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Hospital company chief to challenge Clinton

BYLINE: Del Jones

Hillary Rodham Clinton, meet Richard Lynn Scott.

"He's the Michael Jordan of the health-care industry," says Richard Rainwater, a Texas financier who has made fortunes discovering entrepreneurs in their infancy.

The bad news for you, First lady, is that this Air Jordan vows to do "everything I can," to block government intrusion into health care.

You and Scott were penciled in for a meeting right after the inauguration. Something came up. You canceled. No biggie. At the time, Scott was the little-known CEO of Columbia Hospital Corp. and its 26 hospitals.

But on Aug. 31, Scott completed the biggest hospital merger ever by taking over Galen Health Care and its 73 hospitals for \$ 3.2 billion in stock. Then, on Oct. 3 he astounded the industry by engineering an even bigger acquisition: HCA-Hospital Corp. of America and its 96 hospitals for \$ 5.7 billion in stock.

Columbia was Fortune's fourth fastest-growing company last year with \$ 819 million in revenue. It likely will be No. 1 next year with \$ 10.4 billion. Once the deal is completed by year's end, Scott will be in charge of 190 hospitals with 42,000 beds in 26 states. Earnings per share could rise to \$ 2.40 in 1994 from \$ 1.16 last year, according to Morgan Stanley.

The new Columbia/HCA Healthcare Corp. will be four times bigger than any other acute-care hospital company. Scott will be the boss of one of every 1,000 workers in the country.

He talks about gobbling up more hospitals and growing eight times. "There's no reason we can't have 25% of the beds in the country."

First lady, you can call him Rick - he asks that everyone does. Brace yourself for an unassuming yet persevering opponent who has recently made the media rounds on The McNeil-Lehrer Report and CNN. He may quickly become a Lee Iacocca-like, rags-to-riches ambassador for health-care's private sector.

"Hillary Clinton says this time the government will run things right," Scott said while touring Medical City Dallas, one of seven Columbia/HCA hospitals that will blanket the Dallas-Fort Worth area. "But look at the VA (Veterans Administration) system."

He rolls his blue eyes. "Yeltsin is fighting for democracy and Bill Clinton is fighting for Russia's centralized planning."

Scott, 40, has lived the "American dream story," says Mort Meyerson, CEO of Perot Systems and an original investor in Columbia six years ago. He says Scott is the classic contrarian who gets rich seizing opportunity in an industry reeling in confusion and fear.

"This is a great time to be in the business," Scott says. "It's complete chaos. That's when you do well."

Scott grew up poor in North Kansas City, Mo. His truck-driving father, Orba Scott, never made it to junior high. Richard married his high school sweetheart at 19 and, while in college, bought a Flavorsmaid Doughnut Shop with \$ 7,500 savings from a stint in the Navy. That gave his mother, Esther, a well-paying job running the business. They sold it for a "nice" profit while Scott was going to law school at Southern Methodist University.

In 1987, while working grueling hours as a 33-year-old corporate lawyer in Dallas, he engineered a nearly successful friendly takeover of HCA-Hospital Corp. of America in his spare time. His nerve and brilliance caught the attention of Rainwater, who had helped build a fortune for Texas' wealthy Bass family.

"I made a cold call," on Scott, Rainwater says, and soon they agreed to each put up \$ 125,000 to start Columbia with two hospitals. Again, it was Scott's life savings.

Columbia began operations on Oct. 19, 1987, the day the Dow Jones industrial average plunged 508 points.

First lady, you'll probably find Scott a friendly adversary. While practicing at the Dallas law firm of Johnson & Gibb, he was often called on to smooth things over with disgruntled clients. Touring the former Gallen Health Care hospital in Dallas last week, he broke the ice with nine doctors by telling lawyer jokes. Scott told people that most of his friends had their babies at Medical City Dallas - where 5,000 babies are born each year.

When trying to make sense of the complicated hospital industry, he often tells "doughnut stories" to his staff, Vandewater says. For example, he learned from his doughnut days that most customers arrived from 6 a.m. to 8 a.m. and business fluctuated wildly depending on the weather. Yet, doughnuts had to be made between midnight and 6 a.m. He made demand predictable by making bulk sales to corporate cafeterias. Business tripled the first month.

Today, he's trying to smooth hospital demand, which fluctuates heavily from one day to the next. By owning several hospitals in a single city, demand can be more efficiently spread throughout a network.

He also is buying everything from psychiatric hospitals to outpatient clinics, hoping to create "one-stop, health-care shopping." Expertise can be shared, and expensive equipment kept busy.

He gets hospital administrators to cooperate with the group effort by tying 50% of their bonuses to the network's success. "It works," Scott says.

He also gives doctors a stake in hospitals - something that has raised conflict-of-interest eyebrows. Critics complain that doctors are tempted to admit patients just to increase the value of their investment. But Scott says it merely gets doctors to offer ideas and focus on cost control. Columbia's research shows doctors refer far more charity patients to hospitals where they hold a stake, though Scott could not say why.

Columbia also has bought eight hospitals just to close them. That reduces excess capacity in the market and make it so "bad doctors have no place to get on staff," Scott says, who promises more closings. "I shut down one hospital I could easily have sold for \$ 50 million," he says. Scott may next go after struggling non-profit county hospitals that can't compete despite having the advantage of not having to pay taxes.

And get this, Hillary Clinton: Scott wouldn't mind the government privatizing Veterans Administration hospitals.

"Let us make a profit," he says. "So what?"

Frugal CEO goes from rags to riches

On being frugal: Even though his original \$ 125,000 investment six years ago has grown to more than \$ 170 million in Columbia Healthcare stock, Scott says he was raised poor and will always think that way. As a rising workaholic lawyer, he was teased about his lime green Chevrolet Monte Carlo sedan because it wasn't what most of his aspiring peers figured he ought to be driving. While visiting one of his new hospitals in Dallas last week, he told some doctors that when he was in law school he had to light his apartment stove with rolled newspapers because he couldn't afford matches with long sticks.

Is he a nut about saving money? He shakes his head, no. He doesn't clip coupons or cut his own hair, although "sometimes I look like it." But he still flies coach, and he tries his best not to spoil his children.

He's loosening the purse strings: "I eat out more. Typically, it's a hamburger joint or cafeteria." And he now lets his staff drive midsize rental cars. "He used to make us drive Pintos. I told him

we couldn't drive those bitty cars," Columbia Healthcare Chief Operating Officer David Vandewater says.

Will he get richer? Is Scott a budding multibillionaire destined to join Microsoft's Bill Gates among the young and super rich? Scott answers with a shrug. "I'm only 40." Mort Meyerson, CEO of Perot Systems and a Columbia Healthcare investor, says Scott will never be the richest man in the USA. But that's only because the health-care industry already consumes 14 cents of every dollar spent in this country and can't possibly grow like the software industry 10 years ago. "The wind at his back won't be the expanding market," Meyerson says. "The wind at his back will be that he is a better deliverer of service."

Columbia Healthcare's health improves

Columbia Hospital Corp.'s revenue is soaring as it gobbles up hospitals. But it still will have only 3% of hospital beds in the USA after its merger with HCA-Hospital Corp., so potential growth is enormous.

Revenue in millions

1988	\$ 45
1989	\$ 153
1990	\$ 290
1991	\$ 499
1992	\$ 819
1993(1)	\$ 5,200
1994(2)	\$ 10,400

1 - revenue with Galen Health Care 2 - projected revenue with HCA