Angel Investor Market Grows In First Half Of 2006

Health Care Services And Medical Equipment Is Sector Of Choice Of VCs

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DURHAM, N.H. -- Investments in the U.S. angel investor market increased by 15 percent to $12.7 billion in the first half of 2006 over the same period in 2005, with the health care services/medical equipment the sector of choice for angels, according to the latest research from 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 percent decline from the first half of 2005. The number of active investors in the first half of 2006 was 130,000 individuals, 3 percent above the first half of 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 percent over the first half of 2005,” said Jeffrey Sohl, director of the Center for Venture Research and professor of decisions sciences.

Healthcare services/medical devices/equipment and software remained the sectors of choice, with 27 percent and 18 percent, respectively, of total angel investments in the first half of 2006. While biotech, retail, media and IT services garnered close to 10 percent 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 percent to 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,” Sohl said.

Angels continue to be the largest source of seed and start-up capital in the United States, with 40 percent 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 percent.

“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,” Sohl said.

New, first sequence, investments represent 66 percent 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 United States," he said.

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.