Everest Healthcare Services Corporation

**Introduction**

Merge and acquisition were already a trend in healthcare industry. Everest Healthcare Services Corporation, the 6th largest provider of dialysis in the US with 6,400 patients through 68 clinics in 12 states (Sullivan, 2004), was contemplating a merge with Fresenius Medical Care Holdings Inc. This deal was very attractive for Everest, because Fresenius was the largest provider of dialysis service and products in the world. However, the problems bother Everest Healthcare are timing and a correct price for this deal.

**Key issues and analysis**

Even though Everest Healthcare’s revenue has increased about four times from 1995 to 1999, but it is not hard to notice that the company still has a negative earning in 1999, due to the raising expenses of ‘Patient care cost”, “Bad debts” and “Special charges”. This implies that Everest Healthcare has a weak accounting management and the lack of internal processes in place to insure collection of payments.

Dialysis has become a major growth field as kidney diseases have exploded. However, Everest Healthcare had a very limited opportunity to expand its business as it only has $3,381 thousands Cash on hand in 1999, that was less than a quarter of Cash reserve in 1998. It indicated that Everest Healthcare had a weak internal management.

Additionally, Everest was facing a declining reimbursement rates from Medicare, and 86.9% of Everest’s revenue was derived from dialysis services (Sullivan, 2004). Without external helps, this might lead to a decline in net revenues and make growing net income even more difficult.

In contrast, Fresenius Medical Care has a much stable financial performance, its revenue has stably grown from 1997 to 1999. However, the company had faced lots of investigations regarding the billing practices of National Medical Care’s dialysis and lab business. Lead by the Office of Inspector General of the U.S. Department of Health and Human Services, Fresenius Medical Care was required to pay the United States Government $486 million (Sullivan, 2004). As a result, the company had suffered a net loss of $258,910 thousands in $258, 910.

**Conclusion and recommendations**

If I were Everest, I would accept this offer, because this is a right timing. Based on the above analysis, the company had a weak internal control and troubled by its increasing operation expense. Merging with Fresenius will probably create synergies that could increase net income through a centralized management system. In addition, Fresenius, has a much larger business scale, it has the ability to scale Everest’s clinics minimizing the effects of lowed reimbursement rates from Medicare while still growing net revenue.

On the other hand, the merge also would benefit Fresenius, as the company’s strategy is to grow their marketing share revolved around acquiring dialysis clinics around the world. Everest’s strengths included the relationships that they built with physician groups and local hospitals. If it successfully merger with Fresenius, these relationships would become an asset as it would allow the Fresenius instant access to a local network of hospitals. Combining their scale and expertise together, both of them would benefit from it, and has the potential to grow net income through operational and better business practices.

In order to get a fair price for Everest, I would use their patients and assets to do the calculation. Everest had 6,400 patients and the price range from $10,000 to $40,000 per patient (Sullivan, 2004), and include 1999 total assets of $196 million. In order to get a more accurate estimate I would use the average price of $25,000 to run the analysis. Based on the result, Everest should value about $356 million. Any offer above this price would be considered an acceptable offer.

# **References:**

Sullivan, J. (2004). Everest Healthcare Services Corporation. In *Case Studies in Mergers and Acquisitions.* Authorhouse.