Commerce & Industry Sector.

Table 6: Top 5 States by Number of Offerings

	# of Offerings	Recorded Capital Commitments	# Successful	Success Rate	Average per Successful Issuer
California	1,907	$374,833,501	564	29.6%	$664,598
New York	740	$309,659,976	213	28.8%	$1,453,803
Florida	525	$117,981,178	168	32.0%	$702,269
Texas	417	$40,743,934	122	29.3%	$333,967
Illinois	238	$44,259,410	81	34.0%	$546,412

Table 7: Top 5 States by Recorded Capital Commitments

	# of Offerings	Recorded Capital Commitments	# Successful	Success Rate	Average per Successful Issuer
California	1,907	$374,833,501	564	29.6%	$664,598
New York	740	$309,659,976	213	28.8%	$1,453,803
Florida	525	$117,981,178	168	32.0%	$702,269
Nevada	135	$50,920,308	40	29.6%	$1,273,008
Colorado	165	$49,077,115	60	36.4%	$817,952

The cumulative three-year line-up of top states by number of offerings and capital commitments is identical to the rankings through the end of year 2. California, New York, and Florida have held onto the top three positions in both rankings, while four other states continue to round out the balance of each list. California has nearly the same number of offerings as the four next-highest states combined (1,907 from California vs. 1,920 from the next 4 states). The strong entrepreneurial and start-up culture in the San Francisco Bay area, including Silicon Valley, helps cement California's continued dominance over other states in both number of offerings as well as amount of capital attracted to those offerings. California alone accounts for nearly 29% of all offerings nationwide and more than 25% of all capital commitments through year 3. New York has maintained its foothold on the number-two position, boosted primarily by real estate and other offerings in the Financial Sector as well as a strong showing in Technology and Services. Cumulative success rates in all 7 states listed in Tables 6-7 have also increased over year-2 figures, and this is consistent with the cumulative success rate increases in the aggregate for all states.

VIII. Capital Structure

As shown in Table 8 below, and consistent with the results from year 2, the year-3 data show that equity continues to be the most popular security type, leading in both number of offerings and total capital commitments in the aggregate. Equity was the chosen security type in two-thirds of all offerings, generating more than 50% of total capital commitments in the aggregate. Convertible debt and debt were next in line with respect to number of offerings, a trend which was also evident after year 2. Notably, however, while convertible debt attracted more than twice the number of debt offerings, the two structures resulted in nearly similar amounts of capital commitments. Another pattern worth highlighting is the greater-than-90% success rate of real estate offerings, many of which were fully funded within a matter of hours or days. Revenue share/royalty offerings, though few in number, also yielded a higher-than-average success rate of 75%.

Table 8: Summary of Offerings by Capital Structure

	# of Offerings	Recorded Capital Commitments	# Successful	Success Rate	Average per Successful Issuer
Equity	4,409	$778,860,075	1,036	23.5%	$751,795
Debt	581	$202,293,936	191	32.9%	$1,059,131
Convertible Debt	1,308	$226,836,169	517	39.5%	$438,755
Revenue Share / Royalty	24	$2,671,250	18	75.0%	$148,403
Real Estate	277	$262,226,758	250	90.3%	$1,048,907
SAFE[6]	14	$525,000	3	21.4%	$175,000
Total	6,613	$1,473,413,188	2,015	30.5%	$731,222

[6] Simple Agreement for Future Equity

IX. Conclusion

During the previous 15 months, the rules implementing Title III (Regulation Crowdfunding) and Title IV (so-called “Reg A+”) of the JOBS Act have come into effect (May 16, 2016 and June 19, 2015, respectively)[7], providing entrepreneurs and small businesses with additional capital formation options from which to choose. Even with these other avenues now available to issuers, Title II offerings had the strongest year yet, in terms of net annual capital commitments, cumulative success rates, and cumulative average capital commitments received. Though the volume of new offerings has narrowed from year to year, the active offerings have become more successful overall in attracting capital commitments, based upon the online platform data that we have tracked. Securities-based crowdfunding continues to fill a void in the capital-raising arena, allowing investors to diversify their holdings and to gain access to innovative companies, and providing entrepreneurs with an alternative method of capital formation as well as an opportunity to validate their business models and products via the crowd.

[7] https://www.sec.gov/rules/final/2015/33-9974.pdf; https://www.sec.gov/rules/final/2015/33-9741.pdf

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