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PRIVATE EQUITY FIRMS REAP PAYOUTS AFTER HOSPITAL CHAIN RECEIVED $1.6 BILLION IN CARES ACT SUPPORT

Private Equity Stakeholder Project

Eileen O’Grady | eileen.ogrady@pestakeholder.org

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KEY POINTS

- Private equity firm Apollo Global Management owns rural hospital company LifePoint Health.
- LifePoint collected $1.64 billion in COVID stimulus grants and loans as of July 2021.
- In April 2021, Apollo sold LifePoint from one of its private equity funds (Apollo Investment Fund VIII) to another fund managed by Apollo (Apollo Investment Fund IX), making a $1.6 billion profit from the transaction and likely generating hundreds of millions of dollars in carried interest for the private equity firm and its executives.
- In June 2021, LifePoint announced it will acquire acute care provider Kindred Healthcare, which is owned by a consortium of private equity firms TPG Capital and Welsh, Carson, Anderson & Stowe (WCAS). The combined company will have 77,000 employees in 34 states and will be the largest private-equity-owned healthcare company in the US.
- LifePoint under Apollo's ownership has come under fire in recent years for aggressive policies that prioritize profit over patient care. LifePoint hospitals lag the national average in terms of quality based on Centers for Medicare and Medicaid Services (CMS) quality (i.e. star) ratings.
- What is striking about the transfer of LifePoint from Apollo Fund VIII to Fund IX and LifePoint's acquisition of Kindred is that both represent large transfers of wealth to private equity firms just months after LifePoint received $1.6 billion in federal stimulus and while many LifePoint hospitals are struggling with surges in COVID-19 cases.

LifePoint Health is a leading rural hospital chain with 87 hospitals in 29 states, over 50 post-acute service providers and facilities and dozens of outpatient facilities. LifePoint is owned by private equity firm Apollo Global Management, which took the chain private for $5.6 billion in 2018, including $2.9 billion in net debt.[1]

In June 2021 LifePoint announced that it will acquire private equity-owned acute care provider Kindred Healthcare, creating a combined company with more than 77,000 employees in 34 states.[2] The deal comes of the heels of LifePoint receiving $1.64 billion in Federal COVID-19 stimulus aid.[3]

Apollo's acquisition of LifePoint and Kindred is part of a growing of consolidation of healthcare providers in recent years, driven in part by private equity.[4]

Private equity investment in healthcare companies can carry substantial risk to patients and healthcare workers.[5] The high returns typically targeted by private equity investors over short time horizons may incentivize cost-cutting and risky behavior that harm patient care, including using high financial leverage, reducing staff, and pushing costly procedures.[6]

Apollo's ownership of LifePoint merits scrutiny. LifePoint received a huge subsidy from the Federal government and is now spending money to acquire another healthcare provider rather than invest that money in existing facilities, despite quality concerns and substantial strain on multiple LifePoint hospitals brought on by surges in the pandemic. Private equity firms like Apollo generated significant profits during the pandemic, even as some of their companies were major recipients of Federal aid.

LIFEPOINT REAPED $1.64 BILLION IN COVID-19 STIMULUS AID

LifePoint has collected $1.64 billion in COVID stimulus aid, including almost $650 million in grants that the company will not have to pay back.[7] Although LifePoint qualified for the aid, lawmakers have raised concern about healthcare companies owned by cash-rich private equity firms effectively being subsidized by taxpayer dollars.[8]

In an October 2020 letter to the US Department of Health and Human Services (HHS), U.S. Reps. Bill Pascrell, Jr. (D-NJ), Katie Porter (D-CA), and Rosa DeLauro (D-CT) wrote:

> "Community hospitals have been forced to cease routine work; treat unpredictable and costly COVID-19 cases; build temporary medical sites; and fight to acquire resources, such as personal protective equipment (PPE) and testing supplies. As community hospitals endured these challenges with little to no external financial support other than the limited aid provided by Congress, hospitals owned by private equity firms have remained flush with cash, thanks in part to this administration."[9]

Apollo is the 4th largest private equity firm in the world, with $471.8 billion billion total assets under management and $47.6 billion in cash available to be invested as of June 30, 2021. Apollo reported a net income of $4.7 billion during the twelve months ending June 2021, more than three times what it generated in 2019 and more than ten time the net income Apollo generated last year.[10]

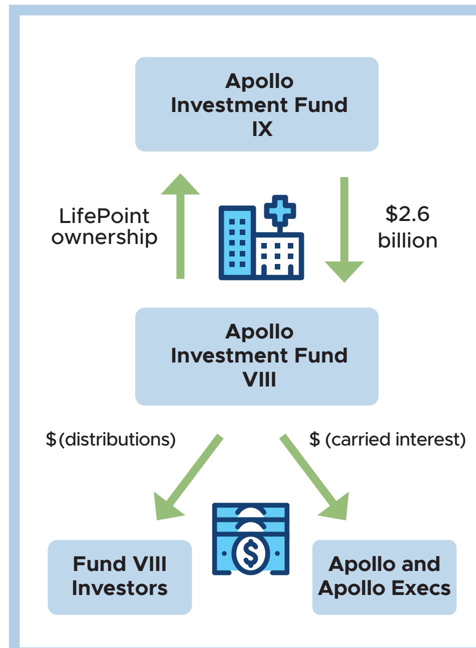
As of 2019, LifePoint derived the majority (55.2%) of its revenues from government health programs Medicare and Medicaid.[11]

APOLLO SOLD LIFEPOINT TO ITSELF, BOOKING A $1.6 BILLION PROFIT

In April 2021, Apollo sold LifePoint from one of its private equity funds (Apollo Investment Fund VIII) to another fund managed by Apollo (Apollo Investment Fund IX), reaping substantial profits through the maneuver.

According to *Bloomberg*, Apollo's 8th flagship fund, which acquired LifePoint in 2018, sold the hospital system to its 9th flagship fund for $2.6 billion in July. Apollo reports having invested a total of $975 million in the hospital system, meaning Apollo booked a more than $1.6 billion gain by essentially selling LifePoint to itself.[12]

Apollo's April sale of LifePoint from Fund VIII to Fund IX likely generated hundreds of millions of dollars in carried interest and other performance fees for the private equity firm and its executives.[13] As of June 30, Apollo Fund VIII, which owns LifePoint and several other companies, had generated a total of $2.38 billion in performance fees for the private equity firm.[14] Fund VIII paid out over $470 million in performance fees during the second quarter 2021, when it sold LifePoint to Fund IX.[15]



LIFEPOINT HOSPITALS LAG ON QUALITY

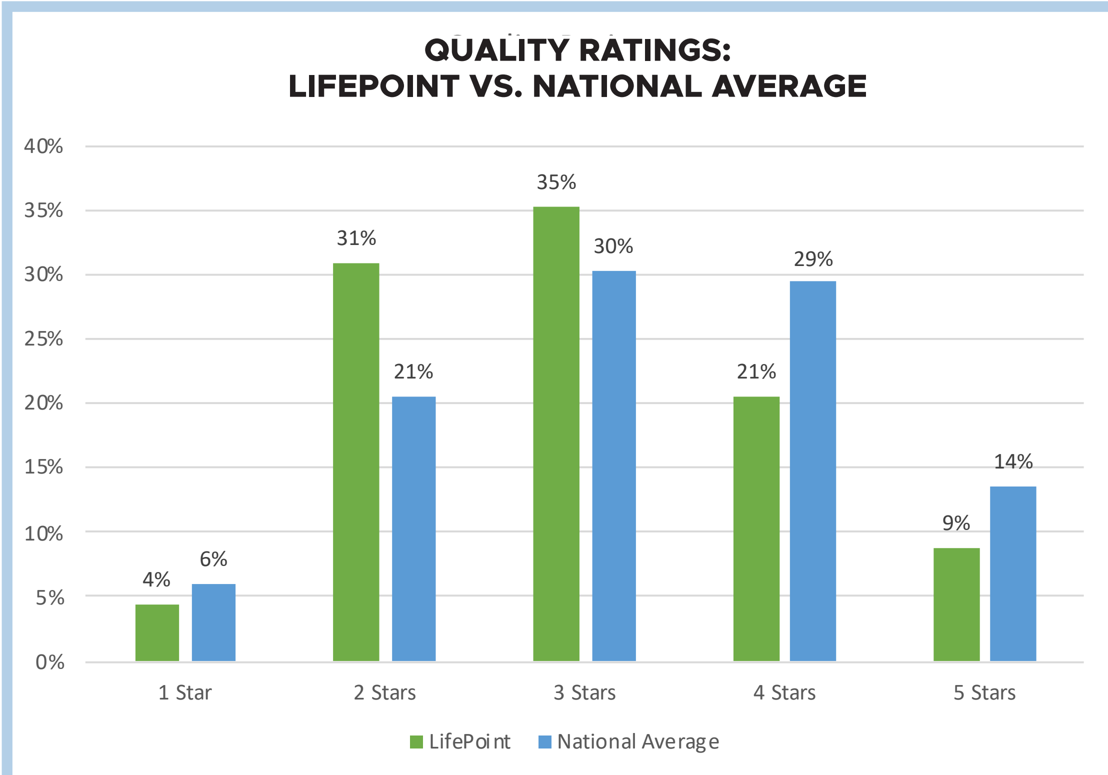
LifePoint has come under fire in recent years for aggressive policies that prioritize profit over patient care. For example, earlier this year the *Wall Street Journal* reported on how in Wyoming LifePoint chipped away at staffing and services at its hospital in working-class Riverton until most services were transferred to another LifePoint hospital in Lander, 30 miles away. Riverton residents reported that the consolidation severely reduced access to medical services and the transfer led to increased utilization of air ambulances, from 155 in 2014 to 937 in 2019.[16]

In November 2019 LifePoint sold the real estate assets for 10 of its acute care hospitals across six states to healthcare REIT Medical Properties Trust (MPT) for $700 million and leased them back.[17] Such sale-leaseback transactions have garnered scrutiny for effectively diverting cash that could be invested in hospital operations into rent payments and leaving hospital systems with fewer assets.[18]

HOSPITALS SOLD IN 2019 SALE-LEASEBACK[19]

Facility	Location
Conemaugh Memorial Medical Center	Pennsylvania
Conemaugh Meyersdale Medical Center	Pennsylvania
Conemaugh Miners Medical Center	Pennsylvania
Nason Medical Center	Pennsylvania
Ottumwa Regional Health Center	Iowa
Palestine Regional Medical Center	Texas
Sage West Health Care -Lander Campus	Wyoming
Sage West Health Care-Rivelon Campus	Wyoming
Southwestern Medical Center (including the Southwestern Behavioral Health Center)	Oklahoma
Western Plains Medical Complex	Kansas

LifePoint hospitals lag behind national averages for quality ratings, with an average CMS star rating of 2.9 compared to the national average 3.2 on a 5-star scale. 35.3% of LifePoint hospitals have a 2-star rating or below,[20] compared 26.6% nationally.[21]



LIFEPOINT'S ACQUISITION OF ACUTE CARE GIANT KINDRED HEALTHCARE

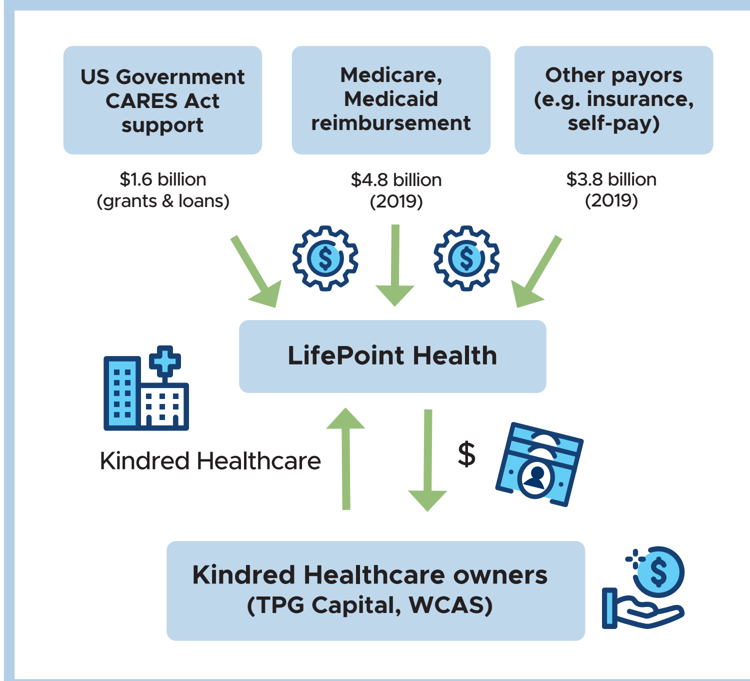
In June 2021 LifePoint announced that it is acquiring Kindred Healthcare, a long-term acute care (LTAC) hospital and acute rehabilitation company owned private equity firms TPG Capital and Welsh, Carson, Anderson & Stowe (WCAS).[22] The deal is expected to close in the fourth quarter of 2021.[23]

Earlier this year, PEHub reported that a potential acquisition of Kindred could be worth over $1 billion.[24]

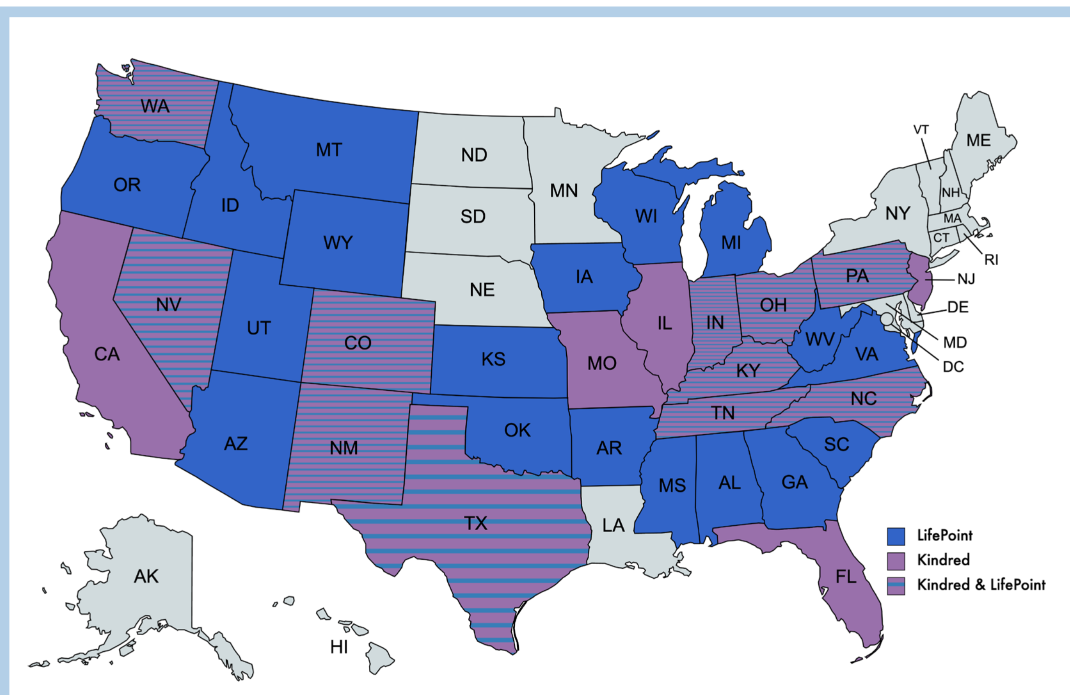
Apollo wrote to investors in May that the coronavirus pandemic creates an opportunity to consolidate distressed hospitals and "serve as a catalyst for additional M&A opportunities given the attractive scale and overall position of the

LifePoint platform," Bloomberg reported. "Independent hospital systems have greater difficulty weathering prolonged periods of financial stress," Apollo wrote. "A consolidation strategy will provide meaningful upside for Apollo funds' investment."[25]

The merger will add Kindred's 62 long-term acute care facilities, 25 inpatient rehabilitation facilities, more than 100 acute rehabilitation facilities and two behavioral health facilities.[26] The resulting company will have 77,000 employees in 34 states, making it the largest private equity-owned healthcare company in the US by number of employees.



While system-wide financial data has not been publicly reported since TPG and WCAS took Kindred private, in 2017 Medicare and Medicaid made up 77.5% of Kindred's hospital division revenue.[27]



"Independent hospital systems have greater difficulty weathering prolonged periods of financial stress," Apollo wrote. "A consolidation strategy will provide meaningful upside for Apollo funds' investment."[25]

Financing for the Kindred deal has not yet been disclosed, though the scale of the merger and LifePoint's significant amount of debt raises questions. Following the announcement of the Kindred Healthcare acquisition, credit rating agency Moody's Investors Service placed LifePoint on review for downgrade in June noting the company's high financial leverage, with debt to EBITDA of approximately 5.1 times as of March 2021.[28] Moody's also cited the possibility of Apollo taking dividends from the company as an additional risk:

> "LifePoint's ownership by private equity firm Apollo Management will result in the deployment of aggressive financial policies. While LifePoint may pursue an IPO longer-term given its large scale, Apollo may take dividends along the way, particularly if the company achieves its cash flow and deleveraging goals."[29]

HEALTH SYSTEM CONSOLIDATION

The Kindred acquisition is the latest example in a trend of consolidation of healthcare providers, which has been steadily increasing over the past two decades and is expected to continue.[30] A growing body of research shows that consolidation of healthcare providers tends to raise healthcare prices while failing to improve quality of care.[31]

Despite concerns about the impact of healthcare consolidation on prices and quality of care, Federal oversight of hospital mergers remains relatively limited. The Federal Trade Commission (FTC) has historically been constrained in its ability to limit or block hospital mergers, particularly vertical mergers (when one type of entity purchases another in the supply chain). When the FTC updated its guidelines on vertical mergers in 2020, critics of the decision, which was supported by Republican FTC commissioners, raised concerns about large integrated healthcare companies' ability to stifle competition in the healthcare marketplace.[32]

While a LifePoint-Kindred merger will merit anti-trust scrutiny, LifePoint has pursued other acquisitions this year. Earlier this year it was reportedly in talks to acquire Ardent Health Services, which would add another 30 hospitals across six states, primarily in Texas and Oklahoma.[33] LifePoint is also in the process of forming a joint venture with a 406-bed Yuma, AZ hospital.[34]

WHY DOES THIS MATTER?

LifePoint representatives have been quick to claim that the over $1.6 billion in stimulus money it received was not used to fund the acquisition of Kindred.[35] However, regardless of whether the cash came directly from CARES Act distributions, the result is the same: LifePoint is likely spending hundreds of millions of dollars acquiring another healthcare company through the Kindred transaction, months after receiving over $1.6 billion in Federal aid, rather than investing in operations at existing facilities. The proceeds from the Kindred transaction will further enrich Kindred's private equity owners.

It is striking that the transfer of LifePoint from Apollo's Fund VIII to Fund IX and LifePoint's acquisition of Kindred both represent large transfers of wealth to private equity firms just months after LifePoint received $1.6 billion in federal stimulus and while many LifePoint hospitals are struggling with surges in COVID-19 cases.

Many of LifePoint's facilities are located in states with high COVID-19 infection rates and have middling or poor quality ratings. For example, in Mississippi, which as of mid-August had the highest rate of COVID-19 infections of any state, LifePoint's Bolivar Medical Center in Bolivar County reported having zero ICU bed capacity the week of August 16th.[36] Two of LifePoint's four Alabama hospitals reported being at or over capacity the week before: Andalusia Health was at 104% ICU capacity and Vaughan Regional Medical Center was at 99% capacity.[37]

LifePoint's diversion of money away from operations to buy a competitor raises concern considering the continued strain faced by LifePoint hospitals dealing with COVID-19 surges and the additional risks brought on by private equity ownership.

ENDNOTES

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