

DIGEST

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CROWDED OUT

Crowdfunding threatens traditional bank lending due to the power of the network, says [Euromoney](#), a British magazine. “The crowd is taking over from traditional sources of finance and it is here to stay. It’s the start of the big bank disintermediation. Unless banks join the revolution, consumer lending may no longer be their sole domain,” writes Helen Avery in Euromoney. The article describes both crowdfunding and crowdlending. In the first half, it describes the threat to traditional lenders, the growth rates of crowdfunding and the state of the art in the U.S. and U.K. In the second half, it describes ways that some innovative banks are adapting to the new market reality, as well as how it may or may not fit with private equity dealmaking.

Crowdfunding sums are small compared to the triple digit billions in bank loans issued each year, but it is not to be overlooked, says the report. Crowdfunding players estimate between USD2 billion and USD3 billion have been raised globally through loans, equity sales or donations. It is a small amount, says Euromoney but the growth rates “cannot be ignored”.

Crowdlending is small but not to be ignored	
Amounts lent since inception in domestic currency	
RateSetter	£20.88 million
Zopa	£190 million
Funding Circle	£29.9 million
Lending Club	\$600 million
Prosper	\$327 million

Source: company websites
Graphic source: Euromoney

Crowdfunding is experiencing growth rates of 100 to 200 percent. The most popular sites in the US are [Kickstarter](#) and [RocketHub](#). [Crowdcube](#) is the UK’s only equity finance crowdfunding platform as yet, having launched in February 2011.

In addition, [GrowVC](#) has a platform for small businesses to raise equity regardless of their geography. It posts start-ups from 190 different countries including China, India, the UK, Brazil, Australia, France, Spain, Germany, Japan, Kenya, South Africa and now the US.

Crowdlending, is peer-to-peer and it is the biggest threat to traditional credit and loan providers, says Euromoney. At RateSetter, for example, a borrower would currently pay around 9.1% for a one-year loan of GBP 5,000.

That compares with a 17 percent on a credit card and a minimum of 18 percent at a high-street bank. Lenders receive 5 percent on a one-year investment, and up to 7.2 percent on four- to five-year investments. Other platforms include Zopa, Lending Club and Prosper, and the Lending Club, which is turning over USD 40 million a month in new loans and expects to pass the one billion dollar mark by the end of this year. Not all banks are behind the trend; Banque Postale in France has partnered with Kickstarter equivalent [KissKissBankBank](#), and ABN Amro is involved with Dutch crowdfunder Seeds.

How it fits with PE is also described. Some angel investors are co-investing with the crowd or they use the platforms to screen business ideas. Crowdcube for example, vets companies and carries out background checks. It turns away 75% of applicants. The article says that it is through this crowd interaction that a form of due diligence takes place.

BILLION DOLLAR DEALS: FOOTWEAR AND CHINESE FOOD

Two large sized PE transactions were announced this week. [Reuters](#) reports that Wolverine Worldwide, Blum Capital Partners, and Golden Gate Capital are teaming up to buy Collective Brands in a USD1.32 billion deal that will split Collective's shoe brands from its Payless ShoeSource retail business. Collective's brands: Sperry Top-Sider, Saucony, Stride Rite and Keds brands, will be matched with Wolverine Worldwide's brands like Merrell, Hush Puppies, and Caterpillar Footwear. Including debt, the deal is valued at about USD2.0 billion. The other large deal is the USD 1.1 billion take private of P.F. Chang's China Bistro Inc, which is the biggest Asian full-service restaurant operator in the US, according to [Bloomberg](#).

BUYOUT TITANS' VIEW ON PE PROSPECT IN EUROPE, ASIA, AND US

Milken Institute Conference Asia remains an attractive target for private equity investment, while Europe is a destination for only the bravest investors, says Kevin Roose, reporting proceedings of a recent industry event for [Dealbook](#). His article notes some of the more interesting statements made at the Milken Institute's annual global conference by a panel of private equity executives, which we summarized below.

Quotes from the article:

- David Bonderman, a founding partner of TPG Capital, said Chinese regulations were challenging but not a deterrent to investing in the world's second-largest economy. "It's actually harder to get money into China than it is to get it out," Mr. Bonderman said. "We haven't had any trouble getting money out."
- The panel said Europe's continuing financial crisis is creating potential opportunities but that heavy regulation made it difficult to invest in the region. "Europe is in kick-the-can-down-the-road mode," Mr. Bonderman said.
- Jonathan Sokoloff, a managing partner at Leonard Green & Partners, said the resilience of the U.S. consumer made the world's largest economy a good place to invest because "Americans like to spend."
- Roose said that the panelists also noted that the U.S. remained attractive "although many of the most desirable investments had already been made".

SCOTTISH ANGELS TEMPTED BY HIGH TECH

The [FT](#) has a report on angel investment in Scotland. It is of note because Scotland has a high level of angel activity compared to the rest of the UK. The country accounted for almost a third of visible angel investment in the UK in 2010, says the report. The Scottish angel investment market is dominated by quite formal syndicates of investors, which act “like mini venture capital funds”. The professionalization of angel investment and syndication has resulted in greater public sector support for the industry than elsewhere in the UK, through bodies such as the Scottish Co-investment Fund, which enters into contractual partnerships with select angel groups, matching their investments pound for pound. “However, it is not involved in picking winners. Once a syndicate has been approved, the fund backs the syndicate’s investment choices,” says the report.

In 2009, Archangels – Scotland’s largest angel investor syndicate – stepped in to provide bridging finance for Touch Bionics, a prosthetic limb manufacturer, in which it had already invested during the height of the credit crunch. The loan was fully subscribed in 36 hours. Although these loans can carry interest rates of up to 12 per cent, some angel investors are wary of providing funds in anything other than exceptional circumstances. Unlike angel investment, offering loans to small companies does not come with a substantial tax break.

WORRIES OF THE WEALTHY

US millionaires are growing more anxious about the economy than they were last year, according to Spectrem Group’s latest survey. Those with a seven-figure net worth, excluding their primary residence, are mainly concerned about a prolonged economic downturn. That’s up from 70 percent for the same period last year and they’re also concerned about taxes and the coming elections, reports [MSN Money](#).

In another [study](#), Harris Interactive, polled over 1,250 Americans with assets of USD 250,000 or more, and it found that the wealthy are most worried about health care costs and retirement. Sixty-seven percent of respondents said they are worried about having enough money set aside for their senior years, up from 63 percent in 2011. Baby boomers especially are increasingly worried not only taking care of their aging parents (57 percent vs. 53 percent last year), but also having care for themselves in their old age (53 percent vs. 50 percent).

QUOTE OF THE WEEK: THE PROBLEM WITH GOLD

“The problem with gold is that it doesn't trade based on the fundamentals of supply and demand these days... Gold acts more like a currency than a commodity...”

Who said it: Joshua Harris of the private equity group Apollo

In Context: Quoting Apollo's Harris who was speaking on a panel that turned out to be quite bearish on gold at the recent Milken Institute annual conference. [CNBC](#) published a short news item about gold, asking whether or not it was still a commodity. Harris sees the problem gold now as bet against paper currencies and therefore not like a typical commodity.

Where we found it: [CNBC](#)

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