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Private company offers \$475 million to buy Erlanger from Hamilton County

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A new private equity firm aiming to purchase and turn around financially distressed urban and suburban hospitals has offered \$475 million to buy Erlanger Health System from Hamilton County.

In a letter of intent to county Mayor Jim Copping dated Aug. 20, Joshua Nemzoff, chief executive officer of StoneBridge Healthcare, wrote, "Erlanger Health System is a well-respected organization and provides outstanding care to area residents."

However, Erlanger's finances were "not optimal" before COVID-19 and have further deteriorated throughout the pandemic, Nemzoff wrote.

"It's been in trouble for a while, and somebody needs to help fix this hospital, and we think we can do it. We have the talent to do it, we have the financial strength to do it, and that's why they should think of selling the hospital," Nemzoff said in an interview with the Times Free Press.

In response to StoneBridge's proposal, Erlanger management, the hospital's board of trustees and local elected officials said in a joint statement that there are no plans to sell Chattanooga's public safety net hospital, which is the region's only academic medical center and largest provider of indigent care.

"The unwavering position that Erlanger is not for sale is shared by the hospital board, Mayor Copping and the Hamilton County delegation," board chair Linda Moss Mines said in the statement. "Erlanger is essential to our community and will continue providing exceptional care to all citizens. Our region has relied on Erlanger for over 125 years, and we will continue to be here for our patients."

Copping echoed Mines' sentiments in an interview with the Times Free Press.

"They're [Erlanger] extremely important to the community," he said. "So that's where we are — there's no consideration given to the sale of Erlanger."

Economic fallout from COVID-19 has dealt a devastating blow to the hospital industry, particularly safety net hospitals such as Erlanger.

The health system last year provided about \$135 million in uncompensated medical care by treating high volumes of uninsured and under-insured patients, a record that Erlanger management projected to beat in 2020 before the pandemic struck.

Erlanger competes against two large companies with deep pockets — Nashville-based HCA Healthcare, a \$50 billion health care system that owns Parkridge Health, and CommonSpirit Health, a \$20 billion national Catholic health system that owns CHI Memorial.

Nemzoff said in his letter to Coppinger, "In order for Erlanger to survive and thrive against these systems, they need significant resources. StoneBridge Healthcare can help. We have the expertise, the resources and the financial strength to provide all of the things that Erlanger needs to compete and succeed."

Nemzoff's letter came a day after StoneBridge publicly announced the formation of the company in a news release. Pennsylvania-based StoneBridge is led by a group of longtime health care executives and backed by Medical Properties Trust, a \$20 billion real estate investment trust that owns nearly 400 acute care hospitals, and a global investment manager called Oaktree Capital with \$120 billion in assets under management, according to the news release.

Nemzoff said that although the company was just announced, it was officially formed in May and has been in the making for longer. The group began eyeing Erlanger about a year ago. The offer to purchase the hospital is StoneBridge's first, and the group is talking to other hospitals as well, he said.

Erlanger officials said the belief that the hospital is struggling financially "is simply not true." "Erlanger is expected to considerably outperform its current budgeted net income of \$5 million," according to the system's statement. "Erlanger's days of cash on hand exceed 100 days, a significant improvement during 2020."

Dr. Will Jackson, president and CEO of Erlanger Health System, said in a statement, "Without Erlanger operating as the public's non-profit, safety-net hospital, thousands of people would not receive the care they need.

"Erlanger has an honorable mission through the dedication of all 6,600 associates to make Chattanooga and the surrounding areas a better and healthier place to live and work," Jackson said.

Nemzoff said it's hard to get an accurate picture of where hospitals stand financially at this time, given the government subsidies they've received to offset the costs of COVID-19.

He also called the notion of for-profit companies slashing non-profitable services and indigent care an "enormous misconception" and said StoneBridge would be able to fund needed capital to improve the hospital. He cited Erlanger's \$75 million need for capital improvements, which he

said Stonebridge would fully fund. His letter noted that Erlanger was only planning to pay \$20 million toward those needs.

"Our whole mission, if you will, is to expand the delivery of care and the quality of care, which is why we chose urban and suburban hospitals," Nemzoff said. "We're talking about putting \$275 million into this facility over the next five years. So that's gonna have an enormous impact on care."

Nemzoff's letter called his offer unsolicited. He told the Times Free Press he has met twice with Coppinger.

State Sen. Todd Gardenhire, R-Chattanooga, chairman of Hamilton County's legislative delegation, called StoneBridge's offer an "extremely lowball effort."

Although the state has no ownership in Erlanger, the delegation appoints four of the 11 trustees who govern the hospital.

Gardenhire cited instances in which other community hospitals — such as the former Bradley Memorial Hospital in Cleveland, Tennessee — sold to private, for-profit companies only to continue facing financial hardship.

"Do we want Erlanger to fall in that same category?" Gardenhire said. "My answer to, 'Should they sell it to anybody?' is not no, but hell no."