



DataArt targets additional \$2M

by Clifford Carlsen

With \$4 million in its pocket from a February venture capital investment, outsourced financial software startup DataArt Inc. is aiming to close on an additional \$2 million in June to boost development of its product in Russia and the Ukraine.

London-based Tower Gate Capital led the deal, joined by New York-based Third Millennium Russia Fund and an unnamed Russian hedge fund. The investment round is the first outside capital the 11-year-old company has taken in, and is expected to accelerate revenue growth with additional business development for high-end financial applications development by a team of 450 programmers, as well as support recruitment of additional developers.

DataArt founder and CEO Eugene Goland said the company was formed in 1997 as an applications developer focusing on Internet startups; it assembled a core team of developers in Russia and the Ukraine, working with university computer science departments. But he said the company lost most of its clients in 2002 and reduced staff from about 300 to 30. The company, headquartered in New York and St. Petersburg, Russia, reorganized as an IT software outsourcer and gradually rebuilt its business to \$12.5 million in revenue last year.

Goland said DataArt had experienced strong demand for its services, which include developing proprietary internal software applications for customers in knowledge-intensive industries, particularly in financial services including asset management, hedge fund administration and other capital markets management. DataArt's customers include New York-based Standard & Poor's, BNP Paribas SA of Paris, HedgeSpeed Technology LLC of New York, Clados Management LLC of San Mateo, Calif., and Orbian Corp of Norwalk, Conn. Goland said the addition of outside capital will allow it to add employees.

"Raising money took away many of the barriers a company like this has for expansion," Goland said. "There has been a limit to how fast we can grow, and we are going to scale up and invest in the brand reputation while expanding into other areas, including media and publishing, telecommunications services and online travel."

John Connor, portfolio manager with the Third Millennium Russia Fund, a mutual fund that invests primarily in publicly traded Russian companies, said he was an investor in Mail.ru, a leading Russian Internet portal that was originally designed by DataArt, and has followed the progress of the company for several years. He said that Russia is now the third largest IT outsourcing market after India and China, and that its universities produce greater numbers of sophisticated programmers each year.

"Third Millennium Russia Fund assesses DataArt to be a very promising play, giving it exposure to the Russian IT sector, which is dynamic and growing," Connor said. "Finding investments in the IT sector in Russia is not that easy, but Russians tend to do very high-end programming work, and DataArt has great access to intellectual talent."

Connor said cheaper labor in Eastern Europe is an important part of drawing new customers, but the high level of programming skills the company offers allows it to gain incremental work once it has a foot in the door.

Goland said that Russian outsourcing is slightly more expensive than similar services from India, but added that DataArt also offers services from Ukrainian developers that are slightly cheaper.

"The rate differentiation is less of a factor, and it is temporary," Goland said.

DataArt now derives about 75% of its business from the U.S. and 25% from Europe, and Goland said the new funding will allow it to expand channel sales in both markets, as well as increase Internet marketing.

DataArt worked with Tower Gate in putting the round together, and received legal counsel from New York attorney Richard Popper. Investors were represented by David Becker of Rele & Becker LLC in New York.