

PRESS RELEASE

June 11, 2003



The Angel Investor Market in 2002: Investment Activity and Growth Prospects

The Angel investor market has declined in 2002 with total investments of \$15.7 billion, down from the previous year of \$30 billion, according to the Center for Venture Research at the University of New Hampshire. A total of 36,000 entrepreneurial ventures received Angel funding in 2002. While the decline in total dollars invested is close to 50%, the drop in the number of entrepreneurial start-ups receiving angel funding declined by 25%. The number of active investors in 2002 was 200,000 individuals, with an average of 5-6 investors joining forces to fund an entrepreneurial start-up. While the drop in total investments is substantial, research indicates that the Angel market is relatively healthy, with a sustainable growth rate of new investors, a decline in deal valuations, considerable sector diversification, and sustainable investor yield rates.

Sector Analysis

For the nine industry categories, software received the largest angel investment dollars with 40% of total angel investments in 2002. The remaining investments were approximately equally weighted across high tech sectors, with each having about 5% of total dollars. The exception was life sciences (not including biotech), which commanded 14% of the investments in 2002. This market level sector diversification indicates a robust investment pattern and provides a foundation for reasonable growth in the market. Since the angel market is essentially the farm system for the next wave of high growth investments, this sector diversification provides an indication of investment opportunities that will be available for later stage institutional investors.

Market Participation

The Angel market has achieved a sustainable growth rate (of new investors) between 12-14% annually. This trend had been evident over the last few years, when the effect of the 2000 bubble is taken into account. However, sustainable growth requires a reasonable augmentation in active investors, and thus, level of participation is an important consideration. While the number of individuals that are members of angel groups are increasing, there is a larger percentage of latent angels (individuals who have the necessary net worth, but have never made an investment). In 2002, 40% of the membership in angel groups were latent angels. This represents a steady increase over the last three years. This increase in latent investors over time indicates that while many

high net worth individuals may be attracted to the early stage equity market, they have not converted this interest into direct participation. Clearly, the market downturn may have an effect on this non-activity. More importantly, the education necessary to move the latent angel to the active investor is lacking.

Yield Rates

The yield (acceptance) rate is defined as the percentage of investment opportunities that are brought to the attention of investors that resulted in an investment. In 2002 yield rates were 7.1% for the year. In comparison, in 2001 the yield rate was 10.79%. Yield rates reached a five year high of 23.3% at the height of the investment bubble in 2000. Analysis of the yield data reveals that the significant drop in the yield ratio was caused by pressure from both the numerator and the denominator, indicating a decline in the perceived quality of the investment opportunities, as well as a cautious approach to angel investing.

Stage

Angels have traditionally been the largest source of seed and start-up stage capital in the US. The research indicates that angels continue to favor the early stages, with 47% of the 2002 angel investments in seed and start-up stage entrepreneurial ventures. It should be noted that angels also indicate a slight increase in early stage (post seed and start-up) investing, with 33% of the 2002 investments identified as early stage. Clearly, angels are not retreating from seed and start-up investing, but it appears that market conditions are requiring angels to provide some follow-on financing for their investments in the form of additional rounds of financing.

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, CVR 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.