

Would MNvest net investors?

Crowdfunding bill keeps rolling but challenges loom

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Policymakers this week continue to fine-tune proposed legislation that would loosen restrictions on who can invest in Minnesota companies, but industry watchers say it'll take more than the bill's passage to make it a game-changer for emerging outfits with limited access to capital.

The proposed law, known as MNvest, would plant Minnesota among nearly 20 other states that allow equity crowdfunding, making it legal for businesses to advertise investment opportunities to all Minnesota residents – not just the standard pool of accredited investors.

Mirroring other states' equity crowdfunding legislation, MNvest relies on an exemption from federal securities law that for decades has put stiff contours around who can even know about a company's fundraising efforts, essentially narrowing the field to accredited investors and funds.

Crowdfunding advocates, including bipartisan supporters in the state Legislature, say the current framework puts companies and consumers at a disadvantage, stifling growth by keeping consumers and community members from feeding into capital-hungry outfits they support.

"There are huge swaths of the population basically cut off from the opportunity to raise capital," said Zach Robins, a corporate and securities attorney at Winthrop



STAFF PHOTO: BILL KLOTZ

Zach Robins, left, and Ryan Schildkraut, attorneys at Winthrop & Weinstine in Minneapolis, helped craft legislation that would open Minnesota companies to a broader range of investors through equity crowdfunding. They are shown in the law firm's offices in the Capella Tower.

& Weinstine who helped craft the bill. "We hope this tool will break down some barriers to allow anyone with a great idea and support behind them to raise capital with support from the community."

The bill's champions say they're cautiously optimistic the legislation will pass as part of the omnibus bill after clearing a handful of committees in both chambers and hammering out a series of compromises with the Minnesota Department of Commerce, its toughest critic so far.

On Tuesday, the House Committee on Job Growth and Energy Affordability Policy kept up the momentum when it laid over the legislation for potential omnibus inclusion after a brief presentation by the House bill's chief author, Rep. Jenifer

Loon, R-Eden Prairie, and testimony from Robins.

A companion bill in the Senate, with Sen. Terri Bonoff, DFL-Minnetonka, as chief author, is awaiting further consideration from the Environment, Economic Development and Agriculture Budget Division of the Finance Committee, which can include MNvest in its omnibus bill.

But even if the legislation wins approval, businesses and investors alike will need to parlay their curiosity into returns to sprout a permanent new marketplace that actually delivers on the opportunities MNvest theoretically presents.

Several of the states with similar legislation on the books have struggled so far to put momentum behind equity crowd-

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Number of equity crowdfunding deals in Wisconsin since legislation passed in 2014

funding in practice. In neighboring Wisconsin, one of the first states to establish its own crowdfunding platform, just two deals have cropped up since its system went online last year after a clean pass through the state legislature.

Technical problems, strict escrow requirements and a general lack of awareness in the business community fed into the sluggish start, said David Dupee, the attorney and entrepreneur who helped shape Wisconsin's pioneering law.

A couple more Wisconsin deals are scheduled over the next few months, he said, but participation still lags. That's primarily because business owners who could cash in don't understand the ins and outs of the system, he said.

That's a pitfall Minnesota organizers are already trying to avoid with a website and connections in the startup world, even before their law is on the books. They also formed a 501(c)(4) nonprofit to own MNvest and serve as the central hub for prospective investors and ventures with crowdfunding portals.

Robins and another Winthrop attorney who helped build MNvest, Ryan Schildkraut, said they're focused on the messaging around the initiative and outreach efforts, and are eager to help clients tap into crowdfunding.

"You really need attorneys and accountants and other practitioners who understand this and get it, and are willing to advise people who do it," Dupee said. "Because it's so new and often professionals are very risk-averse, there's often an incentive to counsel people away from considering it."

Still, even with a lower profile, the payoff was relatively substantial for the two Wisconsin operations that pounced. A fledgling brewery in Hudson raked in

\$21,000 total from nine investors, Dupee said, while Madison's better-established MobCraft nailed down \$75,000 in commitments from more than 50 backers.

A more open crowdfunding marketplace can make sense for early-stage companies that aren't yet big enough to draw interest from venture capitalists or are more locally oriented, like breweries and restaurants. The appeal could also stretch beyond traditional startups, providing farmers and longtime businesses access to the cash they need to upgrade equipment and expand, Robins said.

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—Zach Robins, attorney and architect of the MNvest legislation

The attorneys said they're already fielding calls from multiple clients seeking crowd-funded offerings.

"Every single day we're being contacted by so many different companies," Robins said. "Is MNvest going to be the answer every time? No, but it's another option."

Interest among practitioners – and their enthusiasm for integrating equity crowdfunding into Minnesota's investment landscape – suggests things could play out differently from Wisconsin's more skittish climate.

More than 250 people have added their

names to a list in support of the legislation on the MNvest website. On top of that, some of the state's highest-profile groups focused on entrepreneurship and business, including the Minnesota High Tech Association and the Minnesota Chamber of Commerce, have thrown their weight behind the proposed bill.

"This has really shaped up into something that'll be a great tool for business to raise capital," Rep. Loon told the House panel on Tuesday.

Still, there's a high bar for defining lasting success, said Gordon Burtch, a professor in the University of Minnesota's Carlson School of Management whose research focuses on crowdfunding. The long-term viability of a crowdfunding platform hinges on how many ventures are willing to test their luck without a well-traveled blueprint.

If there's enough to choose from, investors will show up.

"The only way it'll be successful is if there's enough interest that can be stimulated in ventures that need money at the outset, to get them trying to raise funds on these platforms," Burtch said.

If the legislation passes, being among the first companies to dive in could be a risky proposition. Though the marketplace – especially in entrepreneur circles – is buzzing, it remains to be seen how seriously companies will treat a completely new fundraising system, especially one designed to draw in a new kind of investor.

"There's a steep learning curve. And when you're talking about equity [crowdfunding], if your first go at it is miserable, it can do a lot of damage to your brand," Burtch said. "It's not clear how receptive the market will be to letting someone fail and then letting them come back to try again."