Raleigh continues to lose HQ operations

By Amanda Jones Reiley and Sougata Mukherjee

RALEIGH — North Carolina's capital city is losing much of the clout and prestige that comes with being the headquarters of a major national brand after Virginia-based Advance Auto Parts announced this week it is acquiring Raleigh-based General Parts International for $2 billion.

The deal marks a second major headquarters loss for the region in a month. The Raleigh-based Kerr Drug pharmacy chain announced in September that it was being acquired by competitor Walgreen Co. Kerr Drug has since notified state authorities that it will be eliminating 84 jobs in 2014.

General Parts has been a privately owned company since it was founded in 1961 by Raleigh entrepreneur O. Temple Sloan Jr. and its owners have always been private about the size and scope of the company's operations in the Triangle and across the country.

But according to data from Advance Auto Parts, General Parts generated $2.9 billion in revenue in

---

HOSPITAL Mergers

UNMASKED

Reporter Jason deBruyn delves into the world of hospital mergers. Where will the next one happen? Will there be more to come? Could WakeMed be a target?

---

In the next decade, as many as one-third of all U.S. hospitals will either be acquired or have formed some sort of merger agreement with another health care system.

Most health care economists confirm this trend, which means the number of hospitals in the U.S. will shrink from about 6,500 in 2013 to roughly 4,000 as soon as 2020. While rural hospitals are the primary targets for acquisition or merger, the trend has some local health care leaders wondering if one of the Triangle's big three health care systems are ripe for the picking as well.

Given its recent financial results, speculation has turned to WakeMed Health & Hospitals.

Last fiscal year, which ended Sept. 30, WakeMed posted its first operating loss in years, and it projects a best-case scenario of a break-even budget this year. In addition, the $1 billion system is looking for a new chief executive after it unceremoniously parted ways with Bill Aikison in late September, citing a difference of opinion in the future direction of the hospital.

"I don't think WakeMed will be out there too long on their own,"
COVER STORY

Hospital M&As flood health care landscape

DURHAM — One of the growth strategies for Duke University Health System, a nonprofit organization, has been to form a joint venture with LifePoint Hospitals Inc, a for-profit, publicly traded company that operates 60 hospitals in 20 states.

Formed in 2011, this venture is called DLP Healthcare and has pursued a variety of partnership models with healthcare organizations in and around North Carolina. For example, the JV acquired a majority stake in the MedCath Partners division of MedCath Corp for $255 million. That deal included the sale of property related to the operation of nine cardiac catheterization laboratories in North Carolina.

Similarly, DLP took an 80 percent ownership stake of Maria Parham Medical Center in Henderson. It agreed to infuse the system with $45 million for capital improvements over the next decade, as well as establish a new $30 million foundation.

Later, it acquired 119-bed Person Memorial Hospital in Roxboro, a hospital that generated $42.4 million in total revenue and $18.7 million in profits in 2009. By comparison, Duke Health generated roughly $2.3 billion of revenue that year.

DLP also acquired 80 percent of Twin County Regional Healthcare, a hospital in Galax, Va, that generated $50 million in revenue annually and committed $20 million for capital improvements at that hospital.

UNC pursues a variety of partnership models.

For the fiscal year that ended Sept. 30, it posted a $7 million operating loss and is projecting only a break-even operating budget this year. The three prior years were stronger. The hospital posted operating gains of $20 million, $35 million and $25 million in 2010, 2011 and 2012, respectively. Overall patient revenue figures have grown steadily and are now at more than $1 billion annually.

The hospital is still on track to find an interim CEO by the end of October and a full-time CEO in six to nine months. It hired Doug Vinsel, a long-time chief operating officer of WakeMed who served in the chief executive post at Duke Raleigh for seven years before retiring in 2012, to help fill both of those roles. Vinsel says one or two dozen years do not make a trend, but acknowledges that financial realities across health care should be among the focal points of any new hire.

Why do hospitals merge?

Q&A with George E. Budell III, a healthcare mergers and acquisitions lawyer in Florida.

How do hospital M&A deals get started?

These types of deals get started when one hospital identifies another hospital where it feels it can improve the operation or decrease operation costs or otherwise use the hospital to improve overall income for both hospitals. Sometimes it is merely a matter of a hospital wanting to expand into a larger market or expand into a larger geographical area. In some states there are communities being serviced by a smaller hospital, but the community has grown to such a level that it needs the support of a larger hospital.

How do hospitals feel each other out before agreeing to an M&A?

It's our experience that usually this is done at the level of one operational officer or financial officer speaking to his or her

MERGERS: Regulatory pressures, balance sheets and mission all play a role

FROM PAGE 1

says Peyman Zand, a partner with Raleigh-based McGuire, an executive search firm, who specializes in the healthcare industry.

Zand worked as the global director and devised chief information officer for Dow Chemical Company for seven years before taking a job as director of planning at UNC Health Care from 2010 through early 2013.

WakeMed officials insist such speculation is unfounded and that they have no interest in being acquired, with more than one executive saying such a suggestion is "off the table." Board of directors chairman William "Wally" McBride explains that as a nonprofit hospital, WakeMed has a different set of stakeholders to whom it is accountable. Instead of shareholders who could be interested in a payback, WakeMed is responsible to carry out its mission, treating the county's low-income patients, the original mission WakeMed had 50 years ago when it was established as a county hospital.

"Our mission is to provide excellent, nondiscriminatory care for all who walk in the door," McBride says, adding that the stakeholders are patients, employees, the community, the mission and the physicians that work with WakeMed. "We can't conceive of any proposed position to all of these stakeholders and it will come from anything other than staying independent. We have the mission, we don't think anybody else will do the mission as well as we can, and in the county knows that. It's hard to see how that mission is furthered by any sort of agreement." WakeMed, like many hospitals, has fallen on financial hard times.
The pressure is on

Other local hospitals are facing financial pressures as well. UNC Health Care adopted a budget that shows a slight operating loss. While Duke Health doesn't make its operating budget public, it just invested tens of millions of dollars to upgrade its electronic health records system, and Chief Executive Dr. Victor Miller has said the system needs to look for ways to trim costs.

That system is facing pressure from Duke Health officials who view the joint venture as a way to keep the two hospitals competitive.

Duke Health has its own partners as well. The company's largest relationship is with Atrium Health, which provides health-care services for 24 million people in 48 counties. The hospitals' joint venture would allow them to share costs and resources, which could help them compete with other health systems in the state.

The power of combination

Answering his own rhetorical question, Miller says it will be difficult to compete.

The hospitals have a shared goal of improving patient outcomes and reducing costs. The joint venture could help them achieve those goals by allowing them to pool resources and share expertise.

The role of mission

When a hospital is considering a merger or acquisition, it must consider the mission of the facility. In most cases, such a move will not be a financial decision but a strategic one. The new hospital will need to be able to maintain the existing level of health care while reducing costs.

The hospitals have a shared goal of improving patient outcomes and reducing costs. The joint venture could help them achieve those goals by allowing them to pool resources and share expertise.

How does the patient mix of a hospital play into this?

A hospital might be looking to obtain more patients with certain illnesses or conditions to come into its program. Some hospitals also have the ability or desire to specialize in providing different services such as cardiac surgery, wellness programs, labor and delivery, or other such programs.

One hospital may be located in an area where there are more patients in a certain category than the other hospital would like to capture and bring into its program.

Do you expect to see more of these deals in the future?

Yes, larger hospital chains are buying up smaller independent hospitals. I also expect that more independent hospitals will merge or be acquired by other smaller hospitals that provide a similar level of service to keep larger chains out of their markets.

When a nonprofit hospital is acquired, it's common to see the acquiring company establish a foundation, or perhaps create new kinds of community investments to keep that mission alive. DPH Healthcare established a $30 million foundation with Mama Pam's Medical Center in Houston, for example.

In a larger example, Colorado-based Catholic Health Initiatives contributed more than $1 billion to create a new Episcopal Health Foundation when it acquired St. Luke's Episcopal Health Systems in Houston. Those are both nonprofit hospital systems.