

Business Finds Financial Boost in Regulation Crowdfunding

FINANCE: Mechanism Allows Investment By Unaccredited Investors

By SARAH DE CRESCENZO

The founders of Solana Beach-based athletic wear retailer **Graced By Grit** weren't having any luck convincing investors to back their company.

Kimberly Caccavo and **Kate Nowlan** founded the company in 2013. In four years the company sold 50,000 pieces of apparel to more than 40,000 customers, generating \$2.8 million in revenue along the way.

Even having shown a demand for the company's products, which are sold online and at their store in Solana Beach, "it's still hard to get funding, and our story isn't unique," Caccavo said.

After receiving some sexist feedback from prospective investors — one, Caccavo said, recommended she smile more — they decided to fund the company themselves.

"Rather than complain about it, we just had to find another way to do it," she said.

In 2015 they raised more than \$20,000 on crowdfunding platform **Plum Alley** to open the company's first storefront, in Solana Beach. Caccavo said the store has been profitable since the day it opened its doors.

Capital Crunch

But as the company continued to grow, the founders knew they would need capital beyond what they could pull in themselves.

They decided to explore regulation crowdfunding, through which unaccredited investors are offered equity in exchange for cash. The financing mechanism is a relatively new one, OK'd by the **U.S. Securities and Exchange Commission** in 2016.

"The great thing about it is anyone can invest," Caccavo said. Typically investing is limited to those with net worth of at least \$1 million.

A total of 523 companies nationwide raised nearly \$52 million through regulation crowdfunding between May 16, 2016, and July 31, 2017, according to data from SEC filings tracked by West Hollywood-based **StartEngine Crowdfunding Inc.**, an equity crowdfunding platform.

Strong San Diego Showing

Since regulation crowdfunding began companies in San Diego County have pulled in an outside portion of funding. Until July companies in the county had raised more than any other, with \$4 million raised by nine companies.

Last month companies in Los Angeles County surged ahead, knocking San Diego County — which recorded about \$400,000 raised in July — to fifth place.

Still, as of July 31 StartEngine reported that companies in the county, with about 1 percent of the national population, had raised 6.5 percent of all regulation crowdfunding.

Graced By Grit's workout clothes for women protects against ultraviolet rays from the sun; each order comes with a safety whistle and the brand's pants have pockets that can fit a mobile phone.

The company's focus on safety was inspired in part by Chelsea King, a San Diego teen who was attacked and killed by a convicted sex offender while on a run after school in 2010.

"I wanted clothing where I felt safe," Caccavo said.

The company's regulation crowdfunding effort recently surpassed its initial goal of \$107,000. Those funds were intended to fund the development of additional prod-

ucts. Subsequently the SEC gave the company permission to raise more money, up to \$1 million. The larger amount is being raised to allow the company to upgrade its e-commerce platform.



Kimberly Caccavo

Investors of Graced By Grit are required under the terms of the proposal to put in a minimum of \$320 to participate, for which they get 2,000 shares; pricing each share at 16 cents. Investors also get discounts on purchases and a percentage of their investment as credit toward products.

Companies receiving regulation crowdfunding are required to make certain financial disclosures that depend on

the level of investment.

The most a San Diego-based company has raised so far through equity crowdfunding has been \$1 million, raised by **Hylete**, another athletic apparel company.

Platform Takes 6%

StartEngine connects investors to companies, like Graced By Grit, that are looking to raise capital. Of funds raised the platform takes 6 percent. Companies that used StartEngine in 2017 collectively raised nearly \$7.8 million.

Typically the startups using the platform haven't been able to convince venture capitalists or private equity firms to back their endeavors, for a variety of reasons. Often new companies would prefer to turn to experienced investors because of the advice and guidance they can provide a fledgling

enterprise, in addition to the funding itself.

According to StartEngine, the average company that raised money through equity crowdfunding in July was 3 years old and had five employees. The average company had less than \$400,000 in assets, less than \$70,000 in cash and nearly \$300,000 in revenue.

The average company was not profitable, with an average of \$210,000 in losses in 2016, StartEngine reported.

At the end of 2016 Graced By Grit reported about \$540,000 in assets, about \$742,000 in sales and a loss of about \$1.05 million.

"Smaller companies have the hardest time raising capital because venture capitalist and angel investors typically want to see strong progress prior to investing," StartEngine said in its latest monthly report.

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