

Capella Healthcare launches effort to buy hospitals, boost network

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Tom Anderson is president and co-founder of Capella Healthcare.

Franklin-based Capella Healthcare is back on the hunt, looking to buy more hospitals in the next 18 to 26 months.

The 4-year-old company hasn't purchased a hospital since it bought nine from Community Health Systems Inc. in March 2008, but president and co-founder Tom Anderson said the time is right.

"Capella is actively, though selectively, looking to partner with hospitals in non-urban communities where our financial resources and management expertise can be additive," he said.

Independent hospitals have been unable to access capital to finance technology or expansion and will be looking to affiliate with a system to get capital and resources, he said.

"Even though the debt markets are opening back up, it's still going to be stricter," Anderson said. "Many hospitals will not be able to borrow if they are not going to be able to borrow at the same interest rate."

Many not-for-profit hospitals have lost money in the value of their investment portfolio, which could force them to seek out an acquisition by a hospital system, he said.

But Capella isn't the only one eyeing potential targets.

There will be "a lot of acquisition opportunities in the marketplace" as independent hospitals continue to struggle, said Wayne Smith, CEO of Community Health Systems, which owns 130 hospitals.

A combination of small hospitals struggling, the potential for health care reform to cover millions more patients and good pricing means there will be a lot of acquisition activity, said James Usdan, operating partner with Brentwood-based Council Ventures, who has completed three health care company turnarounds in the past 12 years.

Usdan himself remains cautious about acquisitions because "you are making a big bet on the company's assets."

"A lot of times people want to get big and things look good on paper and then it takes years to tell if it creates value for the investors," Usdan said.

Capella has seen lightening speed growth since its formation in 2005, growing revenue 297 percent in three years to \$794 million in 2008. That makes it the third fastest-growing private company in Middle Tennessee, according to Business Journal research.

Capella entered the market with the purchase of four HCA hospitals in 2005 with the financial backing of GTCR Golder Rauner, a Chicago-based private equity firm with more than \$8 billion

in assets. It now owns 13 hospitals in non-urban areas.

And Capella is getting noticed on the national front as well.

For the first time, Capella CEO Daniel Slipkovich was listed on Modern Healthcare's "100 Most Powerful People in Health Care," along with Nashville heavy hitters like Community Health's Smith and Bill Carpenter, CEO of LifePoint Hospitals, which owns 47 hospitals.

Anderson said that kind of attention is reflective of each of Capella's 40-person team which each senior manager having 25 years of experience or more, some in government relations and compliance.

But Capella's future growth won't come just through acquisitions. Anderson said the company also is pumping money into the hospitals it already owns.

Capella has spent \$6 million on a full service cancer unit at its Olympia, Wash., hospital, added medical office buildings in Lawton, Okla., and has planned medical office buildings for its hospitals in Muskogee, Okla., Hot Springs, Ark., Decatur, Ala., and McMinnville, Ore.

Imaging equipment, a \$5 million investment, has been updated at Muskogee Regional Medical Center, and the company has spent \$4 million on oncology equipment at three of its hospitals.

The company's accolades keep adding up, as one of the hospitals that it bought last year from CHS, Parkway Medical Center in Decatur, has been recognized for the first time on the 2009-2010 Hospital Value Index, ranked 28th in the country.

The annual index by Data Advantage ranks hospitals by their health care value by looking at quality, affordability, efficiency and patient satisfaction. Five other Capella hospitals also were ranked in the top 750 hospitals in the country.