The Deal.com

VENTURE CAPITAL

DigiMine doubles expected round
by Lou Whiteman
Updated May-13-2002

Spurred by better-than-expected investor interest, Bellevue, Wash.-based software company **DigiMine Inc.** has closed its Series C round of funding with double the amount of capital it says it needs to reach profitability.

The company is expected to announce May 13 it has secured $20.3 million in a round led by new investor **Mohr, Davidow Ventures**. Other new investors in the round include **American Express Co.** and **Rolling Thunder Networks**. Existing shareholder **Mayfield** returned.

DigiMine CEO Usama Fayyad said he set out in December hopeful of raising just $10 million, anxious from stories of tepid investor interest and slow deal progress. After receiving multiple offers from venture capitalists, however, he decided to double the size of the deal.

But even with the interest, Fayyad conceded that the startup's valuation fell slightly from the company's $20 million Series B, which closed in August 2000. He refused to disclose its valuation. "One could argue given the timing of that Series B round our valuation went up too suddenly," he said. "Considering where the market has gone, we were happy to have a nearly flat round."

Fayyad, a former **Microsoft Corp.** executive, founded DigiMine in March 2000 to help businesses garner more information from the vast amounts of data they were collecting about their customers. DigiMine offers an outsourced-version of a data warehouse, allowing clients to store and analyze data without building the necessary computer systems in-house.

Data warehousing and mining have been popular buzzwords among corporations for a number of years, but the expense and complexity involved in building the systems have kept many businesses from using the tools effectively, experts say. A 1999 Gartner Group survey for example found that of 2,000 companies that launched data warehouse projects, 20% did not even get past the initial project-planning phase. Another 60% that did complete planning never finished the project.

"Most companies haven't been able to use data mining as promised because the technology behind it requires Ph.D.-level people building in-house solutions," said Bill Ericson, a general partner with lead investor Mohr, Davidow. "DigiMine has taken the notion of solving those problems from a Web-hosting model, which is proving to be very attractive to customers."

DigiMine clients include **Dow Jones & Co.**, **Nordstrom.com** and **Marketwatch.com**. Fayyad would not reveal revenue figures, but he said sales in the first quarter came in five times the amount booked in the first three months of 2001.

DigiMine has raised $45 million in venture funding. This new capital will be used to fuel sales and marketing and for continued product development. Fayyad said he expects to break even by the first quarter of 2003, and, thanks to the oversubscribed round, should not need any additional funding to get there.

"If all goes as planned, we will hit profitability with an extra $10 million to spare," he said. "Considering the uncertainty of the markets, we feel that is a very good position to be in."

Dan Vesset, a research manager at Framingham, Mass.-based **IDC**, noted that a lot of companies, including **IBM Corp.** and **NCR Corp.**, are developing tools to help clients sort through data. Still, he said DigiMine has a decent chance to survive given its unique status as an outsourcer of this service.

"I like the concept of the ASP model because it does not require a huge, upfront investment," he said. "With data mining you need good statisticians, and there are not a whole lot of them out there. DigiMine gives companies that expertise without them having to hire it internally, which is a big advantage."