



Center for Venture Research

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**THE ANGEL INVESTOR MARKET IN Q1Q2 2017:
AN ENDANGERED SEED STAGE**

Market

Angels continue to retreat from the more risky stages of angel investing as indicated by a marked decline in seed and start-up stage deals, with the most noticeable decline in seed investing. Given the decline in seed and start-up stage investing in Q1,2 2017 angels are likely seeking stability by investing in ventures with more of a track record than a seed/start-up stage company, reflecting a cautious approach to their investments. Attractive returns in the public equity markets may also be contributing to this decline.

Sector Analysis

Software continues to account for the largest share of investments, with 21% of total angel investments in Q1,2 2017, followed closely by Healthcare Services/Medical Devices and Equipment (20%), Biotech (11%), Industrial/Energy (9%), Retail (7%), and IT services (6%). Clean Tech investing has been a consistent performer since 2009, currently at 10% of investments. The top two sectors (software and medical) remained unchanged from Q1,2 2016. Investments in biotech had a strong Q1,2 2017, up significantly from Q1,2 2016.

Sector	Software	Healthcare	Biotech	Industrial/Energy	Retail	IT Services
Deals	21%	20%	11%	9%	7%	6%

Yield Rates

The yield (acceptance) rate is the percentage of investment opportunities that are brought to the attention of investors that result in an investment. In Q1,2 2017 the yield rate was 21.0%, slightly higher than in Q1,2 2016 (18.3%) and Q1,2 2015 (20.0%). This yield rate indicates that entrepreneurs have a 1 in 5 chance of receiving angel capital and reflects a reasonable approach to investing by angels but it also reveals the difficulty for entrepreneurs to secure angel funding.

Valuation

The average angel deal valuation in Q1,2 2017 was \$3.24 million. This deal valuation represents an increase of 20% from the 2016 average deal valuation of \$2.7 million. This may be indicative of the retreat from seed stage investing where valuations are traditionally lower.

Stage

Angels continue to reduce their investment allocations in the seed and start-up stage, with 20% of Q1,2 2017 angel investments in the seed and start-up stage. The trend has been a steady decrease in seed and start-up distributions when compared to similar periods in 2015 and 2016. In the first half of 2015 31% of the angel deals were in the seed and start-up stage followed by 27% in the first two quarters of 2016. There was an accompanying solidification in early stage (post seed and start-up) financing to 51% of investments in Q1,2 2017, comparable to 53% in Q1,2 2016 and 51% in the first two quarters of 2015. Expansion stage financing also increased from 19% in Q1,2 2016 to 28% in Q1,2 2017. Historically angels have been the major source of seed and start-up capital for entrepreneurs and while that stage remains close to a quarter of angel investments, angel seed/start-up investments have remained consistently below the pre-2008 peak of 55%. This steady decline in allocations signifies that there continues to be a need for seed and start-up capital for both new venture formation and job creation. New, first sequence, investments represent 44% of Q1,2 2017 angel activity, similar to the 42% in Q1,2 2016. Thus, the consistent percentage of new investments coupled with the downward trend in seed and start-up capital indicates that some of these angel investments in the early stage are not follow-on rounds in existing portfolio companies but rather new investments in the early stage cycle.

Job Growth

Angel investments in Q1,2 2017 contributed to job growth with 3.3 jobs per angel investment, an increase from the 2.6 jobs per angel investment in Q1,2 2016.

Women and Minority Entrepreneurs and Investors

In Q1,2 2017 women angels represented 25.8% of the angel market, a slight increase from Q1,2 2016 (22.2%). Women-owned ventures accounted for 28% of the entrepreneurs that are seeking angel capital and 16% of these women entrepreneurs received angel investment in Q1,2 2017. For Q1,2 2017 the percentage of women that received angel investments lags behind the overall market yield rate but is up slightly from the yield rate for women ventures in Q1,2 2016 (14.0%). Minority angels accounted for 3.5% of the angel population and minority-owned firms represented 12.4% of the entrepreneurs that presented their business concept to angels, which is comparable to Q1,2 2016 (14.2% presenting). The yield rate for these minority-owned firms was 16.1%, which is lower than the market yield rate.

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 20%. 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://paulcollege.unh.edu/research/center-venture-research> or contact the CVR at 603-862-3341.

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