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Small firms seek big investments

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Venture capital companies try to get in on the ground floor

By TAMARA CHUANG Staff reporter

ROCKLAND - Philip Sugar, who's been there and done that, was back again Tuesday at the annual Early Stage East venture capital competition.

There was money to be had from the 250 venture capital companies in search of the next hot startup. And there were business cards to be exchanged among the 550 attendees.

"I think there's a lot of good companies here," said Sugar, chief executive officer of Smart Button Associates, a Newark database company. He also is a former event winner with a different company. "But the real award is what happens afterwards."

Early Stage East has become a major schmooze-worthy event for interested investors and companies in their early stages of growth. This year the event was at the DuPont Country Club and some \$10 billion was up for grabs, though the deals weren't being made out in the open.

Once known as the Delaware Entrepreneurs Forum Venture Fair, the regional competition now attracts companies from New York to North Carolina and investors from California to London, England.

While only 24 startup companies out of 250 applicants made it to the finals, many more exhibited their wares in hopes of gaining financing from the venture capital companies attending the event.

A few Delaware startup firms attended the event, such as Wilmington-based Superior Nutrition Corp., which makes Z Juice Power Smoothies and other fortified food items and Newark-based Micropore Inc., which markets carbon dioxide-absorbent products to firefighting and medical industries.

But the success of the event could be measured by who was attending Tuesday: From luncheon speaker Michael Daniels, chairman of Network Solutions, which handles Web site domain name registration to Miles Spencer, host of the public television series MoneyHunt, a show about growing companies.

"Delaware has rated very high in terms of breakaway potential in companies," said Spencer, who spent the afternoon interviewing firms and later picked Smart Button to feature on a future show.

"My sense is many of the companies will make a good investment and create a lot of wealth for investors," he said.

One company seeking \$4 million to \$6 million in financing had such a large and spectacular exhibit that it could only show it outside the country club.

A giant mechanical arm greeted guests to the outdoor tent of GreyPilgrim Ltd., based in Rockville, Md. Named Emma for "easily manipulated mechanical arm," the robotic arm is intended to be used to clean up nuclear wastes, toxic chemicals or high-temperature jobs.

"Everybody [stopping by] thinks it's very cool technology," said Grant Weldon, a design engineer. "But there's a big return. It's

rather inexpensive to construct and our system has little competition."

About 40 companies were selected from the 250 applicants. Of those, only 24 were asked to make an eight-minute presentation at Tuesday's event.

"We turned away more than 100 people," said David J. Freschman, president of the Delaware Innovation Fund and one of the event's founders.

But that's not a sign that the event needs to be bigger, he said.

"We like to keep it small because that way the deals happen," he said.

Venture capitalists are searching for companies with high-growth potential, but not necessarily immediate profits, as evidenced in the several Internet companies present that were still in the red.

Among the finalists was Smart Button, the 2-year-old company that was seeking \$100,000 to \$200,000 in financing. On average, most of the competing companies ask for around \$2 million.

Sugar said he's familiar with the funding game. In 1995, he won the event's "most likely to be funded" award with another start-up called EnviroMetrics Software. That company, now named Essential Technologies, has 180 employees and \$20 million in sales.

"Four years ago, I was in the same position. A small, four-person company," said Sugar, who is still on the board of Essential but joined Smart Button in January because he prefers the gamble of a start-up. "It's what I like to do."

His new venture creates customer affinity systems, or simply a database for all databases. One client, Delaware Park, uses its large database to track everything from racing statistics to food and beverage bills.

Now, backed with a seal of approval from MoneyHunt, Sugar said it's not just about winning awards.

"I'm very happy to start up another company in Delaware," Sugar said.

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The News Journal/BRIAN BRANCH-PRICE

Robert Kent, founder and senior vice president of GreyPilgrim Ltd. in Rockville, Md., stands next to his company's robotic arm for nuclear waste and toxic chemical cleanups at a venture capital competition at the DuPont Country Club on Tuesday.

Karen Johnson (left) and Marva Hardrett of Wilmington-based Superior Nutrition Corp. attend the competition.

IF YOU GO

Venture capital companies seek out and provide financing to young and promising upstart companies.

Some venture capital sources can be found by contacting The Delaware Innovation Fund, 100 W. 10th St., Suite 413, Wilmington, 777-1616 or event organizer Early Stage East at 239-6334.

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