

# Getting the Picture

BY MARTI WEBB SLAY

Doctors who used to get results from MRIs or CT scans on film now view the information in three-dimensional mode via computer thanks to Birmingham's Emageon

What was merely a good idea a decade ago has become a rapid-growth company, setting growth records and raising over \$67 million in capital when it became a publicly-held corporation earlier this year.

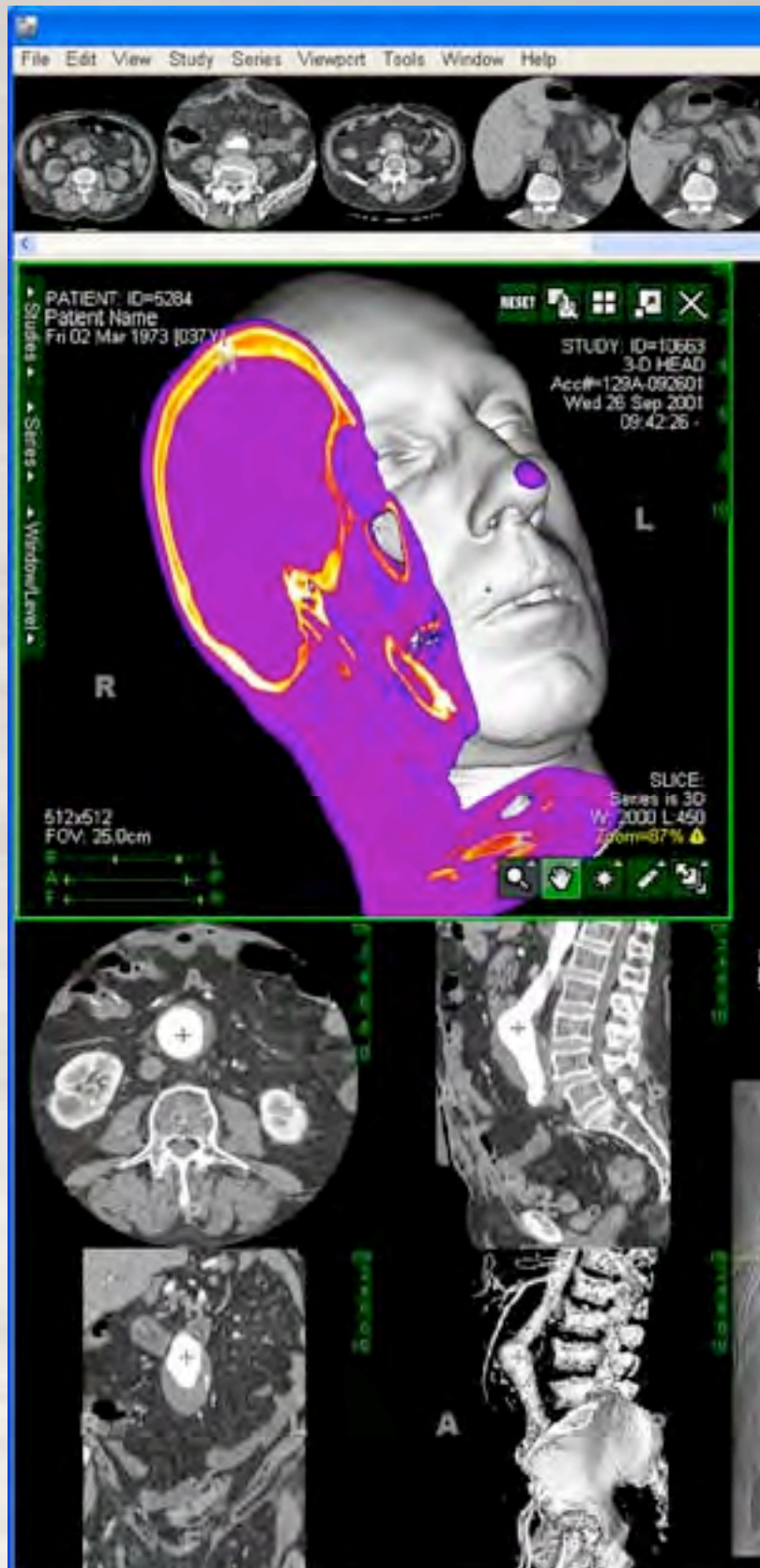
Emageon, which sounds remarkably close to 'imagine' in conversation, offers a medical imaging and archiving solution to multi-hospital networks, community hospitals, physician clinics and diagnostic imaging centers.

Chairman and CEO Charles A. Jett Jr., explains it this way: "Doctors used to get the results from MRIs or CT scans on a film, and they put it up on a light box and looked at it. For several years, CT scans and MRI in particular have

been producing digital output. What we do is connect the devices to a network, and instead of printing to film, we capture that image, run it across the network into our system and allow the diagnostic physicians — the radiologists — to look at those images on a computer screen in a three-dimensional mode."

Emageon's comprehensive, "enterprise-class" archiving system is unique among competitors, with an ultimate goal of providing better, more effective medical care.

One doesn't have to go far into the past to find the germ of idea that started Emageon. Just 10 years ago, Barton Guthrie, MD, of the Division of Neurosurgery at the University of Alabama in Birmingham



(UAB), wanted better tools available to him in his practice and in the operating room.

"He was frustrated, because he knew that the MRs and CTs were producing digital output and that



the radiologists were getting to see it on systems in the department of radiology, and he wanted it extended

out to him,” says Jett. Guthrie secured some grant funding and hired Gary York, PhD (a

Carnegie Mellon computer engineer) as his consultant to develop the program he envisioned. “That product

in a very simplistic form, was just a medical image archive for digital images,” explains Jett. “But there are

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a whole bunch of technological challenges around storing these medical images because they're so large. For instance, every CT generally is about 600



**Charles A. Jett Jr., chairman and CEO**

MB of data and growing, and having to move those large files around a network and sorting them requires some pretty thoughtful consideration and tool development. Gary starts thinking he's got something that has commercial applicability."

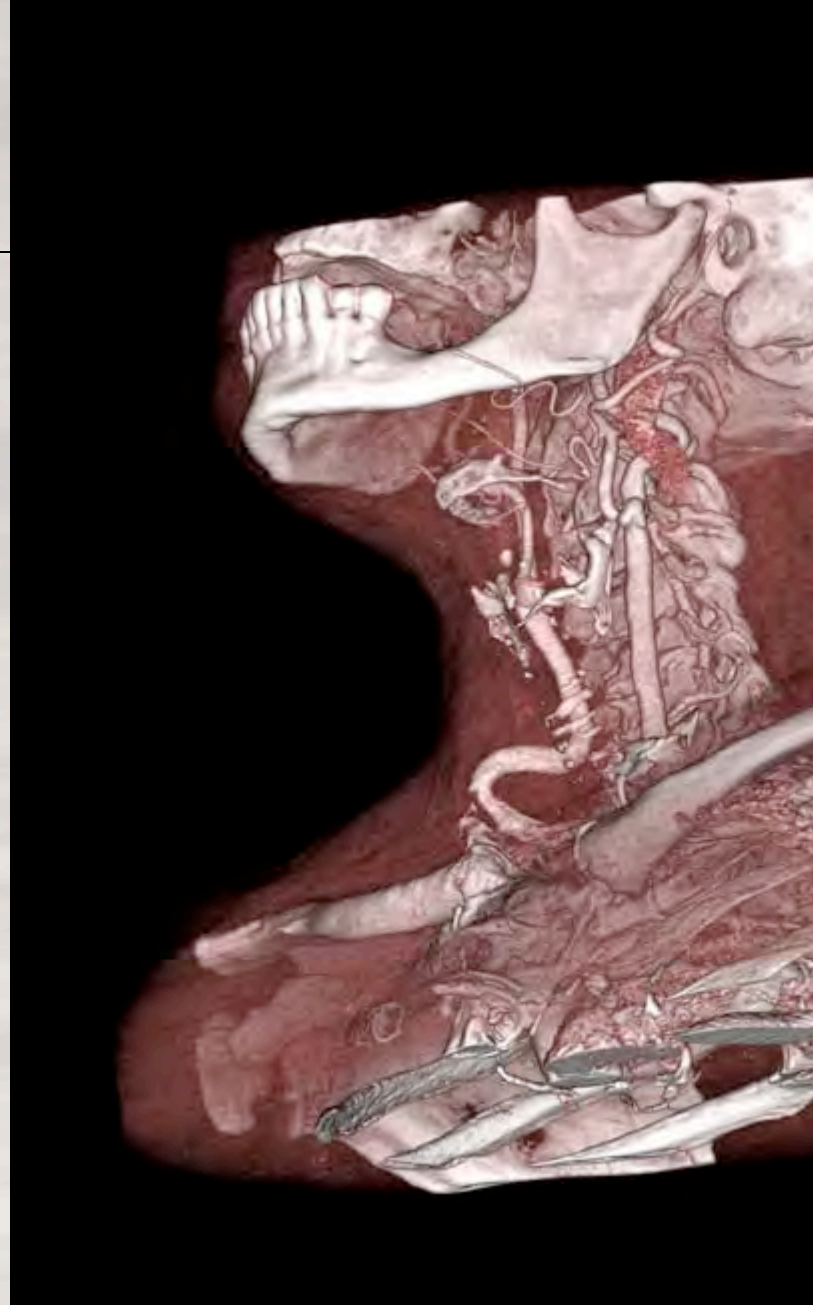
**W**ith help from the Entrepreneurial Center, a Birmingham business incubator, Guthrie and York connected with Jett, who was brought on board to direct the growth of the new company. "I took the custom work that had been done at UAB and started the commercial packaging of it and getting it ready for commercial sales," he remembers. "We also began

recruiting and building a management team and an operations group and so forth, and our first sale was in December of 2000. We just grew from that point forward."

It is difficult to estimate the impact Emageon's system can have on patient care. By eliminating hard film, the digital product also eliminates the need for storage and delivery of images from one office to another. "The value associated with that is productivity, efficiency, cost avoidance, and the avoidance of having to buy and print film, hang film, and move film around the organization," says Jett.

"The big value proposition, though, is actually getting the images out to the physician that ordered the study in the first place," he continues. "Radiologists never order the study – it's a referring physician. We allow those physicians to have access to the imagery and the tool sets in 3D across wide area networks and across the Internet, so the treating physicians actually have better tools to practice medicine with."

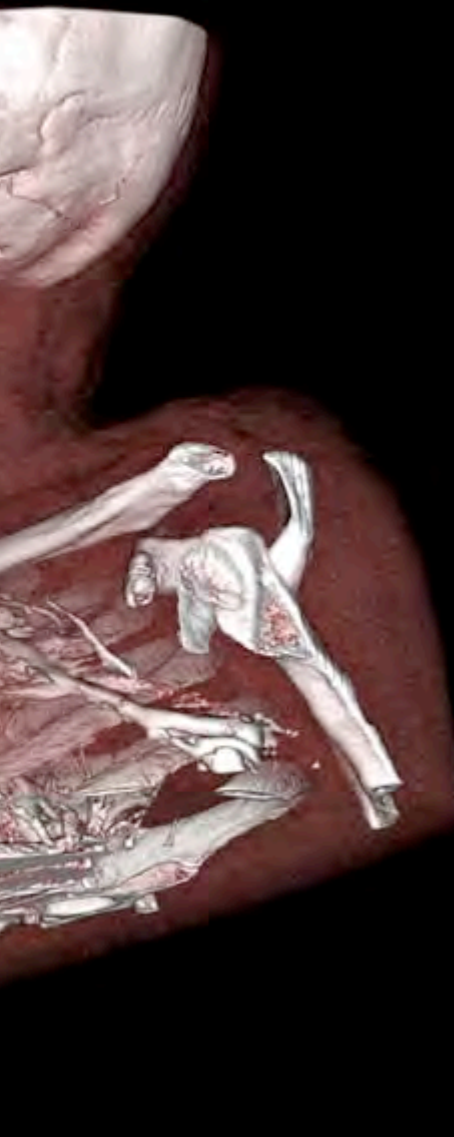
That 3D capability is one of the features that makes Emageon's product unique. "We have the only product that puts 2D visualization and 3D capability on the same computer screen for the physician to use," Jett says. "If you are a surgeon, and you were doing something in the



brain, and you have that image available to you both in your office or your home, and certainly in the operating room as you're doing the procedure, it gives you a great advantage. For instance if you wanted to get down to the actual millimeter of the location and size of the tumor you were looking for, you can do that with the 3D image. You can't do that with a flat-screen picture."

There are competitors, but Emageon believes its success has been in large part because its product

and service capabilities rise above the pack. "Our product is really the only one that takes this full enterprise approach, meaning we take all medical imagery from all departments and get it into this comprehensive enterprise-class archive. Once we have it there, we're able to integrate it with the hospital's administrative system so that when a physician in the ER or the OR or on the floors goes into a patient record, the availability of the medical image and the tools to manipulate those images are



present at that point. We're the technology that really brings it all together on an enterprise class," says Jett.

The company quality of service strives to be a step above as well. "We have all of the advantages of a small, entrepreneurial, nimble, customer-centric, fast-acting organization," says W. Randall Pittman, CFO. "We have an ability to tailor our service offerings more rapidly. We're small, agile, can react fast and therefore can provide more customer specific solutions in ways that are better,

faster and cheaper than a large company."

Emageon takes pride in its Alabama roots. "It's very much a great Alabama story, and more specifically a Birmingham story," says Jett. "It was thought up by a Birmingham doctor, created by a Birmingham computer scientist, founded by a local Birmingham guy, and funded by me and a handful of other Birmingham businessmen and the Economic Development Partnership of Alabama. That's the way that we launched this business, and it's a nice success story."

Pittman agrees. "We have expanded the company where we have a nationwide footprint now. Still, over half of our employees are here in Birmingham. Almost all of our people in Birmingham are local people. There are a few folks that have moved in from somewhere else, but we've been able to attract a lot of good talent from here."

The jobs created by Emageon have benefited the local economy. "If you look at it from an economic development perspective, you'd say it's a home run in terms of the kinds of jobs that have been created as the result of this company," he says.

Their impact has grown far beyond Birmingham now, however. Thanks to a 2003 acquisition, the company also has an office in Madison, Wis. Its customer

Emageon's Enterprise Visual Medical Systems are serving hospitals and imaging facilities across the country. Customers include:

Allina Hospitals and Clinics  
Ascension Health  
Aurora Health Care  
Baptist Health System  
BJC HealthCare  
Catholic Healthcare West  
Kaiser Permanente  
LibertyHealth  
Sisters of Mercy  
Sisters of St. Francis Health Services  
ThedaCare  
VirtuaHealth

base reaches around the nation as well. "We have customers from New Jersey to California," says Jett. "Our first major customer was in California, and we have relationships with more than 250 hospitals in 24 states. It's pretty broad."

Emageon's growth has been astounding, and with an increasing need for imaging in health-care, the firm is uniquely situated for continued growth at an unprecedented rate. "In 2003-2004, our revenues grew at a compound annual growth rate of 89 percent per year," explains Pittman. "Growing that rapidly, we felt a need for a substantial injection of new capital. The market dynamics throughout the country made it clear that hospitals were going to continue to acquire this technology, and we wanted to be on the forefront of it. So we had to raise a substantial amount of capital, and the best way to do that was in the public market."

In the first quarter of 2005, Emageon became a publicly traded company (NASDAQ: EMAG), raising over \$67 million in capital and paving the way for future growth and innovation. "It was really very simple," Pittman says. "The cost of capital in the public market was cheaper than the cost of capital in the private market.

"The law of large numbers tells you that a compound annual growth rate of 89 percent is not sustainable," he continues. "This year, for instance, in the first half of the year, we've grown at a 55 percent clip over last year, which is still very rapid. We believe that at least in the foreseeable future, even though our growth rate will be slower than it has been in the past, we will still be considered a rapid-growth company, and we believe we can grow the company at about a 30 percent clip going forward. That's subject to risk, but we certainly believe we've got the opportunity to do that."

"We focused on building a company to last," says Jett. "We invested for the future from the beginning. We continue to invest for the future, and we believe that we have an opportunity to grow a really nice company." ■