MPW **Fun Facts –** Puts & Mortgages

SEC enquiries show MPW mortgages to Steward exceed values of the properties Steward buy.

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February 6, 2023 – As Viceroy prepare an extended case study highlighting MPW exposure to international criminal inquiries, we present readers with a fun throwback to 2018, when the SEC questioned MPW's uncommercial transactions.

A link to the correspondence is below:

https://www.sec.gov/Archives/edgar/data/1287865/000119312518271134/filename1.htm

The background to the SEC's questions related to MPW's determination that it was unnecessary to disclose Steward Healthcare's financials as an exhibit to its 10-K, which is broadly consistent with Steward and MPW's minimal-transparency policy.

Of interest, the SEC's examination of MPW's 10-K exhibits showed that:

1. MPW provided Steward with a mortgage and/or loan to purchase properties
2. The value of the loan exceeded the value of the properties by 10%.
3. Under the terms of the loan agreement, MPW has an option to buy the property from Steward at 110% of its fair market value.

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2. Please tell us how you considered if the loan agreement with Steward is a loan, an investment in real estate, or a joint venture. We refer you to the Real Estate Loan Agreement filed as Exhibit 10.34 to your Form 10-K for the year ended December 31, 2016 and the Joinder and Amendment to Real Estate Loan Agreement filed as Exhibit 10.2 to your Form 10-Q for the quarterly period ended September 30, 2017. Based on these agreements, it appears that you have the option to purchase the properties at 110% of fair market value, which is defined as specific dollar amounts in the agreement and equals the amount lent to Steward. Your response should address how you considered the terms of the loan, including, but not limited to, the purchase option. In your response, please refer to the guidance in ASC 310-10 for Acquisition, Development, and Construction Arrangements and SAB 1I.

Figure 1 – Extract from MPW / SEC correspondence, September 11, 2018.

Already, it is absolutely astounding that MPW would make such blatantly uncommercial deals with Steward when it could outrightly buy the hospital itself, and not pay a 10% premium to its tenant middle-man.

In response to the SEC's question on how MPW considered the terms of the loan, MPW spectacularly state that this option is put in place in order for Steward to avoid paying capital gains tax on the transfer of the property that it would acquire in the following year (it was the IASIS transaction, covered in our report).

In other words, MPW answered why they gave Steward a 10% premium structured as mortgage, rather than just paying them cash.

When structuring transactions, our goal is to achieve the best outcome for our shareholders, including the investment decisions we make regarding structuring a deal as either a lease or a mortgage loan. In regards to Steward specifically, we decided to structure two of our transactions with them with a combination of both leases and mortgage loans. One of the main reasons for agreeing to originate mortgage loans was to prevent Steward from having to pay significant capital gains taxes upon transfer of the real estate, which benefited Steward, but also our shareholders, by allowing Steward to maintain more free cash on-hand to meet its obligations as they come due.

Figure 2 – Extract from MPW / SEC correspondence, September 11, 2018.

It has structured multiple transactions with Steward in this way.

This query from the SEC confirms half of our IASIS analysis in our original report. In total, we estimate that MPW round tripped over $700m to Steward as part of this transaction.

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