# Ex-Tenet execs lead new hospital turnaround firm

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A new firm led by a team that includes a handful of ex-Tenet Healthcare executives is strategically launching during COVID-19 pandemic with an ambitious pitch to turn around distressed hospitals.

It's not uncommon to see private equity groups buy struggling hospitals in an effort to generate a return, but the leaders behind New Hope, Pa.-based StoneBridge Healthcare insist this venture is different because it has secured ample capital from major sources and a team with turnaround experience.

StoneBridge CEO Joshua Nemzoff spent decades as a consultant finding buyers for hundreds of distressed not-for-profit hospitals.

Now, with StoneBridge, his company will be the one buying and running the hospitals. He said StoneBridge will be a lifeline for some hospitals as other federal and state funding sources run dry and even the usual suspects—the big, for-profit chains—aren't in a position to buy them.

"You would think there were other parties out there that could do it," Nemzoff said, "but most of the big players, most of the big for-profit hospital systems really are not in any position to go buy facilities of this type on a national scale."

StoneBridge said it has secured a $500 million initial capital commitment from global investment manager Oaktree Capital Management, another commitment from the real estate investment trust Medical Properties Trust and other debt and equity sources. All told, Nemzoff says there's at least $2 billion when everything is monetized.

StoneBridge's formula is designed to infuse cash into hospitals even before its acquisitions close, which has become necessary given the desperate position facilities are in, Nemzoff said.

"Some of these hospitals are not even going to survive until closing," he said. "They don't have 6 or 7 or 8 months."

This type of turnaround firm isn't new, said Paul Keckley, a longtime industry consultant and managing editor of the Keckley Report.

"What makes this unique is they're bringing capital," he said.

Finding funding has always been a challenge for distressed hospitals, as few lenders will work with them, said Cynthia Romano, a global director in CohnReznick's Restructuring and Dispute Resolution practice. And even fewer lenders are willing to provide rescue funding before a deal has closed, she said.

"I think this model has a number of advantages," she said.

However, Romano cautioned that private equity hasn't always been seen as the hero in healthcare. In the cases of some nursing homes that were purchased by private equity, quality metrics declined and there have been issues related to supply shortages as operates work to cut costs. There have also been culture clashes with physicians, she said.

The funds involved in this endeavor are known for being aggressive investors that will expect StoneBridge to deliver a return, Keckley said. That means StoneBridge will need to buy hospitals in growth markets and amass enough scale to gain efficiencies in supply costs and other areas, he said.

While many private investors ultimately sell their hospitals to generate returns, Nemzoff said StoneBridge plans to own them longterm. He said they will become a part of a private, for-profit growth company that might one day become publicly traded, sort of like a "mini HCA."

Some distressed hospital buyers have targeted rural hospitals, but StoneBridge wants urban and suburban hospitals. The company wants to retain most of the leadership teams at its acquisitions, while supporting them with StoneBridge's executives who have experience in for-profit hospital operations. Those executives include Jeffrey Koury, who was CEO of Tenet's Western region in Irvine, Calif. until 2017; Garry Gause, CEO of Tenet's Eastern region, Central division, until 2018; and Marsha Powers, who recently retired as Tenet's chief strategy officer.

For-profit hospital operators like Tenet tend to be more aggressive when it comes to cost-cutting than not-for-profit hospitals. Those executives will bring that culture to StoneBridge, Keckley said.

"I think it's just going to be the way they're wired," he said.

StoneBridge doesn't plan to spend huge amounts of money on the hospitals it buys, Nemzoff said. By keeping acquisition costs low, the goal is to avoid taking on excessive debt and spending more on programs and equipment, he said.

Torrey McClary, a partner with King & Spalding, said she's not familiar with StoneBridge's strategy, but if a hospital's choice is close or link up with someone that provides capital, resources and turnaround know-how, it might be a good thing if executed properly. That said, McClary said her experience has been that turning around distressed hospitals is best done in a strategic, targeted way in which buyers look for the right markets and strategic opportunities to grow.

"It's not just a matter of 'Let's look for a distressed asset, throw it in our portfolio and hope for the best,' but to really have a plan as to how it fits into your broader strategy," she said. "I think it has to be part of a robust, well thought-out strategic plan and integration plan in order to succeed."

Nemzoff originally tried to launch a different incarnation of StoneBridge in 2005 in which he planned to do hospital joint ventures with physicians. That venture never got off the ground, however, because federal regulations prohibited whole hospital joint ventures.

Whether StoneBridge's model works for hospitals will depend on whether the parties can handle two competing forces: the need for quality and a "laser-like focus on efficiency and maximizing profit," said Romano, of CohnReznick.

"How you balance that will determine whether or not any private equity firm is able to be successful in turning around the operations, not just financially, but preserving quality of care, preserving care outcomes and creating an environment where people actually want to go to be seen," she said.