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Meridian sold to national health insurer Wellcare for \$2.5 billion

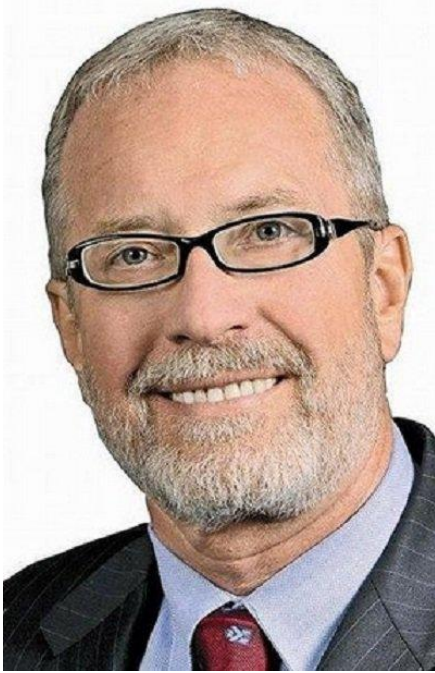
By **Jay Greene**



Bedrock LLC Meridian is headquartered in One Campus Martius in downtown Detroit.

Meridian Health of Detroit has agreed to sell its multi-state operation to Tampa-based Wellcare Health Plans Inc. (NYSE: WCG) for \$2.5 billion, the companies announced Tuesday evening. The deal is expected to close by the end of the year.

Founded by David Cotton, M.D., and his wife, Shery, in 1997, Meridian grew rapidly to become Michigan's largest Medicaid health plan with more than 500,000 members and is one of the largest family-owned



managed care companies in the nation. It's also a major employer in downtown Detroit and ranks fourth on Crain's Private 200 list of largest privately held companies in metro Detroit with \$3.8 billion in 2017.

Overall, Meridian serves 1.1 million Medicaid members in Michigan and Illinois. That includes 27,000 Medicare Advantage members in Illinois, Indiana, Ohio and Michigan and 6,000 private health insurance members on the Obamacare marketplace in Michigan.

It is unclear how the sale might affect Michigan operations or employment. Contacted by Crain's, Meridian President Jon Cotton said he was "emotional" about the sale, but "it was the right thing to do." He declined further comment.

"WellCare's unwavering commitment to improving the lives of its members makes it an ideal partner," David Cotton, CEO of Meridian, said in a statement. "Our similar missions, values and goals, combined with WellCare's dedication to providing an unparalleled member experience, including access to high quality health care, were key factors in our decision."



Meridian consists of Meridian Health Plan of Michigan Inc., Meridian Health Plan of Illinois, Inc., and MeridianRx, a pharmacy benefit manager. Meridian expects to generate more than \$4.3 billion in total revenue in 2018.

WellCare, which has 4.3 million Medicaid members as of the first quarter of this year, said the acquisition will bolster its Medicaid portfolio with new membership in two states. It reported income of \$373.7 million on \$17 billion in revenue in 2017.

"Meridian is a well-performing health plan, and WellCare and Meridian share a similar commitment to serving our members through a comprehensive, integrated approach to healthcare," Ken Burdick, WellCare's CEO, said in a statement. "This transaction strategically aligns with our focus on government-sponsored health plans, will strengthen our capabilities and growing business, and will meaningfully advance our growth agenda."

Meridian consistently achieves high quality ratings for its Medicaid plans in Michigan and Illinois from the National Committee for Quality Assurance.

Meridian has become a visible fixture in downtown Detroit since **purchasing One Campus Martius** with Dan Gilbert's Bedrock LLC in 2015 for an estimated \$140 million to \$150 million.

WellCare will also benefit from adding Meridian's in-house pharmacy benefit manager MeridianRx to its business. Burdick said Wellcare will learn the PBM business from Meridian's small operation that serves mostly members.

Erik Gordon, a professor at the University of Michigan Ross School of Business, said the health insurance industry is fast consolidating because economies of scale are needed in a more competitive market. "It

would have been nicer for us if Meridian had been an acquirer," he said.

"It will give WellCare's midwestern business a big boost, and will give it a strong PBM platform that could help it save costs," Gordon said. "The only surprising aspect is that WellCare was thought to be more interested in Medicare, the program for seniors, than in Medicaid, the program for low income people, and Meridian's strength is in Medicaid."

Medicaid, which was expanded under the 2010 Affordable Care Act, has been a growth area for health insurers. WellCare said the new members will make it the top Medicaid player in six states, up from four.

WellCare said it expects the deal to add 40 to 50 cents to its earnings per share in 2019.

- Bloomberg News contributed to this report.

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