

NME to Buy Rival Chain American Medical Acquisitions: \$3.3-billion deal aims to spur firm's competitiveness in California, out of state. Analysts' reactions are mixed.

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National Medical Enterprises said Tuesday that it will acquire rival hospital chain American Medical Holdings in a \$3.3-billion deal that would nearly double its size and strengthen its presence in the key Southern California and southern Florida markets.

With the hospital industry undergoing a massive restructuring, National Medical's acquisition would ensure that the Santa Monica company-now the nation's second-largest health care firm-remains a significant player, analysts and company executives said.

It would also increase the likelihood that National Medical, which was likely to be swallowed by a competitor if it didn't strike first, can remain independent.

However, the deal is not quite the blockbuster that National Medical Chairman Jeffrey Barbakow had set his sights on.

Barbakow tried to negotiate a complicated three-way merger with Dallas-based American Medical and HealthTrust Inc. of Nashville. If completed, it would have transformed National Medical into a health care giant nearly equal in size to Columbia/HCA Healthcare Corp., the nation's largest health care concern.

But Columbia/HCA, based in Louisville, Ky., quashed Barbakow's plan a week ago when it bid \$3.4 billion for HealthTrust.

Instead of becoming a national force almost overnight, National Medical will have to settle for becoming a bigger player in specific U.S. markets. Besides California and Florida, the American Medical deal would also give the firm a strong presence in New Orleans and Texas.

"We will never be the biggest health care company in the United States; that is not our goal," Barbakow said. "We will try to improve our position in the markets we serve."

The new company would have \$5.3 billion in combined revenue and 84 hospitals in 13 states and overseas.

Barbakow called the American Medical deal "the very best transaction" available to the company and said more acquisitions are likely.

"You'll see a lot of deals quickly," he said, adding that they will probably include acquisitions of one or two hospitals in certain markets. He said the company will look closely at possible acquisition of nonprofit hospitals, many of which are struggling financially in an era of medical cost cutting.

But Barbakow said the company is also exploring some larger hospital acquisitions, though most of the biggest chains have been snatched up in other mergers. One exception is Nashville-based OrNda Healthcorp., a 48-hospital chain with a strong presence in California, which some analysts have suggested as a good match for National Medical. Barbakow wouldn't comment on any discussions with OrNda.

Analysts had mixed reactions to the deal.

Jeff Villwock of Johnson Rice & Co. in New Orleans praised the deal as "a tremendous operating merger" with "a lot of synergies."

But Dean Witter Reynolds' Todd Richter said National Medical's move was "one of desperation. Putting NME and American Medical together doesn't get you the critical mass you need to survive in the future."

Barbakow said the merger would allow the company to negotiate better deals with health insurers because of the size and breadth of its facilities in Southern California. It would create especially strong operations in Southern California-which would account for half the combined entity's revenue-and in southern Florida, Louisiana and Texas.

National Medical owns eight hospitals in Southern California, including its Los Angeles flagships, Century City Hospital and USC University Hospital. American Medical operates five hospitals in Southern California.

"We have a hospital in Century City and now we have ones in Tarzana and Encino, plus Orange County," Barbakow said. "We'll have the critical mass to go to the employers in Los Angeles and say, 'We have the following assets and services across Southern California.' "

But one health care executive said National Medical may still not have enough facilities in the huge Los Angeles market to gain the marketplace clout it seeks.

"I haven't seen any HMOs that are willing to sign a contract with one medical system," said Terry Hartshorn, chief executive of UniHealth America, a Burbank-based health care company that owns nine hospitals in Southern California. "This marketplace is so complex and competitive now that 15 hospitals isn't a big enough critical mass to create much of anything."

The \$3.3-billion valuation for American Medical includes the assumption of about \$1.3 billion in debt by National Medical.

National Medical shares fell 62.5 cents to \$15.625 on Tuesday in heavy New York Stock Exchange trading. American Medical shares rose \$1.625 to \$24. Barbakow said no decision has been made on where to locate the corporate offices if the deal is completed. National Medical has been looking for a new headquarters for several months. Its Santa Monica offices were badly damaged in the Northridge earthquake in January, and it doesn't need as much office space after recent layoffs.

The new company will be renamed, "but all I can tell you is it will not have NME in it," Barbakow said in a telephone conversation.

Renaming the company, observers said, would be a good strategy because the National Medical name has become linked to fraud.

Since Barbakow took the top job at National Medical 15 months ago, the company has struggled to overcome its negative image after a swamp of legal and ethical problems. In July, the company paid \$380 million to settle federal criminal fraud charges and pleaded guilty to six counts of paying kickbacks for the referral of Medicare patients. It also paid more than \$200 million to settle civil suits brought by insurers and former patients over allegations of fraud, overbilling and patient abuse, primarily involving the company's psychiatric hospitals.

National Medical has divested most of those facilities.

Until 1990, American Medical was based in Beverly Hills. Its chairman and chief executive, Robert W. O'Leary, is former head of the St. Joseph Health System, a not-for-profit, nine-hospital chain based in Orange.

O'Leary and John T. Casey, American Medical's president and chief operating officer, would become co-vice chairmen on National Medical's board.

Barbakow would be chairman and chief executive of the combined companies, and Michael Focht, National Medical's president and chief operating officer, would retain those titles.

National Medical Merger

The combination of National Medical Enterprises and American Medical International would double NME's revenue and more than double its number of hospitals to 84, but the new firm would still be far behind the giant Columbia/HCA Healthcare Corp., which would have 311 hospitals under a pending merger. Here's what the combined company would look like:

- * Revenue: \$5.28 billion
- * General hospitals: 84
- * Geographic concentration: California, Texas, Florida
- * Employees: 63,200
- * Headquarters: Santa Monica
- * Chief executive: Jeffrey Barbakow

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