UNH Center for Venture Research: Angel Investors Flee Seed and Start-Up Stage in First Half of 2010

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DURHAM, N.H. – Angel investors committed fewer dollars in more deals in the first half of 2010, with seed and start-up stage investing declining to its lowest level in several years, a trend that soon could impact new ventures and job creation, according to the Angel Market Analysis for the first and second quarters of 2010 released by the Center for Venture Research at the University of New Hampshire.

According to the analysis, “The Angel Investor Market in Q1Q2 2010: Where Have All the Seed Investors Gone?” total investments in the first half of 2010 were $8.5 billion, a decrease of 6.5 percent over the first half of 2009.

A total of 25,200 entrepreneurial ventures received angel funding in the first half of 2010, a 3 percent increase from the same period in 2009, and the number of active investors in the period was 125,100 individuals, a drop of 11 percent from the same period in 2009. The decline in total dollars, coupled with the small increase in investments, resulted in a 9 percent decline in deal size for the first and second quarters of 2010 compared with 2009.

“These data indicate that while angels remain committed to this investment class they do so with a cautious approach to investing. Angels are committing fewer dollars in more deals, a result of the lower valuations. While the market exhibited stabilization from the first half of 2009, when compared to the market correction that occurred in 2008, these data indicate that the angel market appears to have reached its nadir in 2009,” said Jeffrey Sohl, director of the UNH Center for Venture Research at the Whittemore School of Business and Economics.

According to Sohl, angels have decreased their appetite for seed and start-up stage investing, with 26 percent of Q1 and Q2 2010 angel investments in the seed and start-up stage, marking a steady decrease in the seed and start-up stage that began in 2008 (45 percent) and 2009 (35 percent). This is the smallest percentage in seed and start-up investing for several years, a decline reflected in an increase in post-seed/start-up investing with 56 percent of investments in this stage.

“Historically angels have been the major source of seed and start-up capital for entrepreneurs, and this declining interest in seed and start-up capital represent a significant change in the angel market. Without a reversal of this trend in the near future, the dearth of seed and start-up capital may approach a critical stage, deepening the capital gap and impeding both new venture formation and job creation. This change in investment behavior is likely an indication of both a need to increase investments in existing portfolio companies to survive the recession and an extended exit horizon,” Sohl said.

Healthcare services/medical devices and equipment accounted for the largest share of investments, with 24 percent of total angel investments in Q1 and Q2 2010, followed by biotech (20 percent), software (12 percent), industrial/energy (11 percent), which reflects a continued appetite for green technologies, retail (9 percent) and media (5 percent). Retail and media have solidified their presence in the top six sectors, mainly due to a continued interest in social networking ventures.

In the first half of 2010, 65 percent of the membership in angel groups was latent angels -- individuals who have the necessary net worth, but have not made an investment -- which is an increase from 2009 (54 percent) and 2008 (36 percent).

“This significant percentage of latent investors indicates that while many high net worth individuals may be attracted to angel groups, they have not converted this interest into direct participation. This increase in latent angels may be the result of the longer exit horizon and, in general, be indicative of the lack of seed
capital and the need for research to move the latent angel to the active investor,” Sohl 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. For more information visit http://wsbe.unh.edu/cvr or contact the center at 603-862-3341.

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PHOTO
Jeff Sohl, director of the UNH Center for Venture Research at the Whittemore School of Business and Economics
http://www.unh.edu/news/img/JeffreySohl.jpg


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