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THE ANGEL INVESTOR MARKET IN Q1Q2 2014: MARKET GROWTH BUT DEAL SIZE DECREASES

Market Size

The angel investor market in Q1,2 2014 showed signs that the five year moderate growth has continued in the first half of 2014. Total investments in Q1,2 2014 were \$10.1 billion, an increase of 4.1% over Q1,2 2013, according to the **Center for Venture Research** at the University of New Hampshire. A total of 30,270 entrepreneurial ventures received angel funding in Q1,2 2014, a 5.9% increase from Q1,2 2013, and the number of active investors in Q1,2 2014 was 143,140 individuals, an increase of 6.1% from Q1,2 2013. The increase in total dollars and the larger increase in total investments (deals) resulted in a deal size of \$332,120 in Q1,2 2014, a decline from the deal size in Q1,2 2013 of \$337,850. These data indicate that angels remain major players in this investment class and at valuations similar to Q1,2 2013. The market exhibited a sustained growth pattern over a five year period and the angel market has now recovered from the correction in 2008.

Stage

Angels continue their presence in seed and start-up stage investing, with 36% of Q1,2 2014 angel investments in the seed and start-up stage, comparable to the seed and start-up stage investing in Q1,2 2013 (38%) but a considerable drop from the full year 2013 (45%). There was a shift in early stage (post seed and start-up) financing to 42% of investments in Q1,2 2014 from 51% in Q1,2 2013. Expansion stage financing climbed to 22% in Q1,2 2014, an increase of 11% from the same period in 2013. Historically angels have been the major source of seed and start-up capital for entrepreneurs and while this stabilization in seed and start-up investing is an encouraging sign, angel seed/start-up investments has remained consistently below the pre-2008 peak of 55%, signifying that there continues to be a need for seed and start-up capital for both new venture formation and job creation. New, first sequence, investments represent 40% of Q1,2 2014 angel activity, down slightly from Q1,2 2013.

Job Growth

Angel investments continue to contribute to job growth with the creation of 96,860 new jobs in the United States in Q1,2 2014, or 3.2 jobs per angel investment, down slightly from 3.9 in Q1,2 2013.

Sector Analysis

Software accounted for the largest share of investments, with 37% of total angel investments in Q1,2 2014, followed by Healthcare Services/Medical Devices and Equipment (10%), Retail (10%), Biotech (9%), IT Services (7%) and Industrial/Energy (7%). Industrial/Energy investing has been a consistent performer since 2009, which reflects an interest in clean tech investing. Retail and Biotech have solidified their presence in the top six sectors over the last few years.

Sector	Software	Healthcare	Retail	Biotech	IT Services	Industrial/Energy
Deals	37%	10%	10%	9%	7%	7%

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 Q1,2 2014 the yield rate was 21.2%, virtually unchanged from Q1,2 2013 (21.5%) and comparable to 2013 (21.6%). This yield rate reflects a reasonable approach to investing by angels but it also reflects the difficulty for entrepreneurs to secure angel funding.

Women and Minority Entrepreneurs and Investors

In Q1,2 2014 women angels represented 21.5% of the angel market, a slight increase from Q1,2 2013 (18.2%). Women-owned ventures accounted for 24.9% of the entrepreneurs that are seeking angel capital and 19.4% of these women entrepreneurs received angel investment in Q1,2 2014. Thus, while the number of women seeking angel capital is low, the percentage that received angel investments is comparable to the overall market yield rate and this may indicate that some of the programs designed to help women get “investor ready” may be having an effect.

Minority angels accounted for 6.6% of the angel population and minority-owned firms represented 9.7% of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 30.0%, which is above the market yield rate. While the yield rate in encouraging the small percentage of minority-owned firms seeking angel capital is of concern.

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 26%. 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 <http://paulcollege.unh.edu/research/center-venture-research> or contact the CVR at 603-862-3341.

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