MPW | "ISSUES" CHEAT SHEET

HEDGEYE

Running list of problems we see at the triple-net hospital REIT

Earnings Quality

- SL rent + interest > 20% of consolidated total revenue
- Secular increase in non-cash revenue since 2011
- No breakout between non-cash rent vs. interest
- Widening gap between FFO & AFFO since 2011
- Different FFO figures in reported earnings vs. Proxy
- Change in definition of AFFO add-backs Q/Q
- Write-off of SL rent after end of lease term (Prime) - booking rent from tenant extension options
- Poor EBITDA disclosure and reconciliations
- Lengthening average lease / loan terms
- Lack of "same-store" reporting
- No maintenance capex included in AFFO calc. despite above-average annual capex burden

Returns / Investment Yields

- Secularly declining unlevered cash yields
- Realized cash yields materially below GAAP yields due to longer investment terms & poor tenant credit
- Blended cash yields "triangulate" to ~5.5-6%
- Management routinely quotes ~7-8% yields
- Cash yields materially below company's cost of capital
- Lengthening lease / loan terms offset power of compounding embedded in leases
- 2x'd the size of the balance sheet since 1Q19
- Refusal to disclose acquisition cap rates due to "proprietary" or "competitive" information

Leverage

- Pro-rata net debt / cash EBITDA of ~8.5-9x; difficult to be certain given poor EBITDA disclosure
- Understated company-reported leverage using GAAP EBITDA, which receives the benefit of MPW's above-average non-cash revenue
- "Apples-Oranges" between net debt & reported EBITDA
- Secularly increasing cash leverage since 2011 - increased from ~4.5x as of 1Q11 to ~8.5x currently
- Higher leverage on the cons. corporate BS vs. at UJVs
- ~$450mm GBP-denominated notes @ 2.55% maturing December 2023
- Weighted-average interest rate of ~3.5%
- Potentially "stranded" AUD debt exposure

Corporate Governance

- CFO on the Board
- No separation of CEO / Chairman roles
- "Lead Independent" Director a former officer and partner of current management team
- "Lead Independent" Director also on comp committee
- No external whistleblower hotline or 3rd-party service
- COO and co-founder (together with CEO & CFO) is "Code of Ethics Contact Person" for ethics reporting
- Family / children of NEOs in management roles
- No change in management team since IPO in 2005
- CEO and COO work history changes in Proxy bios
- Corporate hangar and 3 aircraft
- Unnecessary NYC office space where MPW has no hospitals

Compensation

- No market purchases by top-3 officers
- Top-3 officers have sold ~76% of vested grants over last 5 years
- CEO has sold ~96% of vested grants over last 5 years
- Questionable peer group selection in proxy
- 70% of NEO base salary determined by "Norm. FFO" and EBITDA/Int. Exp. - both receive benefit of MPW's above-average non-cash rev. (see earnings quality)
- "Norm. FFO" in Proxy always different and higher than figures reported in supplementals; no rec. provided
- Perf.-based share awards based on $ acquisition volume - incentivizes "asset gathering at highest price"
- Non true cash flow-based comp modifiers

Tenant Issues

- ~25-30% exposure to Steward Health
- Has invested >$1.1 billion (over ~ 2 years of total rent) in Steward outside of SLBs
- 100% financed creation of "3rd-party" entity controlled by Steward's CEO; received minority interest
- 100% financed change of control by lending to Steward mgmt team to refinance out Cerberus; facilitated ~$111 million divided out of Steward in same quarter
- Steward Wadley Texarkana - $50 million?
- Nearly ~40% exposure to top-2 tenants
- Pipeline bankruptcy
- None of top tenants publicly-traded - disclosure
- Resistance to disclosure of tenant financials
- >$1.4bn (~7% of assets) invested in OpCos