

Proton therapy bonds

Area of expertise: Private markets

Theme: Sources of current income



Overview

- The Provision Center for Proton Therapy (PCPT) is an ancillary healthcare facility providing cutting edge proton therapy treatment to cancer patients in Knoxville, Tennessee
- The bonds were issued through the Health, Education & Housing Facilities Board of the County of Knox, Tennessee with a 20 year fully amortizing term maturing in 2034. They are secured by a first mortgage on all property, plant and equipment comprising the project as well as a pledge of gross revenues
- The amortization profile of the bonds provides a WAL of 6 years for the 2025 bonds and 16 years for the 2034 bonds
- Debt service coverage ratio is expected to climb to 1.75x by the end of 2015
- **Risks: Interest rate risk, credit risk of issuer, medical reimbursement risk**

Implementation

Bond structure:

Maturity	Par/mm	Coupon	Average life	Turbo A/L
5/1/2034	75.60	6.00%	9/19/2030	8/1/2020
5/1/2025	53.97	5.25%	11/4/2020	n.a.

- Unlevered, the bonds provide a tax exempt return of approximately 5-6% with upside potential once the project is stabilized
- The tax exempt municipal bonds backed by the fully stabilized proton therapy center in Jacksonville, FL, recently traded at 3.60% yield to worst, illustrating the value the market assigns to a stabilized project
- Applying TRS leverage, an investor can receive mid to high teens in taxable interest
- For investors that value the tax exempt income, DB can utilize a Senior/Sub trust structure to achieve low double digit tax exempt yield

Credit strengths

Timeline

Project completed on time and budget. Ramp-up accelerating with all three initial treatment rooms operational, partially mitigating stabilization risk

Business model

Requires 8.8% market share (515 annual patients) of primary service area proton-eligible patients to reach breakeven, and just 2.3% when extended to secondary service area

Protected market share

Provided through restrictive state certificate of need process. Strong location on a mature cancer-care medical campus shared with clinical partners. Nearest competitor over 500 miles away

Management team

Considerable experience managing new medical technologies from both a facilities management and reimbursement development standpoint

Operating results

Impressive YTD operating results with the May through July period producing above budget patient volume, net patient revenues and cash collections, offsetting initial ramp off softness