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The Angel Investor Market In 2006, Q1 And Q2: Modest Growth In Investments

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**THE ANGEL INVESTOR MARKET IN 2006, Q1 and Q2:
MODEST GROWTH IN INVESTMENTS**

Market Size

The angel investor market has shown signs of a continued modest growth in the first half of 2006, with total investments of \$12.7 billion, an increase of 15% over the first half of 2005, according to the **Center for Venture Research** at the University of New Hampshire. A total of 24,500 entrepreneurial ventures received angel funding in the first half of 2006, a 6% decline from the first half of 2005. The number of active investors in the first half of 2006 was 130,000 individuals (3% above Q1Q2 2005). These trends indicate that while the total dollar size of the market and the number of investors were comparable to Q1Q2 2005, this increase is offset by the slight decline in the number of investments. Reflecting this trend is the increase in the average deal size by 22% over the first half of 2005.

Sector Analysis

Healthcare services/medical devices/equipment and software remained the sectors of choice, with 27% and 18%, respectively, of total angel investments in the first half of 2006. While biotech, retail, media and IT services garnered close to 10% each, there was a significant decline after the two largest sectors. 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	Retail	Media	IT Services	Industrial/Energy
Deals	27%	18%	10%	7%	7%	7%	5%

Stage

Angels continue to be the largest source of seed and start-up capital in the United States, with 40% of the first half of 2006 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 45%. This increase in post-seed/start-up investing continues a trend that began in 2004 and represents a

significant increase in 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 66% of first half 2006 angel activity, indicating that some of this post-seed investing is 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.

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. Since that peak the yield rate had stabilized at around 10%, the historical average. In 2005 yield rates continued the upward climb that began in 2004, with the yield rate increasing to 23.0%, on the heels of a 2004 yield rate of 18.5%. For the first half of 2006 the yield rate has retreated to a more sustainable level of 12%. While this drop in yield rate is encouraging, it remains to be seen if the final yield rate for the full year 2006 will stabilize around the 10% level.

Women and Minority Entrepreneurs and Investors

Women angels represent approximately 8% of the angel market. Women-owned ventures account for 6% of the entrepreneurs that are seeking angel capital and 14% of these women entrepreneurs received angel investment in the first half of 2006. Thus, it appears that 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 indicates that there appears to be a need to provide the mechanism for more women entrepreneurs to seek angel capital.

Minority angels account for 3% of the angel population and minority-owned firms represent 4% of the entrepreneurs that presented their business concept to angels. However, the yield rate for these minority-owned firms was 7%, which is below the general yield rate. These data indicate that not only do more minority-owned firms need to attract the attention of angel investors, but minority-owned firms, given the low yield rates, need to increase their “investor readiness” through education and networking.

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.