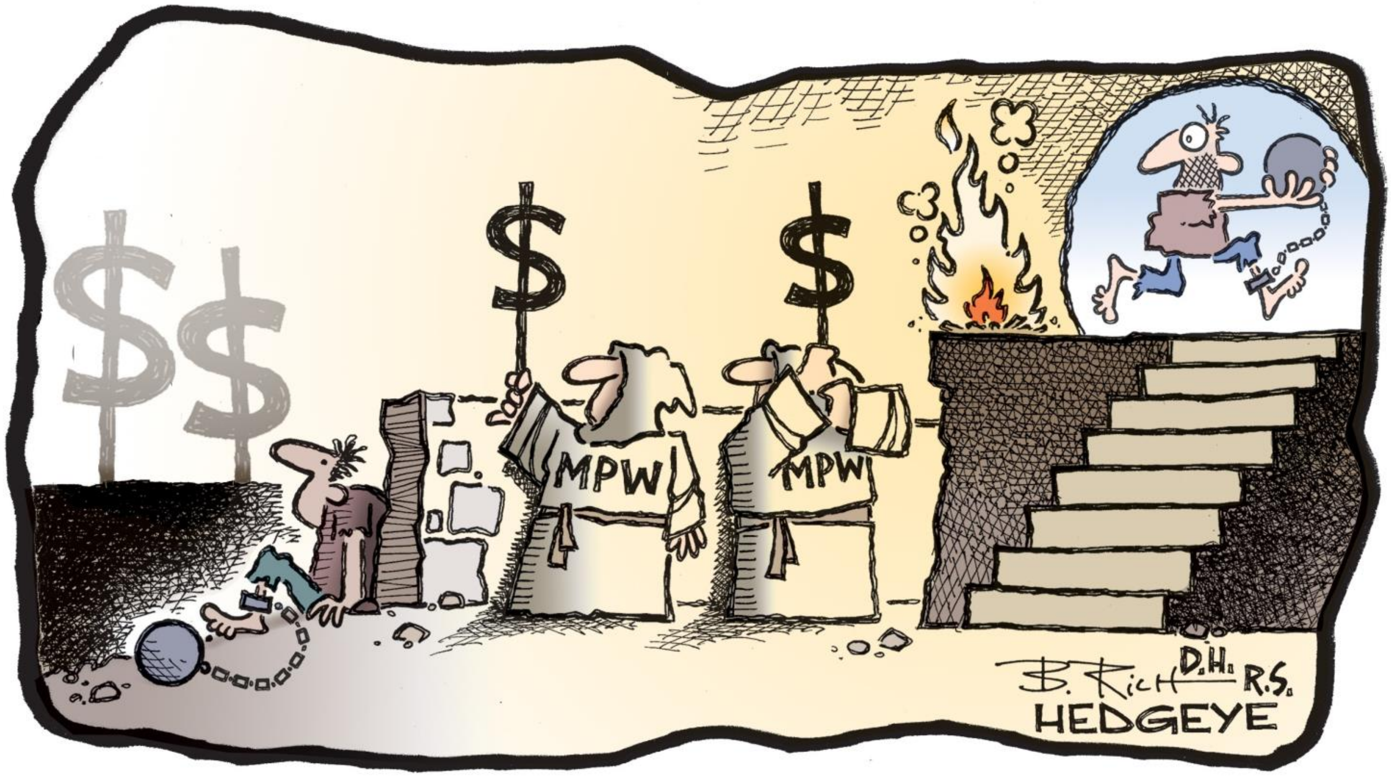
HEDGEYE

Active Short
Medical Properties (Dis)Trust

Examining Shasta + An Interesting Fact Pattern

January 26, 2023

Medical Properties Trust



Credit: Plato's Allegory of the Cave

HEDGEYE REITS

Rob Simone, CFA Managing Director rsimone@hedgeye.com

Legal

HEDGEYE

DISCLAIMER

Hedgeye Risk Management, LLC ("Hedgeye") is a registered investment advisor, registered with the State of Connecticut. Hedgeye is not a broker dealer and does not provide investment advice to individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security or investment vehicle. This research is presented without regard for individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice, nor does it constitute or contain any legal or tax opinions. This presentation is based on information from sources believed to be reliable. Hedgeye is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of the individual expressing those opinions or conclusion and are intended solely for the use of Hedgeye's clients and subscribers, and the authorized recipients of the content. In reaching its own opinions and conclusions, Hedgeye and its employees have relied upon research conducted by Hedgeye's employees, which is based upon sources considered credible and reliable within the industry. Neither Hedgeye, nor its employees nor any individual expressing opinions, conclusions or data are responsible for the validity or authenticity of the information upon which it has relied.

TERMS OF USE

This report is protected by United States and foreign copyright laws and is intended solely for the use of its authorized recipient. Access must be provided directly by Hedgeye. There is a fee associated with access to this report and the information and materials presented during the event. **Redistribution or republication of this report and its contents are strictly prohibited.** By joining this call or possessing these materials, you agree to these Terms. For more detail please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Service at https://www.hedgeye.com/terms_of_service.

SHASTA | REBUTTING THE REBUTTAL FROM 2Q22

HEDGEYE

Shasta is an interesting choice for a case study in "successful" operator transition

- Investors will recall that, following our initial short recommendation report from April 2022 and follow-up deck in July 2022, **Active Short MPW** rebutted our short thesis along with 2Q22 results in August 2022.
- The August 2022 investor update deck from MPW can be found HERE.
- We decided to explore the **Shasta example** more deeply, as **(1) it is old and investors may not be familiar with the situation**, and **(2) we wanted to gauge the validity of the rebuttal**.
- On page 5 of the presentation, MPW highlighted **Shasta Regional Medical Center ("SRMC")**, a general acute care hospital in Redding, CA, as a 2008 case study in "successful" and "rapid" operator transition following the operator's bankruptcy filing.
- **Points represented as fact by MPW management in the presentation**:
  - The **investment in the real estate was $57 million**.
  - Healthcare Partners of America ("HPA"), Shasta's operator, filed for bankruptcy.
  - In October 2008 the replacement operator, **Prime Healthcare ("Prime") paid MPW $12 million for the right to immediately assume the lease** at an increased lease base.
  - **No missed rent** or service interruption, and the facility remains leased.
- **What we found**:
  - As usual, **the situation was much more complicated than MPW represented** in 2Q22, and **Shasta did in fact miss a rent payment**.
  - **Several other MPW management statements appear at odds with the facts** from the bankruptcy and MPW's prior statements.
  - **An unexpected fact pattern emerged**. More on that later…

HEDGEYE

THE OPERATOR TRANSITION

SHASTA | THE SLIDE & CASE IN QUESTION AS PRESENTED TO INVESTORS

HEDGEYE

ESSENTIAL HOSPITAL REAL ESTATE STAYS LEASED
TO COMPETENT OPERATORS, AS PROVEN BY MPT'S HISTORY

SPECIALIZED EXPERTISE DEMONSTRATED FOR NEARLY TWO DECADES

MPT has replaced only 11 operators of 20 facilities, in addition to the Adeptus portfolio, over the course of cumulatively investing more than $24 billion in nearly 530 hospitals.

Operator	Facilities	Real Estate Gross Investment	Recovered/ Retained Valuation	(Loss) Recovery
Adeptus[1]	59	$415 MM	$482 MM	$67 MM
All others since inception[2]	20	$605 MM	$585 MM	($20 MM)
Total	**79**	**$1.02 BN**	**$1.07 BN**	**$47 MM**

MPT CASH FLOWS PROTECTED BY THE NATURE OF HOSPITALS, AS WELL AS LEASE STRUCTURE

The right to access the hospital building is an operator's most important asset

- Hospital license is attached to facility itself (no building, no business)

Landlords cannot be "crammed down" in bankruptcy

- Lessees may only accept or reject a lease, and landlords cannot be compelled to negotiate
- Lessees must stay current on all lease requirements

Bumps in the road

- Truly temporary or correctible challenges, not uncommon over a multi-decade lease, rarely justify lease termination

WELL-UNDERWRITTEN HOSPITALS RAPIDLY ATTRACT COMPETENT OPERATORS

HOUSTON TOWN & COUNTRY
GENERAL ACUTE CARE HOSPITAL (Houston, TX)

RE Investment $57 MM
Recovered $72 MM

- Original operator failed due to the absence of key managed care contracts
- Lease terminated in October 2006
- **No interruption of services**
- **No missed rent payments**
- **Sold promptly** to Memorial Hermann

SHASTA REGIONAL MEDICAL CENTER
GENERAL ACUTE CARE HOSPITAL (Redding, CA)

RE Investment $57 MM

- Original operator Hospital Partners of America files for bankruptcy
- In October 2008, the replacement operator paid MPT **$12 MM in cash** for the right to immediately assume the lease at an increased lease base
- **No missed rent or service interruption, and the facility remains leased**

COVINGTON LTACH
LONG-TERM ACUTE CARE (Covington, LA)

RE Investment $12 MM
Sold for $15 MM

- Original operator files for bankruptcy due to parent-level liquidity issues in 2011
- Promptly re-leased to the replacement operator with **no missed rent** and a **20% profits interest in the operator for no additional MPT investment**
- Property sold at a gain in 2016

1. See page 7 of April 2022 Investor Update
2. Aggregate of all lease/mortgaged facilities transitioned from the original lessee since MPT's 2005 IPO; represents real estate investments and does not include any costs incurred by MPT for operations or costs of transition. Primarily comprised of lease transitions and sales to third parties.

MPT | 5

SHASTA REGIONAL MEDICAL CENTER
GENERAL ACUTE CARE HOSPITAL (Redding, CA)

RE Investment $57 MM

- Original operator Hospital Partners of America files for bankruptcy
- In October 2008, the replacement operator paid MPT **$12 MM in cash** for the right to immediately assume the lease at an increased lease base
- **No missed rent or service interruption, and the facility remains leased**

SHASTA | SELECT QUOTES FROM 2Q22 EARNINGS

HEDGEYE

[1]

Shasta Hospital in Redding, California is a good example of what can happen **when an operator's parent, not MPT's lessee, gets into financial stress and even enters bankruptcy**. **– CFO R. Steven Hamner, 2Q22 earnings call prepared remarks**

Hedgeye Response:

- MPW **issued initial default notice to SRMC, LLC, the lessee**, on 5.23.08.
- MPW issued additional default notices to SRMC, LLC on 8.25.08 and 9.17.08.
- **SRMC failed to make the September 2008 rent payment**.
- **MPW funded ~$8 million of emergency working capital loans to SRMC, LLC** in September and October 2008.

[2]

Our hospital real estate was being operated at an attractive EBITDAR coverage ratio even when the parent company, who was our guarantor, was deeply insolvent. Because of the facility level profitability and because our leases almost always mandate that our lessee is a special purpose entity, creditors may not attach our real estate assets or pursue facility operations other than secured receivables. **– CFO R. Steven Hamner, 2Q22 earnings call prepared remarks**

Hedgeye Response:

- **In September 2008, SRMC, LLC** (the lessee, not the parent company) **represented to MPW that the hospital lacked sufficient funds to continue operating**.
- MPW subsequently made an initial ~$3 million emergency loan funding (of the ~$8 million) to permit SRMC, LLC to continue operating.

[3]

In October 2008, the replacement operator paid MPT $12 MM in cash for the right to immediately assume the lease at an increased lease base. **– MPW 2Q22 investor update**

Hedgeye Response:

- **The $12 million was not paid or received immediately, but paid to MPW nearly two years later in 2Q10.**
- **The $12 million was actually a negotiated settlement of a cash flow participation agreement with new operator Prime**, "due to the uncertainty of cash flows over the next nine years, and the time value of money." The $12 million was NOT paid to MPW for the right to immediately assume the lease.

SHASTA | STATEMENT # 1 REBUTTAL BACKUP

HEDGEYE

for September 2008.	
19. On May 23, 2008, MPT of Shasta, L.P. issued a default notice to Shasta Regional Medical Center, LLC stating certain events of default pursuant to the lease.	Hamner Decl., ¶ 9, Exh. B.
20. Shasta Regional Medical Center, LLC remained in default of the lease, and MPT of Shasta, L.P. subsequently issued additional default notices on August 25, 2008 and September 17, 2008.	Hamner Decl., ¶ 9, Exhs. C, D.

bankruptcy in September 2008.	
18. Shasta Regional Medical Center, LLC failed to make its rent payment under the lease for September 2008.	Hamner Decl., ¶ 10.
19. On May 23, 2008, MPT of	Hamner Decl., ¶ 9, Exh. B.

22. In order to protect its financial interest as landlord of the Hospital by permitting Shasta Regional Medical Center, LLC to continue operating while it sought out a purchaser, in September 2008, MPT Development Services, Inc., an entity which is not a party to this action, agreed to make Shasta Regional Medical Center, LLC a secured emergency loan of up to $3 million.	Hamner Decl., ¶ 13.

36. Weighing the risk of making additional working capital loans to Shasta Regional Medical Center, LLC against the risk of the Hospital closing or a new operator not succeeding, MPT Development Services, Inc. (despite having no obligation to do so) again loaned approximately $5.04 million to Shasta Regional Medical Center, LLC in the final week of October 2008.	Hamner Decl., ¶ 19.

- **MPW issued multiple default notices to the lessee**, in direct conflict with MPW's 2Q22 statement that this was an example of what can happen when the parent (not the lessee) gets into financial stress.
- **SRMC, LLC failed to make the September 2008 rent payment**, in direct conflict with MPW's 2Q22 statement that there was "no missed rent."
- **MPW made emergency operating loans to the lessee**, not the parent.

SHASTA | STATEMENT # 2 REBUTTAL BACKUP

HEDGEYE

- SRMC, LLC (the lessee of the hospital real estate) + HPA + Shasta Management represented that the hospital lacked sufficient funds to continue operating, in direct conflict with MPW's 2Q22 statement that the real estate was profitable while the parent guarantor was deeply insolvent.
- Again, MPW made working capital loans to the lessee (not the parent) so as to keep the hospital operating, in direct conflict with MPW's contention that only the parent was experiencing financial distress.
- According to the Statement of Undisputed Fact, "Weighing the risk of making additional working capital loans to Shasta Regional Medical Center, LLC against the risk of the Hospital closing or a new operator not succeeding, MPT Development Services, Inc. (despite having no obligation to do so) again loaned approximately $5.04 million to Shasta Regional Medical Center, LLC in the final week of October 2008."

21. Shasta Regional Medical Center, LLC, HPA and Shasta Management represented that the Hospital lacked sufficient funds to continue operating in September 2008.	Hamner Decl., ¶ 12; Johnson Depo. 113:1-114:2, 123:22-124:2; Declaration of Phillip Dionne In Support Of MPT Defendants' Motion For Summary Judgment Or, In The Alternative, Motion For Summary Adjudication ("P. Dionne Decl."), ¶ 3.
22. In order to protect its financial interest as landlord of the Hospital by permitting Shasta Regional Medical Center, LLC to continue operating while it sought out a purchaser, in September 2008, MPT Development Services, Inc., an entity which is not a party to this action, agreed to make Shasta Regional Medical Center, LLC a secured emergency loan of up to $3 million.	Hamner Decl., ¶ 13.

SHASTA | STATEMENT # 3 REBUTTAL BACKUP

HEDGEYE

Medical Properties Trust, Inc. *Company▲*	MPW *Ticker▲*	Q1 2010 Earnings Call *Event Type▲*	May 6, 2010 *Date▲*

Of the $8 million in loans to the prior operator, we have already collected $7.25 million and we expect to fully collect the remainder, a tremendous outcome given the circumstances of the transition in late 2008.

Because Prime Shasta had to operate the hospital for more than three months without a Medicare provider number, and was therefore unable to bill for services to Medicare patients, MPT fully funded the $20 million working capital loan. This was an interest-only agreement that was not due until 2018.

However, we negotiated with Prime to include this loan in those that were repaid as part of the $40 million that I mentioned earlier. So we have now been fully repaid on that $20 million working capital loan. And, we also negotiated with Prime to fully pay immediately the amount of the cash flow participation that could have been earned, subject to continued profitability over the next nine years.

So taking into account the fact that we expect to collect the entire amount of our $8 million loan to the old operator, the uncertainty of future cash flows over the next nine years, and the time value of money, we agreed to accept $12 million in full satisfaction and settlement of our participation agreements with Prime, and we did in fact receive the $12 million last week.

In order for the new Prime operator to have some assurance of adequate liquidity for a hospital whose previous operator had generated substantial cash losses on a monthly basis, MPT committed to a $20 million, non-recourse working capital loan, a six-month deferral of rent payments, and certain other concessions to our typical lease arrangements. For these concessions, we negotiated an agreement that gave us the opportunity to earn up to 50% of the facility's net cash flow, up to a range between 15 and $20 million over the initial 10-year term of the lease.

- Taken from CFO R. Steve Hamner's prepared remarks on the 1Q10 earnings call, recorded on 5.6.10.
- **The $12 million was not an immediate payment by Prime to assume the Shasta lease, as represented in MPW's 2Q22 investor update deck.**
- **The $12 million was actually a settlement payment received in 2Q10**, and calculated on a risk-adjusted basis, **of Prime / MPW's cash flow participation agreement** (up to 50% of the hospital's net cash low over the initial 10-year lease term).
- The participation was originally negotiated in conjunction with a package of concessions granted by MPW, **including an additional $20 million working capital loan to Prime as the new operator.**

ANOTHER INTERESTING FACT PATTERN

SHASTA | TIMING OF HPA UNAUTHORIZED PAYMENTS

HEDGEYE

- The following points are taken from **The Statement of Undisputed Facts in Support of Defendants Medical Properties Trust, Inc.'s Motion for Summary Judgment / Motion for Summary Adjudication, filed on 6.21.10** in the U.S District Court for the Eastern District of California (Case No. 08-CV-02980 LKK CM).
- MPW CFO R. Steven Hamner provided a Declaration in Support of MPT Defendants' Motion for Summary Judgement (**"Hamner Decl."**).

UNDISPUTED FACTS	SUPPORTING EVIDENCE
A. Organization of the MPT Defendants	
1. Medical Properties Trust, Inc. is a real estate investment trust ("REIT")	Declaration of R. Steven Hamner In Support Of MPT Defendants' Motion For Summary Judgment Or, In The Alternative, Motion For Summary Adjudication ("Hamner Decl."), ¶ 3.

- According to the Statement of Undisputed Facts, HPA owner New Enterprise Associates ("NEA") **contacted MPW in "April or May 2008" to alert MPW of unauthorized transactions at HPA**.

16. In approximately April or May 2008, MPT was contacted by New Enterprise Associates ("NEA"), an equity owner of Hospital Partners of America, Inc. ("HPA"), and learned from NEA that it had discovered what it deemed to be unauthorized transactions by HPA that would lead to the eventual liquidation of HPA.	Hamner Decl., ¶ 10.

SHASTA | WE ESTIMATE SHASTA CONTRIBUTED ~5% OF REVENUES

HEDGEYE

Amounts in 000s, Except per Share Data

Shasta Estimated GAAP Revenue Contribution	
Basis in the Real Estate	60,000
(x) Disclosed GAAP Yield	10.1%
Ann. GAAP Rental Revenue	**6,060**
3Q08 MPW Total Revenues	33,117
(x) Annualization Factor	4
MPW Total Ann. GAAP Revenue	**132,470**
Shasta % of Total MPW Revenue	**4.6%**

<-- Per MPW's disclosure, Shasta accounted for ~4.6% of total revenues

Shasta Estimated Cash Rent Contribution	
Basis in the Real Estate	60,000
(x) Disclosed Cash Yield	9.25%
Ann. Cash Rent	**5,550**
3Q08 Rent Billed	24,332
(x) Annualization Factor	4
MPW Total Ann. Rent Billed	**97,328**
Shasta % of Total MPW Revenue	**5.7%**

<-- Per MPW's disclosure, Shasta accounted for ~5.7% of cash rent

Medical Properties Trust, Inc.	MPW	Q3 2008 Earnings Call	Nov. 6, 2008
Company▲	*Ticker▲*	*Event Type▲*	*Date▲*

agreement for Shasta that also provides MPT an ownership interest and the new operator as part of the lease agreement. The new lease provides for a current yield of approximately 10.1%, with a current cash yield of 9.25%, based on a purchase price of $63 million. That's the same rate the prior operator had been paying, but gives us additional revenue because the purchase price was increased from 60 million to 63 million.

- **MPW disclosed that Shasta was generating a 10.1% GAAP yield and 9.25% cash yield based on a ~$60 million purchase price.**
- **Again, in 2Q22 claimed a ~$57 million investment in the real estate, so a clear inconsistency there.**
- **Implies ~$6.1 million of annualized GAAP revenue (~4.6% of total) and ~$5.6 million of annualized cash rent (~5.7% of total).**
- **Said another way, and based in part upon the Hamner Decl., roughly ~5% of total company revenue was derived from SRMC and was "at risk" from the bankruptcy of HPA.**
- **Also according to the Hamner Decl., MPW was alerted in "April or May 2008" as to HPA's unauthorized transactions.**

SHASTA | BUT MPW DISCLOSED TO INVESTORS JUNE 2008

HEDGEYE

However, in MPW's 2Q08 10-Q report filed with the SEC, MPW disclosed they were alerted in June 2008. See HERE on page 7.

This directly conflicts with statements re: timing of alert on prior slides. HPA operated both the Houston and Redding hospitals. The 10-Q makes no mention of an alert related to Redding (Shasta).

In August 2007, the Company acquired two general acute care hospitals in Houston, Texas and Redding, California at a cost of $100.0 million and entered into operating leases with the operators, affiliates of Hospital Partners of America, Inc. ("HPA"), a multi-hospital operating company. In June 2008, the Company received notification from the Houston operator that due in part to irregularities recently discovered by independent members of the HPA board of directors, the Houston hospital would close and enter bankruptcy proceedings. The operator has not paid rent since June 2008. In August, 2008 the Redding operator notified the Company that it would not pay rent commencing in September. On September 24, 2008, HPA and most of its affiliates (other than the Redding operator and management company) entered bankruptcy proceedings.

The Company is in the process of evaluating the sale or release of the Houston facilities, which comprise two separate campuses that will likely be resolved independent of each other. In addition to the value of the facilities that would result from sale or releasing, the Company also has a secured interest in certain accounts receivable of the Redding facility. Accordingly, the Company believes that proceeds from the sale, lease and security for the facilities will be sufficient to recover its investments in the Houston real estate. Upon the original purchase transaction in August 2007, approximately $1.8 million of the Houston purchase price was allocated to the estimated costs of the initial lease and was amortized over the term of the lease. The Company has recorded accelerated amortization of the amount of this lease intangible

7

Conflicts with 2Q22 statements re: "no missed rent." Prime did not lease SRMC until 11.1.08.

SHASTA | WHAT HAPPENED IN THE MIDDLE?

HEDGEYE

Per SEC filings, on 5.14.08 MPW CEO Ed Aldag filed his first ever 10b5-1 plan to sell 186k shares, or roughly ~15% of his then holdings, over a 6-month period beginning on 5.22.08. See HERE.

Item 8.01. Other Events.

On May 14, 2008, Edward K. Aldag, Jr., Chairman of the Board, President and Chief Executive Officer of Medical Properties Trust, Inc. (the "Company"), entered into a written stock selling plan (the "10b5-1 Plan") in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, and the Company's Insider Trading Policy.

Under Rule 10b5-1, directors, officers and other employees may adopt a pre-arranged plan or contract for the sale of Company securities under specified conditions and at specified times when they are not in possession of material non-public information. Using 10b5-1 plans, individuals can gradually diversify their investment portfolios, or raise funds for income tax obligations or other needs, by spreading stock trades out over an extended period of time so as to reduce market impact and avoid concerns about transactions occurring at a time when they might possess material non-public information.

The 10b5-1 Plan entered into by Mr. Aldag allows for the sale of a maximum of approximately 186,000 shares of the Company's common stock, par value $0.001 per share, over a six-month period beginning on May 22, 2008. Sales of shares by Mr. Aldag pursuant to the 10b5-1 Plan provide for sales of specified share amounts on the open market on specified dates at prevailing market prices. Such sales are being made by Mr. Aldag for income tax purposes and other financial planning needs.

Transactions made under the 10b5-1 Plan will be disclosed publicly through Form 144 and Form 4 filings with the Securities and Exchange Commission. Except as may be required by law, the Company does not undertake to report on specific Rule 10b5-1 pre-planned stock trading plans of Company officers, nor to report modifications or terminations of the aforementioned 10b5-1 Plan or the plan of any other individual.

SHASTA | RECAPPING THE TIMELINE ONCE MORE

HEDGEYE

Based on the filings and the facts as we observe them, MPW's CEO filed his first ever 10b5-1 in between MPW being alerted to a potential default / fraud at HPA, and then disclosing a different date of that alert

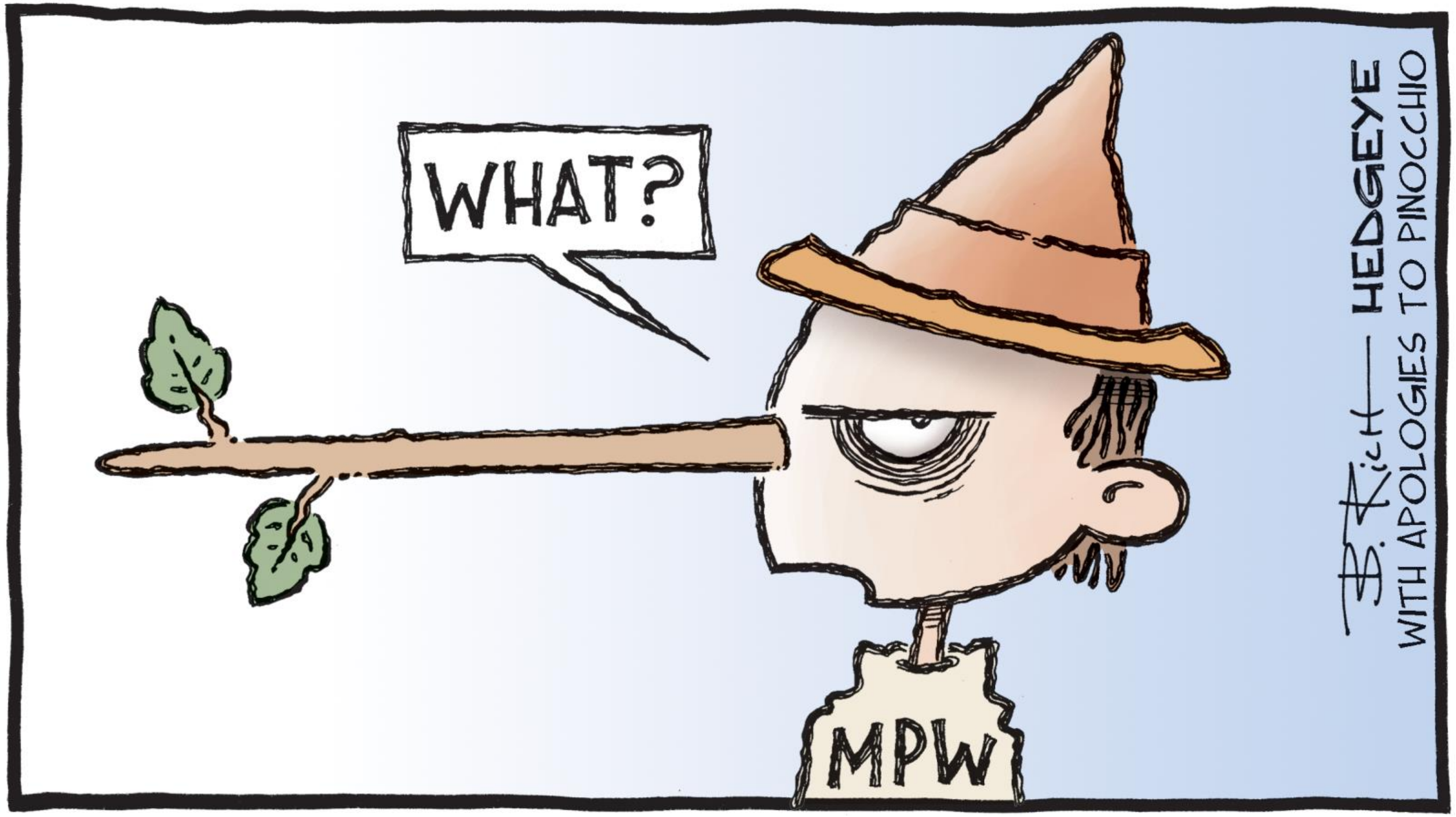
5.24.10: According to the Statement of Undisputed Facts referencing the Hamner Decl., NEA **notified MPW in April or May 2008** of unauthorized payments at SRMC operator HPA that would lead to the liquidation of HPA. We estimate that SRMC accounted for ~4.6% of MPW's total GAAP revenues and ~5.7% of cash rent.

5.14.08: MPW filed an 8-K disclosing that CEO Ed Aldag entered into a 10b5-1 plan to sell up to 186k shares, or ~15% of his holdings, over the next 6 months. To our knowledge this was Aldag's first 10b5-1 filing.

5.23.08: MPW issued its first default notice to SRMC, LLC.

September 2008: HPW filed for bankruptcy protection.

11.10.08: MPW filed its 3Q08 10-Q report, disclosing that "**In June 2008, the Company received notification from the Houston operator** that due in part to irregularities recently discovered by independent members of the HPA board of directors, **the Houston hospital would close and enter bankruptcy proceedings.**"


WHAT?
MPW
B. Rich — HEDGEYE
WITH APOLOGIES TO PINOCCHIO

For more information, contact us at:

sales@hedgeye.com
(203) 562-6500