

PESP untangles Steward Health Care's long road to bankruptcy

Demystifying the private equity deals and real estate transactions that pillaged the health system and left patients, workers, and communities holding the bag

USA, June 27, 2024 /EINPresswire.com/ -- A [new report from the Private Equity Stakeholder Project](#) (PESP) explains the corporate pillaging that led Steward Health Care to declare bankruptcy in May 2024. The report details how private equity firm Cerberus Capital Management, aided by hospital landlord Medical Properties Trust (MPT), extracted significant profits from a struggling health system even as the system financially struggled.



The real estate play:



Steward Health Care operated in a regulatory landscape that permitted various types of pillaging by private equity investors, hospital landlords, and healthcare executives."

Mary Bugbee, PESP healthcare researcher

Steward was formed in November 2010 when Cerberus Capital Management acquired six Massachusetts hospitals from nonprofit Caritas Christi Health Care in a leveraged buyout. The overall deal was valued at \$895 million but Cerberus only put up \$246 million in cash, approximately 27 percent of the deal value.

In a 2016 transaction that generated \$1.2 billion, Steward sold the real estate of its Massachusetts hospitals to Medical Properties Trust (MPT), a hospital landlord. Cerberus used the revenue to finance a \$484 dividend to one of its funds. The hospitals no longer owned their real

estate and would be on the hook for millions of dollars in lease payments for years to come. Meanwhile, Cerberus had nearly doubled its returns on its \$246 million investment.

With more financing from MPT, Steward rapidly expanded from an 11-hospital system confined to Massachusetts, to a 37-hospital system operating in 10 states. It became the largest for-profit private hospital operator in the US by 2017.

In 2021, Cerberus completed its exit from the health system having nearly quadrupled its original investment. Despite the health system's worsening financial condition, Cerberus reportedly made \$800 million in the decade it owned Steward.

A regulatory landscape permissive of pillaging:

Steward Health Care operated within a regulatory framework that allowed private equity investors, hospital landlords, and healthcare executives to engage in extractive practices like dividend payouts and sale-leaseback arrangements. While these practices may have been legal, they jeopardized the financial stability of the entire healthcare system and now patients, workers, and communities are paying the price. As Steward teetered towards bankruptcy, regulators and politicians attempted to intervene, but their efforts came too late.

Missed opportunities and warnings:

Regulators have missed critical opportunities to prevent a Steward bankruptcy, including in 2010 when they approved Steward's acquisition with insufficient conditions despite community concern, and again in 2015 when they released Steward from continued monitoring. Since 2018, Steward has closed 6 hospitals and at least 2,650 workers have lost their jobs due to hospital closures and service cuts leaving some communities with limited access to essential healthcare services.

Unions and journalists repeatedly raised alarms about deteriorating hospital conditions at Steward Health Care, yet state policymakers failed to enact legislation that could have brought greater accountability to Steward and prevented its collapse.

Lessons for healthcare reform:

Steward hospitals are now at imminent risk for closure if there are no bidders at upcoming auctions. Experts predict it will be hard for MPT to find new tenants in hospitals with extensive lease liabilities.

Steward's bankruptcy underscores how the US healthcare system allows private equity investors and others to put profits ahead of patients and community wellbeing. PESP urges policymakers to act decisively to pass legislation that safeguards hospitals from corporate pillaging and ensures robust oversight of private equity investments in healthcare. Failure to address these issues risks more tragic outcomes for patients, healthcare workers, and communities across the nation.

Read the full report at: pestakeholder.org/reports/the-pillaging-of-steward-health-care

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