

Nuix raises funds for next stage of e-discovery campaign

Analysts: Nick Patience

Nuix has been turning heads in the world of e-discovery over the past couple of years with its bold claims for the performance of its engine, which is used for the processing, review, analysis and production phases of e-discovery, as well as for general investigation work. However, it's not just bluster – the company has been winning customers at a decent clip while maintaining a lean organization. It has chosen to focus on one or two aspects of the e-discovery process initially, but has bigger plans for information governance. It has just raised a new round of money to help fuel its growth.

The 451 Take

The customer growth at Nuix is impressive and marks it as one of the fastest-growing privately held e-discovery companies out there. It has just seen competitor Clearwell get bought for seven times trailing-12-month sales, so while focused on growing its business, we're sure there are calculations going on. The company needs to work on its ease of use because it's still seen by some as a bit of a workhorse that engineers love more than those on the legal side. All that said, its customers appear to like it enough to go back for more, and that says a lot about its prospects.

Context

Sydney-based Nuix has raised a new round of funding from **Macquarie Capital Group**, which it now describes as a significant minority shareholder, albeit one without any special rights that other shareholders don't also enjoy. The company isn't divulging the size of this latest round (although one published report says it's in the eight-figure range), nor the total raised. But it says it's been profitable for three years, so this money was used mainly to buy out some existing investors that funded the company when it first commercialized five years ago. It will also be used for development, marketing, sales and sales-support purposes.

Nuix is still a relatively lean organization and insists it only hires the proverbial rock stars. It's up to just above 50 employees now, from about 30 in June 2010. It doesn't cite a single average deal size, rather three bands of them. It's seeing small deals in the \$30,000-90,000 range, another band in the \$200,000-250,000 bracket, and then the large deals, which are

anywhere from \$800,000 to \$1.4m. Customers can buy on a per-GB basis if they choose, but most buy on an annual or perpetual-plus-maintenance basis. The customer split is currently about 70% services providers (including law firms and consultants) with the rest being corporations and regulatory agencies. Geographically, about 40% of customers are from the UK and Europe, 40% from the US, 15% from Australia and 5% from the rest of the world.

Products

Nuix's eponymous platform is a high-performance indexing engine. It is used in e-discovery mainly for the processing phases of the process, where large volumes of information need to be gathered quickly by collections tools and indexed for early-case assessment purposes, as well as for full review later by attorneys.

Nuix's claims to fame are the speed with which it can index these data sets and its ability to handle very large 'containers' and a wide variety of file types. Its first customer had a large amount of Lotus Notes data to process, so it started there and branched out.

In processing functionality, Nuix boasts targeted forensic indexing of metadata, text and binary documents, as well as deleted and encrypted file retrieval, all with defensible chain of custody. It also provides duplicate and near-duplicate detection, and is Unicode-compliant. Its review tool searches full text and metadata, identifies duplicates, near-dupes and email threads, and features bulk tagging and conversation visualizations for attorneys, producing output to other standard review-tool formats for further analysis and redaction. The company partners with **kCura** and bundles its Relativity hosted review tool with some of its packages. The two companies appear to see one another as cut from the same cloth – strong technical companies focused on a part of the e-discovery process, rather than trying to be end-to-end providers and compromising their performance.

Nuix packages its product in a variety of ways for its different customers. These include Nuix Enterprise Discovery for corporate customers; Nuix Workstation, a desktop version for cases up to 500GB; Nuix Collector for collections from SharePoint, desktops, laptops, file servers and so on, preserving the original format, and a software-hardware package it calls Nuix eDiscovery Supercomputer.

The next version of the platform will be 3.4, which should be out by the end of the current quarter. It will add support for Exchange 2010 and new near-de-duplication functionality so that users will be able to click a button and see all near-de-duped documents or emails.

Version 3.4 is based on a different technique from its current near-de-duplication functionality, which looks for similarities on content and metadata. The new version uses Nuix's own shingling process, which is included in the indexing process. Nuix says the new version removes the need for a multi-step process that some other alternatives require. The version of this technology in the 3.4 release is a first take, with future versions spreading it

around the rest of the Nuix platform UIs and then on into the review stage. Version 3.4 is also going to include improved TIFFFing ability by enabling Excel documents to retain the look and feel when converted to TIFF. The next major release, version 4, should be out by the end of the year, with many new features related to e-discovery.

Beyond that, Nuix is eyeing a wider opportunity in information governance. No details yet, but expect the company to develop layers on top of the core engine to automate certain processes. Nuix says it will maintain ease of use and is not looking to offer an all-encompassing suite and certainly is not looking to become a service provider.

Customers

Nuix currently has 220 active customers, by which it means they have paid the company something in the last 12 months, and another 100 customers on top of that, which may pay for upgrades down the line. Nuix is acquiring customers at a rate of 5-10 per month, so it won't be long before it reaches 250.

The company sells mostly direct, but it has a reseller channel that handles the smaller forensic providers and brings in about 10% of sales. Of the 90% direct, about 15-20% is sold through larger service providers that buy the software on behalf of their clients and manage the software for them. These are companies such as **Deloitte** or **Epiq Systems**.

One longtime customer is the **Australian Securities and Investments Commission** (ASIC) – Australia's equivalent of the **US Securities and Exchange Commission** (SEC), which, incidentally, is also a customer. ASIC's evidence services department takes forensic images of hard drives and pumps them through Nuix, using the platform to identify documents, and then exports the data into **FTI Consulting's Ringtail** review tool.

ASIC uses Nuix because the company supports a wide variety of file formats, can handle very large amounts of information and is especially good at handling the all-important email that is such a major part of any investigation. And when ASIC comes across a format that Nuix does not support, Nuix is apparently quick to develop a connector for it.

In 2010, ASIC used Nuix to process data for about 120 cases, about 130-140TB of data in total, ranging from a single CD to 10TB in one case. Nuix's platform uses fairly standard **HP Z800** workstations for the collections part of the process, but uses a more powerful **HP ProLiant DL580** with 24 cores and 128GB of RAM for the indexing process, with the only bottleneck there being the speed of disk access. Searching is done on the workstations, as is the process of exporting from Nuix to Ringtail for review.

In addition to ASIC and the SEC, Nuix is used by similar regulators in Canada, Hong Kong, Japan, New Zealand, the UK and Singapore, as well as by the **European Commission**.

Competition

Nuix sees different competitors, depending on the nature of the customer. In some law firms, it might see **IPRO Tech** or **LexisNexis'** Law PreDiscovery where Tiffing is important. It is seeing **Clearwell Systems** (in the process of being bought by **Symantec**) a lot more, and it sees **Autonomy Corp** only in the largest accounts. It encounters **Digital Reef** in some law-firm deals.

As a specialized forensics vendor, Nuix encounters **AccessData Group** and Fortune 500 stalwart **Guidance Software**, creator of the EnCase forensic file format. Now that Nuix supports its own e-discovery forensic collection, it will compete with these incumbents on a more level playing field, and while it says it's still seeing AccessData a lot, it says it sees Guidance Software less than it used to, unless Guidance's software is already installed somewhere in the organization.

Others in the e-discovery software market that Nuix would run into include, but are not limited to, **EMC**, **IBM**, **Recommind**, **StoredIQ** and **Zylab**. It sees many service providers, but some key ones include **Daticon EED**, Epiq Systems, **H5**, **Fios**, FTI Consulting, **Huron Consulting**, **Integreon**, LexisNexis (both its Litigation Services and **Applied Discovery** divisions), **RenewData** and **Thomson Reuters**.

SWOT analysis

Strengths	Weaknesses
Customers we have spoken to attest to Nuix's speed and scalability in the processing part of e-discovery.	The company needs to work on its ease of use because it's still seen by some as a bit of a workhorse that engineers love more than those on the legal side.
Opportunities	Threats
Partnerships such as the one with kCura may lead to some much larger opportunities.	There are plenty of vendors out there addressing more of the e-discovery market than Nuix does, and that have much bigger sales and marketing machines than Nuix – even with the new round of funding the company received.

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