

Rescue team

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Physician Computer Network

Abstract:

Physician Computer Network (PCN) started business in 1988 by giving away IBM personal computers to practicing physicians. The doctors could use the computers for billing and claims processing; PCN would recoup by selling advertising space on its network to pharmaceutical companies. By 1991, PCN's cumulative losses hit \$44 million, its net worth was a negative \$30 million, and it defaulted on its \$34 million financing agreement with IBM Credit Corp. A \$33 million initial public offering at \$9 a share bought some time. Within a year, however, PCN stock was at 5/8. One shareholder held on: Jeffry Picower. He already owned 270,000 PCN shares. As the company deteriorated, he kept it afloat with \$15 million in new equity and loans of \$21 million. he ended up with control of the company and helped convince IBM to swap its debt for 13% of the equity. Picower recruited Hank Green as PCN's president in 1993. Picower and Green adopted a radically different business plan. Doctors would obtain their own hardware and pay license fees for software. Business conditions are discussed in detail.

Full Text:

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PHYSICIAN COMPUTER NETWORK started in business back in 1988 by giving away \$10,000 IBM personal computers to practicing physicians. The doctors could use the computers for billing and claims processing; PCN would recoup by selling advertising space on its network to pharmaceutical companies.

Strangely enough, most doctors didn't want the free computers. In three years Physician Computer Network signed up a mere 1,600. Among other things, the doctors didn't like the idea of someone with close links to drug companies running their information systems.

PCN had hoped to use the network to collect and sell clinical data, and to charge hospitals and insurance companies fees to link up with doctors' offices. But the doctors balked, and anyhow, the right technology and software didn't yet exist.

"It was a great combination--bad technology and no doctors," chuckles Henry Green, PCN's current chief executive.

By 1991 PCN was no laughing matter. Its cumulative losses hit \$44 million, its net worth was a negative \$30 million, and it defaulted on its \$34 million financing agreement with IBM Credit Corp. A \$33 million initial public offering at \$9 a share bought some time. Within a year, however, PCN stock was at 5/8.

But one shrewd and rich shareholder held on: Jeffrey Picower, a 53-year-old veteran of the computer leasing business and a onetime greenmailer, felt the idea could work with a different strategy. He already owned 270,000 PCN shares, which he had bought at \$7.49. As the company deteriorated, he kept it afloat with \$15 million in new equity and loans of \$21 million. He ended up with control of the company and helped convince IBM to sap its debt for 13% of the equity.

Picower recruited Hank Green as PCN's president in 1993. Tall and balding, Green is a former vice president at Johnson & Johnson, where he built Acuvue into the number one contact lens brand.

Picower and Green adopted a radically different business plan. No more ads, no more free computers. Doctors would obtain their own hardware and pay license fees for software. PCN would make its money not from selling advertising but from licensing software and running the network.

Since Green's arrival, PCN has spent \$100 million in cash, notes and assumed debt to buy six competitors, raising the number of doctors it serves to 80,000. Green figures that he now has about a quarter of what he calls the office-based physician market--meaning no salaried doctors at hospitals, universities or in the military.

PCN took a chance by launching its new strategy just as the medical profession was thrown into turmoil by Hillary Clinton. "We were in Hillary Billary time," Green explains from his office in Morris Plains, N.J. "Other buyers laid back to see what was going to happen. With Jeffrey's money, we could move in before anyone knew what we did."

To raise money Picower and Green sold 15% of the firm to the public for \$23 million in a February 1995 secondary offering.

They are still not out of the woods. To make the acquisitions pay off, Green must convince 78,000 newly acquired customers on six different computer systems to convert to one common computer network. Green won't reveal his conversion rate, but says it is running ahead of expectations.

PCN now has a deal with Equifax that lets it charge insurance companies and managed care companies for electronic links to doctors' offices. That makes billing easier for doctors and should

help them keep track of which patients are eligible for which HMO plans.

Only a handful of managed care companies are ready to be hooked into the network now, but that will change as the industry keeps squeezing costs.

Back from death's door, PCN should gross about \$100 million this year. About 60% will come from software licensing and support, and 40% from third-party fees for linking to the computer network.

Looking ahead, Green has high hopes for a new joint venture with Glaxo Wellcome. Called HealthPoint, it will supply doctors with a handheld computer to record patient diagnosis, treatment and progress. Available later this year, this system may eventually let doctors connect their office files to electronic bedside charts so that they can monitor hospital patients.

Says Green, "If hotels can afford handheld technology for their \$7-an-hour housekeeping staffs, why not health care?"

The idea is to "manage" clinical data--to gather enough information, for example, to figure out what variables matter when deciding to treat a cancer patient with surgery or chemotherapy. This should lead to more cost-effective medicine.

Will the clinical data management ploy work? Right now the whole area is like the old VHS versus Betamax VCR wars. Common standards have yet to be established, and several firms are scurrying about, developing their own systems.

Where does all this leave PCN? At a recent 13 7/8, its 47 million shares have a market capitalization of \$650 million. That's 34 times this year's expected earnings.

And Jeffrey Picower is sitting pretty. Even after the secondary offering, he still controls 55% of PCN. His \$24 million investment in what had been a failing company has a current market value of more than \$350 million.

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