

HEDGEYE



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

Examining MPW's Compliance With
REIT Rules. We Have Questions...

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HEDGEYE REITs

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1 INTRODUCTION

INTRO | EXECUTIVE SUMMARY

Hedgeye believes that **MPW is uniquely risky among REITs** and has **questions around MPW's eligibility as a REIT**. We believe that fiduciaries **MUST** understand these risks.

- Hedgeye analyzed **Active Short Medical Properties Trust's ("MPW")** disclosures and structuring around certain PAST and PRESENT transactions with hospital operators/tenants.
- In numerous PAST and PRESENT cases MPW, in addition to investing in hospital real estate assets, **has invested in and received substantial or substantially all of the economics of the operations of the systems.**
- We have also closely examined the IRS' REIT rules under the Tax Code (the "Code").
- We have **reasonable questions around MPW's PRESENT compliance with REIT rules and eligibility as a REIT.**
- **Specifically, MPW's capitalization of Steward Health Care ("Steward") via certain loans, if interpreted by the IRS as "equity," could lead to the loss of REIT status.** The company itself highlights this as a risk.
- This has implications for MPW's FUTURE approach towards complying with the Code.
- **HEDGEYE'S VIEW:** MPW does not operate within the "spirit" of the REIT rules and, therefore, should not be valued as a REIT. Moreover, we do not see how a reasonable investor could conclude from outside the company, given available information, that MPW is in compliance with the "letter" of the REIT rules. The company has not provided sufficient disclosure to satisfy the concerns of any reasonable investor on this topic. In fact, it has resisted doing so through a demonstrated pattern of poor and untimely disclosure.
- **HEDGEYE'S RECOMMENDATION:** We believe strongly that **fiduciaries**, acting responsibly on behalf of their investors, **MUST** understand these unique risks and have these questions answered **BEFORE** investing in MPW's equity and debt securities. **Otherwise, MPW should be considered "un-investible."**
- If shown to be wrong or inaccurate we will, of course, update these materials.

Ernest Health, Inc. (“Ernest”) (2012-2018)

- MPW capitalized overwhelming majority (99.1%) of purchase of the hospital system, not just the real estate. **This was not a real estate deal.**
- Relied upon **2010 Covington private letter ruling (the “PLR”)** for tax treatment.
- **Capitalized ~96.5% of OpCo purchase**, mostly through acquisition loan which the IRS could have deemed as equity.
- **Exceeded 35% ownership limitation** provided for in PLR via 49% ownership of Ernest Holdings.
- Received triple-net rent + mortgage interest + acquisition loan interest + **~79% of distributions** through waterfall → **MPW owned entire system.**
- Both ownership % + loan disqualification could have **invalidated TRS and tripped REIT eligibility.**
- TRS election also taken despite operating/managing healthcare facilities.
- Sold OpCo in 2018.

Capella Healthcare (“Capella”) (2015)

- MPW capitalized entire purchase (100%) of hospital system in 2015. **This also was not a real estate deal.**
- Relied upon PLR for tax treatment.
- **Capitalized 100% of OpCo purchase** through net acquisition loan, which the IRS could have deemed as equity.
- **Exceeded 35% ownership limitation** provided for in PLR via 49% ownership of Capella Health Holdings.
- Received triple-net rent + mortgage interest + acquisition loan interest + **~65% of distributions** through waterfall → **MPW owned entire system.**
- Both ownership % + loan disqualification could have **invalidated TRS and tripped REIT eligibility.**
- TRS election also taken despite operating/managing healthcare facilities.
- Sold OpCo within 1 year to Apollo.

Hedgeye views Ernest + Capella as representative of the risk that MPW is willing to take. Several items could have caused issues vis-à-vis REIT eligibility. Management later cited these as templates for an investment in Steward.

INTRO | THE PRESENT: INVESTMENTS IN STEWARD

We analyzed MPW's investments in Steward. We very carefully examined the Code. We do not see how these investments remain within the "spirit" of the Code. It is unclear to us how they remain within the "letter" of the Code. Fiduciaries MUST understand how.

- **MPW's investments in Steward include the following as of 12.31.22** (see slide 44 for details and comments):
 - **Real estate** with an estimated gross capitalized value of ~\$3.5 billion (depending on where loans reside),
 - A ~\$126 million (~9.9%) **direct, passive equity stake** in Steward,
 - A ~\$363 million **loan** secured by the non-MPW equity in Steward + a 37% value participation feature,
 - **Promissory notes aggregating ~\$220 million**, and
 - A ~\$231 million **loan** to the "International JV" with Steward/Steward management, with proceeds used to acquire assets out of Steward and subsequently treated as a "contribution to equity" in Steward's audited 2020 financial statements.
- From our reading and understanding, the **REIT rules and PLR stipulate:**
 - A REIT cannot own >10% of any one issuer,
 - A REIT cannot own 10% or more of any one tenant,
 - A TRS cannot own >35% of either a manager or operator of real estate (from PLR),
 - A TRS cannot be an operator or manager of healthcare properties,
 - Convertibility into equity disqualifies debt as "straight debt,"
 - The IRS determines equity ownership based upon share of value, and
 - Ownership by a trust and any of its TRS's of >1% of the aggregate outstanding securities of an issuer disqualifies all other securities of that issuer for treatment as "straight debt."
- **We do not see how MPW stays within these limitations for the purpose of maintaining REIT status.**
- **We believe MPW's management should explain how this is so. Otherwise, MPW should be viewed as "un-investible."**

INTRO | WHAT CATALYZED THIS WORK?

MPW highlighted the below as a risk to its status as a REIT in its 2022 10-K filing. We are not aware of similar loan-to-equity language for any other REIT.

Loans to our tenants could be characterized as equity, in which case our income from that tenant might not be qualifying income under the REIT rules and **we could lose our REIT status**.

Our TRS may make loans to tenants of our facilities to acquire operations or for working capital purposes. The IRS may take the position that certain loans to tenants should be treated as equity interests rather than debt, and that our interest income from such tenant should not be treated as qualifying income for purposes of the REIT gross income tests. **If the IRS were to successfully treat a loan to a particular tenant as an equity interest, the tenant would be a “related party tenant” with respect to our company and the rent that we receive from the tenant would not be qualifying income for purposes of the REIT gross income tests.** As a result, **we could be in jeopardy of failing the 75% income test** discussed above, which if we did **would cause us to lose our REIT status**. In addition, if the IRS were to successfully treat a particular loan as interests held by our operating partnership rather than by our TRS, **we could fail the 5% asset test**, and **if the IRS further successfully treated the loan as other than straight debt, we could fail the 10% asset test** with respect to such interest. As a result of the failure of either test, **we could lose our REIT status**, which would subject us to corporate level income tax and adversely affect our ability to service our debt and make distributions to our stockholders.

We believe that fiduciaries cannot ignore this risk, and that MPW’s management should provide adequate disclosure around how they remain in compliance with the Code.

INTRO | WHAT ARE THE CONSEQUENCES OF LOSING REIT STATUS?

Potential Consequences

- Subject to corporate-level income tax at regular corporate rates.
- Inability to deduct distributions to shareholders for the purpose of computing taxable income.
- Reduced funds available for distribution to shareholders.
- Reduced funds available to make interest payments and service debt.
- Disqualification from REIT status for 4 years w/o IRS consent.
- Hedgeye has estimated/highlighted the following, incorporating REIT status:
 - MPW has not covered its annual dividend payments with internally-generated cash flow since at least 2011,
 - Leverage has increased secularly over that time,
 - MPW's net debt-to-cash EBITDA is likely in the ~8.0-9.0x range, pro forma for the completion of the Prospect restructuring as management contemplates it, and
 - The company has several key bond maturities through 1Q25 that will likely reset at much higher rates.

Potential Options to Cure Any Issues

- Sell the ~9.9% equity stake in Steward.
- Distribute the equity stake to shareholders. We believe this would very likely require public disclosure of Steward's audited financial statements. Steward would remain a tenant.
- Cancel the value participation feature and/or equity security attached to the ~\$363 million loan.
- Cancel the principal for some combination of the promissory notes + the \$363 million loan + the Int'l JV loan.
- We believe management should clearly state its contingency plans should the IRS challenge REIT status.

INTRO | THE FUTURE: WHAT DO THESE ISSUES MEAN FOR PROSPECT/PHP?

MPW has represented to investors that it will receive its recovery from investments in #2 U.S. tenant, Prospect Medical Holdings (“Prospect”), from MPW’s new interests in PHP Holdings (“PHP”) and potentially other OpCos.

- We estimate that **MPW invested ~\$1.85 billion of gross capital into Prospect**, or +\$300 million over and above the original ~\$1.55 billion investment made in 2019:
 - ~\$1.5 billion of fee simple real estate, before any impairments taken on the PA hospitals,
 - ~\$113 million term loan secured by Prospect’s hospitals in Rhode Island,
 - ~\$150 million mortgage loan on Foothills Regional in CA, including ~\$100 million upside made in 2Q22,
 - ~\$50 million loan originated in 1Q23 and convertible into equity of PHP,
 - ~\$75 million delayed draw term loan originated in 1Q23, current amount drawn unknown (excluded here).
- **Prospect stopped paying rent in November 2022 and is undergoing a restructuring.** MPW invested additional capital (~\$50 million PHP convertible loan + ~\$75 million term loan) and **canceled other investments** (~\$150 million Foothills mortgage + ~\$113 million term loan) **in exchange for equity interests in PHP** to facilitate this restructuring.
- MPW is **relying upon recovery from PHP OpCo** to satisfy some portion of the follow amounts:
 - ~\$103 million non-cash consideration portion of the ~\$457 million CT hospitals sale to Yale,
 - ~\$250 million (~\$150 million 1st mortgage + equity) for recovery on the PA hospitals,
 - ~\$264 million in loans (Foothills + original term loan),
 - ~\$50 million PHP convertible loan, and
 - ~\$56 million of accrued rent and interest.
- **MPW is, therefore, definitionally investing deeper into OpCos.** Hedgeye believes the disclosed details of Prospect’s restructuring imply near ~100% ownership of the economics of PHP.
- **Hedgeye’s Questions on PHP:** How will this be structured? Will a TRS be used? How can that entity elect TRS status under the Code? Will MPW own 10% or more of another corporate entity? Will it own >35% of that entity? If so, how?
- **Secondary Questions:** Upon completion of this restructuring + sale of the Healthscope in Australia + the Prime repurchase, will Steward real estate once again be >20% of MPW’s total assets? If so, will MPW disclose Steward’s financials?

[2] REVIEW OF THE CODE

CODE | KEY LIMITATIONS UNDER THE CODE

We believe the following are the key REIT and taxable REIT subsidiary (“TRS”) limitations under the Code for the purpose of analyzing MPW’s risks and suitability as an investment.

- This section is meant to serve as a reference for the rest of this deck. We source the requisite language directly from the Code and the PLR in the following slides.
- As written in the Code, a REIT (the trust) **may not hold securities having a combined value of more than 10% of the total value of the outstanding securities of any one issuer. It also may not own 10% or more of any one tenant.** See slides 12-14.
- As written in the Code, if a REIT and any of its wholly-owned TRS’s hold >1% of all securities of an issuer, **none of the securities of that issuer held can be considered “straight debt.”** See slide 15.
- As written in the Code, **investments that do not meet the definition of “straight debt”** are considered securities and **count against the 10% tests** above. Convertibility into stock disqualifies a debt security as straight debt. See slides 15-16.
- To participate in the operations of lodging or healthcare properties through a TRS, a REIT needs an eligible independent contract (“EIK”) to serve as the manager. Per the PLR, **a TRS can only own up to 35% of a manager or operator by vote or value** without triggering any problems. See slide 17.
- Unlike a REIT, a TRS does not have a tenant ownership limitation (separate and distinct from the manager). However, if the TRS crosses over 35% ownership of the tenant then that entity itself (the tenant) would have to make a TRS election to maintain REIT status (aka a “TRS of a TRS”). Total TRS exposure cannot exceed 20% and securities investments in one issuer cannot exceed 5%.
- **A TRS, as defined in the Code, cannot be any corporation which directly or indirectly operates or manages a health care facility.** This is stated explicitly in the Code. See slide 18.

CODE | REITS CANNOT OWN 10% OR MORE OF A TENANT

Amounts received from an issuer owned 10% or more by the trust are excluded from “Rents from real property.” Rents from real property count toward the “95% gross income” test under USC § 856(c)(2)(C).

USC § 856(d)(2)(B)(i)

(d) Rents from real property defined

(2) Amounts excluded

For purposes of paragraphs (2) and (3) of subsection (c), the term "rents from real property" does not include—

- A. except as provided in paragraphs (4) and (6), **any amount received or accrued, directly or indirectly, with respect to any real or personal property**, if the determination of such amount depends in whole or in part on the income or profits derived by any person from such property (except that any amount so received or accrued shall not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of receipts or sales);
- B. except as provided in paragraph (8), any amount received or accrued directly or indirectly from any person **if the real estate investment trust owns, directly or indirectly—**
 - i. in the case of any person which is a corporation, stock of such person possessing 10 percent or more of the total combined voting power of all classes of stock entitled to vote, or **10 percent or more of the total value of shares of all classes of stock of such person**; or
 - ii. in the case of any person which is not a corporation, an interest of 10 percent or more in the assets or net profits of such person; and
- C. any impermissible tenant service income (as defined in paragraph (7)).

Under the Code, any income derived from a corporation owned 10% or more by the trust is excluded from the gross income test for REIT eligibility.

CODE | HOW DOES THE CODE DETERMINE “VALUE?”

How is “value” determined for the purposes of USC § 856(d)(2)(B)(i)? It is determined based upon “constructive ownership of stock,” with a direct reference made to USC § 318(a) for this subsection.

USC § 856(d)(5)

(d) Rents from real property defined

(5) Constructive ownership of stock

For purposes of this subsection, the rules prescribed by section [318\(a\)](#) for determining the ownership of stock shall apply in determining the ownership of stock, assets, or net profits of any person; except that—

- A. "10 percent" shall be substituted for "50 percent" in subparagraph (C) of paragraphs (2) and (3) of section 318(a), and
- B. section 318(a)(3)(A) shall be applied in the case of a partnership by taking into account only partners who own (directly or indirectly) 25 percent or more of the capital interest, or the profits interest, in the partnership.

USC § 318(a)(2)(C)

(C) From corporations

If ~~50~~ 10 percent or more in value of the stock in a corporation is owned, directly or indirectly, by or for any person, such person shall be considered as owning the stock owned, directly or indirectly, by or for such corporation, in that proportion which the value of the stock which such person so owns bears to the value of all the stock in such corporation.

As written in the Code, proportionate ownership of value is the standard for determining stock ownership.

CODE | REITS CANNOT OWN >10% OF ANY ISSUER

Separately, the trust may not own securities with a value comprising more than 10% of the total value of all the outstanding securities of any one issuer.

USC § 856(c)(4)(B)(iv)(III)

(c) Limitations

A corporation, trust, or association **shall not be considered a real estate investment trust for any taxable year unless—**

(4) at the close of each quarter of the taxable year—

- A. at least 75 percent of the value of its total assets is represented by real estate assets, cash and cash items (including receivables), and Government securities; and
- B.
 - i. not more than 25 percent of the value of its total assets is represented by securities (other than those includible under subparagraph (A)),
 - ii. not more than 20 percent of the value of its total assets is represented by securities of one or more taxable REIT subsidiaries,
 - iii. not more than 25 percent of the value of its total assets is represented by nonqualified publicly offered REIT debt instruments, and
 - iv. **except with respect to a taxable REIT subsidiary and securities includible under subparagraph (A)—**
 - I. not more than 5 percent of the value of its total assets is represented by securities of any one issuer,
 - II. the trust does not hold securities possessing more than 10 percent of the total voting power of the outstanding securities of any one issuer, and
 - III. **the trust does not hold securities having a value of more than 10 percent of the total value of the outstanding securities of any one issuer.**

Only a TRS can own >10% of the securities of any one issuer. A trust cannot.

CODE | WHAT IS CONSIDERED A SECURITY?

The Code applies a safe harbor against security treatment for “straight debt.” As written, if a trust and any of its TRS’s hold securities of an issuer with value >1% of total outstanding securities, the debt in question shall not be considered straight debt.

[USC § 856\(m\)](#)

Safe harbor in applying subsection (c)(4)

(1) In general

In applying subclause (III) of subsection (c)(4)(B)(iv) (see prior slide), except as otherwise determined by the Secretary in regulations, **the following shall not be considered securities held by the trust:**

- A. Straight debt securities of an issuer which meet the requirements of paragraph (2).

(2) Special rules relating to straight debt securities

- A. In general, **for purposes of paragraph (1)(A), securities meet the requirements of this paragraph if such securities are straight debt, as defined in section 1361(c)(5) (without regard to subparagraph (B)(iii) thereof).**
- C. **Special rules relating to corporate or partnership issuers - In the case of an issuer which is a corporation or a partnership, securities that otherwise would be described in paragraph (1)(A) shall be considered not to be so described if the trust holding such securities and any of its controlled taxable REIT subsidiaries (as defined in subsection (d)(8)(A)(iv)) hold any securities of the issuer which—**
 - i. are not described in paragraph (1) (prior to the application of this subparagraph), and
 - ii. **have an aggregate value greater than 1 percent of the issuer's outstanding securities determined without regard to paragraph (3)(A)(i).**

As written in the Code, if a trust and any of its controlled TRS’s hold >1% of the aggregate value of all outstanding securities of any issuer, debt that would otherwise be straight debt shall not be considered straight debt and, as a result, would be considered securities for the tests.

CODE | STRAIGHT DEBT SAFE HARBOR LANGUAGE

USC 1361(c)(5) defines straight debt. Convertibility into stock disqualifies debt as straight debt. Ownership of stock is determined by proportionate share of value under the Code.

USC § 1361(c)(5)

5) Straight debt safe harbor

- A. In general, for purposes of subsection (b)(1)(D), straight debt shall not be treated as a second class of stock.
- B. **Straight debt defined**, for purposes of this paragraph, the term “straight debt” means any written unconditional promise to pay on demand or on a specified date a sum certain in money if—
 - i. the interest rate (and interest payment dates) are not contingent on profits, the borrower’s discretion, or similar factors,
 - ii. **there is no convertibility (directly or indirectly) into stock**, and
 - iii. the creditor is an individual (other than a nonresident alien), an estate, a trust described in paragraph (2), or a person which is actively and regularly engaged in the business of lending money.

Recall that constructive ownership of stock is determined by proportionate share of value, as determined by USC § 856(d)(5) and USC § 318(a)(2)(C) (see slide 9). Hedgeye believes, based on the Code as written, that **it is reasonable to conclude that any value participation disqualifies a debt security as straight debt.**

CODE | TRS OWNERSHIP LIMITATIONS FOR MANAGERS AND OPERATORS

What we believe to be the Covington private letter ruling (the “PLR”) [clearly states](#) that a TRS cannot own >35% of the vote or value of either a manger or operator.

INTERNAL REVENUE SERVICE

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- 3) A TRS's purchase of stock or other securities of Parent, Brother, **Manager** or any of their direct or indirect subsidiaries or of **Operator will not cause the TRS to fail to qualify as a "taxable REIT subsidiary"** within the meaning of section 856(l) or cause Parent, Brother, Manager or any of their direct or indirect subsidiaries or Operator to fail to qualify as an eligible independent contractor within the meaning of section 856(d)(9), **provided TRS does not directly or indirectly own more than 35 percent (by vote or value) of the securities of any such corporation.**

The language from the IRS' PLR is clear regarding TRS ownership thresholds for managers and operators. As we will see later in this presentation, within ~2 years of receiving this PLR MPW cited the ruling while owning 49% of the Ernest OpCo and receiving 79% of the system cash flow from a waterfall.

CODE | A TRS CANNOT BE AN OPERATOR OR MANAGER OF HEALTHCARE PROPERTIES

As written the Code clearly states that a TRS cannot include corporations that operate or manage a healthcare facility.

[USC § 856\(I\)](#)

Taxable REIT subsidiary

For purposes of this part—

- 1) In general; The term "**taxable REIT subsidiary**" means, with respect to a real estate investment trust, **a corporation (other than a real estate investment trust)** if—
 - A. such trust directly or indirectly owns stock in such corporation, and
 - B. such trust and such corporation jointly elect that such corporation shall be treated as a taxable REIT subsidiary of such trust for purposes of this part.

Such an election, once made, shall be irrevocable unless both such trust and corporation consent to its revocation. Such election, and any revocation thereof, may be made without the consent of the Secretary.

- 2) Thirty-five percent ownership in another taxable REIT subsidiary; The term "taxable REIT subsidiary" includes, with respect to any real estate investment trust, any corporation (other than a real estate investment trust) with respect to which a taxable REIT subsidiary of such trust owns directly or indirectly—
 - A. securities possessing more than 35 percent of the total voting power of the outstanding securities of such corporation, or
 - B. securities having a value of more than 35 percent of the total value of the outstanding securities of such corporation.

The preceding sentence shall not apply to a qualified REIT subsidiary (as defined in subsection (i)(2)). For purposes of subparagraph (B), securities described in subsection (m)(2)(A) shall not be taken into account.

3) **Exceptions; The term "taxable REIT subsidiary" shall not include—**

- A. **any corporation which directly or indirectly operates or manages a lodging facility or a health care facility**, and
- B. any corporation which directly or indirectly provides to any other person (under a franchise, license, or otherwise) rights to any brand name under which any lodging facility or health care facility is operated.

CODE | SUMMARY OF HEDGEYE'S KEY TAKEAWAYS FROM THE CODE

- The Code stipulates that a trust cannot own 10% or more of the value of all classes of stock of a tenant, otherwise amounts received will not qualify as rents from real property for REIT test purposes.
- The Code considers ownership of stock in terms of proportionate value owned.
- The Code also stipulates that a trust cannot >10% of all outstanding securities of another corporate issuer.
- Debt not considered “straight debt” counts as a security for the tests.
- As written, the Code stipulates that a piece of debt cannot be straight debt if a trust and its TRS's hold any other securities with an aggregate value >1% of the value of an issuer's total securities.
- As written, the Code stipulates that any debt with a convertibility feature into stock cannot be straight debt.
- The PLR clearly states that a TRS is limited to owning no more than 35% of any manager or operator.
- Finally, the Code clearly stipulates that a TRS cannot include any corporation that operates or manages healthcare facilities.

Taken together, Hedgeye does not understand how MPW could be in compliance with IRS REIT rules as written given the company's PRESENT investments in the operations of largest tenant, Steward.

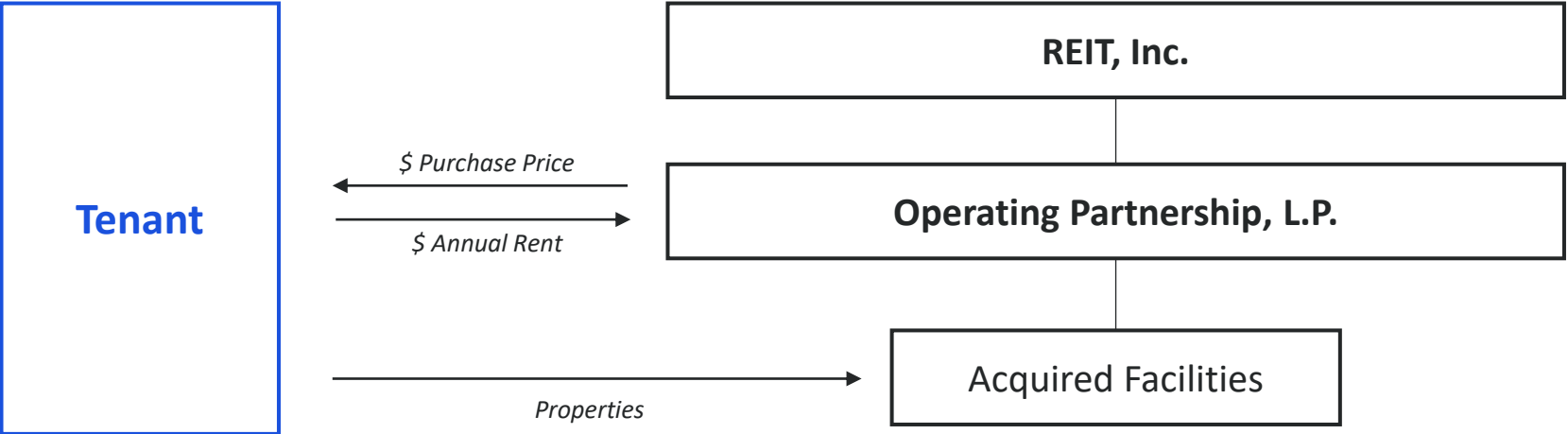
3 THE PAST: ERNEST & CAPELLA

We believe the Ernest and Capella transactions provide useful historical context. MPW exited these transactions and they are probably outside of any statute of limitations, but MPW nonetheless continues to reference them as “templates.”

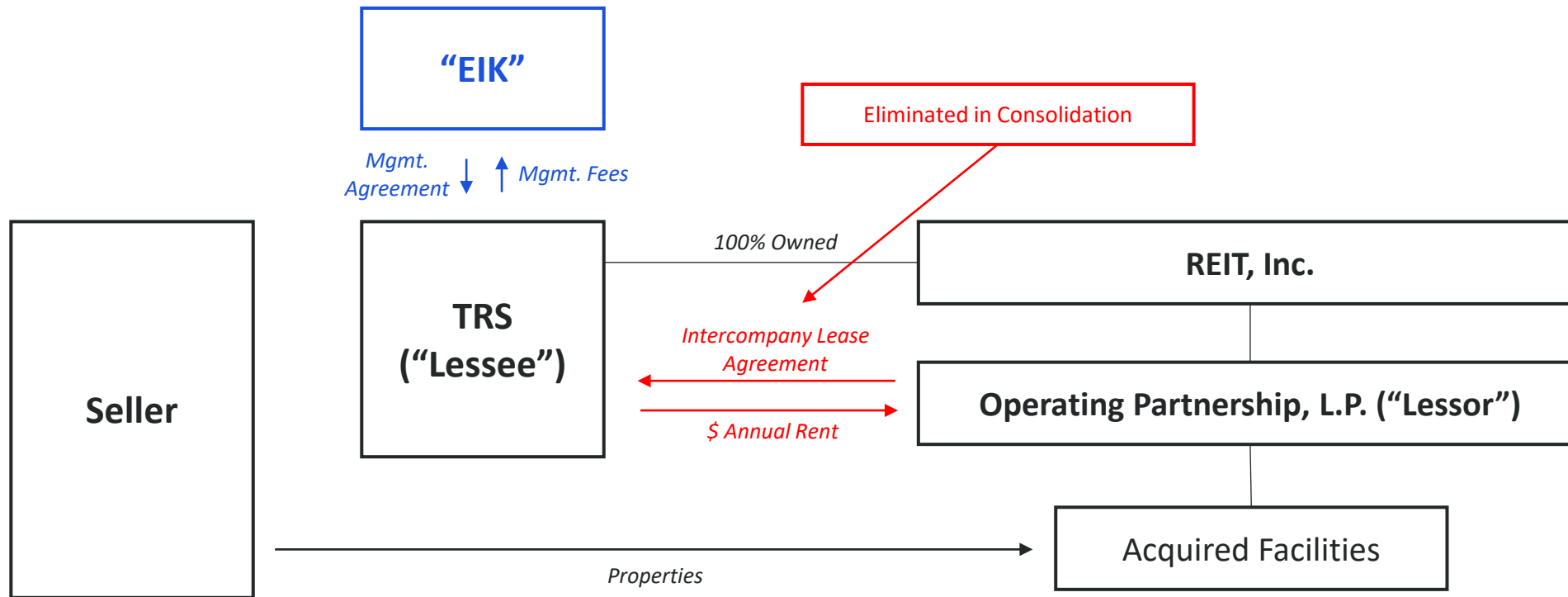
- **Hedgeye’s View:** MPW often does not engage in real estate deals, rather attempts to structure investments in entire hospital systems within the confines of the REIT rules. As a result, MPW does not function as a real estate investor and should be valued as weighted average “hybrid” between hospital real estate and its share of health system operations. We believe these transactions raise several questions that are important for the purpose of fiduciaries understanding current risks.
- We believe the **Ernest** and **Capella** transactions, specifically, are useful examples of MPW’s approach on several levels. Management explicitly highlighted these transactions as similar to a specific investment in Steward.
- In our view the obviously aggressive and complicated structuring **demonstrates intent to “own the economics” of certain health systems.**
- We view these transactions as **emblematic of the degree of risk that this management team is willing to accept.**
- We believe these transactions **demonstrate additional potential disclosure issues** by the company.
- It is unclear to us how these transactions are consistent with the “spirit” of the **Covington private letter ruling (PLR)**, if not the “letter” of the PLR.
- It is **unclear how the OpCos could elect TRS status** as operators/managers of healthcare real estate.
- Perhaps most importantly, **it is unclear why a RIDEA structure is appropriate or needed in a triple-net lease transaction. Is it just a mechanism to allow MPW to meaningfully capitalize the operator tenant as needed?**

PAST | A TYPICAL NET LEASE TRANSACTION

Keeping things simple. No operator or manager entity required or used. The REIT, usually via the operating partnership (the “OP”), simply buys the assets, leases them back to the tenant and receives rent.



PAST | A TYPICAL “RIDEA” STRUCTURE



REIT Economics Under RIDEA via TRS:

Operating Revenue
 (-) Opex
 (-) Mgmt. Fees to EIK
 (-) Rent
 (-) D&A
 = EBIT
 (-) Taxes
 (+) D&A
 (+) Rent
 = REIT Cash Flow

Intercompany rent, which is eliminated in consolidation, typically “struck” at level to minimize taxable income. Therefore, EBITDA is rough approximation of what REIT “earns.”

- A “RIDEA” structure allows REITs to engage in activities that would otherwise trip REIT rules.
- Specifically, it allows for participation in the economics of lodging and healthcare operations (usually SHOP in HC).
- REIT acquires asset, leases asset to a wholly-owned TRS on market terms, TRS hires an eligible independent contractor or “EIK” to manage/operate property, TRS pays taxes.
- Essentially REIT “earns” EBITDA after mgmt. fees, but still “receives” rent from real property from TRS to maintain REIT status.
- Seller and EIK may be same entity but do not need to be. I.e, “acquire the asset and replace the manager.”
- **But what has MPW done? What does it continue to do?**

PAST | MPW's ACQUISITION OF ERNEST HEALTH

In 1.31.12 Prospectus MPW described Ernest real estate acquisition + mortgage financing + acquisition loan which capitalized the operator. We attempted to reconstruct this transaction and have several questions.

- 1. Real Estate Acquisition:** Pursuant to a definitive real property asset purchase agreement (the "Purchase Agreement"), certain wholly-owned subsidiaries of MPT Operating Partnership, L.P. will acquire from Ernest and certain of its subsidiaries (i) a portfolio of five rehabilitation facilities (including a ground lease interest relating to a community-based acute rehabilitation facility in Wyoming), (ii) seven long-term acute care facilities located in seven states and (iii) undeveloped land in Provo, Utah (collectively, the **"Acquired Facilities"**) **for an aggregate purchase price of \$200.0 million, subject to certain adjustments.** We refer to the acquisition of these assets as the **"Ernest Asset Acquisition."** The Acquired Facilities will be leased to limited liability companies wholly-owned by our taxable REIT subsidiary, **MPT Development Services, Inc. ("MPT TRS")**, which will sublease the facilities to subsidiaries of Ernest pursuant to a master sublease agreement. The master sublease agreement will have a 20-year term with three five-year extension options and provide for an average annualized cash rent of \$18 million, plus consumer price-indexed increases, limited to a 2% floor and 5% ceiling annually.
- 2. Mortgage Loan Financing:** Pursuant to of the Purchase Agreement, **MPT TRS** will make Ernest a **\$100.0 million mortgage loan secured by a first mortgage interest in four subsidiaries of Ernest** (the **"Mortgage Loan Financing"**). The Mortgage Loan Financing will have a 20-year term with three five-year extension options and bear interest at 9% per year plus consumer price-indexed increases, limited to a 2% floor and 5% ceiling annually.
- 3. Acquisition Loan & Equity Contribution:** In addition, **MPT Aztec Opco, LLC**, a wholly-owned subsidiary of **MPT TRS**, will enter into a joint venture limited liability company, **Ernest Health Holdings, LLC ("Ernest Holdings")**, with an entity formed by the present key management personnel of Ernest (**"ManageCo"**). **MPT Aztec Opco, LLC will make capital contributions of approximately \$3.3 million to Ernest Holdings** in exchange **for a membership interest representing a 49% aggregate initial equity interest.** The remaining 51% initial equity interest in Ernest Holdings will be owned by ManageCo, which will make contributions valued at \$3.5 million in exchange for a membership interest in Ernest Holdings. Pursuant to the terms of an Agreement and Plan of Merger dated January 31, 2012, a merger subsidiary of Ernest Holdings will be merged with and into Ernest, with Ernest surviving the merger as a wholly-owned subsidiary of Ernest Holdings. In addition, **MPT Aztec Opco, LLC will make an acquisition loan of approximately \$93.2 million to the merger subsidiary (the "Acquisition Loan")**. The Acquisition Loan will bear interest at a rate of 15.0%, with a 6% coupon payable in cash in the first year, a 7% coupon payable in cash in the second year and a 10% coupon payable in cash thereafter. The remaining 9% in year one; 8% in year two and 5% thereafter will be accrued and paid upon the occurrence of any capital or liquidity events of Ernest Holdings and will be payable in all events at maturity.

PAST | MPW's ACQUISITION OF ERNEST HEALTH (CONT'D)

Combination of these transactions + distribution waterfall → MPW received 79% of the OpCo economics.

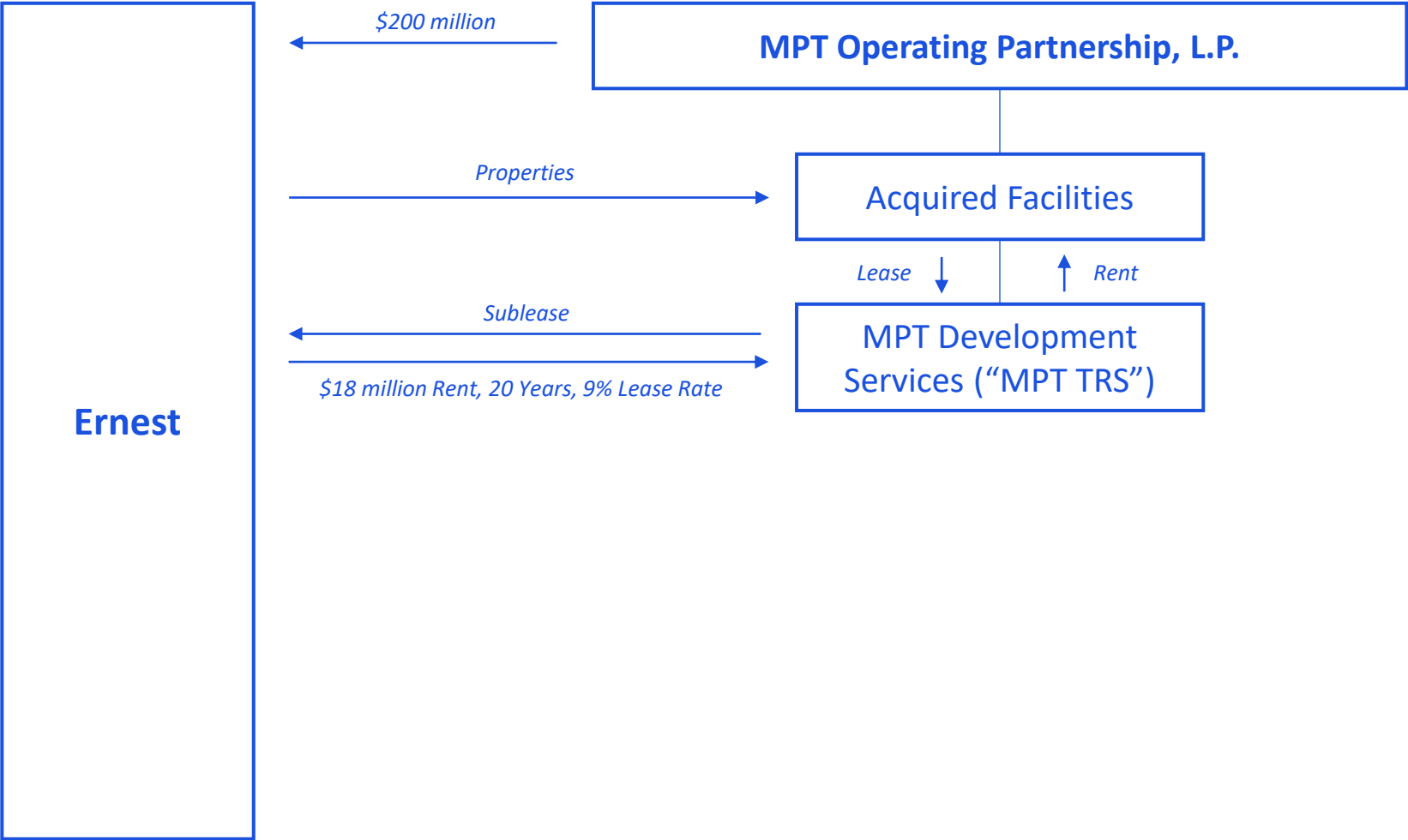
We refer to these transactions collectively as the “Ernest Acquisition Transactions.”

Following the consummation of these transactions, Ernest and its operating subsidiaries will be managed and operated by ManageCo, or one or more of ManageCo's affiliates, pursuant to the terms of a management agreement, which terms shall include a base management fee payable to ManageCo and incentive payments tied to mutually agreed benchmarks. **ManageCo and MPT Aztec Opco, LLC will share profits and distributions from Ernest Health Holdings according to a distribution waterfall** under which, if certain benchmarks are met, such that after taking into account interest paid on the acquisition loan, **ManageCo and MPT Aztec Opco, LLC will share in cash generated by Ernest Holdings in a ratio of 21% to ManageCo and 79% to Aztec Opco, LLC**. Under the limited liability company agreement of Ernest Holdings, MPT Aztec Opco, LLC will have no management authority or control except for certain rights consistent with a passive ownership interest, such as a limited right to approve annual budgets and the right to approve extraordinary transactions, and except in the case of certain extraordinary events, which events include any defaults under the master sublease agreement or the acquisition loan, in which case MPT Aztec Opco, LLC is given special member rights including, without limitation, the right to terminate the management agreement, hire new management, or market the company for sale.

Just ~2 years after receiving the PLR, MPW both (1) relied upon the PLR for Ernest and (2) went over the 35% TRS ownership limitation for a manager or operator.

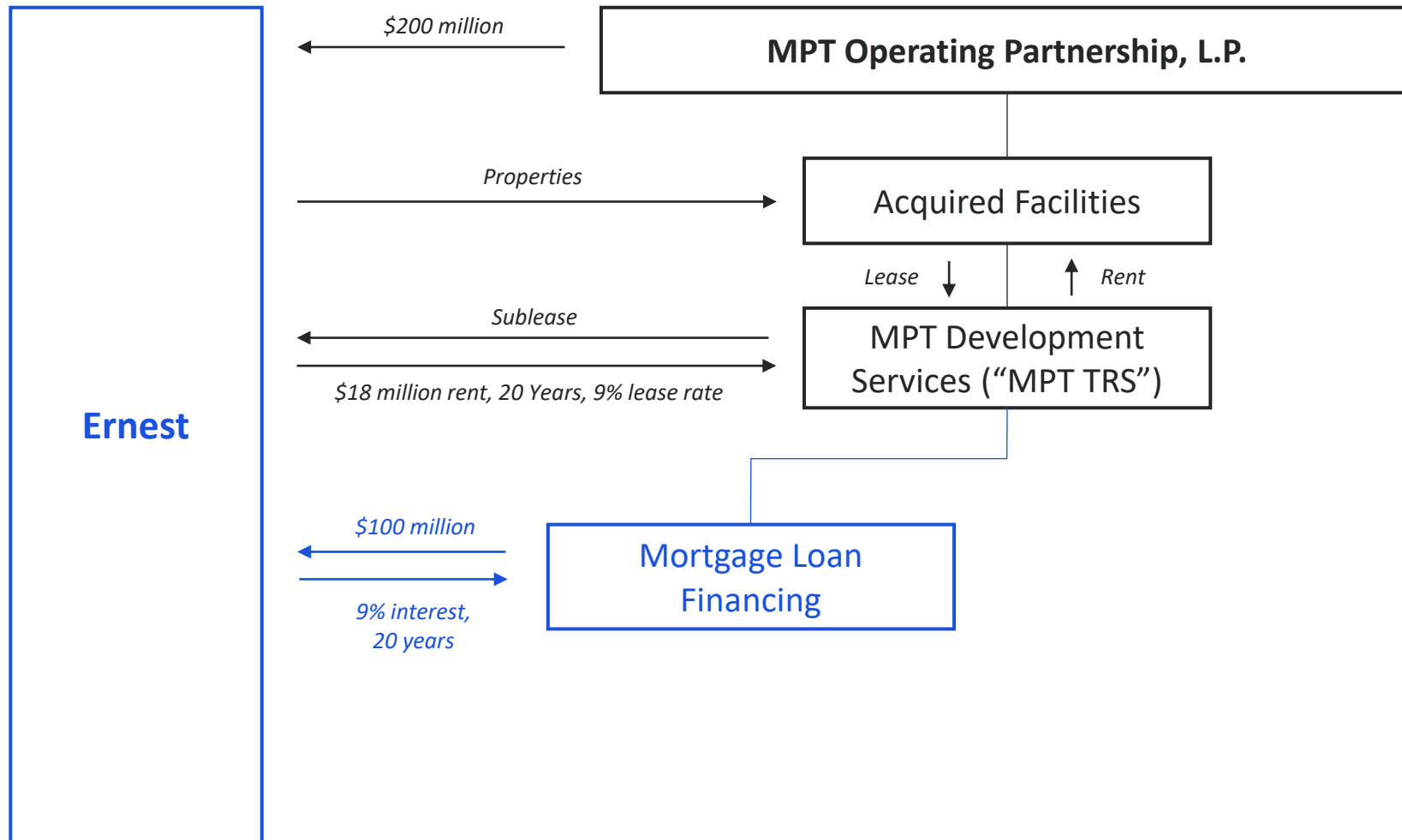
PAST | OUR INTERPRETATION OF ERNEST STRUCTURE

Step 1: MPW acquired real estate facilities for ~\$200 million. Interestingly the OP underneath the REIT leased the facilities to a TRS, which in-turn sublet the facilities back to Ernest. **This is already unusual.** We are not aware of any other triple-net REITs that do this.



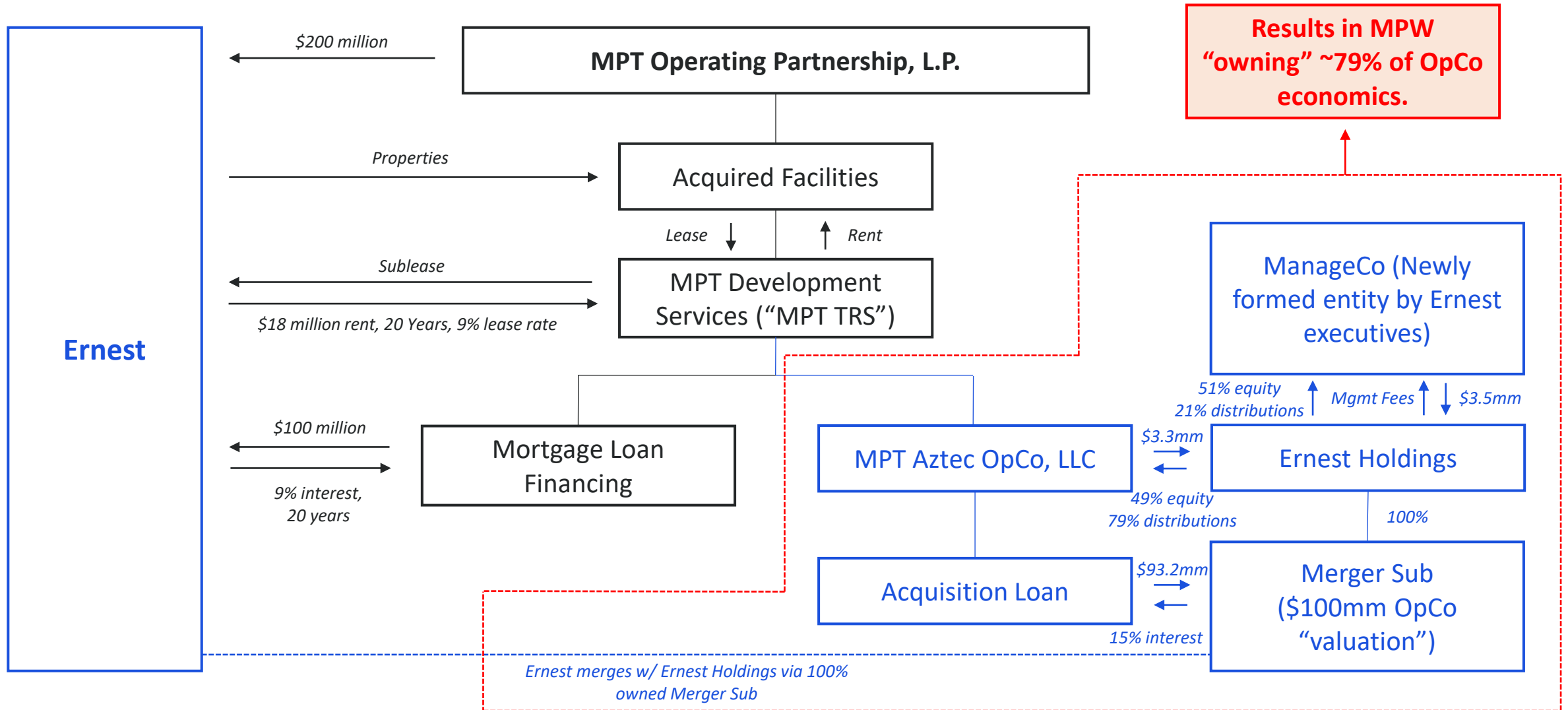
PAST | OUR INTERPRETATION OF ERNEST STRUCTURE (CONT'D)

Step 2: TRS originated ~\$100 million mortgage loan financing to Ernest w/ terms substantially similar to the triple-net leases, including escalations on the loan payment.



PAST | OUR INTERPRETATION OF ERNEST STRUCTURE (CONT'D)

Step 3: Acquisition loan + equity contribution. **MPW ends up owning essentially all of the economics of the entire system, among the real estate rent + mortgage interest + acquisition loan interest + distributions from Ernest Holdings.**



PAST | OUR INTERPRETATION OF ERNEST STRUCTURE (CONT'D)

(\$ 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.

PAST | DISCLOSURES AROUND THE ERNEST TRANSACTION

MPW disclosed on 1.31.12 that it relied upon the Covington private letter ruling (PLR) in structuring the Ernest transaction.

REIT Requirement Language in 1.31.12 Prospectus:

- **Second, we must not own, actually or constructively, 10% or more of the stock or the assets or net profits of any tenant, referred to as a related party tenant, other than a taxable REIT subsidiary.** Failure to adhere to this limitation would cause the rental income from the related party tenant to not be treated as qualifying income for purposes of the REIT gross income tests.
- **We have represented to counsel that we will not rent any facility to a related-party tenant.**
- **However, MPT Covington TRS, Inc. has acquired a greater than 10% equity interest in an entity to which it subleases a healthcare facility which is operated by an eligible independent operator. We have obtained a private letter ruling from the Service indicating** that the ownership of the equity interest and the operation of the facility in accordance with the agreements among the parties **do not adversely affect the taxable REIT subsidiary status of MPT Covington TRS, Inc. or disqualify the rents** paid by MPT Covington TRS, Inc. to us from being treated as qualifying income under the 75% and 95% gross income tests.
- **The Ernest Acquisition Transactions are also structured in a similar manner** with the exception that the existing management of Ernest and its subsidiaries will be the manager of the acquired or mortgaged facilities.
- **We have obtained a private letter ruling from the IRS holding that the rent received by us from MPT Covington TRS, Inc. will qualify as rent from real property** under these exceptions. We have since structured leases with taxable REIT subsidiaries in a similar manner **and will structure leases with the subsidiaries of Ernest in a similar manner.**

PAST | DISCLOSURES AROUND THE ERNEST TRANSACTION (CONT'D)

Later disclosures indicated Ernest was a TRS due to indirect >35% ownership by MPW. The PLR MPW relied upon stipulates a max 35% ownership limitation. Ernest operated healthcare facilities. **How does that work?**

REIT Requirement Language in [2.2.13 Prospectus](#):

- We currently own 100% of the stock of MPT TRS, MPT Covington TRS, Inc. and MPT Finance Corporation, Inc., all of which are taxable REIT subsidiaries, and may in the future own up to 100% of the stock of one or more additional taxable REIT subsidiaries.
- In addition, Ernest is a taxable REIT subsidiary because of MPT TRS's indirect ownership of more than a 35% interest in Ernest.
- We have obtained a private letter ruling from the IRS holding that the rent received by us from MPT Covington TRS, Inc. will qualify as rent from real property under these exceptions. We have since structured leases with taxable REIT subsidiaries in a similar manner, including leases with the subsidiaries of Ernest.

Select Language from PLR dated 12.10.10 (believed to be [Covington PLR](#)):

- 3) A TRS's purchase of stock or other securities of Parent, Brother, Manager or any of their direct or indirect subsidiaries or of Operator will not cause the TRS to fail to qualify as a "taxable REIT subsidiary" within the meaning of section 856(i) or cause Parent, Brother or Manager or any of their direct or indirect subsidiaries or Operator to fail to qualify as an independent contractor within the meaning of section 856(d)(9), provided TRS does not directly or indirectly own more than 35% (by vote or value) of the securities of any such corporation.

- **How is this deal consistent with both the “letter” and the “spirit” of the REIT rules?** Again, this was not a real estate acquisition. This was a hospital system acquisition.
- **Why and how was MPW comfortable relying upon the Covington PLR, given that the PLR explicitly cited staying below the 35% ownership threshold?** MPW, through MPT TRS and MPT Aztec OpCo, LLC, owned a 49% direct interest in Ernest Holdings and was entitled to 79% of cash flow through a waterfall.
- **Why did MPW not disclose the max 35% ownership threshold contained in the PLR until filing the Prospectus dated 2.22.13?** This was roughly one year after the Ernest transactions closed.
- **How is it possible that the Ernest OpCo was able to elect TRS status,** when the Code clearly states that operators or managers of healthcare properties cannot do so?
- **What were the reasons/justifications for making loans to the OpCo that were so large in relation to the OpCo capitalization?**
- **Why use a RIDEA structure for a net lease transaction?**
- Was the ~\$3.5 million contribution from Ernest’s management made in cash, or did it consist of “other assets?”
- What other MPW transactions have utilized a similar structure?

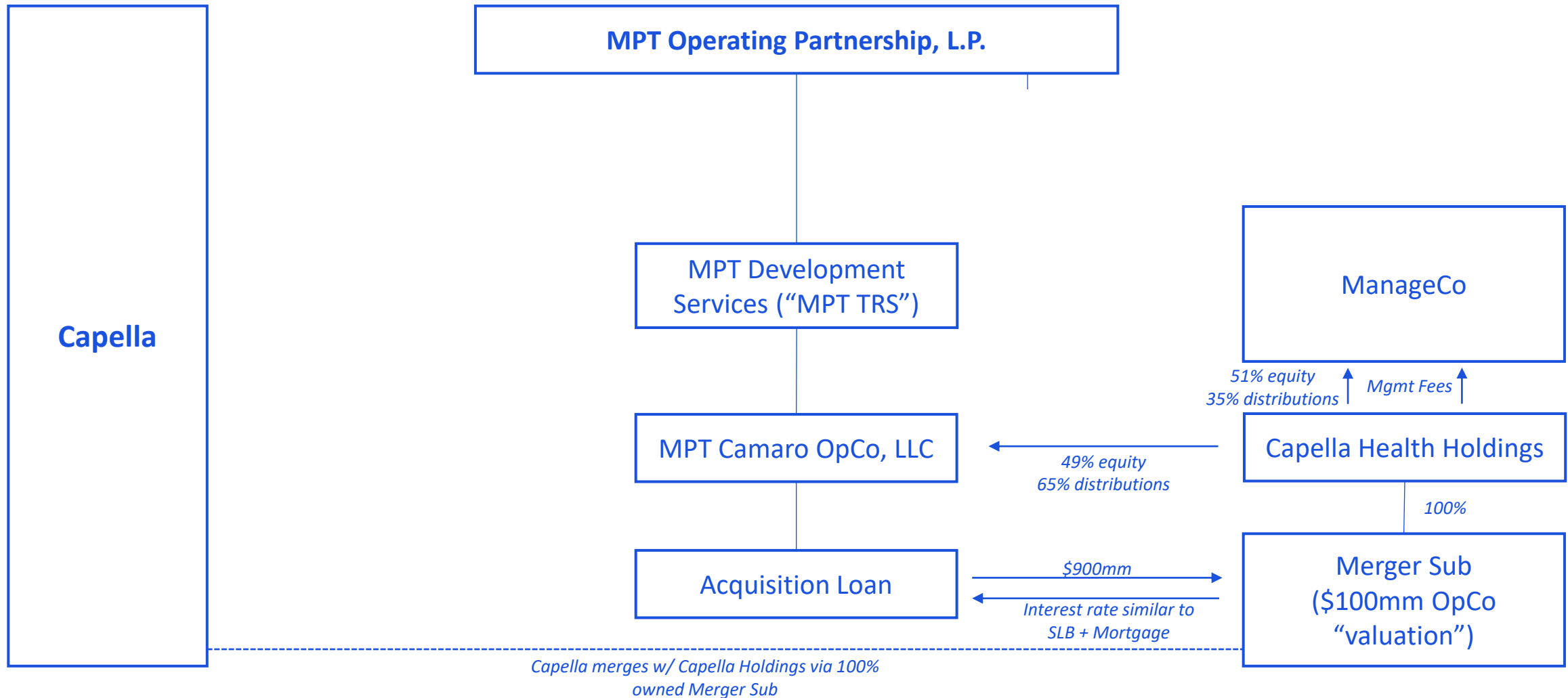
PAST | MPW's ACQUISITION OF CAPELLA

In 8.4.15 Prospectus MPW first described Capella transaction involving a real estate acquisition + mortgage financing + acquisition loan which also capitalized the operator. We attempted to reconstruct this transaction, and again have several questions.

- 1. Merger, Acquisition Loan + Equity Contribution:** In conjunction with the acquisition, **MPT Camaro Opco, LLC**, a wholly-owned subsidiary of MPT Development Services, Inc., our taxable REIT subsidiary, formed a joint venture limited liability company, Capella Health Holdings, LLC (“Capella Health Holdings”), with an entity affiliated with the current senior management of Capella (“ManageCo”). MPT Camaro Opco, LLC holds 49% of the equity interests in Capella Health Holdings and the ManageCo holds the remaining 51%. Pursuant to the terms of a merger agreement dated July 21, 2015, a merger subsidiary of Capella Health Holdings will be merged with and into Capella Holdings, Inc., the sole stockholder and parent company of Capella, with Capella Holdings, Inc. surviving the merger as a wholly-owned subsidiary of Capella Health Holdings, in exchange for **cash merger consideration to the current owners of Capella in the amount of approximately \$900 million**. To help fund Capella Health Holding’s payment of the merger consideration, **MPT Camaro Opco, LLC will make an acquisition loan in the amount of approximately \$900 million** to Capella Health Holdings’ merger subsidiary (the “Acquisition Loan”). The Acquisition Loan will have a 15-year term and will bear interest at a rate similar to the initial rate we will receive under the sale-leaseback and mortgage loan transaction described below.
- 2. Real Estate Acquisition Loan + Mortgage Loan:** On August 3, 2015, we also entered into a contribution, exchange and cooperation agreement with ManageCo (the “Contribution Agreement”). Pursuant to binding terms set forth in the Contribution Agreement, as soon as practicable after closing of the Capella merger described above, including receipt of required regulatory approvals, **subsidiaries of our operating partnership will acquire from Capella its interests in five acute care hospitals (collectively, the “Acquired Capella Facilities”) for an aggregate purchase price of approximately \$390 million**. The purchase price for these assets will be offset and reduced against amounts outstanding under the Acquisition Loan. The Acquired Capella Facilities will be leased to subsidiaries of Capella. In addition, pursuant to binding terms set forth in the Contribution Agreement, **we will make mortgage loans to Capella in an aggregate amount of approximately \$210 million**, secured by a first mortgage in Capella’s interests in its two remaining hospitals. The proceeds from the mortgage loans will be offset and reduced against the outstanding balance on the Acquisition Loan. As a result, following completion of our acquisition of the Acquired Capella Facilities and the mortgage loan financing, the outstanding principal balance of the Acquisition Loan is expected to be approximately \$300 million. **The real estate leases and mortgage loans will have substantially similar 15-year terms with four 5-year extension options, plus consumer price-indexed increases, limited to a 2% floor and 4% ceiling annually. The initial GAAP yield under the lease and mortgage loans will be approximately 9.1%.**

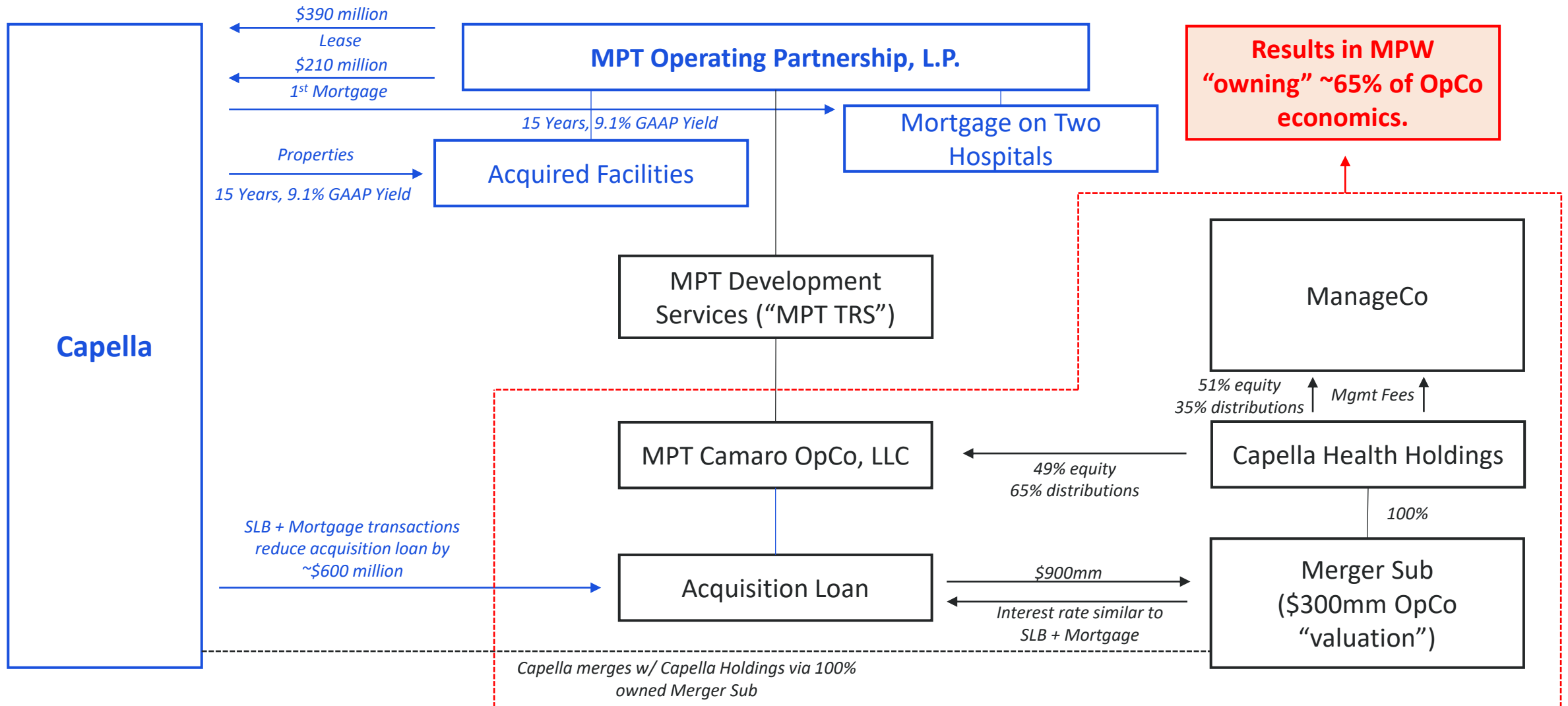
PAST | OUR INTERPRETATION OF CAPELLA STRUCTURE

Step 1: MPT Camaro OpCo 100% financed the ~\$900 million acquisition of Capella Holdings, Inc. (“Capella”) via a merger with and into a merger sub of Capella Health Holdings.



PAST | OUR INTERPRETATION OF CAPELLA STRUCTURE (CONT'D)

Step 2: MPW acquired real estate for ~\$390 million and originated ~\$210 million mortgage loan secured by two hospitals. Again, terms similar between SLB and loan. Rent + interest did not flow through TRS this time. Net acquisition loan was ~\$300 million.



PAST | OUR INTERPRETATION OF CAPELLA STRUCTURE (CONT'D)

(\$ 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.

- **How was this transaction consistent with both the “letter” and the “spirit” of the REIT rules?** Again, this was not a real estate acquisition. This was a hospital system acquisition.
- **Why and how was MPW comfortable relying upon the Covington PLR, given that the PLR explicitly cited staying below the 35% ownership threshold?** MPW, through MPT TRS and MPT Camaro OpCo, LLC, owned a 49% direct interest in Capella Holdings and was entitled to 65% of distributions through a waterfall.
- **How is it possible that the Capella OpCo was able to elect TRS status,** when the Code clearly states that operators or managers of healthcare properties cannot do so?
- **What were the reasons/justifications for MPW putting up 100% of the initial capital?**
- **Why use a RIDEA structure for a net lease transaction?**
- **What other transactions have used this structure?**

PAST | WHY DO THESE TRANSACTIONS MATTER?

Again, we believe these transactions provide useful context around the risks this management team are willing to assume and how aggressively they structure. **But there is also a direct linkage to Steward...**

1Q21 Earnings Call - 4.29.21

Sarah Tan - Analyst, JP Morgan Securities

Hi. Thanks so much for taking my call. **Just one question on the \$335 million loan that was extended to Steward.** Could you talk a bit about the long-term plan for that and any strategic reasons going down the road there?

Ed Aldag, Jr. - CEO, Medical Properties Trust

The loan, the investment that we've made on both Steward and in the Swiss Medical Network is part of our regional business plan. So for those of you who've been with us since the beginning of time, you'll know that we have done this a lot. We've had the opportunity to take advantage of our healthcare knowledge. Some of you will know that my background is actually in hospitals. And when we put the company together, most of the people that we hired have backgrounds in hospitals. So from time to time though, we had the opportunity to make these types of investments than we have and we'll continue to do so.

Where we've made these investments in the past, they have been highly successful. Probably our very first and biggest investment with **Ernest Healthcare** is the case we earned a tremendous return on that. But the next largest one would have been **Capella Health**, again which propelled us into our relationship with LifePoint and Apollo, again a fantastic return.

[4] THE PRESENT: MPW'S INVESTMENTS IN STEWARD

Loans to our tenants could be characterized as equity, in which case our income from that tenant might not be qualifying income under the REIT rules and **we could lose our REIT status**.

Our TRS may make loans to tenants of our facilities to acquire operations or for working capital purposes. The IRS may take the position that certain loans to tenants should be treated as equity interests rather than debt, and that our interest income from such tenant should not be treated as qualifying income for purposes of the REIT gross income tests. **If the IRS were to successfully treat a loan to a particular tenant as an equity interest, the tenant would be a “related party tenant” with respect to our company and the rent that we receive from the tenant would not be qualifying income for purposes of the REIT gross income tests.** As a result, **we could be in jeopardy of failing the 75% income test** discussed above, which if we did **would cause us to lose our REIT status**. In addition, if the IRS were to successfully treat a particular loan as interests held by our operating partnership rather than by our TRS, **we could fail the 5% asset test**, and **if the IRS further successfully treated the loan as other than straight debt, we could fail the 10% asset test** with respect to such interest. As a result of the failure of either test, **we could lose our REIT status**, which would subject us to corporate level income tax and adversely affect our ability to service our debt and make distributions to our stockholders.

STEWARD | WHAT LOAN(S) ARE MPW REFERRING TO?

Steward

Affiliates of Steward lease 41 facilities across six different markets pursuant to two master lease agreements (one of which covers the eight properties that are part of the joint venture with Macquarie Asset Management ("MAM"), as further described in Note 3 to Item 8 of this Annual Report on Form 10-K). The master leases are basically identical and have a fixed term ending October 2041 with one remaining five-year extension option, plus annual inflation-based escalators. At December 31, 2022, these facilities had an average remaining fixed lease term of 18.8 years. The remaining five-year extension option must include all leased properties within the respective master lease, if exercised. The master leases include a right of first refusal for the repurchase of the leased properties.

In addition to the master leases, **we hold a promissory note totaling approximately \$220 million**, which consists of five tranches with varying terms. **On January 8, 2021, we made a \$335 million loan to affiliates of Steward, the terms of which provide us opportunities for participation in the value of Steward's growth.** All of the proceeds from this loan were paid to Steward's former private equity sponsor to redeem a similarly sized convertible loan. **Finally, we hold a 9.9% equity investment in Steward totaling approximately \$126 million.**

- In addition to being lessor under two master leases, **MPW factually owns a significant portion of Steward's capital structure via loans, a participation and a direct ~9.9% equity investment.** There is a 3rd-party ABL facility with an undetermined amount outstanding.
- We believe this risk language is a **direct reference to the ~\$335 million loan to "affiliates of Steward."** This loan, originated in January 2021, was made to finance the change of control of Steward away from Cerberus towards its CEO and other management members.

STEWARD | DISCLOSURE TIMELINE ON ~\$335 MILLION LOAN

Nothing about this [loan](#) appears “normal” or transparent. We think the pattern of disclosure matters here. Why not disclose all of the details transparently upfront? **Hedgeye regards this pattern around this loan, specifically, as a red flag.**

Timeline of Disclosure:

1.7.21: MPW priced ~\$711 million follow-on equity offering.

1.8.21: **~\$335 million loan funded** to finance a “change of control” away from Steward’s prior owner Cerberus Capital Management. **Precise timing not disclosed until ~4 months later on 5.10.21.**

2.4.21: MPW reported 4Q20 results. MPW’s gross investment in Steward’s Texas market went up by +\$334 million sequentially. **No direct reference made to loan anywhere in earnings materials.** We believe the +\$334 million increase was the first clue that the loan existed, and offered the first opportunity for analysts to ask questions.

3.1.21: MPW filed its 2020 10-K report, **but made no reference** to this loan funding and **did not report as a subsequent event.**

4.29.21: MPW reported 1Q21 results and **disclosed existence of loan for first time + made to “Steward Health Care System.”** Also **disclosed ~\$11 million distribution from Steward for MPW’s 9.9% equity stake**, after “some prohibitions” removed. Implies ~\$100 million distributed out of Steward’s cash balance to other equity owners, including RDLT.

- On the call CFO Steve Hamner said: **“No, there's no equity**, but there are opportunities other than a direct equity to over time recognize **opportunities to capture value increase** that the details are not going to be disclosed.”
- CEO Ed Aldag also made reference to investment as **similar to Ernest and Capella transactions.**

5.10.21: Filed 1Q21 10-Q report. **For the first time disclosed loan made on 1.8.21**, well-before the 4Q20 earnings report on 2.4.21 and 10-K filing.

8.9.21: Filed 2Q21 10-Q report. Updated disclosure of loan, now made to “*affiliates of Steward Health Care System LLC...*”

4.21.22: Hedgeye released Black Book presentation on Active Short MPW.

4.28.22: MPW reported 1Q22 results. **For first time disclosed loan “secured by the equity of Steward...”** and **“provides for... possible outsized return based on the increase in value of Steward.”**

8.3.22: Reported 2Q22 results. **For first time disclosed 37% value participation attached to loan.** This piece was finally disclosed ~19 months after loan first funded.

STEWARD | CURRENT DISCLOSURE OF THE STEWARD LOAN

INVESTMENTS IN UNCONSOLIDATED OPERATING ENTITIES

(Amounts in thousands)

OPERATING ENTITY INVESTMENT FRAMEWORK

MPT's hospital expertise and comprehensive underwriting process allows for opportunistic investments in hospital operations.

- Passive investments typically needed in order to acquire the larger real estate transactions.
- Cash payments go to previous owner and not to the tenant, with limited exceptions.
- Operators are vetted as part of our overall underwriting process.
- Potential for outsized returns and organic growth.
- Certain of these investments entitle us to customary minority rights and protections.
- No additional operating loss exposure beyond our investment.
- Proven track record of successful investments, including Ernest Health and Capella Healthcare.

Operator	Investment as of March 31, 2023	Ownership Interest	Structure
Steward Health Care	\$ 362,586	N/A	Loan, for which proceeds were paid to Steward's former private equity sponsor, is secured by the equity of Steward and provides for an initial 4% cash return plus 37% of the increase in the value of Steward over seven years.
International Joint Venture	230,153	49.0%	Includes our 49% equity ownership interest and a loan made for the purpose of investing in select international hospital operations. The loan carries a 7.5% interest rate and is secured by the remaining equity of the international joint venture and guaranteed by the other equity owner.
Priory	159,668	9.9%	In order to close the 2021 acquisition of 35 facilities, we made a 9.9% passive equity investment and a loan, proceeds of which were paid to the former owner. The loan carries a variable interest rate.
Swiss Medical Network	158,687	10.0%	Includes our passive equity ownership interest, along with a CHF 45 million loan as part of a syndicated loan facility.
Steward Health Care	125,862	9.9%	Includes our passive equity ownership interest. Proceeds from our investment were paid directly to Steward's former private equity sponsor and other shareholders.

- ~\$335 million original UPB, accrued principal up to ~\$363 million.
- Based on MPW's own disclosure, loan appears to be secured by the non-MPW equity in Steward comprising 90.1% ownership. I.e., the borrowers pledged their equity as additional collateral to MPW.
- We believe Steward CEO Ralph de la Torre (RDLT) owns the majority of the non-MPW equity in Steward.
- Additionally, attached to this loan is a participation in "37% of the value increase in Steward over seven years."
- Exact terms and loan agreement never disclosed via SEC filings or otherwise. Unclear who or what entity services the loan.
- But as the disclosure reads, MPW's 9.9% stake + 37% participation alone exceeds the 10% limitation.
- Unclear if a TRS of an EIK is used.

STEWARD | MPW HAS INVESTED NEARLY ~\$1 BILLION IN STEWARD OUTSIDE OF THE REAL ESTATE

Does this ownership % alone disqualify ANY debt as "straight debt" under USC 856(m)(2)(C)(ii)? See slide 15.

Using YE 2022 for tax year + audited numbers.

How can MPW elect a TRS, given that Steward operates healthcare properties? See slide 18.

(\$ in Millions)
List of Disclosed MPW Investments in Steward Health Care

Investment	Est. Carrying Value at 12.31.22	Notes
9.9% Equity Investment in Steward	125.9	- Disclosed as "passive equity investment" that we believe may be held in a TRS. - Initial \$50 million equity investment made on 10.3.16. - Additional \$100 million equity investment made on 9.29.17 as part of IASIS transaction. - Reduced by ~\$11 million distribution received in 1Q21. - We believe further reduced for distribution of CMAX equity during 4Q22.
Cerberus Buyout Loan to "Affiliates of Steward Health Care"	362.8	- Refer to slides 42 & 43 for background and disclosure timeline. - Includes initial 4% cash return and has accrued a further ~\$27.8 million to principal. - Hedgeye believes this is essentially a personal loan made to Steward's management. - Secured by the non-MPW equity. - Contains attached ~37% value participation over 7 years.
Promissory Notes	220.0	- Disclosed only with annual 10-K filings. - Consists of five tranches with varying terms. - Balance increased from \$44 million at 12.31.21 to \$220 million at 12.31.22. - Increase was NOT disclosed with 4Q22 earnings report, only in the 10-K days later. - Later disclosed with 1Q23 earnings that ~\$28 million loan made to Steward in 4Q22.
International JV Loan	231.4	- Originated in May 2020 as \$205 million loan. Accrued principal up to ~\$231 million. - Includes ~49% minority ownership in JV w/ RDLT and other Steward management. - Subsequently acquired Steward International & other assets, with a combined book value of ~\$27 million, out of Steward for ~\$200 million. - Accounted for by Steward as "contribution to equity" in audited 2020 financial statements. - Unclear who or what entity services this loan.
Total	940.1	

How does this value participation + direct equity stake NOT eclipse the 10% limitation, given constructive ownership? See slides 12-14.

Does this participation/convertibility feature disqualify this loan as "straight debt" under USC 1361(c)(5)(B)(ii)? See slides 15-16.

If the trust or any TRS holds other securities from Steward other than straight debt, is the promissory note also not straight debt under USC 856(m)(2)(C)(ii)? See slide 15.

- We include ~\$231.4 million "International JV" loan originated in May 2020 with RDLT/Steward. ~\$205 million funded to JV which acquired assets with a BV of ~\$27 million from Steward for ~\$200 million. Unclear if secured by Steward equity (per MPW legal filings) or remaining equity in JV (per MPW quarterly supplementals) or both. Treated as "contribution to equity" in Steward's audited 2020 financial statements.
- How can all of these non-real estate investments in Steward, analyzed and taken together, possibly and reasonably remain under the 10% ownership limitation? How are any of these loans "straight debt?" How does MPW remain under the 35% threshold if a TRS used? How can a TRS be used?

STEWARD | WHERE DO THESE INVESTMENTS LIVE?

Options that we can see are: (1) Medical Properties Trust, LLC (REIT), (2) MPT Operating Partnership, L.P (OP), (3) MPT TRS Lender-Steward, LLC (we think existed since 2018), or (4) MPT Development Services, Inc. (“MPT TRS” in Ernest transaction).

- MPT of Twelve Oaks, L.P.
- MPT of Wheeling-Alecto, LLC
- MPT of Wheeling-Alecto Hospital, LLC
- MPT of Layton-Steward, LLC
- MPT of Hope-Steward, LLC
- MPT of West Jordan-Steward, LLC
- MPT of Odessa-Steward, LLC
- MPT of Houston-Steward, LLC
- MPT of Phoenix-Steward, LLC
- MPT of Salt Lake City-Steward, LLC
- MPT of San Antonio-Steward, LLC
- MPT of Tempe-Steward, LLC
- MPT of Texarkana-Steward, LLC
- MPT of Houston RE-Steward, LLC
- MPT of Layton RE-Steward, LLC
- MPT of Lehi-Steward, LLC
- MPT TRS Lender-Steward, LLC**
- MPT of Big Spring-Steward, LLC
- MPT Australia MIT Holdings, LLC
- MPT Australia, LLC
- MPT of Elgin, LLC
- MPT of Watsonville Lender, LLC

- MPT of Comal County, LLC
- MPT of Commerce City FCER, LLC
- MPT of Converse FCER, LLC
- MPT of Corpus Christi, LLC
- MPT of Dallas, LLC
- MPT of Dallas LTACH, LLC
- MPT of Dallas LTACH, L.P.
- MPT Development Services, Inc.**
- MPT of Fairmont-Alecto, LLC
- MPT of Fairmont-Alecto Hospital, LLC
- MPT Finance Corporation
- MPT of Firestone FCER, LLC
- MPT of Florence, LLC
- MPT of Fountain FCER, LLC
- MPT of Garden Grove Hospital, LLC
- MPT of Garden Grove Hospital, L.P.
- MPT of Garden Grove MOB, LLC

Used for many transaction historically.

STEWARD | HEDGEYE'S LIST OF CRITICAL QUESTIONS REGARDING THE STEWARD INVESTMENTS

Again, we believe strongly that any fiduciary MUST understand and get comfortable with these risks and questions BEFORE investing in the equity and debt securities of MPW. The risk is both unique and real, in our view.

- Can you explain how your Steward investments – spread across real estate on the one hand, and the equity, promissory notes and hybrid investments on the other – are structured and satisfy the IRS REIT rules under the code?
- Are your Steward real estate investments structured as net leases? If so, why is a TRS required for a net lease transaction?
- Is the ~\$126 million (~9.9%) equity interest in Steward held at the REIT level (the trust) or in a TRS?
- To whom was the original ~\$335 million loan (accrued to ~\$363 million, 4% interest + 37% value participation) issued to? To Steward, or to RDLT personally? If to RDLT, why is a REIT making personal loans?
- Is the now ~\$363 million loan held at the REIT level or in a TRS?
- Do you take the position that the ~\$363 million loan is “straight debt?” If so, how?
- Why was the disclosure around the original ~\$335 million loan not timely as we have demonstrated? Why did it change over the course of ~1.5 years?
- To whom is the ~\$220 million of promissory notes issued to? To Steward, or to RDLT personally?
- Are you taking the position that the promissory notes are “straight debt?” If so, how?
- If more than one of these investments are held in a TRS, are they all held in the same TRS or more than one?
- Is there an eligible independent contractor (“EIK”) involved in managing the facilities for the TRS? If so, why is there a manager / EIK if it is a net lease arrangement?
- Who owns the manager / EIK, if one exists?
- Per your disclosure in the risk section of the 10-K, under what scenario would the IRS deem loans to an operator as equity?

[5] THE FUTURE: PROSPECT/“PHP”

FUTURE | WHY DO THESE ISSUES MATTER GOING FORWARD?

MPW has represented to investors that it will receive its recovery from investments in #2 U.S. tenant, Prospect Medical Holdings (“Prospect”), from MPW’s new interests in PHP Holdings (“PHP”) and potentially other OpCos.

- We estimate that **MPW invested ~\$1.85 billion of gross capital into Prospect**, or +\$300 million over and above the original ~\$1.55 billion investment made in 2019:
 - ~\$1.5 billion of fee simple real estate, before any impairments taken on the PA hospitals,
 - ~\$113 million term loan secured by Prospect’s hospitals in Rhode Island,
 - ~\$150 million mortgage loan on Foothills Regional in CA, including ~\$100 million upside in 2Q22,
 - ~\$50 million loan originated in 1Q23 and convertible into equity of PHP,
 - ~\$75 million delayed draw term loan originated in 1Q23, current amount drawn unknown (excluded here).
- **Prospect stopped paying rent in November 2022 and is undergoing a restructuring.** MPW invested additional capital (~\$50 million PHP convertible loan + ~\$75 million term loan) and canceled other investments (~\$150 million Foothills mortgage + ~\$113 million term loan) in exchange for equity interests in PHP to facilitate this restructuring.
- MPW is **relying upon recovery from PHP OpCo** to satisfy some portion of the follow amounts:
 - ~\$103 million non-cash consideration portion of the ~\$457 million CT hospitals sale to Yale,
 - ~\$250 million (~\$150 million 1st mortgage + equity) for recovery on the PA hospitals,
 - ~\$264 million in loans (Foothills + original term loan),
 - ~\$50 million PHP convertible loan, and
 - ~\$56 million of accrued rent and interest.
- **MPW is, therefore, definitionally investing deeper into OpCos.** Hedgeye believes the disclosed details of Prospect’s restructuring imply near ~100% “ownership” of the economics of PHP.
- **Hedgeye’s Questions on PHP:** How will this be structured? Will a TRS be used? How can that entity elect TRS status under the Code? Will MPW own 10% or more of another corporate entity? Will it own >35% of that entity? If so, how?
- **Secondary Questions:** Upon completion of this restructuring + sale of the Healthscope in Australia + the Prime repurchase, will Steward real estate once again be >20% of MPW’s total assets? If so, will MPW disclose Steward’s financials?

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