Investors Return to Seed and Start-Up Stages

DURHAM, N.H. – The angel investor market in the first two quarters of 2011 showed signs of stabilization since the 30 percent market correction in the second half of 2008 and the first half of 2009, with total investments totaling $8.9 billion, an increase of 4.7 percent over the same period in 2010, according to the Center for Venture Research at the University of New Hampshire.

A total of 26,300 entrepreneurial ventures received angel funding during the first half of 2011, a 4.4 percent increase from the same period in 2010, and the number of active investors in Q1 and Q2 2011 was 124,900 individuals, virtually unchanged from Q1 and Q2 2010. The increase in total dollars and the matching increase in total investments resulted in an average deal size of $338,400 in the first half of 2011, comparable to the deal size in the same period in 2010 of $337,300.

“These data indicate that angels remain committed to this investment class and at slightly higher valuations than in 2010. While the market exhibited a stabilization from Q1 and Q2 2010, 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 and has since demonstrated a slow recovery,” said Jeffrey Sohl, director of the UNH Center for Venture Research at the Whittemore School of Business and Economics.

Angels have significantly increased their penchant for seed and start-up stage investing, with 39 percent of Q1 and Q2 2011 angel investments in the seed and start-up stage, marking a 13 percent increase in the seed and start-up stage from the same period in 2010. This increase was reflected in a decrease in post-seed/start-up investing, with 60 percent of investments in early and expansion stage, compared to 70 percent in the first half of 2010. New, first-sequence investments represent 49 percent of Q1 and Q2 2011 angel activity, an increase of 3 percent from the same period in 2010.

“Historically angels have been the major source of seed and start-up capital for entrepreneurs, and this return to seed and start-up investing is an encouraging sign. While there remains a need for seed and start-up capital and a capital gap in this stage, if the return to seed and start-up investing continues, this will signify an improvement in both new venture formation and job creation,” Sohl said.
Healthcare services/medical devices and equipment accounted for the largest share of investments, with 25 percent of total angel investments in Q1 and Q2 2011, followed by industrial/energy (17 percent), biotech (14 percent), software (11 percent), media (8 percent) and retail (8 percent).

“Industrial/energy has shown a continued increase since 2010, reflecting a growing interest in clean tech investing by angels. Retail and media have solidified their presence in the top six sectors, mainly due to investing in social networking ventures,” Sohl said.

Angel investments continue to be a significant contributor to job growth, with the creation of 134,130 new jobs in the United States in 2011, or five jobs per angel investment.

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 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 center is dedicated to providing reliable and timely information on the angel market to entrepreneurs, private investors and public policymakers. For more information visit http://wsbe.unh.edu/cvr or contact the center at 603-862-3341.

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PHOTO
Jeffrey Sohl, director of the UNH Center for Venture Research
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