NGI

ALTERNATIVE FINANCE

Altfinator
ACCESS TO ALTERNATIVE FINANCING

NGI TETRA

CONTENT

- FUNDING YOUR BUSINESS
- ALTERNATIVE FINANCE
  - Traditional vs alternative finance
  - Types of alternative finance
  - Alternative finance in the EU
- CROWDFUNDING
  - Who should consider crowdfunding?
  - Crowdfunding types
    - Donation crowdfunding
    - Investment/Equity-based crowdfunding
    - Debt-based crowdfunding/P2P lending
  - Pros and cons of crowdfunding
- ALTFINATOR INFORMATION HUB

NGI TETRA

FUNDING YOUR BUSINESS

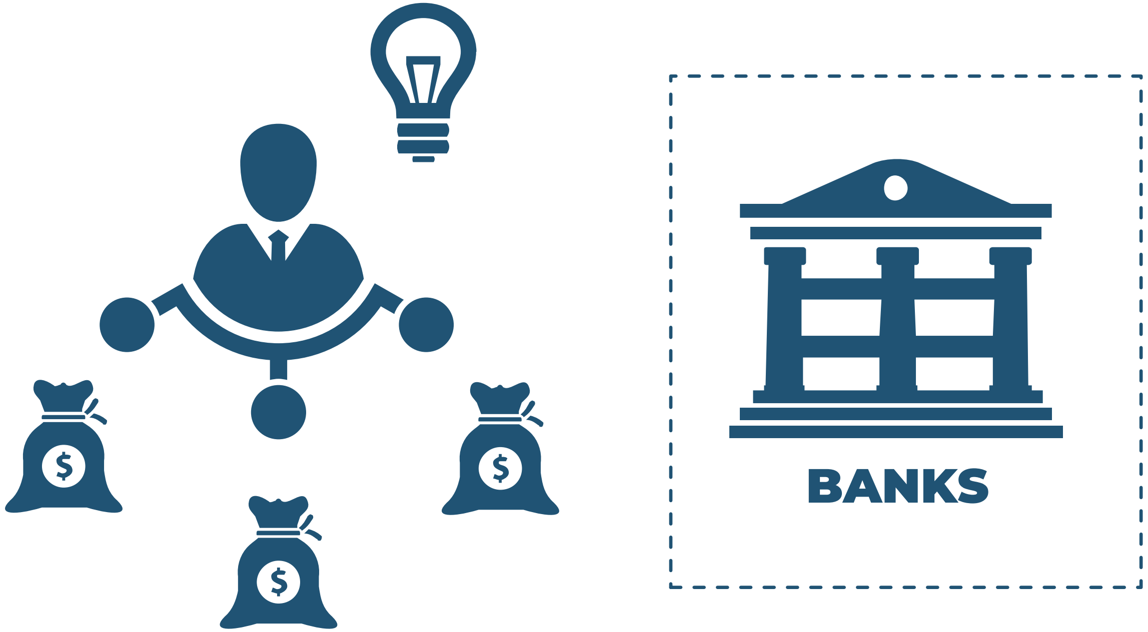
- In the past, if you needed financing for your business, then your options were limited to **traditional sources**, usually a loan from your local high street bank.
- **Alternative finance** has grown from a little-known source of funding to a mainstream alternative, giving business owners more options for financing the growth and expansion of their businesses.
- Alternative finance has made raising funds **easier, faster, and less time-consuming**. Most of the funding in the market is generated through **investments, loans, and donations,** but the demand for this sector is based on mutual benefit. Investors have more investment choices, enabling them to donate towards a cause or generate income based on their risk appetite. Companies benefit from financing that is easy to apply for and quick to obtain.

https://www.lendingcrowd.com/alternative-finance

ALTERNATIVE FINANCE

- Alternative finance refers to financial channels, processes, and instruments that have emerged **outside of the traditional finance system** such as regulated banks and capital markets.

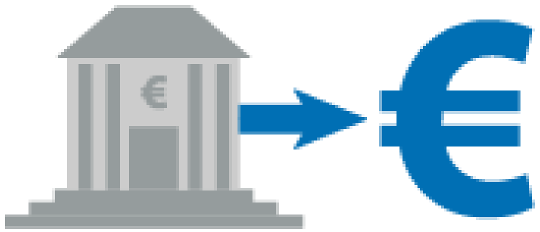
- These include for example:
  - non-bank lending (including online lending)
  - crowdfunding
  - angel investors
  - venture capitalists
  - factoring or invoice advances.



TRADITIONAL VS „ALTERNATIVE“

- Mainstream finance is excellent for many businesses, but the banks often have criteria that smaller businesses cannot fulfill and need other options.

TRADITIONAL FINANCE
large amounts from one or a few sources

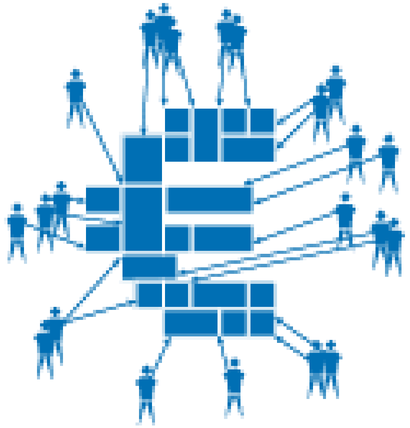


- Long paperwork process
- Strict qualification requirements
- Limited loan options
- Uncertain chances of approval
- Comparatively longer time of approval
- Credit score highly prioritized

TRADITIONAL VS „ALTERNATIVE“

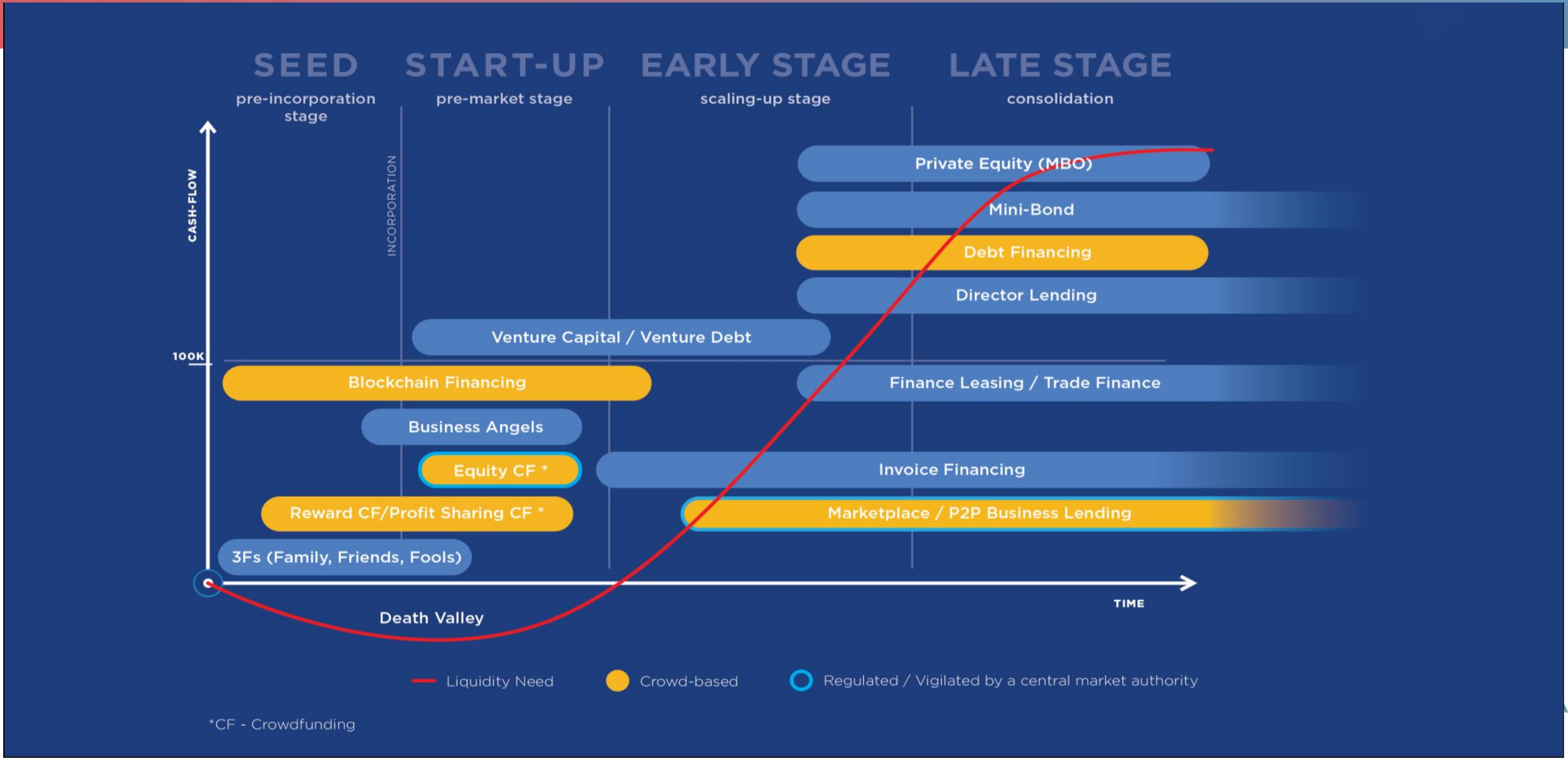
- Alternative finance is a good option for your business if you have an immediate need for capital, especially in low amounts.
  - Minimal paperwork process
  - Less strict requirements for application
  - Several loan/funding options
  - High approval rate
  - Quick approval (a matter of hours or days)
  - Ideas and products more relevant than credit availability
  - Flexibility in setting lending amounts

ALTERNATIVE FINANCE
many small sums from a group of individuals



NGI TETRA

TYPES OF ALTERNATIVE FINANCE



https://www.altfinator.eu

ALTERNATIVE FINANCE IN THE EU

Crowdfunding and peer-to-peer lending are not suitable for every firm, but if you have a good business plan that appeals to investors, then these funding sources can help you get the funding you need.

- Crowd funding
- Peer-to-peer lending
- Invoice trading
- Balance sheet lending
- Finance leasing
- Trade finance
- Angel networks
- Venture Capital funds
- Venture debt
- Family offices
- Convertible loans
- Mezzanine financing

NGI TETRA

CROWFUNDING

- **Crowdfunding** is a method of raising money by sourcing small amounts from many individuals (the 'crowd') rather than getting the total amount from one lender or investor. This is typically done via the Internet or a crowdfunding site, also known as a crowdfunding platform.
- This way of raising cash has proved popular with a wide variety of businesses and can be used in a wide range of scenarios such as:
  - selling equity in a business
  - borrowing money for a business
  - selling preorders of a new product
  - raising money for a charitable cause

Crowd funding

https://www.fundingoptions.com/knowledge/what-is-crowdfunding

WHO SHOULD CONSIDER CROWDFUNDING?

- Crowdfunding is used for a variety of reasons, from raising money for a sick family member to launching a small business.
- It is an option for small businesses that are looking to expand but are unable to secure a bank loan or bring on an investor, or start-ups looking to launch an innovative new product or service. Businesses encompassing the following factors generally have the most success with crowdfunding projects:
  - **Visibility:** large social media presence or an active community will help spread awareness and generate hype far more easily.
  - **Simple to understand**: if the business is finite, visible and understandable, it has potential to do well e.g. a new toy for children. On the other hand, a new, complicated piece of technology used in back-end data processing is unlikely to gain traction.
  - **Time and money**: businesses should have the time and funds to build up hype and put together a strong crowdfunding campaign.

https://www.fundthrough.com/alternative-finance-guide/

CROWDFUNDING TYPES

- There are **four** main types of crowdfunding available. The difference between them is based on what is received in exchange for a contribution:
    - **Donation-based crowdfunding:** the contributor provides a donation to a person or company and may not be promised something in return.
    - **Rewards-based crowdfunding**: the contributor is promised a reward in return, often related to the project or cause they are supporting.
    - **investment-based crowdfunding:** the contributor (or in this case, investor) receives a stake in the company, typically shares. This is also known as equity crowdfunding.
    - **Loan-based crowdfunding:** the contributor loans money to a person or company at a set interest rate. This is also referred to as peer-to-peer lending.

DONATION CROWDFUNDING

- Donation-based crowdfunding is a way to source money for a project by asking **a large number of contributors to individually donate a small amount** to it.
- Objective is to finance a project which makes **social sense or a cause in the context of charity** without expecting the funds to be returned.
- Funders do not obtain any ownership or rights to the project—nor do they become creditors to the project.

REWARD CROWDFUNDING

- Businesses post projects on a crowdfunding portal, targeting a certain amount of capital to raise.
- Backers have an expectation that the company will provide a **tangible (but non–financial) reward or product in exchange for their contribution.**
- Funders do not obtain any ownership or rights to the project—nor do they become creditors to the project.

KICKSTARTER INDIEGOGO

INVESTMENT/EQUITY-BASED CROWDFUNDING

- **Sale of registered security** by mostly early–stage firms to investors.
- People invest in an early-stage company in exchange for shares in that company.
- A shareholder has partial ownership of a company and stands to profit should the company do well.
- Can be a good option for businesses that want to raise money for growth but aren't eligible for a loan or don't want to take the risk of agreeing to a repayments schedule. Other firms won't want to give up equity in their company and prefer to raise money using debt instead.

SEEDRS FUNDERBEAM

DEBT-BASED CROWDFUNDING/P2P LENDING

- **A large amount of retail investors (the crowd) lend money through a platform to a business or individual.**
- Peer to peer (P2P) lending means that the business borrows money from a collection of individual lenders and pays it back with interest.
- In **removing many of the middlemen** that would be involved if the transaction happened through a bank, debt-based crowdfunding can keep the costs down for borrowers while potentially giving the lenders improved rates of return.

Peer-to-peer lending

Funding Circle

NGI TETRA

PROS AND CONS OF CROWDFUNDING

+

- **Speed**: If you have the right audience or market demand, it is possible to raise large amounts in a relatively short period of time.
- **Reduces risk**: business owners can test proof of concept and marketability to understand the market demand.
- **Fan base:** loyal fan base and potential customer base for the future.
- **Attracts investors**: potential to attract investors such as venture capitalists and angel investors later on.
- **Global audience:** tap into funds and potential customers from all over the world.

–

- **Less due diligence:** the average contributor will not ask the tough questions, which can prevent you from identifying (and fixing) the weak areas in your business model early on.
- **Copycats**: A public display of your idea makes it more prone to being copied or stolen by other companies that have more capital.
- **Failed projects:** A failure can harm a company's reputation and will let down the people who backed them.
- **Presence:** A strong network or community is necessary for visibility. A strong social media presence is very important.
- **Targets not achieved:** If the contribution goal is not met, businesses go away empty-handed

https://www.fundthrough.com/alternative-finance-guide/

DOES CROWDFUNDING SUIT YOUR BUSINESS?

Company status	Equity crowdfunding	Reward crowdfunding	Peer-to-peer lending
Pre-trading	NO	**YES**	NO
Pre-profit	**YES**	**YES**	NO
Profitable and growing	**YES**	NO	**YES**
Established, steadily growing	**YES**	NO	**YES**
Established, stable	**YES**	NO	**YES**
Launching	**YES**	**YES**	**YES**
Making acquisitions	NO	NO	**YES**
Expanding	**YES**	**YES**	**YES**
Investing in new facilities	NO	NO	**YES**
Looking to refinance	**YES**	NO	**YES**
In need of capital restructuring	**YES**	NO	**YES**

NGI TETRA

ALTFINATOR INFORMATION HUB – ALTFINATOR.EU

- **Crowdfunding webinars**
- Explanatory videos and event recordings
- **Matchmaking database with a glossary of instruments**
- Credit data providers overview
- Country briefs – SWOT analysis on alternative financing
- Regulatory framework overview
- Investor manual
- Factsheets on fintech and alternative finance types
- Finance providers’ best practice report from benchmark countries
- SMEs’ success stories
- Platform for promoting community events and news across Europe

GET IN TOUCH!

INFO@TETRAPROJECT.EU

The NGITETRA project has received funding from the European Union's Horizon 2020 Research and Innovation Programme under Grant Agreement No 825147

SOURCES

- https://ec.europa.eu/growth/tools-databases/crowdfunding-guide_en
- https://www.donationcrowdfunding.com/
- www.altfinator.eu
- https://p2pmarketdata.com/invoice-trading/
- https://www.donationcrowdfunding.com
- https://www.crowdfunding4culture.eu/what-crowdfunding
- https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-global-alternative-finance-market-benchmarking-report/
- https://www.investopedia.com/
- https://www.syndicateroom.com/alternative-investments/debt-crowdfunding
- https://www.fundthrough.com/alternative-finance-guide
- https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/the-2nd-global-alternative-finance-market-benchmarking-report/
- https://www.fundingoptions.com/knowledge/what-is-crowdfunding
- https://www.lendingcrowd.com/alternative-finance