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DURHAM, N.H. -- The angel investor market in the first half of 2007 has shown signs of a small retreat from the growth of the past several years, with total investments of $11.9 billion, a decrease of 6 percent over the first half of 2006, according to the latest research from the Center for Venture Research at the University of New Hampshire.

A total of 24,000 entrepreneurial ventures received angel funding in the first half of 2007, a 2 percent decline from the first half of 2006. The number of active investors in the first half of 2007 was 140,000 individuals, 8 percent above the first half of 2006.

“These trends indicate that while the total dollar size of the market and the number of investments exhibited a slight decline from the first half 2006, there was a significant increase in the number of investors,” said Jeffrey Sohl, director of the Center for Venture Research and professor of entrepreneurship and decision sciences. “Reflecting this trend is the decrease in the average deal size by 4 percent over the first half of 2006 and an increase of 10 percent in the number of investors per deal.”

Healthcare services/medical devices/equipment and software remained the sectors of choice, with 22 percent and 14 percent, respectively, of total angel investments in the first half of 2007. This was followed closely by biotech at 10 percent. Electronics/computer hardware, IT services, retail and industrial/energy (which include environmental products and services) garnered close to 10 percent each. The remaining investments were approximately equally weighted across high tech sectors, with each having 3-5 percent 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,” said Sohl.

Angels continue to be the largest source of seed and start-up capital in the United States, with 42 percent of the first half of 2007 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 48 percent.

“This appetite for post-seed/start-up investing continues a trend that began in 2004 and represents a significant change from historical levels,” said Sohl. “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 55 percent of first half 2007 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 United States," said Sohl.

In the first half of 2007 angels exited their investments primarily through sale of the business (acquisitions by another firm), with 61 percent of the first half 2007 exits through trade sales. Exits by initial public offerings represented 6 percent of exits and bankruptcy occurred in 33 percent of the exits. For all these exits the average rate of return was 30-40 percent and roughly half were at a profit.

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 percent occurred during the height of the investment bubble in 2000. Post 2000 the yield rate stabilized around 10 percent. In 2006 yield rates leveled off at 20.1 percent after a steady growth that began in 2004. For the first half of 2007 the yield rate was 19 percent. "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," said Sohl.

Women angels represent approximately 13 percent of the angel market. Women-owned ventures account for 10 percent of the entrepreneurs that are seeking angel capital and 16 percent of these women entrepreneurs received angel investments in the first half of 2007. Thus, 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 trend indicates that there is a need to provide the mechanism for more women entrepreneurs to seek angel capital.

Minority angels account for 5 percent of the angel population and minority-owned firms represent 10 percent of the entrepreneurs that presented their business concept to angels. The yield rate for these minority-owned firms was 16 percent, which is comparable to the general yield rate. "While this yield rate is encouraging, it is important to note that historically the yield rate for minority-owned firms has been significantly below the market yield rate. As such, it remains to be seen if the final yield rate for the full year 2007 is consistent with the first half of 2007," said Sohl.

The Center for Venture Research has been conducting research on the angel market since 1980. The center'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 center 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 center at (603) 862-3341.