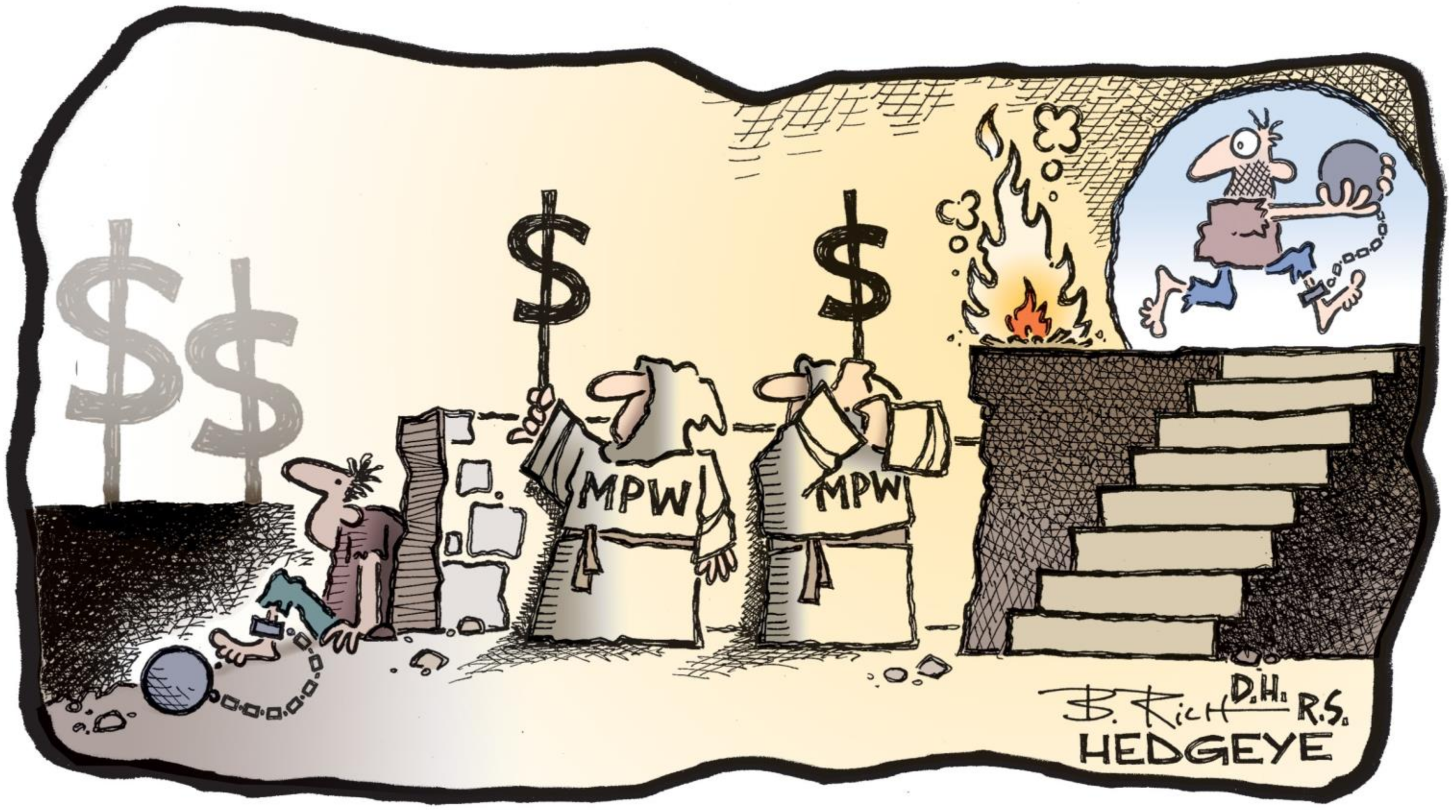
HEDGEYE

Active Short Medical Properties (Dis)Trust (MPW)

Valuation Update – Your Model is Broken

February 9, 2023



Medical Properties Trust

HEDGEYE REITs

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VALUATION | MPW'S IMPLIED NET EFFECTIVE CAP RATE

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We estimate MPW trades at a low-to-mid ~6% net effective cash cap rate, assuming no value ascribed to the OpCo stakes. "NAV" is probably mid-single-digits or lower. Caveat: entails relying upon MPW's reported numbers.

Market-Implied Net Effective Cap Rate	
Current Share Price	11.96
Total Shares / Units Outstanding	599,402
Equity Market Capitalization	**7,165,851**
(+) MPW's Share of Total Debt	10,796,738
(+) Payables	569,017
(+) Other Liabilities	308,441
(-) Cash & Equivalents [1]	(534,373)
(-) Interest & Rent Receivables	(117,555)
(-) Mortgage + Operator Loans [2]	(505,749)
(-) Other Assets [3]	(724,114)
Implied Value of Owned Real Estate (A)	**16,958,256**
Annualized PF Cash EBITDA [4]	1,247,556
Assumed Maintenance Capex % of Cash EBITDA [5]	15.0%
Est. Recurring / Maintenance Capex	187,133
Assumed Return	7.0%
Net Effective NOI / Unlevered CF (B)	**1,073,522**
Net Effective Cap Rate (C = B / A)	**6.33%**

Applied Net Effective Cap Rate	
Assumed Net Effective Cap Rate	8.50%
(/) Net Effective NOI / Unlevered CF	1,073,522
Implied Value of Owned Real Estate	**12,629,670**
(+) Other Assets	724,114
(+) Mortgage + Operator Loans	505,749
(+) Interest & Rent Receivables	117,555
(+) Cash & Equivalents	534,373
(-) Other Liabilities	(308,441)
(-) Payables	(569,017)
(-) MPW's Share of Total Debt	(10,796,738)
Equity Value	**2,837,265**
Total Shares / Units Outstanding	599,402
Equity Value / Share	**4.73**
Current Share Price	11.96
Annual Dividend	1.16
Total Return - Upside / (Downside)	**50.7%**

Share Price Sensitivity on Cap Rate

8.00%	8.25%	8.50%	8.75%	9.00%
6.05	5.37	4.73	4.13	3.56

Notes:
(1) Pro forma cash balance for Springstone / LifePoint loan payoff.
(2) Assumes book value for mortgages and other operator loans.
(3) Ascribes no value to MPW's OpCo stakes. Ascribing book value would add ~50bps to the implied cap rate.
(4) Adjusted to exclude 4 months of rent from Prime Healthcare following exercise of 2022 option.
(5) Hedgeye assumption for annual "capex" spend earning a ~7% annual cash-on-cash return after addition to lease base.

VALUATION | REVERSE ENGINEERING MPW's RETURNS

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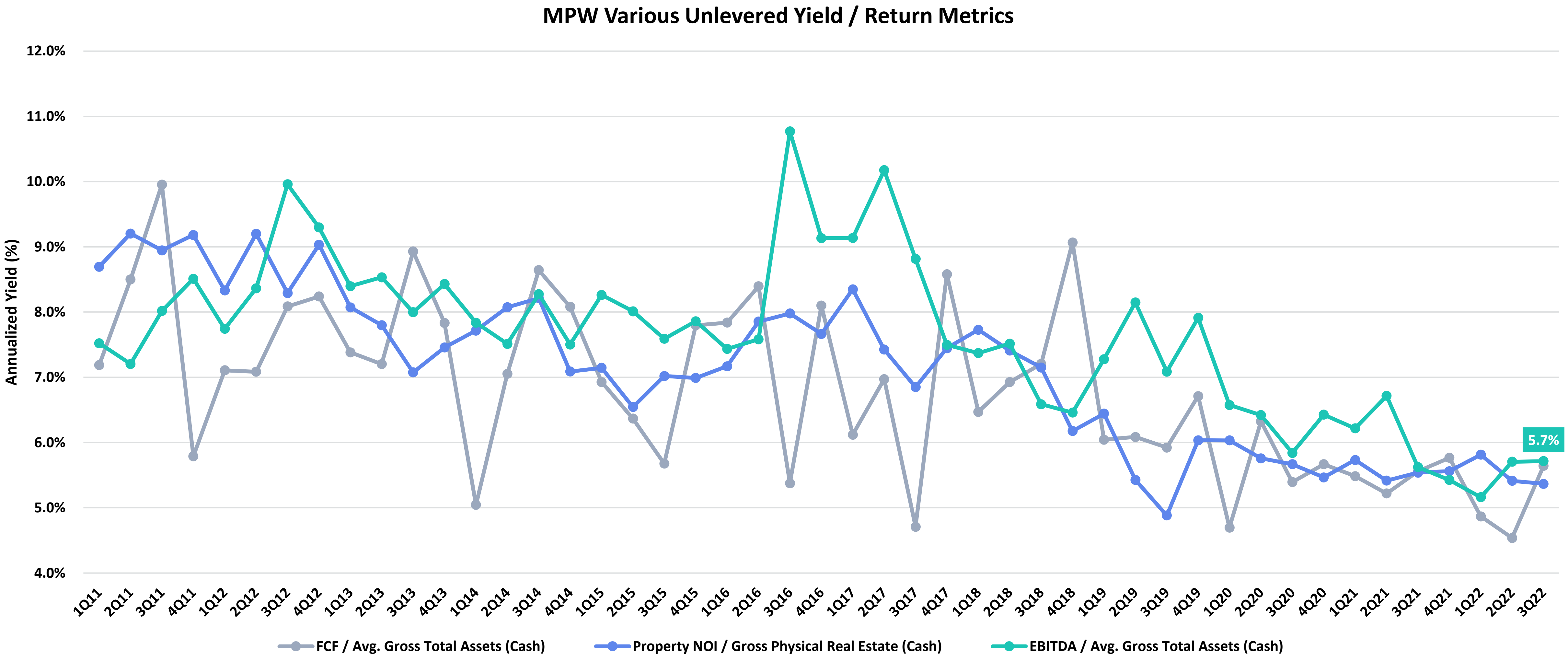
MPW's unlevered cash-on-cash yields trending towards 5-6% for its combined asset base.



VALUATION | REMEMBER, MPW SAID TO DO IT...

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So we did! Also, the explanations below are ridiculous. See SEC correspondence HERE.

2. To the extent your aggregate acquisitions for the reporting period are material, please disclose, in future Exchange Act periodic reports, the weighted average capitalization rate for such acquisitions and explain how the rate was calculated.

We have not recently disclosed the "capitalization rates" of our acquisitions for two primary reasons:

1. *We consider such information to be proprietary, the disclosure of which would provide a significant advantage to our competitors similar to a manufacturer publishing its confidential pricing structure to its competitors. Because a single hospital facility may be of itself a material acquisition, disclosure of a weighted average rate in a period with only one acquisition may result in disclosure of our pricing.*

2. *Our peers may not calculate capitalization rates in the same way that we do and, as a result, comparison of any capitalization rates that we disclose with those of our competitors would not be meaningful to investors.*

In our periodic filings, we have regularly provided detailed information to investors regarding our material acquisitions and dispositions, including descriptions of the actual transactions, purchase price or sale price information and information regarding the impact of the acquisition or disposition on our operating results. Readers of our financial statements are also able to calculate our weighted average periodic return on our acquisition costs by reference to information readily apparent in our GAAP-basis financial statements.

VALUATION | "PRICE-TO-BOOK" METHODOLOGY

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Given MPW's return profile using its own reported numbers, we estimate the stock warrants a material discount to "book" = low-single-digit stock price.

Amounts in 000s, Except per Share Data

Cost of Capital Calculation	
Assumed ROIC / ROA (Unlevered Yields)	6.00%
Assumed Perpetual Growth Rate	1.50%
Assumed Required Return / Cost of Capital	9.60%
Justified Multiple	**0.56x**
Trading Multiple	**0.84**
MPW Adj. Gross Assets (excl. Cash)	**21,407,717**
"Justified" Enterprise Value (EV)	**11,895,331**
(-) MPW's Share of Total Debt	(10,796,738)
(+) Cash & Cash Equivalents	534,373
Equity Value	**1,632,966**
(/) Total Shares / Units	599,402
Equity Value / Share	**2.72**
Implied Cash EBITDA Multiple	9.5x
Current Share Price	11.99
Annual Dividend	1.16
Total Return - Upside / (Downside)	67.6%

Implied Share Price Sensitivity

		Range of Unlevered Yields				
		5.60%	**5.70%**	**5.80%**	**5.90%**	**6.00%**
	9.60%	0.96	1.40	1.84	2.28	**2.72**
	9.00%	2.40	2.88	3.36	3.83	4.31
Required Return	**9.25%**	1.77	**2.23**	**2.70**	**3.16**	3.62
	9.50%	1.18	**1.63**	**2.08**	**2.52**	2.97
	9.75%	0.63	**1.06**	**1.49**	**1.93**	2.36
	10.00%	0.11	0.53	0.95	1.37	1.79

Total Return Sensitivity

		Range of Unlevered Yields				
		5.60%	**5.70%**	**5.80%**	**5.90%**	**6.00%**
	9.60%	82.3%	78.6%	75.0%	71.3%	**67.6%**
	9.00%	70.3%	66.3%	62.3%	58.4%	54.4%
Required Return	**9.25%**	75.5%	**71.7%**	**67.8%**	**64.0%**	60.2%
	9.50%	80.5%	**76.7%**	**73.0%**	**69.3%**	65.6%
	9.75%	85.1%	**81.5%**	**77.9%**	**74.3%**	70.6%
	10.00%	89.4%	85.9%	82.4%	78.9%	75.4%

Cost of Capital Calculation

	$	%	i
Debt	10,796,738	60.0%	8.00%
Preferred Equity	-	-	-
Common Equity	7,186,830	40.0%	12.00%
Total	**17,983,568**	**100.0%**	**9.60%**

VALUATION | CASH EBITDA MULTIPLE METHODOLOGY

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Given MPW's return profile using its own reported numbers, we estimate the stock warrants a ~10x applied cash EBITDA multiple = low-single-digit stock price BEFORE additional tenant issues (Steward, Prospect, etc).

Amounts in 000s, Except per Share Data

	Actual 3Q22A	(+)	Springstone / LifePoint [1]	(=)	Pro Forma (PF)	-->	PF Fair Value
Annualized PF Cash EBITDA (4)	1,247,556				1,247,556		1,247,556
(x) Cash EBITDA Multiple	14.0x				13.8x		10.0x
Enterprise Value	**17,443,201**		**(205,000)**		**17,238,201**		**12,475,560**
Implied MV / BV	0.81x						
Implied P / AFFO	8.1x						
(-) MPW's Share of Total Debt	(10,796,738)				(10,796,738)		(10,796,738)
(+) Cash & Equivalents	329,373		205,000		534,373		534,373
Equity Value	**6,975,836**				**6,975,836**		**2,213,195**
Total Shares / Units Outstanding	599,402				599,402		599,402
Equity Value / Share	**11.64**				**11.64**		**3.69**
Premium / (Discount) to Market	-2.9%				-2.9%		-69.2%
Adj. Net Debt / Cash EBITDA	**8.4x**				**8.2x**		**8.2x**

VALUATION | WHY FFO MULTIPLES MAKE NO SENSE

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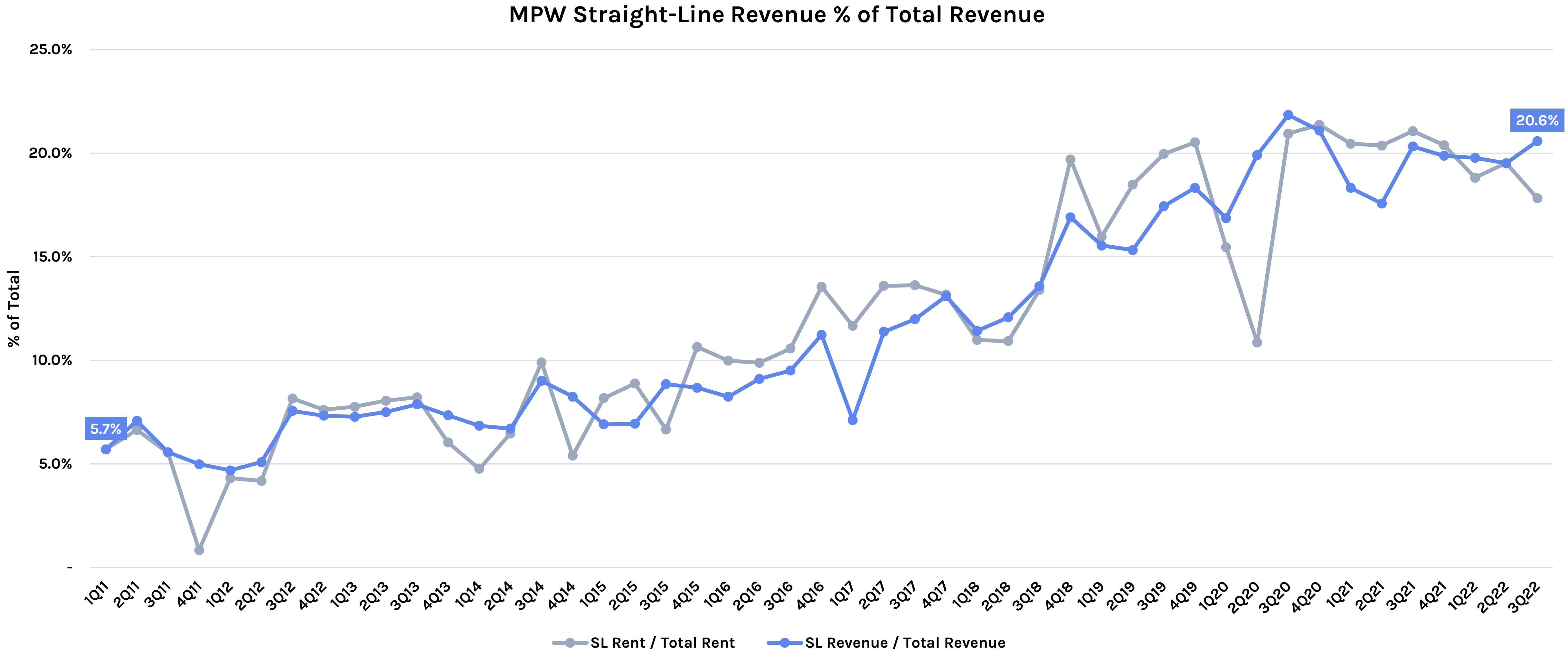
Approximately ~20% of MPW's total revenue is non-cash in nature, roughly ~4x vs. a decade ago - secular decline in GAAP FFO earnings quality.



VALUATION | LONGER TERMS → MORE NON-CASH REVENUE → LOWER QUALITY FFO EARNINGS

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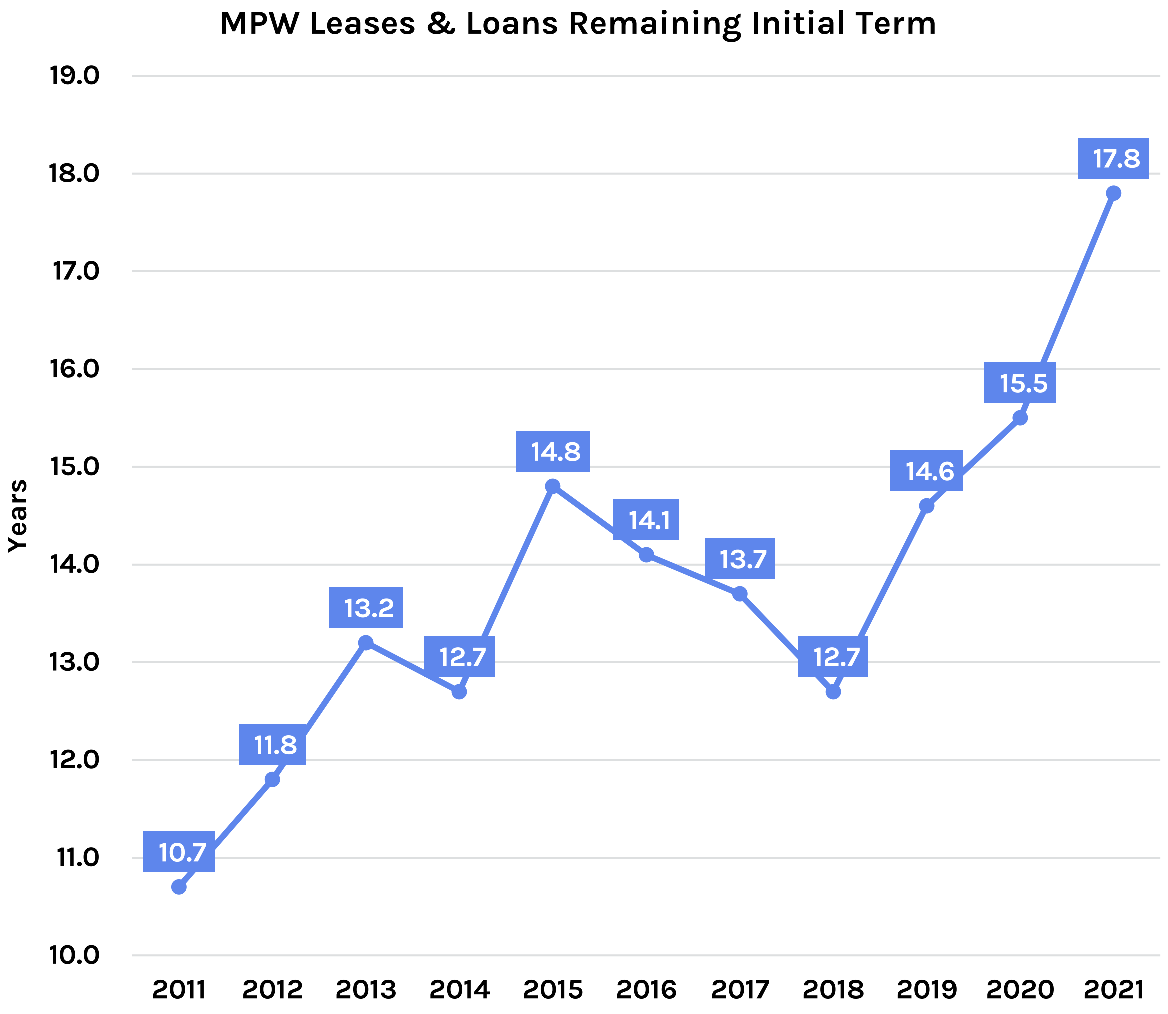
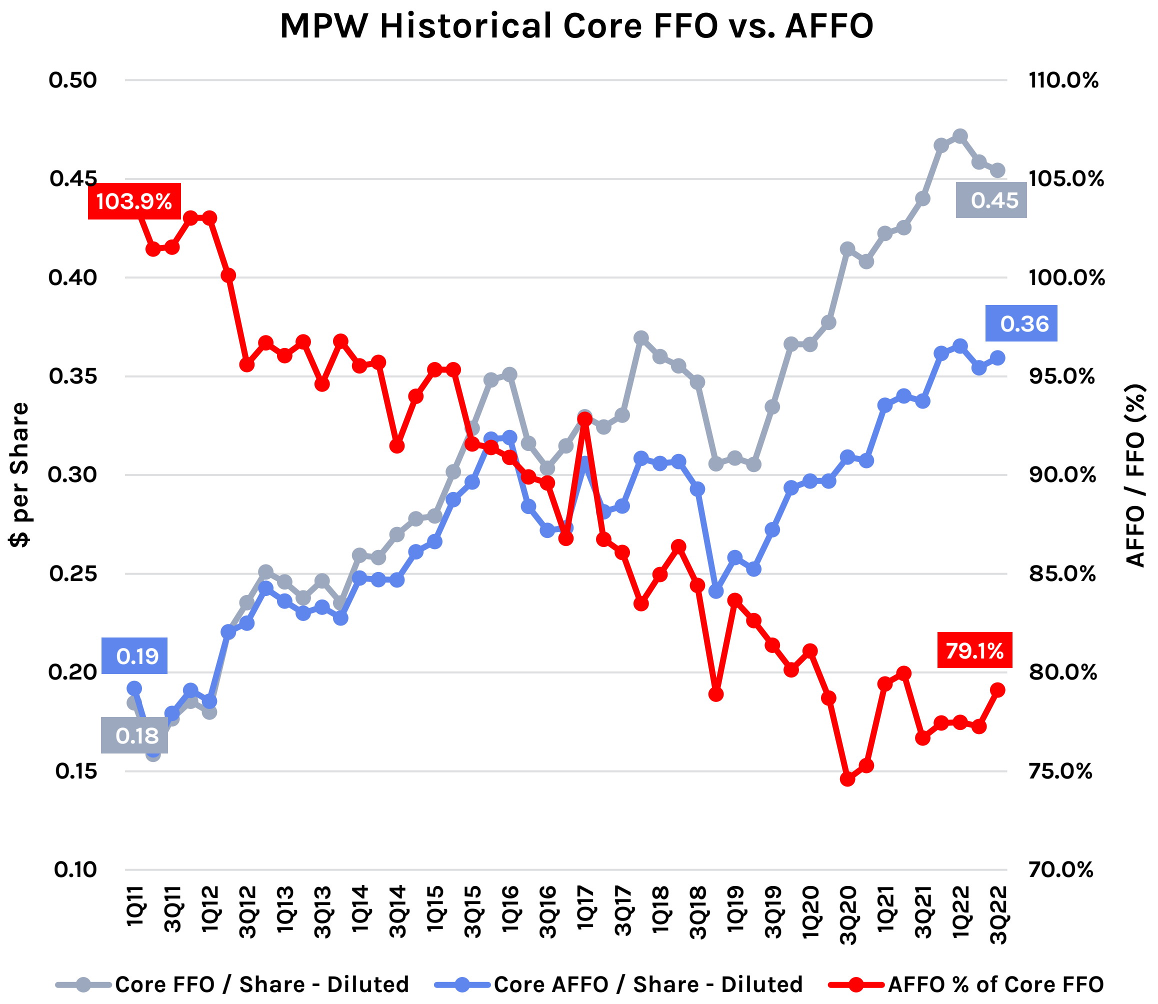
Secular increase in average agreement terms



Secular widening between Core FFO vs. AFFO



VALUATION | NON-CASH REVENUE BENCHMARKING

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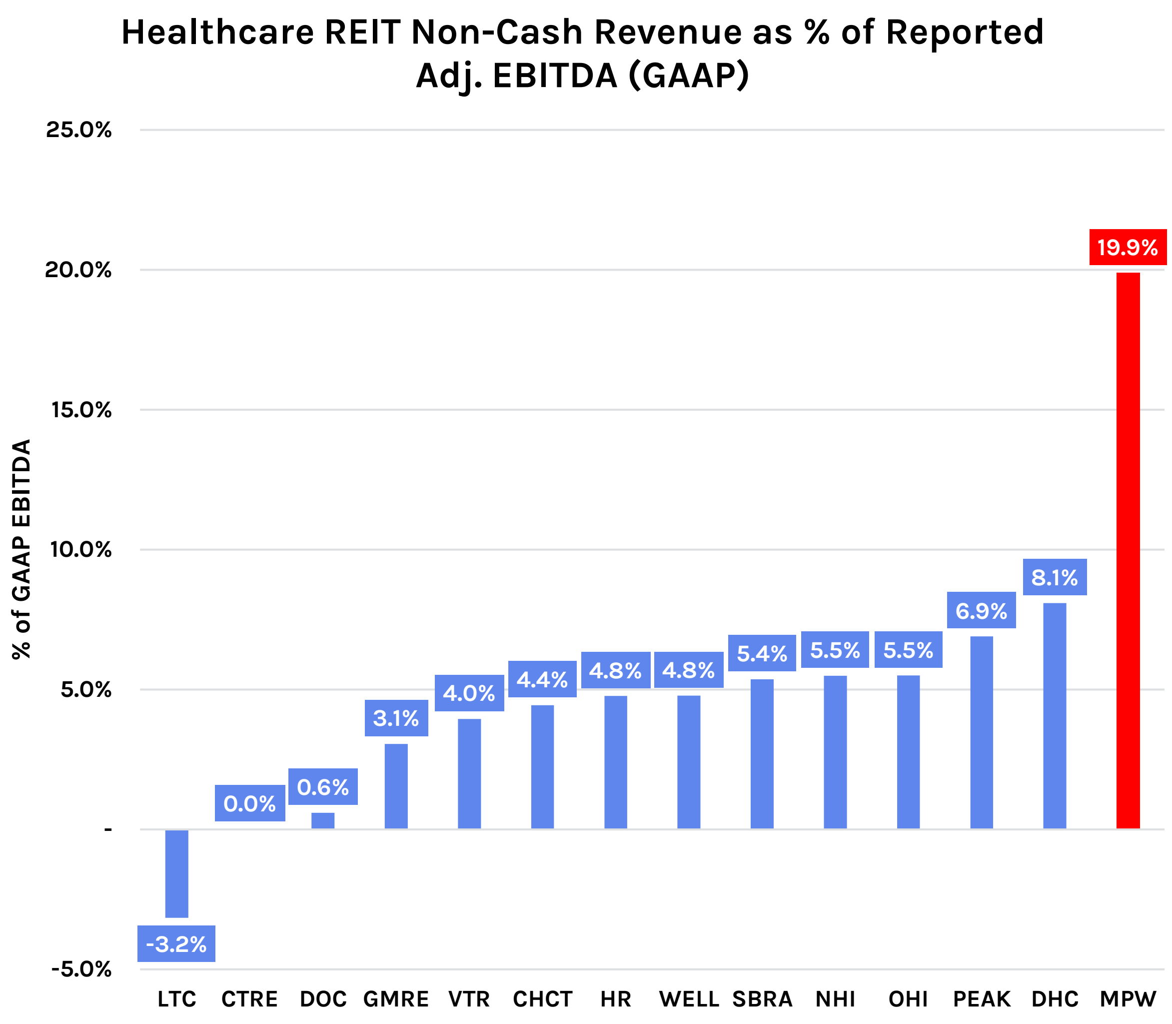
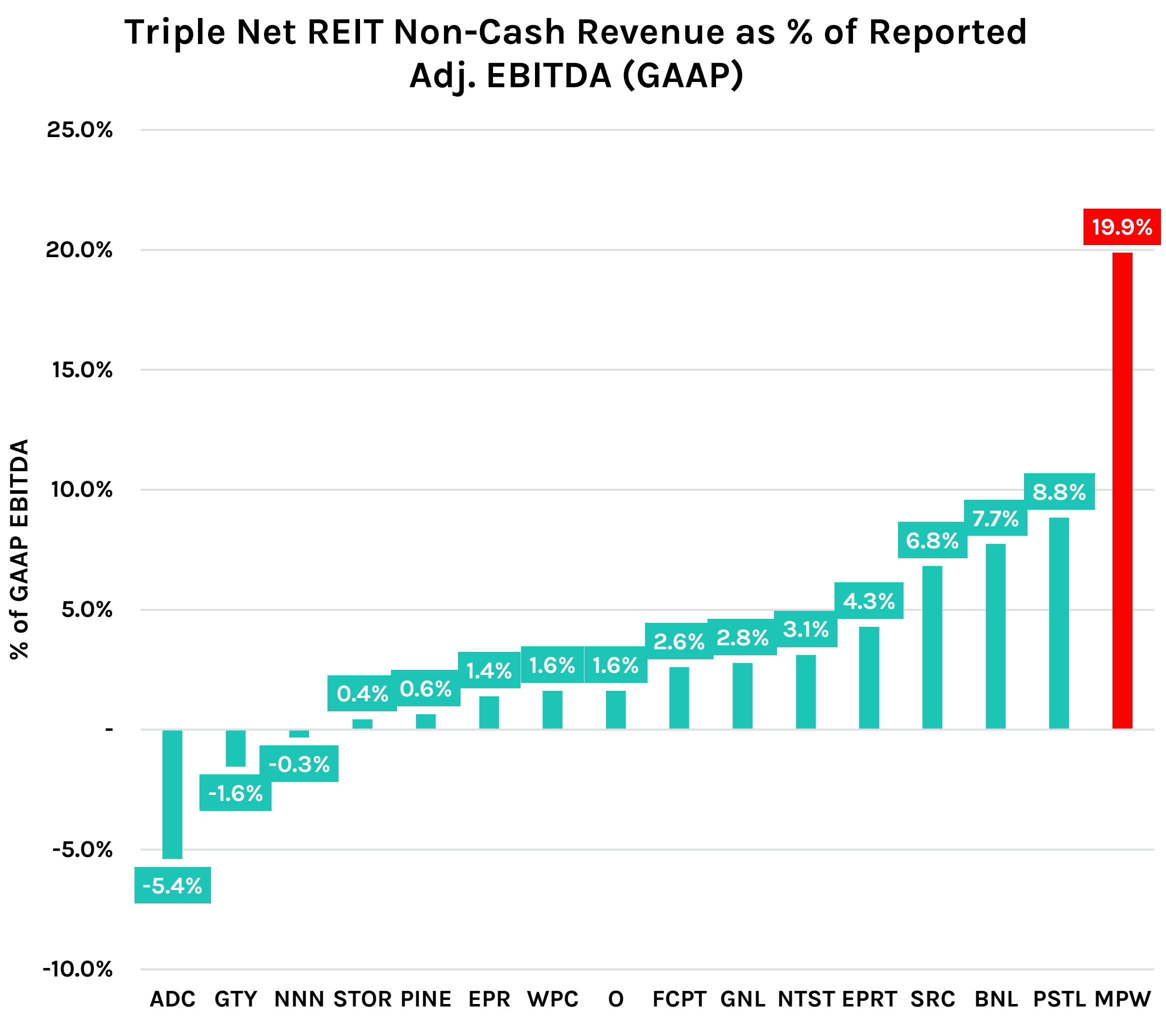
MPW's non-cash EBITDA contribution off the charts – GAAP metrics totally inappropriate for valuation purposes.





VALUATION | BOOKING RENT FROM EXTENSION OPTIONS →
LOWER QUALITY FFO EARNINGS

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Assumptions	
Property Purchase Price (GBP 000s)	800,000
Calculated GAAP Yield - Year 1	6.93%
Lease Term	25 Years
Main. Capex % of Revenue	-
Annual Escalator	2.00%
Implied Cash Yield - Year 1	5.41%

Year	Beginning Capital	Acquisition	Ending Capital	GAAP Rent	Cash Rent	Cash Rent Y/Y Change	Unlevered Cash ROIC
1	-	800,000	800,000	55,476	43,300		5.41%
2	800,000	-	800,000	55,476	44,166	2.0%	5.52%
3	800,000	-	800,000	55,476	45,049	2.0%	5.63%
4	800,000	-	800,000	55,476	45,950	2.0%	5.74%
5	800,000	-	800,000	55,476	46,869	2.0%	5.86%
6	800,000	-	800,000	55,476	47,807	2.0%	5.98%
7	800,000	-	800,000	55,476	48,763	2.0%	6.10%
8	800,000	-	800,000	55,476	49,738	2.0%	6.22%
9	800,000	-	800,000	55,476	50,733	2.0%	6.34%
10	800,000	-	800,000	55,476	51,748	2.0%	6.47%
11	800,000	-	800,000	55,476	52,782	2.0%	6.60%
12	800,000	-	800,000	55,476	53,838	2.0%	6.73%
13	800,000	-	800,000	55,476	54,915	2.0%	6.86%
14	800,000	-	800,000	55,476	56,013	2.0%	7.00%
15	800,000	-	800,000	55,476	57,133	2.0%	7.14%
16	800,000	-	800,000	55,476	58,276	2.0%	7.28%
17	800,000	-	800,000	55,476	59,442	2.0%	7.43%
18	800,000	-	800,000	55,476	60,630	2.0%	7.58%
19	800,000	-	800,000	55,476	61,843	2.0%	7.73%
20	800,000	-	800,000	55,476	63,080	2.0%	7.88%
21	800,000	-	800,000	55,476	64,342	2.0%	8.04%
22	800,000	-	800,000	55,476	65,628	2.0%	8.20%
23	800,000	-	800,000	55,476	66,941	2.0%	8.37%
24	800,000	-	800,000	55,476	68,280	2.0%	8.53%
25	800,000	-	800,000	55,476	69,645	2.0%	8.71%

- Take the example of Priory in the U.K., where MPW disclosed an initial ~8.6% GAAP/straight-line yield under 25-year lease.
- Given the starting rent of GBP 43.3 million against a purchase price of GBP 800 million = implied ~6.9% GAAP yield and ~5.4% on a cash basis.
- ~6.9% does not equal ~8.6%.
- However, when assuming the exercise of the 2 10-year extension options for a fully-extended term of 45 years, the aggregate rent payments imply the disclosed ~8.6% GAAP yield.
- = HIGHLY AGGRESSIVE ACCOUNTING.
- Difference between GAAP yields equates to ~$0.03/share of GAAP FFO from just this lease agreement, or ~2-3% of MPW's annual GAAP earnings.
- MPW recently wrote-off straight-line rent following the Prime option in 3Q22, despite the initial lease term having ended. Implies same practice.
- = POOR FFO EARNINGS QUALITY

VALUATION | DON'T TRUST AFFO EITHER! CHANGING DEFINITION -> LOWER QUALITY AFFO EARNINGS

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1 1Q22 – Definition #1 (subtracts all non-cash revenue)

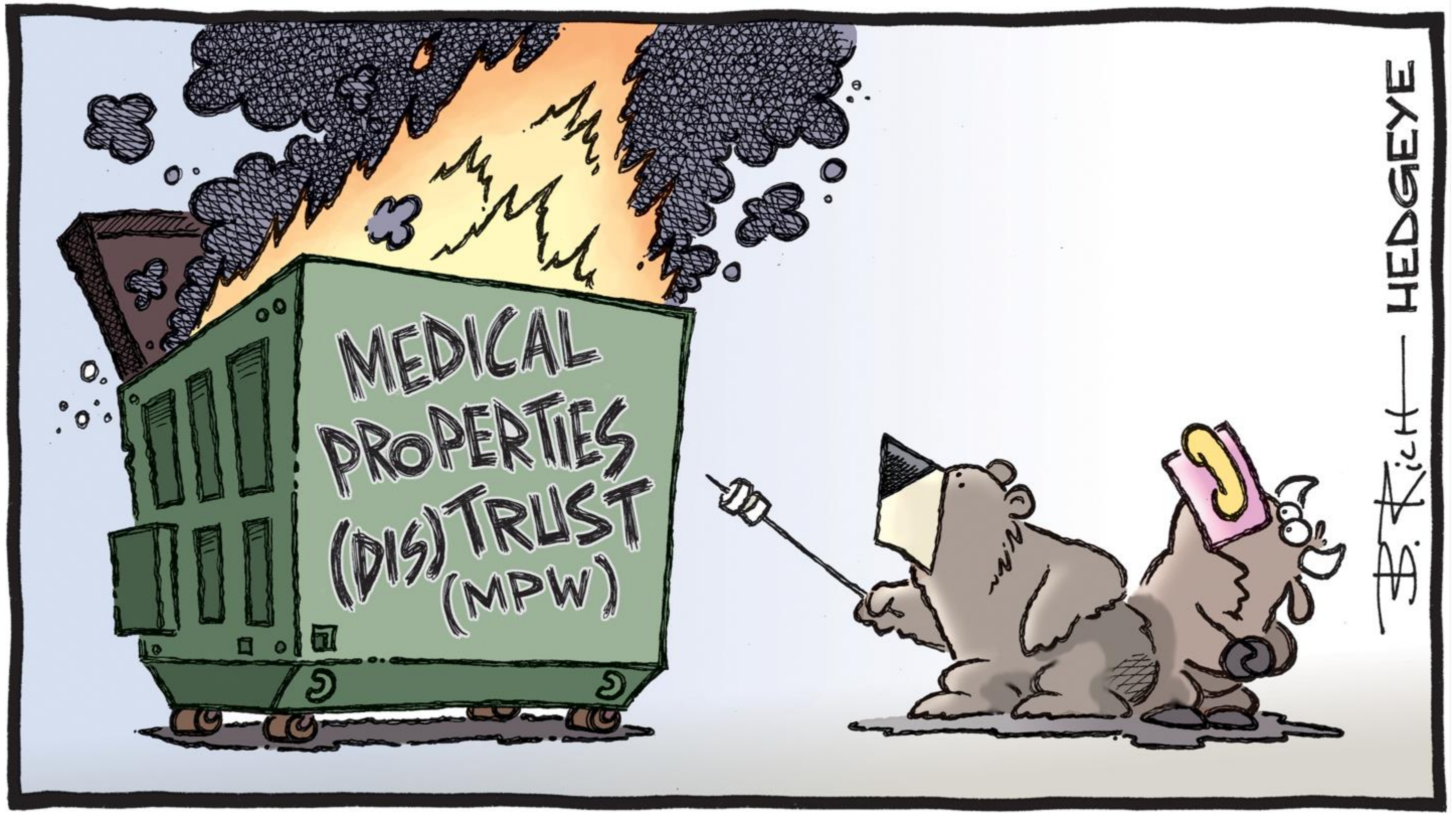
We calculate adjusted funds from operations, or AFFO, by subtracting from or adding to normalized FFO (i) non-cash revenue, (ii) non-cash share-based compensation expense, and (iii) amortization of deferred financing costs. AFFO is an operating measurement that we use to analyze our results of operations based on the receipt, rather than the accrual, of our rental revenue and on certain other adjustments. We believe that this is an important measurement because our leases generally have significant contractual escalations of base rents and therefore result in recognition of rental income that is not collected until future periods, and costs that are deferred or are non-cash charges. Our calculation of AFFO may not be comparable to AFFO or similarly titled measures reported by other REITs. AFFO should not be considered as an alternative to net income (calculated pursuant to GAAP) as an indicator of our results of operations or to cash flow from operating activities (calculated pursuant to GAAP) as an indicator of our liquidity.

2 2Q22 – Definition #2 (just a little different…)

We calculate adjusted funds from operations, or AFFO, by subtracting from or adding to normalized FFO (i) non-cash revenue such as straight-line rent, (ii) non-cash share-based compensation expense, and (iii) amortization of deferred financing costs. AFFO is an operating measurement that we use to analyze our results of operations based more on the receipt, rather than the accrual, of our rental revenue and on certain other adjustments. We believe that this is an important measurement because our infrastructure-type assets generally require longer term leases with annual contractual escalations of base rents, resulting in the recognition of a significant amount of rental income that is not collected until future periods. Our calculation of AFFO may not be comparable to AFFO or similarly titled measures reported by other REITs. AFFO should not be considered as an alternative to net income (calculated pursuant to GAAP) as an indicator of our results of operations or to cash flow from operating activities (calculated pursuant to GAAP) as an indicator of our liquidity.

3 3Q22 – Definition #3 (subtracts just SL rent; MPW has accruing loans)

We calculate adjusted funds from operations, or AFFO, by subtracting from or adding to normalized FFO (i) straight-line rent, (ii) non-cash share-based compensation expense, and (iii) amortization of deferred financing costs. AFFO is an operating measurement that we use to analyze our results of operations based more on the receipt, rather than the accrual, of our rental revenue and on certain other adjustments. We believe that this is an important measurement because our infrastructure-type assets generally require longer term leases with annual contractual escalations of base rents, resulting in the recognition of a significant amount of rental income that is not billable/collected until future periods. Our calculation of AFFO may not be comparable to AFFO or similarly titled measures reported by other REITs. AFFO should not be considered as an alternative to net income (calculated pursuant to GAAP) as an indicator of our results of operations or to cash flow from operating activities (calculated pursuant to GAAP) as an indicator of our liquidity.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