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New venture StoneBridge sets out on a mission to revive troubled hospitals

StoneBridge, with capital commitments from sources including MPT and Oaktree Capital Management, may put in an offer for a distressed hospital as soon as this week.

By **Sarah Pringle** - 5 hours ago

Joshua Nemzoff, StoneBridge Healthcare

After more than 40 years consulting on non-profit hospital M&A, Joshua Nemzoff has launched new and well-capitalized venture pledging to buy and rescue cash-strapped hospitals.

"About a year-and-a-half ago somebody said 'Why don't you just do this on your own?' And that was the impetus," said Nemzoff, co-founder of **Nemzoff & Co**, an M&A consultancy known for its work advising non-profit healthcare systems. "Because of my background, I've seen every structure you can imagine. I know what works and what doesn't work."

Nemzoff, CEO of the newly formed **StoneBridge Healthcare**, is joined by a leadership team comprising other longtime dealmakers and industry veterans including former executives of hospital giant Tenet Healthcare.

The turnaround venture hasn't raised a traditional fund in which to invest from, although Nemzoff said that was the original idea explored.

Rather, StoneBridge, based in New Hope, Pennsylvania, has **lined up $500 million in committed capital** from Oaktree Capital Management, plus commitments from Medical Properties Trust, a healthcare-focused real estate investment trust, as well as additional debt and equity sources.

Many notable private equity firms including Cerberus Capital Management, Leonard Green & Partners and Welsh, Carson, Anderson & Stowe have gotten into the business of hospital investing over the years.

But StoneBridge plans to differentiate by focusing on the many distressed acute care hospitals in suburban and urban markets that need saving – versus the smaller, rural hospital networks in which many consolidators have specialized, Nemzoff said.

The new venture was in the works well before covid-19 fueled worsening conditions for hospitals, already facing immense cost pressures amid a continued shift to lower-cost settings of care. That said, the new environment further validated StoneBridge's playbook.

“We had everything set up, and then March 13 everything ground to a halt,” Nemzoff said. “We said, ‘Well, wait a minute, there’s actually going to be even more distressed hospitals … and our competition is probably not going to be in a position to buy them because they’re [dealing with] their own problems.’”

For instance, hospital consolidators including Cerberus-backed Steward Health and publicly-traded Community Health Systems are already combating huge debt burdens.

At StoneBridge, Nemzoff said, there is no cap on the capital that Oaktree, MPT or its debt financing partners are able to commit.

“Capital is not a constraint for us,” the executive said. “If we have a series of deals and if we had to spend $2 billion over the next 18 months, we could … if we have to write a check for $100 million or $500 million or $800 million, we can.”

Given the distressed nature of the hospitals StoneBridge will buy, a substantial portion of its total commitments will be injected back into a given hospital – equivalent or greater than the purchase price itself, he said.

Through a rescue financing program, StoneBridge also has the ability to provide troubled hospitals with cash to restructure before closing on a deal.

More specifically, StoneBridge will look to buy larger not-for-profit hospitals that will convert into a for-profit structure once acquired. Because fixed costs are so high at hospitals, buying larger hospitals affords StoneBridge the opportunity to achieve economies of scale, Nemzoff explained.

The new company will target hospitals generating between $300 million and $500 million in net revenue on average, with the ability to buy those producing as much as $1 billion in top line, he said.

As things stand today, StoneBridge’s deals are subject to approval from its various financing sources. But, Nemzoff said, it’s possible the structure eventually evolves into a blind pool in which the company can draw upon capital as needed.

StoneBridge will act as a holding company, with each hospital it buys operating as a standalone subsidiary. “The pipeline is filling up quickly,” said the CEO said. In fact, StoneBridge may submit a letter of intent to buy a hospital as soon as this week, Nemzoff said.

Thanks to the makeup of its leadership team – a hybrid experienced deal team and operating team – StoneBridge has the ability to scale up the businesses it acquires quickly, Nemzoff said.

“If we have to go from zero hospitals to 10 or 15, we have the leadership to manage that,” Nemzoff said.

Its long-term turnaround strategy will be centered around two elements.

“The No. 1 thing we’re focusing on is quality and the No. 2 thing we’re focusing on is accountability,” he said.

In Nemzoff’s view, one of the biggest problems in not-for-profit healthcare is the lack of accountability, which means having the right people in place is crucial: “The way it works, there’s authority. There’s responsibility and there’s accountability.”