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THE ANGEL INVESTOR MARKET IN 2008: A DOWN YEAR IN INVESTMENT DOLLARS BUT NOT IN DEALS

Market Size

The angel investor market in 2008 had a considerable contraction in investment dollars from last year but exhibited little change in the number of investments. Total investments in 2008 were \$19.2 billion, a decrease of 26.2% over 2007, according to the **Center for Venture Research** at the University of New Hampshire. However, a total of 55,480 entrepreneurial ventures received angel funding in 2008, a modest 2.9% decrease from 2007, and the number of active investors in 2008 was 260,500 individuals, virtually unchanged from 2007. The significant decline in total dollars, coupled with the small decrease in investments resulted in a smaller deal size for 2008 (a decline in deal size of 24.0% from 2007). In contrast to venture capital, in which money must be invested during the life of the fund and is in part based on the size of the fund, angel investing is an individual decision and angels invest from their net worth. These data indicate that while angels have not significantly decreased their investment activity, they are committing less dollars resulting from lower valuations and a cautious approach to investing.

Sector Analysis

Healthcare Services/Medical Devices and Equipment accounted for the largest share of investments, with 16% of total angel investments in 2008, followed by Software (13%), Retail (12%) and Biotech (11%). Industrial/Energy accounted for 8% of investments, reflecting a continued appetite for green technologies, and Media (7%) rounds out the top six investment sectors. Retail and Media have solidified their presence in the top six sectors, mainly due to a continued interest in social networking ventures.

Sector	Healthcare	Software	Retail	Biotech	Industrial/Energy	Media
Deals	16%	13%	12%	11%	8%	7%

Return Rates

Mergers and acquisitions represented 70% of the angel exits, and IPOs 4%, in 2008. Bankruptcies accounted for 26% of the exits. Annual returns for angel's exits (mergers and acquisitions and IPOs) were 22%, however, these returns were quite variable.

Stage

Angels have maintained their position as the largest source of seed and start-up capital, with 45% of 2008 angel investments in the seed and start-up stage, a slight increase of 6% over 2007. Angels also exhibited an interest in post-seed/start-up investing with 40% of investments in this stage, also an increase from 2007. Expansion stage investing (14%) showed the largest decline. New, first sequence, investments represent 63% of 2008 angel activity, unchanged from the last two years, indicating a continued preference for new, as opposed to follow-on, investments.

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 2008 the yield rate was 10%, continuing a decline in yield rates that began in 2005 (23% yield rate). This reduction in the 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 2008 women angels represented 16.5% of the angel market. Women-owned ventures accounted for 15.7% of the entrepreneurs that are seeking angel capital and 9.5% of these women entrepreneurs received angel investment in 2008. 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 3.6% of the angel population and minority-owned firms represented 3.7% of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 11.3%, which for the second straight year is in line with market yield rates. However, the small percentage of minority-owned firms seeking angel capital is of concern, as is the sustainability of the yield rate.

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 35%. 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.

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