

Show Me the Money

If it's springtime, it must be 'Crossroads' - the region's largest venture-capital fair

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by Melissa Nicefaro

It's mating season again. The biggest "meet market" in the eastern U.S. takes place this month, pairing companies in various stages of development and with the investors who have the money they need to grow.

In its 15th year, the Crossroads Venture Fair will take place at the Stamford Marriott April 29-30. It offers investors and entrepreneurs two days to make each other swoon. Last year's event placed over \$10 billion in the hands of technology companies. This year's event will feature 70 select Northeastern companies from early to late stage in IT, bioscience and diversified technologies. Hundreds of applications were received by the Connecticut Venture Group, which organizes the annual event.

Of those, 25 seed and start-up, 25 early stage (annual sales under \$500,000) and 20 expansion stage and later stage (annual sales in excess of \$500,000) companies were chosen to pitch to investors.

That latter group will include institutional and private investors. Crossroads also attracts people looking for management positions, service providers (chiefly accountants and legal advisors) and of course entrepreneurs on the prowl for capital.

Matthew Smith, managing director of investments for Connecticut Innovations Inc. (CII), says the state's quasi-public technology-investment arm will be looking to augment its portfolio of 40 biomedical, biopharma, biotechnology, IT, telecom and nanotechnology companies that it already has invested in. CII is lead sponsor for the event.

"We like to invest in types of technologies or businesses that have intellectual property, which gives us a distinct edge to barriers to entry and makes it tougher for competition to come at us," says Smith. "A technology that is unique - and, even better, disruptive - gives us a chance to completely up-end that particular market and carve out new rules of the road. Intellectual property allows us to disrupt existing markets with new and better solutions. We like things that redefine the market and allow for a distinct competitive advantage."

CII has come out of Crossroads with at least one investment match in three of the past four years.

Smith, who is also on the CVG board of directors, is expecting about 125 more companies exhibiting in addition to the 70 who will be presenting to investors.

"For us to walk away with one investable situation every year, that's a superb rate," he says. "We look at about 100 investments each year, spend some time and resources looking at about five, and then narrow it down to two or three that we do due diligence with, and from there, one or maybe two at Crossroads will get funding," Smith says. "Crossroads is a good use of our time and resources."

CII typically works with banks such as Webster Bank.

"Banks are not usually the lead or risk-taking investor, but they are there as a financial support," Smith says.

Webster Bank is a gold sponsor for the event and according to Peter Hicks, vice president of the Waterbury bank's Emerging Technology and Growth Group: "The benefit is that investors and people providing capital and finance can see these 70 companies, all of whom have been qualified, over a two-day period. It's a very fast-paced event. We can

see them and they can see us.

"We are not providing equity; we provide debt," Hicks adds. "Together with the equity players, we get companies financed. All of these companies are looking for money and there is a group of angel investors and venture-capital firms that specialize in certain industries and mezzanine debt or senior debt and the companies will put a combination of the two together to meet their needs. Generally, neither the debt player nor the equity player wants to be the only one." Webster Bank will be looking at biotech and high tech companies at Crossroads.

"Our portfolio is evenly split between the two," Hicks explains.

"We have financed on special occasions a company right out of the chute, but that's a very hard company to finance," he says. "Generally we like to see that they have some momentum in their product development and they have reached either a beta stage or they've started to attract some attention in the marketplace or with investors. They don't actually have to have a product on the market for us to provide financing, but they do have to provide visibility toward that happening soon. They've got to have some professional investors supporting it and it's past the concept idea."

Of the 70 companies chosen to present to investors at this year's Crossroads, a handful are local to the New Haven area.

Arbor Fuel, LLC

Stage: Start-up, ready to launch

Capital sought: \$1 million (to support the research through proof of principal) or \$6 million (to take the company beyond proof of principal to ready-to-launch)

Location: Woodbridge and UConn/Storrs incubator labs

Product: Biofuel to be used in place of gasoline or diesel

Applicant: Steven Henck

Description: Arbor Fuel employs a cellulose-to-butanol process to develop a second-generation fuel. Feedstock (stalks, grass, trees) but not food is used to create the biofuel.

It's not ethanol, which is a short-chain alcohol, but butanol, which is twice as long and can be used as a direct one-to-one replacement for gasoline. That means you can put 100 percent butanol in your car today with no modification.

"It's a much newer fuel and the biggest players today are British Petroleum in the United Kingdom," Henck explains. "They had originally announced they were going to produce it by the end of 2007, but are retooling it and expect to launch in 2009."

Henck has been working full-time on Arbor Fuel since August. Previously he was senior VP of operations at CuraGen, a Branford biopharmaceutical company. He joined CuraGen 11 years ago and saw it grow from 45 people to about 500 and then helped shrink it back down to about 24 employees. He was in charge of drug manufacturing using protein enzyme therapeutics, a fermentation process identical to the process he is using now to develop biofuel. He notes that there is also a huge market for butanol as a green cleaning solvent.

To date Arbor Fuel has raised about \$400,000.

Medpricer

Stage: Early (sales less \$500,000)

Capital sought: \$750,000, primarily to staff up

Location: Guilford

Product: Internet bidding platform for hospitals

Applicant: Les Grant

Description: Medpricer is a three-year old company that uses the Internet to connect hospitals directly with suppliers in real time. The health-care industry is bogged down with a cumbersome paper-based communications model that requires multiple faxes and manual quotes that take place over a relatively long period of time. Once received, hospitals compare these bids for supplies manually, usually on a computer spreadsheet, and then the sales team will discuss findings. The process, according to Grant, can take anywhere from two to three months.

Medpricer's product allows hospitals to negotiate with suppliers through a bidding process that takes about one hour of real time.

The company's customers include Yale-New Haven Hospital, the Hospital of St. Raphael, Hartford Hospital and New York's Mt. Sinai. The company is in the process of expanding across the country to markets like New Jersey and Michigan, but needs capital in order to grow. Grant estimates he'll need to add about seven to ten employees to his staff.

Bull Bag

Stage: Early (sales less than \$500,000)

Capital sought: \$3 million

Location: New Haven

Product: The Bull Bag, a 25-pound dumpster

Applicant: Paul Joslin, CFO

Description: The Bull Bag, a portable and lightweight trash disposal product that fills a void in trash disposal. According to Paul Joslin, the company's chief financial officer, there is a yawning unfilled niche in the waste-management marketplace: something in between a 32-gallon trashcan that homeowners use and a huge dumpster employed primarily by contractors. The Bull Bag is made of woven polypropylene and can hold up to 4,000 pounds of trash.

The Bull Bag company wants to grow throughout New England and down the East Coast to Florida.

Growth has begun into Massachusetts and Rhode Island, but to sustain the momentum the company needs money. It holds several patents for design and also the way the bag is lifted and emptied into the back of a truck for removal.

The Bull Bag just licensed its disposal system to a company in Australia and New Zealand to be marketed in those countries, but in order for it to continue to grow here, Joslin needs dough.

"We need \$3 million to get into new territories," Joslin says. "If we get more, we can do it faster. With less, it'll be a slower process."