SunLink Likely Won't Draw Strategic Bidders.

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If North Atlantic Value LLP (NAV) is banking on other bidders stepping in for SunLink Health Systems Inc., it will likely be disappointed. Various sources doubted that a strategic bidder would top NAV's $73.8 million, or 0.57 times revenue, offer for the $70 million market cap community hospital operator. SunLink publicized the unsolicited $10.25-per-share bid from London-based investment manager NAV-its largest shareholder with 15.9%-on Oct. 12. Atlanta-based SunLink's shares shot up almost 15% to $9.93 on the announcement but have not surpassed that price since. At press time, the shares traded at $9.67. The company operates seven rural hospitals in Georgia, Alabama, Mississippi and Missouri. Two of the most recent deals in SunLink's space valued 10 HCA Inc. rural hospitals at 0.83 times their combined revenue. In July, Capella Healthcare agreed to purchase five of the HCA facilities for $260 million, and LifePoint Hospitals Inc. announced it would acquire the other five for $285 million. A spokesman for $2 billion market cap HCA was not familiar with SunLink, but he revealed, "Our acquisition strategy for several years now has been to focus only on acquisitions that would enhance our position in a market where we already have a presence or put us in a position where we would be a leading provider in a growing urban market." He added, "As far as individual acquisitions and divestitures, we never discuss them publicly." Brentwood, Tenn.-based LifePoint completed its $1.7 billion takeout of another rural healthcare player, Province Healthcare Co., on April 15 (See M&AR, 5/30/05). A spokeswoman for $2 billion market cap LifePoint did not return a call. Sheryl Skolnick, an analyst at Fulcrum Global Partners LLC, said LifePoint and HCA are unlikely to bid for SunLink. "LifePoint has a lot on its plate already-they need to swallow their food before taking another bite," she said. "HCA seems to be more focused on shedding assets and restructuring its portfolio than in acquiring. SunLink operates in smaller markets, and HCA [is] divesting some of its smaller rural assets." SunLink Chief Financial Officer Joseph Morris and Paul Cameron, an NAV fund manager, said they were unaware of other parties which might be interested in acquiring SunLink. SunLink's board has retained financial advisors Caymus Partners LLC and SunTrust Robinson Humphrey Capital Markets, a unit of SunTrust Capital Markets Inc., and will meet to evaluate the offer within the next two weeks, said Morris. He predicted that a decision on whether or not to pursue the bid will be reached by the end of the meeting. Morris said the board will not form a special committee, thereby giving all seven directors a chance to discuss the offer. In February 2004, SunLink caught the attention of another unsolicited bidder, privately held rural hospital manager Attentus Healthcare Co., but the board unanimously rejected the $4-per-share cash proposal, saying the company wasn't for sale and Attentus's offer undervalued its assets. Attentus currently operates five hospitals in Tennessee, Alabama and Texas. The company's CFO, David Dempsey, and co-chief executive officer, Richard Gore-Province co-founder and a former HCA executive-could not be reached for comment. Attentus Antes Up More Money In April 2004, Attentus-which is backed by venture capital firms JLL Partners Inc. and Clayton Associates LLC-raised its offer to $5 per share but was again rebuffed. SunLink issued releases saying it was not for sale after it received Franklin, Tenn.-based Attentus's bids. However, in the case of NAV's offer, the board did not issue any such release. Morris cited two key reasons for the board's more supportive reaction this time around. "Obviously, one major difference is that the price is much higher," he said. "Also, Attentus had a [hospital operation] management team, so I think their plan was to acquire the company and then run it themselves. In this case, [NAV] doesn't have a management team, so I think they'd be looking to SunLink management to run the company." The Caymus banker working with SunLink, Jeff Villwock, said there has been "no discussion as to whether management stays or goes, but as far as we know, North Atlantic doesn't have a management team that they're backing." Villwock's counterpart at SunTrust, Todd Watkins, did not return a call. Cameron said, "We are trying to work with [SunLink] management at this point in time." When asked if NAV would sell SunLink after purchasing it, Cameron responded, "I believe the plan is to continue to build the company up because it is a good sector-it's one we like and we think has potential." He added, "We do buy and we also sell, but not necessarily the same companies." Cameron deferred a question about which companies NAV has bought and sold to Chief Investment Officer Christopher Mills, who could not be reached by press time. SunLink's shareholder meeting is scheduled for Nov. 7. "The agenda for the meeting is set-there's nothing to vote on regarding this transaction," Villwock said. SunLink earned $4.5 million on $128.7 million in revenue during its fiscal year ended June 30, compared to earnings of $13.4 million on revenue of $112.4 million in 2004. (c) 2005 Mergers and Acquisitions Report and SourceMedia, Inc. All Rights Reserved.