Buyout Fund managers say bid for Healthscope will be too high

Investors warn Wesfarmers

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Fund managers believe that retail, mining and industrials conglomerate **Wesfarmers** is out of its depth in bidding for private hospital operator **Healthscope** and warn that if the company ends up winning the sale process it will have paid too much.

Media reports have placed Wesfarmers, the owner of **Coles** supermarkets, in a shortlisted second round of potential buyers of Healthscope, which also runs pathology and medical centres. A sale is expected to reap more than $4 billion for owners **TPG** and **The Carlyle Group**.

But investors worry that other bidders with deep experience in the healthcare sector, including US hospital operator HCA Holdings and Chinese conglomerate Fosun, will better understand how to value any risks in the sale of Healthscope. Wesfarmers did not respond to requests for comment before deadline.

Investors Mutual fund manager Julian Beaumont, whose firm owns a Wesfarmers stake, said a sale of Healthscope would be "hotly contested".

"I think they [Wesfarmers] are disadvantaged in the bidding process in the absence of the expertise that the likes of HCA has," Mr Beaumont said. "I'm not unhappy that they're having a look but I'd be unhappy if they paid a price that doesn't reflect the risk they are taking on by going into another sector."

Wesfarmers is soon to be sitting on excess cash when the $2.9 billion sale of its insurance division is settled. Philo Capital fund manager Hugh Dive, who "until recently" controlled a Wesfarmers stake, said it is understandable that the company is looking at acquisition opportunities to drive growth – especially with the prospect of cash "burning a hole in its pocket".

But he said other businesses, such as Orica's $1 billion chemicals division, would be a better fit for the $50 billion Perth-based conglomerate.

"You've got to imagine that the private equity outfits have been ripping all the cost out of Healthscope so you have to ask, 'What can Wesfarmers add to this?'" Mr Dive said.

"One would have to believe that Wesfarmers' management aren't able to look at Healthscope with the same critical eye [as the other bidders]. If they've got to pay more than these other guys, there's a high probability they will over-pay."

Despite the concerns, Wesfarmers investors may not need to get too worried, given TPG and The Carlyle Group are pressing ahead with alternative exit routes as well. In addition to mulling a trade sale, the owners are considering a July public listing, as well as a potential spin-off of Healthscope's property assets. Potential institutional investors will visit some of Healthscope's flagship hospitals in Sydney and Melbourne this week.

The vendors, which bought Healthscope for $2.6 billion in 2010, are understood to be searching for a large global fund manager or sovereign wealth fund to come on as a cornerstone investor.

Mr Dive said the presence of a cornerstone investor could make investors feel more comfortable about buying into an initial public offering. "It would mean that … the chances of this thing failing on day one is a lot less," he said.

Healthscope declined to comment.