



Center for Venture Research

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THE ANGEL INVESTOR MARKET IN 2007, Q1 and Q2: A MODEST RETREAT FROM GROWTH

Market Size

The angel investor market in the first half of 2007 has shown signs of a small retreat from the growth of the past several years, with total investments of \$11.9 billion, a decrease of 6% over the first half of 2006, according to the **Center for Venture Research** at the University of New Hampshire. A total of 24,000 entrepreneurial ventures received angel funding in the first half of 2007, a 2% decline from the first half of 2006. The number of active investors in the first half of 2007 was 140,000 individuals (8% above Q1Q2 2006). These trends indicate that while the total dollar size of the market and the number of investments exhibited a slight decline from Q1Q2 2006, there was a significant increase in the number of investors. Reflecting this trend is the decrease in the average deal size by 4% over the first half of 2006 and an increase (10%) in the number of investors per deal.

Sector Analysis

Healthcare services/medical devices/equipment and software remained the sectors of choice, with 22% and 14%, respectively, of total angel investments in the first half of 2007. This was followed closely by biotech at 10%. Electronics/computer hardware, IT services, retail and industrial/energy (which include environmental products and services) garnered close to 10% each. The remaining investments were approximately equally weighted across high tech sectors, with each having 3-5% of the total deals. This market level sector diversification indicates a robust investment pattern. Since the angel market is essentially the spawning grounds 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.

Sector	Health	Software	Biotech	Electronics	IT Services	Retail	Industrial/Energy
Deals	22%	14%	10%	8%	7%	6%	6%

Stage

Angels continue to be the largest source of seed and start-up capital in the United States, with 42% of the first half of 2007 angel investments in the seed and start-up stage. This preference for seed and start-up investing is followed closely by post-seed/start-up investments of 48%. This appetite for post-seed/start-up investing continues a trend that began in 2004 and represents a significant change from historical levels. While angels are not abandoning seed and start-up investing, it appears that market conditions, the preferences of large formal angel alliances, and a possible slight restructuring of the angel market are resulting in angels engaging in more later-stage investments. New, first sequence investments represent 55% of first half 2007 angel activity, indicating that some of this post-seed investing are in new deals. This shift in investment strategies toward post-seed investments reduces the proportional amount of seed and start-up capital. This restructuring of the angel market has in turn resulted in fewer dollars available for seed investments, thus exacerbating the capital gap for seed and start-up capital in the US.

Exits

In the first half of 2007 angels exited their investments primarily through sale of the business (acquisitions by another firm), with 61% of the first half 2007 exits through trade sales. Exits by initial public offerings represented 6% of exits and bankruptcy occurred in 33% of the exits. For all these exits the average rate of return was 30-40% and roughly half (52%) were at a profit.

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. The peak yield rate of 23.3% occurred during the height of the investment bubble in 2000. Post 2000 the yield rate stabilized around 10%. In 2006 yield rates leveled off at 20.1% after a steady growth that began in 2004. For the first half of 2007 the yield rate was 19%. This mitigation in the rise in the yield rate from the historical average reduces the concern of an unsustainable investment rate, at least for the short term.

Women and Minority Entrepreneurs and Investors

Women angels represent approximately 13% of the angel market. Women-owned ventures account for 10% of the entrepreneurs that are seeking angel capital and 16% of these women entrepreneurs received angel investments in the first half of 2007. Thus, while the number of women seeking angel capital is quite low, the percentage that receives angel investments is in line with the overall market. This trend indicates that there is a need to provide the mechanism for more women entrepreneurs to seek angel capital.

Minority angels account for 5% of the angel population and minority-owned firms represent 10% of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 16%, which is comparable to the general yield rate. While this yield rate is encouraging, it is important to note that historically the yield rate for minority-owned firms has been significantly below the market yield rate. As such, it remains to be seen if the final yield rate for the full year 2007 is consistent with the first half of 2007.

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, 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 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.