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Future Trends and Issues in the Angel Market

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Alexander Graham Bell – 1874

“Well informed people know it is impossible to transmit the voice over wires, and were it possible to do so, the thing would be of no practical value” Boston Post

Gardiner Green Hubbard, Thomas Sanders

Thomas Edison – 1878

Debut – Paris Exhibition

“When the Paris Exhibition closes, electric light will close with it and no more will be heard of it” E. Wilson, Oxford Professor

J.P. Morgan and Spencer Trask

Anita Roddich 1976

The Body Shop

Ian McGlinn

Jeff Bezos 1994

Amazon.com

12 angels \$100,000 each

Larry Page and Sergey Brin 1998

Google

maxed out credit cards

Andy Bechtolsheim (co-founder – Sun
Microsystems) \$100,000

The Supply of Private Equity

Angels

Venture Capitalists

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Business Angels

- 2011_{Q1Q2}: 124,900 angels invest \$8.9 billion in 26,300 ventures
- 2010: \$20.1 billion in 61,900 ventures
- 2009: \$17.6 billion in 57,225 ventures
- 2008: \$19.2 billion in 55,480 ventures
- 2007: \$26.0 billion in 57,120 ventures
- 2006: \$25.6 billion in 51,000 ventures
- 2005: \$23.1 billion in 49,500 ventures
- 2004: \$22.5 billion in 48,000 ventures
- 2003: \$18.1 billion in 42,000 ventures,
- 2002: \$15.7 billion in 36,000 ventures

Recent Trends

2008 vs. 2007 :

- \$ -26%
- deals -2.9%
- investors +1.0%
- avg. deal size -24%
- investors/deal (6.0)

2009 vs. 2008 :

- \$ -8.3%
- deals +3.1%
- investors -0.4%
- avg. deal size -11%
- investors/deal (4.5)

2010 vs. 2009

- \$+14%
- deals + 8.2%
- investors +2.3%
- avg. deal size +5.4%
- investors/deal (4.5)

Recent Trends

2010Q1Q2 vs. 2011Q1Q2:

- \$ +4.7%
- deals +4.4 %
- investors 0%
- avg. deal size 0%
- investors/deal (4.5)

Venture Capital Funds

Year	Total	Deals	per Deal
2000	\$106.6 billion	8,221	\$13.0 million
2001	\$41.3 billion	4,711	\$8.8 million
2002	\$21.2 billion	3,011	\$7.0 million
2003	\$18.2 billion	2,715	\$6.7 million
2004	\$21.6 billion	2,983	\$7.2 million
2005	\$22.1 billion	3,008	\$7.4 million
2006	\$25.5 billion	3,416	\$7.5 million
2007	\$30.7 billion	3,918	\$7.8 million
2008	\$28.3 billion	3,808	\$7.4 million
2009	\$17.7 billion	2,795	\$6.3 million
2010	\$21.8 billion	3,277	\$6.9 million
2011 Q1Q2	\$13.8 billion	1,780	\$7.8 million

National Venture Capital Association

Venture Capital Funds – Colorado

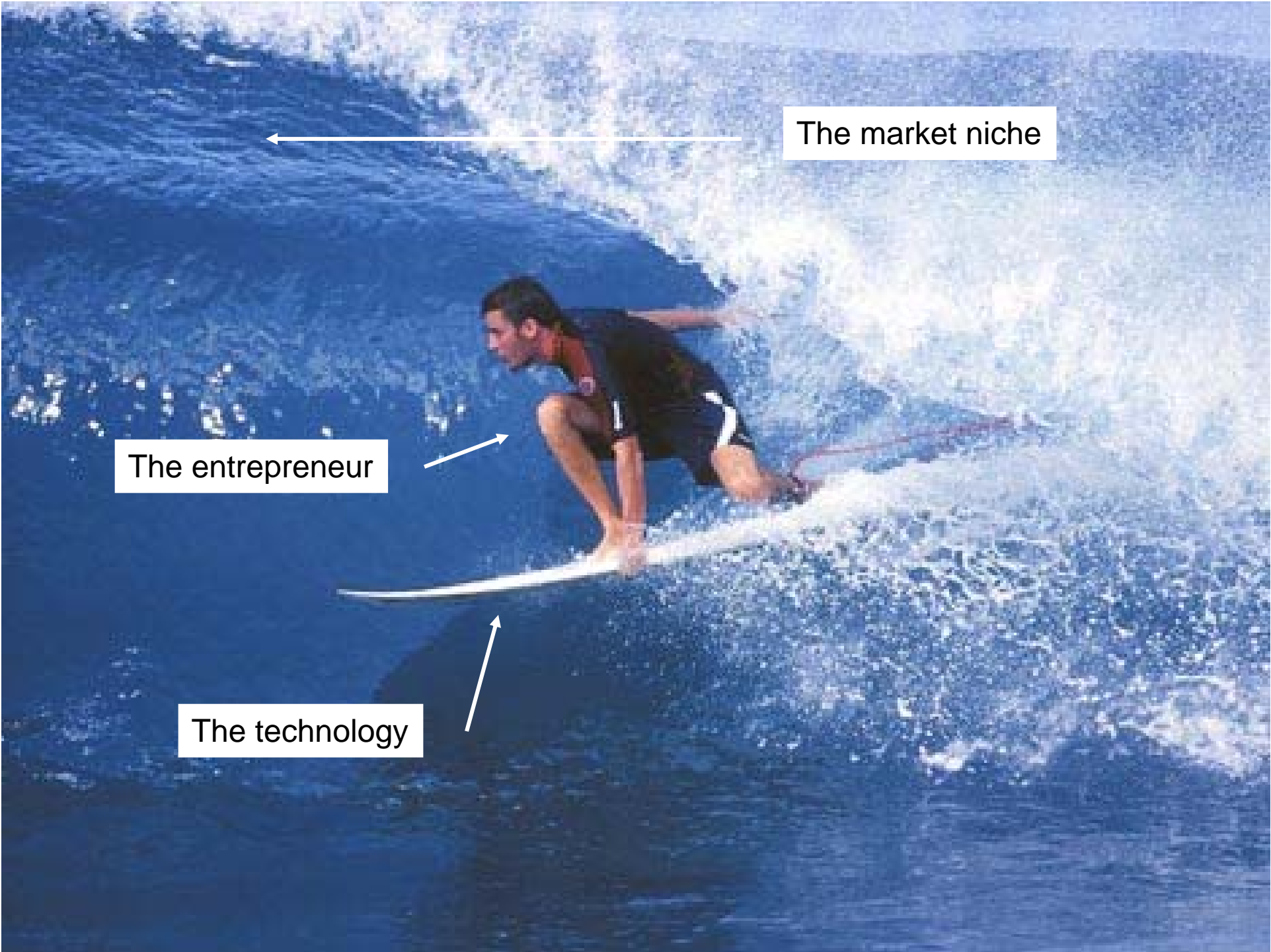
Year	Total	Deals	per Deal
2000	\$ 3.9 billion	224	\$17.4 million
2001	\$ 1.1 billion	113	\$ 9.7 million
2002	\$564 million	90	\$ 6.3 million
2003	\$632 million	74	\$ 8.5 million
2004	\$357 million	71	\$ 5.0 million
2005	\$641 million	91	\$ 7.0 million
2006	\$639 million	107	\$ 6.0 million
2007	\$662 million	105	\$ 6.3 million
2008	\$896 million	111	\$ 8.1 million
2009	\$525 million	89	\$ 5.9 million
2010	\$483 million	88	\$ 5.5 million
2011	\$618 million	98	\$ 6.3 million

The Demand for Private Equity

Start-ups

Entrepreneurial Ventures

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The market niche

The entrepreneur

The technology

Trends in Private Equity

Movement of capital stages

The Gap dilemma

Yield rates/sectors

Exits/IPO



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The Truth About Early Stage

Seed and Start-up financing –VC

2000	\$3.2 b (3.0%)	663 deals (8.0%)
2001	\$798 m (2.0%)	249 deals (5.1%)
2002	\$303 m (1.4%)	148 deals (4.9%)
2003	\$354 m (2.0%)	166 deals (6.0%)
2004	\$412 m (1.9%)	190 deals (6.3%)
2005	\$767 m (3.5%)	184 deals (6.1%)
2006	\$1.2 b (4.7%)	312 deals (9.1%)
2007	\$1.2 b (3.9%)	415 deals (10.6%)
2008	\$1.5 b (5.3%)	440 deals (11.6%)
2009	\$1.7 b (9.6%)	318 deals (11.4%)
2010	\$1.7 b (7.8%)	363 deals (11.1%)
2011 Q1Q2	\$0.5 b (3.6%)	191 deals (10.7%)

The Truth About Early Stage

Seed and Start-up financing – Colorado

2000	\$122 m (3.1%)	19 deals (8.5%)
2001	\$ 10 m (1.0%)	8 deals (7.1%)
2002	\$ 3 m (0.5%)	9 deals (10.0%)
2003	\$ 4 m (0.6%)	4 deals (5.4%)
2004	\$ 1 m (0.3%)	3 deals (4.2%)
2005	\$ 14 m (2.3%)	6 deals (6.6%)
2006	\$ 16 m (2.5%)	8 deals (7.5%)
2007	\$ 31 m (4.7%)	15 deals (14.3%)
2008	\$ 38 m (4.2%)	13 deals (11.7%)
2009	\$129 m (24.6%)	10 deals (11.2%)
2010	\$ 16 m (3.3%)	12 deals (13.6%)
2011	\$ 13 m (2.1%)	8 deals (8.2%)

Trends in Private Equity

Movement of capital stages

The Gap dilemma

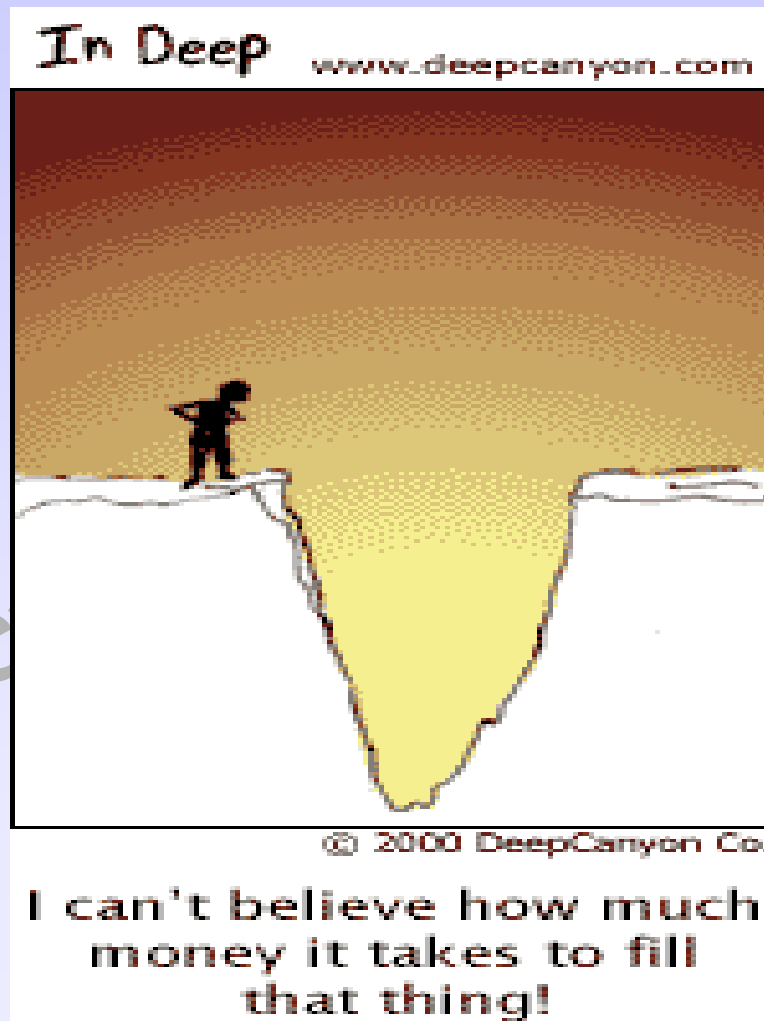
Yield rates/sectors

Exits/IPO



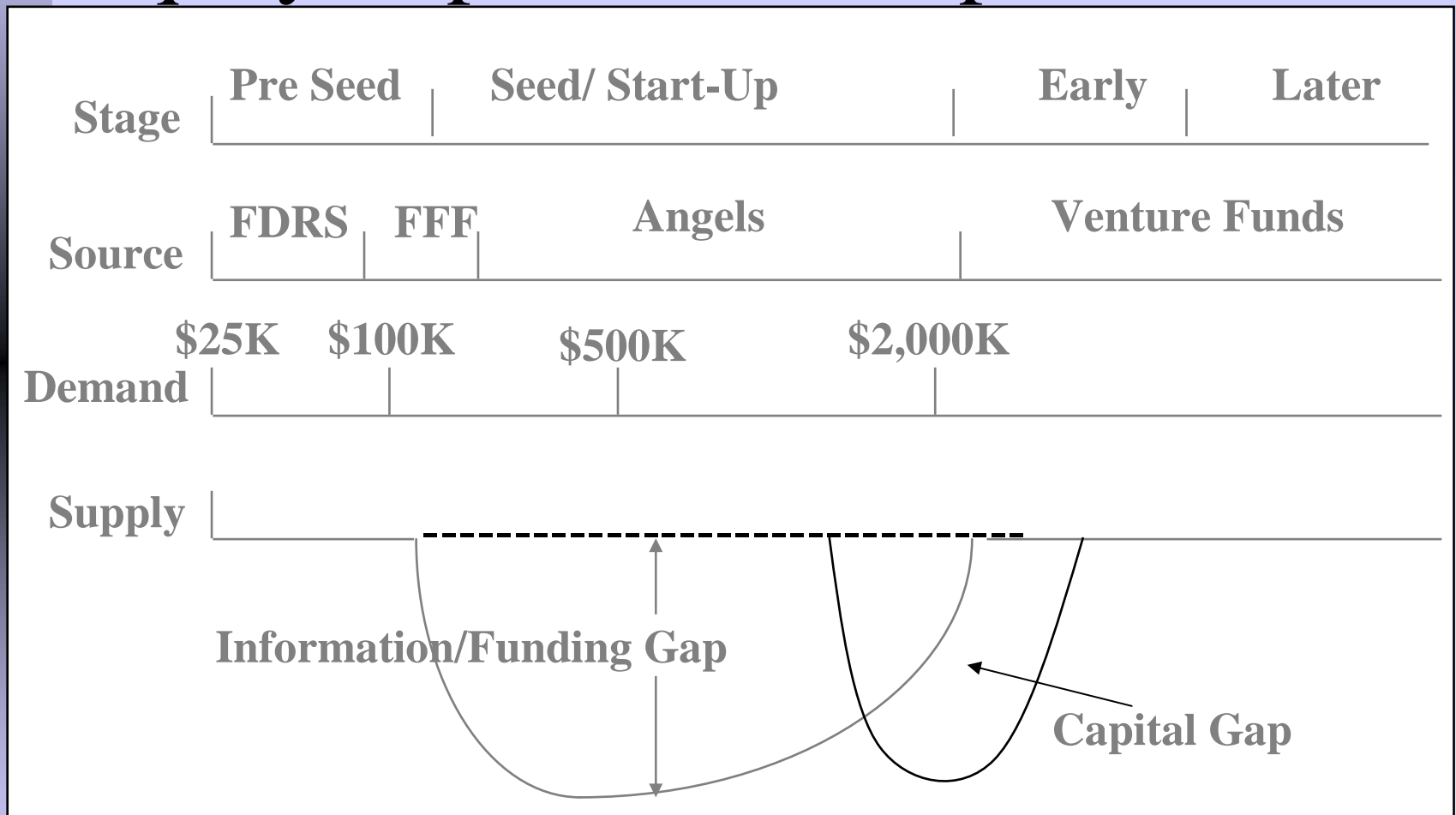
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Primary and Secondary Gap



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Equity Capital for Entrepreneurs



The Gap Dilemma

2011 Q1Q2

39% angel : seed and start-up

60% angel : post seed and start-up

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Seed/start-up	31%	35%	45%	39%	46%	55%	43%	52%	50%
post seed/ start-up	67%	62%	40%	35%	40%	43%	52%	35%	33%

Trends in Private Equity

Movement of capital stages

The Gap dilemma

Yield rates/sectors

Exits/IPO

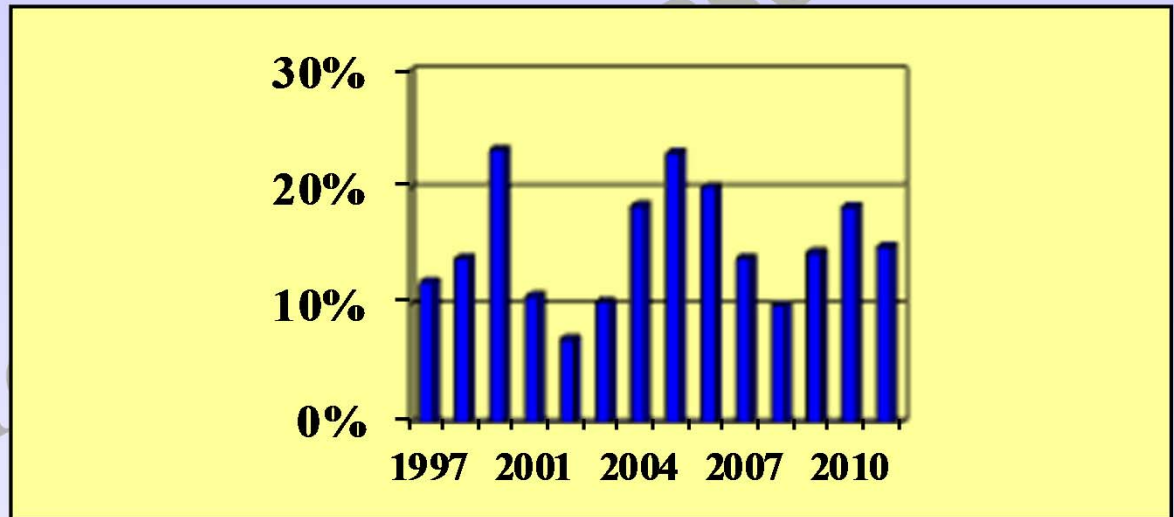


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Angel Yield Rates

of deals funded / # proposals presented

- 1997: 12.00%
- 1998: 14.00%
- 2000: 23.26%
- 2001: 10.79%
- 2002: 7.10%
- 2003: 10.3%
- 2004: 18.5%
- 2005: 23.0%
- 2006: 20.1%
- 2007: 14.0%
- 2008: 10.0%
- 2009: 14.5%
- 2010: 18.4%
- 2011 Q1Q2: 15%



Angel Deals

<u>Sector</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011Q1Q2</u>
Health	16%	20%	21%	19%	16%	17%	30%	25%
Software	22%	18%	18%	27%	13%	19%	16%	11%
Biotechnology	10%	12%	18%	12%	11%	8%	15%	14%
Retail	7%	3%	8%	6%	12%	9%	5%	8%
Media	----	6%	4%	5%	7%	4%	4%	8%
IT Services	8%	6%	3%	4%	6%	5%	5%	3%
Industrial/Energy	4%	6%	6%	8%	8%	17%	8%	17%
Fin/Bus Products	---	4%	6%	4%	6%	5%	2%	1%

Trends in Private Equity

Movement of capital stages

The Gap dilemma

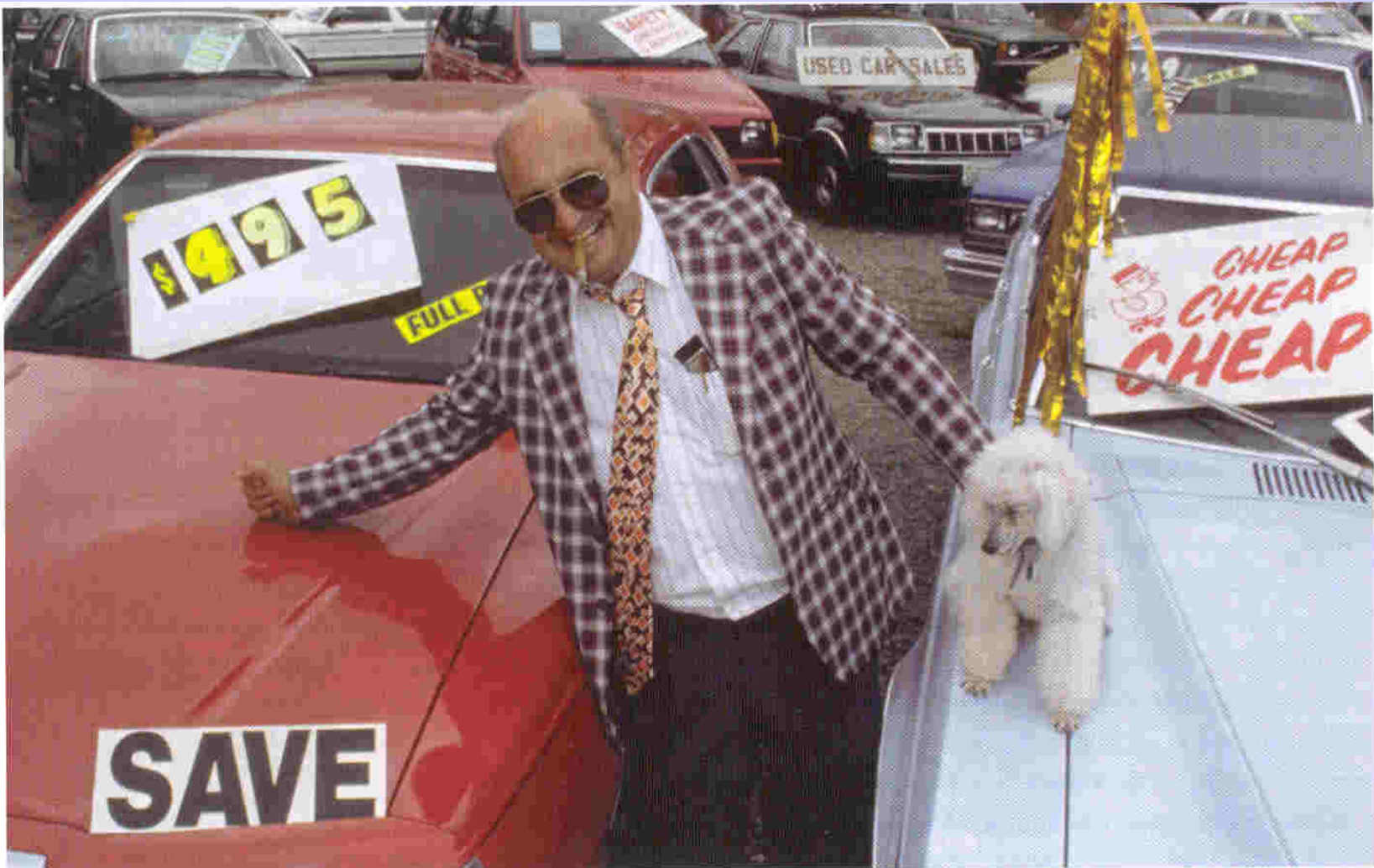
Yield rates/sectors

Exits/IPO



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Exits/IPO



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Angels and IPOs

All IPOs 1999-2007

	No VC	VC
No Angel	31%	52%
Angel	6%	11%

Angels and IPOs

Underpricing

low offering, high closing price

angel backed firms - lower underpricing

average underpricing 13%

\$44.6 M

Angels and IPOs

- A substantial portion of IPOs have angel backing (17%)
- Angel backed firms are
 - Older than VC backed firms
 - Geographically dispersed
 - Lower angel %, higher for entrepreneurs
- IPO firms backed by:
 - VCs have higher underpricing
 - Angels do not have higher underpricing



*Women
with
Wings*

Women Investors in the Angel Market

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011Q1,2</u>
% women investors	5.0%	8.7%	13.8%	12.0%	16.5%	11.3%	13.0%	11.6%
% women presenting	4.7%	8.7%	12.9%	12.7%	15.7%	21.0%	20.8%	11.8%

Conceptual Considerations (WOB)

Feminist Theory

to explore whether structural and social barriers impede women's access to vital early-stage angel capital.

Two dimensions

WOBs seek angel financing at a lower rate than do MOBs (Yes)

WOB's have a lower chance of receiving angel financing than do MOBs (No)

Conceptual Considerations: WOB

Discrimination

to explore if WOB face discrimination
WRT the terms of equity investment

Concept

*WOBs must surrender a greater proportion
of their firm's ownership in exchange for
equity investment than MOBs (No)*

Conceptual Considerations: WOB

Social Networks and Homogeneity Theory

WOBs and MOBs are more likely to seek financing from angels within their own social networks (Yes)

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Conceptual Considerations: Women Angels

Investment behavior and risk - men and women

Proportion of women angels and investment activity/latent angels

Women < 10%, decreased activity of group

Women \geq 10%, increased activity of group

Stereotype Threat

Conceptual Considerations: Women Angels

Attribution Theory

Investment behavior of men and women angels

Women angels are less overconfident than male angels (Yes)

Internal vs. external attributes

Learning curves

Future Research

Exits

IPO vs. M&A

Angel-VC complementarity

Low Foundation

Angel groups

types vs. entrepreneurship infrastructure

The Research Ahead

- Legitimacy

 - Firm characteristics vs. external legitimacy

 - ratings, participation in forum

 - Women vs. males

- Effectiveness of venture forums

 - types vs. economic footprint

 - gender

“I know of nothing so pleasant to the mind, as the discovery of anything which is at once *new* and *valuable*.”

—Abraham Lincoln

