Tenet to Buy Rival OrNda for $3.2 Billion; Health care: Merged company would be Southland's biggest hospital operator. Analysts' reaction is mixed.

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Los Angeles Times (pre-1997 Fulltext) - Los Angeles, Calif.

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Date:	Oct 18, 1996
Start Page:	1
Section:	Business; PART-D; Financial Desk
Text Word Count:	847

Document Text

In a deal that would create Southern California's largest hospital operator by far, Tenet Healthcare Corp. said Thursday that it agreed to acquire rival OrNda Healthcorp for about $3.2 billion.

The combination of Santa Barbara-based Tenet and Nashville-based OrNda would give the new company 29 Southern California hospitals, or more than 1 out of 10 in the region. It would gain a particularly strong position in West Los Angeles and Orange County.

The deal would intensify competitive pressures on such prestigious teaching hospitals as UCLA Medical Center and Cedars-Sinai Medical Center, already facing financial pressures from cost-conscious managed-care insurers.

Health-care analysts say that for consumers, hospital mergers tend to reduce consumer choice and lead to service cutbacks or hospital closures. However, the mergers could also produce cost savings that could help hold down medical prices.

Wall Street had a lukewarm reaction to the deal. Tenet closed at $21.25, down 87.5 cents, and OrNda closed at $27.50, up 25 cents, both on the New York Stock Exchange.

Analysts were divided.

"I think it's a terrible investment" for Tenet, said Todd Richter, analyst for Dean Witter Reynolds. "I think the quality of {OrNda's} hospital portfolio is poor. I'm very surprised and puzzled by both the strategy behind this deal and the price being paid."

But Johnson Rice & Co. analyst Jeff Villwock raised his rating on Tenet shares to a long-term "buy" from "hold." The combined entity "will grow faster than the old Tenet," Villwock told Bloomberg Business News.

Nationally, Tenet would add 50 hospitals in 15 states, bringing its total to 126 hospitals in 22 states. It would strengthen its position in south Florida and Texas and expand into new markets in Arizona, New England and the Pacific Northwest.

Tenet, already the nation's second-largest hospital company, said it expects the deal to produce $70 million in annual cost savings. Company executives said those savings would result from lower interest payments and "rationalizing services."

The merger may also help Tenet fend off forays by industry leader Columbia/HCA Healthcare Corp., a voracious buyer of hospitals in California and throughout the country. Health-care analysts say Columbia has discussed mergers or other business deals with dozens of hospital organizations in California over the last two years as part of its strategy to become a major force in the state.

"Tenet is putting its stake in the ground and telling Columbia that this market is pretty much taken over," said Ronald Spoltore, a Century City health-care consultant.

But some analysts speculated that Columbia might try to scuttle Tenet's deal by making a bid for OrNda itself. "We've never made a hostile bid, if that's what they are suggesting," said Lindy Richardson, a Columbia spokeswoman.

Columbia operates 15 hospitals in California and would add seven more through a pending deal to acquire the Sharp hospital system in San Diego.

The two companies currently operate seven hospitals in Orange County, including Fountain Valley Regional Hospital and Medical Center and Chapman Medical Center in Orange.

In Los Angeles, hospitals operated by Tenet and OrNda include USC University Hospital, Centinela Hospital Medical Center, Century City Hospital, Brotman Medical Center and Midway Hospital Medical Center.

The deal would place "tremendous pressure on both UCLA and Cedars-Sinai because they are all competing for the same physician group relationships," said Spoltore, who is senior vice president of Healthcare Financial Advisors.

But Dr. Michael Karpf, director of UCLA Medical Center, said Westside hospital admissions are still largely dominated by hospitals Tenet does not own, including UCLA Medical Center, Cedars-Sinai, Santa Monica Hospital/UCLA Medical Center and St. John's Hospital and Health Center. "They {Tenet} will have a hard time competing with those four hospitals," Karpf said. The Tenet deal "won't change our strategy whatsoever."

The nation's hospital industry has been consolidating at a furious pace over the last several years, driven largely by cost-cutting pressures from managed-care insurers. HMOs, in particular, have been gaining market power through mergers, using that clout to demand deep discounts in hospital fees. Hospitals, in turn, have sought to bolster their bargaining position by banding together themselves.

"With the buyers of health-care merging and becoming larger, hospitals have to do the same to retain some pricing leverage," said Jim Lott, spokesman for the Healthcare Assn. of Southern California, a Los Angeles trade group.

Jeffrey C. Barbakow, Tenet's chairman and chief executive, said of the acquisition: "The strategic and geographic match are perfect. Also, OrNda meshes very well with us culturally."

Barbakow would be chairman and chief executive of the merged company, which would remain headquartered in Santa Barbara. Charles Martin, OrNda's chairman, president and chief executive, would become vice chairman and a board member.

The combined company would generate annual revenue of $8.5 billion, half Columbia's $17 billion.

Tenet's purchase, which is subject to shareholder and regulator approvals, gives OrNda shareholders 1.35 shares of Tenet common stock in a swap that values OrNda at about $28.69 a share, or $1.72 billion, based on Tenet's closing stock price Thursday. Tenet would also assume $1.5 billion in OrNda debt, making the deal worth $3.2 billion.

Credit: TIMES STAFF WRITER