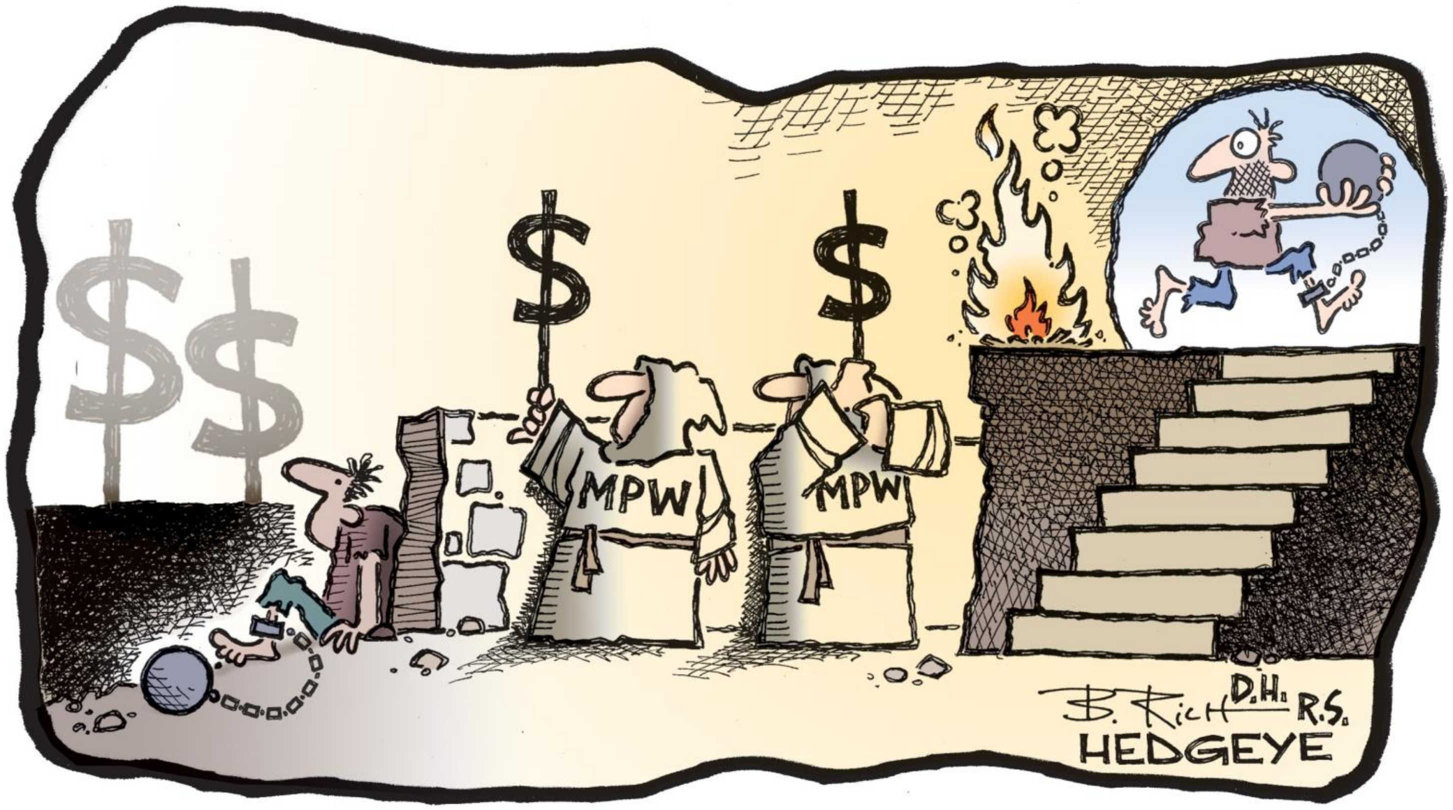
HEDGEYE

Active Short Medical Properties (Dis)Trust (MPW)

MPW Massively Overpaid for Priory Group (“Priory”)

October 24, 2023



Medical Properties Trust

HEDGEYE REITs

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Legal

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Please submit questions* to

qa@hedgeye.com

*Answered at the end of the call

1 HEDGEYE'S QUESTION LIST FOR 3Q23 EARNINGS

QUESTIONS | WHAT WE WOULD ASK ON THE CALL...

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Just in case you happen to run into your friendly neighborhood sell-side analyst, who MAY be looking for questions to ask. Questions need to be worded carefully and very specifically. We'll queue in, but of course don't expect to be called upon.

- **The most important question: "Did MPW provide liquidity support in any form (including loans, advances, rent deferrals, rent credits, "capex", etc.) to any of its operators either during 3Q23 or subsequent to quarter-end through to 10.26.23. If so, to what operator(s), when was that support provided and in what form?**
  - Recall MPW did not disclose the rent credits/deferrals granted to Steward Health ("Steward") during 2Q23 in the earnings release, supplemental or on the call. It was only briefly alluded to later in the 10-Q filing, and then described verbally to at least one sell-side analyst.
- Speaking of which, what was the exact amount sent back to Steward during 2Q23? When was that executed?
- Who was the tenant "outside of the top-10 list" that received similar support during 2Q23? What was that exact amount and when was it executed? Was it Priory? Was it ScionHealth ("Scion")?
- What was the precise discount taken on MPW's ~$105 million Steward ABL participation sold to a third-party on 8.17.23?
- To MPW's knowledge, did Steward raise additional debt financing subsequent to the first ABL refinancing announced with 2Q23 results? If so, what was that dollar amount funded, what was the interest rate on the incremental amount, and did MPW participate?
- How much debt is now outstanding at Steward and at what blended rate? This includes MPW's promissory notes, the ABL and any other debt subsequently raised through to 10.26.23.
- What was the maximum amount outstanding under MPW's promissory notes with Steward during 3Q23? What was the amount outstanding at quarter-end? What is the amount drawn currently?
- **Important: What is the status of Steward's audited 2022 financial statements? When will they be filed with the SEC, as per MPW's commentary on the 2Q23 call? What was provided to the ABL lenders as part of the refinancing process?**

QUESTIONS | WHAT WE WOULD ASK ON THE CALL… (CONT'D)

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- What is the status of Steward's Texas Vista Hospital in San Antonio? Is it being sold? Has it been re-leased? Is it still vacant?
- Why are some sell-side analysts suddenly modeling/mentioning ~20-30% rent cuts at Steward beginning in FY24? Did that come from anyone at MPW? If so, how is that not a Reg FD issue?
- Why has no one asked a question on any earnings call about Steward Malta or the "International JV" since it became topical in early-2023, and since the Maltese court attached the word "fraud" to the situation in its ruling?
- Are there any cash distributions flowing to MPW from the MAM JV? If so, what was the exact dollar figure in 3Q23? How does that compare to 2Q22 when the JV was first completed and when MPW began disclosing results?
- Have any MPW Section 16 officers/NEOs, other than Emmett McLean, or members of MPW's BoD resigned or notified the company that they plan to depart from their current roles? If so, who, when and why? If notified earlier than 4 days ago, why has MPW not filed an 8-K with the SEC including correspondence?
- **Also important: What was the exact dollar figure of contractual Prospect Medical ("Prospect") rent + interest owed to MPW that was unpaid in 2022? See HERE.**
- Will MPW be forced or opt to restate past results, given that the PHP equity booked in 2Q23 as revenue appeared to not be "earned" or "received" during that quarter, based on the WSJ's reporting? To the best of our knowledge, the transfer of the minority interest has still not been approved by the CA state regulator.
- Did Prospect draw the remaining ~$50 million available under MPW's credit facility either during or any time after 3Q23?
- How many corporate employees does MPW currently have?
- What portion of the ~$10.2 million of "Litigation & Other" charges recognized over 1H23 was explicitly from legal costs related to short seller litigation?
- Did MPW take any straight-line rent write-offs in 3Q23 explicitly related to the exercise by Prime Healthcare ("Prime") of its option to repurchase hospitals for ~$100 million?

2 INTRODUCTION & BACKGROUND

INTRO | HEDGEYE'S KEY TAKEAWAYS

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- We think MPW massively overpaid for Priory in 2021, perhaps on the order of ~2x.
- Similar to past and current transactions, Priory was clearly not a "real estate deal." It was a capitalization of the WholeCo.
- Priory's current cash rent obligations, primarily owed to MPW, are totally unaffordable and drive significant annual cash burn at the OpCo.
- This fact pattern, derived from Priory's and MPW's own reported financial statements, provide context behind MPW's recent uneconomic and seemingly irrational (at face value) additional investments into the operator.
- Priory further calls into question the validity and informational value of MPW's reported tenant coverage metrics.
- We believe a true "arm's length" buyer would/should take a critical look at Priory's rent obligations, underwriting instead their own "affordable" or "market" rent assumptions to ensure an adequate risk-adjusted return. That's what we would do.
- This exercise and resulting values imply a mid-teens cap rate against MPW's in-place cash rent from Priory.
- Priory may represent a perfect illustration of the "adverse selection" problem inherent in MPW's model.
- Either the MPW team has absolutely no idea how to underwrite net lease deals, which would be bad, and/or they do not care and want to max out compensation and straight-line earnings metrics, which would be worse. It could be both.
- We await Steward's 2022 audited financials, and WILL perform similar analyses as presented herein on that tenant when the financials become available. We expect it will look worse at Steward.

INTRO | WHY DO WE CARE ABOUT PRIORY RIGHT NOW?

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- In general clients have asked over the past year about our views on Priory, given MPW's significant and growing exposure to the U.K. operator.
- We believe there is a perception among some investors that only Steward, Prospect and Pipeline Health ("Pipeline") are "problem" tenants for MPW. This may be due to the fact that they have received the most public attention since early-2022. We believe Priory, which we estimate accounts for just under ~7% of MPW's annualized cash EBITDA, disproves this narrative.
- MPW curiously bought 6 Priory assets from a third party in December 2022 for ~$280 million at an estimated mid-single-digit "going in" cash cap rate. This was done despite MPW being over-levered, very capital-constrained and with its ~3-5% coupon unsecured bonds yielding ~10%.
- Then in April 2023, with MPW's liquidity situation deteriorating rapidly, MPW acquired 5 additional assets directly from Priory in a SLB transaction for another ~$55 million. At that time MPW's unsecured bonds were yielding ~10-11% or higher. This SLB injected capital into Priory. MPW acquired 3 additional facilities from MEDIAN for ~$77 million.
- Taken in isolation these capital allocation decisions appeared un-economic and made no sense. To our knowledge the answers provided by management to investors were not satisfactory. We believe that at least the April 2023 transaction was driven by a need for financial support to Priory, in lieu of a loan or other direct advance.
- Most recently we wrote HERE on MEDIAN, which was combined with Priory by PE owner Waterland, and how it used SLB proceeds from April 2023 to clear the drawdowns on its RCF. We believe that, once again, MPW effectively used shareholder capital to support an existing tenant OpCo and facilitate a debt paydown there.

INTRO | ACADIA SOLD PRIORY TO WATERLAND PE INVESTMENTS ("WATERLAND") FOR ~£1.078 BILLION

HEDGEYE

Acadia Healthcare Press Release HERE

ACADIA
HEALTHCARE

Acadia Healthcare Announces Definitive Agreement to Sell U.K. Operations

December 30, 2020

FRANKLIN, Tenn.--(BUSINESS WIRE)--Dec. 30, 2020-- Acadia Healthcare Company, Inc. (NASDAQ: ACHC) ("Acadia" or the "Company") today announced that it has entered into a definitive agreement to sell its U.K. operations to Waterland Private Equity ("Waterland") for a purchase price of approximately £1,078 million. The Company expects the sale to result in proceeds of approximately $1,350 million, net of transaction costs and the settlement of existing foreign currency hedging liabilities and based on the current GBP/USD exchange rate. The proposed transaction is expected to close in January 2021. The transaction includes the sale of the entirety of Acadia's U.K. business operations, which are operated under the name of The Priory Group (the "Priory Business").

Commenting on the announcement, Debbie Osteen, Chief Executive Officer of Acadia, stated, "We are pleased to announce that we have entered into a definitive agreement to sell the Priory Business to Waterland. Since announcing our decision to explore strategic alternatives with respect to the Priory Business, our primary objective has always been to complete a transaction that would maximize value for our stockholders. Following a comprehensive process, we believe we have achieved this objective. We intend to use the proceeds to pay down debt and for other corporate purposes. We believe we are well positioned to meet the strong demand for mental health and substance use treatment across the U.S. We will continue to focus on delivering the highest level of patient care and advancing our position as a leading behavioral healthcare facilities operator in the U.S."

The Guardian Article HERE

Mergers and acquisitions

This article is more than **2 years old**

Priory rehab clinics sold to private equity firm for £1.1bn

Waterland deal will create one of world's largest private mental health services providers

Rupert Neate *Wealth correspondent*

@RupertNeate

Wed 30 Dec 2020 13.01 EST

The Priory Group's Roehampton clinic, south London, has treated various celebrities. Photograph: Alamy

INTRO | FINANCING TRANSACTION ANNOUNCED BY MPW IN EARLY-2021

HEDGEYE

~£800 million transaction first announced HERE on 1.6.21. Like so many of MPW's deals, there were and continue to be several interesting fact patterns here.

Medical Properties Trust, Inc. (the "Company" or "MPT") (NYSE: MPW) today announced that it has entered into definitive agreements to acquire a portfolio of select behavioral health facilities located in the United Kingdom for approximately £800 million, plus customary stamp duty tax and other transaction costs. The facilities are currently owned and operated by leading UK behavioral health provider Priory Group ("Priory") and, in a related transaction, affiliates of Waterland Private Equity Investments ("Waterland") will acquire the operations of Priory from Acadia Healthcare ("Acadia") (NASDAQ: ACHC) following a competitive process. Following Waterland's acquisition of Priory, the properties MPT will acquire will be subject to long-term sale-leaseback agreements with Priory. Waterland is the parent of MPT's German post-acute tenant MEDIAN Kliniken ("MEDIAN") and plans to combine the Priory and MEDIAN platforms to create Europe's leading comprehensive medical and behavioral rehabilitation services provider.

The sale-leaseback agreements are expected to provide MPT a GAAP-basis yield of 8.6% and were underwritten based on initial lease payment coverage of approximately 2.0 times EBITDAR. The Company expects coverage to expand as strategic and operating initiatives are executed and as the result of anticipated robust growth in the UK behavioral health marketplace. The portfolio is substantially comprised of Priory's most acute behavioral health facilities and will be subject to a cross-defaulted, master lease structure with a strong-credit parent guaranty. The leases will carry an initial fixed term of 25 years, two 10-year extension options, and annual rent escalators linked to UK inflation and subject to a 2% floor. The sale-leaseback transactions are expected to close during the first half of 2021, subject to customary closing conditions.

Pursuant to the definitive agreements, the Company will pre-fund the £800 million real estate purchase price by way of a secured interim acquisition loan to Waterland in the same amount, which will bear interest at a market rate and will be funded at the closing of Waterland's acquisition of Priory, which is expected in the first quarter of 2021. As the sale-leaseback transactions are completed in the first half of 2021, the outstanding principal of the loan will be reduced and offset against the real estate purchase price payable by the Company. In addition, at the time of closing of Waterland's acquisition of Priory, the Company will provide a separate short-term bridge loan of £250 million to the purchaser at a market rate and also acquire a 9.9% interest in the equity of the operator for a nominal amount. – January 2021 press release

INTRO | BACKGROUND LEADING UP TO PRIORY DEAL

HEDGEYE

In Hedgeye's view, MPW's primary motivations for acquiring the Priory assets were **(1) diluting down MPW's then ~24% gross asset exposure to Steward, and (2) contributing to the acquisition target and related metrics under MPW's comp plan** w/o true cash flow modifiers.

TOTAL PRO FORMA GROSS ASSETS AND ACTUAL REVENUE BY OPERATOR

(September 30, 2020)

Last quarter before Priory was included.

($ amounts in thousands)

Operators	Pro Forma: Total Gross Assets[A]	Pro Forma: Percentage of Total Gross Assets	Actual: 2020 Revenue[B]	Actual: Percentage of 2020 Revenue
Steward Health Care				
Massachusetts market	$ 1,491,782	8.5%	$ 104,152	10.5%
Utah market	1,260,576	7.1%	75,100	7.6%
Texas/Arkansas/Louisiana market	711,911	4.0%	52,821	5.3%
Arizona market	332,239	1.9%	24,722	2.5%
Florida market	221,192	1.3%	11,239	1.1%
Ohio/Pennsylvania market	151,782	0.9%	8,385	0.8%
Circle Health	2,265,174	12.8%	116,175	11.7%
Prospect Medical Holdings	1,588,[illegible]36	9.0%	115,176	11.6%
MEDIAN	[illegible],206,498	6.8%	66,827	6.7%
LifePoint Health	1,202,434	6.8%	79,794	8.0%
41 operators	6,262,140	35.5%	339,030	34.2%
Other	950,511	5.4%	-	-
Total	**$ 17,645,175**	**100.0%**	**$ 993,421**	**100.0%**

MPW was required to file 2020 financials.

(A) Includes gross real estate assets, other loans, equity investments, and pro rata portion of gross assets in joint venture arrangements, assuming all real estate commitments on new investments and unfunded amounts on development deals and commenced capital improvement projects are fully funded. See press release dated October 29, 2020 for reconciliation of total assets to pro forma total gross assets at September 30, 2020.

(B) Includes revenue from properties owned through joint venture arrangements.

Note: Our largest facility accounts for approximately 3% of total pro forma gross assets.

Compensation Discussion and Analysis

The 2021 performance shares can be earned based on the following goals set by the Compensation Committee, which include both long-term and annual goals to align with our strategic business plan and our commitment to sustained growth that will ultimately drive long-term value creation. The 2021 performance metrics were selected in accordance with our strategic business plan and include goals for FFO per share growth, EBITDA and acquisitions.

	FFO per Share Growth		EBITDA (in millions) ($)		Acquisitions (in millions) ($)	
	2021(1)	2023	2021(1)	2023	2021(1)	2023
Threshold (50%)	2.00%	6.00%	1,287.5	1,350.0	500.0	1,500.0
Target (100%)	3.75%	11.25%	1,300.0	1,400.0	750.0	2,250.0
Maximum (200%)(2)	5.50%	1[illegible].50%	1,325[illegible]0	1,450.0	1,000.0	3,000.0

(1) For 2021, our actual performance exceeded the maximum goals, which represents only one-third of the total shares. The remaining two-thirds of the shares are eligible to be earned at the end of the three-year performance period.

(2) Mr. McLean's maximum is 150% of target.

No true cash flow modifiers.

Performance is measured over the three-year performance period and shares are earned based on the three-year performance goals listed above. To further strengthen alignment with our stockholders, any earned shares are subject to both an absolute and relative TSR modifier. One-half of the earned shares will be adjusted between 75% to 125% based on relative TSR performance between the 25th percentile to the 75th percentile and one-half of the earned shares will be adjusted between 75% to 125% based on absolute TSR performance between 0% and 6% per annum.

To track the milestone progress during the performance period and to incentivize the consistent execution of our strategy and business plan, up to one-third of the target award may be earned at the end of 2021. The Compensation Committee believes that using one-year and three-year goals creates a balanced program that ensures that management remains focused in both the short-term and the long-term to drive consistent market-leading growth.

INTRO | MPW'S ESTIMATED EXPOSURE TO PRIORY

HEDGEYE

MPW reported Priory at ~8% of GAAP revenue and ~7.3% of assets as of 2Q23.

TOTAL ASSETS AND REVENUES BY OPERATOR

(June 30, 2023)

($ amounts in thousands)

Operators	Properties	Total Assets[A]	Percentage of Total Assets	Q2 2023 Revenues[B]	Percentage of Q2 2023 Revenues
Steward Health Care	36				
Florida market		$ 1,366,453	7.1%	$ 37,040	10.9%
Texas/Arkansas/Louisiana market		1,050,597	5.5%	23,932	7.1%
Massachusetts market		800,998	4.2%	7,291	2.1%
Arizona market		308,513	1.6%	11,577	3.4%
Ohio/Pennsylvania market		123,491	0.6%	4,737	1.4%
Utah market		5,994	0.0%	(84,878)[C]	-25.0%
Circle Health	36	2,141,517	11.2%	48,645	14.4%
Priory Group	37	1,401,106	7.3%	26,930	8.0%
Prospect Medical Holdings	13	1,045,844	5.5%	68,436	20.3%
Lifepoint Behavioral Health[D]	19	799,212	4.2%	19,068	5.7%
CommonSpirit Health	5	796,774	4.1%	19,568	5.8%
Swiss Medical Network	17	682,069	3.6%	1,345	0.4%
MEDIAN	81	671,727	3.4%	7,469	2.2%
Ernest Health	29	616,350	3.2%	17,847	5.3%
Prime Healthcare	12	567,516	3.0%	18,956	5.6%
45 operators	159	4,411,647	22.9%	109,432	32.4%
Other	-	2,414,567	12.6%	-	-
Total	444	$ 19,204,375	100.0%	$ 337,395	100.0%

Hedgeye estimates that Priory comprises ~7% of MPW's Ann. Cash EBITDA.

Estimated Priory Annual Cash Rent	
Estimated Annual Cash Rent - Original SLB [1]	£ 49,553
(x) GBP/USD	1.22
Estimated Annual Cash Rent - Original SLB (USD) (A)	60,455
Implied Unlevered Yield on Cost	6.19%
April 2023 SLB Proceeds	£ 44,000
(x) Assumed Yield	6.00%
Annual Cash Rent	2,640
(x) GBP/USD	1.22
Estimated Annual Cash Rent (USD) (B)	3,221
December 2022 Acquisition	£ 233,000
(x) Assumed Yield	6.00%
Annual Cash Rent	13,980
(x) GBP/USD	1.22
Estimated Annual Cash Rent (USD) (C)	17,056
Total Est. Cash Rent (USD) (D = A + B + C)	80,731
Hedgeye Est. MPW Ann. Cash EBITDA (USD)	1,185,268
Priory Est. % of MPW Cash EBITDA	6.8%

Notes:

(1) Rent assumed to grow +4.8% and +9.2% in 2022 and 2023, respectively, based on U.K. CPI.

INTRO | PRIORY FILES AUDITED FINANCIALS WITH U.K. COMPANIES HOUSE

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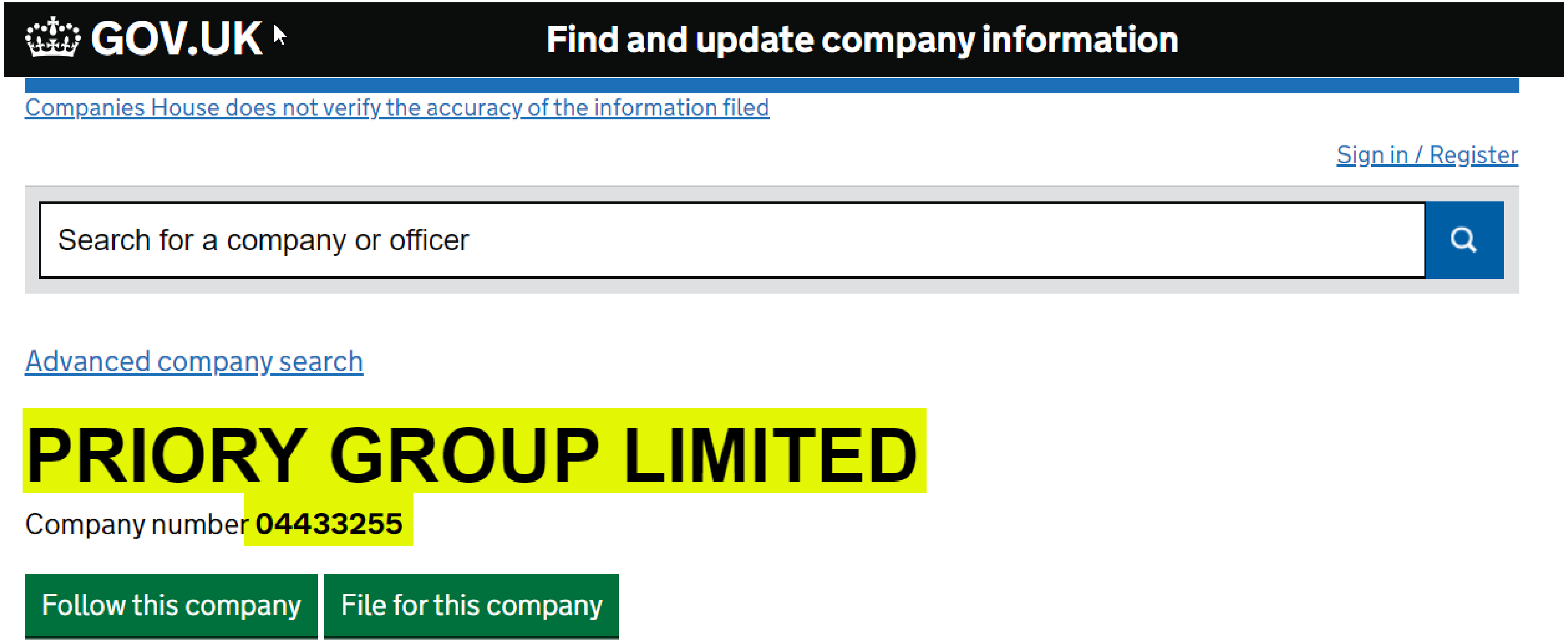
Priory's 2022 audited financials were filed on 9.12.23. It is not clear to us if investors are broadly aware of this. We use these filings to gauge Priory's financial health and creditworthiness as a tenant.



INTRO | MPW'S EXISTING LEASE ACCOUNTS FOR MAJORITY OF PRIORY'S CASH RENT OBLIGATIONS

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A link to the 2022 financial statements can be found HERE.

Priory Group UK 1 Limited

Notes to the consolidated financial statements

13. Right of use assets and lease liabilities (continued)

Amounts recognised in the statement of cash flows

£'000	2022	2021
Operating activities (within operating profit):		
Variable lease payments	727	(740)
Payments on short term leases	267	399
Payments on leases of low-value assets	195	246
Financing activities:		
Repayment of lease liabilities	10,358	14,064
Payment of interest on lease liabilities	49,196	38,798
	60,743	52,767

The Group leases land and buildings for its operational facilities. Larger facilities typically involve a lease term of between 20 and 30 years, whilst smaller sites, for example adult care facilities, typically involve shorter lease terms of between 3 and 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the initial contractual term. As the exercising of such options are not deemed reasonably certain, such renewal options are generally not taken into account when determining the right of use assets and lease liabilities.

Amounts in 000s

Estimated Priory Annual Cash Rent	
Estimated Annual Cash Rent - Original SLB (1)	£ 49,553
(x) GBP/USD	1.22
Estimated Annual Cash Rent - Original SLB (USD) (A)	60,455
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Priory Est. % of MPW Cash EBITDA	6.8%

Notes:

(1) Rent assumed to grow +4.8% and +9.2% in 2022 and 2023, respectively, based on U.K. CPI.

INTRO | MORE REPORTED COVERAGE METRIC ISSUES? WHAT DO THESE NUMBERS ACTUALLY MEAN?

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TOTAL PORTFOLIO TTM EBITDARM RENT COVERAGE EXCLUSIVE OF ALL CARES ACT GRANTS

EBITDARM RENT COVERAGE: OPERATORS WITH PROPERTY-LEVEL REPORTING

Tenant	Net Investment (in thousands)[(A)]	Primary Property Type	TTM EBITDARM Rent Coverage
Steward Health Care	$ 2,434,365	General Acute	2.9x
Priory Group	1,179,310	Behavioral	2.2x
MEDIAN	591,196	IRF	1.7x
Ernest Health	545,038	IRF/LTACH	2.2x
Prospect Medical Holdings[(B)]	512,309	General Acute	1.0x
Prime Healthcare[(C)]	467,515	General Acute	4.0x
Aspris Children's Services	245,958	Behavioral	2.2x
Vibra Healthcare	242,751	IRF/LTACH	1.7x
Surgery Partners	166,687	General Acute	7.8x
Ardent Health Services	87,162	General Acute	6.7x
Other Reporting Tenants	635,510	Various	2.6x
Total	**$ 7,107,801**		**2.7x**

- **MPW's EBITDARM Definition:** **EBITDARM is facility-level earnings before** interest, taxes, depreciation, amortization, rent and **management fees**. EBITDARM includes normal GAAP expensed maintenance and repair costs. **EBITDARM does not give effect for capitalized expenditures that extend the life or improve the facility and equipment in a way to drive more future revenues**. The majority of these types of capital expenditures are financed and do not have an immediate cash impact. MPT's rent is not subordinate to capitalized expenses. In addition, **EBITDARM does not represent property net income or cash flows from operations and should not be considered an alternative to those indicators**. EBITDARM figures utilized in calculating coverages presented are based on financial information provided by MPT's tenants…
- **Key Points**: Parent-guaranteed MLA (corporate obligation), yet no impact reflected from corporate overhead, capex or actual cash burn.

INTRO | PRIORY HAS BEEN BURNING CASH OVER THE PERIODS COVERING MPW'S LEASE

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Despite reporting positive "Adj. EBITDA," Priory's cash flow has been negative and the company has burned ~£40 million of cash since the beginning of 2021. Note that "Operating Profit" and "Adj. EBITDA" appear to include net gains and impairments.

Priory Group UK 1 Limited

Consolidated statement of cash flows for the year ended 31 December 2022

£'000	Note	Year ended 31 December 2022	Year ended 31 December 2021 (restated*)
Operating activities			
Operating profit		**41,203**	74,696
Profit on disposal of property, plant and equipment		**(23,390)**	(44,409)
Depreciation of property, plant and equipment and right of use assets	12	**61,014**	71,775
Amortisation of intangible assets	4	**-**	-
Net impairment of non-current assets	7	**18,283**	39,326
Non-cash exceptional items		**-**	1,403
(Increase)/decrease in inventories		**(29)**	71
Decrease/(increase) in trade and other receivables		**9,302**	(16,553)
(Decrease)/increase in trade and other payables		**(28,994)**	25,209
Post-employment benefits		**(2,250)**	(1,780)
		75,139	149,738
Taxation		**881**	(67,425)
Net cash generated from operating activities		**76,020**	82,313
Investing activities			
Interest income	8	**92**	56
Proceeds from disposal of property, plant and equipment		**12,262**	13,360
Purchases of property, plant and equipment		**(38,359)**	(44,301)
Proceeds from sale and leaseback transaction		**-**	801,252
Proceeds from sale of Education division (less divested cash)		**-**	138,292
Net cash (used in)/generated from investing activities		**(26,005)**	908,659
Financing activities			
Repayment of obligations under lease liabilities		**(10,358)**	(14,064)
Proceeds from borrowings		**-**	19,137
Repayment of borrowings		**-**	(875,056)
Interest paid on lease liabilities		**(49,196)**	(38,798)
Interest paid on borrowings		**-**	(117,104)
Net cash used in from financing activities		**(59,554)**	(1,025,885)
Net decrease in cash		**(9,539)**	(34,913)
Cash at the beginning of the year	16	**20,058**	54,971
Cash at the end of the year	16	**10,519**	20,058

Priory Group UK 1 Limited

Consolidated income statement for the year ended 31 December 2022

£'000	Note	Year ended 31 December 2022	Year ended 31 December 2021 (restated*)
Continuing operations			
Revenue	3	**712,182**	721,010
Operating costs	4	**(671,089)**	(656,705)
Exceptional items	7	**(167)**	(12,621)
Other operating income	13	**277**	277
Operating profit	3	**41,203**	51,961
Analysed as:			
Adjusted EBITDA		**102,384**	127,483
Depreciation	4	**(61,014)**	(62,901)
Amortisation	4	**-**	-
Exceptional items	7	**(167)**	(12,621)
Operating profit		**41,203**	51,961
Finance costs	8	**(69,297)**	(89,461)
Finance income	8	**171**	56
Loss before tax		**(27,923)**	(37,444)
Income tax	9	**12,015**	(39,491)
Loss from continuing operations		**(15,908)**	(76,935)
Profit from discontinued operations	10	**-**	170,954
(Loss)/profit for the year		**(15,908)**	94,019

*See Note 2(v) for details of restatement.

Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation and exceptional items. All are 'non-GAAP measures' as they are not measures defined within IFRS and are discussed in more detail in note 2.

INTRO | PRIORY'S PRE-RENT CASH FLOW COVERAGE IS <1x

HEDGEYE

GBP Amounts in 000s

Rent Coverage - EBITDAR	Dec-21	Dec-22
Revenue	721,010	712,182
(-) Operating Costs [1]	(593,804)	(610,075)
(-) Depreciation	(62,901)	(61,014)
(-) Amortization	-	-
(-) Exceptional Items	(12,621)	(167)
(-) Other Operating Income	277	277
Operating Income	**51,961**	**41,203**
(+) Depreciation	62,901	61,014
(+) Amortization	-	-
(+) Exceptional Items	12,621	167
Reported EBITDA	**127,483**	**102,384**
(+) Rent Expenses [2]	(95)	1,189
EBITDAR	**127,388**	**103,573**
Margin %	17.7%	14.5%
Y/Y Chg. - %		-18.7%
(+) Impact of Disc. Operations [3]	22,735	-
(-) Gain on Sale of PP&E [4]	(44,409)	(23,390)
(-) Net Impairment [4]	39,326	18,283
Hedgeye Adj. EBITDAR	**145,040**	**98,466**
(-) Capital Expenditures [5]	(44,301)	(38,359)
Hedgeye Adj. EBITDAR - Capex	**100,739**	**60,107**
Cash Rent - Financing Activities [6]	52,767	60,743
Non-Lease Finance Costs	54,314	20,151
Capex % of Revenues	6.1%	5.4%

Hedgeye Coverage Metrics:

	Dec-21	Dec-22
EBITDAR / Rent Coverage	2.41x	1.71x
Adj. EBITDAR / Rent Coverage	2.75x	1.62x
Adj. EBITDAR / (Rent + Int.) Coverage	1.35x	1.22x
(Adj. EBITDAR - Capex) / Rent Coverage	1.91x	0.99x
(Adj. EBITDAR - Capex) / (Rent + Int.) Coverage	0.94x	0.74x

GBP Amounts in 000s

Rent Coverage - Cash Flow	Dec-21	Dec-22
Net Cash from Operating Activities (OCF)	82,313	76,020
(-) Capital Expenditures [5]	(44,301)	(38,359)
Unlevered FCF (FCF)	**38,012**	**37,661**

Hedgeye Coverage Metrics:

	Dec-21	Dec-22
OCF / Rent Coverage	1.56x	1.25x
FCF / Rent Coverage	0.72x	0.62x
FCF / (Rent + Interest) Coverage	0.35x	0.47x

Notes:

(1) Adjusted to exclude reported D&A.
(2) Majority included within "Finance Costs" on the P&L.
(3) Priory disposed of the Education segment in 2021.
(4) Based on Priory IFRS reporting of Statement of Cash Flows, it appears that Operating Profit includes gains on sale + net impairments.
(5) Capex as reported on Priory's Statement of Cash Flows.
(6) Rent expenses + cash flows reported in "Financing Activities" of Statement of Cash Flows.

- Again, the Priory MLA is cross-defaulted and parent-guaranteed. It is a corporate obligation.
- MPW's "EBITDARM" coverage appears to us both overstated + does not give credit to corporate overhead or capex.
- Our calculation of 2022 Adj. EBITDAR, adjusted for one-time gains and net impairments, barely covers cash rent + non-lease interest.
- Adj. EBITDAR – Capex does not cover cash rent + interest.
- **Moreover, our calculation of Unlevered FCF does not cover cash rent or cash rent + interest, which are recorded as items in the "Financing" section of the CF Statement.**
- This explains Priory's cash burn.
- **Priory has NEVER covered MPW's rent with true cash flow since the original deal in 2021.**

INTRO | PRIORY HOPELESSLY OVER-LEVERED, APRIL 2023 TRANSACTION MAKES COVERAGES WORSE

HEDGEYE

- **We estimate that Priory was levered at >11x Adj. Net Debt/EBITDAR coming out of 2022, when giving effect to capitalized operating leases.**
- We estimate that the April 2023 SLB transaction with MPW adds an incremental ~GBP 2.6 million in annual cash rent.
- This definitionally makes pro forma coverage metrics worse.
- April 2023 SLB proceeds represent roughly ½ year of Priory's estimated annual cash rent obligations.
- **A subtle point here, but if the OpCo is "worth" ~6-8x EBITDA/EBITDAR, the structure is underwater and MPW's OpCo stake has no value.**
- This looks a lot like Steward from our first deck in April 2022, just smaller and outside the U.S.
- **The rent is not affordable and Priory is likely insolvent = MORE OF THE SAME!**

GBP Amounts in 000s

Priory PF Debt Stack	Dec-21	Dec-22	+	Apr-23 MPW SLB [1]	=	Pro Forma Dec-22
Balances:						
Total Borrowings	280,431	300,514				300,514
Capitalized Operating Leases [2]	831,770	826,586		44,000		870,586
Adj. Total Debt	**1,112,201**	**1,127,100**				**1,171,100**
Cash	(20,058)	(10,519)		(44,000)		(54,519)
Adj. Net Debt	**1,092,143**	**1,116,581**				**1,116,581**
Hedgeye Adj. EBITDA	145,135	97,277				
Hedgeye Adj. EBITDAR	145,040	98,466				98,466
Hedgeye Adj. EBITDAR - Capex	100,739	60,107				60,107
Cash Rent	52,767	60,743		2,640		63,383
Non-Lease Financing Costs	54,314	20,151				20,151
Unlevered FCF (FCF)	38,012	37,661				37,661
Adj. Total Debt / EBITDAR	**7.7x**	**11.4x**				**11.9x**
Adj. Net Debt / EBITDAR	**7.5x**	**11.3x**				**11.3x**
Adj. EBITDAR / (Rent + Int.) Coverage	**1.35x**	**1.22x**				**1.18x**
(Adj. EBITDAR - Capex) / (Rent + Int.) Coverage	**0.94x**	**0.74x**				**0.72x**
FCF / (Rent + Interest) Coverage	**0.35x**	**0.47x**				**0.45x**

Notes:

(1) Reflects April 2023 SLB only. December 2022 acquisition was executed with a non-Priory third-party.

(2) Assumes values recorded on Priory's reported 2021/2022 balance sheets + value of April 2023 SLB excl. any taxes.

[3] MPW TARGETING A FUNDING AMOUNT?

FUNDING | TARGETING AN AMOUNT TO INVEST VS. A DISCREET PORTFOLIO?

HEDGEYE

MPW clearly targeted a purchase price figure to invest, versus targeting a portfolio of assets and assigning a value to it. MPW's management explicitly stated this + did not reduce the ultimate purchase price when it acquired the low-end of 35 facilities.

So, [redacted], it is approximately – it's somewhere between 35 and 40 hospitals. And you remember that. As I've said earlier, Priory has a total of 300-plus facilities, but many of those are very small facilities that don't fit our model. So if you look at their overall EBITDARM numbers, the vast majority of that comes from these 35, 40 facilities that we acquired. – CEO Ed Aldag, 4Q20 earnings call held on 2.4.21

Well, that will start – the straight-line will start as we close each facility as Ed mentioned. And just by way of a little background, we agreed with Waterland to provide £800 million of real estate financing and it is our discretion as to which of the hundreds of facilities that the Priory owns and operates, we choose and that's why, Ed, comes up with a 35 to 40 facilities. We're in the process of selecting our facilities. That process then will lead to periodic closings of those facilities and as each facility is closed, we'll start recognizing the straight line component of the master lease agreement. – CFO Steve Hamner, 4Q20 earnings call held on 2.4.21

On January 19, 2021, we completed the first of two phases in the Priory transaction in which we funded an £800 million interim mortgage loan on an identified portfolio of Priory real estate assets in the United Kingdom. On June 25, 2021, we completed the second phase of the transaction in which we converted this mortgage loan to fee simple ownership in a portfolio of 35 select real estate assets from Priory (which is currently owned by Waterland Private Equity Fund VII C.V. ("Waterland VII")) in individual sale-and-leaseback transactions. The applicable purchase price for the assets was paid by us by proportionally converting and reducing the principal balance of the interim mortgage loan we made to Waterland VII in phase one. Therefore, the net aggregate purchase price for the real estate assets we acquired from Priory was approximately £800 million, plus customary stamp duty, tax, and other transaction costs. As part of the real estate acquisition (for which some of the assets were acquired by the share purchase of real estate holding entities), we incurred deferred income tax liabilities and other liabilities of approximately £47.1 million. – 2021 10-K

FUNDING | HOW IS THIS SOUND CAPITAL ALLOCATION?

HEDGEYE

THEN, MPW "came over the top" in 2Q23 and acquired 5 additional facilities from Priory (35 + 5 = 40!) for an additional ~£44 million. So, no initial purchase price adjustment + additional liquidity injection into OpCo later!

On April 14, 2023, we acquired five behavioral health hospitals located in the United Kingdom for approximately £44 million. These hospitals are leased to Priory Group ("Priory") pursuant to five separate lease agreements with annual inflation-based escalators. – 2Q23 10-Q

Summary:

- Management targeted a funding amount to invest → hitting comp + straight-line "NFFO" and company-defined EBITDA targets?

- MPW did not take a purchase price adjustment after initially advancing ~£800 million and then later acquiring low-end of 35-40 facilities.

- MPW then later acquired 5 additional facilities for ~£44 million in 2Q23 at an estimated mid-single-digit cash cap rate (while the unsecured bonds were yielding ~10-11% at the time!), thereby injecting additional capital into the operator equal to approximately ~1 year of initial cash rent under the MLA!

- **= Asymmetrically favors MPW's management + OpCo tenant to the detriment of public shareholders.**

[4] BOOKING RENT FROM TENANT EXTENSION OPTIONS

OPTIONS | INITIAL TERM NOT CONSISTENT WITH DISCLOSED TRANSACTION ECONOMICS

HEDGEYE

Amounts in 000s

Assumptions	
Purchase Price (GBP 000s)	800,000
Calculated Annual GAAP Yield	6.9%
Initial Lease Term	25 Years
Minimum Annual Escalator	2.0%
Implied Initial Cash Yield - Year 1	**5.4%**

Year	Beginning Capital	Acquisition	Ending Capital	GAAP Rent	Cash Rent	Minimum Rent Δ	Unlevered GAAP Yield	Unlevered Cash Yield
1	-	800,000	800,000	55,476	43,300		6.9%	5.4%
2	800,000	-	800,000	55,476	44,166	2.0%	6.9%	5.5%
3	800,000	-	800,000	55,476	45,049	2.0%	6.9%	5.6%
4	800,000	-	800,000	55,476	45,950	2.0%	6.9%	5.7%
5	800,000	-	800,000	55,476	46,869	2.0%	6.9%	5.9%
6	800,000	-	800,000	55,476	47,807	2.0%	6.9%	6.0%
7	800,000	-	800,000	55,476	48,763	2.0%	6.9%	6.1%
8	800,000	-	800,000	55,476	49,738	2.0%	6.9%	6.2%
9	800,000	-	800,000	55,476	50,733	2.0%	6.9%	6.3%
10	800,000	-	800,000	55,476	51,748	2.0%	6.9%	6.5%
11	800,000	-	800,000	55,476	52,782	2.0%	6.9%	6.6%
12	800,000	-	800,000	55,476	53,838	2.0%	6.9%	6.7%
13	800,000	-	800,000	55,476	54,915	2.0%	6.9%	6.9%
14	800,000	-	800,000	55,476	56,013	2.0%	6.9%	7.0%
15	800,000	-	800,000	55,476	57,133	2.0%	6.9%	7.1%
16	800,000	-	800,000	55,476	58,276	2.0%	6.9%	7.3%
17	800,000	-	800,000	55,476	59,442	2.0%	6.9%	7.4%
18	800,000	-	800,000	55,476	60,630	2.0%	6.9%	7.6%
19	800,000	-	800,000	55,476	61,843	2.0%	6.9%	7.7%
20	800,000	-	800,000	55,476	63,080	2.0%	6.9%	7.9%
21	800,000	-	800,000	55,476	64,342	2.0%	6.9%	8.0%
22	800,000	-	800,000	55,476	65,628	2.0%	6.9%	8.2%
23	800,000	-	800,000	55,476	66,941	2.0%	6.9%	8.4%
24	800,000	-	800,000	55,476	68,280	2.0%	6.9%	8.5%
25	800,000	-	800,000	55,476	69,645	2.0%	6.9%	8.7%
					1,386,912			

- MPW disclosed a GAAP yield of ~8.6% (see slide 11) for the initial Priory SLB.
- The Times disclosed initial annual cash rent of ~£43.3 million under SLB.
- When applying a +2% annual escalator floor over the initial 25-year lease term, this **implies a GAAP yield of ~6.9% and an initial cash yield of ~5.4%**.
- Analysis compares annual forecasted cash rent and implied GAAP rent to initial ~£800 million purchase price for the real estate paid by MPW by converting mortgage into SLB.
- **~6.9% does not equal the disclosed ~8.6% GAAP yield.**
- Illustrates massive delta between GAAP/cash economics over long lease terms used across MPW's portfolio. Lease does not deliver 8%+ cash yield until year 20 using escalator floor.
- **However…**

OPTIONS | IT APPEARS MPW ASSUMES EXERCISE OF TENANT EXTENSION OPTIONS FOR ~45 YEARS OF TERM

HEDGEYE

- We ran the analysis again, but this time assuming exercise of 2 10-year tenant extension options for a fully-extended 45-year term.
- In this scenario, **the aggregate cash rent payments equated to the disclosed GAAP yield of ~8.6%.**
- **= HIGHLY AGGRESSIVE ACCOUNTING.**
- MPW is now in year 3 of the initial 25-year term, and the tenant is already showing signs of financial stress. MPW's "NFFO" and EBITDA calculations inclusive of straight-line rent, which are clearly used as comp plan modifiers, appear to reflect ~45 years of term from this one lease.
- **We estimate this assumption adds roughly ~$0.02/share to "NFFO," or +2%, to MPW's annual run-rate from just this one lease.**
- Separately, MPW in 3Q22 wrote off future Prime straight-line rent despite end of the initial lease term, implying same practice used elsewhere.
- **= POOR FFO EARNINGS QUALITY.**

Assumptions	
Purchase Price (GBP 000s)	800,000
Calculated Annual GAAP Yield	8.6%
Initial Lease Term	45 Years
Minimum Annual Escalator	2.0%
Implied Initial Cash Yield - Year 1	5.4%

Incremental "NFFO" From Extension Options	
Implied GAAP Rent - 45 Years	69,177
(-) Implied GAAP Rent - 25 Years	(55,476)
Incremental Rent	13,700
(/) Wtd. Avg. Shares O/S	598,344
Incremental NFFO / Share	0.02

Year	Beginning Capital	Acquisition	Ending Capital	GAAP Rent	Cash Rent	Minimum Rent Δ	Unlevered GAAP Yield	Unlevered Cash Yield
1	-	800,000	800,000	69,177	43,300		8.6%	5.4%
2	800,000	-	800,000	69,177	44,166	2.0%	8.6%	5.5%
3	800,000	-	800,000	69,177	45,049	2.0%	8.6%	5.6%
4	800,000	-	800,000	69,177	45,950	2.0%	8.6%	5.7%
5	800,000	-	800,000	69,177	46,869	2.0%	8.6%	5.9%
6	800,000	-	800,000	69,177	47,807	2.0%	8.6%	6.0%
7	800,000	-	800,000	69,177	48,763	2.0%	8.6%	6.1%
8	800,000	-	800,000	69,177	49,738	2.0%	8.6%	6.2%
9	800,000	-	800,000	69,177	50,733	2.0%	8.6%	6.3%
10	800,000	-	800,000	69,177	51,748	2.0%	8.6%	6.5%
11	800,000	-	800,000	69,177	52,782	2.0%	8.6%	6.6%
12	800,000	-	800,000	69,177	53,838	2.0%	8.6%	6.7%
13	800,000	-	800,000	69,177	54,915	2.0%	8.6%	6.9%
14	800,000	-	800,000	69,177	56,013	2.0%	8.6%	7.0%
15	800,000	-	800,000	69,177	57,133	2.0%	8.6%	7.1%
16	800,000	-	800,000	69,177	58,276	2.0%	8.6%	7.3%
17	800,000	-	800,000	69,177	59,442	2.0%	8.6%	7.4%
18	800,000	-	800,000	69,177	60,630	2.0%	8.6%	7.6%
19	800,000	-	800,000	69,177	61,843	2.0%	8.6%	7.7%
20	800,000	-	800,000	69,177	63,080	2.0%	8.6%	7.9%
21	800,000	-	800,000	69,177	64,342	2.0%	8.6%	8.0%
22	800,000	-	800,000	69,177	65,628	2.0%	8.6%	8.2%
23	800,000	-	800,000	69,177	66,941	2.0%	8.6%	8.4%
24	800,000	-	800,000	69,177	68,280	2.0%	8.6%	8.5%
25	800,000	-	800,000	69,177	69,645	2.0%	8.6%	8.7%
26	800,000	-	800,000	69,177	71,038	2.0%	8.6%	8.9%
27	800,000	-	800,000	69,177	72,459	2.0%	8.6%	9.1%
28	800,000	-	800,000	69,177	73,908	2.0%	8.6%	9.2%
29	800,000	-	800,000	69,177	75,386	2.0%	8.6%	9.4%
30	800,000	-	800,000	69,177	76,894	2.0%	8.6%	9.6%
31	800,000	-	800,000	69,177	78,432	2.0%	8.6%	9.8%
32	800,000	-	800,000	69,177	80,001	2.0%	8.6%	10.0%
33	800,000	-	800,000	69,177	81,601	2.0%	8.6%	10.2%
34	800,000	-	800,000	69,177	83,233	2.0%	8.6%	10.4%
35	800,000	-	800,000	69,177	84,897	2.0%	8.6%	10.6%
36	800,000	-	800,000	69,177	86,595	2.0%	8.6%	10.8%
37	800,000	-	800,000	69,177	88,327	2.0%	8.6%	11.0%
38	800,000	-	800,000	69,177	90,094	2.0%	8.6%	11.3%
39	800,000	-	800,000	69,177	91,896	2.0%	8.6%	11.5%
40	800,000	-	800,000	69,177	93,733	2.0%	8.6%	11.7%
41	800,000	-	800,000	69,177	95,608	2.0%	8.6%	12.0%
42	800,000	-	800,000	69,177	97,520	2.0%	8.6%	12.2%
43	800,000	-	800,000	69,177	99,471	2.0%	8.6%	12.4%
44	800,000	-	800,000	69,177	101,460	2.0%	8.6%	12.7%
45	800,000	-	800,000	69,177	103,489	2.0%	8.6%	12.9%
					3,112,954			

OPTIONS | HERE'S THE KICKER – PRIORY DOES NOT ASSUME OPTION EXERCISE!

HEDGEYE

"… Exercising of such options are not deemed reasonably certain,…" So, either MPW is overstating recorded income from its asset, or Priory is understating the lease liability on its balance sheet. You just cannot make it up…

Priory Group UK 1 Limited

Notes to the consolidated financial statements

13. Right of use assets and lease liabilities (continued)

Amounts recognised in the statement of cash flows

£'000	2022	2021
Operating activities (within operating profit):		
Variable lease payments	727	(740)
Payments on short term leases	267	399
Payments on leases of low-value assets	195	246
Financing activities:		
Repayment of lease liabilities	10,358	14,064
Payment of interest on lease liabilities	49,196	38,798
	60,743	52,767

The Group leases land and buildings for its operational facilities. Larger facilities typically involve a lease term of between 20 and 30 years, whilst smaller sites, for example adult care facilities, typically involve shorter lease terms of between 3 and 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the initial contractual term. As the exercising of such options are not deemed reasonably certain, such renewal options are generally not taken into account when determining the right of use assets and lease liabilities.

5 FUNDING LARGE % OF TOTAL PRIORY CAPITALIZATION

CAPITAL | MPW FINANCED 100% OF INITIAL ACQUISITION, LARGE PORTION OF FINAL CAPITALIZATION

HEDGEYE

As we have seen time and time again with MPW, management used shareholder capital to finance entire initial acquisition of both the PropCo & OpCo via a mortgage + "bridge" loan. It later participated in term loan refinancing + bought ~9.9% equity stake in the OpCo.

Timeline of Key Events:

- **1.6.21** – MPW announced Priory ~£1.1 billion transaction.
- **1.7.21** – MPW priced ~$711 million follow-on equity offering, with portion of proceeds to partially fund Priory transaction.
- **1.15.21** – MPW entered into ~$900 million interim credit facility and borrowed ~£500 million (~$700 million) to partially fund Priory transaction.
- **1.19.21** – MPW completed first step of transaction, in which MPW funded an ~£800 million mortgage loan + a ~£250 million acquisition loan to Waterland (~$1.4 billion total) to acquire Priory.
- **3.26.21** – Interim credit facility repaid with proceeds from 2026 and 2030 unsecured note issuance by MPW.
- **6.25.21** – Second step completed, during which MPW gradually converted the mortgage balance to a SLB on the 35 initial assets.
- **10.13.21** – MPW funded ~£27 million to Priory to "maintain" ~9.9% equity stake in Priory.
- **10.22.21** – Original MPW acquisition loan repaid.
- **2.16.22** – As disclosed in the 1Q22 10-Q filed on 5.10.22, **MPW funded ~£96.5 million toward a ~£100 million participation (estimated ~40%) in a syndicated Priory TL**. This funding was **NOT disclosed as a subsequent event in the 2021 10-K filed on 3.1.22**, despite Priory representing an estimated ~6% of MPW's pro forma gross assets at the time (excl. HCA, which never closed on the contemplated Steward Utah acquisition).

CAPITAL | THIS IS NOT A REAL ESTATE DEAL!

HEDGEYE

We estimate that MPW financed roughly ~85% of the total Priory PropCo + OpCo capitalization. Unclear how much, if any, equity capital was contributed by Waterland for its ~90.1% equity stake. MPW participated in ~40% of TL refinancing. = Asymmetric Risk!

GBP Amounts in 000s

Uses of Funds	Amount	%
Purchase Price	£ 1,073,000	99.6%
Est. Fees / Expenses (1)	4,000	0.4%
Total Uses	**£ 1,077,000**	**100.0%**

Sources of Funds	Amount	%
Waterland Equity Contribution	-	-
MPW Equity Contribution	27,000	2.5%
MPW Initial Mortgage / SLB	800,000	74.3%
MPW TL Participation	96,500	9.0%
3rd-Party TL Participation (2)	153,500	14.3%
Total Sources	**£ 1,077,000**	**100.0%**

Total Capital Contributed	Amount	%
MPW	**£ 923,500**	**85.7%**
Others	153,500	14.3%
Total	**£ 1,077,000**	**100.0%**

Implied Equity Ownership	Amount	%
Waterland	£ 245,727	90.1%
MPW (3)	27,000	9.9%
Total	**£ 272,727**	**100.0%**

Notes:

(1) Plug to solve for excess of Sources of Funds over the stated purchase price for Priory.
(2) Estimated 3rd-party debt capital to refinance ~GBP 250 million acquisition loan.
(3) MPW disclosed investment to "maintain" 9.9% equity stake in Priory.

CAPITAL | WE HAVE SEEN THIS BEFORE WITH ERNEST (FROM OUR REIT STATUS DECK)...

HEDGEYE

($ in Millions)

Uses of Funds	$	% of Total
Real Estate Acquisition	200.0	50.0%
Mortgage Loan Financing	100.0	25.0%
Acquisition Loan - OpCo	93.2	23.3%
Ernest Holdings Investment - OpCo	6.8	1.7%
Total Uses (Total Ernest Capitalization)	400.0	100.0%

Sources of Funds	$	% of Total
MPW SLB	200.0	50.0%
MPW Mortgage Loan	100.0	25.0%
MPW Acquisition Loan	93.2	23.3%
MPW Investment in Ernest Holdings	3.3	0.8%
ManageCo Investment in Ernest Holdings	3.5	0.9%
Total Sources	400.0	100.0%

Initial Capital Contributions:		
MPW	396.5	99.1%
ManageCo	3.5	0.9%
Total	400.0	100.0%

OpCo Capitalization	$	% of Total
MPW	96.5	96.5%
Ernest Management	3.5	3.5%
Total	100.0	100.0%

- Implied a total initial capitalization of ~$400 million for all of Ernest Health.
- For what should have been a relatively simple SLB transaction investing in hospital real estate, approximately ~50% of the capital was deployed unrelated to the transfer of ownership of the fee simple real estate.
- MPW directly capitalized the operator with a ~$93.2 million acquisition loan + $3.3 million investment in Ernest Holdings. This capital represented roughly ~2.4 years of initial rent and loan interest owed by Ernest back to MPW.
- MPW capitalized ~96.5% of the OpCo.
- MPW and its shareholders put up ~99% of the total capital.
- MPW put up the overwhelming majority of the initial capital and owned the majority of the economics of the system. This was not a real estate deal, in our view.

CAPITAL | ...AND ALSO WITH CAPELLA (FROM OUR REIT STATUS DECK)

HEDGEYE

($ in Millions)

Uses of Funds	$	% of Total
Real Estate Acquisition	390.0	43.3%
Mortgage Loan Financing	210.0	23.3%
OpCo Acquisition Loan	300.0	33.3%
Total Uses (Total Capella Capitalization)	**900.0**	**100.0%**

Sources of Funds	$	% of Total
MPW SLB	390.0	43.3%
MPW Mortgage Loan	210.0	23.3%
MPW Acquisition Loan	300.0	33.3%
MPW Investment in Capella Holdings	-	-
ManageCo Investment in Capella Holdings	-	-
Total Sources	**900.0**	**100.0%**

Initial Capital Contributions:		
MPW	900.0	100.0%
ManageCo	-	-
Total	**900.0**	**100.0%**

- Implied a total initial capitalization of ~$900 million for all of Capella.
- This time **~33% of the initial capital was effectively invested by MPW into the OpCo, capitalizing the operator with ~$300 million.**
- Cash yields were not disclosed, but this amount represented roughly 3.5 years of rent + interest based on the disclosed GAAP lease yield. The acquisition loan interest rate was disclosed to be similar to the lease rate and mortgage interest rate.
- **This time MPW put up 100% of the capital**, and similar to Ernest wound up **owning the majority (~65%) of the economics of the hospital system.**
- We believe this again represented an intelligent, deliberate intent to own the system economics. This was not a real estate deal.

6 HEDGEYE'S VALUATION OF MPW'S PRIORY ASSETS

VALUATION | REAL-TIME NET LEASE COMP FOR SPECIALIZED, SINGLE-USE REAL ESTATE

HEDGEYE

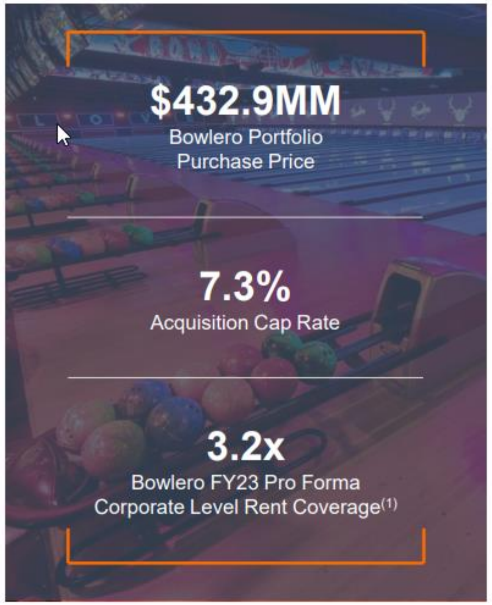
We fully understand the differences versus hospitals, but VICI's underwriting of recent Bowlero transaction provided a view of current underwriting standards for specialized net lease transactions with "arm's length" counterparties. VICI paid a ~7.3% cap rate.

TRANSACTION OVERVIEW

On October 19, 2023, VICI completed the acquisition of the real estate assets of 38 bowling entertainment centers (the "Bowlero Portfolio") from Bowlero Corp. ("Bowlero") in a sale leaseback transaction and entered into a triple net master lease with Bowlero

Bowlero Master Lease – Summary Terms

Tenant	One or more wholly owned subsidiaries of Bowlero Corp.
Initial Annual Cash Rent	$31.6MM
Term	Initial lease term of 25 years with six 5-year renewal options
Contractual Rent Escalation	Greater of 2.0% or CPI (subject to a 2.5% cap)
Guarantor	Bowlero Corp. (NYSE: BOWL)
Right of First Offer ("ROFO")	Right of first offer on the sale leaseback of current or future Bowlero real estate for the next 8 years
Consideration	Units in a newly formed VICI subsidiary issued to Bowlero, cash on hand, and partial settlement of outstanding forward equity sale agreements



Source: Bowlero FY 2023 public filings. Refer to Bowlero's public filings for additional information with respect to Bowlero's non-GAAP financial measures.
(1) Represents corporate level rent coverage for Bowlero Corp., including rent from the Bowlero Master Lease. See page 13 for more information and reconciliations of this metric. Bowlero may calculate Adj. EBITDA differently from VICI and other companies and accordingly, Bowlero's Adj. EBITDA may not be comparable to Adj. EBITDA reported by VICI or other companies.

VICI 3

VALUATION | A WINDOW INTO NET LEASE UNDERWRITING OF A BETTER CREDIT VS. PRIORY

HEDGEYE

Importantly, VICI paid that ~7.3% cash cap rate given the below EBITDAR coverage levels and estimated cash flow coverage on the facing slide. Property-level EBITDAR coverage is ~2x and corporate coverage (underlying the parent guarantee) is ~3.2x.

RECONCILIATION FROM GAAP TO NON-GAAP FINANCIAL MEASURES

VICI-Acquired Bowlero Portfolio Adjusted EBITDAR Calculation

($ in millions)	Fiscal Year Ended July 2, 2023
Acquired Bowlero Portfolio Revenue	**$105.7**
Acquired Bowlero Portfolio Net Income	**30.2**
Depreciation & Amortization	18.2
Other Adjustments	1.5
Acquired Bowlero Portfolio Adjusted EBITDAR	**$49.8**
Acquired Bowlero Portfolio Adjusted EBITDAR Margin	**47.2%**
Annualized Amount for Renovated or Acquired Facility[1]	13.9
Acquired Bowlero Portfolio Pro Forma Adjusted EBITDAR	**$63.8**

Source: Bowlero management.
Note: Pro Forma Adjusted EBITDAR is defined as Net Income, excluding Depreciation & Amortization, Annualized Amount for Renovated or Acquired Facility, Other Adjustments. Refer to Bowlero's public filings for additional information with respect to Bowlero's historical financial results and non-GAAP financial measures, including definitions and footnotes with respect thereto.
(1) Represents adjustment to annualize EBITDA from assets acquired or subject to growth capital expenditures during FY23.

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RECONCILIATION FROM GAAP TO NON-GAAP FINANCIAL MEASURES

Bowlero Corp. Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted EBITDAR, Pro Forma Rent Coverage Calculation and Net Leverage

($ in millions)	Fiscal Year Ended July 2, 2023
Bowlero Corp. Net Income	**$82.0**
Interest Expense	112.2
Income Tax Benefit	(84.2)
Depreciation, Amortization and Impairment Charges	117.3
Share-based Compensation	15.7
Closed Center EBITDA	3.3
Foreign Currency Exchange Gain	(0.1)
Asset Disposition Gain	(2.2)
Transaction and Other Advisory Costs	23.6
Changes in the Value of Earnouts and Warrants	85.4
Other, net	1.3
Bowlero Corp. Adjusted EBITDA	**$354.3**
Rent Expense for Bowling Centers – Operating Leases[1]	70.5
Bowlero Corp. Adjusted EBITDAR	**$424.8**
Annualized Cash Rent Expense for Bowling Centers – Operating and Finance Leases[2]	**$99.4**
VICI Initial Base Rent	31.6
Bowlero Corp. Pro Forma Cash Rent	**$131.0**
FY23 Pro Forma Bowlero Corporate Level Rent Coverage[3]	**3.2x**

($ in millions)	Fiscal Year Ended July 2, 2023
Bowlero Corp. Revenue	$1,058.8
Bowlero Corp. Adjusted EBITDA	$354.3
Bowlero Corp. Adjusted EBITDA Margin	**33.5%**
Total Debt	1,164.7
Less: Cash and Cash Equivalents	(195.6)
Bowlero Corp. Net Debt	**$969.1**
Bowlero Corp. Net Leverage Ratio[4]	**2.7x**

Source: Bowlero public filings and information provided by Bowlero management.
Note: Refer to Bowlero's public filings for additional information with respect to Bowlero's historical financial results and non-GAAP financial measures, including definitions and footnotes with respect thereto.
(1) The impact of the rent expense associated with Bowling Center leases classified as a finance lease under GAAP is recorded as a component of interest and amortization expense therefore already added to Net Income to calculate Adj. EBITDA. (2) Includes rent paid post year end close due to calendar that capture 12 months of payments. (3) FY23 Pro Forma Bowlero Corporate Level Rent Coverage is defined as Adjusted EBITDAR divided by Pro Forma Cash Rent. (4) Net Leverage is defined as Total Debt less Cash & Cash Equivalents divided by FY23 Adj. EBITDA.

VICI 13

VALUATION | TENANT FCF COVERAGE, INCLUSIVE OF CAPEX, MUST BE UNDERWRITTEN

HEDGEYE

- Again, taking this back to Priory, it is possible to show positive coverage metrics AND be burning cash.
- Fortunately Bowlero (BOWL) is a publicly-traded tenant and VICI did a good job of disclosing financial info underlying its underwriting.
- VICI disclosed the ~3.2x corporate EBITDAR coverage, but we also attempted to calculate the underlying cash flow coverage as well.
- Based on BOWL's LTM data ending 7.2.23, **we estimate that the SLB was underwritten to a ~1.4x fixed charge coverage level using pre-rent and pre-interest unlevered FCF** (our calculation).
- Barring a significant decline in the business, BOWL can service its leases + debt AND fund capex to support its business.
- The ~7.3% cap rate was presumably underwritten based on this corporate credit profile.
- **MPW NEVER looks anything like this.**

Amounts in 000s

Bowlero SLB Assumptions	
Purchase Price	432,900
Acquisition Cap Rate	7.30%
Annual Cash Rent	**31,602**
(+) Existing Cash Rent	99,398
Total PF Cash Rent	**131,000**
Implied EBITDAR / Rent Coverage	**3.2x**

Bowlero Estimated Cash Flow Coverage		LTM 7.2.23
Bowlero Corporate Revenue		1,058,800
EBITDAR		424,800
(-) Estimated Rent Expense [(1)]		(113,678)
(-) Interest Expense [(2)]		(112,200)
(-) D&A		(117,300)
(-) Share-Based Compensation		(15,700)
Estimated Pre-Tax Income		**65,922**
(-) Estimated Taxes	21.0%	(13,844)
Estimated Net Income		**52,079**
(+) Rent Expense		113,678
(+) Interest Expense		112,200
(+) D&A		117,300
(+) Share-Based Compensation		15,700
(-) Capital Expenditures [(3)]		(70,000)
Unlevered Pre-Rent FCF		**340,956**
Capex % of Revenues		6.6%
Unlevered CF / Cash Rent		**2.6x**
Unlevered CF / Cash Rent + Int.		**1.4x**

Notes:

(1) Calculated as existing rent expense + pro forma SL rent expense from new lease.
(2) Assumes existing Bowlero debt remains outstanding.
(3) VICI disclosed ~$70 million of planned capex spending.

VALUATION | CREDIBLE CASE TO BE MADE THAT MPW OVERPAID BY ~2X FOR PRIORY'S REAL ESTATE

HEDGEYE

GBP Amounts in 000s

Hedgeye Underwriting Assumptions	Dec-21	Dec-22	Assumed
Unlevered FCF (FCF) (1)	38,012	37,661	40,000
(/) Underwritten FCF Coverage (2)			1.10x
Assumed "Market" / Affordable Cash Rent			36,364
Hedgeye Estimate Current Cash Rent			80,731
Estimated Rent Reduction			-55.0%
Implied Adj. EBITDAR / Rent Coverage (3)			2.7x
Implied (Adj. EBITDAR - Capex) / Rent Coverage (3)			1.7x
(/) Applied Cash Cap Rate on Affordable Rent			7.00%
Implied Purchase Price			519,481
Implied Cap Rate on MPW In-Place Rent			15.54%
MPW's Gross Investment in RE			1,077,000
Implied x vs. "Fair Value"			2.1x
Assumed Cap Rate Expansion (% pts)			0.50%
Assumed Selling Costs (% of Terminal)			1.00%

Base Case	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Terminal Year 8
Cash Rent (4)	80,731	84,768	36,364	37,455	38,578	39,736	40,928	42,155	43,420
Assumed Growth (5)		5.0%	-57.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Unlevered Yield on Cost		16.3%	7.0%	7.2%	7.4%	7.6%	7.9%	8.1%	8.4%
Unlevered IRR Calculation:									
Initial Investment	(519,481)								
Unlevered Cash Flow		84,768	36,364	37,455	38,578	39,736	40,928	42,155	
Terminal Value								578,934	
Selling Costs								(5,789)	
Total Unlevered Cash Flow	(519,481)	84,768	36,364	37,455	38,578	39,736	40,928	615,301	

Unlevered IRR	10.22%
Unlevered MOIC	1.72x

<-- Targeting ~10% unlevered IRR

Notes:
(1) Hedgeye assumes "starting" underwritten FCF of ~GBP 40 million.
(2) Hedgeye assumption; likely aggressive.
(3) Priory coverage metrics implied by FCF coverage.
(4) Hedgeye assumes that Priory defaults/restructures after 1 year, after which rent reduced to sustainable level.
(5) Assumes +3% annual U.K. CPI-linked escalators over forecast period as simplifying assumption.

- Fact: The existing Priory rent is not and has never been covered with cash flow = not affordable!
- Fact: The recent April 2023 SLB adds incremental lease obligations.
- Fact: MPW paid a ~5.4% going-in cash cap rate on the above-market/non-covered rent (see slide 24).
- = MPW massively overpaid!
- We believe a rational buyer would both (1) pay a cap rate to derive their own required return (not MPW's!), and (2) underwrite a sustainable rent level.
- We estimate that a sustainable rent level for Priory is ~50-60% below in-place cash rent. This may be a generous assumption.
- We believe market participants are underwriting double-digit required unlevered returns for this asset type.
- This implies a ~7% cap on sustainable rents, or ~15-16% on MPW's in-place!

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HEDGEYE

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