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Editors: Jeffrey Sohl, director of the Center for Venture Research, is available to discuss the Angel Investor Market Analysis for Q1 and Q2 2005 at 603-862-3373 or 603-862-3341 (CVR Main Number) and jeff.sohl@unh.edu. The entire report is available for download at http://unhinfo.unh.edu/news/docs/Q122005AngelInvestorMarket.pdf.

DURHAM, N.H. – Angel investors put their money behind companies involved in the life sciences and biotechnology in the first half of 2005, with nearly 40 percent of total angel investments nationwide backing the two sectors, according to the Angel Investor Market Analysis for Q1 and Q2 2005 released by Center for Venture Research at the University of New Hampshire Whittemore School of Business and Economics.

“Life sciences has been attracting a lot of attention because it’s a growing market and is predicted to get much larger. The difficulties of the high risk of investment and long exit horizons now are being offset by the potential returns. Investors shied away from the life sciences and biotech sectors for a while because of the long exit horizons, but the possibility of high potential returns have helped angels realize that there are more possibilities in making deals work now,” said Jeffrey Sohl, director of the Center for Venture Research.

Life sciences, which includes health care services, medical devices and equipment, attracted 20 percent of the angel investment in the first half of 2005. Biotechnology attracted 17.5 percent of angel investments, with software investments close behind at 17 percent and IT services at 13 percent. The remaining investments were approximately equally weighted across high tech sectors, with each having between 3 percent and 6 percent of the total deals.

“This market level sector diversification indicates a robust investment pattern and provides a foundation for reasonable growth in the market. Since the angel market is essentially the spawning ground 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,” according to the report authored by Sohl.

Overall, the angel investor market has shown signs of maintaining investment levels in the first half of 2005, with total investments of $11 billion. Angel investments for the first half of 2005 are slightly less than the first half of 2004 ($12.4 billion) but on track to match 2004 investments of $22.5 billion, according to the report. A total of 26,000 entrepreneurial ventures received angel funding in the first half of 2005, a level comparable to the first half of 2004. The number of active investors in the first two quarters of 2005 was 126,000 individuals, a slight decline from the same period in 2004. An average of four to five investors joined forces to fund these entrepreneurial ventures.

“Angels continue to be the largest source of seed and start-up capital, with 48 percent of the first half of 2005 angel investments in the seed and start-up stage. While this preference for seed and start-up investing is the largest stage for angel deals, this also represents an 11 percent decline in this stage from Q1-2, 2004. While angels are not abandoning seed and start-up investing, it appears that market conditions and the preferences of large formal groups of angels, are resulting in angels engaging in more later stage and follow-on funding for their investments,” according to the report.

“New, first sequence, investments represent 69 percent of Q1-2, 2005 angel activity. 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 United States,” according to the report.

Looking forward, 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 individuals who are members of organized angel groups is increasing, there is a larger percentage of latent angels (individuals who have the necessary net worth, but have not made an investment), according to the analysis.

In the first half of 2005, 66 percent of the membership in angel groups was latent angels, compared to 56 percent in 2004 and 48 percent in 2003. “This increase in latent investors over time indicates that while many high-net worth individuals may be attracted to the early stage equity market, they have not converted this interest into direct participation. This lack of active involvement may be the result of the current trend to rush to form angel groups, rather than meeting the more basic systemic need for educational programs and research to move the latent angel to the active investor,” the report said.

The Center for Venture Research (CVR) at the UNH Whittemore School of Business and Economics 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 consulting services to angels, angel groups and state and foreign governments. For more information visit http://www.unh.edu/cvr or contact the CVR at 603-862-3341.