

Though his latest venture is a software company, John Pappajohn doesn't even use a computer. His mind and experience are his computers.

# From Iowa to Wall Street

By William Green

IN APRIL 1996 American Physician Partners was merely a concept dreamed up by John Pappajohn, a venture capitalist, and Dr. Derace Schaffer, a radiologist.

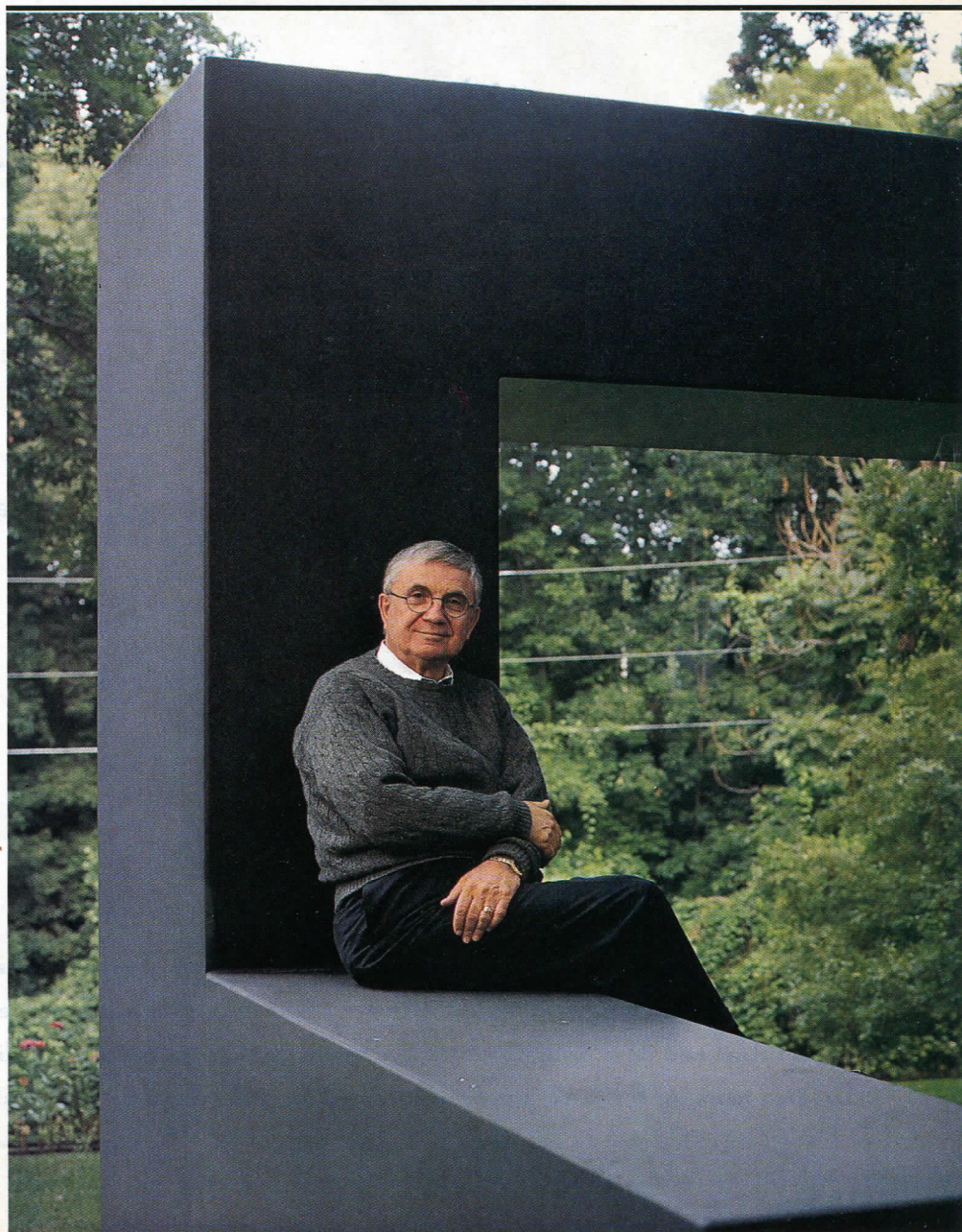
Their idea: to create America's largest low-cost provider of radiology services, such as X rays and mammography. Moving at bewildering speed, they hired a chief executive who had headed an eye-care firm, raised capital from private investors and began recruiting more than 200 radiologists. For his trouble Pappajohn got 1 million shares for just \$125,000. And Schaffer got an equal stake.

Within months the Dallas-based company boasted annualized revenues of \$150 million.

American Physician Partners is slated to go public in mid-September at around \$15 a share. If the offering goes smoothly, Pappajohn's initial \$125,000 stake will be worth \$15 million—a 120-fold return in 18 months. Says he, "You don't know anybody who makes money easier than I do."

In fact, not many people have ever heard of John Pappajohn, 69, of Des Moines, Iowa. He has received no press outside his home state, but his investment acumen is the stuff of legend. When he set up shop as a venture capitalist in 1969, he had \$100,000. By investing that money in health care startups he has turned it into a personal fortune of more than \$200 million.

While other venture capitalists take in funds from institutional investors and rich individuals, Pappajohn's venture fund consists solely of his own





money. "If you have partners, it's very restrictive," says he. "I don't have to account to anybody."

In the past 27 years he has founded more than two dozen public companies. The key is "to be there first or very early," says Pappajohn. "Wall Street will pay more for a successful new idea."

The \$100,000 that launched Pappajohn on his career as a venture capitalist did not come easily or early. A child of poor immigrants, Pappajohn was born in Greece and grew up in Mason City, Iowa, where his father

ran a corner grocery store. The family didn't have a telephone and shared a car. His father died when Pappajohn was 16, leaving him to support his mother, who spoke no English, and his younger brothers, Aristotle and Socrates.

From there it's a classic immigrant-boy-makes-good story. Pappajohn took over the store, often working from 6 a.m. to 10 p.m. To pay his way through the University of Iowa, he toiled as a supermarket butcher. It took him six years to graduate because he took turns with his brothers going to school. But by the time he graduated in 1952, he had saved \$2,000.

There was an irresistible entrepreneurial streak in this shopkeeper's son. After eight years selling life insurance, Pappajohn founded Guardsman Life, which he eventually took public. After seven years, he cashed out. The insurance business offered a good living, but you could not get rich selling such a competitive product. He needed something fresh, something different. He was then 41.

One of his first deals involved Kay Laboratories, a San Diego-based company that held patents for ice packs and hot packs used in hospitals. Pappajohn invested his fund, raised more money privately, then helped arrange a public offering. Kay, which was later acquired by American Hospital Supply, made Pappajohn his first million.

Bigger deals quickly followed. One of the most lucrative involved Caremark, America's first home health care company. Caremark helped patients with chronic digestive disorders avoid costly hospital visits by enabling them to feed themselves at home. "If you could save money for patients and health care providers," Pappajohn reasoned, "Wall Street would love it."

That could well be Pappajohn's slogan, because in whatever he does, one of his first questions is: How will this play on Wall Street? Caremark, which was ultimately sold to Baxter

International, made him more than \$12 million.

His biggest coup involved Quantum Health Resources, a home health care company that he helped found in 1988. Quantum provided hemophiliacs with medication and taught them to inject themselves intravenously at home.

Pappajohn was Quantum's largest shareholder, buying 1.6 million shares of the company at 12½ cents a share.

In 1991 Quantum went public at \$12 a share and was later acquired by the Olsten Corp. Pappajohn made over \$25 million in six years on a \$200,000 investment.

While he thinks Wall Street, Pappajohn never forgets that he is nurturing a business. His chief executives often develop an intense admiration for both his insight and his integrity. "John Pappajohn is my role model," says Antone Lazos, who founded a company with him in the 1980s. "He's a visionary with old-world values."

One reason his executives admire him is that he lets them run the business but is always ready to offer advice if asked. Says he, "I like to be the key director that they turn to when they need help."

When his businesses get in trouble, Pappajohn doesn't bail out. Core, a company that helps employers reduce their disability costs, hit a wall in 1994 when an accounting glitch delayed its acquisition of another firm. Core's chief executive, George Carpenter, called Pappajohn in distress, confessing that he had no money for his payroll. Within hours Pappajohn had lent Core \$200,000. "He literally saved the company," says Carpenter. Pappajohn, who prides himself on his instincts about companies, was justified in his faith. Core's stock has tripled, to \$9, in the past two years.

This habit of sticking by his companies has won Pappajohn a devoted following among institutional investors, making it easy for him to raise money for new ventures. "You feel comfortable being in his companies," says Helen Degener, a money manager at Fiduciary Trust. With some other venture capitalists, "your



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Venture capitalist John Pappajohn  
In his Des Moines sculpture garden.





The University of Iowa's Pappajohn Business Administration Building  
**Pappajohn wants "to be the greatest philanthropist in the history of Iowa."**

ability to make money is based on how fast God will let you get out."

With wealth and advancing age, John Pappajohn has lost none of his zeal for creating businesses and making money. He still works seven days a week and has a stream of new ventures in the pipeline.

One of his latest is NetGenics, a bioinformatics startup. The company is developing software that would help pharmaceutical companies manage their drug research data. NetGenics' cofounder and chairman is Walter Gilbert, a Nobel Prize-winning scientist who cofounded Biogen.

Pappajohn is old-fashioned in more than his ethics. He doesn't use a computer. He keeps a list of his companies on a tatty piece of paper in his coat pocket. Yet he quickly grasped the market potential of NetGenics' software, which might speed up the colossally expensive drug discovery process.

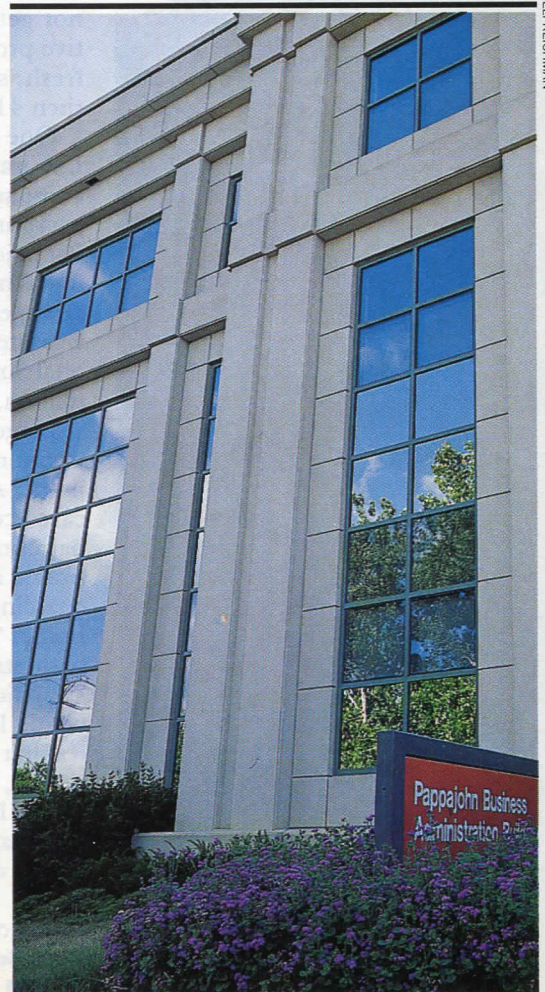
Leaving other venture capitalists in the dust, he signed on with NetGenics within days. He got 25% of the company for \$500,000 and set about bringing in outside investors such as Venrock, the Rockefeller family's venture capital fund. Venrock was happy to pay \$1 a share for a stock that cost Pappajohn 25 cents a share. NetGen-

ics just celebrated its first birthday and already has contracts with major pharmaceutical companies. Next year Pappajohn hopes to take it public. "In two or three years," he says, "I think it's a \$5 or \$10 stock."

One reason Pappajohn isn't better known is that he maintains a modest scale of living. The car he drives is a 15-year-old Mercedes 380SL. Though he spends much of his time in New York, he makes do there with a modest one-bedroom apartment.

So what's he going to do with all that money? His current ambition, says Pappajohn, "is to be the greatest philanthropist in the history of Iowa."

He recently set up a scholarship fund for disadvantaged kids, and he's given millions to the University of Iowa, which has named its business school building after him. With all his getting, he's clearly gotten understanding. ■



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