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Experts: Community Health's bid for Tenet an example of reform-driven consolidation

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The effort by Community Health Systems Inc. to buy Tenet Healthcare Corp. - a so-far-unsuccessful quest that would leave Community with seven hospitals in this region - is an example of the kind of consolidation health leaders have been predicting in the wake of a shaky economy and health reform.

Some local health experts said that while Tenet's larger, more urban hospitals are not an ideal fit with Community's portfolio of small and midsize hospitals, the combination would give Community greater clout with insurers and could allow it to operate at lower costs. Both the economy and health reform are putting downward pressure on prices. Reform also will reward better coordination of care.

"We're facing basically zero to minus-zero increases in rates from Medicare, and Medicaid too," said Alan Zuckerman, president of Health Strategies & Solutions in Philadelphia. Private insurers have also become tougher negotiators.

Locally, Community owns Chestnut Hill Hospital in Philadelphia plus four suburban facilities: Brandywine, Jennersville, and Phoenixville Hospitals, and Pottstown Memorial Medical Center. Tenet owns two larger city hospitals: Hahnemann University Hospital and St. Christopher's Hospital for Children.

Community went public with its \$3.3 billion offer for Tenet on Thursday. The total deal, which includes debt, is valued at \$7.3 billion.

Tenet has rebuffed the overtures, saying that the proposal "grossly undervalues Tenet and fails to reflect Tenet's prospects for continued growth and shareholder value creation."

In a conference call with analysts Friday to promote the deal, Wayne Smith, Community's president and chief executive officer, said his company is "absolutely committed" to buying Tenet. He said the combined company could be more efficient and would be better able to recruit physicians. The bargaining power of the bigger company would make insurers less likely to exclude Community hospitals from their networks. He said the company planned to keep all of the hospitals.

Joshua Nemzoff, a hospital mergers and acquisitions specialist based in New Hope, said he doubted the deal would go through. "I just don't think it's a good deal for Tenet shareholders," he said.

He also sees little opportunity for cost savings in a merger of two companies that already are well-managed. "You're talking about two of the best for-profit hospital companies in the country in terms of operations," he said.

And, like other consultants, he said he believes that Community would find it hard to change referral patterns at its hospitals deep in Chester and Montgomery Counties to funnel more patients to specialists at Hahnemann and St. Christopher's.

"Anyone who understands the Philadelphia market knows that that's not going to happen," Nemzoff said.

One question is how the purchase would affect the affiliation between Chestnut Hill Hospital and the University of Pennsylvania Health System, which owns 17 percent of the hospital and operates some programs jointly with Chestnut Hill. Penn declined to comment Friday.