Can Non-Accredited Investors Find and Invest in the Next Unicorn?

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Unicorns is a term used to describe private venture-capital backed startup firms valued at over $1 billion. Stanford (2015) reports that 2015 may well be remembered as the year of the unicorn. He identifies 47 companies reaching unicorn status in 2015 from the United States (US) and 28 from outside the US. Nearly $33 billion was invested in unicorns in 2015 and Stanford reports the median deal size of $158 million. Not all the money raised was from venture capital however as Stanford notes that Fidelity, Wellington Management and T. Rowe Price put money into 23 unicorns combined in 2015.

The results from unicorn investing are of relevance in light of the new rules regarding crowdfunding. One can look at the experience from the current unicorns and infer what may happen for investors who are early stage investors under the new rules. On October 30, 2015, the Securities and Exchange Commission (SEC) approved rules that allow all investors to invest and receive equity stakes in startup businesses via crowdfunding. For the first time, private company issuers are able to solicit investments in their securities using public advertising, and permit investment by both accredited and non-accredited investors. Prior to this change only accredited investors (investors whose net worth exceeds $1 million or who earn more than $200,000 a year) could participate in equity crowdfunding. The possibility of non-accredited investors participating in equity based crowdfunding began with the passage of the 2012 Jumpstart Our Business Startups Act (JOBS Act). This latest SEC rule change under the Title III portion of the JOBS Act opens the way for private startup companies to raise money from a wide range of investors in return for equity or other securities. Mary Jo White, the SEC chair since April 2013, stated in her speech to the 41st Annual Securities Regulation Institute in Coronado, CA that crowdfunding is "the start of what promises to be a period of transformative change in capital formation."

Taylor [2015] indicates Title III is overdue because the Joint Small Business Credit Survey Report for 2014 reports small businesses continue to struggle to obtain their desired capital through traditional methods. In addition, small loans that startups and small businesses desire are very difficult to obtain. Taylor believes equity based crowdfunding is superior to the traditional debt based funding startups traditionally get. Equity based crowdfunding does not require collateral to receive funds and it doesn't increase the firm's chances of bankruptcy. This may create a moral hazard problem leading business owners to take on too much risk but the added risk may also allow business owners the opportunity to discover new ways to innovate their products or business models. Taylor further argues that only time will tell if equity crowdfunding will work to fund small businesses.

By examining the performance of the 144 unicorns listed in The Wall Street Journal (WSJ), we show why non-accredited investors will be interested in investing in startup firms. We examine unicorn investors to determine who has been the most successful in picking unicorns and from those results we infer how non-accredited investors might fare as they invest in startups. Clearly, the new rules have only recently seen implementation so only time will tell whether investors can indeed find the next unicorns. In addition, we examine what might be the best strategies for non-accredited investors to use equity crowdfunding and how equity crowdfunding may be tweaked to create a better investing environment.

Title III of the JOBS Act – Non-accredited Equity Crowdfunding

The Jump-Start Our Business Start-Ups Act (JOBS) was enacted into law on April 5, 2012. The law was enacted to help facilitate capital raising for smaller companies by easing the regulatory burdens imposed by Federal securities law. The JOBS Act amended the Securities Act of 1933, providing an exemption, for the small businesses, from registration for the offer and sale of securities in connection with crowdfunding transactions similar to that provided to accredited investors (for more information on the crowdfunding exemption, see Walsh [2015]). It has taken the SEC over three years, but the final rules regarding Title III of the JOBS Act were finally adopted on October 30, 2015 allowing business enterprises to raise capital through crowdfunding initiatives. The new rules will become effective on May 16, 2016. The long delay in implementing Title III by the SEC has been concerns about letting non-accredited investors make investments in illiquid and risky equity and whether there is sufficient regulation regarding equity crowdfunding.

The new rules will allow companies to raise up to one million dollars over a twelve month period without having to comply with the Securities Act's registration requirements. The transaction has to be conducted through a broker or funding portal registered with the SEC. The amount a single investor can invest cannot exceed either $2000 or five percent of the annual income or net worth of the investor if either the annual income or the net worth of the investor is less than $100,000, and ten percent of the annual income or net worth of such investor if either the annual income or net worth of the investor is equal to or more than $100,000. The maximum amount of equity that can be sold to a single investor shall not exceed $100,000. There is no limit on the number of investors that may participate in a crowdfunding offering. There are certain companies that are not eligible to crowdfund under Title III of the JOBS Act. These would include non-US companies, public companies, investment companies and any company with any person that is subject to federal and state disqualifiers. Companies conducting a crowdfunding offering will be required to disclose certain information in an offering statement on Form C filed with the SEC and this statement is to be shared with prospective investors. Information about officers and directors as well as owners of 20 percent or more of the company would need to be disclosed. The issuer would need to provide a description of the company's business and the use of the proceeds from the offering. A description of the financial condition of the company would also be needed. Further information required includes the price to the public of the securities being offered, the target offering amount, the deadline to reach the target offering amount, and whether the company will accept investments in excess of the target offering amount.

Companies that have filed a Form C to do a crowdfunding offering must file an ongoing annual report on Form C-AR with the SEC after the offering is completed. In the offering documents the company would be required to disclose information in the financial statements depending on the amount offered and sold during a 12 month period. For offering amounts of $100,000 or less, the company must provide GAAP financial statements for the two most recently completed fiscal years of operations, and filed income tax returns for the most recently completed fiscal year. In both cases, the statements and tax returns need to be certified to be true and complete by the issuer's principal executive officer. If the target offering amount is more than $100,000, but less than $500,000, financial statements must be provided and reviewed by an independent public accountant. For issues of more than $500,000, reviewed financial statements must be provided by the issuer which was a departure from the SEC's original request for audited financial statements. Issuing companies would be required to amend the offering document to reflect material changes and provide updates on the company's progress toward reaching the target offering amount. Companies relying on the crowdfunding exemption to offer and sell securities would be required to file an annual report with the SEC and provide it to investors.

Kinds of Equity Offerings on Internet-based Platforms

Title III joins two other exemptions that were created by the JOBS Act regulating security crowdfunding. Title II lifted the ban on general solicitation for certain Regulation D offerings and Title IV, known as Regulation A+ because it expanded the existing Regulation A exemption. Under Regulation D, accredited investors have invested through equity based platforms since 2011. The JOBS Act simply accelerated the growth of equity crowdfunding.

Title II of the JOBS Act, which has been in effect since September 23, 2013, lifted the prohibition on publicly soliciting investments for private securities under Regulation D, Rule 506(c). Only accredited investors can participate in Rule 506(c) offerings but up to 15 non-accredited investors can participate in the traditional Rule 506(b), where general solicitation is still banned. The new feature of Rule 506(c) is the ability of issuers to advertise, allowing investors to more easily search for placements that suit their needs. Crowdnetic's ,Q3 2015 Report identified 6,063

private offerings that have recorded capital commitments of approximately $870.0 million over the second year of Title II. This is compared to the 4,712 private offerings that had received capital commitments of $385.8 million through the end of the first year of Title II activity representing growth of 28.7% in the number of offerings and a growth of 125.5% in the amount of recorded capital commitments. These figures represent the performance of offerings under Rule 506(c). Rule 506(b) offerings are not included which would list crowdfunding platforms, and Crowdnetic indicates that it is likely that the numbers of 506(b) offerings and the amount of capital raised are higher than that of 506(c) offerings. Crowdnetic states that business owners can now take their concept or product directly to the crowd to validate viability instead of relying solely on traditional angel investors and venture capitalists. Raneri [2015a] indicates Rule 506(c) has stricter requirements to verify investors' accredited status, which appears to hold back many issuers from taking advantage of the opportunity to reach more investors.

Final rules under Title IV of the JOBS Act were passed March 25, 2015 and went into effect June 19, 2015. Title IV allows an unlimited number of accredited and non-accredited investors to invest in Regulation A+ offerings. Freedman and Nutting [2015] say Title IV is ideal for growth and later stage companies that want to file so called mini-IPOs. Raneri [2015b] states the SEC created an intermediate capital formation step on the road to going public that could be very beneficial for companies and investors. However, Title IV is not viewed as being good for seed stage startups since compliance costs are projected to be high for the amount of capital being sought in smaller offerings. The Regulation A+ exemption was expanded from a $5 million raise limit to a $50 million limit but divided into Regulation A+ Tier 1 raising up to $20 million and Tier 2 up to $50 million. Before the JOBS Act, Regulation A issuers could sell unrestricted securities to non-accredited and accredited investors. The expanded Regulation A+ still lets non-accredited investors participate but limits their annual investment in offerings above $20 million to 10 percent of their income or net worth. All investors can invest an unlimited amount in Tier 1 offerings up to $20 million. In addition, Tier 2 preempts blue sky review so there is no need for approval by every state in which the offering is made. Tier 1 will still require blue sky review. Regulation A+ offerings are referred to as mini-IPOs as issuers are required to go through a scaled down registration process and file an offering circular with the SEC which is a prospectus like document. Again, Freedman and Nutting believe seed stage and startup companies will not use the Tier 1 part of Regulation A+ mainly because offerings still require blue sky review and compliance which is probably going to be too costly and time consuming. Raneri believes Regulation A+ will allow founders and early stage investors to get some liquidity from having their money tied up for years. He feels this is important because more and more companies are delaying IPOs because of the cost and regulatory burden.

Other options include equity crowdfunding through intrastate securities exemption. Under the Section 3(a)(11) of the Securities Act of 1933, issuers with headquarters in a particular state may sell securities to all investors who live in that state. Coverman [2015] shows that as of November 1, 2015, 29 states and the District of Columbia have such exemption in place. Some of these exemptions are variations of Title III of the JOBS Act, in terms of the dollar limits on capital raising, and investment limits for non-accredited investors.

Freedman and Nutting [2015] report that as a result of the various ways private securities can be listed online, entrepreneurs and investors are confused about the differences between the exemptions and platforms where you find these offerings. Similar to Freedman and Nutting, Exhibit 1 shows the differences, from an investor's point of view, between the four kinds of equity offerings that investors eventually will find on online offering platforms. There is lots of speculation about equity crowdfunding and how equity offering platforms will work. It would appear the natural progression of capital raising will be using Title III or intrastate securities exemption for early seed stage startups, moving to Regulation D for early growth stage companies that are expanding, and then Regulation A+ for pre-IPO later growth. Using Title III for the seed stage seems reasonable. Examining the dollar amount invested in seed rounds of private venture-backed firms over the past five years from FactSet Mergerstat shows the average invested to be $1.72 million and the median is $1.3 million out of 1,363 firms. As we will show later, investors will be interested in the equity crowdfunding because of the potential returns.

UK Experience

Equity crowdfunding and its success will be measured based on the returns investors receive from their investments. The United Kingdom (UK) has had a longer history then the US with equity crowdfunding that started with the crowdfunding site, Crowdcube in 2011. Similar to changes sought by the JOBS Act of 2012, equity crowdfunding in the UK was started to grow the funding of small and medium sized enterprises. AltFi Data [2015] a data aggregator of equity crowdfunding published a report on equity crowdfunding from 2011 through June 30, 2015 using the five most significant online platforms based on origination volume. These include, Crowdcube, Seedrs, SyndicateRoom, CrowdBnk and Venture Funders. There were 431 investment crowdfunding rounds from 367 companies. The UK report indicates that crowdfunding has revolutionized the funding of small and medium sized enterprises involving both professional and small retail investors. It is reported that 62% of crowd funding investors describe themselves as retail investors with no previous investment experience.

Andrew [2015] indicates equity crowdfunding is regulated by the Financial Conduct Authority (FCA) in the UK. The FCA regulates the equity platform rather than the risk profile of the company investors are investing in. Platform marketing must be fair and not misleading, risks should be highlighted and systems must be in place to separate funds coming in the platform, and the platform must have adequate capital reserves. Who can invest via equity crowdfunding is similar to what the US will have May 15, 2016 and include: retail clients who are advised, retail clients classified as corporate finance contacts or venture capital contacts, retail clients certified as sophisticated or high net worth, or retail clients who confirm that they will not invest more than 10 percent of their net investible assets. One aspect that is different about crowdfund investing in the UK from the US is the tax incentive given in the UK to invest in small and medium sized companies. UK investors are given a subsidy in the form of tax

Exhibit 1: Different Kinds of Equity Offerings on Internet-based Platforms

	Online Launch	Capital Raise Limit in 1 Year	Investor Status	Investment Limit	Intermediary Required
Title IV Reg. A+ Tier 1	June 19, 2015	$20 million	All Investors	No limit	No
Title IV Reg. A+ Tier 2	June 19, 2015	$50 million	All investors	Depends on income/worth	No
Title II Reg. D Rule 506(b)	September 23, 2013	No limit	Accredited investors and 15 non-accredited investors	No limit	No
Title II Reg. D Rule 506(c)	September 23, 2013	No limit	Accredited investors only	No limit	No
Intrastate Equity Crowdfunding	December 8, 2011 Georgia was first	Typically $1 to $2 million	All investors	Depends on income/worth	Varies with each state
Title III Equity Crowdfunding	May 16, 2016	$1 million	All investors	Depends on income/worth	Yes, online portals

breaks to encourage innovation and job creation. The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) schemes give tax relief (30% and 50% respectively) on the amount of funds invested. AltFi Data reports over 90% of the crowdfunding campaigns were EIS/SEIS eligible. EIS and SEIS are subject to a three year minimum holding period with the relief clawed back if shares are disposed within the minimum holding period.

The report projects that amount of equity capital going to UK companies through crowdfunding will reach 140 million pounds in 2015. The growth in equity crowdfunding has been 129% since 2011. One benefit a company gets from crowdfunding is creating a brand by the recruitment of a number of small investor supporters. AltFi Data believes this relevant word of mouth will continue to increase the sector diversity of equity crowdfunding. They show the size of the crowdfunding campaigns is increasing through time as well.

In general there is a perception that all companies that use crowdfunding to access capital are startups. The AltFi Data report shows that the majority of companies in the UK using equity crowdfunding have been established for several years. They report the average age of companies that raised funds from the crowd in 2015 was 3.32 years and the overall age from 2011 was 2.91 years. One of the goals of the JOBS Act of 2012 was to create jobs. The UK report indicates that average increase in headcount at the companies raising funds from the crowd is 83%. The UK companies receiving funds appear to be in better shape financially after their fundraising as shown in the report by the Experian Delphi credit scores. The Experian Delphi score is examined for each crowdfunded company before and after the crowdfunding campaign. The average Delphi score improves significantly in the 24 months post financing.

Over 80% of the UK companies that crowdfunded between 2011 and 2013 are still around. The AltFi Data report quotes an October 2014 report by the insurer RSA that found 55% of UK Small and Medium sized Enterprises did not survive five years. Investing in small and medium sized companies is not done with the expectations of achieving instantaneous returns. It is still too early to tell if the crowd of inexperienced investors exhibits collective wisdom in what companies to fund. The AltFi Data report recommends platform transparency. Crowdfunding platforms should allow investors the ability to easily track just how many companies have failed and what is the overall proportion of success to failure. As a retail investor dominated market, platforms should do their utmost to ensure that investors are fully appraised of the likelihood of them backing a successful campaign. A unique feature of crowdfunding platforms in the UK, which started with crowdfunding site SyndicateRoom, is the ability of the inexperienced crowd investor to invest in and with professionally led opportunities.

Results

Exhibit 2 provides information regarding the 144 private venture-backed companies listed in the WSJ (see Austin, Canipe and Slobin [2015]) as having valuations over $1 billion. Also in Exhibit 2 is an estimated annualized return for each firm using data from FactSet Mergerstat and the valuation reported in the WSJ. To calculate the annualized return, the date and dollar amount of each investment round prior to the firm's public valuation is obtained from FactSet Mergerstat. Using data from Jensen, Marshall, and Jahera [2014], it was estimated that when private companies went public, venture capitalists/angel investors who had funded rounds of financing, owned around 60% of the public company at the time of the IPO. The valuation of these companies was smaller (average valuation at IPO was $650

million) but the median rounds of funding, 5, is the same as the private companies listed in Exhibit 2. PitchBook.com reports the percentage stake in a company investors are willing to take for a round of funding has been dropping. In the fourth quarter report in 2014, 4Q 2014 U.S. Venture Industry Report, the median stake investors required for seed funding was 23% of the firm. The median for Series A was 28%, Series B was 23%, Series C was 17% and for Series D and beyond is was 12%. Using these figures and knowing the median rounds of funding was five for our sample from Exhibit 2, investors should have around 69% of the company value after the financing rounds. Therefore, the value of the company after investors have provided funding will be estimated to be 60% for this study. Winkler [2015] interviewing Bill Gurley, who is a venture capitalist for Benchmark and is known as one of Silicon Valley's top technology deal makers, stated that when Benchmark talks to their limited partners about private companies, they discount the companies 40% as well.

The estimated annualized firm return prior to the public valuation date is then calculated by using the dates and amounts of the equity funding from FactSet Mergerstat with the valuation listed in the WSJ cut 40 percent. The calculation is done using the XIRR function of Microsoft Excel. An annualized return for the S&P 500 over the same time period for the private firms is calculated for comparison purposes. All of the firms, except Lazada Group, have a higher estimated annualized return than the S&P 500 return over the same time period. The average annualized return for the investors in the private companies is 5,355.43% (median is 119.19%) while for the S&P 500 it is only 10.49%. Eleven unicorns have annualized returns above 1000%. These are estimated returns and do not reflect the differences in returns between seed investors and the different series investors. Seed investors in the firm would have annualized returns that would be higher than that reported since they are the first to invest and hold a better stake in the company than series investors. The same would be true of first series investors such as series A, if the firm has several rounds of funding. Keep in mind these returns reflect private companies that have made it through the startup phase. Gage [2012] reports research done by Shikhar Ghosh who finds 3 out of 4 startups fail. This failure rate is much higher than that reported by The National Venture Capital Association who estimate that 25% to 30% of venture backed businesses fail. Needless to say, the returns for the sample are high.

Exhibit 2 shows 21.17% of the unicorns were started by founders that had previous experience starting a firm. In addition, 83.33% of the founders have remained active in running their company. For those unicorns that report the total size of their board and management team on FactSet Mergerstat, the total size is around 12 with average tenure of 4.30 years. Exhibit 2 shows there are around 5 members to the board and around 45% of the members are independent from management. Unicorns have on average 12.02 investors and 11.51 of the investors are classified as active. Exhibit 2 points out that the average age of the unicorns is 8.44 years and the average amount of equity that has been invested is $450 million based on available information from FactSet Mergerstat.

Exhibit 3 examines the investors in the unicorn companies reported in the WSJ. Sequoia Capital has invested in the most unicorns, investing in 27 of the 144. Unfortunately, the amount invested in each unicorn by investor is not known because FactSet Mergerstat lumps all investors in the same seed or series together with the total dollar amount of each round of funding. Interestingly, there were 414 different investors that invested in only one unicorn. Although not shown in Exhibit 3, the investors that have invested in the most seed rounds coincide fairly well with the list of investors in Exhibit 3. The top three investors in seed rounds were Sequoia Capital investing in 9 of the unicorn seed rounds, Accel Partners investing in 11 seed rounds, and SV Angel investing in 9 seed rounds. Given the dollar limits of how much money can be raised and invested each year by non-accredited investors, seed investing might be the initial way non-accredited investors participate in equity crowdfunding. If non-accredited investors are allowed to invest with accredited investors, it may make sense to invest with the investors that have done it before such as the top firms listed in Exhibit 3.

Exhibit 2: Summary Statistics of Unicorn Companies

Variable	Number	Mean	Median	Minimum	Maximum
Experienced founder	137	21.17%	0	0	1
Active founder	144	83.33%	1	0	1
Total size Board/Management	128	11.85	11	1	39
Number on Board	114	4.95	5	1	12
% Board Independent	113	45.13%	0	0	6
Age of firm	143	8.44	8	1	28
Average Tenure	125	4.30	4	0	13
Latest valuation (billions)	143	3.59	1.5	1	51
Number of investors	136	12.02	11	1	63
Number of active investors	136	11.51	10	0	56
Rounds of funding	142	4.86	5	1	12
60% return (%)	120	5355.43	119.19	8.59	472908.16
Excess return vs. S&P (%)	120	5344.94	107.65	-13.22	472926.44
Total Equity per FactSet (billions)	124	0.45	0.27	0.002	6.01

Exhibit 3: Frequency of Investors in Privately-held Billion Dollar Club Members

Rank	Investor	Frequency	Percentile	Cumulative number of investments	Cumulative percentile
1	Sequoia Capital	27	2.29	27	2.29
2	Accel Partners	19	1.61	46	3.90
3	Kleiner Perkins Caulfied & Byers	18	1.53	64	5.42
4	Tiger Global Management	18	1.53	82	6.95
5	Andreesen Horowitz	17	1.44	99	8.39
6	Google Ventures	15	1.27	114	9.66
7	Wellington Management	14	1.19	128	10.85
8	T Rowe Price	13	1.10	141	11.95
9	Temasek Holdings	13	1.10	154	13.05
10	Fidelity Investments	12	1.02	166	14.07
11	Goldman Sachs Ventures	12	1.02	178	15.08
12	Institutional Venture Partners	12	1.02	190	16.10
13	New Enterprise Associates	12	1.02	202	17.12
14	SV Angel	12	1.02	214	18.14
15	DST Group	11	0.93	225	19.07
16	Founders Fund	10	0.85	235	19.92
17	Greylock Partners	10	0.85	245	20.76
18	Khosla Ventures	10	0.85	255	21.61
19	Various (4)	9	3.05	291	24.66
23	Various (3)	8	2.03	315	26.69
26	Various (7)	7	4.16	364	30.85
33	Various (13)	6	6.61	442	37.46
46	Various (7)	5	2.96	477	40.42
53	Various (14)	4	4.75	533	45.17
67	Various (27)	3	6.86	614	52.03
94	Various (76)	2	11.89	766	64.92
170	Various (414)	1	35.08	1180	100.00

Exhibit 4 lists where the unicorns are located and the general industry each unicorn is associated with. The vast majority of unicorns in the US are located in California and New York and the location of the most unicorns outside the US are in China. The industry the majority of unicorns are in or related to is the technology industry. The top three industry groups listed are packaged software, internet software/services and information technology.

In Exhibit 5, the unicorn excess returns (return for the unicorn less the return for the S&P 500 over the same time frame) are divided into quartiles with quartile 1 representing unicorn excess returns above 197.97%, quartile 2 and 3 having excess returns greater than 56.08% but less than 197.97%, and quartile 4 has unicorn excess returns that are less than 56.08%. Unicorn variables from Exhibit 2 are than compared across quartiles to test for differences in the quartiles. First, the median excess return of quartile 1, is significantly larger than the other three quartiles. The unicorns with the largest excess returns have some characteristics that are significantly different than the other quartiles. The total size of the board/management is significantly smaller and the age of the firm is significantly less in quartile 1 than the other quartiles. Comparing quartile 1 to quartile 4, the average tenure of the board/management is significantly larger in quartile 4 and quartile 4 has significantly more rounds of funding than quartile 1. It would appear the longer the unicorn is around, the unicorn's excess return starts to fall. Stanford [2016] reports that given market volatility, oil prices, and fears of overly frothy private valuations, investors that would like to cash in on their private investments by taking a company public are having to wait given the conditions. He indicated a number of unicorns expected to make a public exit in 2015 waited. There appeared to be a rise in what some refer to as private IPOs. A private IPO is a late-stage funding round above $40 million. Stanford reports the number of private IPOs rose to a high of 135 in the third quarter of 2015 and there have been 44 deals of $40 million or

Exhibit 4: Billion Dollar Club by Industry and Locations

Location	Number	Percentage of Total	Industry	Number	Percentage of Total
California	56	39.1	Packaged Software	39	27.3
New York	10	7.0	Internet Software/Services	30	21.0
Massachusetts	6	4.2	Information Technology	11	7.7
Utah	4	2.8	Catalog/Specialty Distribution	8	5.6
Illinois	3	2.1	Financial	7	4.9
Florida	2	1.4	Misc. Commercial Services	7	4.9
Connecticut	1	0.7	Biotechnology	5	3.5
Georgia	1	0.7	Commercial Printing/Forms	4	2.8
New Jersey	1	0.7	Medical Services	3	2.1
Texas	1	0.7	Specialty Stores	3	2.1
Washington	1	0.7	Advertising/Marketing	2	1.4
Washington DC	1	0.7	Aerospace & Defense	2	1.4
Total U.S.	87	60.8	Computer Processing	2	1.4
China	24	16.8	Data Processing Services	2	1.4
India	7	4.9	Movies/Entertainment	2	1.4
Germany	5	3.5	Specialty Telecommunications	2	1.4
United Kingdom	5	3.5	Wholesale Distributors	2	1.4
Singapore	3	2.1	Apparel/Footwear	1	0.7
South Korea	2	1.4	Broadcasting	1	0.7
Sweden	2	1.4	Computer Peripherals	1	0.7
Canada	1	0.7	Food Distributors	1	0.7
Czech Republic	1	0.7	Life/Health Insurance	1	0.7
France	1	0.7	Personnel Services	1	0.7
Hong Kong	1	0.7	Pharmaceuticals	1	0.7
Israel	1	0.7	Retail Trade	1	0.7
Luxembourg	1	0.7	Semiconductors	1	0.7
Netherlands	1	0.7	Technology Services	1	0.7
Taiwan	1	0.7	Telecommunications Equipment	1	0.7
Total International	56	39.2	Tools & Hardware	1	0.7
Total	143	100.0	Total	143	100.0

Exhibit 5: Independent variables by return quartile

Variable	Number	Mean	Median	Minimum	Maximum
Quartile 1 (Excess return greater than 197.97%)					
Experienced founder	28	28.57%	0	0	1
Active founder	30	83.33%	1	0	1
Total size Board/Management	25	8.64	9	2	25
Number on Board	20	4.15	4	1	8
% Board Independent	19	15.79%	0	0	2
Age of firm	30	5.8	5	2	12
Average Tenure	25	3.0	2	0	6
Latest valuation (billions)	30	4.84	1.8	1	51
Number of investors	30	12.13	8.5	2	63
Number of active investors	30	11.70	8.5	0	56
Rounds of funding	30	4.27	4	2	9
Excess return vs. S&P (%)	30	21127.29	529.51±±±	198.27	472926.44
Total Equity per *FactSet* (billions)	30	0.55	0.27	0.002	6.01
Quartiles 2 and 3 (Excess return greater than 56.08 and less than 197.97%)					
Experienced founder	60	23.33%	0	0	1
Active founder	60	96.67%	1^{**}	0	1
Total size Board/Management	58	13.09^{***}	12^{***}	2	39
Number on Board	53	5.13	5	1	12
% Board Independent	53	43.40%	0	0	4
Age of firm	60	8.70^{***}	8^{***}	3	21
Average Tenure	58	4.19	4	1	13
Latest valuation (billions)	60	4.06	1.7	1	46
Number of investors	60	12.70	12	1	35
Number of active investors	60	12.52	12	1	35
Rounds of funding	60	4.95	5	1	9
Excess return vs. S&P (%)	60	108.46	107.65	56.39	197.67
Total Equity per *FactSet* (billions)	60	0.45	0.27	0.03	2.60
Quartile 4 (Excess return less than 56.08%)					
Experienced founder	30	13.33%	0	0	1
Active founder	30	90.00%	1	0	1
Total size Board/Management	30	14.93^{***}	15^{***}	1	27
Number on Board	29	5.90^{**}	6	1	11
% Board Independent	29	68.97%	0	0	6
Age of firm	30	12.37^{***}	11.5^{***}	5	28
Average Tenure	30	5.90^{***}	6^{***}	1	13
Latest valuation (billions)	30	1.81	1.2	1	12
Number of investors	30	13.97	13	2	31
Number of active investors	30	12.73	12	2	29
Rounds of funding	30	6.50^{***}	6.5^{***}	2	12
Excess return vs. S&P (%)	30	35.57	40.38	-13.22	55.77
Total Equity per *FactSet* (billions)	30	0.35	0.28	0.06	1.28

***** Significantly larger than quartile 1 at the 1% level and 5% levels, respectively.
±±± Significantly larger than the other quartiles at the 1% level.

more completed in the first month of 2016. The problem he states for unicorn investors is these late round fundings cut into the returns that were thought to be over a hundred times the return on investment.

Conclusion

Equity crowdfunding gives ordinary investors the potential ability to invest in the early stages of high-growth firms. Investors have complained that this early investing has disappeared in public offerings due to costly regulatory mandates such as Sarbanes-Oxley and Dodd-Frank forcing companies to grow larger before going public. We have shown the reward for early stage investing is the potential for large returns but one of the problems of early stage investing is the potential for fraud because the non-accredited investors lack experience. Other issues associated with equity crowdfunding are the lack of liquidity and the risk. The SEC is limiting the amount of funding a non-accredited investor can do to reduce the exposure to risk but there is still the illiquidity issue.

Since non-accredited crowdfunding has not started yet in the US, it is too early to tell how popular equity crowdfunding will be with non-accredited investors and whether fraud will be an issue. Examining the UK experience, equity crowdfunding is growing and it appears it will change how small companies will capitalize themselves. Since non-accredited investors don't have experience investing in private companies, US equity crowdfunding platforms should follow the lead of UK platforms and allow non-accredited investors to co-invest with accredited investors. Given that one of the goals of the JOBS Act is to create job growth, the US may want to consider giving a tax break to investors that invest in startups similar to the UK. Another example would be the Shanghai market where Jie, Areddy, and Areddy [2016] report that to spur investment firms to take more risk on early stage tech startups, the Shanghai market is offering subsidies of up to 30 to 60% of financial losses incurred by investors.

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