

Historical Size of the US Angel Market

In evaluating an asset class, knowing the rough size and structure of the market can reveal the extent of the opportunity. For seed and early stage startup investments, the most formalized market segment consists of “professional” angels. In the US, this segment averaged \$23.2B of investment per year between 2004 and 2008. More importantly, this segment has historically been supply-limited: in 2008, only 14% of the companies that seek capital in this market could find it at any price.

The “professional” angels segment represents the sum of investments made by individual investors into companies with whom they had no previous relationship. This segment excludes investments made by founders in their own companies and those made by their friends and family members. This distinction is important because including founder, friend, and family investments results in a greater than 10x increase in the market size. For brevity, we will henceforth refer to the “Professional” US Angel Market simply as the US Angel Market.

We believe the two most credible size estimates of the Historical US Angel Market come from the Center for Venture Research (CVR) at University of New Hampshire and Scott Shane in his book Fool's Gold?. Although the CVR and Shane use very different methods to calculate the size of this market, they reach almost identical results.

Market Size Estimates by the Center for Venture Research

The CVR, currently led by Jeffrey Sohl, has conducted research on the US angel market since 1980. William Wetzel conducted their earliest estimate of the size of the US Angel Market in 1987. He estimated the market at \$5B to \$10B, which at the time was 2-4 times the size of the formal US Venture Capital market.¹

For the past decade, CVR has published ongoing estimates of angel activity in the US. CVR uses bi-annual surveys to sample a large number of angel groups and then extrapolates market-wide metrics such as overall market size, number of deals, number of active and inactive angel investors, participation by stage (e.g., seed, startup, late stage), and participation by sector. Their estimates of the US Angel Market from 2001 to the present are²:

Center for Venture Research:
Annual US Angel Market Investments (billions)

2001: \$30.0	2005: \$23.1
2002: \$15.7	2006: \$25.6
2003: \$18.1	2007: \$26.0
2004: \$22.5	2008: \$19.2

Market Size Estimate by Scott Shane in Fool's Gold?:³

Shane uses an entirely different approach to estimate the size of the Historical US Angel Market. Shane starts with the total amount invested into young companies in 2004 (\$310B) and then uses a number of resources to subdivide the capital market into smaller, well-defined categories. Shane's primary data resources are:

- Panel Study of Entrepreneurial Dynamics I
- AltAssets.com knowledge bank
- Federal Reserve Survey of Consumer Finances
- Federal Reserve Survey of Small Business Finances
- Global Entrepreneurship Monitor (GEM)
- GEM Entrepreneurship in the US Assessment Study
- Kauffman Foundation

Shane's analysis leads to the following breakdown of the sources of capital for young companies in 2004:

\$124B	Entrepreneurs / founders investing in their own businesses
\$139B	Individual investors investing in businesses run by friends & family
\$ 23B	Business angel investors
\$ 20B	Venture capitalists
<u>\$ 4B</u>	Small Business Investment Companies (SBICs)
\$310B	Total market size

Of the \$310B invested in 2004, \$286B of the capital came from individual investors or company founders, which dwarfs the \$23B from 'professional' or 'business' angels. This disparity implies that the market for new ventures could probably have absorbed substantially more professional angel funds if they had been available. Most founders would probably have jumped at the chance to modestly reduce their personal exposure as well as that of their friends and family.

Market Size Estimates from Other Sources

A number of other researchers have estimated the size of the Historical US Angel Market over the past 15 years. Unfortunately, most of them do not describe precisely how they define the market, so we cannot be sure we are comparing apples to apples.

In 2007, Stephen Morrissette wrote an article for the Journal of Private Equity in which he summarized much of the research on the angel market over the past 20 years. Morrissette himself estimates that, “400,000 angels provide \$50 billion in capital to over 50,000 companies each year.”⁴ In addition, Morrissette provides the following list of market size estimates by other researchers:⁵

Investment per Year in US Angel Market

\$50-60B	Benjamin & Margulis (1996)
\$100B	National Venture Capital Association, Cullen (1998)
\$50-60B	Van Osnabrugge & Robinson (2000)
\$40-60B	Benjamin & Margulis (2001)
\$40B	Hill & Power (2002)
\$18B	Sohl (2004, estimate specifically for 2003 calendar year)
\$30B	Timmons & Spinelli (2004)

Conclusion

The range of estimates for the size of the Historical US Angel Market is quite large. The Center for Venture Research and Scott Shane are the only two of which we are aware that fully describe their methodologies. Despite the fact that these methodologies are vastly different, they arrive at identical estimates for the size of the market in 2004: \$22.5B and \$23.0B, respectively. Because their estimates are at the low end of the range for all estimates, it seems reasonable, to use the 5-year average of the Center for Venture Research estimates as a conservative estimate for the typical amount invested historically in the ‘professional’ US Angel Market. The 5-year average from 2004-2008 is **\$23.3B**.

Two other points are worth noting. First, the amount of capital invested annually by company founders and by their ‘friends and family’ has been an order of magnitude greater. Second, the Center for Venture Research reports that only 14% of all companies looking for funding from its sample of angel groups received funding in 2007.⁶ Together, these factors imply that the market has been supply-limited and professional investors could have probably invested significantly more in this market.

¹ Wetzel, William, “Capital Market: Aspects of Scale and Market Efficiency”, Journal of Business Venturing, Volume 2, 1987, pp. 299-313.

² “Analysis Reports”, Center for Venture Research, University of New Hampshire, <<http://wsbe.unh.edu/analysis-reports-0>>

³ Shane, Scott, Fool’s Gold?, Oxford University Press, 2009, pp. 32-42

⁴ Morrissette, Stephen, “A Profile of Angel Investors”, The Journal of Private Equity, Summer 2007, pg. 53.

⁵ Morrissette, pg. 55

⁶ Sohl, Jeffrey, “The Angel Investor Market in 2007: Mixed Signs of Growth”, Center for Venture Research, March 2008.