FOR DISCUSSION ONLY

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INVEST LOCAL, EVERYWHERE

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BUSINESS INCUBATOR

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WHAT IS INVESTMENT CROWDFUNDING?

WHAT IS CROWDFUNDING?

"The practice of soliciting financial contributions from a large number of people especially from the online community" (*Merriam-Webster*)

- Crowdfunding today can be divided into 2 major categories
  - Rewards/donation-based crowdfunding
  - Investment crowdfunding
- Growth of crowdfunding industry
  - In 2015, over $30 billion in global crowdfunding
  - By the end of 2025, global crowdfunding could reach over $90 billion – nearly double the size of the venture capital industry (source: World Bank)
- Why crowdfunding is exploding in popularity
  - **Change in technology**: increasingly advanced technology allows people seeking capital to connect with people willing to provide capital, easier, faster, cheaper
  - **Change in law**: governments around the world are changing existing laws or passing new laws to encourage and improve crowdfunding

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TRADITIONAL SOURCES OF SMALL BUSINESS FINANCING IN US

- Equity financing
  - Personal savings; family & friends (often technical violations of securities laws, but no practical way to ensure compliance/enforcement)
  - Reg D private offerings to Accredited Investors
- Debt financing
  - Bank loans (e.g., SBA loans, conventional loans, credit lines)
  - Non-bank loans (e.g., non-bank lenders, merchant cash advance, equipment financing)
- Generally, businesses are legally prohibited from soliciting investments from public unless:
  - the offering is "registered" with financial regulators (e.g., IPO)
  - the offering is made privately to "accredited investors" only (e.g., angel investors)

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EVOLUTION OF US INVESTMENT CROWDFUNDING

- During "Great Recession" (2008-10), very difficult for businesses to access capital
  - Drastic decrease in availability of private investment capital
  - Banks severely limited lending to all types of businesses
- In response, government introduced various legal & regulatory changes to make it easier for businesses to obtain capital
  - American Recovery and Reinvestment Act (2009), Small Business Jobs Act (2010)
    - Government efforts to loosen business credit by increasing guarantee of SBA loans
  - Jumpstart Our Business Startups (JOBS) Act of 2012
    - Included several different elements, including relaxing general solicitation rules, new exemptions
- JOBS Act: Includes series of laws that effectively permit online investment "crowdfunding" that are applicable in various different contexts
  - Due to major delays (more than 4 years to implement Title III), individual states passed their own crowdfunding laws in reliance of Rule 147
  - 30+ states have since passed their own "intrastate crowdfunding laws"
    - Texas Intrastate Crowdfunding Exemption (TX State Securities Board Rule 139.25) passed Nov 2014

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JOBS ACT DEVELOPMENTS

- Title II (finalized Sept 2013): Regulation D Updated to Permit "General Solicitation"
  - Traditional private placement legal regime prohibited issuers from generally soliciting investors – issuers were required to have a "pre-existing relationship" with investors
  - Title II permit private placements to be conducted through internet to "generally solicit" the public
    - Offerings must be conducted through registered Broker-Dealers following set protocol
  - ONLY accredited investors permitted; non-accredited investors may NOT participate
    - Individuals with net worth over $1M, or income over $200k for 3 years (including current year)
  - Any national "investment crowdfunding" platform prior to May 2016 were utilizing Title II (primarily real estate crowdfunding platforms led the push into Title II)
- Title IV (finalized in June 2015): Regulation A+
  - Essentially a mini-IPO process for small businesses, require registration/filing with SEC that are less burdensome than traditional IPO process
    - Legal/accounting set-up costs likely will still cost between $100-200k to launch offering
  - Two-tiers of offering: (i) Tier 1 – up to $20 million in 12-months, (ii) Tier 2 – up to $50 million in 12-months
  - Non-accredited investors may also participate

JOBS ACT DEVELOPMENTS

- Title III (finalized May 2016): Regulation Crowdfunding
  - Available to any US-based small businesses, can raise up to $1M per year
  - Anybody can invest (including non-US persons) subject to investment limits across all Regulation Crowdfunding offerings
    - If annual income or net worth less than $100k, greater of (i) $2k or (ii) 5% of lesser of AI or NW
    - If AI or NW greater than $100k, 10% of lesser of (i) AI or (ii) NW; max annual investment of $100k
  - Offerings must be conducted through online crowdfunding portals managed by SEC-registered Funding Portals or Broker-Dealers
  - Different portals have different business focus (e.g., equity vs debt)
  - Different portals have different listing standards and services offered to issuers and investors utilizing the portals

WHAT NEXTSEED IS DOING

NEXTSEED HELPS SMALL BUSINESSES AND RETAIL INVESTORS

NextSeed operates debt crowdfunding platforms where:

RETAIL INVESTORS

can earn solid steady returns investing in local businesses they believe in

SMALL BUSINESSES

can build loyal customers and obtain debt financing

RETAIL INVESTORS HAVE LIMITED OPTIONS

And small businesses need better access to capital and marketing

RETAIL INVESTORS

LIMITED ACCESS

to options beyond stocks, bonds and real estate

NO EASY WAY

to vet and invest in small businesses

SMALL BUSINESSES

HARD

to get a bank loan and the other options suck

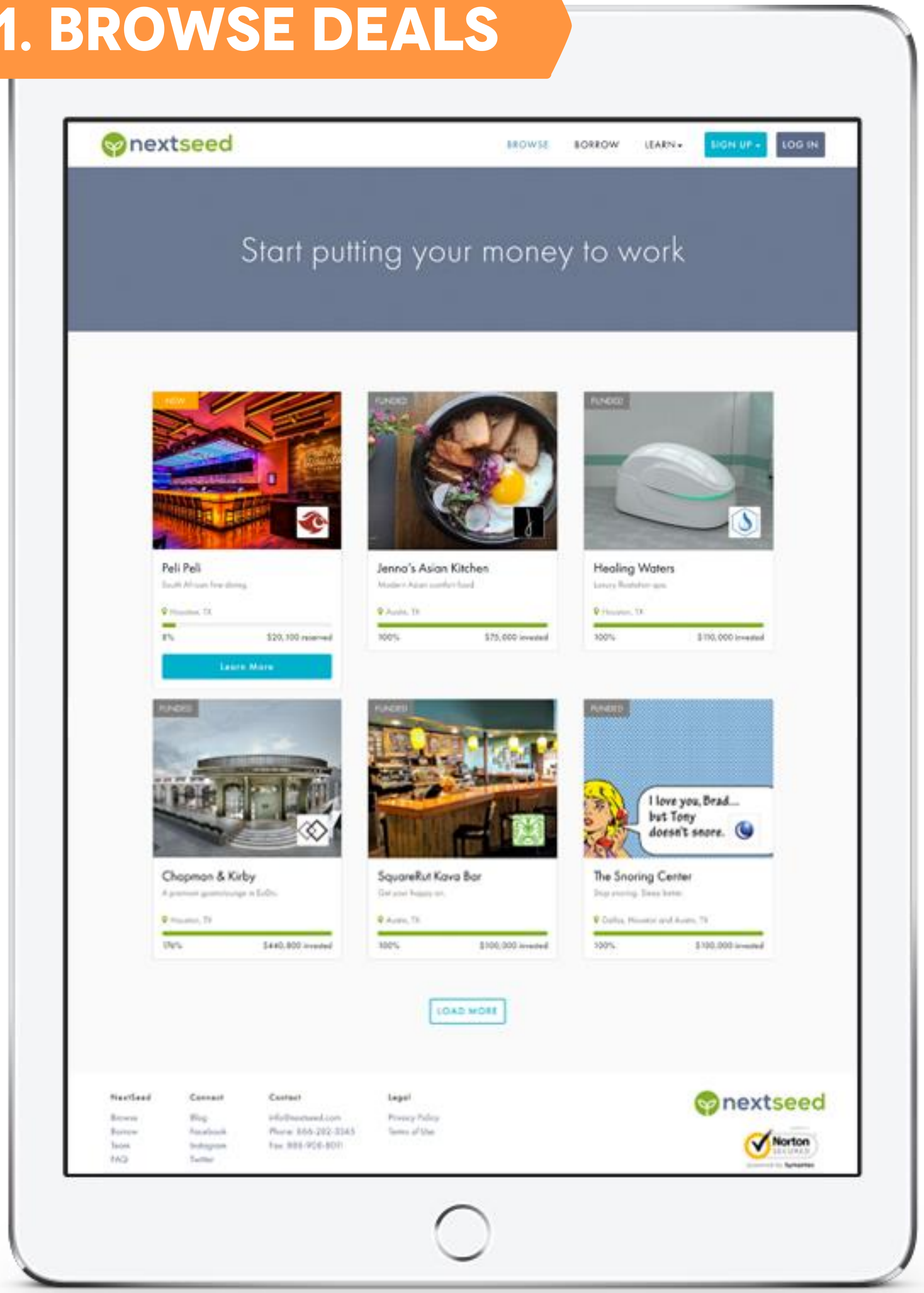
EXPENSIVE

to pay for marketing beyond word of mouth

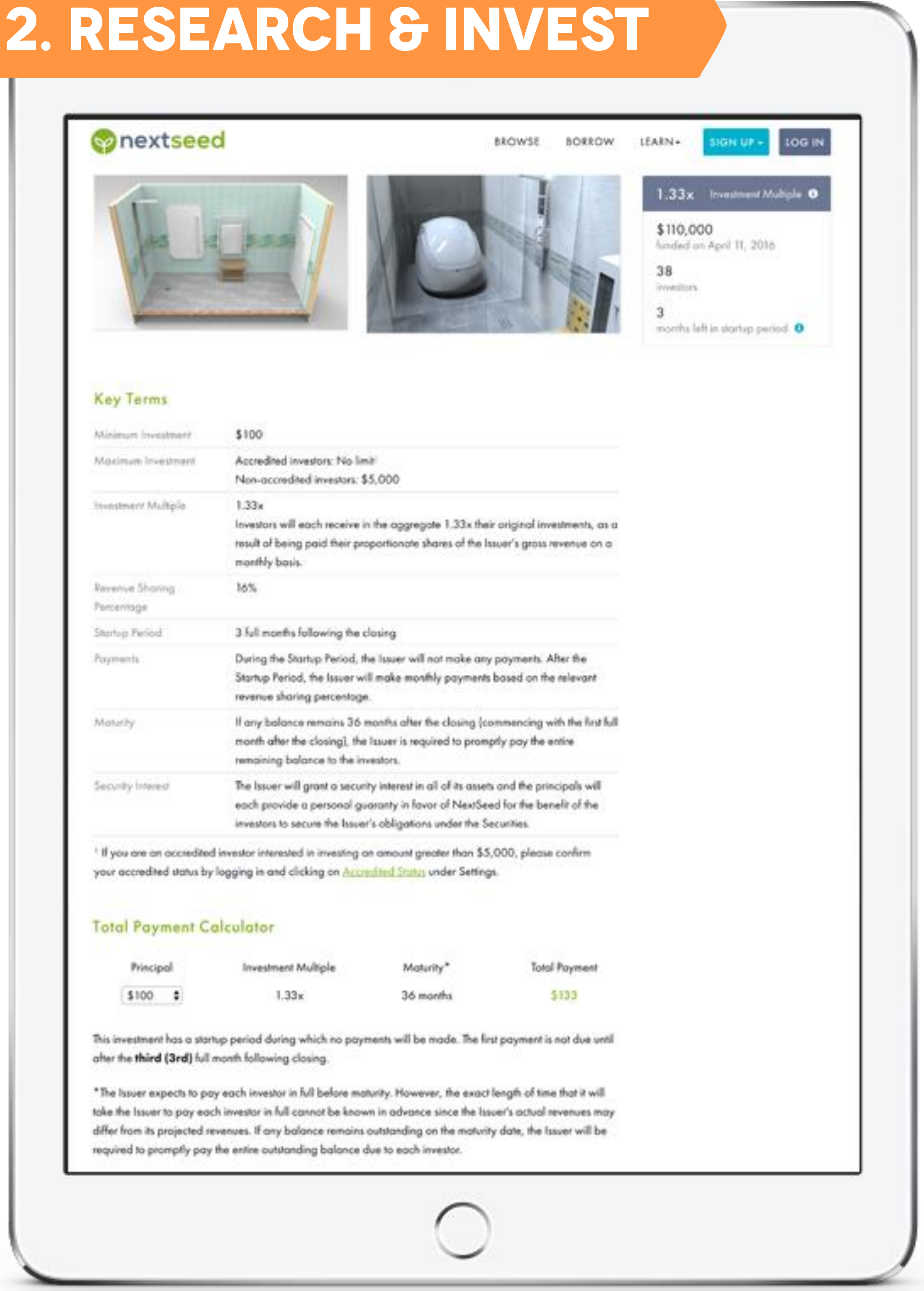
OUR PRODUCT IS SIMPLE TO USE

We believe a simple, seamless investor experience is the key to mass adoption

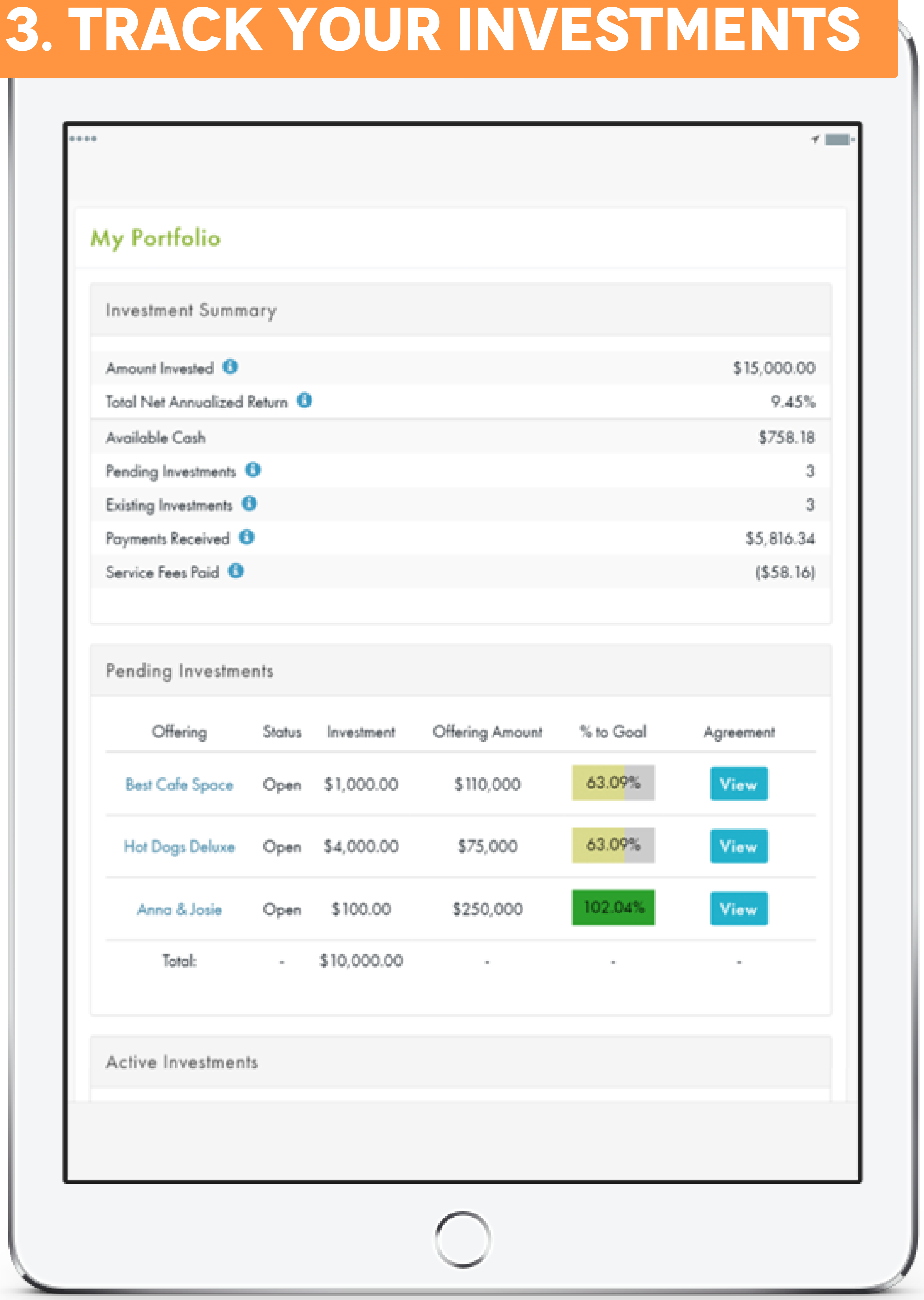
1. BROWSE DEALS



2. RESEARCH & INVEST



3. TRACK YOUR INVESTMENTS



WE OFFER FLEXIBLE FINANCING OPTIONS

That we've refined based on our experiences working with small businesses

	TERM LOANS	REVENUE SHARING
ELIGIBILITY	Existing businesses	New or rapidly expanding businesses
RATE	8% to 18%	Target 15% to 25% IRR
PAYMENT	Fixed monthly payment	Fixed % of gross monthly revenue
PREPAYMENT	No prepayment penalty	Full investment multiple due
MATURITY	12 to 48 months	24 to 48 months
SECURITY	Optional liens and guarantees	Optional liens and guarantees

OUR MEMBERS LOVE US

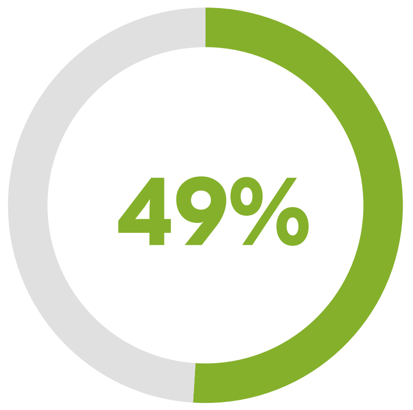
And they are coming back to invest repeatedly

OUR FAN BASE IS GROWING QUICKLY

Our latest campaign drew
5K more visitors
(5x more than our first campaign)

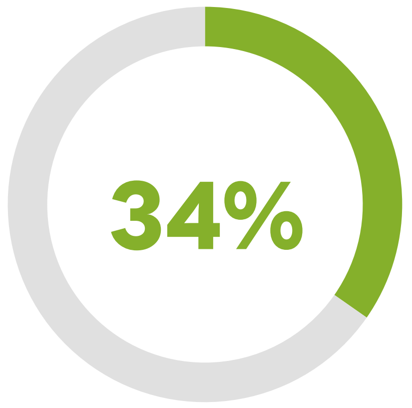
MILLENNIALS LOVE US

They make up



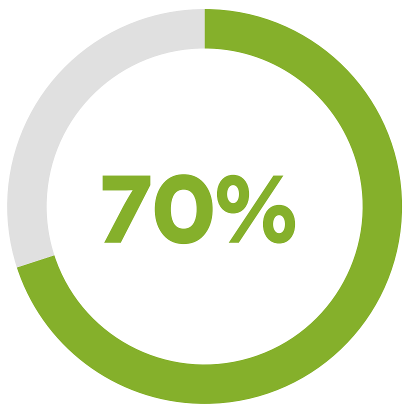
of all members

&



of total investment volume

EARLY ADOPTERS RETURN



of first-time investors return to invest again

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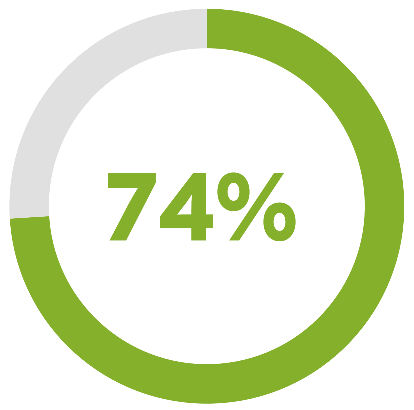

of repeat investors make second investments that are equal or greater

CASE STUDY – PELI PELI RESTAURANT

Critically acclaimed South African fine dining restaurant raised $358,000 on NextSeed in 7 weeks

THE OPPORTUNITY

Peli Peli already had two thriving locations averaging $5 million in annual revenue and was eager to keep growing. Yet their bank was unwilling to lend more, and pitching private investors was too time-consuming.

THE RESULTS

Total Raised via NextSeed: $358,000 term loan from 127 investors

Timeframe: Crowdfunded in 42 days

Campaign Page Views: 13,000+ for avg 1.5 minutes

Press Coverage Media Value: $10,000+

Social Media Impressions: 100,000+

Trip Advisor Rating: Both locations ranked Top 5 in Houston in 2016

Best of Houston Awards in Houston Press: Finalist for 6 categories in 2016 (only nominated for 1 category in 2015)

Growth: Leveraging momentum, announced plans for 2 new locations in 2017

CASE STUDY - CHAPMAN & KIRBY

New gastrolounge and event venue raised $440,800 on NextSeed in 10 weeks

THE OPPORTUNITY

An experienced team of restaurateurs and venue operators is opening a new gastrolounge and event space in East Downtown Houston. The team was able to secure a large bank loan but needed to raise the downpayment for the loan. The bank was willing to view NextSeed as equity financing.

THE RESULTS

<u>Total Raised via NextSeed</u>: $440,800 revenue sharing loan from 134 investors

<u>Timeframe</u>: Crowdfunded in 70 days

<u>Campaign Page Views</u>: 10,000+ unique views

<u>Press Coverage Media Value</u>: $13,000+

<u>Social Media Impressions</u>: 130,000+

<u>Construction Underway</u>: Exceeded fundraising goal and raised 176% of their minimum. Allowed the team to expedite their plans to construct a rooftop deck in time for the Super Bowl.

CASE STUDY – THE BREWER'S TABLE

A next level experience in food and beer, raised $300,000 on NextSeed in 7 weeks

THE OPPORTUNITY

The Brewer's Table is a new brewery and restaurant launching in East Austin. The concept blends the best of wood-fired food and oak-barreled beer in an elevated experience that the region hasn't seen before. The team had successfully raised an equity round, secured a bank loan, and needed a final round of debt financing. NextSeed achieved the objective.

THE RESULTS

Total Raised via NextSeed: $300,000 revenue sharing loan from 190 investors

Timeframe: Crowdfunded in 50 days

Campaign Page Views: 14,000+ for avg 5.5 minutes

Press Coverage Media Value: $20,000+

Social Media Impressions: 120,000+

Eater Austin: Named most anticipated Austin restaurant opening for Fall 2016

CASE STUDY - THE NATIVE HOSTEL

Luxury boutique hostel launching in Austin raised $396,500 on NextSeed in 8 weeks

THE OPPORTUNITY

The Native Hostel is a new luxury boutique hostel opening in East Austin. The dynamic owners and operators had success with a series of bars, restaurants, construction, and service companies. Rather than raise equity financing, the team secured a large bank loan and raised a round of financing through NextSeed to supplement the remaining balance.

THE RESULTS

Total Raised via NextSeed: $396,500 revenue sharing loan from 227 investors

Timeframe: Crowdfunded in 43 days

Campaign Page Views: 12,000+ for avg 4.5 minutes

Press Coverage Media Value: $10,000+

Social Media Impressions: 115,000+

First successful offering in history: The Native became the first ever successful fundraise under the new Regulation Crowdfunding regulations

LET'S MAKE HISTORY TOGETHER.

QUESTIONS?
YOUNGRO@NEXTSEED.CO