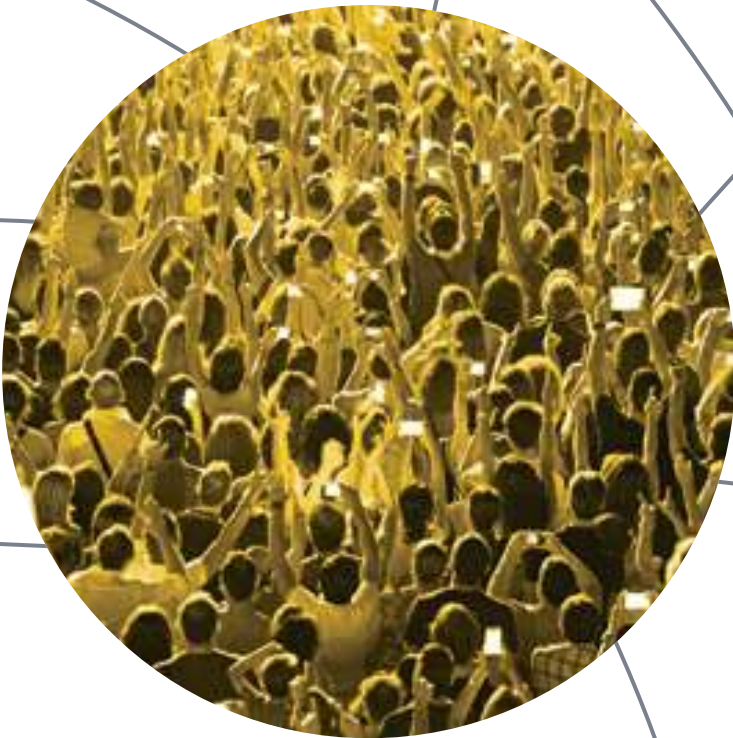
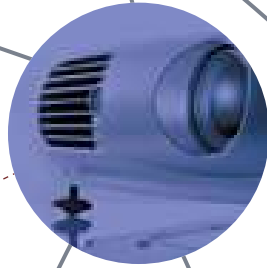


THE IMPACT OF INTERNET REGULATION ON EARLY STAGE INVESTMENT



FIFTH ERA

Advise, Develop, Invest



The Impact
of Internet
Regulation
on Early Stage
Investment

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FIFTH ERA

Advise, Develop, Invest

Fifth Era is an advisory and investment firm based in the San Francisco Bay Area, USA. Working with the founders, executive teams and boards of our advisory clients we develop compelling strategies with an emphasize on executable plans – not lofty concepts that an organization can not make happen. Visit fifthera.com to learn more about Fifth Era.



Engine supports the growth of technology entrepreneurship through economic research, policy analysis, and US on local and national issues. We are divided into Engine Foundation and Engine Advocacy. Visit engine.is to learn more about Engine.



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the world relies
upon the internet,
which is increasingly becoming

mobile and social

- > More than **3 billion** use the Internet
- > **mobile** penetration is over **90%**
- > **social** penetration is over **40%**

this is especially true
with regard to our use of

creative content industries

all of which have been
going digital
and rely upon DCIs

- > Music
- > Video, Film, and TV
- > Books
- > Social and photos
- > Blogs and news

early stage investors
back DCIs and drive the

internet's innovation

- > Angels and VC's invested over **\$54bn** in US,
and EU **\$7bn** in European start-ups in 2013
- > In the US, VC backed companies represent **11.87m** jobs,
21% of GDP and over **\$3.1 trillion** in revenue
- > Early stage companies add **290,000** jobs each year in the US alone

fifth era's study surveyed investors worldwide to see how potential internet regulations might

impact their investing

- > **8 countries** (Australia, France, Germany, India, Italy, Spain, UK and US)
- > These countries represent **56%** of world GDP
- > These countries represent **25%** of world population

fifth era found that

- > **89%** of investors find the legal environment has a more **negative impact** on their investing than either a weak economy or an increased competitive environment
- > **88%** say that regulatory ambiguity makes them **uncomfortable investing** in DCIs that offer user generated music and video
- > **85%** agree or strongly agree that uncertain and potentially large damages **put them off investing**
- > **78%** are deterred from **investing in DCI's** by the risk of secondary liability in IP infringement cases

as a result

regulators need to make sure that they consider the impact on investment when introducing new Internet regulations so as to avoid negatively impacting new business formation, investment, innovation, jobs and growth



introduction

Less than three decades ago few would have been able to imagine just how different the world would be today. Three decades ago, we were largely unconnected from one another; it took time to create, share or find data and content, and we relied upon physical means to do so. Companies and industries relied upon approaches to innovate, manufacture, market and distribute their products that had in some cases gone unchanged for many decades. Information was to be found in libraries, archives and desk drawers - if you knew where to look. In just twenty years, all of that has changed. Today we are connected, information is broadly available and easy to find, innovation is quick and iterative, and innovators are able to access the latest technologies and tools wherever they are across the globe. Today, most companies conduct their businesses in fundamentally different ways, providing cheaper, better and faster products to their customers. And this is only the beginning, as new technologies continue to emerge and build upon the foundations laid out with the creation of the internet just three decades ago.

Given this rapid pace of change regulations can have a hard time keeping up with the state of innovation. For regulators, it can be hard to foresee the unintended beneficial or adverse consequences of their decisions regarding which regulations to change or introduce, and yet inaction can also have negative impacts on innovation, particularly in the technology sector.

Additionally, information blind spots exist in many areas, especially when they are emerging and/or rapidly undergoing change, such as the technology sector. In these cases, it is very difficult and time consuming to formulate legislation, and hard to consider and evaluate all potential consequences.

Early stage investing is a leading example of an area facing this information deficit, but in the midst of regulatory discussion and evaluation. Most countries are clear on the important role that innovation, entrepreneurialism and new business formation have on driving gross domestic product (GDP) growth and jobs; various studies have been conducted by others, some of which are referenced in this report. The conclusions suggest that, in every innovation-based economy worldwide, and in most traditional economies, the early stage of business formation is one of the greatest drivers of GDP and employment. It is equally well understood that capital availability is central to the

effective development of an innovation based economy reliant upon the formation and growth of new technologies and the businesses that bring these technologies to market. However, very few studies impart quantified assessments of what drives the investment decision-making of the investors that provide that capital.

This absence is the fundamental rationale for this 2014 study conducted by Fifth Era with the support of Engine Research Foundation. Rather than ignore the potential consequences of regulation on the behavior of early stage investors, we believe that it is more constructive to test likely behavior change by conducting periodic surveys of investors around the world. We have done this by surveying early stage investors in eight countries - Australia, France, Germany, India, Italy, Spain, the UK and the US. Together, these countries represent 56% of the world's GDP, 70% of the European Union's (EU) GDP, and 26% of the world's population (*see Exhibit 1*). The countries are also similar in that the majority of their industries are reliant upon emerging businesses and technologies to drive future growth.

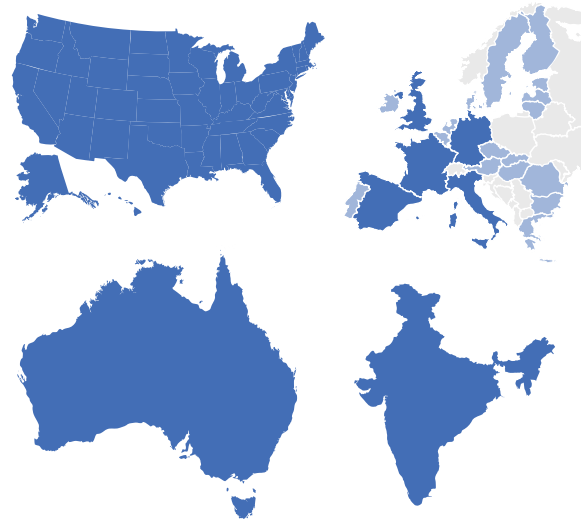
1 the eight countries in our survey represent 56% of the world GDP and 70% of EU GDP

Global Survey Focus Countries

Countries	Population (millions)	GDP (Billions USD)
India	1,249	\$1,875
United States	319	16,245
Germany	82	3,108
France	63	2,438
United Kingdom	62	2,119
Italy	61	1,928
Spain	47	1,310
Australia	24	1,564
Remaining Countries	5,283	1,254
	7,190	71,830

Surveyed Countries represent a population of **1,846m (25% of world)** and a GDP of **\$40,163 (56% of world)**

74% of EU population
70% of EU gdp



■ Focus Countries
■ Rest of EU
■ Out of Scope

Sources: Eurostat, Datamonitor
Analysis: Fifth Era

In each country we used the local definition of a “sophisticated investor” as the basis for deciding who was eligible to participate in the survey (see Appendix 2). We then fielded the same survey in all eight countries ensuring that we had consistency across countries and to ensure that we were able to collect quantitative data on relevant regulatory issues which are high on the global, as well as the local, agenda. We supplemented the surveys with one-on-one interviews with angel investors and venture capitalists (VCs) to ensure proper interpretation of the findings. In total, more than 330 investors participated in the study.

The findings of Fifth Era’s 2014 study of the “Impact of Internet Regulations on Early Stage Investment” are presented in this document. We believe that they provide perhaps the broadest quantification of how such regulations might affect investor sentiment in the eight countries surveyed, and, as such, we hope that this contribution will be beneficial to policy and law makers confronted by the complex and challenging task of establishing the rules by which the future of human endeavor will be played.



