



Trophy Investing

StartEngine: Leading Pioneer of Equity Crowdfunding

By Reeve Markowski, November 30, 2017

StartEngine Crowdfunding Inc., (SE) (the “Company”), has come on to the scene as a leading pioneer of the emerging equity crowdfunding industry. With the launch of their **StartEngine Secondary**[™] market, a platform enabling users to buy and sell privately held shares of the companies listed on their site, StartEngine is positioned to grow their share price by a multiple of 10x or more by second half of next year. Crowdfunding, which has until recently garnered only minimal traction as a viable source of financing is on the verge of becoming the most disruptive force in the history of the capital markets. See “[StartEngine's New Secondary Market Extremely Disruptive to Capital Markets](#)”. And StartEngine is uniquely positioned to take the lead in this for the following reasons:

- Disruptive nature of crowdfunding industry
- Experienced management
- Proven business model
- Massive potential for scalability
- Modest current valuation
- Prime candidate for acquisition or IPO

While technically a close second to WeFunder in terms of number of offerings, SE has several advantages that separate it from the other crowdfunding platforms. At the helm of SE, are chairman Ron Miller and CEO Howard Marks. Miller, a serial startup entrepreneur who has founded built and sold five companies and an Ernst & Young entrepreneur of the year award finalist brings his deep experience as a strategist and leader to the company. Marks, as the former Chairman, Board Member, and Executive Vice-President of now \$46 billion video game giant Activision (ATVI), he and a partner took control in 1991 and turned the ailing company

into the video game industry leader. As a games industry expert, Marks built one of the largest and most successful games studios in the industry selling millions of games including *World of Warcraft*, *Guitar Hero*, and *Call of Duty*. Marks then went on to found Acclaim Games, a publisher of online games that is now owned by the Walt Disney Corporation. Marks then founded *StartEngine*, an unrelated entity, in 2011 as a startup accelerator in LA with the hopes of making the city a leader in technology. After investing in over 60 companies, Marks learned the struggles early-stage companies go through to obtain funding from angel investors and venture capital firms.

With the advent of the JOBS Act, Marks realized he could help thousands of entrepreneurs by creating a new company focused on implementing the equity crowdfunding rules. SE was incorporated in March of 2014 and revenue generating activities commenced in 2015 with the amendments to Regulation A of the Securities Act adopted in response to the Title IV of the JOBS Act. Operations expanded in 2016 as Regulation Crowdfunding (CF) was adopted in response to Title III of the JOBS Act going into effect. And as a primary market for private companies, SE has already established themselves as a leader.

Fundamentally, the company is off to a promising start. As of June, 7th 2017, SE has over 87,000 registered users, with over 17,000 having already made investments on the platform. Currently, the company generates revenue primarily through fees it charges the companies listed on its platform. During the first half of 2016, the company did \$237,366 in revenue with a gross profit (loss) of \$(20,971) compared to \$770,668 in revenue with a gross profit of \$537,293 in the first half of 2017. Along with their gross margin climbing to 70% over this period the company grew their revenue by 225% and operating expenses increased by only 8%.

With the launching of their secondary market service, SE plans to bring something rarely seen in the private market, liquidity. In addition to providing funding for the companies SE lists, the company wants to also provide liquidity for those shareholders with stakes in the listed companies. Similar to SharesPost and SecondMarket (now NASDAQ Private Market), platforms that sprung up to enable holders of Facebook (FB) and other billion-dollar tech companies to trade their shares prior to the IPOs, SE will now allow investors to post buy and sell their shares directly from SE's platform. And while SharesPost and NASDAQ Private Market are only open to accredited investors, SE will allow anyone regardless of income or net worth to invest on their platform. This will be the first time in history that shares of small private companies will be liquid, and available to the general public. The launching of a secondary market for startups will go a long way in remedying the disastrous effects of Dodd-Frank on micro-cap companies [insert link to Dodd Frank article] and signals the dawn of a new age for investing. And while having a revolutionary model is great, having a proven one is even better.

StartEngine's financial position closely mirrors that of online broker giant, E-Trade, during its fledgling years. Online brokers revolutionized the brokerage industry by enabling investors to buy and sell shares online, without having the hassle of calling a broker, and for a fraction of the price. E-Trade's online, low cost, hassle-free secondary market model is effectively identical to what SE is creating with their secondary market, only for privately held startups. In 1991, E-Trade was pulling in just over a measly \$800k in revenue, very similar to StartEngine's own

\$770k in revenue, and neither company was breaking even. Four years later, venture capital firm General Atlantic Partners, invested \$12.3 million in E-Trade for a 28 percent stake in the company. On August 16, 1996, less than a year later, E-Trade did an IPO at a valuation of more than \$300 million resulting in a 7x multiple for the venture firm. Upon the close of the current round of funding at \$5 per share, SE will have a market capitalization of just over \$70 million, a valuation that leaves plenty of room for growth. The real difference is that only professional and institutional investors had the opportunity to invest in promising startups like E-Trade, but under the JOBS Act everyone has access to the ultra-high yields found only in startup investing.

Market caps-Top 3 US online brokers	
Ameritrade (AMTD)	\$28.9B
Interactive Brokers (IBKR)	\$21.8B
E*Trade (EFTC)	\$11.9B

Based upon the disruptive nature of their industry, competent management, and proven model, SE shareholders could easily see their positions quadruple as the stock price climbs above \$20 by the 3rd quarter of next year with the potential to soar above \$100 by 2020. And these numbers are based on the company staying private. In the event the company gets acquired or goes public before 2020, shareholders of SE could see their stakes increase by a minimum of 15x in value as most investment banks won't even consider an IPO at less than a \$1 billion valuation.

Now, because of the JOBS Act anyone can invest as little as \$500 in StartEngine, and as little as \$10 on many of the companies listed on its platform. Investors won't have to wait years to see returns either as the shares can be posted for sale on SE's platform immediately upon clearing escrow. Ultimately, it will be SE's ability to provide both funding for the companies as well as liquidity for the investors that will revolutionize the capital markets and drive crowdfunding, and along with it SE, to ubiquity.

Information about how to invest a minimum of \$500 in StartEngine is available at [Trophy Investing](#). Ongoing research coverage on StartEngine is also available to the members of Trophy Investing.

Trophy Investing is a member-based investing community which excels in identifying the shares of startups and early stage companies that have the potential to multiply in price within three to five years after investment. Membership to Trophy Investing is [FREE](#).