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ANGEL INVESTORS BECOMING MORE CAUTIOUS IN UNCERTAIN ECONOMY Center for Venture Research Releases 2007 Angel Market Analysis

DURHAM, N.H. – Angel investors are taking a more cautious approach to investing in light of the recent volatility in the economy, according to the 2007 Angel Market Analysis released by the Center for Venture Research at the University of New Hampshire.

The angel investor market in 2007 showed mixed signs of growth. It has continued a reasonable growth path in investment activity but has exhibited little change in investment dollars from last year, according to Jeffrey Sohl, director of the UNH Center for Venture Research at the Whittemore School of Business and Economics.

Total investments in 2007 were \$26 billion, an increase of 1.8 percent over 2006. However, a total of 57,120 entrepreneurial ventures received angel funding in 2007, a robust 12 percent increase from 2006, and the number of active investors in 2007 was 258,200 individuals, an increase of 10.3 percent over 2006.

“The modest increase in total dollars, coupled with the increase in investments and more angels participating, resulted in a smaller deal size for 2007. In contrast to venture capital, in which money must be invested during the life of the fund and is in part based on the size of the fund, angel investing is an individual decision and angels invest from their net worth. These data indicate that angels are exhibiting a cautious approach to investing in light of the recent volatility in the economy,” Sohl said.

Software accounted for the largest share of investments, with 27 percent of total angel investments in 2007, followed by healthcare services/medical devices and equipment (19 percent) and biotech (12 percent). Industrial/energy accounted for 8 percent of investments, potentially reflecting an appetite for green technologies. Retail (6 percent) and media (5 percent) round out the top six investment sectors.

“Since the angel market is essentially the spawning ground for the next wave of high growth investments, this sector investing provides an indication of investment opportunities that will be available for later stage institutional investors,” Sohl said.

Angels continue to be the largest source of seed and start-up capital, with 39 percent of 2007 angel investments in the seed and start-up stage. Angels also exhibited an interest in post-seed/start-up investing with 35 percent of investments in this stage. Expansion stage investing (21 percent) showed the biggest increase.

“While angels continue to represent the largest source of seed and start-up capital, market

conditions and the capital gap are requiring angels to engage in more later-stage rounds. New, first sequence, investments represent 63 percent of 2007 angel activity, unchanged from 2006, indicating a continued preference for new, as opposed to follow-on, investments," Sohl said.

In 2007, mergers and acquisitions represented 65 percent of the angel exits, and IPOs 4 percent. Bankruptcies accounted for 27 percent of the exits. Annual returns for angel's exits (mergers and acquisitions and IPOs) were 27.7 percent. However, these returns were quite variable and a reasonable estimate for returns rates for 2007 is 20 percent to 40 percent.

Angel investments continue to be a significant contributor to job growth with the creation of 200,000 new jobs in the United States in 2007, or 3.3 jobs per angel investment. However, this tracks jobs created at the time of the angel investment and thus it is likely that this job creation of 200,000 is the minimum number of jobs created by angels in 2007.

The Center for Venture Research has been conducting research on the angel market since 1980. The center's mission is to provide an understanding of the angel market and the critical role of angels in the early stage equity financing of high growth entrepreneurial ventures. Through the tenet of academic research in an applied area of study, the center is dedicated to providing reliable and timely information on the angel market to entrepreneurs, private investors and public policymakers. For more information visit www.unh.edu/cvr or contact the center at 603-862-3341.