

Research Issues in Angel Investing

SME FDI Workshop
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BETTER
UNDERSTANDING



SME
FINANCING

SME FINANCING
DATA INITIATIVE

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Government
of Canada

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du Canada

Canada

Research Initiatives

- **Primary seed gap and**
Secondary post seed gap

Business Angels

- 2005: 227,000 angels, invest \$23.1 billion in 49,500 ventures
- 2004: \$22.5 billion in 48,000 ventures, 225,000
- 2003: \$18.1 billion in 42,000 ventures, 220,000
- 2002: \$15.7 billion in 36,000 ventures, 200,000

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

The Truth About Early Stage



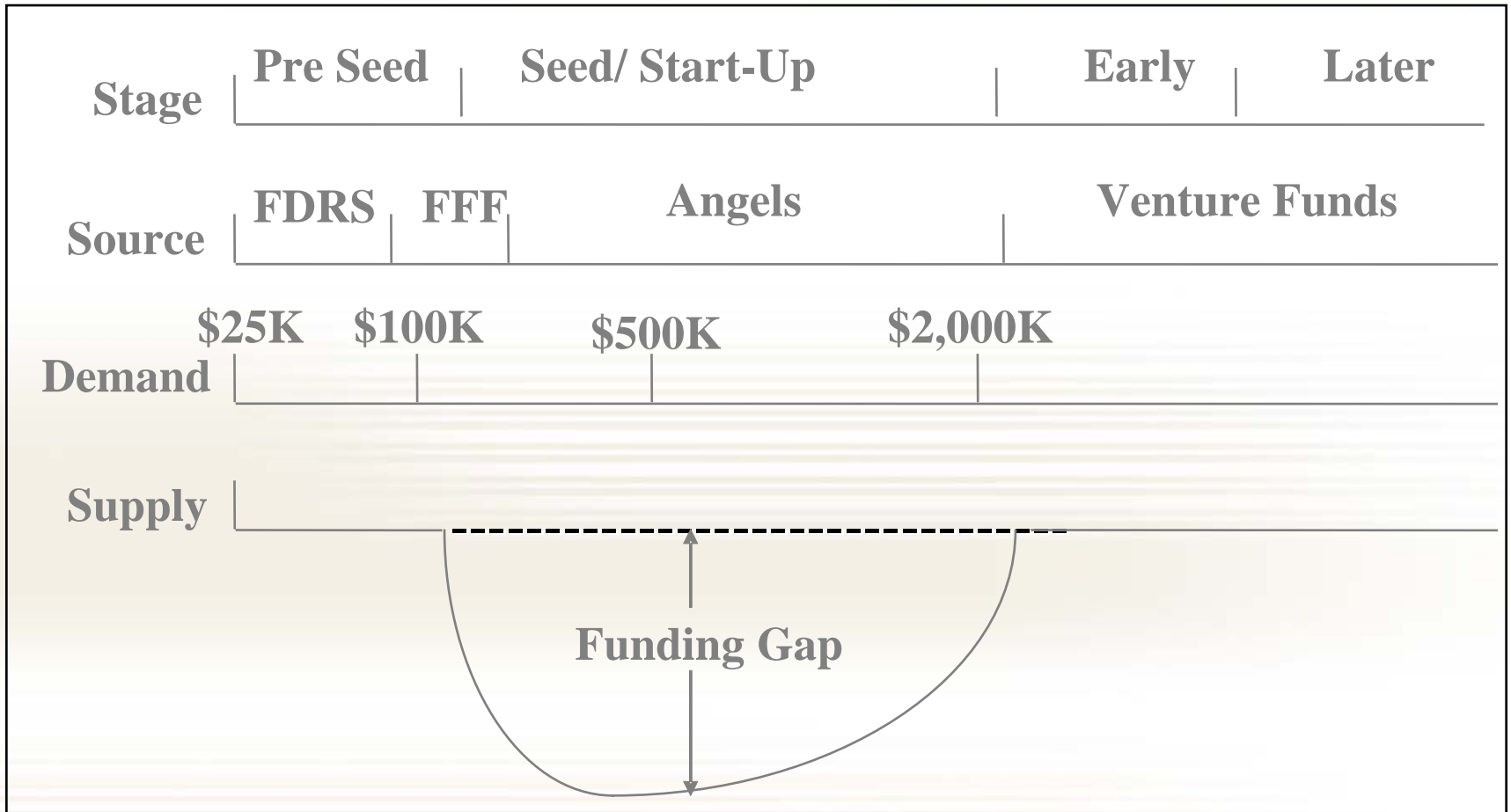
Seed and Start-up Financing – VC

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%)

Primary Seed and Start-up Gap



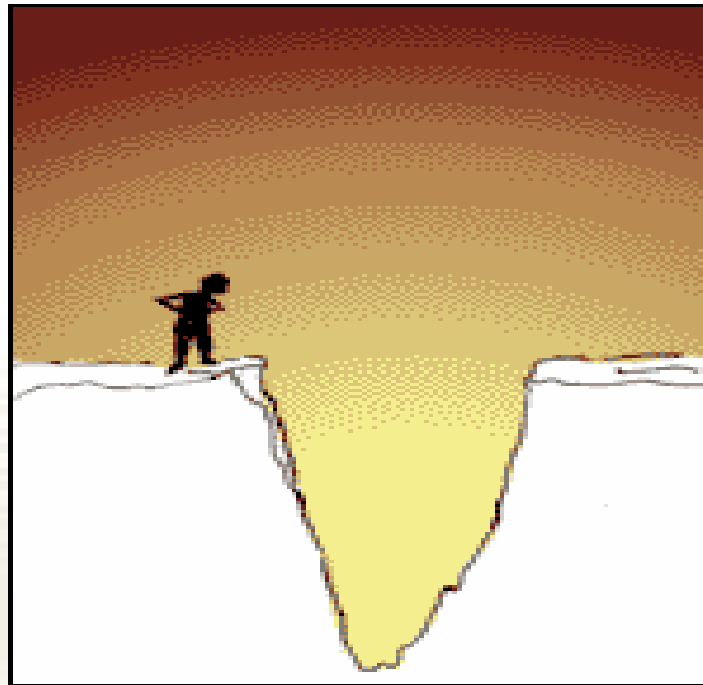
Equity Capital for Entrepreneurs



Secondary Post Seed Gap



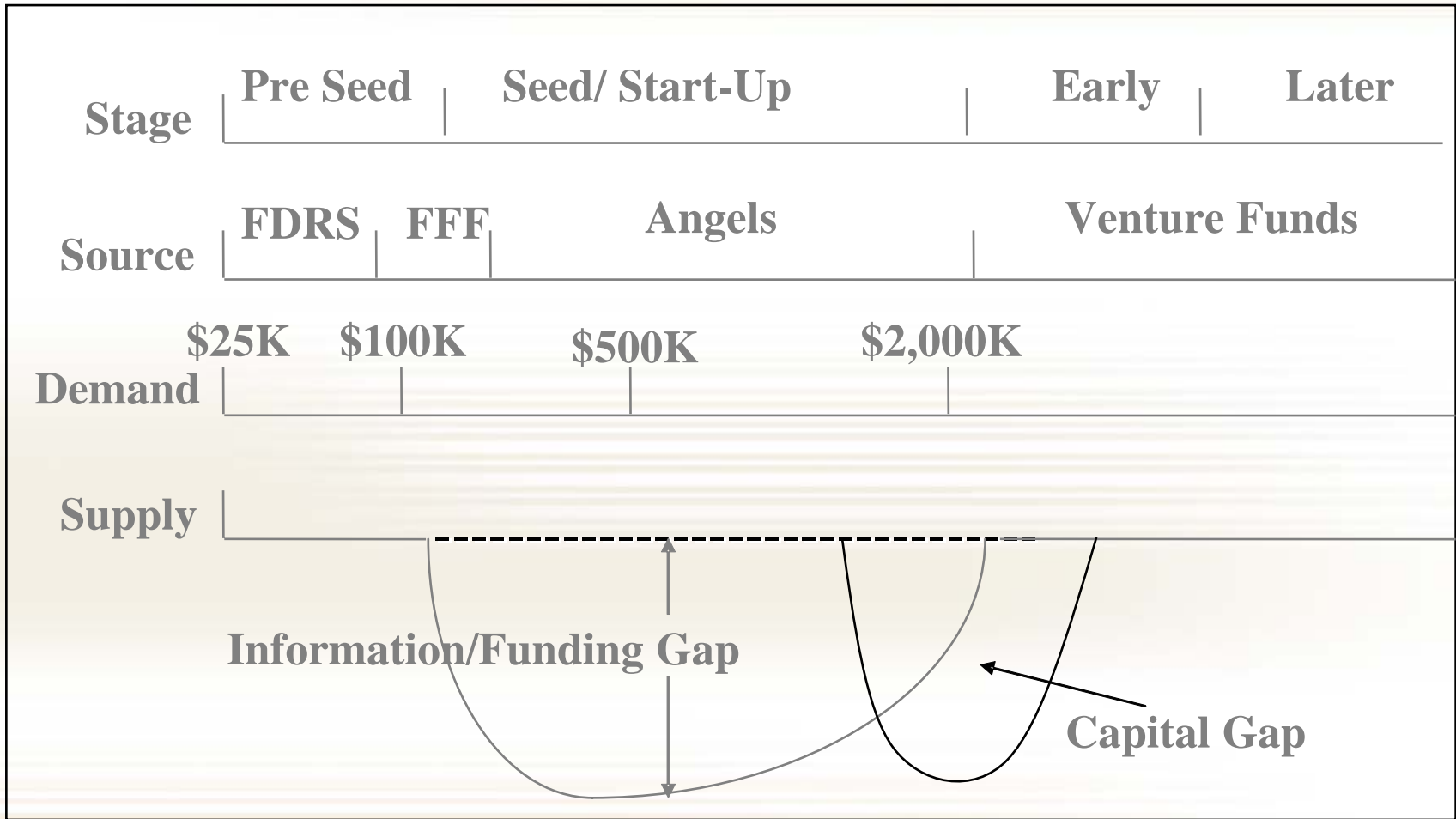
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I can't believe how much
money it takes to fill
that thing!

Equity Capital for Entrepreneurs



Center for Venture Research - University of New Hampshire

The Gap Dilemma



2005

55% angel: seed and start-up

43% angel: post seed and start –up

	2004	2003	2002
Seed/start-up	43%	52%	50%
post seed/start-up	44%	35%	33%

(25% increase from 2000)

Research Initiatives

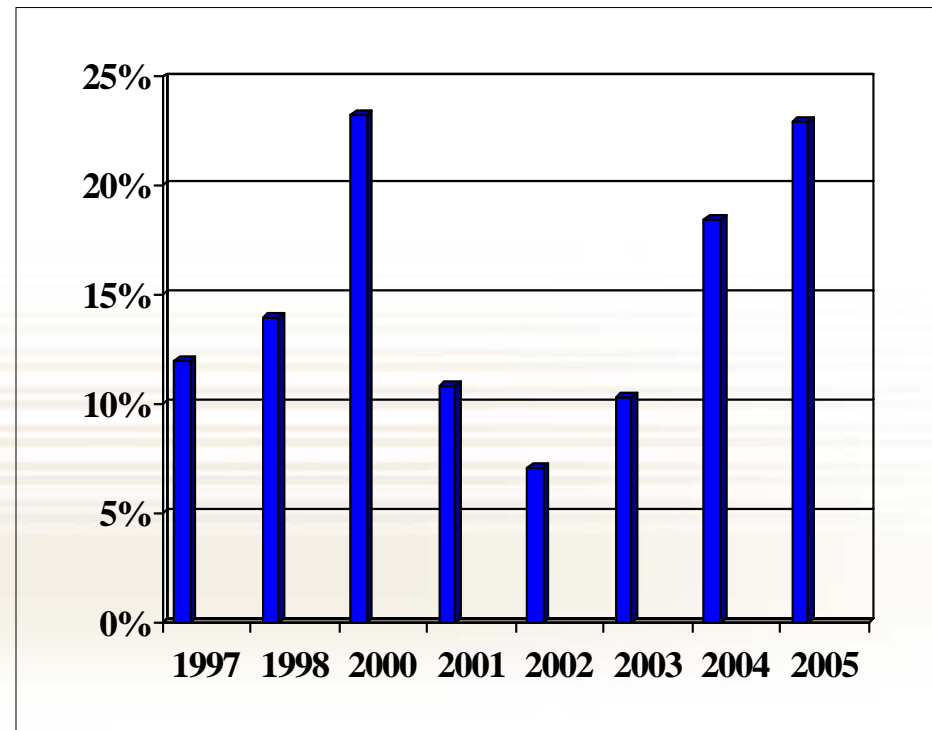
- Primary seed gap and
Secondary post seed gap
- Yield rates

Angel Yield Rates



of deals funded /
proposals presented

- 1997: 12.0%
- 1998: 14.0%
- 2000: 23.26%
- 2001: 10.79%
- 2002: 7.1%
- 2003: 10.3%
- 2004: 18.5%
- 2005: 23.0%



Research Initiatives

- Primary seed gap and
Secondary post seed gap
- Yield rates
- Angel-VC relationship

The Relationship

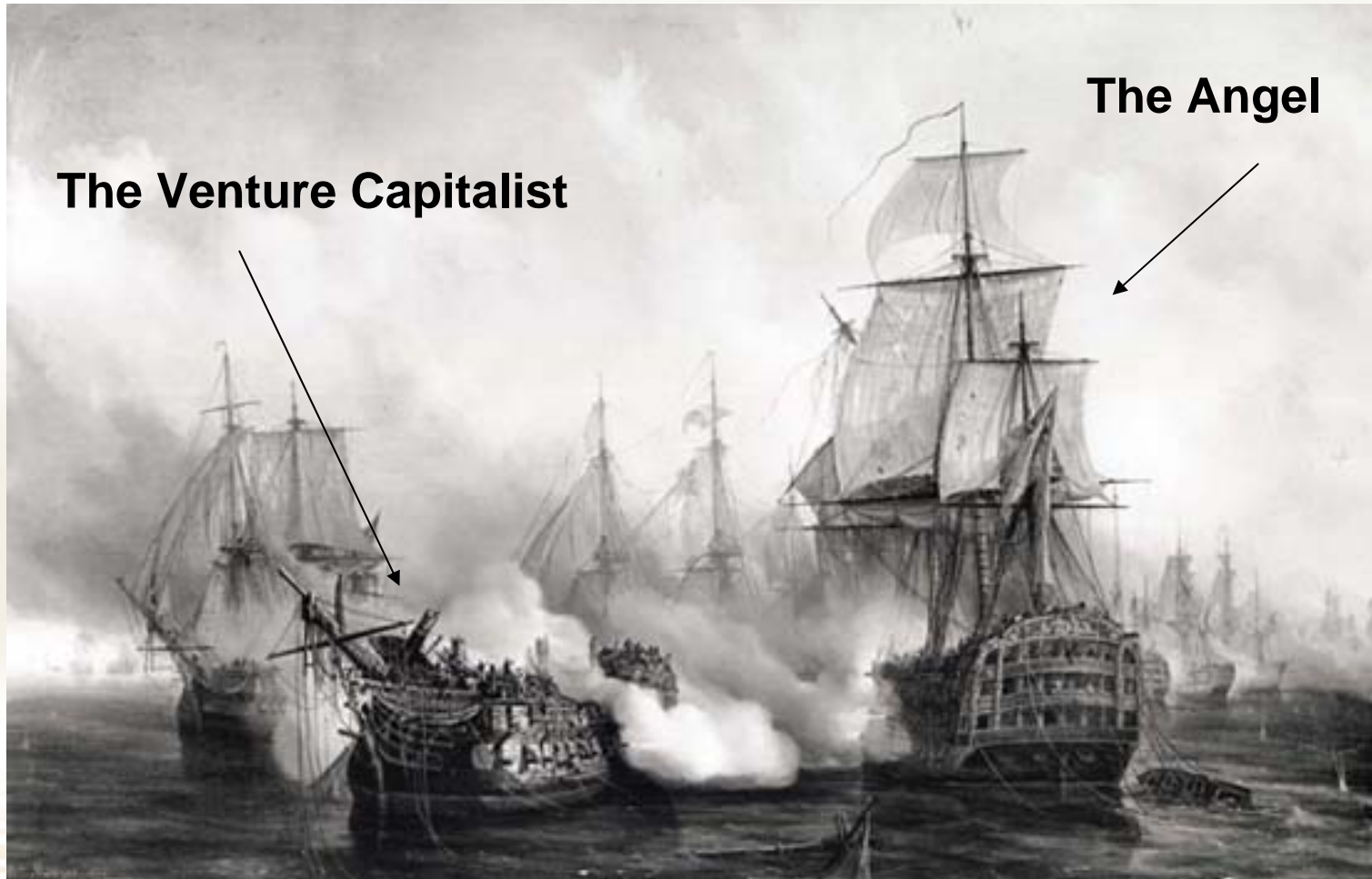


The Angel



**The Venture
Capitalist**

The Relationship



New Angel Strategies

- Opportunistic – take to exit
 - exploit inefficiencies
- Necessitous – secondary gap
- Protectionist – increase valuation

Research Initiatives

- Primary seed gap and
Secondary post seed gap
- Yield rates
- Angel-VC relationship
- Institutionalization of the angel market
angel group structures – what works



**Informal Angel Groups
vs.
Formal Angel Alliances**

Informal Angel Groups

- venue for quality deal flow
- individual decision making
- venue for informal syndication

Formal Angel Alliances

Informal Angel Groups

- venue for quality deal flow
- individual decision making
- venue for informal syndication

Formal Angel Alliances

- voting on deals
- angel funds
- minimum investment requirements



A Nascent VC industry?

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Research Initiatives

- Primary seed gap and
Secondary post seed gap
- Yield rates
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- Institutionalization of the angel market
and angel group structures –what works
- Growth of latent angels in groups

Angel Portal Growth



1996	10
1999	98
2000	138
2001	126
2002	170
2003	141
2004	123
2005	132

Angel Portals:



Latent angel membership

- 2005: 62%
- 2004: 55%
- 2003: 48%
- 2002: 40%
- 2001: 41%
- 2000: 36%
- 1998: 32%



State/Province Level Initiatives

- Direct investment programs

Direct Investment Programs

- allocation of state funds
- state seed venture funds
- primary goal: job creation, economic growth
secondary goal: financial return

competing or complimenting
measures of effectiveness



State/Province Level Initiatives

- Direct investment programs
- Tax Incentives

Tax Incentives

- front end tax credits
- back end capital gains reduction
- loss percentage guarantee – insurance?

different types

type vs. economic geography

measures of effectiveness



State/Province Level Initiatives

- Direct investment programs
- Tax Incentives
- Indirect facilitating approaches

Indirect facilitating approaches

- business development/coaching to entrepreneurs
- screening for angels
- venture forums
- subsidize angel groups

high potential

difficult to measure effectiveness

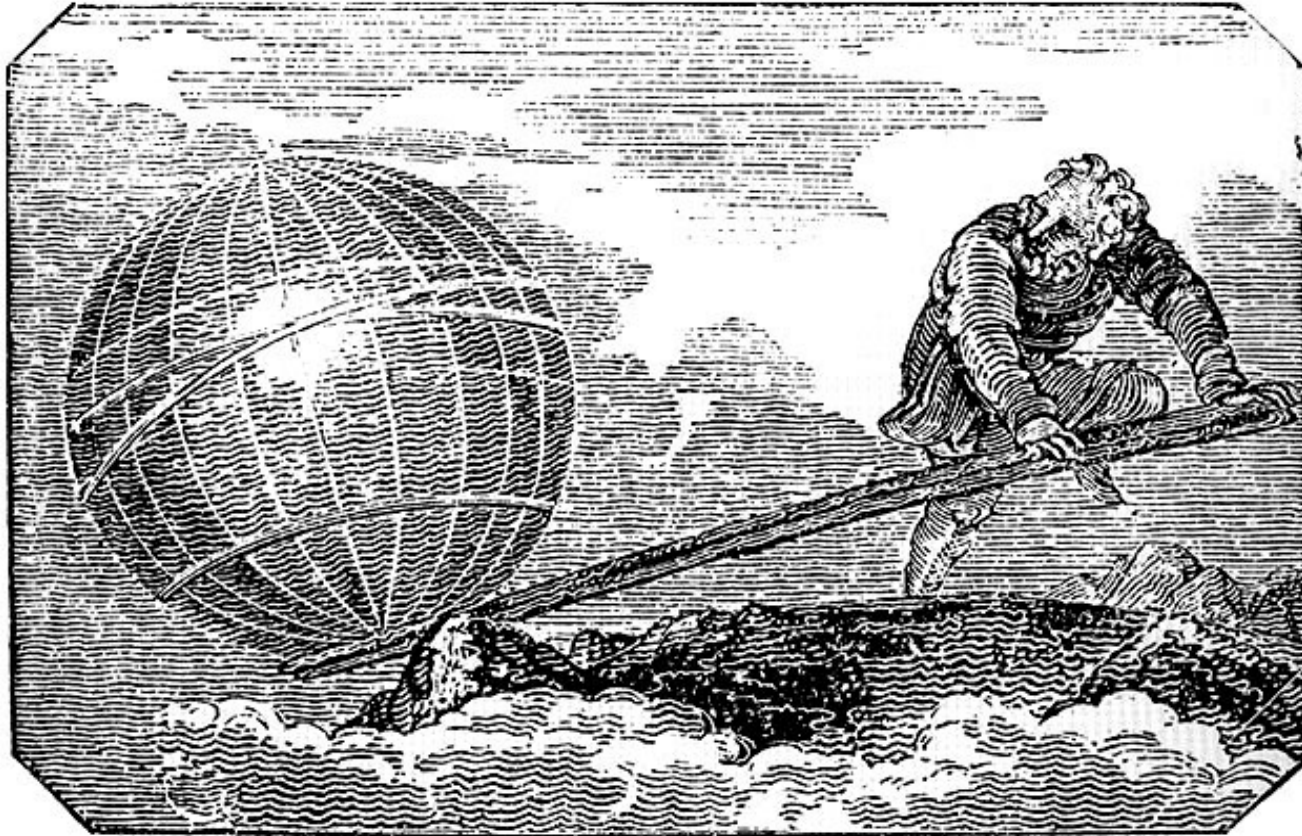
long term vs. short term politics



State/Province Level Initiatives

- Direct investment programs
- Tax incentives
- Indirect facilitating approaches
- Archimedes fund

**Give me a lever long enough and a place to stand
and I will move the earth**



Archimedes Fund

a \$10 million pool of private/public sector capital for angels to draw from to complete a deal

- 3 to 1 match

angel complimentary fund

self sustaining

immune to changing political landscape

Research Initiatives

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State/Province Level Initiatives

- Direct investment programs
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**In the field of observation, chance favors only
the prepared mind**



Louis Pasteur, *lecture 1854*

