

ORANGE COUNTY BUSINESS JOURNAL

The Community of Business

OCTOBER 1-7, 2012

Kareo Surges as Interest Spreads in Healthcare Tech

SOFTWARE: Its products for medical practices tap cloud trend

■ By VITA REED

Irvine-based **Kareo Inc.** is riding dual waves: higher spending on healthcare technology and surging interest for cloud computing.

The healthcare-software maker marked a 318% rise in revenue during a three-year span ended June 30, to \$13.8 million. Kareo is the No. 22 entry on the Business Journal's list of fastest-growing private companies based here (see related stories throughout issue; list starting on page 36.)



Rodrigues: tough times prompted company to refocus on fundamentals

Kareo provides cloud-based medical billing and practice management software over the Internet for small medical practices. The company is based at 111 Academy Drive, with 130 of its total 160 workers in Orange County.

Spending

"The underlying spending on the healthcare market is ... growing by trillions of dollars," said **Dan Rodrigues**, Kareo's founder and chief executive. "That's obviously having an impact in all sectors of the market, including healthcare IT."

The move from client server-based information technology to cloud technology has been particularly dramatic for smaller practices, Rodrigues added.

"If you go back five years or so, it was



Kareo headquarters: in University Research Park on Academy Drive

probably under 5% of doctors' offices that were on cloud-based [technologies], and now it's 20% to 25%," he estimated.

Focusing on small practices makes sense, because groups of one to four doctors make up 60% of the market, according to Rodrigues.

The company's software manages administrative and financial tasks such as appointment scheduling, insurance-claim processing, generating financial reports and billing.

Kareo doesn't provide software for electronic health record-keeping—another growing part of healthcare-information technology—but has "a number of partnerships with electronic health-record companies that do refer business to us," Rodrigues said.

Kareo distributes its products through direct sales and via tech-integration and co-

marketing partnerships with electronic health-record vendors, including **Practice Fusion Inc.** in San Francisco and Madison, N.J.-based **Quest Diagnostics Inc.**, a large medical laboratory that owns the Quest Diagnostics Nichols Institute in San Juan Capistrano.

Funding

Kareo has raised about \$20 million since its 2005 launch, including a \$10 million equity investment last October led by **Greenspring Associates** of Owings Mills, Md.

"They came and proposed a \$10 million investment on very favorable terms," Rodrigues said.

Kareo's management team includes **Jason Gardner**, chief financial officer; **James Armijo**, vice president of sales and service; and **Jason Leu**, vice president of

product development.

"I've mainly tried to recruit folks both from the technology and software industries outside of healthcare but also a few people on our team have healthcare technology background," Rodrigues said. "Building that leadership team was critical."

Role Change

Having the executive team in place has allowed Rodrigues—who previously was "wearing a lot of hats" and had to help design software and negotiate contracts—to change his role.

"My job has really shifted more toward raising capital, looking strategically and figuring out strategically what our vision is, not just over the next six months but over the next three years," he said.

Kareo's recent growth spurt comes after some challenges in its early years.

Rodrigues—who grew up in North OC and attended the University of California, Los Angeles—raised an initial funding round for Kareo from **Halsey Minor**, a technology entrepreneur and investor who founded **CNET Technology Inc.**, now **CBS Interactive**. But when his **Minor Ventures** withheld some funding, Rodrigues stopped taking a salary, the work force was cut by two-thirds, and Kareo moved into a small executive suite to preserve cash.

"Instead of raising additional capital, we just hunkered down and focused on the basics (and) good cash-flow management," Rodrigues said.

Kareo reached profitability in 2008 and **OpenView Venture Partners** of Boston bought out Minor's share of Kareo in 2010. ■