Tenet Makes Big Ambulatory Play with Deal for Majority United Surgical Partners Stake

*Modern Healthcare*

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Tenet Healthcare Corp. is buying two companies from private equity firm Welsh, Carson, Anderson & Stowe that will significantly expand its footprint in the U.S. ambulatory surgery market and add several facilities in the United Kingdom.

The deal creates a path for the Dallas-based chain to take over United Surgical Partners International, an ambulatory surgery center operator also based in Dallas.

In the first phase of the tie-up, Tenet will pay Welsh Carson $425 million and merge its short-stay surgery and imaging center assets into a joint venture with USPI. Tenet will own 50.1% of the joint venture and Welsh Carson will hold the remaining 49.9% stake.

Tenet plans to assume full ownership of USPI within the next five years.

In a separate transaction, Tenet also will buy Aspen Healthcare, a London-based operator of four private acute-care hospitals, three ambulatory surgery centers and a cancer center, from Welsh Carson. The chain will pay $215 million in cash to the private equity firm.

Both deals are expected to close in the third quarter.

Tenet will raise $2.2 billion in debt to fund the takeovers. That sum includes the purchase prices and also will allow Tenet to refinance USPI's $1.5 million in debt.

The combined surgery assets will continue to operate under the United Surgical Partners brand and include 244 ambulatory surgery centers, 16 short-stay surgery hospitals and 20 imaging centers in 29 states, according to Tenet.

Tenet has emphasized its outpatient business strategy as more care is being delivered in the lower-cost, higher-margin outpatient setting. The number of outpatient centers it operates has increased from 67 in 2009 to as many as 200 as of the third quarter of last year, according to a November investor presentation.

In addition, the chain has pursued a strategy of partnering with not-for-profit health systems, which fits with USPI's strategy of operating its centers in partnership with health systems and physician groups, said Tenet CEO Trevor Fetter. The chain is on track to close a joint venture deal with Dignity Health and Ascension that will allow the partners to jointly own Carondelet Health in Tucson, Ariz. It also has a joint venture deal pending that will allow it to own 60% of Baptist Health System in Birmingham, Ala. Both transactions are scheduled to close in the second quarter and all three systems are already USPI partners.
Tenet also plans to announce another joint venture with a not-for-profit system later Monday.

“This is very consistent with everything we’ve been saying about our business for several years,” Fetter said.

Tenet estimates that, with the addition of the USPI and Aspen, 6% of its revenue and 17% of its earnings before interest, taxes, depreciation and amortization will come from ambulatory care. The company currently generates 2% of its revenue and 4% of its EBITDA from ambulatory services.

The ambulatory surgery center industry is fragmented, with independent players representing 63% of the market, according to Tenet. The two largest standalone companies, USPI and AmSurg, each have 4% of the market, while hospitals operate 13% of facilities. HCA and Tenet together own another 3%.

After their merger, Tenet and USPI plan to continue buying up other ambulatory surgery centers.

“That’s absolutely the core of the strategy--to create a forum for growth,” Fetter said. “We think we can grow faster than either one of us independently.”

USPI’s top two executives--CEO William Wilcox and Brett Brodnax, president and chief development officer--will retain their roles. Tenet’s senior vice president for outpatient services, Kyle Burtnett, will become USPI’s president of ambulatory services and lead the integration efforts.

USPI’s health system partners have been supportive of the transaction, Wilcox said. “Nothing changes for them at the partnership level,” he said.

Welsh Carson has owned USPI since 2007, when it took the company private in a $1.8 billion transaction, including the assumption of USPI’s debt.

Tenet also becomes the most recent chain to enter the United Kingdom market through its Aspen takeover, with Fetter noting that the National Health Service has been encouraging investment from the private sector as a way to address cost pressures, creating new opportunities for growth.

Aspen will be Tenet’s first portfolio of non-U.S. hospitals since the company sold a hospital in Spain in 2004.