

Financing Innovation

**An Interview with Jonathan Medved,
Co-Founder and Chief Executive Officer, OurCrowd**

EDITORS' NOTE Jonathan Medved has invested in over 100 Israeli start-up companies, helping 12 of them to get to valuations in excess of \$100-million dollars. Medved was the Co-Founder and, until 2012, the CEO of Vringo, a leader in mobile social applications, which went public in June 2010. Prior to Vringo, he was the Founder and General Partner of Israel Seed Partners, a \$260-million Israeli venture capital fund. At Israel Seed, he served as a director on the board



Jonathan Medved

of several portfolio companies including Compugen, Business Layers, Broadlight, Answers.com, Native Networks, and Xtellus. Between 1982 and 1990, he was a founder and the EVP of Marketing and Sales at Meret Optical Communications. He was also part of the founding management team at Accent Software, a leader in multilingual software, where he served as EVP of Marketing and Sales in 1993 and 1994.

COMPANY BRIEF OurCrowd (ourcrowd.com) is an equity-based crowdfunding platform, built exclusively for a select group of accredited investors to provide venture capital funding for Israeli (and later global) venture capital start-ups. Membership in the community is vetted and offered only to people who meet the stringent accreditation criteria. Accredited investors who are accepted into the community can make minimum investments of \$10,000 per deal. The initial focus of OurCrowd is the dynamic early stage funding market in Israel and only companies that pass a rigorous due diligence process are added to the platform. All term sheets are pre-negotiated, and OurCrowd's management company and affiliated mentor network lead the investment with their own money. OurCrowd has become the first Israel-focused, equity-based investment platform to launch and one of the world's leading accredited investor-only platforms.

What is the vision behind OurCrowd?

We're trying to open up the asset class of investing and start-ups to millions of people around the world who until now, even though they had the means, had no way to do so.

This wonderful world of innovation and, in particular, the financing of innovation, has been a closed circle. Typically, it's the world of venture capital or what are called "angel investors."

This exists in Israel and Silicon Valley, but not many people are involved with it anywhere else in the world.

We're using the Web, where people are already comfortable buying stocks, insurance, cars, and homes to open up the world of start-up investing. What this will do is bring additional funding into the start-up area just when it's needed, and also globalize and democratize the whole process.

We're allowing this funding to go on only among accredited investors.

These are not people who are investing a few dollars. We're going to stay with the accredited investor base, which we estimate worldwide to be 50 million people with close to \$50 trillion to invest.

The individual investor who wants to come to OurCrowd and invest in our companies can do so in amounts of \$10,000 and up.

The investor is not writing a check to a fund. While we do select the investment and curate the whole process, we leave the choice in the investors' hands as to which specific company they want to invest in.

We searched Israel and now we're searching the world for what we consider to be the best start-up investment opportunities. We typically evaluate 100 different opportunities to find two viable ones.

With the companies we select, we negotiate all of the investment terms since the companies are private and are not publicly traded. We either lead investments or join other investment syndicates, including joining deals led by venture funds.

A critical element of start-up investing is the need to establish valuation and get the founders and management of the company to agree to that valuation. We then sign the term sheet and put our own money to work.

At that point, we open the opportunity to invest to our membership of accredited investors around the world who can choose if they'd like to do so. They are invited to Webinars with the company management; we publish business plans and deal terms; and our analysis of the opportunity is all available on the Web for our community.

When we started this, people asked who would do this on the Web and wondered if we were cutting new ground from a regulatory standpoint. We have been successful in the 15 months since we launched the business. We're

the largest platform of this kind in the world. We have just completed \$50 million of investment in 40 different companies. We're not just investing relatively small amounts – most of the deals we're doing now are more than \$1 million per company. For start-ups, this is very real capital – we have actually done two deals that have each been more than \$3 million.

We are pioneering the "equity crowdfunding" segment of the overall crowdfunding market. When most people think of Crowdfunding, they think immediately about sites like Kickstarter and Indiegogo, where people or companies will put up a cool idea for a game, a movie, or a gadget, and people will then crowd-fund that in return for a "reward" such as a T-shirt, a copy of the game, or early version of the product or gadget. This has proven to be an extremely successful method for companies and projects to get early backing or funding. But when people join these "reward-based" campaigns, the "backers" have no equity in these projects. For example, when Oculus who raised \$2.4 million on Kickstarter got bought by Facebook for \$2 billion, the founders of Oculus got rich and the Kickstarter backers got a "T-shirt." That doesn't seem fair. We're different from these "reward-based" crowdfunding sites, because the backers who come to our site are actually investors and get a piece of the upside for that company's ultimate success.

We are also able to raise relatively large sums of money for these equity investments relative to the amounts raised on other crowdfunding sites. The largest "reward-based crowdfunding site," which is Kickstarter, has raised over \$1.1 billion from six million people for its projects, yet it so far has funded just a few dozen technology projects (excluding games, music or movies) for which it has raised more than \$1 million. OurCrowd has raised a total of \$50 million from 5,000 investors through our site and we have already provided 20 technology companies with more than \$1 million each. Kickstarter has been at this for five years and we have only been at it for 15 months. We're growing very fast, especially in the area of large crowdfunding deals for tech companies.

Part of what makes our process so successful is that we curate it. We limit the participating backers to "accredited investors" only. We don't let every company list on our site, but only choose those that pass our stringent acceptance criteria and due diligence.

However, even with the curation of this carefully controlled investment environment, the odds are that you will lose your money on any individual start-up investment. However, if you invest in a portfolio of 10 or more of these start-ups, which is what we recommend on our site, the odds for success are much better. This is why we made the minimum investment relatively modest for this accredited investor crowd. For \$100,000, you can build a portfolio of 10 deals. When one of these investee companies wins, they can potentially win big, hopefully very big. If this happens, then even if several others fail, the ultimate return to the investor is a good one.

The market is changing. There is a great interest among individuals in being part of this tech revolution. There is growing interest in “direct investment,” in choosing your own targets. There is now a crowdfunding movement, particularly for equity and start-up financing. While we’re one of many, we happen to be the global leader right now, at least in terms of money raised through the platform.

Is it difficult to build the awareness of all that you offer and to differentiate yourself?

It’s very difficult. We’re doing a multifaceted marketing campaign, which includes online and social marketing, but also meeting people face-to-face. I’ve been active on the speaking circuit and I do a lot of TV. We also spend a lot of time explaining this model because it’s very differentiated. While I want to get people involved in funding these emerging companies, we want to make sure that our platform is a safe and trusted space for people to begin to invest in start-ups. We take the educational aspect of our platform very seriously and we do all kinds of training Webinars about start-up investing with topics such as portfolio strategy, due diligence, and company building.

The crowdbuilding aspect of OurCrowd is a very important part of our secret sauce. It turns out that, while writing a check is very important for a start-up company, that is only where it begins. We need to work hard to really help these companies grow because they’re in a competitive environment.

Structurally we take all of the individual investors and aggregate them into a limited partnership – a special-purpose vehicle – which we manage, and then we write a single investment check to the company. This makes it easier for the company. We sit on the company’s board to not only provide strategic guidance but also to represent the interests of our investors. Our board members are selected from our team of mentors who are experts, and mostly former entrepreneurs who have themselves built companies and agree to work with the start-ups and to represent OurCrowd on their board of directors.

We and our mentors then crowdsource additional help and support for the company from our community of thousands of investors; we call it “crowdbuilding.” We have already seen companies score \$10-million investments from introductions that were made by one of our small investors. So even if you’re a doctor investing in a cybersecurity company, your brother-in-law may, for instance, work at a bank and may know someone in the information security area who can be helpful.

Why is having a mentor program so important?

We invest in all kinds of entrepreneurs. Many are serial entrepreneurs who have already built successful companies, and we love doing that because it reduces our risk. However, we also invest in a lot of young and first-time entrepreneurs, so it helps to have them supported by those with extensive start-up experience who can provide guidance. That mentor is responsible for managing our investment and is a conduit for reporting back to our investors. We supply quarterly reports to our investors, which is critical since they will have to make decisions about reinvesting. For most companies, the investment process is not a one-time deal: they’re going to need more and more money in subsequent investment rounds. We have to get out there and attract other venture capital funds and other large investors to join us as we move forward. We also try to help the companies make deals with significant potential partners like Microsoft, Samsung, Google, GE, or Apple, and this requires a great deal of effort.

The business of running an equity crowdfunding portal may look easy from the outside but in reality it’s really hard. That said, I have the greatest job in the world because I’m surrounded by young, creative people who are full of dreams and are doing so much good in the world. Some of our companies are literally saving lives.

Is it possible for anyone to become a successful entrepreneur or do you need an innate ability for it?

Entrepreneurs need to be passionate about an idea and full of energy, creativity, smarts, drive, and determination. It also helps to be slightly delusional because starting a company is such a risky endeavor, you have to believe that, despite the odds, you will succeed.

In Israel, for example, you make your own odds. If you believe you will win, you will be more likely to win. Our whole country was built and has flourished against the odds. Our job is to create an ecosystem that allows entrepreneurs to be delusional in this way while helping them increase their odds for success by focusing them on the key elements in executing their business plans.

Not every entrepreneur is a fast-talking charismatic salesman. Many are more quiet and technical. There is a genetic element to their makeup, but there is also a huge amount of nurturing required.

Investors obviously help companies but, occasionally, they can also really screw companies up. I take our responsibility very seriously because we want to help but we also want to stay out of their way.

What is it about Israel that encourages an entrepreneurial culture?

It goes back to Jewish tradition. We as a people have always been delusional. Our father, Abraham, saw an invisible God while everyone else worshiped idols. We as a people have a unique relationship to risk-taking. It’s the daring, the chutzpah that has always characterized the Jewish people. We also realize the world itself is a risky place, so therefore the risk involved

in creating a company, even though it may fail, seems like much less of a big deal. Living in Israel is living in “risk central.” It’s a beautiful, calm, and wonderful country, which is growing like crazy, but a few weeks ago, I realized that each of my three boys was spending that day in the army, even though two have already completed their compulsory service. One of my sons told me that our enemies are actually getting their “act” together, but that he’s not afraid because we already have our “act” together. Part of our attitude comes from living with that existential risk every day.

When society becomes accustomed to this and accepts this risk, then you will see 23-year-olds creating companies with 1.5 million users per day joining them (like our portfolio company, NextPeer) and, then, everybody else will want to be part of it.

The miracle of the Jews and Israel reborn is that we are indeed the start-up nation. The Jewish people have contributed to the world, roughly 30 percent of the Nobel Prize winners in science over the past 100 years and 20 percent of the Forbes 400. This kind of Jewish “over-achievement” happens all over the world so it would be weird if Israel was not leading in this kind of entrepreneurial and scientific achievement.

People around the world are beginning to realize Israel’s role in innovation. We are seeing an increasing interest from Asia, Latin America, Africa, and other developing areas where trade and investment is booming but still has much room to grow.

Our economy is firing on all cylinders as a result of the innovation, and our GDP growth is the envy of the Western world. Our unemployment is low and foreign investment is at an all-time high. We’re the fourth-largest contingent of companies traded on the New York Stock Exchanges after China, Canada, and the U.S., and we’re clearly the world’s second source of innovation after Silicon Valley. We’re a small country but we’re contributing enormously to the betterment of mankind, and are helping to solve huge problems in areas like water, cancer treatment, solar energy, network security, and growing more food for a hungry planet.

How big do you expect OurCrowd to get?

We’re trying to grapple with the quality versus quantity question. There is great potential because we’re using the Web and the fact that you can build large global communities online. It becomes even more powerful because we are building our community both online and offline, doing it in a hybrid sense so that we are also getting people involved, and see them face-to-face at the hundreds of events we are organizing.

Today, our community of investors is about 5,000. We have about 50,000 on our larger list, and I believe we can grow 100-fold, because there are a lot of people who want to become involved.

What we are enabling at OurCrowd is not just getting people to invest in Israel, the start-up nation, but we are establishing a platform for new and important funding to entrepreneurs situated all over the world. ●