
U.S. TRADE AND DEVELOPMENT AGENCY



EXECUTIVE SUMMARY

**MARKET ANALYSIS AND FINANCIAL FEASIBILITY STUDY FOR A 100-BED
PRIVATE HOSPITAL IN ALEXANDRIA**

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A. INTRODUCTION

This Market Assessment and Financial Feasibility Study was performed by OMMA Healthcare, LLC, in cooperation with Five Continent Enterprise, Inc., under a U.S. Trade & Development Agency grant to the Andalus Corporation of Alexandria, Egypt. The specific objectives of the study were fourfold: (a) Establish the need and demand for an "American Standard of Care" private hospital in Alexandria; (b) Determine the optimal configuration of the proposed facility with respect to site, configuration, patient services, and management expertise; (c) Assess the project's potential impact upon the modernization and quality of healthcare accessible to Egyptian citizens; and (d) Analyze the potential financial viability of the project in terms of financing, timing and use of funds. As such, the study's findings present the viability for constructing and operating a 100 bed specialty hospital with a medical staff comprised of 61 excellent physicians.

The study was conducted over a period of approximately five months. The methodology entailed two separate visits of the study team to Alexandria with extensive administrative support from Andalus. A broad range of detailed interviews were conducted involving physicians, healthcare administrators, government officials, and community/business leaders. Physical visits and detailed discussions were also conducted with respect to numerous private and public hospitals in Alexandria and Cairo. Information was collated from multiple sources, such as Egyptian government agencies located in Alexandria and Cairo, diverse medical and business organizations, and the Commercial Service at the U.S. Embassy in Cairo.

B. MARKET ASSESSMENT

The OASIS American Hospital (OAH) will be a state-of-the-art, "American Standard of Care" facility to be located in one of the fastest growing areas of the Alexandria Governorate. Key findings of the market assessment for the project include: (a) Estimation of the size of the targeted private sector; (b) Profiles of the competition and unmet healthcare need; (c) Analysis of the critical services required in the target market sector; (d) Specification of the availability and qualifications of physicians and other healthcare professionals; and (e) Delineation of key economic, investment, and political climate indicators.

Size of Targeted Private Sector. The Alexandria Governorate is one of Egypt's largest urban areas with a projected base population of over 4.3 million in Year 2005. OAH's *primary target market* is projected to be the 12% of this base population estimated to be capable of paying for "American Standard" private health care. The *secondary target market* is 12% of the over 400,000 Egyptians projected to reside in areas within a 100-mile radius of Alexandria. The total *target market* for OAH in Year 2005 thus is projected to exceed 500,000.

The above projections should be viewed as very conservative given the consensus that Alexandria will experience much more rapid growth than that of the country as a whole. The primary factor for such growth, as pointed out previously, is the increasingly rapid pace of industrial and residential development in the Governorate and adjacent geographical areas. In addition to the above population, private sector, and target market descriptions, other potential patient markets for the new hospital generally include: (a) Over 2 million tourists (predominantly middle and upper class Egyptians) vacationing in Alexandria and surrounding resort areas during the summer months); (b) Residents of surrounding countries, particular Libya, currently seeking healthcare in Cairo; (c) An extremely large expatriate population of over 30,000 who are employees of the growing number of private companies in the primary and secondary service areas) expected to enter into contractual affiliations with the new hospital; (d) Approximately 4,000 Egyptian citizens residing in the U.S. and other countries, many of whom prefer to seek hospitalization in Egypt due to family considerations; (e) Private insurance agreements; and (f) regional referrals from private doctors and clinics, both in Alexandria and Cairo.

Competition and Unmet Need. The Egyptian business leadership, members of the medical community, knowledgeable government officials, and others interviewed enthusiastically supported the need for a quality "American Standard" private hospital in Alexandria, Cairo, and other regions in Egypt. With the exception of a new private hospital in Cairo, there are no comprehensive public or private hospitals in Egypt which offer both inpatient and outpatient care meeting the above standards.

The hospital *bed need* in most emerging economies has been established by the World Health Organization (W.H.O.) as 3.23 beds per 1,000 population. The Alexandria private sector sized at this standard translates into a private sector bed need of 1,486 beds (i.e., 12% of Alexandria's primary and secondary service area 1998 population is 460,230). With the number of current beds numbering at approximately 526 beds there is an established need for an additional 960 private hospital beds in the service areas. By the Year 2005, population growth will project a need for 1,696 beds or an unmet need of 809 beds (47.7%).

Programming of Services. The private hospital competition in the planned primary and secondary service areas is minimal in terms of the quality and effectiveness of patient care. OAH, however, will not be designed to duplicate the total range of primary and secondary healthcare services currently available through the large public hospital system. Rather, it will provide focused, complementary services of a quality not currently available in addition to a new standard of tertiary level care, as well as serving as an asset to governmental hospitals and other diagnostic treatment centers in the region that may choose to subcontract with OAH.

OAH will offer comprehensive Cardiovascular Care, a full range of Oncology Services, Neurosurgery and Trauma Care, and a strong emphasis on Specialty Surgical Services.

The facility will also incorporate a Medical Office Building to provide physician offices to enhance patient accessibility and convenience as well as facilitate outpatient ambulatory care. In addition, OAH's services and growth will be supported by the newly formed Medi-Plan International, providing insurance contracting, quality and utilization oversight, and a variety of physician support services.

Consistent with its role and mission, OAH will create and sustain the OASIS Community Healthcare Foundation. The foundation will focus on (a) providing specialized indigent care, (b) implementing community health education and awareness programs, and (c) facilitating continuing medical education for physicians and other healthcare professionals, and (d) conducting fundraising campaigns, particularly with respect to private corporations, to expand its non-profit activities.

Availability of Physicians. Based on upon discussions with physicians, government officials and other sources, it is estimated that 75 to 100 top-notch doctors (many western trained in the UK, the U.S., and Europe) in the Alexandria region would seek privileges at the new OAH and refer their patients there. Numerous private clinics and diagnostic operations also have expressed their willingness to send their patients when hospitalization is required.

Of the above number, approximately 34 during the first year will be admitting physicians with an estimated core 30% of this number locating their primary offices in the Medical Office Building (MOB) to be built into the hospital's superstructure. There also will be 14 or more consulting physicians providing diagnostic services, emergency care, and anesthesiology support to the admitting physicians and surgeons. The total number of core physicians (including dental) is projected to reach 60-70 by Year 5 of the hospital's operation.

The above complement of physicians will be members of the newly incorporated *Medi-Plan International*. All will be subject to the qualification process of the *Medi-Plan International Credentials Advisory Group* comparable to a large degree with the American Medical Association's requirements. It is the intent of the *Medi-Plan International Physician Panel* to join with the new hospital in the negotiations for contracted services with private medical insurance companies and other corporations in Egypt. Primary care physicians, for purposes of referring patients to the new hospital, may qualify for membership in Medi-Plan.

Most medical subspecialty areas will be covered at the outset of operations. Consulting physicians (Anesthesiology, Radiology, and Pathology) and select rotational physicians may be involved and scheduled as *locum tenens* to augment the existing local core group physician resources, talents, and skills, as well as providing continuing medical education. To that effect, a data base of physicians of Egyptian ancestry trained/practicing in the U.S. has been identified as an additional resources for sustaining a long-term rotation program.

Economic, Investment, and Political Climate. The majority of indicators delineated in this study strongly indicate that Egypt, while still characterized by excessive governmental regulation and bureaucracy, is successfully implementing comprehensive economic reform and privatization initiatives which bode well for investment in private healthcare. A 1996 report by the *International Finance Corporation of the World Bank*, cited in Section 2 of this report, states the following: "The investment climate for private hospital investments in Egypt is positive. With a stable government, the economy is growing, the regulatory environment is becoming more friendly to private investors, new industrial programs are providing inexpensive land with infrastructure and tax holidays, and many Egyptians are eager to invest in the healthcare sector" (*Private Hospital Investment Opportunities-Egypt, IFC, 1996*).

Egypt's commitment to economic reform is further illustrated by the following: "Under the leadership of President Hosni Mubarak, Egypt embarked on an ambitious programme of structural and liberalization reforms in the early 1990s with long-term aim of establishing the country as a major player in the global economy Egypt's stable economic and political climate along with recently-enacted incentive laws have proven successful in attracting direct foreign investments in all sectors of the country" ("*Egypt Supplement*". *New York Times, October, 1999*).

C. FACILITY, PROGRAMMING, & MANAGEMENT EXPERTISE

Physical Facility. The new OAH will be sited on approximately 16.5 acres of land in the Bourg El-Arab region located southwest of the city of Alexandria proper. This is one of the fastest growing areas in the Alexandria Governorate.

The OAH will consist of approximately 215,482 sq. ft. (20,019 sq. meters) of space and will initially have 100 beds, with the capability of growing to 250 beds in future expansion. The facility will offer a combination of primary and multi-specialty care, ambulatory and acute care services, and state-of-the-art diagnostics. Medical offices will be built as part of the hospital's structure.

OAH will introduce a new concept of quality private care to the marketplace. The facility will be designed with all private rooms and baths arranged into "*Flex-Care*" units. Patient rooms will be available in Standard, Deluxe, and VIP accommodations, depending upon patient and family preference and expectations.

Programming of Services. OAH will offer comprehensive Cardiovascular Care, including dedicated Cardiac Catheterization laboratories, oversized Operating rooms used exclusively for open-heart surgeries, full support Critical Care Units, extensive Testing and Diagnostics, and Preventative and Rehabilitative programs of Care. There will be a strong emphasis on a variety of Specialty Surgical Services, including over-sized rooms for Orthopedic, Neurosurgical, and Trauma procedures, operating suites, procedure rooms, and an adjacent GI (Gastroenterology) Laboratory as well as a full array of medical specialties. In addition, OAH will offer a full range of Oncologic services, the first such comprehensive cancer service in the country.

In addition to the core hospital services offered by OAH, the strong Ambulatory Program will focus upon Occupational Health and Rehabilitation programs designed to offer preventative, diagnostic, and therapeutic care to area employers and their personnel and families through direct contracting for services. Because of the abundance of Women's and Children's Care available in the Alexandria service area, OAH will not offer Maternity services; rather it will formally affiliate with the new *TIBA Hospital for Women and Children*, a private facility in central Alexandria which is currently under construction with completion scheduled during the next 6-months.

OAH will incorporate a Medical Office Building next to the hospital to provide Physician offices. The close proximity of the physician offices to the hospital will enhance patient accessibility and convenience, help to prioritize outpatient ambulatory care, and help physicians with more timely and productive patient care, and offer immediate and convenient access to outpatient diagnostic services.

OAH's services and growth are also greatly supported by the *Medi-Plan International* which provides insurance contracting, quality and utilization oversight, and a variety of physician support services. Medi-Plan forms the nucleus to bring the physicians and the hospitals together into an integrated system capable of efficient and rapid response to changing healthcare needs in the marketplace.

A critical component of OAH programming will be the establishment of the non-profit *OAH Community Healthcare Foundation*. The mission of this organization, to be funded out of OAH profits, will be to (a) provide specialized indigent care in critical, priority areas, (b) conduct community preventative healthcare education programs in the primary and secondary service areas, (c) coordinate and fund continuing education programs for physicians and other healthcare professionals, and (d) fund selected rotations/visitations of Western-trained physicians to OAH, as well help fund as training/education sabbaticals for OAH physicians to the U.S., UK, and other European countries.

Management Expertise. OAH will utilize the talents of over 25 known healthcare professionals knowledgeable and experienced in all aspects of U.S. healthcare, especially private hospital delivery systems. These resources include: Hospital Administrators; Directors of Nursing; Strategic Healthcare Planners; Architects; Engineers; Construction Managers; Insurance Executives and Plan Designers; Hospital Financial Managers; Information Technology Designers/Developers; Medical Legal and Risk Management Attorneys; Marketing and Advertising Executives; Non-profit Foundation Executives and Fundraising Specialists; and Medical/Nursing Education Program Developers. This proven talent and expertise will bring success to the project through corporate support of OAH largely by means of independent contractor formats. The onsite executive team managing operations of OAH and the Medi-Plan International insurance company will be a combination of U.S. and Egyptian medical and healthcare professionals working together on a day basis.

D. FUTURE GROWTH POTENTIAL AND IMPACT

The establishment of the OAH in Alexandria, Egypt is intended to bring about a "systematization" and "modernization" of the health services specific to hospital care in the Alexandria service area. OAH will be working to develop positive day-to-day relationships with the other private hospital organizations currently operating in Alexandria to reduce the duplication of services being offered to private patients. OAH will become a resource for the other hospitals for training and education not only in Alexandria but also with other private hospitals.

For all intents and purposes, it is anticipated that OAH will serve as the tertiary care hospital of choice with regard to referrals among and between other private hospitals and the Medical Staff of the OAH. OAH will adhere to American Standards for the operations of its Hospital-based services working closely with other 'like-minded' hospital organizations, especially Dar Al-Fouad, Al-Salama and TIBA Hospitals. OAH will also serve as the regional referral source for the more complex diagnostic testing and imaging services not available in other area hospitals.

The growth plan for the Oasis American Hospital ("OAH") calls for continued expansion of this venture by developing additional specialty hospitals in the 2-3 key cities in Egypt with priority consideration given to Cairo, Aswan and Port Said. As well, consideration of Palestine, Jordan and Syria as potential hospital sites will be undertaken. The planning for each of these 46 hospitals will start with the 100-bed prototype model initiated in the Alexandria primary service area with capability to become a 250-bed hospital. These additional private hospitals will extend the influence of the Medi-Plan International insurance offerings and provide a link to more private practice physician referral patterns throughout the surrounding Middle Eastern region, with the OAH continuing to serve as the tertiary hub for the entire region.

E. FINANCING, TIMING, AND USE OF FUNDS

Financing by means of a US \$55 million loan at the prevailing annual LIBOR rate plus 2% with a 39.5 year amortization on a 10 year term will allow OAH to develop the Alexandria-based OAH Integrated Healthcare System with its specialty hospital, initiate the Medi-Plan International insurance plans as well as set up a preliminary endowment for the OAH Community Foundation- (Note: All pricing is in US dollars)

Capital and development expenditures of \$55 million consist of construction and related costs at \$19.34 million, land acquisitions and improvements at \$5.73 million, and \$3.63 million for development fees, recruitment, start-up, marketing, technical assistance and pre-opening costs. Equipment expenditures are estimated at \$21.66 million. There is \$2.44 million being provided for initial working capital with \$2.2 million for the project's financing facilitation fees.

Hospital *operating margins* are positive from Year I with margins ranging from 11.9% in Year I to 21.92% in Year 3 to 28.82% in Year 5. The *overall project profitability* is represented by profit margins which are positive after Year 3, with overall profit margins ranging from 2.9% in Year 3 to 9.64% in Year 5. These margins are somewhat understated owing to the fact that the margins used reflect after tax-profits and after distributions to the OAB Community Foundation. This is further verified with the EBITDA margins which show a range from 68.2% to 52.7% from Year I through Year 5 (please see Section 8.1 for Consolidated Profitability Indicators).