

Stock plunges with Tenet regrouping

The hospital firm announced a major restructuring of its management team. Also at issue are high Medicare payments.

By Josh Goldstein and Karl Stark
Inquirer Staff Writers

Tenet Healthcare Corp.'s stock plunged yesterday after it announced a wholesale restructuring of its management team, and analysts questioned whether the company might be receiving excessive payments from Medicare.

Some observers also wondered if the giant for-profit hospital company would be able to continue its expansion in the Philadelphia area, where Tenet owns seven hospitals and is negotiating to buy Roxborough Memorial Hospital.

Late yesterday, Tenet announced the retirement of the company chief operating officer, Thomas B. Mackey, at age 54. Chief financial officer David L. Dennis also resigned. In response, the company's stock price dropped by \$8.70 a share or 31 percent - to \$19.20 in after-hours trading.

Since last month, the Santa Barbara, Calif., company, which owns 113 hospitals nationwide, has seen its stock price fall from \$52.20 a share as concern about unusually high Medicare payments engulfed the company.

Federal agents raided Redding Medical Center in northern California last week, probing whether two surgeons had performed unnecessary heart surgeries.

One issue is whether Tenet hospitals receive a high share of "outlier" payments, which Medicare pays hospitals for extraordinarily costly patients.

In an afternoon conference call announcing the management changes, Tenet chief executive officer Jeffrey C. Barbakow acknowledged that the company received more outlier payments than average. The payments were legal, Barbakow said, but the level was inconsistent with the company's philosophy.

"While our pricing approach was entirely consistent with the Medicare regulations," Barbakow said, "it put us on a course that was inconsistent with the position and posture we want Tenet to have within our industry."

Some analysts said yesterday that the management changes and the falling stock price might deter Tenet from expanding its hospital network in this region.

Tenet "is definitely in play [to buy] every community hospital that is seeking proposals for potential sale," said Dan Grauman, a health-care consultant and CEO of DGA partners in Bala Cynwyd.

But, he said, the drop in stock price lessens the company's ability to raise capital to do those deals. "Any deal that Tenet does throughout the country, you have to put a little question mark around it," he added.

Tenet owns seven hospitals in the Philadelphia area - Hahnemann University Hospital, Medical College of Pennsylvania Hospital, Graduate Hospital, Parkview Hospital, Warminster Hospital, Elkins Park Hospital, and St. Christopher's Hospital for Children - that it acquired in 1998 from the bankrupt Allegheny Health System.

Tenet spokesman Gary Hopkins said, "There's no change in the acquisitions that we have publicly announced."

Asked if the company's plans to expand in Philadelphia were being hurt by the falling stock price, he said: "I can't answer that. We have excellent cash flow out of our hospitals. And we have excellent credit."

Hopkins said the falling stock price and Medicare problems would not damage the company's ongoing efforts to spend on capital improvements at its hospitals.

Last month, Tenet presented a \$27 million capital-improvement program for three of its hospitals here.

"Nothing has changed in terms of the resources we provide our hospital to keep them strong," Hopkins said. "We have strong hospitals in [the] Philadelphia [area], and we have the resources and the capital to keep them strong."

Besides announcing the departures of two top executives, Barbakow said yesterday that Trevor Fetter would rejoin Tenet in the newly created position of president.

Fetter has spent the last three years at Broadlane Inc., a Tenet spin-off that provides cost-management services to hospitals.

In addition, Stephen D. Farber was promoted to chief financial officer and would be joined on the team by veteran hospital executive Barry P. Schochet and general counsel and chief compliance officer Christi R. Sulzbach.

"Questions have been raised that test Tenet's credibility," Fetter said. "I am confident that the analysis now under way at Tenet, and the steps that we will take to ensure Tenet's continued progress, will soon address any who might question this company's commitment to the delivery of quality patient care with the utmost attention to ethics."

Contact Josh Goldstein at 215-854-4733 or jgoldstein@phillynews.com.