SPECIAL NOTICE

UNITED HEALTHCARE

TO PURCHASE

METRAHEALTH

FOR

$1.65 BILLION

Date: **June 23, 1995**
From: **Market Research**

As reported through the Bloomberg Newswire service on June 21st, the Wall Street Journal and the Hartford Courant on June 22nd, United Healthcare Corporation (UHC) has confirmed its intentions to acquire the newly formed MetraHealth Companies. Upon completion, this merger would quadruple UHC's current size to approximately 12.6 Million enrollees. MetraHealth is a joint venture company formed in January of 1995 by Metropolitan Life Insurance Company and the Travelers Group. Private discussions have been underway for a few months in order not to jeopardize the deal.

The financial arrangements of the transaction include $1.65 Billion upfront in stock and cash with an additional $350 Million dollars to be paid if performance goals are met by the end of the year. If future earnings projections are met, the total worth of the merger could be as high as $2.5 Billion by 1997. United Healthcare reported a 1994 net income of $1.67 Billion which reflected a $22.3 Million dollar acquisition expense as well as $1.3 Billion dollar gain for the sale of their Diversified Pharmaceutical Services Unit. A June 15th Standard & Poors report stated UHC to have $1.5 Billion dollars of cash and easily liquidated investments for acquisition purposes.

Travelers would receive their payment in cash while Metropolitan would receive UHC stock and subsequent earnings payments. This form of payment suited the interests of each company. Travelers has stated that they want out of the health care market. Travelers Chairman Sanford Weill is reported to be eager to abandon this sector and redirect his efforts towards financial services. The pending deal will expedite their exit. MetraHealth had made plans for a stock offering in about a year to raise the capital to buy out Traveler's interest. An additional sign of Travelers interest in exiting the health care arena is an announcement that they will "spin off" Transport Holdings Inc. The primary subsidiary of this company is Transport Life Insurance Company, which is a Fort Worth, Texas based underwriter and distributor of supplemental health and long term care insurance company.

Met Life, on the other hand, wants to stay involved in the healthcare business. This transaction will make them one of the largest UHC stock holders. Wall Street was receptive to the news, On June 21st, UHC shares rose $2 (up 5%) to close at $42.125, while Travelers gained on the Big Board +$.875 to $43.25. Met Life is not a publicly held company.

One of the most interesting aspects of this deal is the incredibly large volume (6.7 Million) Fee for Service and conventional enrollees UHC will acquire. The challenge is to convert these people to managed care products, which are more lucrative. MetraHealth currently competes in 29 service areas, most of which are struggling. An industry analyst Thomas Hodapp stated, " if United gains a strong position in just a couple of new markets, such a deal would probably be worthwhile."(WSJ 6/22). The idea to arrange this deal should not be completely unexpected. Kennet Simmons, the Chairman and Chief Executive of the New MetraHealth, is the former Chairman and Chief Executive of UHC. Sources state that he has remained a close friend to the current leader of UHC William McGuire. Mr. Simmons concluded that it made more sense to team with the powerhouse of United than to try to build up competing HMO networks.

<u>Background</u> - *MetraHealth*

The merger of Metropolitan and Travelers was announced in the winter of 1994. The two companies were seen to be inefficient as independent managed care companies. The theory was that the gained economies of scale would allow the new entity more leverage in contract negotiations and network development. Because of this, their focus was to be only on group business. They have not been in business together long enough to see if this theory came true. As of the first quarter of 1995, they had not yet consolidated their reporting with the Department of Insurance. Additionally, there have been reports that the new company was not being well run from a claims processing standpoint. There seemed to be a great deal of confusion and frustration from a client perspective as to which payment and claims processing system was to be used. Some analysts have stated that UHC providing a third system will only make it worse. Others say that streamlining operations is what UHC does best and sees the chance to make the new huge company really work on efficiencies of scale. MetraHealth earned $40 Million dollars in the first quarter of this year.

<u>Changing Strategies</u> - *United Healthcare*

Apparently, UHC is moving to convert a larger base of traditional and fee for service which is a shift from their past actions. The previous strategy of UHC was to acquire established local HMO's that were top performers. UHC would allow local management to stay in top positions until the transition was complete. Additionally, the name of the company would usually stay the same too. Then once a certain comfort level and stabilization process occurred, UHC would move in and flatten out the management structure, centralize the claims processing and transition the local HMO completely under the UHC name. This process has held true in Florida. UHC purchased CAC-Ramsay in 1994. CAC is a niche player in the Hispanic market of South Florida. Therefore, the standardization process has taken longer. But recent observations indicate that they have started to flatten the management structure and rumors exist that UHC is ready to change the CAC name formally to UHC. If completed, the impact of the merger on the current Florida Managed Care market will be as follows:

HMO	Enrollment*	% Market Share
United Healthcare / CAC Ramsay	197,960	6.72
Met Life	48,031	1.63
HMO Total	245,991	8.35
PPO	Enrollment**	% Market Share
Met Life HealthCare Network	155,422	2.8
Travelers Health Network	71,627	1.3
PPO Total	227,049	4.1
Managed Care Total	473,040	5.52

* 12/94 DOI
** 7/94 Florida Managed Care Report

The above chart does not include the potential conversion efforts UHC must undertake to move the more traditional enrollees into a managed care environment. Therefore, UHC with an aggressive growth strategy as well as increased market presence will be monitored for potential significant competitive impacts on BCBSF marketing efforts.

If UHC is successful in completing this merger, they will blanket the east coast with managed care plans. Consult the upcoming issue of Frontlines - a monthly newsletter distributed by Market Research for further developments on this pending merger.

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