



Center for Venture Research

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ANGEL INVESTORS STEADY BUT MORE CAUTIOUS IN FIRST HALF OF 2008

Market Size

The angel investor market in Q1,2 2008 has continued a reasonable growth path in investment dollars but has exhibited little change in investment deals from Q1,2 2007. Total investments in Q1,2 2008 were \$12.4 billion, an increase of 4.2% over Q1,2 2007, according to the **Center for Venture Research** at the University of New Hampshire. A total of 23,100 entrepreneurial ventures received angel funding in Q1,2 2008, a slight decrease of 3.8% from Q1,2 2007, and the number of active investors in Q1,2 2008 was 143,000 individuals, an increase of 2.1% over Q1,2 2007. The modest increase in total dollars and angel investors, coupled with the decrease in investments resulted in a larger deal size for Q1,2 2008 (8.0%). These data indicate that angels are exhibiting a cautious approach to investing in light of the recent volatility in the economy and reducing their individual risk exposure by including more angels in each deal.

Sector Analysis

Software accounted for the largest share of investments, with 18% of total angel investments in Q1,2 2008, followed by Healthcare Services/Medical Devices and Equipment (17%) and Industrial/energy (10%), potentially reflecting an increasing appetite for green technologies. Biotech has dropped from the top three sectors for the first time in several years while Retail and Media have solidified their previous presence in the top six preferred sectors.

Sector	Software	Healthcare	Industrial/Energy	Retail	Biotech	Media
Deals	18%	17%	10%	8%	8%	8%

Stage

Angels continue to be the largest source of seed and start-up capital, with 46% of Q1,2 2008 angel investments in the seed and start-up stage, on par with Q1,2 2007 (42%). Angels also exhibited a decrease in post-seed/start-up (early stage) investing with 33% of investments in this stage, down from 48% in Q1,2 2007, but this was offset by an increase in expansion stage investing to 19%, up from 7% in Q1,2 2007. 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 65% of Q1,2 2008 angel activity, unchanged from Q1,2 2007, 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 Q1,2 2008 the yield rate was 11%, continuing a decline in yield rates that peaked 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 Q1,2 2008 women angels represented 13% of the angel market. Women-owned ventures accounted for 15% of the entrepreneurs that were seeking angel capital and 10.0% of these women entrepreneurs received angel investment in Q1,2 2008. Thus, while the number of women seeking angel capital remains 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 fair well, but the need is to increase the number of women entrepreneurs that seek angel capital.

Minority angels accounted for 4.0% of the angel population and minority-owned firms represented 10% of the entrepreneurs that presented their business concept to angels in Q1,2 2008. The yield rate for these minority-owned firms was 11%, which 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.

Market Participation

If the angel market is to achieve sustainable growth there needs to be a reasonable augmentation in active investors, and thus, level of participation is an important consideration. While the number of angel organizations, and individuals that are members of organized angel groups, is increasing, there is a significant percentage of latent angels (individuals who have the necessary net worth, but have not made an investment). In Q1,2 2008, 58% of the membership in angel groups was latent angels, which is the same as Q1,2 2007 (58%). This significant percentage of latent investors indicates that while many high net worth individuals may be attracted to angel groups, they have not converted this interest into direct participation. Many angel groups are now beginning to recognize the more basic systemic need for educational programs and research to move the latent angel to the active investor, in addition to quality deal flow.

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 through quality research. 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 response rate for the survey was 43%. 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 or contact the CVR at 603-862-3341.

The correct citation for this article is: Jeffrey Sohl, "Angel Investors Steady But More Cautious in First Half of 2008", Center for Venture Research, October 8, 2008.