



2024 Capital Call

What's happening with capital raising from startup to small cap

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WELCOME



STATE OF CAPITAL FORMATION

- What are the *challenges* for small businesses and their investors in raising capital?
- What is the *data* showing?
- What are our *recommendations* to address the challenges?
- Questions and Answers



CHALLENGES AND RECOMMENDATIONS



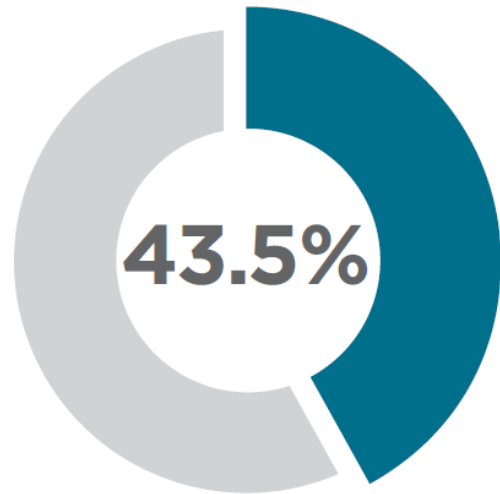
CHALLENGE ONE

Small businesses are key to our economy but often struggle to navigate our complex securities laws and access the capital they need to succeed.





Small businesses are critical to the U.S. economy



of the U.S. GDP is created by **small businesses.**

Small businesses created



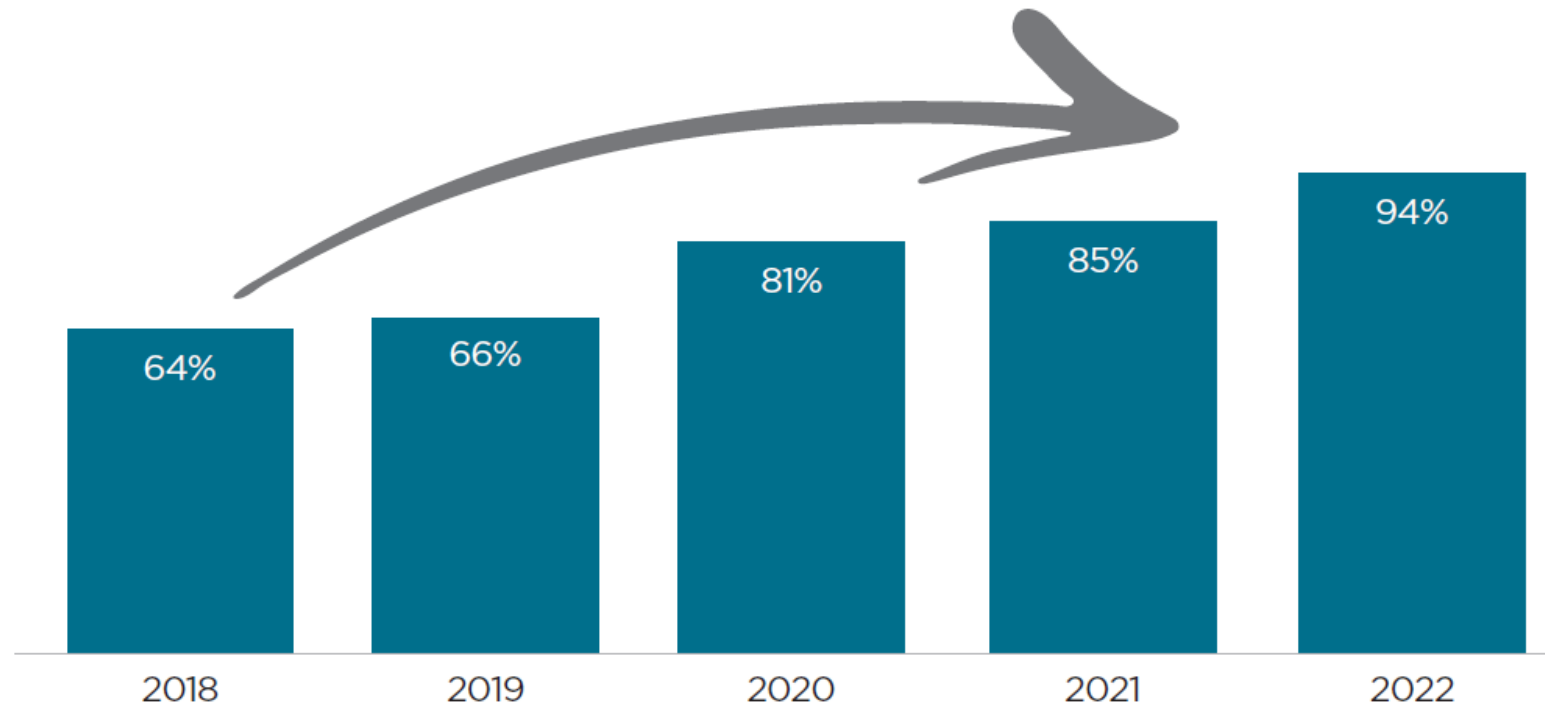
of net new jobs
(17.3 million) from 1995-2021.

Source: 2023 Annual Report p. 4; U.S. Small Business Administration Office of Advocacy, "What's New with Small Business?" (Mar. 2023).





Small businesses increasingly face financial challenges.



Source: 2023 Annual Report p. 5; Federal Reserve Banks, “Small Business Credit Survey, 2023 Report on Employer Firms” (Mar. 2023); Federal Reserve Banks, “Small Business Credit Survey, 2022 Report on Employer Firms” (May 2022).





Access to capital remains a barrier to entry and growth.



78% of small business owners are concerned about the *ability to raise capital.*

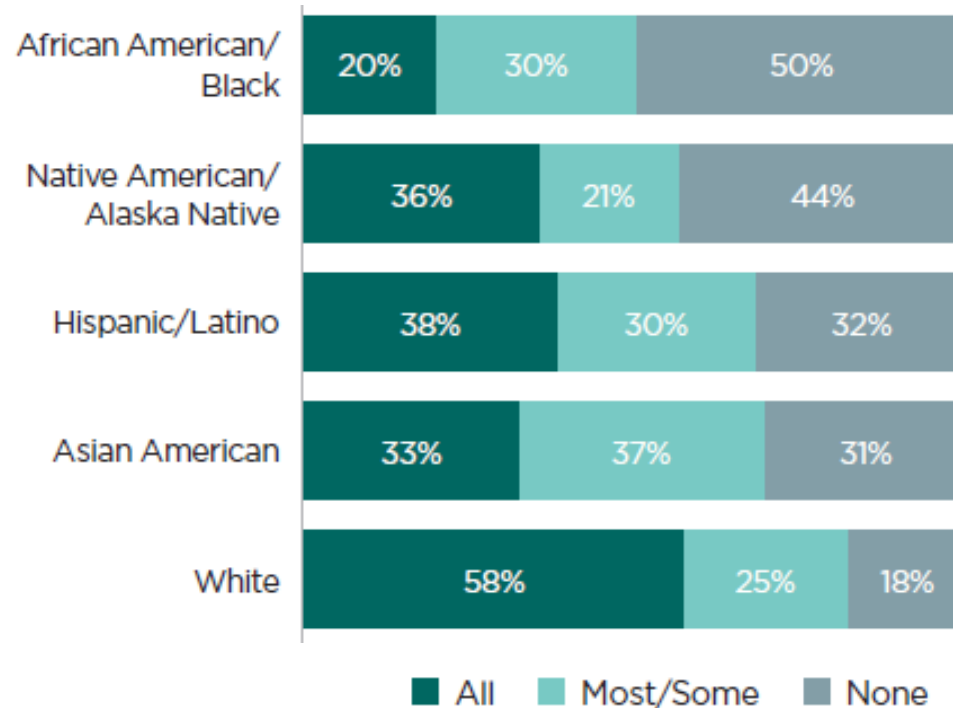
Source: 2023 Annual Report p. 5; Goldman Sachs, "New Survey of Small Business Owners Shows a Credit Crunch is Hindering Growth" (Oct. 2023).





The capital-raising playing field is uneven.

Share of Funding Received by Small Businesses by Race and Ethnicity

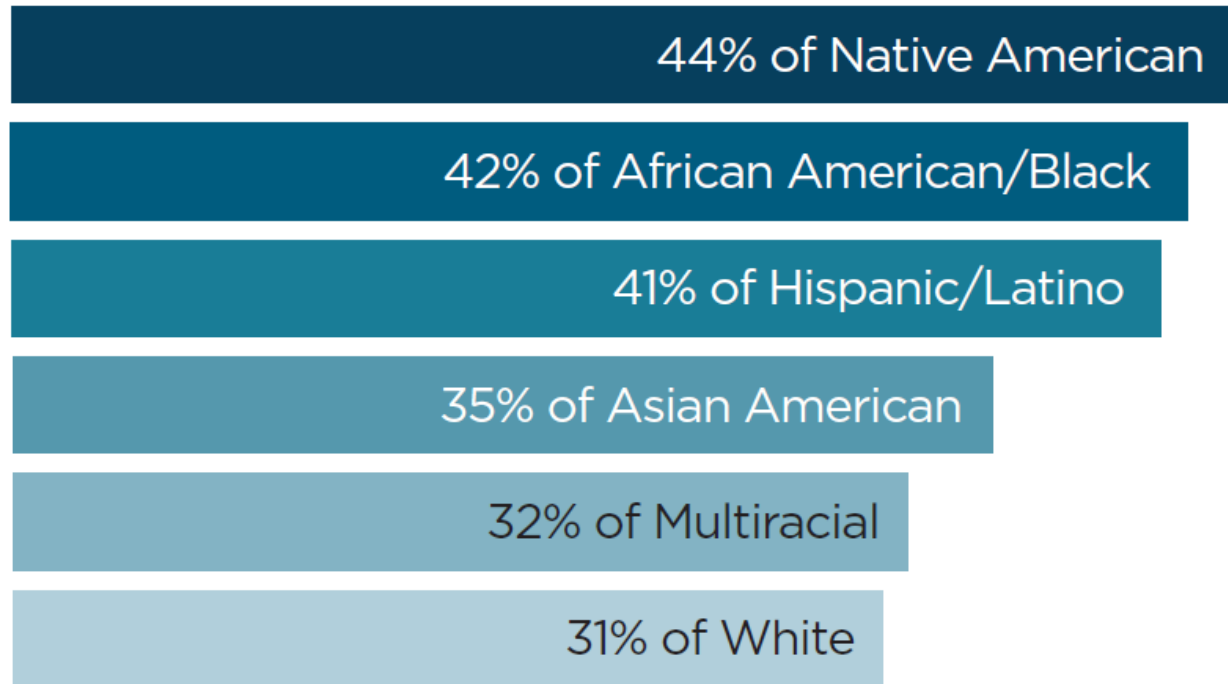


Source: 2023 Annual Report p. 53; Federal Reserve Banks, “Small Business Credit Survey, 2023 Report on Employer Firms” (Mar. 2023).





The capital-raising playing field is uneven.



entrepreneurs cite a **lack of access to financial resources** as the primary reason they stopped pursuing starting their business.

Source: 2023 Annual Report p. 54; Ewing Marion Kauffman Foundation, “Access to Capital for Entrepreneurs: Removing Barriers. 2023 Update” (June 2023).





The capital-raising playing field is uneven.



70% of female founders felt their gender has held them back (up from 55% in 2019).

Source: 2023 Annual Report p. 40; McKinsey & Company, “Women in the Workplace 2022” (Oct. 2022).





RECOMMENDATION: Outreach and Education

Entrepreneurs and their investors need
**accessible tools and educational
resources** to navigate complex securities
laws.



Outreach & Engagement

In 2023 we hosted or participated in:



30+ *EVENTS*
with *22+ partner organizations*



Outreach & Engagement

In 2023, our outreach focused on issues like:



- unique obstacles faced by women and diverse entrepreneurs
- importance of building and gaining access to networks
- how to increase diversity among capital allocators

Educational Resources

63K+ *VISITS* to the
*CAPITAL RAISING
HUB*



255K+ views of our *EDUCATIONAL TOOLS*
and *SMALL BUSINESS RESOURCES*





CHALLENGE TWO

Raising capital is challenging and access to capital is limited, particularly for women and diverse founders and those located outside of traditional capital raising hubs.



Raising capital remains a barrier to entry and growth.



55% of small business owners found it *harder to access capital* than in prior years.

Source: 2023 Annual Report p. 5; Small Business Majority, “Opinion poll. Small businesses share concerns with recent banking closures, access to capital changes” (May 2023).





Raising capital remains a barrier to entry and growth.



3.7x more startups failed in 2022 due to *lack of financing or investors* than in 2020.

Source: 2023 Annual Report p. 5; Skynova, "Why startups failed in 2022."

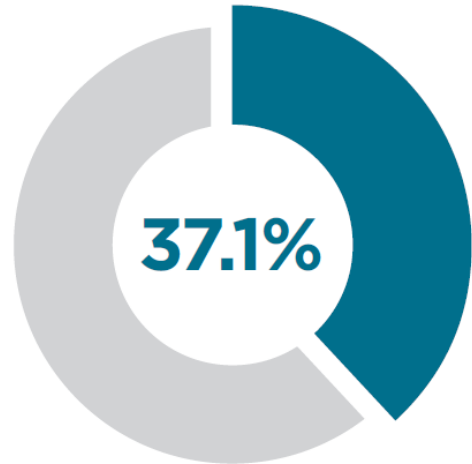




Raising capital is especially challenging for women and diverse founders.

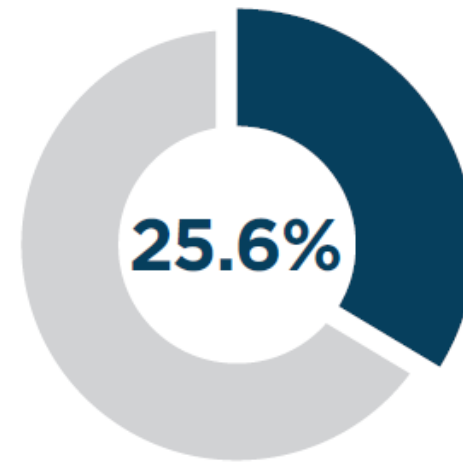
2022 was a strong year for women seeking angel capital.

Women constituted



of **entrepreneurs seeking angel capital** in 2022 (up from 28.6% in 2021).

Angel investors invested in



of those **investment opportunities** brought to their attention (up from 19.7% in 2021).

Source: 2023 Annual Report p. 41; Jeffrey Sohl, "The Angel Market in 2022: The Rising Impact of Women Angels," Center for Venture Research (May 2023).





Raising capital is especially challenging for women and diverse founders.

Women received only a small fraction of total VC funding.

Only *2%* of all *venture funding* raised in 2022 was invested in startups led by *all women* founders.



Further, only *5%* of that slice of the pie for all women founders went to *Hispanic/Latina* and *African American/Black* women founders.

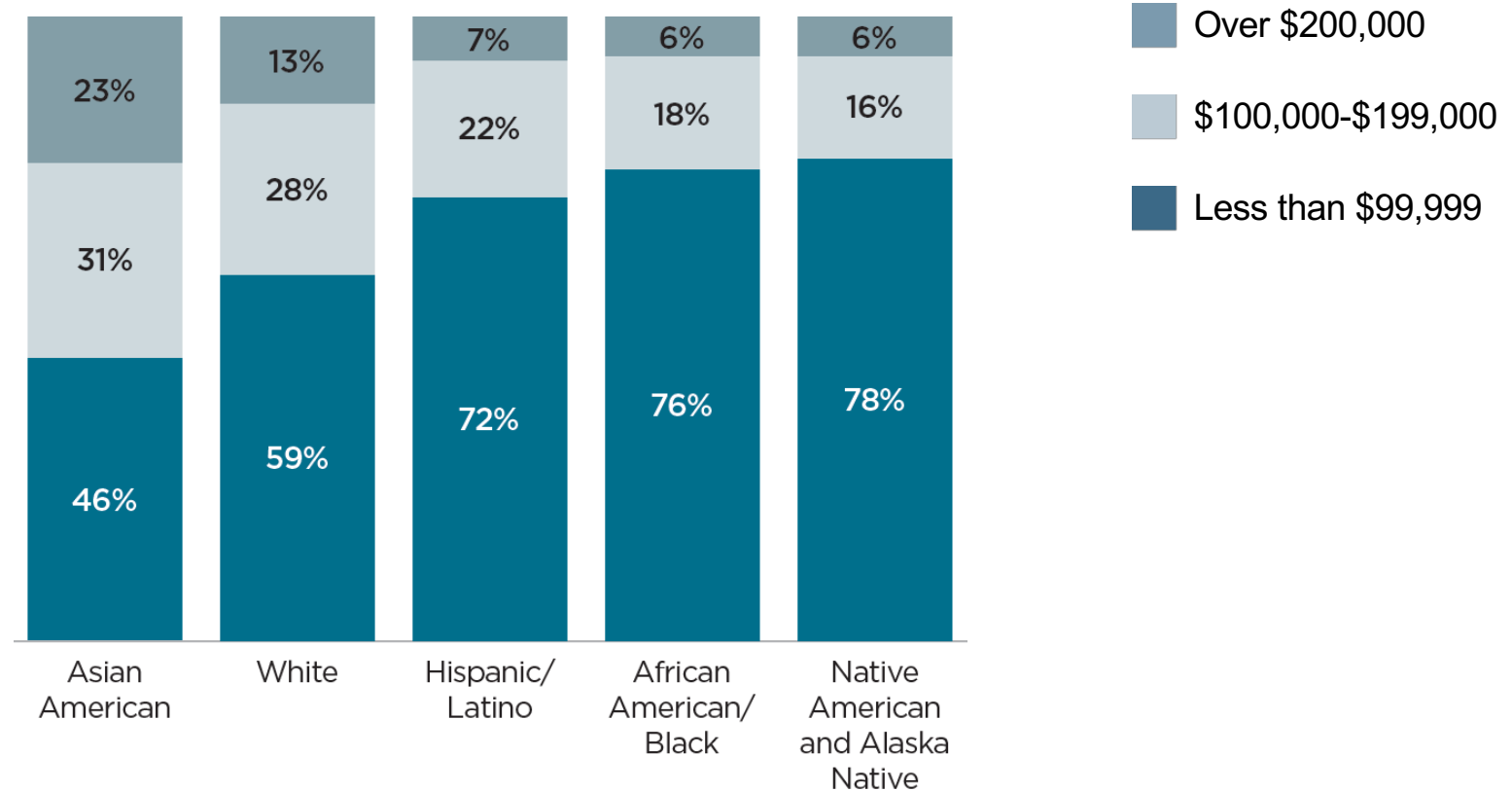
Source: 2023 Annual Report p. 42; PitchBook-NVCA, "Venture Monitor Q2 2023," (July 2023); Digital Undivided, "Project Diane 2022; Latina and Black Women Entrepreneurs in the Tech and Innovation Ecosystem" (Mar. 2023).





Inequalities affect the starting line for many entrepreneurs.

Household Income Distribution

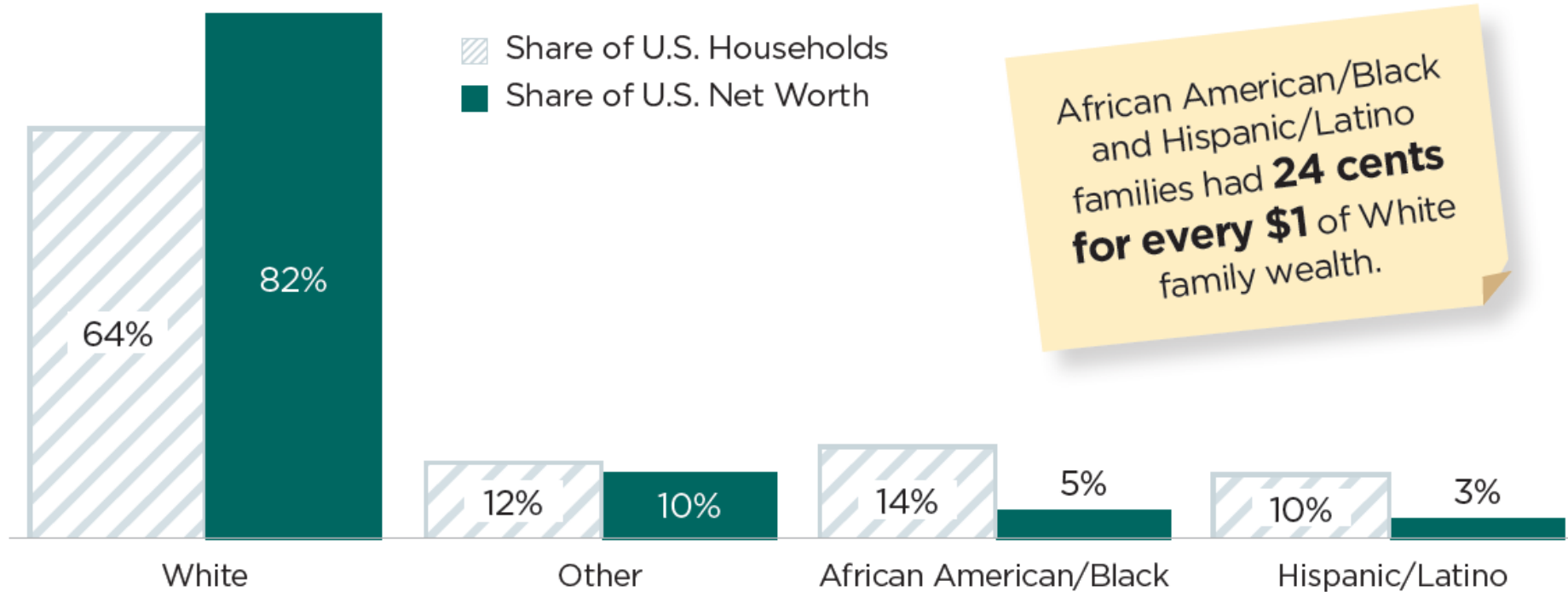


Source: 2023 Annual Report p. 52; Gloria Guzman and Melissa Kollar, “Income in the United States: 2022. Current Population Reports” (Sept. 2023).





Inequalities affect the starting line for many entrepreneurs.



Source: 2023 Annual Report p. 52; Board of Governors of the Federal Reserve System, “DFA: Distributional Financial Accounts” (updated Dec. 2023).





Inequalities affect the starting line for many entrepreneurs.

Racially and ethnically diverse teams raised

33% less

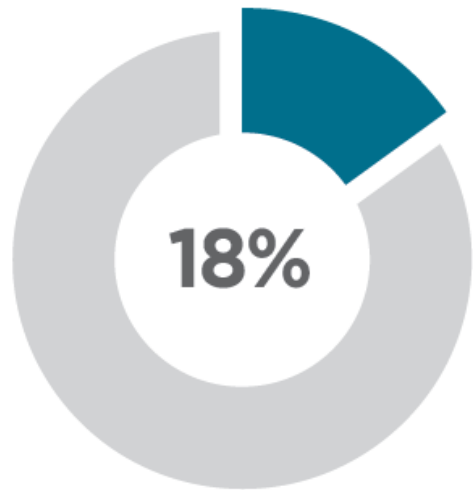
on average in 2022 than all-White teams.

Source: 2023 Annual Report p. 56; Dropbox DocSend, “The Funding Divide 2023. Amid macro headwinds and increased investor diligence, familiar discrepancies reemerge” (2023).





Founders outside of urban hubs face capital-raising challenges.



of the U.S. population lives in rural areas.



15% of small employer firms are located in rural areas.

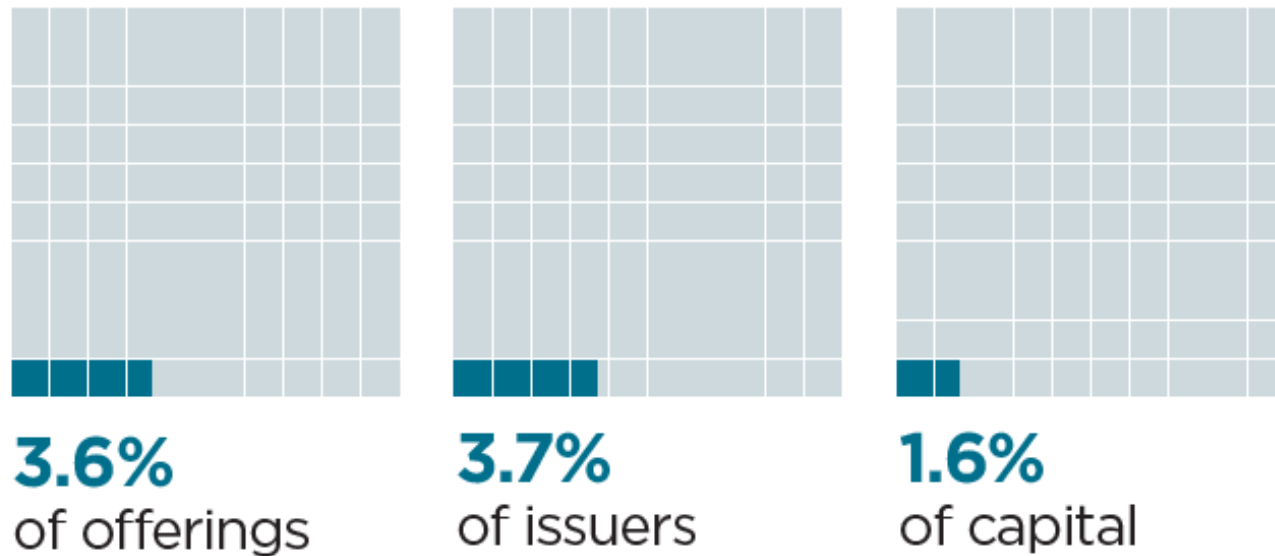
Source: 2023 Annual Report p. 67; Federal Reserve Banks, “Small Business Credit Survey, 2023 Report on Employer Firms” (Mar. 2023).





Founders outside of urban hubs face capital-raising challenges.

Of the total U.S. capital raised from investors over the last 3 years



supported rural small businesses.

Source: 2023 Annual Report p. 67.





Women and diverse investors remain underrepresented.



39.5% of angel investors in 2022 were women (an increase from 33.6% in 2021).

Source: 2023 Annual Report p. 48; Jeffrey Sohl, “The Angel Market in 2022: The Rising Impact of Women Angels,” Center for Venture Research (May 2023).





Women and diverse investors remain underrepresented.



8.6% of angel investors in 2022 were racially or ethnically diverse (an increase from 4.1% in 2021 and 5.3% in 2020).

Source: 2022 Annual Report p. 58; Jeffrey Sohl, “The Angel Market in 2022: The Rising Impact of Women Angels,” Center for Venture Research, (May 2023); Jeffrey Sohl, “The Angel Market in 2021: Metrics Indicate Strong Market,” Center for Venture Research (May 2022).





RECOMMENDATION: Accredited Investor

Expand the definition to:

- include additional qualitative professional criteria, and
- offer more opportunities to demonstrate **financial sophistication** as an **alternative** to income and net worth thresholds.





RECOMMENDATION: Accredited Investor

Consider the *impact on access to capital for women and racially and ethnically diverse founders* and populations located in *rural areas*.





RECOMMENDATION: Accredited Investor

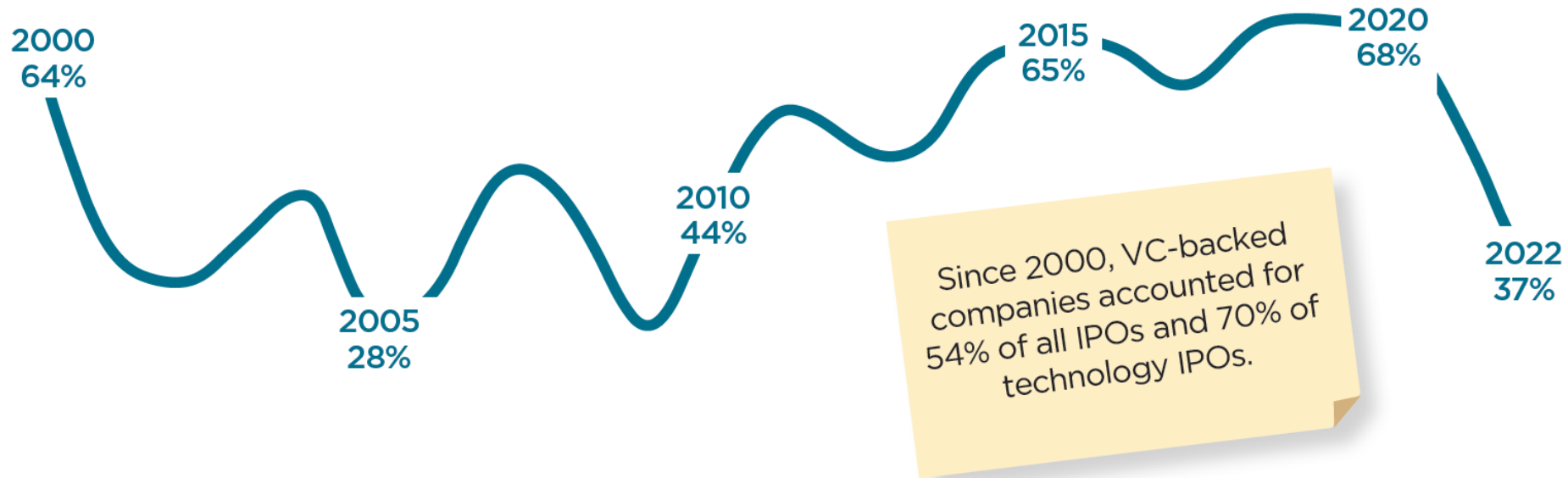
Any rulemaking should include a review of *data* on household income and net worth by *race and ethnicity*, and by geographic location.





Early-stage companies create a robust pipeline of potential public companies.

Percentage of IPO companies with VC-backing

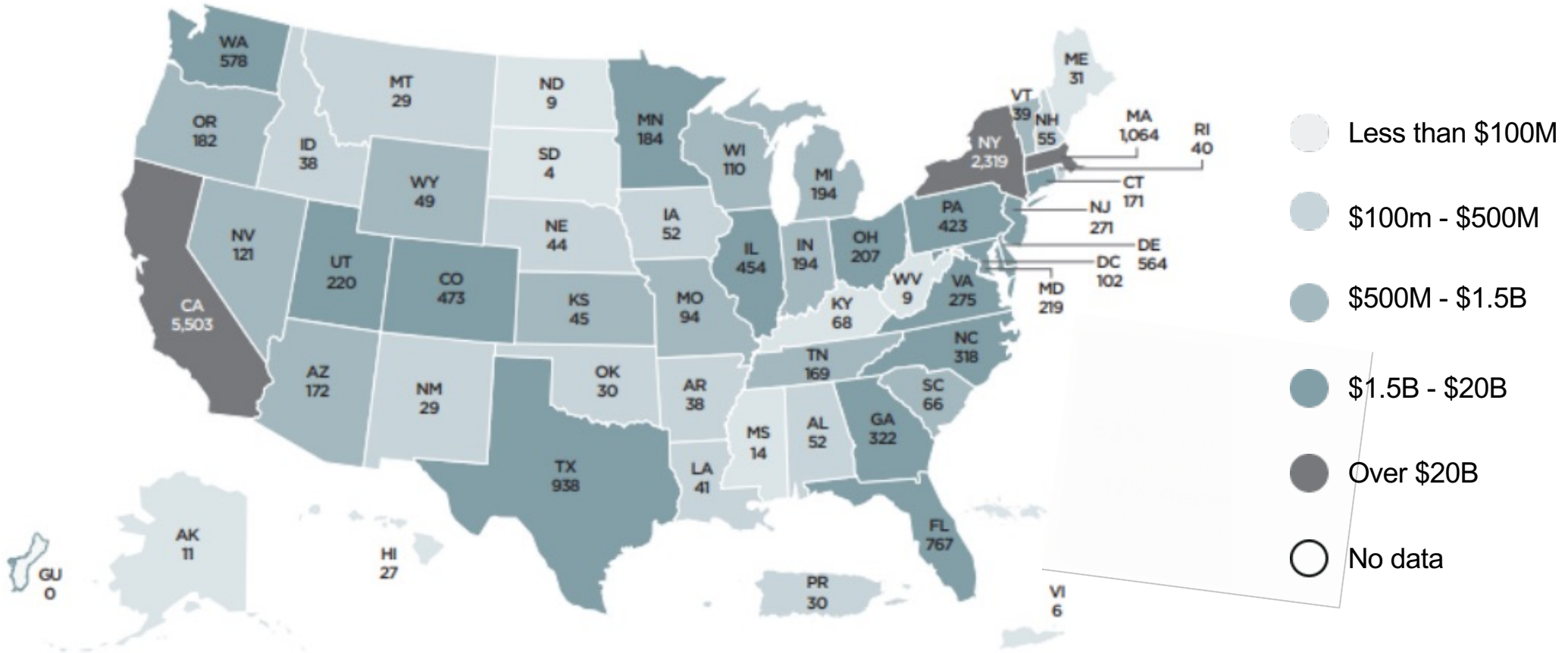


Sources: 2023 Annual Report p. 32; Jay. R. Ritter, “Initial Public Offerings: VC-backed IPO Statistics Through 2022,” (Oct. 2023); Brijesh Jeevarathnam, et al., “Powerful Long-Term Trends Boost Venture Capital Outlook,” Adams Street (May 2023).





VC funds are investing in startups across the country.

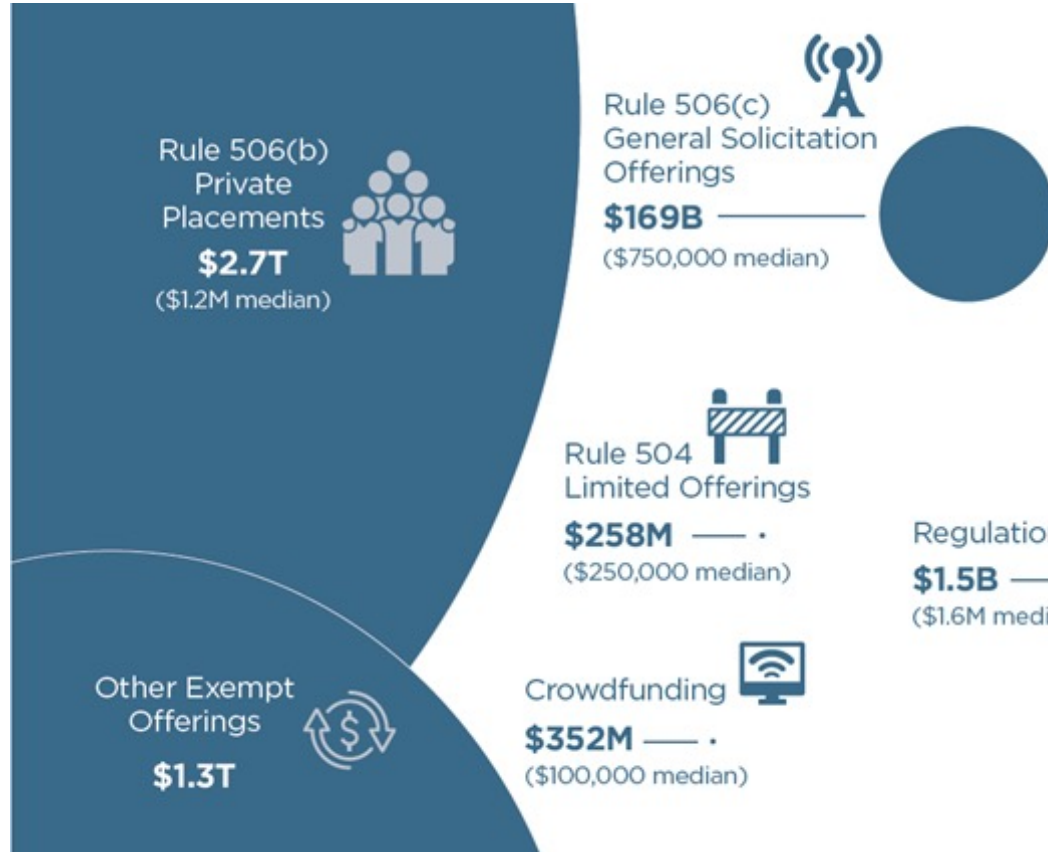


Source: 2023 Annual Report p. 21; PitchBook-NVCA, "Venture Monitor Q2 2023" (July 2023).

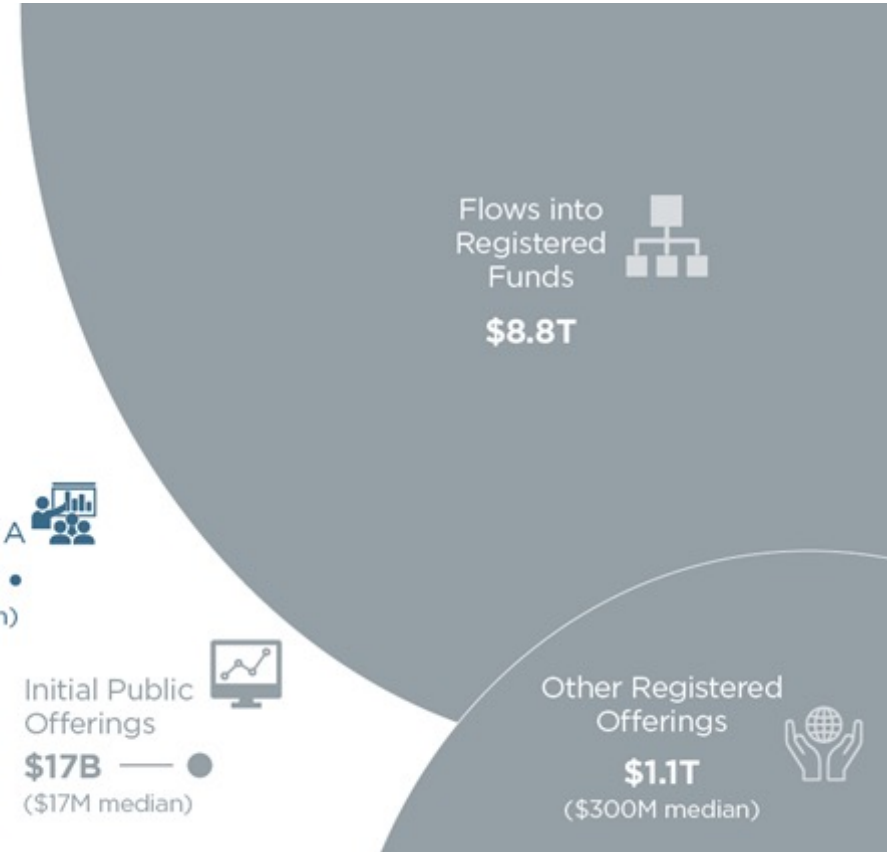


Raising Capital Using Regulation D

Exempt



Registered



Source: 2023 Annual Report p. 14-15.

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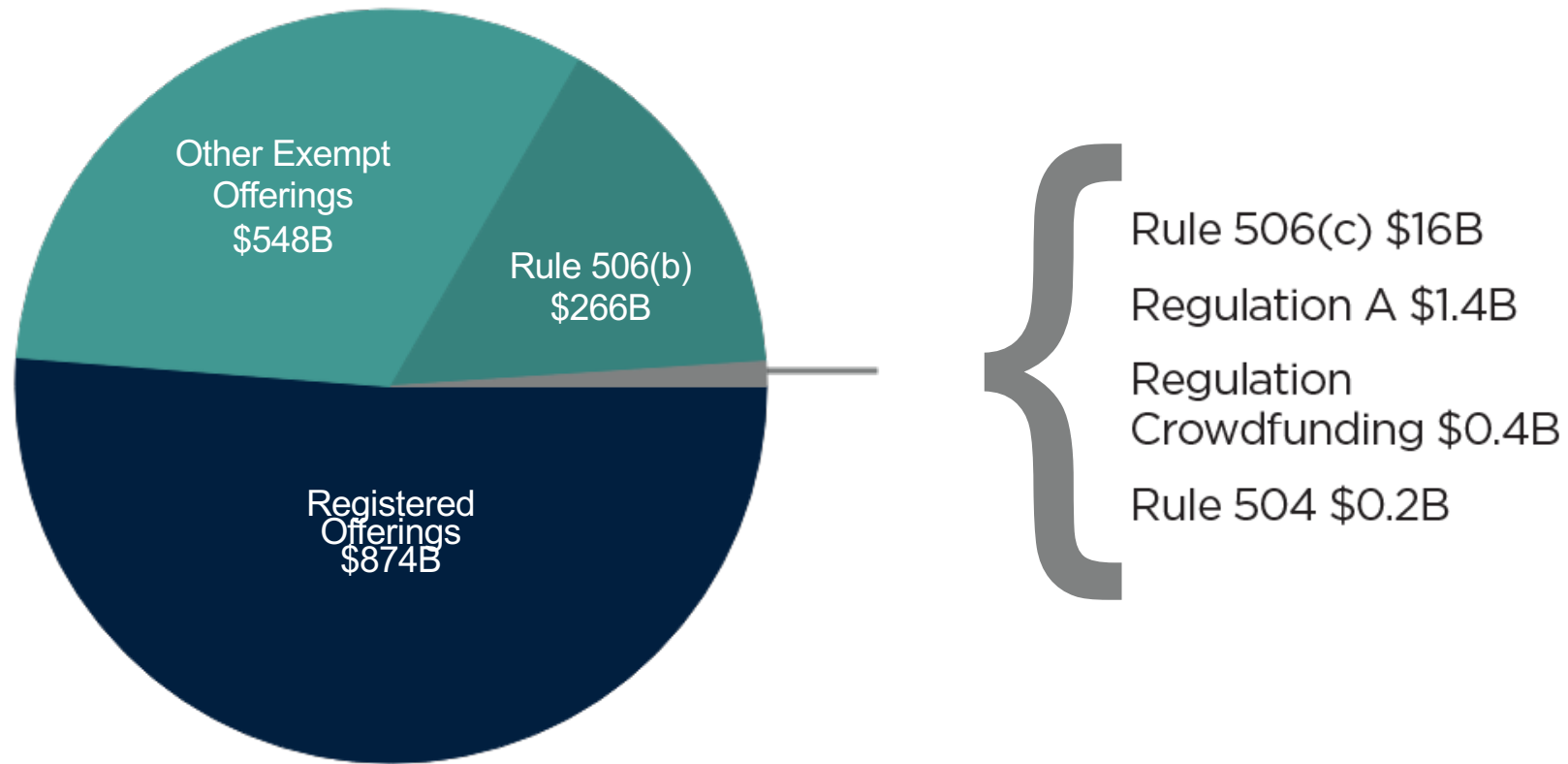


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How are companies raising capital?

Excluding pooled funds and focusing on U.S. companies, **registered offerings** account for the majority of capital raised.

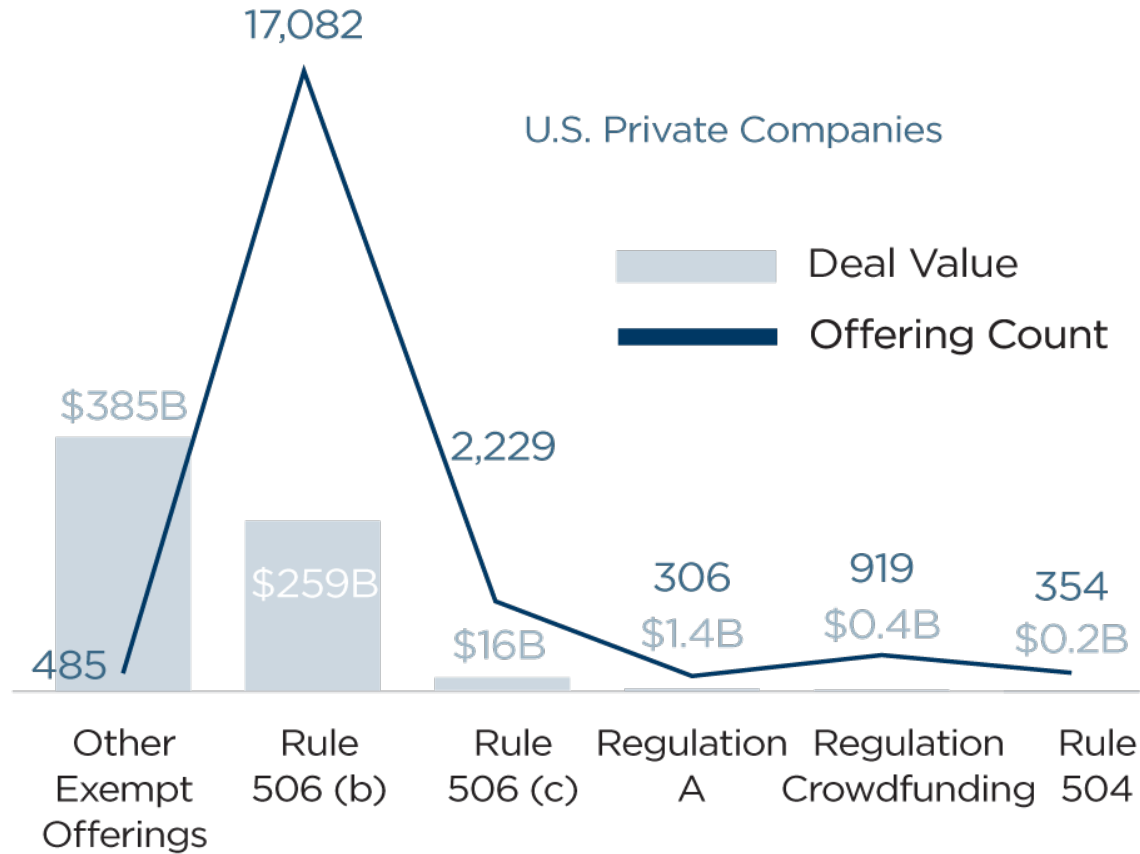


Source: 2023 Annual Report p. 16.





How are private companies raising capital?



Source: 2023 Annual Report p. 16.





RECOMMENDATION: Regulation D

Avoid changes to Regulation D and the Form D notice and disclosure requirements that make it more burdensome, particularly for smaller companies raising smaller amounts of capital.





Regulation Crowdfunding continues to serve diverse companies.

\$1,578
average investor
check size



71.5%
of offerings in
2022 exceeded
minimum funding
targets

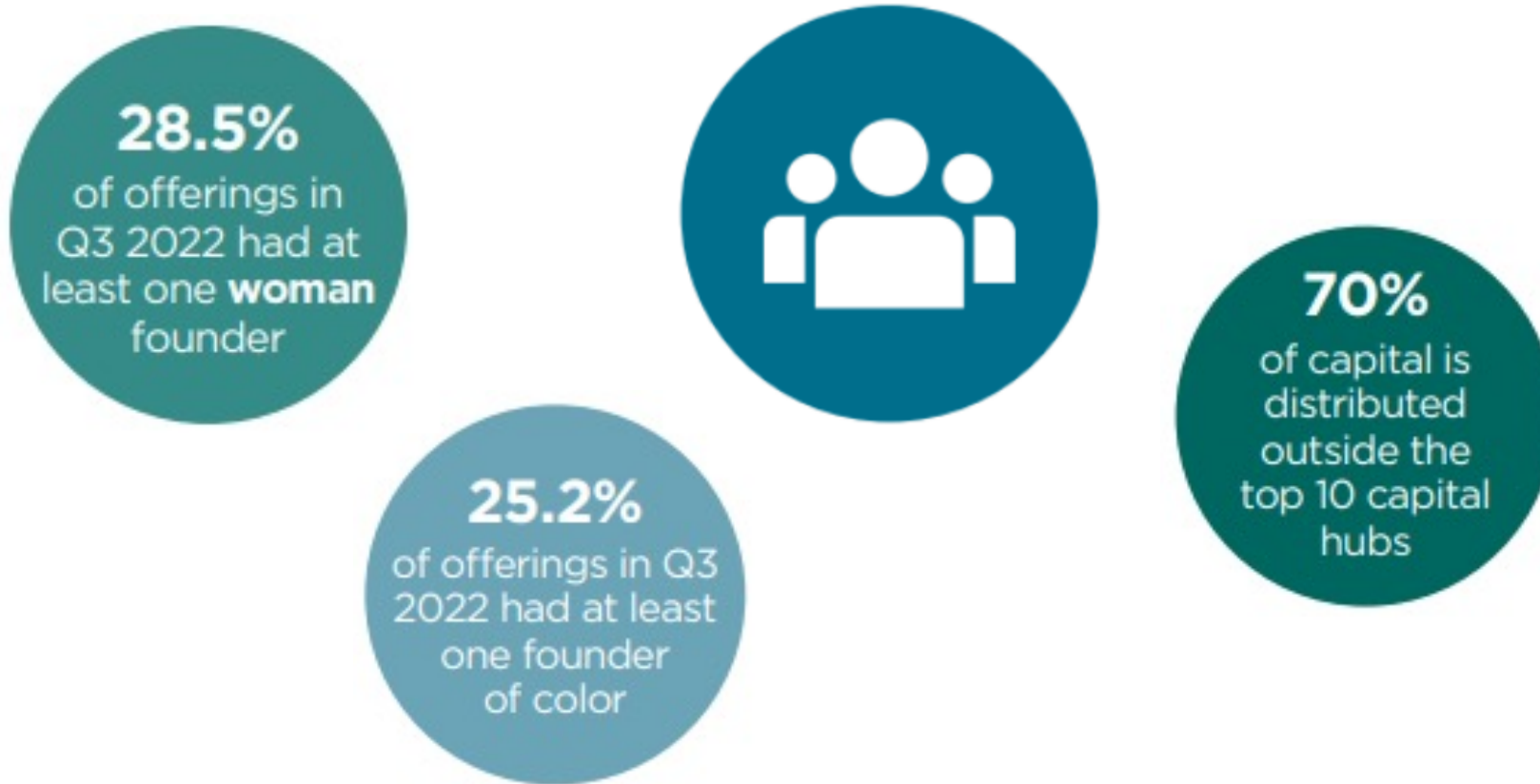
\$428,486
average raise in
2022, down 5.9%
from 2021

Source: 2023 Annual Report p. 17; Crowdfund Capital Advisors, “Investment Crowdfunding. Democratizing Access to Capital Across the USA. 2022 Annual Report” (Mar. 2023).





Regulation Crowdfunding continues to serve diverse companies.



Source: 2023 Annual Report p. 17; Crowdfund Capital Advisors, “Investment Crowdfunding. Democratizing Access to Capital Across the USA. 2022 Annual Report” (Mar. 2023).





RECOMMENDATION: Regulation Crowdfunding

Amend Regulation Crowdfunding by:

- allowing ***flexibility in the type of accounting*** a company uses for small businesses raising up to \$500,000;
- ***increasing the offering size threshold*** that permits issuers to provide certified financial statements and income tax return information; and
- amending the Securities Act to ***modify the provision that excludes*** investment companies from using the ***Regulation Crowdfunding exemption.***



CHALLENGE THREE

Entrepreneurs and early-stage companies often struggle to connect with professional support and early-stage investors, losing out on the critical support those connections provide.





Resources, knowledge, and connections are critical.



Source: 2023 Annual Report p. 6; Ewing Marion Kauffman Foundation, “Access to Capital for Entrepreneurs: Removing Barriers. 2023 Update” (June 2023).

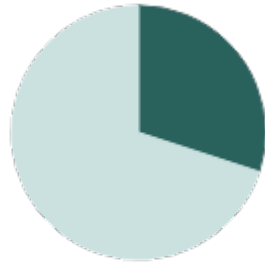




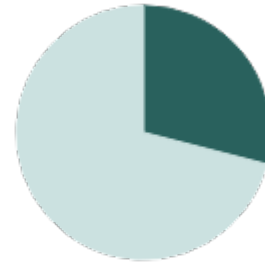
Resources, knowledge, and connections are critical.



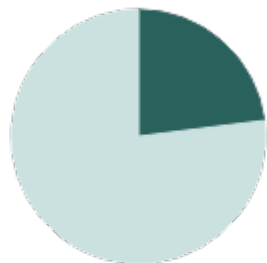
35%
of Asian American



30%
of African American/Black



29%
of Multiracial



23%
of Native American



22%
of Hispanic/Latino



18%
of White

entrepreneurs reported ***trouble finding professional support, advice, or role models in their network*** when starting and growing a business.

Source: 2023 Annual Report p. 54; Ewing Marion Kauffman Foundation, “Access to Capital for Entrepreneurs: Removing Barriers. 2023 Update” (June 2023).





Resources, knowledge, and connections are critical.



While the median distance between lead investor and company has increased, distance continues to be an *added barrier* that companies in *small markets*, and in markets *far from venture hubs*, face when they need to raise capital.

Source: 2023 Annual Report p. 12; PitchBook, “Capital Concentration and Its Effect on the VC Ecosystem” (Feb. 2023).





RECOMMENDATION:

Connecting Founders and Investors

Connecting founders with savvy investors is essential to capital raising.





RECOMMENDATION:

Connecting Founders and Investors

Congress or the Commission should provide regulatory clarity for finders.



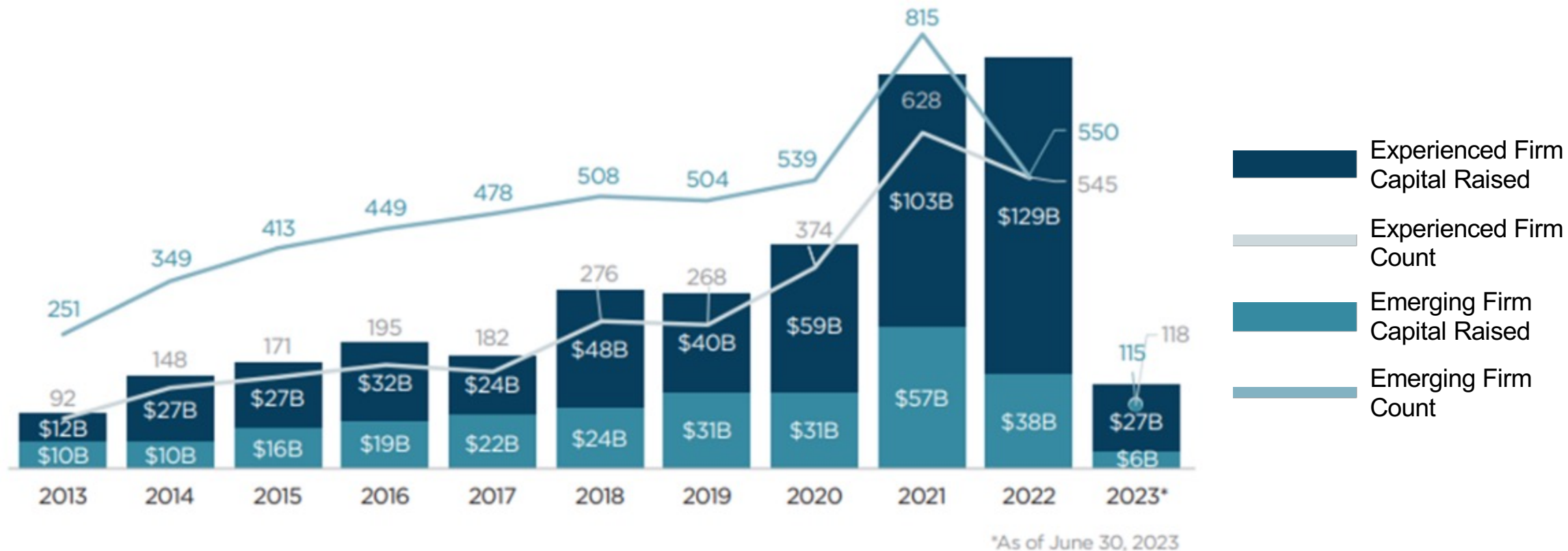


CHALLENGE FOUR

Emerging fund managers are facing greater challenges raising capital, resulting in less capital allocated to women and diverse founders.



Emerging managers' share of funds raised dropped to new decade low.



Source: 2023 Annual Report p. 27; PitchBook, “Challenges for Emerging Managers” (June 2023).



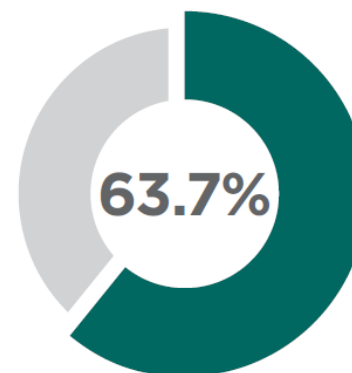


Emerging fund managers report challenges.



91%

of emerging managers found fundraising ***difficult or very difficult.***



of the capital raised since 2018 by firms ***headquartered outside of major markets*** has been by ***emerging managers.***

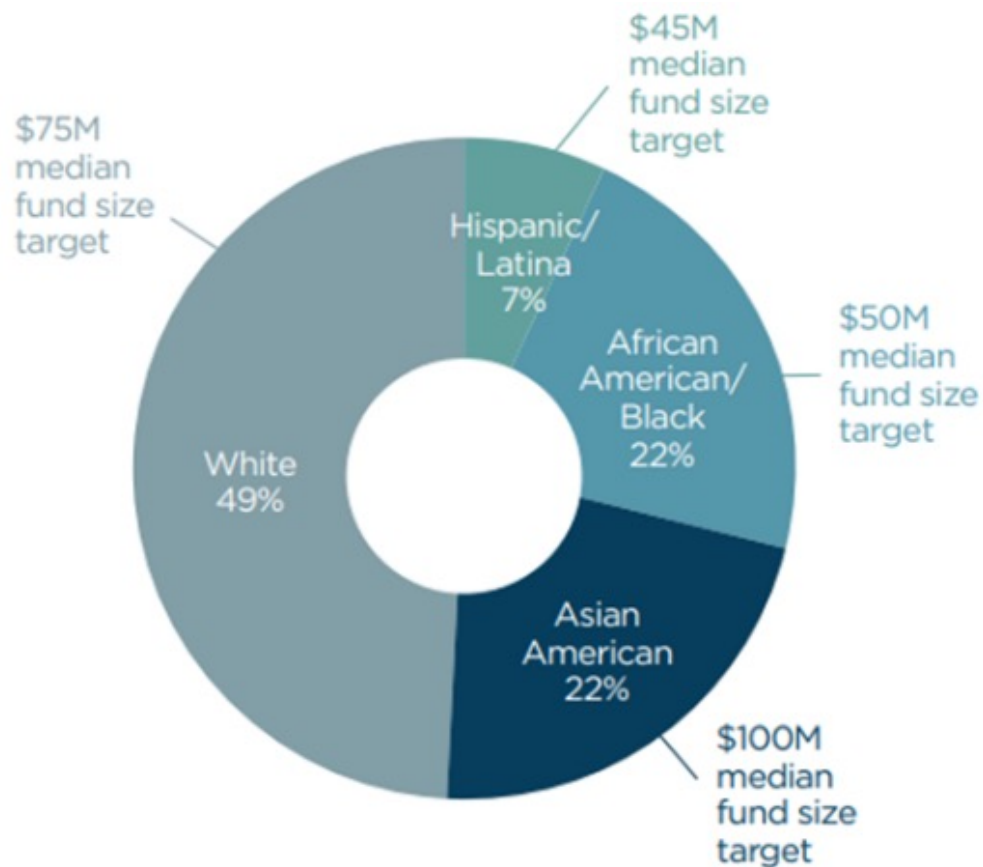
Sources: 2023 Annual Report p. 27-28; Signature Block, “Emerging Fund Manager Report – Q1 2023,” (May 2023); PitchBook, “Challenges for Emerging Managers” (June 2023).





Women and diverse fund managers face challenges raising funds.

Women-owned firms by race and ethnicity



Source: 2023 Annual Report p. 49; Fairview Capital, “Perspectives on Diverse and Emerging Manager Investing In Venture Capital and Private Equity” (Sept. 2023).





Women and diverse fund managers similarly struggle to raise funds.

77% of African American/Black women
43% of Asian American women
30% of Hispanic/Latina women



were raising a first-time fund,

while 64% of White women were raising a successor fund.

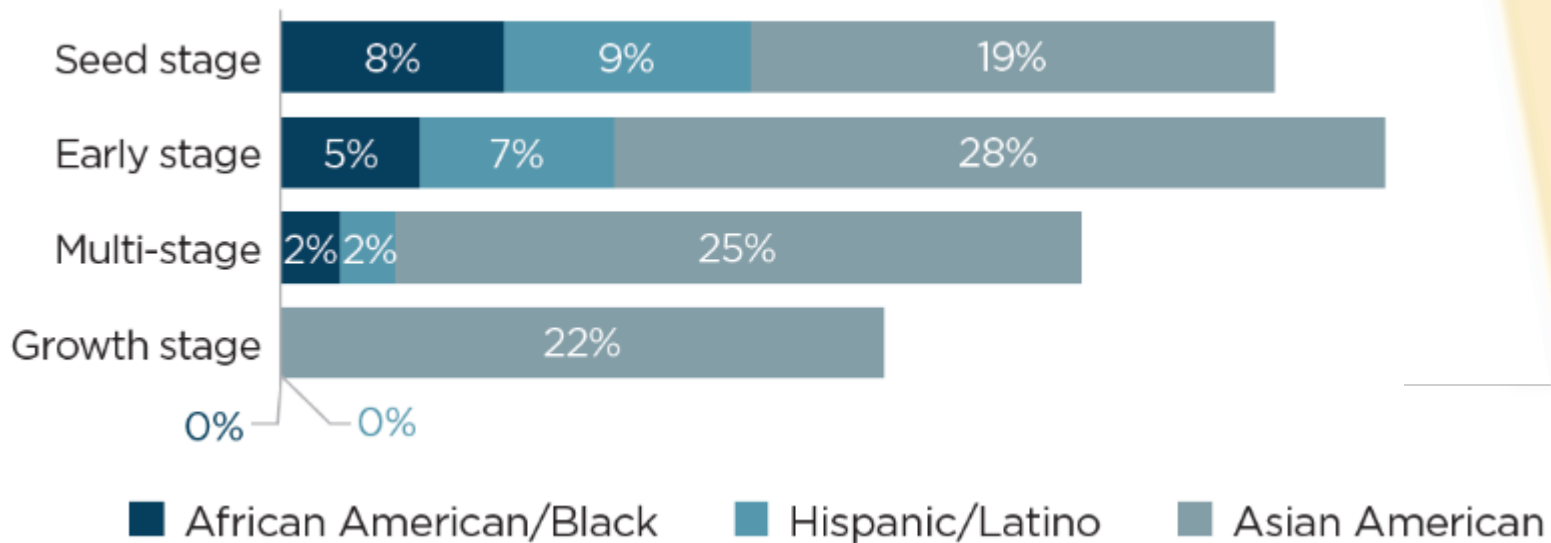
Source: 2023 Annual Report p. 49; Fairview Capital, “Perspectives on Diverse and Emerging Manager Investing In Venture Capital and Private Equity” (Sept. 2023).





Women and diverse fund managers face challenges raising funds.

VC Investment Partners



Most African American/Black and Hispanic/Latino investment partners are in firms that focus on seed and early stages.

Source: 2023 Annual Report p. 59; Deloitte, Venture Forward and NVCA, “VC Human Capital Survey, Fourth edition” (Apr. 2023).





Diversity among investors facilitates greater funding of diverse founders.



Women and people of color are the founding partners at

74% of the active seed funds

whose investment criteria include founder diversity and are making $\frac{1}{2}$ of their investments in underrepresented founders.

Source: 2023 Annual Report p. 59; Amber Quiñones & Drew Silverman, “The State of Seed Stage Funding to Underrepresented Founders,” Medium (Aug. 2023).





Diversity among investors facilitates greater funding of diverse founders.

Women investors lead on values-based investing.



51% of women invest in startups **aligned with their values** (compared to 39% of men).



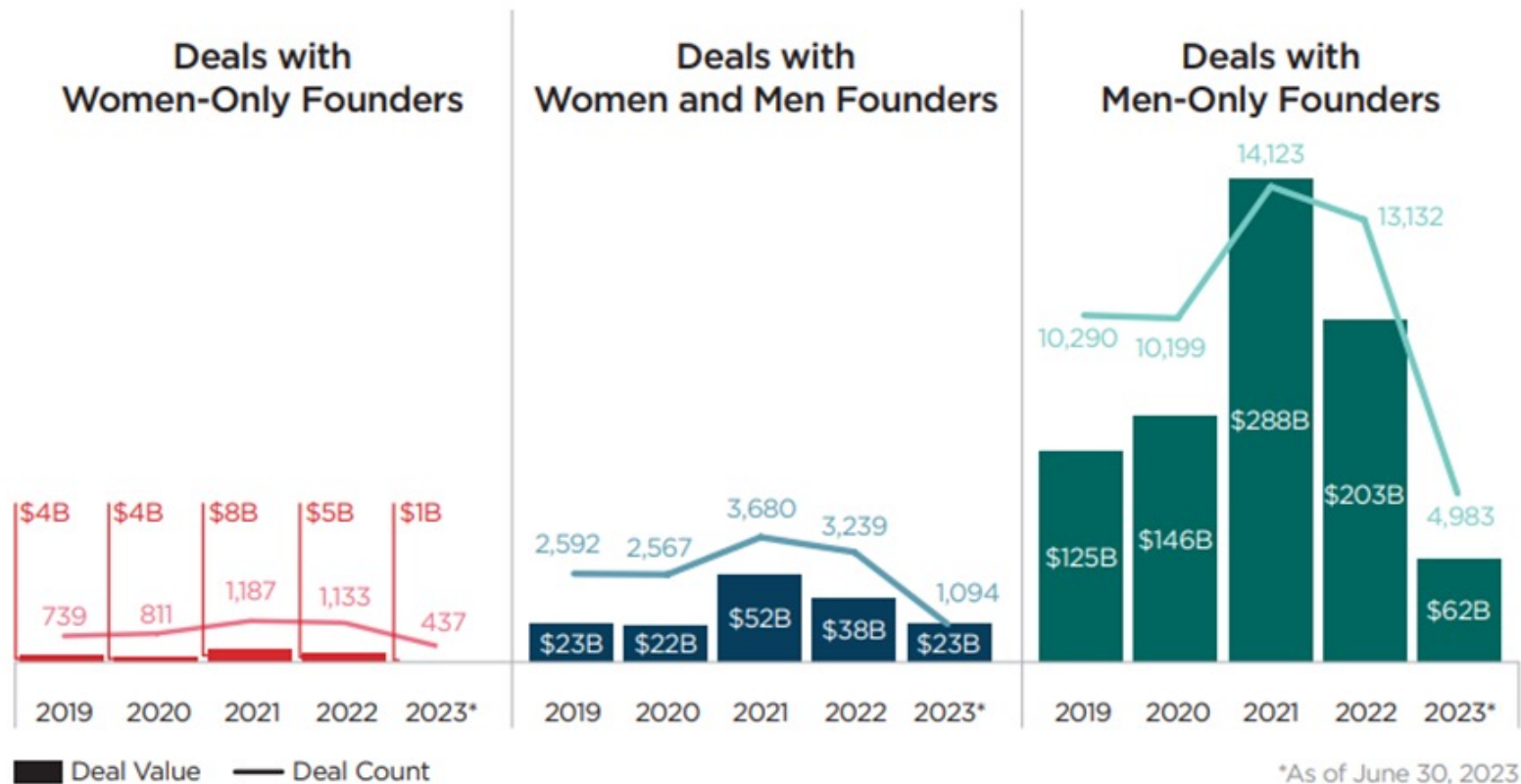
45% of women invest in startups to **make the world a better place** (compared with 23% of men).

Source: 2023 Annual Report p. 48; National Women's Business Council, "2022 Annual Report" (Dec. 2022).





Women and diverse founders struggle in a challenging VC market.



Source: 2023 Annual Report p. 42; PitchBook-NVCA, "Venture Monitor Q2 2023" (July 2023).





Women and diverse founders struggle in a challenging VC market.



Only **1.5%** of VC dollars was invested in **Hispanic/Latino** founders in **2022** (down from 2.5% in 2021).

Only **1.1%** of VC dollars was invested in **African American/Black** founders in **2022** (down from 1.5% in 2021).

Sources: 2023 Annual Report p. 56; Chris Metinko, “Special Series: VC Dollars To Black Startup Founders Fell More Than 50% In 2022,” Crunchbase News, (Feb. 2023); Gené Teare, “Funding To Latine-Founded US Companies Falls Sharply In 2022,” Crunchbase News (Oct. 2022).





RECOMMENDATION: Support Emerging Fund Managers

Emerging fund managers need support in order to continue to play their key role in funding startups, particularly those seeking smaller, early-stage checks.





RECOMMENDATION:

Support Emerging Fund Managers

Amend Advisers Act Rule 203(I)-1 to define “venture capital fund” to include “fund of funds” investments as “qualifying investments” excluded from the 20% non-qualifying basket limit.





RECOMMENDATION:

Support Emerging Fund Managers

Amend the exemption in Investment Company Act Section 3(c)(1) to increase the limit on the number of beneficial owners.





RECOMMENDATION:

Support Emerging Fund Managers

Amend the exemption in Investment Company Act Section 3(c)(1) to increase the limit on investors in, and the \$10 million maximum fund size of, a “qualifying venture capital fund.”



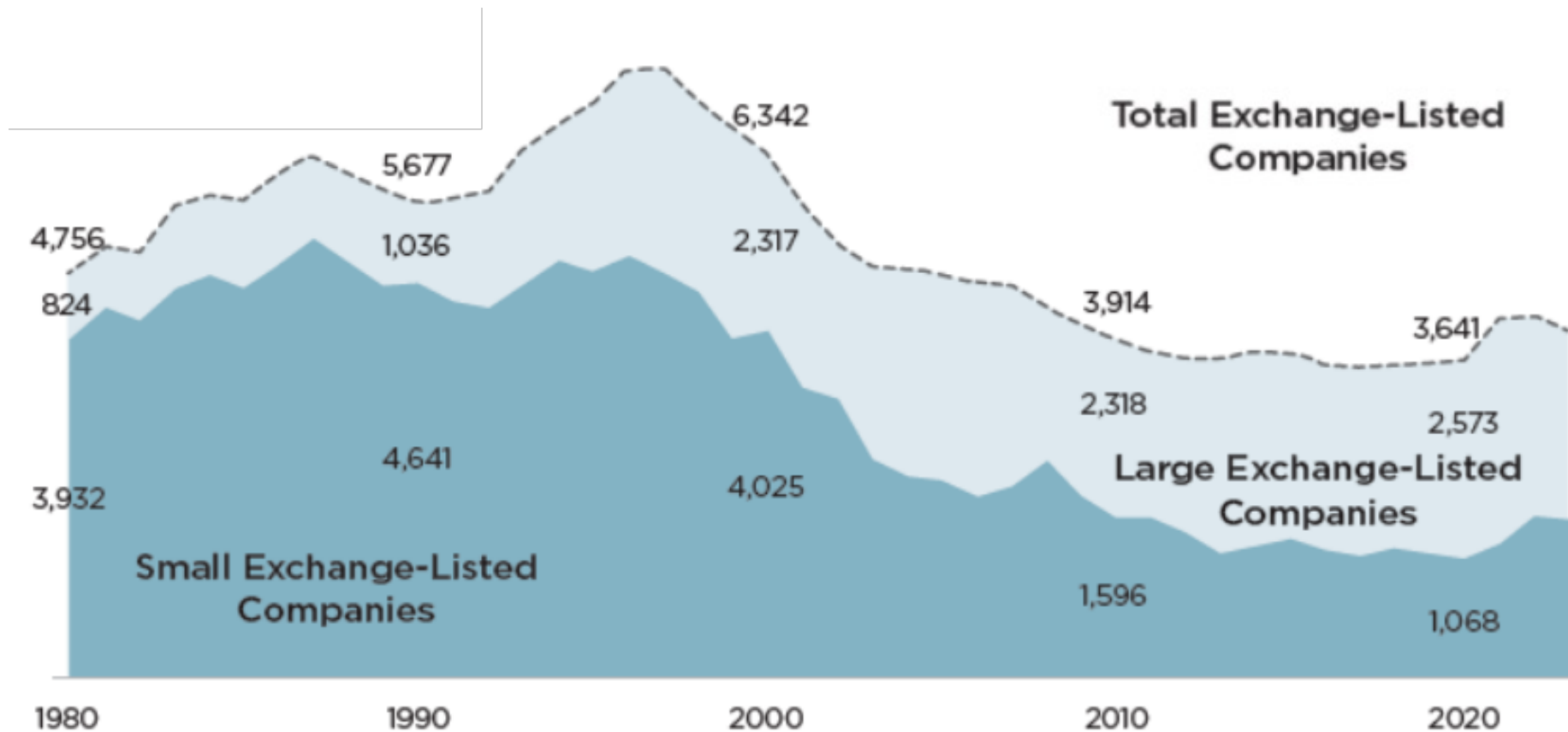
CHALLENGE FIVE

The vitality of our markets depends on companies of all sizes. Often, large exchange-listed companies are receiving the benefits of being public, while many small public companies are not.





Small public companies' experience pales compared to larger companies.



Source: 2023 Annual Report p. 33.

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Small public companies' experience pales compared to larger companies.



The **aggregate market capitalization** of all public companies has **grown exponentially to \$43.6 trillion** as of June 2023 (from \$1.7 trillion in 1983).

The portion of aggregate public company market capitalization represented by **small** exchange-listed companies, however, has **declined by half each of the past four decades**. From 1983 to the first half of 2023, it has fallen to **0.3% from over 13%**.

Source: 2023 Annual Report p. 34.

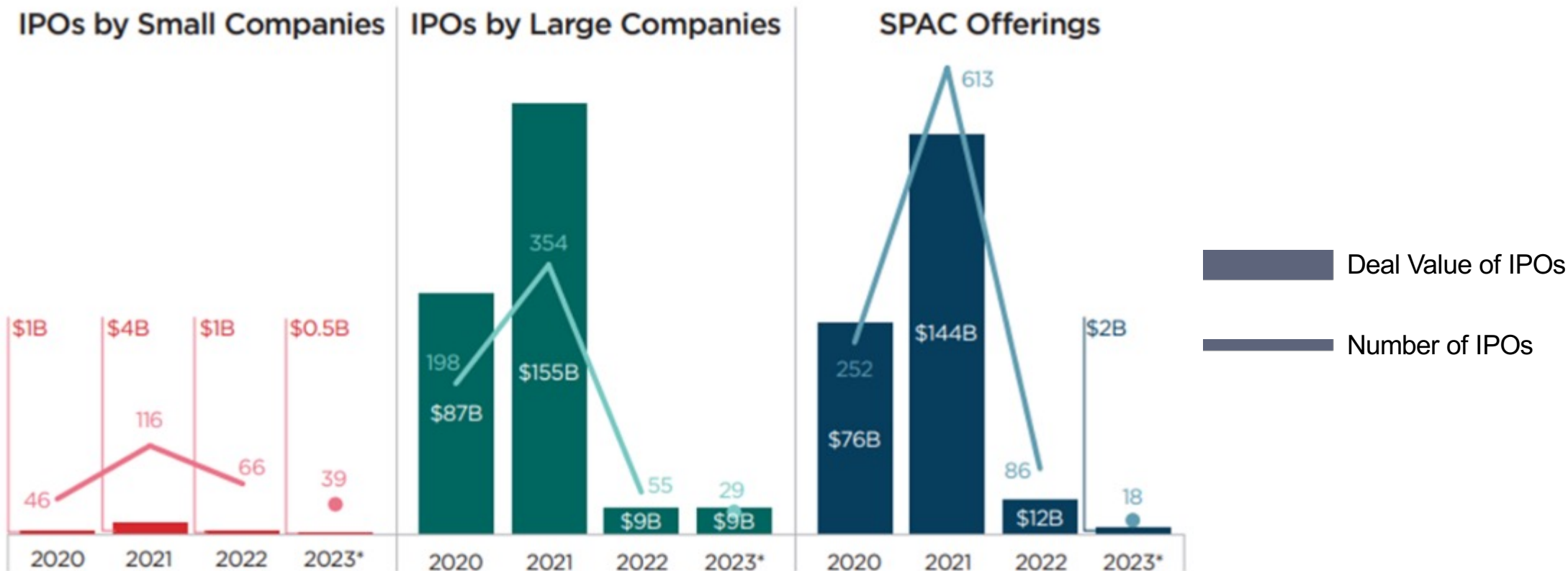
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Small Company IPOs



Source: 2023 Annual Report p. 34.

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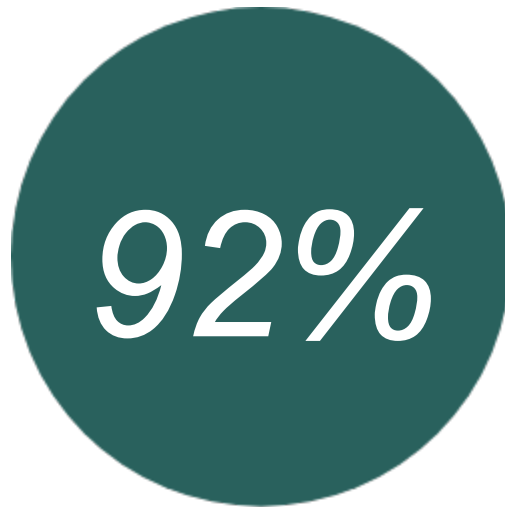


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Small Company IPOs

Many small public companies see their stock price suffer following their IPOs.



had a negative rate of return from their IPO price

Source: 2023 Annual Report p. 36; Jason Paltrowitz, "Lawful But Awful: The Small Cap IPO Cycle," OTC Markets (Sept. 2023).





Small Public Companies



Total compliance costs for a median public company vary from **2.1% to 6.3% of market capitalization.**

Source: 2023 Annual Report p. 38; Michael Ewens, et al., “Regulatory Costs of Being Public: Evidence from Bunching Estimation” (Oct. 2023).





Small Public Companies



The average number of analysts covering a mega-cap public company is more than ***4x higher*** than at small public companies.

Source: 2023 Annual Report p. 38; IR Magazine, “Targeting new investors top priority at small caps” (Aug. 2023).





RECOMMENDATION:

Tailored Disclosure Requirements

Scale disclosures and harmonize requirements for small public companies to help them stay public.





RECOMMENDATION: Tailored Disclosure Requirements

Consider ways to harmonize the frameworks governing Smaller Reporting Company (SRC) and Accelerated Filer statuses.





RECOMMENDATION:

Tailored Disclosure Requirements

When considering new disclosure obligations for public companies, scale those obligations and delay compliance for small public companies.





QUESTIONS AND ANSWERS

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Adv**ocacy**
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Empowering small businesses and their investors

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