



STEP BY STEP EQUITY CROWDFUNDING (ECF) GUIDE: INVESTOR EDITION

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FOREWORD: WHAT TO EXPECT?

This E-book hopes to provide a straightforward yet comprehensive account of Equity crowdfunding. It is meant to be an informative visual text for investors to offer some perspective on what it means to invest in Equity crowdfunding and how the process works. We have compiled selected information in an attempt to make the text as inclusive as possible for the benefit of the reader.



WHAT IS EQUITY CROWDFUNDING (ECF)?

The process where a company seeks investment from the 'crowd' in exchange for its stocks or shares is called equity crowdfunding. This mechanism is primarily used to generate funds/ capital in the early stages for unlisted companies, start-ups or small businesses. The investor holds partial ownership in the company and gains profits from dividends or the sale of their shares at the point of exit.



HOW IS ECF DIFFERENT?

Equity-based crowdfunding encompasses allowing contributors to trade capital for equity shares and become part-owners of the company. While donation-based crowdfunding features campaigns that yield no financial return to contributors. On the other hand, rewards-based crowdfunding involves rewarding your inventors or contributors with a product or service offered by the company.

TYPES OF CROWDFUNDING

**Donation
based CF**

**Rewards
based CF**

**Equity
based CF**

Equity crowdfunding allows investors to own shares of the companies that they select as an investment choice, with that they carry the same risk as to the owner. Though it may be riskier compared to other types of investments, it also reflects higher return possibilities. ECF features companies of a wide variety, investors get to diversify their investment portfolios and be part owners of equity in multiple fields including agriculture, trade financing, events, food & beverages franchise, and more. Additionally, for those passionate about social impact, ECF allows great societal benefits through the different business categories it features like tourism promotion, tech development, local products support, etc.

As a leading ethical investment platform, Ethis has managed five years of successful property investments in Indonesia and impacted the lives of many through our global charity crowdfunding platform, Global Sadaqah. Last year, we expanded our company by acquiring the first Shariah-Compliant Equity Crowdfunding license in Malaysia and launching it successfully in September 2020.



EQUITY CROWDFUNDING AT A GLANCE

Equity crowdfunding assists startups and Small & Medium Enterprises (SMEs) or Businesses to raise capital from anyone who wishes to invest in their company.

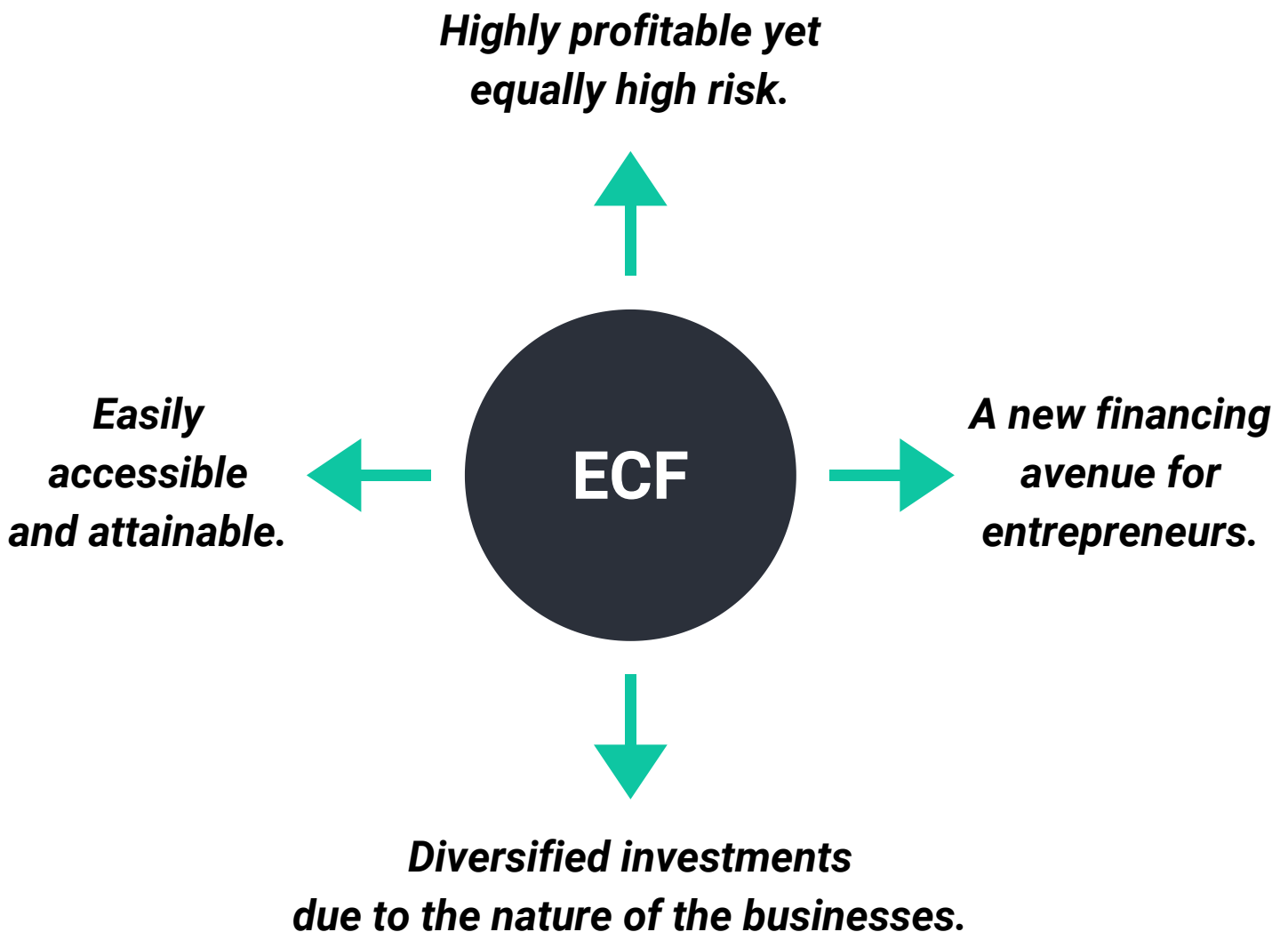


This investment is usually through the subscription of shares or securities by the crowd.

Investors can browse crowdfunding platforms and discover the different equity crowdfunding campaigns and issuances available.



MAIN CHARACTERISTICS OF EQUITY CROWDFUNDING



THE 4 COUNTERPARTS OF ECF

1

Investor

A person or organisation who commits capital with the expectation of receiving financial returns.

2

Platform

Stock market or a derivatives market operated or maintained by a registered operator.

3

Issuer

The corporation whose shares or debentures are being issued, offered for subscription or purchase, or in respect of which an invitation to subscribe or purchase has been made.

4

Regulator

An organisation that provides a regulatory framework for ECF platforms and recognise it as part of the capital market

EQUITY CROWDFUNDING IN MALAYSIA

Equity crowdfunding is regulated by the Securities Commission (SC) Malaysia. Securities Commission (SC) Malaysia was among the first in Southeast Asia to give equity crowdfunding a regulatory framework and formally endorse it as part of the recognised capital market.

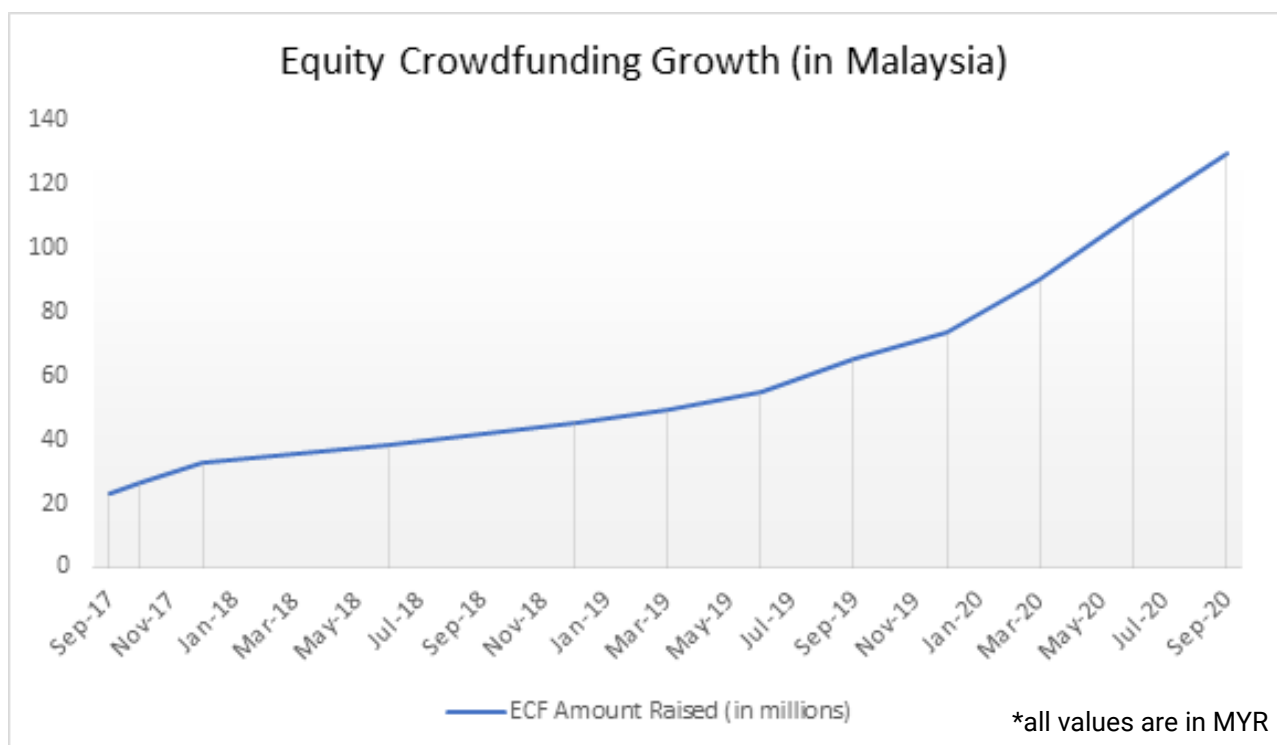


Suruhanjaya Sekuriti
Securities Commission
Malaysia



Digital platforms were introduced providing financing as 'Regulated Market Operators'. This was done to expand the availability of capital for startups and SMEs and to provide the Malaysian public with opportunities for a more diverse investment portfolio.

ECF has received positive responses from the general public, with over half the investors being retail investors and most of the ages below 35 years old, signalling a tech-savvy and financially comfortable demographic. As of September 2020, ECF has provided capital to the tune of RM129.64 million to 113 successful issuers.



ECF has seen a steady YoY increase.

Source: SC Malaysia - www.sc.com.my/analytics/ecfp2p

Equity crowdfunding can undeniably fill the gap that is still underserved by early-stage Venture Capital (VCs), Angel Investors, Government Grants, and informal investors.

For startups and SMEs, equity crowdfunding provides broad reach to investors willing to support the vision and a means to engage with them directly.

For investors, it serves as a matchmaker and facilitator for their investment journey and sets forth a layer of transparency and accountability.

Through this function, equity crowdfunding in Malaysia can only be expected to drive these critical segments of the economy and create more opportunities for investors and capital markets alike.



TYPES OF INVESTORS

Investors are categorised into three:



Sophisticated Investors:

No restrictions on the investment amount.

max. RM500,000

Angel Investors

With a maximum of RM500,000 within 12 months.

max. RM5,000

Retail Investors

With a maximum of RM5,000 per issuer with a total amount of not more than RM50,000 within 12 months.

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ETHIS
MALAYSIA

❖ *Fully Shariah-compliant equity crowdfunding (ECF) platform*

❖ *Part of Ethis group offering equity investments, P2P financing and charity through its digital platforms in different countries*

❖ *Approved by the Securities Commission of Malaysia - RMO & Islamic Capital Market (ICM)*

❖ *Launching Business and Agriculture verticals followed by Property and Waqf (endowment)*

HOW EQUITY CROWDFUNDING WORKS FOR INVESTORS

1. Sign Up

Enter your details to set up your investor account. Here, you will be prompted to disclose your identification and other information which will be used in verifying your identity and investor type. This will be a one-off process to seamlessly complete your chosen investment and ease your next investment experience with us. Once done, login to access your dashboard.

2. Select

Browse and review available deals. View each campaign details and access the issuer's documents that we have screened in advance. In each deal, we provide the Pitch deck* and sample contracts for investors to conduct their due diligence. Once done, select your preferred deal to invest in.

**Pitch deck contains the issuer's business proposal, about the company, founder and management team, current business update, financial overview, terms and conditions, etc.*

3. Invest

Invest in your preferred venture, and receive shares in exchange for your investment. Submit your investment commitment, whereby the minimum investment amount is subjected to the campaign's ticket size. Pledge your investment on the platform and make the payment via direct bank transfer to Ethis' trustee account.

4. Sign the Agreement

Upon transfer, Ethis will handle all the paperwork on your behalf. Once the campaign is fully funded, you will be notified to sign and receive your shareholding agreement with the issuer company. If the raised fund target is not achieved, the investment amount shall be refunded back to you.

5. Keep Up

Receive your periodic update on the company that you own. You may access the updates on your dashboard at any time.

6. Reap the Reward

Enjoy your benefit during investment exit either from dividends or capital gain, depending on the types of shares you own.

7. Diversify

Diversify your investment portfolio by investing across different campaigns available on the Ethis platform. Keep in mind that there will be an investment limit within 12 months if you are a retail or angel investor.



ROLE AND RESPONSIBILITIES OF INVESTORS

Role of Investors

Ordinary shareholders:

- Voting rights.
- Promoting the company/project.

Preferred shareholders:

- Promoting the company/project.

Responsibilities of Investors

Understand the main business activity of the company.

Monitor your investment by getting a monitoring report from the platform and the social media of the company.

Attend shareholders meetings and exercise your voting rights. (For ordinary shareholders)



INVESTMENT RETURNS



Investment amount
paid



Target amount
reached and project
is funded



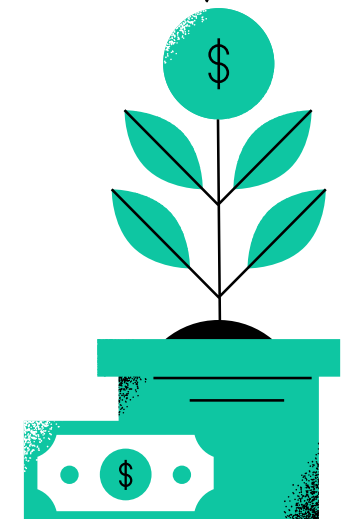
Project takes off



Investors monitor
online



Project makes profit



Returns are received!

Profits vary according to:

- Investment type
- Pre-agreed ratios for returns
- Project performance

INVESTMENT RETURNS

Guarantees to the Investors?

No. There will be no guarantee to the investors. You are investing in the growing startup business through equity. Although Ethis performs due diligence processes on the issuer, this due diligence is only for Ethis' internal screening purposes. You are encouraged to conduct your own due diligence before investing.

Exits on your Investment

For ordinary shares, there is no defined exit. For redeemable shares, the issuer will redeem the shares at a predetermined time.



INVESTMENT BENEFITS & RISKS

Benefits:

1. Having the opportunity to invest like the experts. Equity is no longer limited to accredited investors only. Now everyone can put money into equity investments and wait for the fruits to ripen.
2. The possibility for you to gain substantial profits out of the investments. Although there is a high degree of risk, there is an equal level of benefits to be attained with successful campaigns.



3. Assisting entrepreneurs who are interested in starting a business but have no direct source of financing and as a result directing and producing more active entrepreneurs and a competitive economy.

4. ECF would create more job opportunities for people, especially the young ones who are about to start on a new venture, are interested in investment, or wish to join in on the innovative space of Fintech.

5. Investors are given the space to choose the kind of project or business they want to invest in. This would give you personal fulfillment as you could opt for a cause that you feel passionate and comfortable about and could closely relate to.



Risks:

1. Returns on Investment may be prolonged. Since the anticipated outcome of the campaign is unguaranteed, the period is also not determined but instead predicted.
2. There are no guarantees that a business is going to be successful and thus there is a high possibility and risk of the returns not being actualised. Keep in mind though, the higher the risk, the bigger the reward.
3. Since equity crowdfunding is carried out online, it is vulnerable to cybercrimes. Scammers and impostors are always present in every space and there is a chance of falling victims to such acts which necessitates due diligence.



POST-INVESTMENT ADVICE

1. Having patience and maintaining a positive attitude about the campaign is essential to help make the process enjoyable. A thing to keep in mind is that investors are all part of a community sharing equal risks.
2. Investments feature online progress. Keeping track of the investment progress on a periodic duration to understand the state and progress of the campaign is a must.



3. Every investment is prone to risk, and so there is a possibility of delays as well as failures or lesser returns than expected.

4. After each investment, successful or not, taking a step back and re-evaluating the next form of action is highly important.

5. It is vital not easily be disheartened by failure in investment as the process is a learning one, and through time, experiences will assist in better identifying the right choices.



CONCLUSION

This e-book was designed to assist avid investors with inclusive and beneficial structures and instruments on Equity crowdfunding as a new avenue for investment. Equity crowdfunding (ECF) is a promising Fintech model for finance and investment. It is an attractive proposition for investors and can only be expected to drive important segments of the economy and create more opportunities for investors and capital markets alike. We hope that it was informative and that the text assists investors interested in venturing towards Equity crowdfunding to begin this compelling journey.



DISCLAIMER

This document is purely for educational purposes and does not claim legal, financial, or professional authority. The information provided is attempted to be accurate and contemporary to the best of the author's ability. Ethis Malaysia does not provide any investment advice. All information is provided to help users of our platform make informed decisions. Users must rely on their own due diligence before investing in any campaign hosted on our platform or raising capital on our platform. If in doubt, please seek the advice of an independent financial advisor.

Ethis Malaysia, which is part of Ethis Group, is a Recognized Market Operator (RMO) approved under Securities Commission Malaysia to carry out Equity Crowdfunding business activities

THANK YOU



CIRCULATE GOOD • GENERATE IMPACT • MAKE PROFIT

You've reached the end of this e-book.
If you are keen to know more about Ethis or
have any further queries, here are some go-tos!





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ethis.co/my/



Join our community!



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