



Center for Venture Research

Director, Jeffrey Sohl

<http://wsbe.unh.edu/cvr>

(603)862-3341

THE ANGEL INVESTOR MARKET IN 2009: HOLDING STEADY BUT CHANGES IN SEED AND STARTUP INVESTMENTS

Market Size

The angel investor market in 2009, on the heels of a considerable contraction in investment dollars in 2008, exhibited a modest decrease in investment dollars but little change in the number of investments. Total investments in 2009 were \$17.6 billion, a decrease of 8.3% over 2008, according to the **Center for Venture Research** at the University of New Hampshire. However, a total of 57,225 entrepreneurial ventures received angel funding in 2009, a reserved 3.1% increase from 2008, and the number of active investors in 2009 was 259,480 individuals, virtually unchanged from 2008. The small decline in total dollars, coupled with the increase in investments resulted in a smaller deal size for 2009 (a decline in deal size of 11.1% from 2008). These data indicate that while angels have not significantly decreased their investment activity, they are committing less dollars resulting from lower valuations and a cautious approach to investing. Significant changes did occur in the critical seed and start-up stage investment landscape.

Sector Analysis

Software accounted for the largest share of investments, with 19% of total angel investments in 2009, followed by Healthcare Services/Medical Devices and Equipment (17%), Industrial/Energy (17%), Retail (9%) and Biotech (8%). Industrial/Energy investing is a significant increase from 2008, reflecting a growing appetite for green technologies.

| Sector | Software | Healthcare | Industrial/Energy | Retail | Biotech | Fin Services |
|--------|----------|------------|-------------------|--------|---------|--------------|
| Deals | 19% | 17% | 17% | 9% | 8% | 5% |

Return Rates

Mergers and acquisitions represented 54% of the angel exits, and bankruptcies accounted for 40% of the exits in 2009. Annual returns for angel's exits (mergers and acquisitions and IPOs) were between 23% and 38%, however, these returns were quite variable.

Stage

Angels decreased their investments of seed and start-up capital, with 35% of 2009 angel investments in the seed and start-up stage, a decrease of 10% from 2008. Angels also exhibited an increased interest in post-seed/start-up investing with 62% of investments in the early and

expansion stage, an increase from 2008. New, first sequence, investments represented 47% of 2009 angel activity, a significant decline from the last two years. This decrease in seed/start-up stage and first sequence investing is the unfortunate reality of a difficult economy and little or no support for angels, or the companies they invest in, from the various legislative initiatives enacted to stimulate the economy.

Job Growth

Angel investments continue to be a significant contributor to job growth with the creation of 250,000 new jobs in the United States in 2009, or 4.4 jobs per angel investment. This represents approximately 5% of new jobs in the US in 2009.

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 2009 the yield rate was 14.5%, similar to the 2008 yield rate and solidifying a decline in yield rates that began in 2005 (23% yield rate). This stabilization of the yield rate indicates a cautious approach to investing, reduces the concern of an unsustainable investment rate, but also reflects an increased difficulty for entrepreneurs to secure angel funding.

Women and Minority Entrepreneurs and Investors

In 2009 women angels represented 11.3% of the angel market. Women-owned ventures accounted for 21% of the entrepreneurs that are seeking angel capital and 9.4% of these women entrepreneurs received angel investment in 2009. Both the number of women seeking angel capital and the percentage that receives angel investments are low compared to the overall market. These data indicate that when women do seek angel capital they lag behind the market yield rate by 5%.

Minority angels accounted for 3.5% of the angel population and minority-owned firms represented 6.2% of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 14.2%, which for the third straight year is in line with market yield rates. However, the small percentage of minority-owned firms seeking angel capital is of concern.

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 this survey was 24%. 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 <http://wsbe.unh.edu/cvr> or contact the CVR at 603-862-3341.

The correct citation is: Jeffrey Sohl, "The Angel Investor Market in 2009: Holding Steady but Changes in Seed and Startup Investments", Center for Venture Research, March 31, 2010.