

# Watsonville Hospital / Halsen Healthcare

HEDGEYE



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## One-sided bet in Watsonville, CA where MPW shareholders bore all the risk, and lost

- **Summary:** MPW bought the hospital and financed 100% of the acquisition of the opco by Halsen Healthcare in 2019 → Halsen signed a lease with MPW → Halsen lost ~\$32.5 million in 2021 and filed for bankruptcy on 12/5/21 → hospital currently awaiting sale of opco to Pajaro Valley Healthcare District under a new 7.5% lease rate through 12/25 on the original \$40 million purchase price.
  - As an aside, Halsen and its CEO have an “interesting” background, read about it [HERE](#). The story is sad, candidly.
- MPW paid \$40 million for the real estate and lent Halsen \$15 million for “working capital” at acquisition, for a **total initial investment by MPW of ~\$55 million**. Halsen was essentially a “shell” company with no prior operations.
- Throughout 2020-2021 **MPW lent an additional ~\$20 million to Halsen in emergency funding** to cover a portion of the losses, or a +35% increase vs. the original investment. **Total pre-petition funding is an estimated ~\$75 million**. Accounting is unclear by MPW, this is based on bankruptcy filings.
  - MPW in its filings said only that it “increased the loan in an effort to support the operator...” Yes, by +35%!
- An estimated ~\$30 million of the opco loans have been written off, but MPW has not taken an impairment on the real estate.
- The local government is now going to repay MPW’s \$20-35 million DIP loan and assume the new lease on a hospital that could have been acquired (real estate + opco) for ~\$40 million in 2019. It is the only hospital serving the community.
- **Assuming the deal goes through, MPW will effectively be earning a ~4% cash yield on its total investment through 2025 before escalators kick in.** This is a perfect example of “yield compression” when loans to the opco go bad.