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UnitedHealth adds to HMO muscle

by Andrew Morse Posted 04:28 EST, 27, Oct 2003

UnitedHealth Group Inc., a giant managed care provider, said Monday it was paying just shy of \$3 billion for **Mid Atlantic Medical Services Inc.**, strengthening its presence on the eastern seaboard and padding its already considerable size.

Minnetonka, Minn.-based United is paying shareholders of Rockville, Md.-based MAMSI 0.82 shares of United for each share of MAMSI they hold. They will also get \$18 in cash, bringing total consideration to \$62.49 per share — a 16% premium based on Oct. 24's close.

The deal, which requires regulatory approval and the OK of MAMSI shareholders, was the second huge healthcare deal announced Monday, Oct. 27. Earlier in the day, **Anthem Inc.** and **WellPoint Health Networks Inc.** announced a \$16 billion merger creating a combined company that will vie with UnitedHealth to become the largest managed healthcare provider in the U.S.

Together the two deals suggest the climax of a period of rapid consolidation in the managed care industry that has left two industry titans, UnitedHealth and the new WellPoint, far larger than their other competitors. Consolidation of the industry will now likely focus on fitting in geographic regions and slotting in niche specialties.

"For the megacompanies, there are fewer companies of size to acquire," said Richard Cohen, president of **Walden Group Inc.**, a healthcare M&A advisory firm. "But there are still going to be acquisitions along regional lines and to fill in specialty areas."

UnitedHealth plans to fold MAMSI into its UnitedHealthcare division. The acquisition brings UnitedHealth about 2 million new clients in Delaware; Maryland; Virginia; Washington, D.C.; West Virginia; northern North Carolina; and southeastern Pennsylvania.

UnitedHealth will pay about 38.6 million shares, or \$2.1 billion based on Oct. 24's close, and \$860 million in cash for MAMSI.

Chicago-based ratings service **Fitch Inc.** affirmed its high ratings for UnitedHealth's outstanding debt, although it expected the company to issue more debt to pay for part of the acquisition price.

"Fitch expects UnitedHealth to fund the cash portion of the purchase price with a combination of debt and internally generated cash," analysts Bradley Ellis and Douglas Meyer wrote. "But the transaction is not expected to change UnitedHealth's consolidated leverage (as measured by debt to total capital) from its current level of approximately 28%."

UnitedHealth shares ended the day down 3.4% at \$52.40, while MAMSI shares gained 10.7% to close at \$59.62.

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