



## Center for Venture Research

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### THE ANGEL INVESTOR MARKET IN 2007: MIXED SIGNS OF GROWTH

#### Market Size

The angel investor market in 2007 has continued a reasonable growth path in investment activity but has exhibited little change in investment dollars from last year. Total investments in 2007 were \$26.0 billion, an increase of 1.8% over 2006, according to the **Center for Venture Research** at the University of New Hampshire. However, a total of 57,120 entrepreneurial ventures received angel funding in 2007, a robust 12.0% increase from 2006, and the number of active investors in 2007 was 258,200 individuals, an increase of 10.3% 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.

#### Sector Analysis

Software accounted for the largest share of investments, with 27% of total angel investments in 2007, followed by Healthcare Services/Medical Devices and Equipment (19%) and Biotech (12%). Industrial/Energy accounted for 8% of investments, potentially reflecting an appetite for green technologies. Retail (6%) and Media (5%) 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.

Sector	Software	Healthcare	Biotech	Industrial/Energy	Retail	Media
Deals	27%	19%	12%	8%	6%	5%

#### Job Growth

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.

## **Stage**

Angels continue to be the largest source of seed and start-up capital, with 39% of 2007 angel investments in the seed and start-up stage. Angels also exhibited an interest in post-seed/start-up investing with 35% of investments in this stage. Expansion stage investing (21%) 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% of 2007 angel activity, unchanged from 2006, indicating a continued preference for new, as opposed to follow-on, investments.

## **Yield Rates**

The yield (acceptance) rate is defined as the percentage of investment opportunities that are brought to the attention of investors that result in an investment. In 2007 the yield rate was 14%, continuing a decline in yield rates that began in 2005 (23% yield rate). This reduction in the yield rate to the historical average reduces the concern of an unsustainable investment rate.

## **Women and Minority Entrepreneurs and Investors**

In 2007 women angels represented 12.0% of the angel market. Women-owned ventures accounted for 12.7% of the entrepreneurs that are seeking angel capital and 16.0% of these women entrepreneurs received angel investment in 2007. Thus, while the number of women seeking angel capital is low, the percentage that receives angel investments is in line with the overall market yield rate. These data indicate that when women do seek angel capital they fare well, but the need is to increase the number of women entrepreneurs that seek angel capital.

Minority angels accounted for 3.0% of the angel population and minority-owned firms represented 4.7% of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 21.2%, which for the first time is in line with market yield rates. However, the small percentage of minority-owned firms seeking angel capital is of concern, as is the sustainability of the yield rate.

## **Return Rates**

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

The **Center for Venture Research (CVR)** has been conducting research on the angel market since 1980. The CVR'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 CVR is dedicated to providing reliable and timely information on the angel market to entrepreneurs, private investors and public policymakers.

The Center for Venture Research would like to thank all the angel groups and individual angels that participate in our research efforts. The Center for Venture Research also provides seminars to angels and entrepreneurs, and research reports on aspects of the angel market are also available. For more information visit [www.unh.edu/cvr](http://www.unh.edu/cvr) or contact the CVR at 603-862-3341.