

Piedmont Healthcare to Add Seven Hospitals in Two Deals

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Atlanta's Piedmont Healthcare plans to acquire three more hospitals in a second major deal announced in as many weeks.

The not-for-profit health system announced Wednesday it has signed a letter of intent for University Health to become a Piedmont hub in Augusta, a little over two hours east of Atlanta. The news comes just over a week since Piedmont said it plans to buy four HCA Healthcare hospitals, all within 90 miles of Atlanta.

That's a lot of growth for Piedmont, which currently stands at 11 acute-care hospitals and just shy of \$4 billion in annual revenue. Piedmont CEO Kevin Brown said Wednesday the system didn't plan to announce the deals so close together.

"I don't want to call it coincidental, but it just is kind of how it happened to play out," he said.

University Health has been searching for a partner since 2019 and vetted almost a dozen other organizations before landing on Piedmont last week, Brown said. University declined to comment. Under that deal, Piedmont would enter a member substitution agreement with the local hospital authority, effectively stepping into University's shoes, Brown said.

Piedmont would add services there so patients can continue to get care in the Augusta region. The exception to that might be transplant services, which will remain solely in Atlanta, Brown said.

In addition to its three hospitals, University has outpatient services, three skilled nursing facilities, nine urgent care clinics, rehab care and more than 90 employed primary and specialty care providers. The system drew \$5.6 million in operating income on about \$673 million in revenue in calendar 2019, an operating margin below 1%. University declined to share 2020 financials.

"They've done a good job of managing their resources in an environment that's tough," Brown said of University.

Piedmont plans to close its University deal by the end of the year. Georgia's Attorney General will review the transaction because it involves not-for-profit assets. That's not the case with the HCA deal, which Piedmont expects to close by August 1, pending Federal Trade Commission approval.

The four HCA hospitals Piedmont plans to buy for \$950 million are very profitable, having generated a 13.4% average operating margin in their most recent federal filings. One of them, Cartersville Medical Center in Cartersville, posted a remarkably high 32.8% margin in 2020.

Atlanta is a highly competitive acute-care market, with everyone looking to expand and gain access to patients in outlying areas as Piedmont is doing, said Matt Caine, a managing director with SOLIC Capital Advisors who's based in Atlanta.

"What you're seeing here is Piedmont willing to play offense to grow its presence and reach in the Georgia market," he said.

It's in part a response to outside players entering the Georgia market, like North Carolina's Atrium Health partnering with Navicent Health in Macon in 2019, Caine said. Atrium changed its name from Carolinas HealthCare System the day before announcing its letter of intent to signal it wasn't limited to North Carolina.

Caine said he doesn't foresee Piedmont encountering regulatory hurdles that would prevent it from closing either of the deals, but noted that the system will have to take on additional debt.

"It will be interesting to see how the balance sheet of Piedmont Healthcare looks on a post-acquisition basis with this activity," he said.

Piedmont launched a 10-year strategic plan about seven years ago that called for expanding outside of its greater Atlanta footprint to become a statewide network with the premise of keeping care close to home, Brown said.

"We're not growing just for growth's sake," he said. "We are very deliberate about it and making sure we get the efficiencies out of the growth."

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