

1-1-2007

The Angel Investor Market In 2006: The Angel Market Continues Steady Growth

Jeffrey Sohl

University of New Hampshire, jeff.sohl@unh.edu

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Recommended Citation

Sohl, Jeffrey, "The Angel Investor Market In 2006: The Angel Market Continues Steady Growth" (2007). *Center for Venture Research*. 5. <https://scholars.unh.edu/cvr/5>

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Center for Venture Research

Director, Jeffrey Sohl

www.unh.edu/cvr (603)862-3341

THE ANGEL INVESTOR MARKET IN 2006: THE ANGEL MARKET CONTINUES STEADY GROWTH

Market Size

The angel investor market has shown signs of steady growth in 2006, with total investments of \$25.6 billion, an increase of 10.8% over 2005, according to the **Center for Venture Research** at the University of New Hampshire. A total of 51,000 entrepreneurial ventures received angel funding in 2006, a 3.0% increase from 2005. The number of active investors in 2006 was 234,000 individuals. The sharp increase in total investment dollars was matched by a more modest increase in total deals, resulting in an increase in the average deal size of 7.5%, compared to 2005. This continued rise in total investments points to a healthy angel market.

Sector Analysis

Healthcare Services/Medical Devices and Equipment, as in 2005, accounted for the largest share of angel investments, with 21% of total angel investments in 2006, followed by software (18%) and biotech (18%). The remaining investments were approximately equally weighted across high tech sectors, with each having 6-8% of the total deals. 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.

Sector	Healthcare	Software	Biotech	Retail	Financial/Bus Prod	Industrial/Energy
Deals	21%	18%	18%	8%	6%	6%

Job Growth

Angel investments continue to be a significant contributor to job growth with the creation of 201,400 new jobs in the United States in 2006, or 4 jobs per angel investment. However, this tracks jobs created at the time of the angel investment and thus it is likely that this job creation of 201,400 is the minimum number of jobs created by angels in 2006. Since the angel investment is used by the venture to fuel growth, launch new products and explore new markets, it is highly likely that the number of jobs created by the angel investment will increase as the firm grows.

Stage

Angels continue to be the largest source of seed and start-up capital, with 46% 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 40%. This appetite for post-seed/start-up investing continues a trend that began in 2003 and represents a 10% increase in historical levels. Given the four year trend, angel seed and start-up stage investments in the 45% to 55% range appears to be the reasonable range for the foreseeable future. While angels continue to represent the largest source of seed and start-up capital, market conditions and the capital gap in the post seed investing stage are requiring angels to engage in more later-stage investments. New, first sequence, investments represent 63% of 2006 angel activity, indicating that some of this post seed investing is in new deals. 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. 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 (yield rate of 18.5%) and a 2005 yield rate of 23.0%. 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

In 2006 women angels represented 13.8% of the angel market. Women-owned ventures accounted for 12.9% of the entrepreneurs that are seeking angel capital and 21.5% of these women entrepreneurs received angel investment in 2006. 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. These data indicate that when women do seek angel capital they fair well, but the need is to increase the number of women entrepreneurs that seek angel capital.

Minority angels accounted for 3.4% of the angel population and minority-owned firms represented 6.9% of the entrepreneurs that presented their business concept to angels. Compounding this low participation rate, the yield rate for these minority-owned firms was 7.1%, which is close to two-thirds 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.

Market Participation

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 larger percentage of latent angels (individuals who have the necessary net worth, but have not made an investment). In 2006, 57% of the membership in angel groups was latent angels (as compared to 62% in 2005 and 55% latent investors in 2004). This larger percentage of latent investors over time indicates that while many high net worth individuals may be attracted to angel groups, they have not converted this interest into direct participation. It should be noted that when the age of the angel group is taken into consideration, the percentage of latent angels remains unchanged, except for those angel groups that are less than one year old. This lack of active involvement may be the result of the current trend to form angel groups, although many angel groups are now beginning to recognize the more basic systemic need for educational programs and research to move the latent angel to the active investor, in addition to quality deal flow.

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 would like to thank all the angel groups and individual angels that participate in our research efforts.

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.