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UNH Finds Impact of COVID-19 Was Swift in the Angel Investing Market

DURHAM, N.H.—All signs indicate that 2020 is likely to be a challenging time for angel investing and the negative impact could be similar to the post 2000 decline and the 2008-09 recession, according to new analysis by the Center for Venture Research at the University of New Hampshire. How lasting these impacts are will likely be determined by a myriad of factors, many of which are beyond the control of the angel investor.

During the great recession of 2008-09, the angel market experienced a two-year decline in total dollars invested with the steepest, more than 26%, from 2007-08. The biggest impact, however, was the decline in seed and startup stage investing that occurred in 2009 and 2010, according to Jeffrey Sohl, director of the UNH Center for Venture Research, and colleagues Wan-Chien Lien and Jianhong Chen.

The angel yield rate is defined as the percentage of investment opportunities that are brought to the attention of investors that result in an investment. In 2019 the yield rate was 30.7%, continuing a steady rise in yield rates from 17.2% in the first half of 2018. While a high yield rate is encouraging for entrepreneurs, historically yield rates above 25% have not been sustainable over the longer term.

"A few key metrics for the angel market in 2019 indicated that the market fundamentals may not be as secure as to withstand shocks to the market, especially one as fast and as pronounced as the COVID-19 crisis," the researchers said. "Combining angel investing data from the first quarter of 2020, data on previous external shocks to the angel market and key metrics in the 2019 angel market points to the potential for significant impacts for angel investors, and the entrepreneurs they invest in, as 2020 unfolds."

Angel investing has been, and will continue to be, a long-term investing strategy, but will be at a diminished scale and at a different stage as a result of the pandemic. The most pressing issue, from a market perspective, will be decisions on where to allocate the angels' diminished investment capital.

"Since angel investors are high net worth individuals, given the correction in the public equity markets the angels' net worth will likely have declined and so will the pool of capital they deploy for angel investments," the researchers said. "Thus, it is expected that total dollars invested in 2020 will decline. However, if past events offer any guide, the total number of investments will hold steady."

"Angels will prioritize and bridge their existing portfolio companies, and if this reallocation of risk capital is substantial it will be at the expense of the seed and start-up stage market" said the researchers. Angels are the predominant source of seed and start-up capital for our nation's entrepreneurs. "Any potential decline of the foundational, and critical, seed and start-up financing provided by angel investors could lead to significant, and lasting, repercussions throughout the risk capital ecosystem" the researchers said.

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 through quality research. It is dedicated to providing reliable and timely information on the angel market to entrepreneurs, private investors and public policymakers.

The University of New Hampshire inspires innovation and transforms lives in our state, nation and world. More than 16,000 students from all 50 states and 71 countries engage with an award-winning faculty in top-ranked programs in business, engineering, law, health and human services, liberal arts and the sciences across more than 200 programs of study. As one of the nation's highest-performing research universities, UNH partners with NASA, NOAA, NSF and NIH, and receives more than $110 million in competitive external funding every year to further explore and define the frontiers of land, sea and space.