

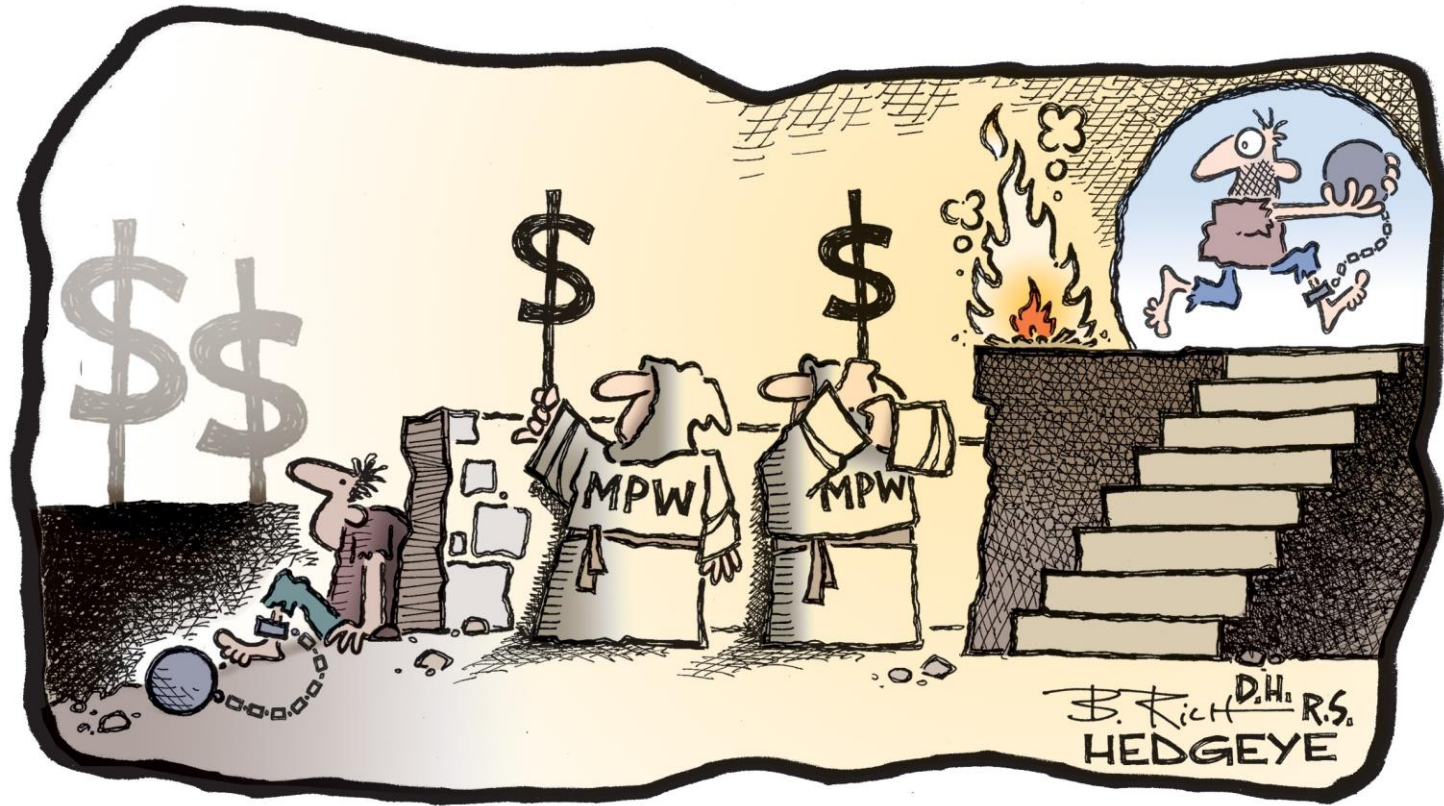
HEDGEYE



Active **Short** Medical Properties (Dis)Trust (MPW)

Did Prospect Medical Holdings (“Prospect”)
Pay All of It’s Rent in 3Q22?

September 9, 2023



Medical Properties Trust

HEDGEYE REITs

ROB SIMONE, CFA

Managing Director

rsimone@hedgeye.com

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PROSPECT | IT DOES NOT APPEAR THEY DID. THREE KEY THEMES

1 MPW disclosed Prospect was current on rent + interest “until” 4Q22

- Stated explicitly on page 83 of MPW’s 2022 [10-K filing](#) filed with the SEC on 3.1.23. This disclosure implies one quarter or less of recorded/accrued but unpaid rent + interest. We believe no other specific reference made anywhere to 2022 Prospect deferrals.
- 2022 recorded/accrued but unpaid rent + interest dollar amount excluded from Prospect restructuring description on page 15 of 2Q23 [10-Q filing](#). It is the only claim without an attributed dollar figure. It is a glaring omission in disclosure.

2 The actual numbers from transaction disclosure imply different story

- **Updated total non-controlling equity consideration in PHP from 2Q23 10-Q and disclosure in recap press release from 5.23.23 clearly imply >1 quarter of recorded/accrued but unpaid rent + interest from Prospect in 2022.**
- Based on MPW’s own reported financials, MPW clearly began accruing significant unpaid A/R amounts as early as 2Q22.
- MPW’s actual cash flow deviated materially from reported “NFFO” and AFFO figures around mid-2022.

3 Hedgeye’s questions for MPW’s management team

- **Did Prospect pay 100% of its rent + interest in 3Q22?**
- If not, how do you reconcile this with language from the 2022 10-K report filed with the SEC?
- If not, why didn’t MPW explicitly disclose this at the time for a tenant comprising ~11-12% of total revenues?
- What is the exact dollar figure of recorded/accrued but unpaid Prospect rent + interest from 2022?

PROSPECT | MPW'S DISCLOSURE FROM 2022 10-K FILING WITH SEC

MPW explicitly stated that “until” 4Q22, “Prospect was current...” This implies one quarter or less of recorded/accrued but unpaid amounts. MPW moved Prospect to cash accounting beginning in 1Q23, implying amounts unrecorded until actually received in 2023.

Until the 2022 fourth quarter, Prospect was current on its rent and interest obligations under the various agreements. However, with rent and interest now past due and certain of Prospect's restructuring plans yet to be finalized, we recorded an approximate \$280 million impairment charge in the 2022 fourth quarter, as shown in "Real estate and other impairment charges, net" on the consolidated statements of net income. As part of this charge, we reduced the carrying value of the underperforming Pennsylvania properties by approximately \$170 million (to approximately \$250 million) and reserved all noncash rent for a total of \$112 million. **We expect to record rent on our Prospect leases on a cash basis for the foreseeable future.** At December 31, 2022, we believe our remaining investment in the Prospect real estate and other assets are fully recoverable, but no assurances can be given that we will not have any further impairments in future periods. – **MPW 2022 10-K filing**

PROSPECT | WHAT CAUGHT OUR ATTENTION INITIALLY

Why disclose the unrecorded contractual rent + interest dollar amount for 2023, but not the recorded/accrued but unpaid amount from 2022? The 2022 figure is glaringly omitted. We believe it is the only MPW claim without a disclosed dollar figure from the Prospect restructuring.

On May 23, 2023, Prospect completed its recapitalization plan, which included receiving \$375 million in new financing from several lenders. Along with this new debt capital from third-party lenders, **we agreed to the following restructuring of our \$1.7 billion investment in Prospect including:** ...

e) obtain a non-controlling ownership interest in PHP Holdings of approximately \$654 million, after applying a discount for lack of marketability, consisting of an approximate \$68 million equity investment and \$586 million loan convertible into equity of PHP Holdings (collectively, the "Prospect Transaction"). **This non-controlling ownership interest was received in exchange for unpaid rent and interest through December 2022, previously unrecorded rent and interest revenue in 2023 totaling approximately \$68 million**, our \$151 million mortgage loan on a California property, our \$112.9 million term loan, and other obligations at the time of such investment. - MPW 2Q23 10-Q

PROSPECT | RECAPITALIZATION TRANSACTION AS DESCRIBED IN MAY 2023

(\$ Amounts in 000s)

Prospect Restructuring as Described on 5.23.23

MPW Claims	5.23.23 Amounts	Notes
Description:		
Equity Interest in PHP - CT Recovery	103,000	MPW claimed ~\$355 million cash + equity interest to recover 100% of gross investment at ~\$457 million. At the time MPW guided Yale transaction to close during 3Q23.
Equity Interest in PHP - PA Recovery	100,000	~\$150 million 1L mortgage + PHP equity interest to recover MPW's book value of ~\$250 million. MPW had already recorded a ~\$170 million impairment in 4Q22, implying gross investment of ~\$420 million.
Equity Interest in PHP - MPW Convertible Loan	50,000	~\$50 million convertible loan originated and funded by MPW in 1Q23.
Equity Interest in PHP - Other MPW Loans	264,000	~\$151 million mortgage loan on Foothills + ~\$113 million TL secured by proceeds from eventual sale of RI hospitals. MPW upsized the Foothills mortgage by ~\$100 million during May 2022.
Equity Interest in PHP - Accrued Rent + Interest	56,000	Unclear what period this amount is attributable to. Does "accrued" indicate that this is the 2022 unpaid amount? MPW had Prospect on accrual accounting through the end of 2022.
Total Implied Consideration from PHP	573,000	

- MPW released details of “completed” Prospect “recapitalization” [HERE](#) on 5.23.23. It is really a restructuring.
- Details indicated total consideration to MPW of ~\$573 million from equity in Prospect’s managed care business. This was the amount required to fully recover MPW’s book value.
- MPW’s gross investment is at least ~\$170 million higher following PA impairment taken in 1Q23.
- **Amounts included ~\$56 million of accrued rent + interest to be recovered via equity in PHP.** This was not attributed to a specific period.
- **Does “accrued” imply this amount is from 2022?**

PROSPECT | RECAPITALIZATION TRANSACTION AS DESCRIBED IN MAY 2023 (CONT'D)

The press release can be found [HERE](#). Does “accrued” imply the ~\$56 million is attributable to 2022? “Accrued” implies the amount was run through MPW’s P&L. Under cash accounting amounts only recorded when received.

business. As of the end of the first quarter of 2023, MPT holds \$1.6 billion in total assets related to Prospect that are expected to be reconstituted as follows:

- An approximately \$513 million investment in six leased California hospitals, subject to a master lease scheduled to resume partial rent payments in September and full rent payments at an 8.44% cash yield in March of 2024;
- A \$457 million investment in MPT’s Connecticut real estate which, as previously announced, Yale New Haven Health is expected to acquire in a transaction that is expected to close during 2023’s third quarter. MPT’s investment is expected to be fully recovered through cash proceeds of \$355 million at closing and equity interests in Prospect’s managed care business valued at \$103 million;
- A first lien mortgage loan of \$150 million and equity interests in the managed care business valued at \$100 million, resulting from the transfer to Prospect of Pennsylvania real estate with a book value of \$250 million;
- Loans aggregating approximately \$264 million and accrued rent and interest of approximately \$56 million, along with the previously announced \$50 million convertible loan to the managed care entities are expected to be recovered through equity interests in the managed care business.

PROSPECT | TRANSACTION UPDATE PROVIDED IN 2Q23 10-Q

(\$ Amounts in 000s)

Prospect Restructuring as Described in 2Q23 10-Q ⁽¹⁾		
MPW Claims	8.9.23 Amounts	Notes
Description:		
Convertible Loan in PHP - CT Recovery ⁽¹⁾	103,000	MPW claimed ~\$355 million cash + equity interest to recover 100% of gross investment at ~\$457 million. At the time MPW guided Yale transaction to close during 3Q23.
Convertible Loan in PHP - PA Recovery ⁽¹⁾	100,000	~\$150 million 1L mortgage + PHP equity interest to recover MPW's book value of ~\$250 million. MPW had already recorded a ~\$170 million impairment in 4Q22, implying gross investment of ~\$420 million.
Convertible Loan in PHP - MPW Convertible Loan ⁽¹⁾	50,000	~\$50 million convertible loan originated and funded by MPW in 1Q23.
Convertible Loan in PHP - Foothills Mortgage	151,000	~\$151 million mortgage loan on Foothills Regional in CA. MPW upsized the mortgage by ~\$100 million during May 2022. Loan principal cancelled.
Convertible Loan in PHP - Term Loan	112,900	\$112.9 million TL secured by RI hospitals. Loan principal cancelled.
Equity in PHP in Lieu of Cash - Unrecorded 2023 Rent + Interest ⁽²⁾	68,000	MPW explicitly attributed this amount to 2023 previously unrecorded rent + interest. This amount was not previously accrued. Hedgeye believes this amount corresponds to the ~\$68 million (~\$0.11/share) recognized (perhaps inappropriately?) in 2Q23 results. Consists of ~\$55.3 million of rent revenue recorded in "Income from Financing Leases" and ~\$13.5 million of interest income recorded in "Interest and Other Income." Prospect was moved to cash accounting for 2023. This item was non-cash, and the transfer of equity did not/should not have happened.
Unattributed Amount ⁽³⁾	69,100	Does this amount represent 2022 recorded/accrued but unpaid rent + interest? How does this compare to the \$56 million from May 2023? What is the ~\$13.1 million delta?
Total Implied Consideration from PHP	654,000	
(-) Consideration Implied by May 2023 Release	(573,000)	
Implied Change in Total Consideration	81,000	

Notes:

- (1) Certain discreet amounts taken from 5.23.23 recapitalization press release.
- (2) This is the ~\$68 million amount recorded/accrued in 2Q23 and highlighted by the WSJ article on 8.18.23.
- (3) This amount represents the delta between the ~\$68 million equity + ~\$586 million convertible loan, and the total PHP equity consideration implied by the 5.23.23 recapitalization press release. MPW did not attribute this amount to a discreet claim in the 2Q23 10-Q.

- MPW disclosed updated Prospect restructuring language in the 2Q23 [10-Q filing](#) on 8.9.23.
- Total consideration increased by ~\$81 million to ~\$654 million vs. amount implied by 5.23.23 release. Why?
- **Controversial ~\$68 million equity interest was recorded/accrued in 2Q23, and directly attributed to 2023 previously unrecorded contractual rent + interest.**
- No dollar amount attributed to the recorded 2022 rent + interest (see slide 5 above). **Why did MPW explicitly disclose 2023 amount, but not 2022 amount?**
- Approximately ~\$69 million of this new consideration not directly attributed to a specific claim. **Why? Is this for 2022 recorded/accrued but unpaid rent + interest?**
- **How does this ~\$69 million relate to the ~\$56 million recorded/accrued amount previously disclosed in 5.23.23 release?**

PROSPECT | LANGUAGE FROM 2Q23 EARNINGS RELEASE

The ~\$68 million was explicitly described [HERE](#) as recognized/recorded/accrued for “2023 previously unrecorded but contractually owed rent and interest revenue...” The language is clear. This leaves only the ~\$69 million with no specified claim.

OPERATING RESULTS AND OUTLOOK

Net loss for the second quarter ended June 30, 2023 was (\$42 million) ((\$0.07) per diluted share) compared to net income of \$190 million (\$0.32 per diluted share) in the year earlier period. Included in 2023 second quarter net loss is the previously disclosed roughly \$286 million in accelerated lease intangible amortization related to the early termination of Steward’s leases of five Utah hospitals now leased to CommonSpirit and a related \$95 million straight-line rent write-off, partially offset by a roughly \$160 million tax benefit related to the Company’s establishment of a U.K. REIT, as well as the recognition of \$68 million of 2023 previously unrecorded but contractually owed rent and interest revenue from the receipt of equity in PHP Holdings LLC (“PHP”).

NFFO for the second quarter ended June 30, 2023 was \$285 million (\$0.48 per diluted share) compared to \$275 million (\$0.46 per diluted share) in the year earlier period. Included in 2023 second quarter NFFO is roughly \$68 million (\$0.11 per diluted share) from the receipt of equity in PHP in lieu of cash for 2023 previously unrecorded but contractually owed rent and interest revenue from Prospect Medical Holdings, Inc. (“Prospect”). In accordance with accounting requirements, the value of MPT’s investment in PHP was established at roughly \$655 million based on estimates from multiple independent third parties and the application of an appropriate marketability discount.

PROSPECT | MATH IMPLIES >1 QUARTER OF UNPAID RENT + INTEREST

- Using available information, we estimate annual contractual cash rent + interest of ~\$134 million due from Prospect after Foothills mortgage upsized by ~\$100 million in 2Q22.
- **Implies ~\$33.6 million of contractual quarterly interest + rent due from Prospect in 3Q/4Q22.**
- We compared this to the two potential 2022 recorded/accrued but unpaid amounts, based on MPW's disclosure thus far.
- ~\$56 million implies ~5 months of deferrals, or >1 quarter.
- ~\$69 million implies ~6 months of deferrals, or ~2 quarters.
- **Both of these figures are obviously larger than ~\$33.6 million and imply deferrals beginning BEFORE 4Q22.**
- **How does this reconcile with the disclosure in the 2022 10-K filing with the SEC?**

(\$ Amounts in 000s)

Estimated 2022 Rent + Interest vs. Disclosed

MPW Investment	Gross Invest. (000s)	Lease / Int. Rate ⁽¹⁾	Rent / Interest
Description			
Prospect CT Hospitals	457,000	8.12%	37,087
Prospect PA Hospitals	420,000	8.12%	34,085
Prospect CA Hospitals	513,000	8.12%	41,632
Prospect Term Loan	112,900	8.12%	9,162
Foothills Mortgage	151,000	8.12%	12,254
Estimated Total / Full Year	1,653,900	8.12%	134,220

(/) Ann. Factor

4

Estimated 2022 Quarterly Rent + Interest

33,555

2022E Accrued Rent Implied by 5.23.23 Release	56,000
Implied Quarters	1.7
Implied Months	5

2022E Accrued Rent Implied by 2Q23 10-Q ⁽²⁾	69,100
Implied Quarters	2.1
Implied Months	6

Notes:

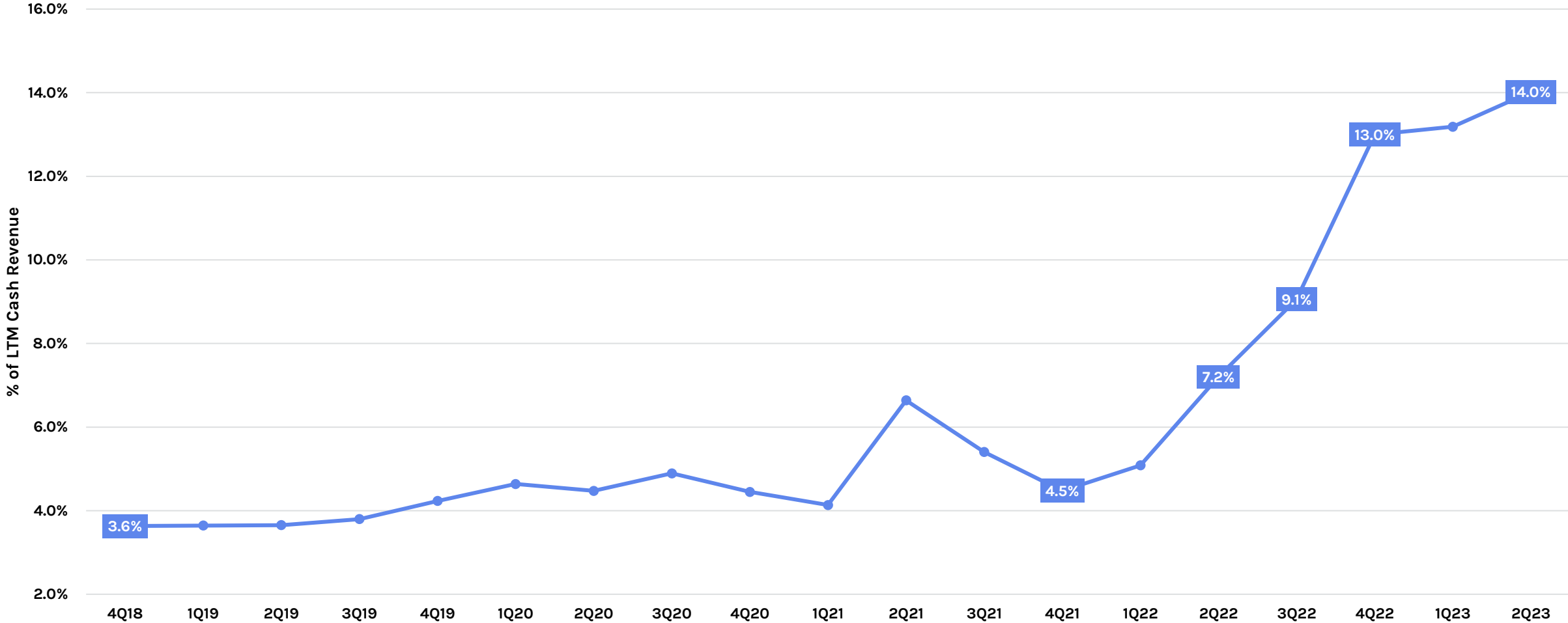
(1) Estimated using available information. Assumes CA lease rate escalated +4% to reach 8.44% used in 5.23.23 press release. Lease escalators capped at lesser of +4% or inflation.

(2) Assumes all \$69.1 million not directly attributed to a claim is from 2022 recorded/accrued but unpaid rent + interest.

PROSPECT | OTHER EARLY WARNING SIGNS

Investors will recall that we flagged the rise in cash rent and interest A/R throughout 2022. MPW began accruing unpaid receivables at an above-average rate beginning around 2Q22. The trend has continued to deteriorate since then.

MPW Historical Interest & Rent Receivables / LTM Cash Revenue



PROSPECT | OTHER EARLY WARNING SIGNS (CONT'D)

MPW accrued unpaid A/R on a net basis in each quarter since 4Q21. MPW accrued ~\$56.5 of net unpaid A/R over 2Q/3Q22, and a further ~\$47.5 million in 4Q22 when MPW claimed Prospect stopped paying cash rent and interest.

Medical Properties Trust, Inc. (MPW)

Earnings Model

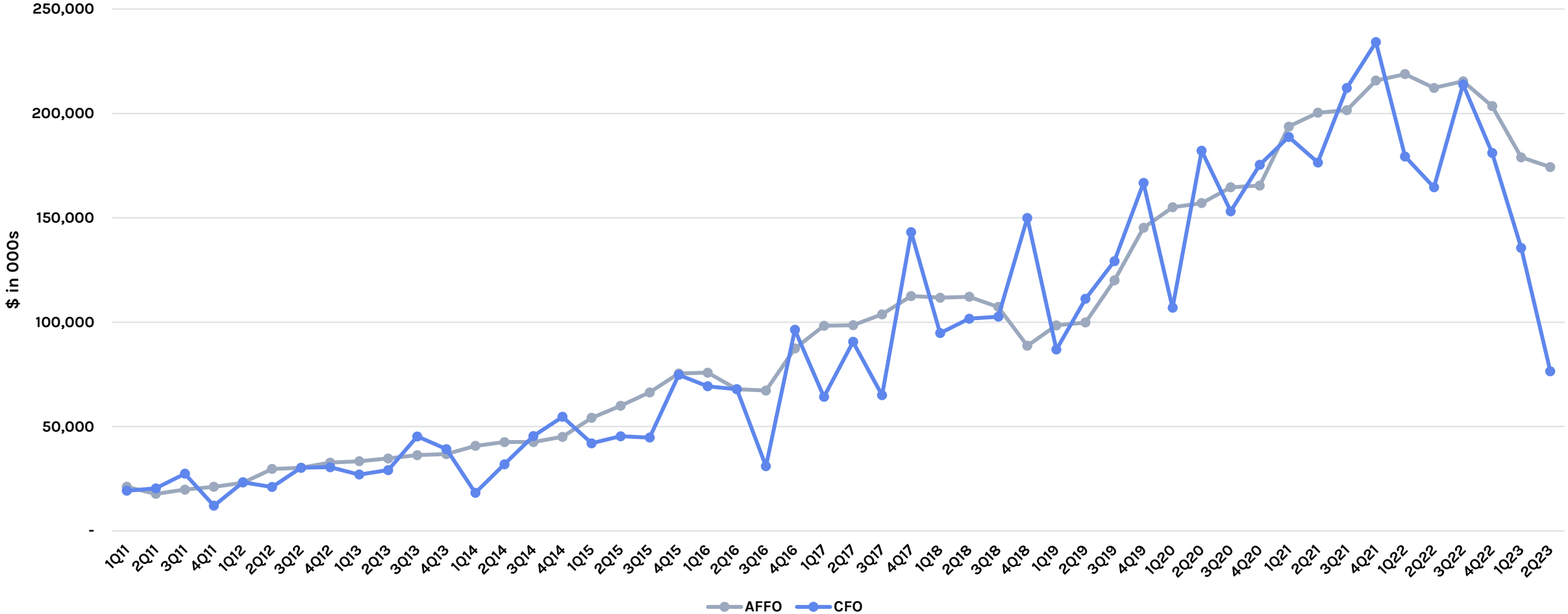
Amounts in 000s, Except per Share Data

	1Q21	2Q21	3Q21	4Q21	FY 2021A	1Q22	2Q22	3Q22	4Q22	FY 2022A	1Q23	2Q23
Consolidated Statements of Cash Flows												
Operating Activities:												
Net Income	163,880	114,821	171,395	206,844	656,940	631,947	190,064	222,020	(140,212)	903,819	33,030	(42,433)
Adjustments:												
Depreciation & Amortization	78,606	79,069	88,442	87,664	333,781	88,760	87,317	84,640	84,860	345,577	87,586	367,968
Amortization of Deferred Financing Costs & Debt Discount	3,817	-	-	(3,817)	-	5,285	3,934	3,904	3,922	17,045	4,014	4,082
Straight-Line Rent Revenue	(65,333)	(65,958)	(77,465)	(79,961)	(288,717)	(75,385)	(70,340)	(68,710)	(68,069)	(282,504)	(58,566)	(57,900)
Direct Financing Lease Interest Accretion	-	-	-	-	-	-	-	-	-	-	-	-
Share-Based Compensation	12,264	12,771	13,555	13,520	52,110	11,804	10,108	11,089	16,420	49,421	11,829	6,437
Gain From Sale of Real Estate	(989)	1,387	(9,294)	(43,575)	(52,471)	(451,638)	(16,355)	(68,795)	33	(536,755)	(62)	(167)
Write-off of Unbilled Rent & Other	-	-	-	-	-	-	-	-	-	-	-	-
Provision for Uncollectible Receivables & Loans	-	-	-	-	-	-	-	-	-	-	-	-
Impairment Charges	-	-	-	-	-	-	-	-	268,375	268,375	89,538	-
Straight-Line Rent & Other (Recovery) Write-Off	(5,238)	(13)	3,650	(670)	(2,271)	2,604	1,944	23,863	6,194	34,605	2,192	95,642
Debt Refinancing & Unutilized Financing Costs	2,269	3,945	4,387	33,905	44,506	8,816	619	17	-	9,452	-	816
Premium Paid on Debt Extinguishment	-	-	-	-	-	-	-	-	-	-	-	-
Tax Rate & Other Changes	-	-	-	-	-	-	-	-	10,697	10,697	(7,305)	(157,230)
Non-Cash Revenue from Debt / Equity Securities Received	-	-	-	-	-	-	-	-	-	-	-	(68,557)
Pre-Acquisition Rent Collected - Circle Transaction	-	-	-	-	-	-	-	-	-	-	-	-
Other Adjustments	(3,575)	56,597	5,708	(8,446)	50,284	(1,040)	(12,956)	11,034	9,070	6,108	(8,505)	209
Changes In:												
Interest & Rent Receivables	13,396	(38,395)	5,849	(4,717)	(23,867)	(12,431)	(31,793)	(24,705)	(47,491)	(116,420)	(514)	(61,618)
Other Assets	-	-	-	-	-	(41)	(6,302)	(1,208)	3,522	(4,029)	(2,493)	(7,021)
Accounts Payable & Accrued Expenses	5,062	14,258	6,207	28,531	54,058	(21,648)	6,090	23,588	25,546	33,576	(15,696)	(9,913)
Deferred Revenue	(15,429)	(1,954)	(205)	4,891	(12,697)	(7,646)	2,299	(2,838)	8,228	43	600	6,214
Net Cash from Operating Activities	188,730	176,528	212,229	234,169	811,656	179,387	164,629	213,899	181,095	739,010	135,648	76,529
Unlevered NNN Cash Flow	275,702	268,833	306,361	328,153	1,179,049	270,570	252,359	301,975	273,142	1,098,046	233,302	180,999

PROSPECT | OTHER EARLY WARNING SIGNS (CONT'D)

Actual operating cash flow per the statement of cash flows began to materially deviate from company-reported AFFO beginning with 1Q/2Q22 results, and has deteriorated further through to 2Q23.

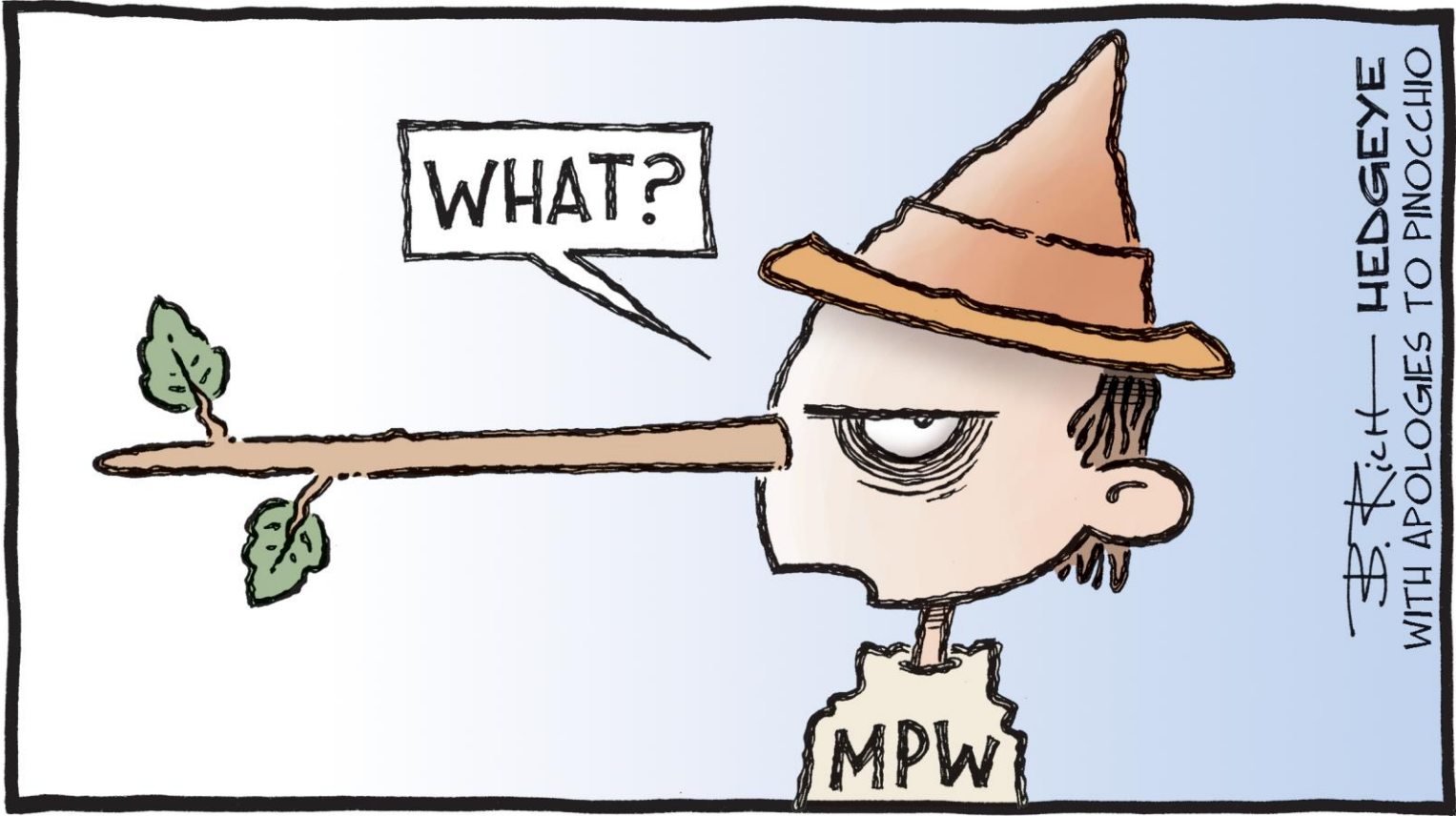
MPW Historical Reported AFFO vs. Cash From Operations



PROSPECT | CLOSING THOUGHTS

Given all that has occurred over the past ~18 months, we believe it is incumbent on the company to answer these questions. Put simply the numbers ARE NOT consistent with MPW's disclosure, in our view. It appears Prospect stopped paying before 4Q22.

- **Hedgeye's View:** As with so many other issues surrounding this company, MPW's management has not been transparent about what actually happened with Prospect in 2022. **It appears that Prospect stopped paying rent + interest before 4Q22. This directly conflicts with disclosure in the 2022 10-K.** This was a critical and material issue for the purposes of analyzing and evaluating MPW as an investment, as Prospect was an ~11-12% tenant in 2022.
- **We believe MPW should answer the following questions transparently:**
 - **Did Prospect pay 100% of its rent + interest to MPW in 3Q22?** We suspect they did not, and it is incumbent on management to prove otherwise.
 - If not, how can you reconcile that fact with the 2022 10-K disclosure?
 - If not, why was this not disclosed earlier in 2022 for a >10% tenant exposure?
 - What is the exact dollar figure of recorded/accrued but unpaid 2022 rent + interest from Prospect?
- **In conclusion, if our suspicions are correct** (based upon MPW's own disclosure and reported financials) **the following three items will have been uncovered in just the last month since 2Q23 results:**
 - As reported by the [WSJ on 8.18.23](#), MPW either (1) accrued income in 2Q23 from a transaction that had not taken place, or (2) engaged in an unauthorized transaction with Prospect/PHP that required CA regulator approval (not yet received).
 - MPW did not promptly disclose 2Q23 rent deferrals/credits with largest tenant Steward Health (~25% of revenues) and another smaller tenant "outside of the top-10 list" in the 2Q23 earnings release, supplemental, 10-Q filing or on the earnings call. This was later discussed verbally with certain sell-side analysts.
 - MPW clearly and deliberately omitted disclosure of 2022 Prospect rent + interest deferral amounts, and potentially mischaracterized the events surrounding Prospect in a 10-K filing with the SEC.
- **We remain of the view that MPW is un-investible and cannot be owned by fiduciaries.**



For more information, contact us at:

sales@hedgeye.com

(203) 562-6500