



Center for Venture Research

Director, Jeffrey Sohl

www.unh.edu/cvr (603) 862-3341

**THE ANGEL INVESTOR MARKET IN 2004:
THE ANGEL MARKET SUSTAINS THE MODEST RECOVERY**

Market Size

The angel investor market has shown signs of a sustainable recovery in 2004, with total investments of \$22.5 billion (total 2003 investments \$18.1 billion), according to the **Center for Venture Research** at the University of New Hampshire. A total of 48,000 entrepreneurial ventures received angel funding in 2004, a 24 percent increase from 2003. The number of active investors in 2004 was 225,000 individuals, an increase of 2.5 percent from 2003, with an average of 4 to 5 investors joining forces to fund an entrepreneurial start-up. This continued modest rise in total investments is encouraging.

Sector Analysis

Software garnered the largest angel investments, with 22 percent of total angel investments in 2004, followed by healthcare services/medical devices and equipment, with a 16 percent share of angel investments. The remaining investments were approximately equally weighted across high tech sectors, with each having about 10 percent of the total deals. This market level sector diversification indicates a robust investment pattern and provides a foundation for reasonable growth in the market. 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.

Sector	Software	Health	Biotech	IT Services	Financial Services	Retail	Telecom
Deals	22%	16%	10%	8%	8%	7%	6%

Job Growth

Angel investments resulted in the creation of 141,200 new jobs in the United States in 2004, or 3 jobs per angel investment. However, this tracks jobs created at the time of the angel investment, which is often at the seed and start-up stage of the venture. It is likely that this job creation of 141,200 is the minimum number of jobs created by angels in 2004. As the angel investment is used by the venture to fuel growth, launch new products and explore new markets, it is highly likely that the number of jobs created by the angel investment will increase as the firm grows.

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. The peak yield rate of 23.3 percent occurred during the height of the investment bubble in 2000. Since that peak the yield rate has stabilized at around 10 percent. In 2004, yields increased to 18.5 percent from the previous year's yield rate of 10.3 percent. A continued departure in yield rates from the historical average could be troubling if this rise can be attributed to an influx of inexperienced angels.

Women and Minority Entrepreneurs and Investors

Women angels represent approximately 5 percent of the angel market and about one quarter of these women angels made an investment in 2004. Women-owned ventures account for 4.7 percent of the entrepreneurs that are seeking angel capital. How well are women entrepreneurs succeeding in their search for angel capital? The yield rate for women-owned firms is 12.5 percent in 2004, which lags behind the general angel market by 6 percent, indicating that women-owned ventures have a slightly less chance of obtaining angel funding than their male counterparts.

Minority angels account for 3.6 percent of the angel population, and only one in ten of these angels made an investment in 2004. Minority-owned firms represent 5.4 percent of the entrepreneurs that presented their business concept to angels. However, the yield rate for these minority-owned firms was 20 percent, which is in line with the general yield rate.

These data indicate that to succeed in securing angel capital, more minority-owned firms need to attract the attention of angel investors, since given the chance, a reasonable proportion of minority-owned ventures were considered to be of sufficient quality to make an investment, based on comparable yield rates. However, for women-owned firms, it appears that not only do more women-owned firms need to attract the attention of angel investors, but women-owned firms, given the low yield rates, need to increase their "investor readiness" through education and networking.

The **Center for Venture Research (CVR)** at the University of New Hampshire Whittemore School of Business and Economics has been conducting research on the angel market since 1980. The CVR'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 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 also provides reports on state level angel activity. For more information visit www.unh.edu/cvr or contact the CVR at 603-862-3341.