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Venture fund creates jobs

Wilmington firm helps state 'grow its own' by backing high-tech startups

BY GARY HABER
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When Delaware Innovation Fund opened for business in 1995, the sweet smell of future success came with the faint aroma of bagel.

In windowless offices below a Greenville bagel shop, David Freschman and his small band of venture capitalists were quietly putting together deals they hoped would boost Delaware's fledgling community of young high-tech companies.

Some skeptics questioned how long a such a fund -- in a state known more for corporate behemoths than startups -- would last, said Freschman, the fund's president.

Freschman proved the doubters wrong. Next month, the fund, which has since moved to more upscale digs in an office building along the Brandywine in Wilmington, celebrates its 10th anniversary.

In the past decade, the fund has invested more than \$5 million in 21 emerging companies, mostly in Delaware, but a few in neighboring mid-Atlantic states. Over the 10 years, about 1,000 jobs can be linked to these investments, Freschman said.

The fund has become a crucial resource for Delaware's entrepreneurial community, said Mike Bowman, chairman of Delaware Technology Park in Newark, home to several of the companies that have received the funding.

"We point a lot of people in their direction," Bowman said.

The fund started with \$500,000 each from the state of



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President David Freschman (left), Managing Director Patrick Foley and Vice President Sherri Schaeffer will be celebrating the 10th anniversary of the Delaware Innovation Fund's founding next month.



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Delaware Innovation Fund recognized the potential of Foxfire Printing in 1999. Today, the company employs about 140.

Delaware and the Longwood Foundation, a Delaware philanthropic group created by Pierre S. du Pont in 1937. Some of Delaware's big companies, including MBNA Corp. and First USA Bank, also contributed.

The fund was a key component of then-Gov. Tom Carper's "Grow Your Own" strategy for diversifying Delaware's economy. Instead of relying on raiding other states for business, Delaware would focus on home-grown high-tech companies to create jobs.

"What we sought to do was create a nurturing environment for job growth," Carper said. The problem, Carper said, was that back then, "Delaware was nowhere" when it came to capital for startup tech firms.

The fund is an economic development-oriented venture capital fund. It shares the goal of a traditional venture capital fund: to make money by investing in promising businesses often too green to receive funding from banks or through selling stock.

But the fund's concerns are broader than just the size of its return. Its mandate also is to support technology-oriented companies in Delaware and surrounding states that will create jobs for Delaware residents and boost the state's economy.

Foxfire Printing and Packaging of Newark -- a business that includes designing and producing customized in-store signage for big-name retailers including Eckerd Drugs, Dollar General and Acme supermarkets -- is one fast-grower that benefited from a \$100,000 investment from the fund in 1999.

A year later, the Delaware Innovation Fund led a syndicate of three funds that invested a total of \$2 million in FoxFire. That investment enabled Foxfire to acquire a digital printing company in Maryland. Today, the company has about 140 employees.

"That opened up a whole new market for us," said John Ferretti, the company's chief executive officer.

The fund takes a financial stake in a company in the form of loans or preferred stock and sometimes a seat on the board of directors. It generally puts between \$50,000 and \$250,000 into a company. Sometimes, it pools its money with other venture capital firms to make a bigger investment.

The fund forgoes investing in pharmaceuticals -- an effort that can take years and many millions of dollars to bring a new drug to market, Freschman said.

Instead, it focuses on fields such as software, information technology, chemical equipment and advanced materials.

The fund has seen a few of its investments go bust, but the strategy has worked well. It has about a dozen companies in its portfolio. It has cashed out of six others, with returns averaging between one and a half to two times initial investments.

The key, Freschman said, is doing more than just writing a check. The fund keeps a continuing relationship with these companies, sitting on their board of directors or meeting with the company regularly.

"We probably speak to these companies once a week," Freschman said.

The fund also provides expertise and a network -- Freschman has a database of more than 6,000 contacts -- that the growing businesses can use to find accountants, lawyers, suppliers and potential customers.

After a decade running the Delaware fund, Freschman remains focused on the future.

"It's the most fascinating, interesting, challenging business I've ever been involved in," he said.

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