



Center for Venture Research

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THE ANGEL INVESTOR MARKET IN Q1Q2 2010: WHERE HAVE ALL THE SEED INVESTORS GONE?

Market Size

The angel investor market in Q1,2 2010 showed signs of stabilization since the 30% market correction in the second half of 2008 and the first half of 2009. Total investments in Q1,2 2010 were \$8.5 billion, a decrease of 6.5% over Q1,2 2009, according to the **Center for Venture Research** at the University of New Hampshire. However, a total of 25,200 entrepreneurial ventures received angel funding in Q1,2 2010, a 3% increase from Q1,2 2009, and the number of active investors in Q1,2 2010 was 125,100 individuals, a drop of 11% from Q1,2 2009. The decline in total dollars, coupled with the small increase in investments resulted in a smaller deal size for Q1,2 2010 (a decline in deal size of 9% from Q1,2 2009). These data indicate that while angels remain committed to this investment class they do so with a cautious approach to investing. Angels are committing fewer dollars in more deals, a result of the lower valuations. While the market exhibited a stabilization from Q1,2 2009, when compared to the market correction that occurred in 2008, these data indicate that the angel market appears to have reached its nadir in 2009.

Stage

Angels have decreased their appetite for seed and start-up stage investing, with 26% of Q1,2 2010 angel investments in the seed and start-up stage, marking a steady decrease in the seed and start-up stage that began in 2008 (45%) and 2009 (35%), and it is the smallest percentage in seed and start-up investing for several years. This decline was reflected in an increase in post-seed/start-up investing with 56% of investments in this stage. Historically angels have been the major source of seed and start-up capital for entrepreneurs and this declining interest in seed and start-up capital represents a significant change in the angel market. Without a reversal of this trend in the near future, the dearth of seed and start-up capital may approach a critical stage, deepening the capital gap and impeding both new venture formation and job creation. This change in investment behavior is likely an indication of both a need to increase investments in existing portfolio companies in order for these portfolio companies to survive the recession and an extended exit horizon. Expansion stage investing (14%) remained unchanged. New, first sequence, investments represent 46% of Q1,2 2010 angel activity, a decline of 12% in the last year.

Sector Analysis

Healthcare Services/Medical Devices and Equipment accounted for the largest share of investments, with 24% of total angel investments in Q1,2 2010, followed by Biotech (20%), Software (12%), Industrial/Energy (11%), which reflects a continued appetite for green technologies, Retail (9%) and Media (5%). Retail and Media have solidified their presence in the top six sectors, mainly due to a continued interest in social networking ventures.

Sector	Healthcare	Biotech	Software	Industrial/ Energy	Retail	Media
Deals	24%	20%	12%	11%	9%	5%

Latent Angels

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 2010, 65% of the membership in angel groups was latent angels, which is an increase from 2009 (54%) and 2008 (36%). 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. This increase in latent angels may be the result of the longer exit horizon and in general be indicative of the lack of seed capital and the need for research to move the latent angel to the active investor.

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 2010 the yield rate was 12%, continuing a stabilization in yield rates that began in 2008 (10%) and continued in 2009 (14.5%). This 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 Q1,2 2010 women angels represented 18% of the angel market. Women-owned ventures accounted for 11% of the entrepreneurs that are seeking angel capital and 14% of these women entrepreneurs received angel investment in Q1,2 2010. Thus, while the number of women seeking angel capital is low, the percentage that receives angel investments is in line with the overall market yield rate.

Minority angels accounted for 4% of the angel population and minority-owned firms represented 6% of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 23%, which for the third straight year is in line with, or higher than, 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 37%. 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.

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