

# Medical Firm IPO Enjoys Healthy Public Reception

**INVESTING:** IPC shares have held steady at about \$20 since \$16 debut.

By **DEBORAH CROWE** Staff Reporter

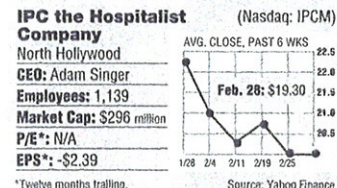
**D**R. Adam Singer couldn't have chosen a worse week for the initial public offering of **IPC the Hospitalist Co.**, a hospital physician management firm he founded a decade ago.

Singer and his executive team landed in New York the morning of Jan. 21 for a week-long road show to find the already choppy equity markets in turmoil over news of a suspected \$7 billion fraud at French banking giant **Societe Generale**.

Many stock indexes suffered their worst one-day close since Sept. 11, 2001, but the team shuttled up and down Wall Street anyway hoping to wow some 100 money managers.

"If we had had a choice we wouldn't have picked a week where you had 600-point swings in the market," said Singer, noting only one other company proceeded with its IPO that week. "But we found that if you're a good business, with real visibility on your earnings and a proven track record — companies like that will make it out even in the worst markets."

The first Los Angeles-area company to launch an IPO this year, IPC ended up having one of the more successful initial offerings since last summer's credit market implosion. Its stock, priced within its anticipated range at \$16, appreciated by nearly 30 percent after it began trading Jan. 25. Shares have since largely maintained their value, closing at \$20 on Feb. 26, up 25 percent from the initial price.



Ironically, the unsettled market situation may have highlighted IPC as a potential safe-haven investment, since the health care services industry is seen as less sensitive to economic cycles.

The company is now the first publicly held — and is considered the nation's largest — manager of hospitalist physician practices. Hospitalists work only in hospitals to manage inpatients for primary care doctors and specialists.

"IPC is a bit of an anomaly among the IPOs you see right now," said Paul Kacik, who heads the Los Angeles-based health care practice at investment bank Barrington Associates, which was not involved in IPC's offering. "It's an excellent company in a part of the health care market where there is a growing demand. All the stars were aligned for it to have a successful offering."

Singer, a 47-year-old specialist in pulmonary care, is among the pioneers of the hospitalist movement, which hadn't even been given that name when he and some other doctors won a contract with a large physicians association in 1991 to offer in-hospital services at Burbank's Providence St. Joseph Medical Center and eventually other hospitals.

## Exporting the model

By 1995, the group had grown to almost 200,000 patients under contract, prompting Singer to consider exporting the model to other hospitals via a larger physician management company.

The next year he began forming IPC, and he obtained his first venture funding the year



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Adam Singer: Chief executive of IPC.

after that from **Morgenthaler Venture Partners** and **Bessemer Venture Partners**. **CB Healthcare Fund LP** and **Scale Venture Partners**, formerly Bank of America Ventures, later came on board. In all, venture investors have poured more than \$47 million into IPC since 1998, according to Dow Jones & Co.'s **VentureOne** market tracker.

"We've been operating, on the financial side, like a public company since we got the venture money," said Chief Financial Officer Devra Shapiro, the company's third employee. "That made the preparation for going public a lot easier."

IPC has grown its business first by developing its own hospitalist practices and, later, as the industry matured, by acquiring smaller established practices. In early February, the company entered the New England market by acquiring a Massachusetts-based regional medical group.

Successful physicians within the IPC model tend to be two to three years out of training and work between 20 and 23 days a month. Annual compensation is based on productivity with incentives tied to quality measures. Each practice receives a profit and loss statement with revenues split between the practice and the national parent company. Doctors also are eligible for stock options after a certain time with the company.

Nearly all of IPC's growth has been outside of Southern California partly due to the collapse of large often publicly held managed-care physician practices here in the late 1990s, which Singer said badly damaged the market for companies like his. Local hospitals have instead tended to develop their own hospitalist practices, though Singer hopes that might eventually change.

Hospitalist programs have resulted in an average 13.4 percent reduction in hospital costs and an average 16.6 percent cut in the average length of a patient's hospital stay, according to the *Journal of the American Medical Association*.

Those kinds of results have helped boost the number of physicians who work at hospitals to more than 20,000, compared with less than 1,000 in the mid-1990s, according to the *Society of Hospital Medicine*. The group estimates that the number will grow to 30,000 by 2010.

"As the first public company in this space we have the chance to define this new model for health care," Singer said. "That's an exciting place to be."