

# Oklahoma ProCure: Private cure

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Fortis and KBC have closed the \$95 million financing for the Oklahoma ProCure Treatment Center. This is the first independently-operated proton therapy centre in the US, and only the third project financing for such an asset globally. It differs markedly from its forerunners in its exposure to the vagaries of the US privatised healthcare system.

The developer of the project is ProCure Treatment Centers, which has been formed to develop, own and operate proton therapy centres in the US. Its principals include doctors and technicians that handled the installation of such facilities at hospitals in the US. Until now such technology has been the preserve of large hospitals, usually those attached to universities.

ProCure's proposition is that treatment centres outside of large university towns are equally in need of its technology. Proton therapy treatment dates back 50 years, but it is only within the last decade that it can be applied accurately enough to benefit cancer patients, thanks to advances in medical imaging technology.

ProCure has set up a joint venture with two groups of doctors, which together have a shareholding of roughly 15% in the project. ProCure owns the remainder of the shareholding, although its cash equity contribution is nearer 75%, with in-kind development expertise accounting for the gap.

IBA, a Belgian manufacturer, is the supplier to the Oklahoma project and currently has a majority share of the global market. Of the centre's total \$120 million cost, its proton therapy equipment accounts for \$50 million. IBA, through its financial solutions group, has also introduced ProCure to its relationship lenders, KBC and Fortis.

Fortis, together with JP Morgan, provided a letter of credit guarantee for the \$55 million municipal bond financing of a proton therapy centre at the University of Florida. And Fortis, together with Deutsche, placed a Eu136 million (\$185 million) note issue for the Essen proton therapy centre.

But both of the above deals featured a public partner – Essen's financing was structured around lease payments from the state, while Florida is a state university. Florida featured a slightly larger element of payment risk than Essen, which resembled the German forfaiting scheme. Oklahoma is even more dependent on demand risk.

Demand risk is a slightly awkward way to describe the available pool of patients stricken with cancer. Of the 1.4 million cancer sufferers in the US, maybe 850,000 receive radiation therapy, and of that number maybe 250,000 could be treated more safely with proton therapy. The Oklahoma centre will need to treat 800 patients a year to break even, and is expected to treat roughly 1,500 people per year.

The two equity partners will handle the majority of the patient referrals, although the facility will accept patients from outside this network. The building will have four treatment rooms, and is set to be complete in 2009. The proton equipment, while it accounts for the majority of the cost of the facility, cannot readily be removed and reinstalled elsewhere.

One reason for the recent spurt of projects is that since 2001, the Health Care Financing Administration, which runs the US' Medicare and Medicaid insurance programmes, has decided that proton therapy is no longer experimental, and must be covered. Private insurers also frequently cover the treatment.

Operating the centres is not expensive, since they do not require radioactive isotopes, and the cost of treatment generally reflects a combination of staffing, insurance, and upfront costs. The projects are therefore suitable targets for a leveraged financial structure, and ProCure has obtained \$80 million of the cost of the project as debt, split between a covered and uncovered portion.

The developer described the two tranches as senior and mezzanine debt, but the difference between the two is a small one, largely relating to payment priority. The Belgian export credit agency, the Office National du Ducroire, reinsures 65% of the senior debt, although both the uncovered and covered portions rank *pari passu* in security priority. OND did not come to the project, and its technology completely fresh, since it reinsured some of the letter of credit for the Florida project.

The biggest risk to lenders is that an insurer, whether public or private, will reimburse a patient's treatment. While the US government has, broadly, agreed that the treatment should be covered, the complex process of processing medical claims leaves some room for an insurer to decline coverage. US banks that specialise in healthcare are familiar with this uncertainty. Oklahoma's lenders, however, have to be comfortable that strong demand will outweigh the potential payment and technology risks.

There is also the possibility that the project's technology will become obsolete or unpopular before the end of the financing's 11-year tenor. In this respect the time it has taken proton therapy to gain acceptance offers some comfort. No therapy currently available, and certainly no therapy with the range of applications as protons, is likely to gain widespread approvals and acceptance in this timeframe.

In fact, interest in proton therapy is increasing rapidly. Competitors, particularly Siemens, Hitachi and Verian are angling to take market share from IBA. Banks, too, are likely to take an increased interest in these assets. But lead times are long and manufacturing capacity is scarce. Lenders expect maybe four to five projects to come to fruition in the next 18 months. But in the US, the need for cancer treatments could support as many as 90 new centres. ProCure is well-placed to meet this demand.

### **Oklahoma ProCure Treatment Center**

Status: Closed 25 April

Size: \$120 million

Location: Oklahoma City, Oklahoma

Description: Standalone cancer treatment centre

Sponsors: ProCure Treatment Centers (85%), Radiation Medicine Associates and Radiation Oncology Associates

Debt: \$95 million

Mandated lead arrangers: Fortis (modelling, insurance, technical and administrative bank), KBC

Partial reinsurance: OND

Tenor: 11 years

Technology provider: IBA

Architect: Tsoi/Kobus & Associates

Technical adviser: Faithful+Gould

Market consultant: IMS Health

Insurance adviser: Aon

Lender legal adviser: Kutak Rock

Sponsor legal: Goodwin Procter

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