

Megamerger on the Horizon? Catholic Health Initiatives & Dignity Health Discuss “Alignment”



If merger talks between hospital operator Catholic Health

Initiatives and San Francisco-based Dignity Health prove fruitful, the result would be one of the country's largest not-for-profit hospital systems by revenue.

It's no secret that [Catholic Health Initiatives \(CHI\)](#) has been struggling following expansion efforts as well as efforts to involve itself with health insurance. So it may not come as a surprise that CHI and Dignity Health released a statement saying they are undergoing discussions about “an alignment.”

Though at this point the not-for-profit organizations have merely signed a non-binding agreement to explore these options, an unnamed person with knowledge of the talks has given industry insiders reason to believe that alignment could spell “merger” down the road.

“The potential to align the strengths of these two organizations will allow us to play a far more significant role in transforming health care in this country,” said Catholic Health Initiatives Chief Executive Officer Kevin Lofton. “Together, we could enhance our shared ministry as the health industry transitions to a system that rewards the quality and cost-effectiveness of care.”

Combined revenue of the two giants would surpass \$27 billion

Based in Englewood, Colorado, CHI owns 103 hospitals and focuses on research and clinical and home-health services. As the country's sixth-largest not-for-profit health system, Dignity Health owns 39 hospitals and “is well known for its work with innovative, diversified care-delivery partnerships.”

According to financial statements, combined annual revenue of the two organizations would come in at \$27.8 billion. CHI currently operates its hospitals in a total of 18 states, not including California, Arizona, and Nevada, where Dignity Health operates (Dignity has a total of 400 care centers across 22 states).

Currently, the largest not-for-profit hospital system is Kaiser Permanente which reported \$60.7 billion in revenue for last year (and which also operates a substantial managed care plan). Another major player is Catholic-sponsored Ascension, a not-for-profit hospital system with a most recent yearly revenue of \$20.5 billion.

Catholic Health Initiatives experiencing poor financial health in recent years

Following unsuccessful attempts to enter the world of health insurance and following a series of major acquisitions, CHI saw slim or negative operating margins. For the last fiscal year, CHI reported a weak margin, with \$3.1 million in operating income on revenue of \$15.2 billion. That comes on the heels of the previous year's operating loss of



\$109.4 million on revenue of \$13.6 billion. The organization reported \$9 billion of debt as of March 31.

All three major ratings firms downgraded CHI since last April.

In 2010, CHI expanded its home-health services via a \$43 million acquisition. In 2012, Dignity Health spent \$455 million to acquire U.S. HealthWorks, a national occupational medicine and urgent care company. Since that acquisition, Dignity Health has been one of the country's major outpatient care operators. Dignity Health also runs a joint venture with GoHealth Urgent Care (which is backed with private equity) to establish other outpatient care centers.

Talks are “preliminary”

However, speculation may be premature: CHI spokesman Mike Romano reminded interested parties of the preliminary nature of the talks underway. He declined to speak about options under a potential alignment between the not-for-profit giants.

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