



DigiMine hits the funding mother lode

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BELLEVUE -- The level of venture capital investing may be near three-year lows, but a small handful of local companies have defied the general rule by raising large rounds of funding.

Count among those companies digiMine Inc. The Bellevue-based data mining services company is today announcing that it has completed a third round of venture funding that has added \$20.3 million to its coffers.

DigiMine joins the ranks of the select few local firms that have managed to secure large amounts of capital in an economic climate more notable for shutdowns and layoffs.

Bellevue-based AccessLine Communications Corp. raised \$24 million last week, while in April Kirkland-based Myrio Corp. completed a \$14.8 million round, Vertis NeuroScience of Seattle pulled in \$37 million, and Redmond-based RadioFrame Networks Inc. raised \$15 million.

When digiMine's co-founder, chairman and CEO, Usama Fayyad, started approaching investors in late December, he was not optimistic regarding his chances, having heard horror stories of companies turned away or offered unfavorable valuations.

Fortunately for Fayyad's company, he found that "it wasn't very different than the market was back in the summer of 2000." He initially intended to raise just \$10 million, but more and more investors wanted to get involved.

Fayyad also was satisfied with the valuation he was able to obtain from Mohr, Davidow and other investors. He described it as a "flat, or slightly down round."

Mohr, Davidow Ventures led the new round of funding, contributing more than \$10 million to the pot, and was joined by the Mayfield Fund, an earlier investor in digiMine, alongside the American Express Co. and Rolling Thunder Network. Other previous investors also contributing in small part to this round include Kellett Investments, Second Avenue Partners and the Deutsche Bank Technology Fund.

Founded in March 2000, digiMine provides small companies with the ability to interpret the data pulled in from their Web sites and design marketing and sales programs around that data. Last June, the company expanded its offerings to target much larger enterprises.

Today, digiMine also is announcing its latest customer: Dow Jones & Co. Inc., which will make use of digiMine's services to track and analyze online reader behavior for The Wall Street Journal Online, Barron's Online and other Web properties.

Other digiMine customers include traditional retailers with online operations, such as J. Crew and Nordstrom.com, and high-tech companies ranging from startups such as Bellevue-based Fidesic Inc. to larger firms such as Palm Inc. and Sega Corp.

Data mining always has been a very labor-intensive and expensive process, said Bill Ericson, a general partner in the Seattle office of Mohr, Davidow. Ericson is joining digiMine's board of directors. In addition, Mohr, Davidow general partner Nancy Schoendorf and venture partners Geoffrey Moore and Donna Novitsky will sit on digiMine's advisory board.

"Historically, analytics applications have been built internally, home-grown stuff," Ericson said. Either that or a company would have buy a complex set of software programs that could be used effectively only by a trained information systems specialist. Small companies simply can't afford that kind of investment, but it is also difficult for larger organizations.

"It's very expensive to build a digiMine-caliber team at every Fortune 1000 company," Ericson said.

That's where Fayyad came in.

Now 38 years old, Fayyad launched his career at age 27 -- after earning five degrees from the University of Michigan -- writing software to analyze the archive of 30,000 images of the planet Venus at NASA's Jet Propulsion Laboratory. Fayyad later founded and led Microsoft Research's Data Mining and Exploration Group before leaving to found digiMine with two co-workers at Microsoft, Nick Besbeas and Bassel Ojeh.

DigiMine's product is essentially a set of Web-hosted services. A business sends its raw data to digiMine, which crunches the numbers and delivers a report back to the company. But rather than a technical document full of statistical analysis and equations, digiMine's reports are designed to be read by marketing and administrative staff -- the people in an organization who actually make the decisions about marketing strategy.

The company's new focus on larger customers paid off earlier than expected, Fayyad said. While the economy slowed and companies cut back on their spending even more severely after Sept. 11, they saw outsourcing their data mining and warehousing operations to be a significant cost-cutting move.

"I would never have predicted that (we would) have our best quarter ever at the end of the year," Fayyad said.

"One of the lessons we did learn here is that digiMine is able to sell to some of the larger organizations out there," he said.

DigiMine now has about 40 customers, Fayyad said, and while that is fewer than the 130 or so he last year predicted the company would have by this time, half of those customers are larger enterprises that bring in several times as much revenue as startups do.

With 120 employees, 100 of them in Bellevue, digiMine now has enough cash to bring it to profitability by early 2003, and if all goes according to plan, with \$10 million to spare, Fayyad said. The new round will also be bulking up its direct sales staff that targets Fortune 1000 clients.

Afterward, digiMine still has plans for an eventual initial public offering.

"We're still on the IPO path," Fayyad said, adding that market conditions will play a determining role as to when that will happen.

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