

Modern Healthcare

StoneBridge bids \$475 million for Erlanger Health System

August 26, 2020

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A new private equity-backed hospital turnaround firm made a \$475 million bid for Erlanger Health System, the organizations announced Wednesday.

[StroneBridge Healthcare](#), which was formed earlier this year, would pay \$200 million for Erlanger's six acute Tennessee hospitals and affiliated operations and commit \$275 million for capital improvements and to fully fund the \$80 million employee pension fund shortfall.

"StoneBridge has been tracking the situation at Erlanger for over a year and we believe that now is the time for us to act and offer our assistance to Erlanger, safeguarding its legacy as a vital institution for the region," StoneBridge CEO Joshua Nemzoff said in prepared remarks, noting that Erlanger competes with [HCA Healthcare](#) and CommonSpirit Health. "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."

Chattanooga, Tenn.-based Erlanger—an academic medical center that's affiliated with the University of Tennessee and Vanderbilt University—recorded a \$3.7 million operating loss on operating revenue of \$1.07 billion in 2019, according to [Modern Healthcare's financial database](#). It has sold its pharmacies as well as its home health and durable medical equipment divisions over the past several years to try to stabilize its finances.

For the quarter ended March 31, the health system reported a \$4.2 million operating income on revenue of \$277.8 million with 62 days cash on hand, up from an operating income of \$2.7 million on revenue of \$268.6 million with 59 days cash on hand from the same period prior. But fiscal year to date, Erlanger recorded a \$4.4 million operating loss.

Suspending [elective procedures in March](#) caused Erlanger's revenue to plummet between 30% and 40% in a matter of days, leading to the elimination of nearly 100 non-clinical positions, among other cost-cutting measures stemming from the COVID-19 pandemic.

Erlanger [brought back](#) furloughed staff in June and restored full work schedules. The company reinstated paid time off accrual and retirement plan contributions in July and restored full executive salaries in August.

StoneBridge committed to hiring "substantially all of the hospitals' active employees in good standing" if the deal goes through, according to the [letter of intent](#). It also pledged to continue to operate the hospitals "in the ordinary course of business consistent with past practice." StoneBridge would not be able to "remove or transfer any of the assets, except in the ordinary course of business, make any material change in the business or operations of the hospitals, or enter into any significant contract, commitment or transaction with respect to the hospitals or the assets" without Erlanger's prior written consent, according to the letter of intent.

Pennsylvania-based StoneBridge is led by a group of former [Tenet Healthcare Corp.](#) executives and backed by Medical Properties Trust, a \$20 billion real estate investment trust that owns nearly 400 acute care hospitals, and global investment manager Oaktree Capital with \$120 billion in assets under management. StoneBridge, which is targeting urban and suburban hospitals, said it has secured about \$2 billion in capital.