



Practice Fusion Gets \$23 Million To Compete in “Winner-Take-All” Market for Electronic Medical Records Technology

Wade Roush 4/5/11

Practice Fusion, a San Francisco startup that claims to be the fastest-growing maker of electronic medical records systems for physicians’ practices, may be able to supercharge that growth now, thanks to a \$23 million infusion from Peter Thiel’s Founders Fund and a posse of other investors.

The Series B investment, announced today, brings Practice Fusion’s total venture backing to \$30 million and will help the company “reach every doctor and practice in the country in our market,” says founder and CEO Ryan Howard.

Founders Fund, started in 2005 by Thiel and fellow PayPal alums Ken Howery and Luke Nosek, is a first-time investor in Practice Fusion, as are syndicate partners Artis Capital Management and Glynn Capital Management. Series A investors Morgenthaler Ventures and Felicis Ventures also participated in the round.

With billions in dollars in federal incentives awaiting medical practices that adopt electronic recordkeeping systems, there’s a veritable gold rush underway, with dozens of startups and established companies vying to supply doctors with systems for digitizing patient records, reviewing test results, ordering electronic prescriptions, and the like. Practice Fusion, with its free, easy-to-adopt Web-based system, is seen as one of the leaders in the field.

The big jump in funding for the five-year-old startup—from a \$7 million A round in early 2010 to the current \$23 million B round—is in part a recognition of how quickly its system seems to be catching on with doctors. “Last year was a tremendous year. We had 500 percent growth in users and patients,” says Howard. And the plan is to double again in 2011. “We will do more marketing, we will bring on new doctors, we will have more account managers assigned to doctors, more support people to help them with their issues, additional developers to build new features and improve capacity, more servers to handle that capacity. So we have additional overhead that needs to be serviced.”

Such rapid growth may be necessary right now if, as Morgenthaler partner Rebecca Lynn believes, the electronic medical records industry turns out to be a winner-take-all business. “There will be one eventual winner and it will boil down to how good the product is,” Lynn says. “This team has really figured out the recipe for a very easy-to-use, intuitive process that doctors can get up to speed on in five minutes. I think they have the formula down, and it’s all about [customer] acquisition at this point, and that’s what the money is for.”

The Practice Fusion model is to offer doctors a full suite of electronic health records tools over the Web, meaning practices don’t have to install or maintain on-premises software. The whole package is free to

doctors, and the company makes money by embedding ads from pharmaceutical companies in its Web interface. It also charges researchers, pharma companies, and health plans for access to anonymized patient data. Under the 2009 stimulus act, adopting a system like Practice Fusion's makes medical practices eligible for payments of up to \$44,000 per physician.

Thiel, who is famous in part for his early investment in Facebook, said in today's announcement that Practice Fusion "revolutionizes our interactions with the medical community, just as Facebook did for social networking...We back companies that will radically change the world for the better, and Practice Fusion can do just that."

"These guys look for companies solving really big problems," Howard says of Founders Fund. "As far as Peter Thiel personally, he is on his own plateau. If you look at the problems he's solving today, with SpaceX [a private satellite launch company] and Halcyon Molecular [a developer of high-throughput DNA sequencing machines], he's the best possible partner for a number of different reasons."

Not the least of which, Howard says, is Thiel's ability to see the big picture. "My biggest goal as an individual is to ensure that Practice Fusion fulfills its potential, and that might be a 10-year run, and I know this group of people behind the company is 100 percent behind that....Paypal is a really good example. They burned through \$180 million before they ever turned a profit. [Founders Fund] have substantial capital in their fund, and they are willing to make these bigger bets because they can see that the value to society is much larger than just the investment return."

Practice Fusion recently announced a major hire—chief financial officer Jason Portnoy, a veteran of PayPal and other Thiel companies like Clarium Capital and Palantir Technologies—and its headcount of 65 will likely double by the end of the year, says Howard. But putting together the Series B round was a time-consuming distraction, he says. "We've been working on this one for a while. Now that the cash is in the bank, we're just looking forward to putting it to work."

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