



MPW – Steward “extreme financial hardship”

Steward has received demand letters from CMS, claims it has applied for relief under “extreme financial hardship”.

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February 22, 2023 – In 2022 Steward sued Tenet for payments from the Florida Detected Payments Program (DPP) it believed it was owed given the back-dated periods these receipts relate to. Particulars of amounts are heavily redacted.

This lawsuit appears to have spectacularly backfired on Steward. Court filings now show Steward’s “extreme” financial distress, eviction notices by landlords, and credit hold by numerous providers.

Documents pertaining to the case can be found on our website alongside this report.

Tenet counter-claim

Tenet lodged a counterclaim against Steward, claiming that it had **sent Steward several letters of demand for \$18m in unpaid administrative IT services** it continued to provide to Steward under the Asset Purchase Agreement, and 10/12 of the program year DPP distribution, a sum of net \$27m. Steward claims to have offset fees owed to it against payments owed to Tenet.

“Program Year” periods in relation to when “Closing” occurs.³¹ The Defendants contend that they are entitled to approximately 10/12s of the DPP Distributions, after certain deductions, meaning that the Plaintiffs owe them approximately \$27.7 million in DPP Distributions.³² The Plaintiffs, in contrast, argue that they are entitled to the full amount of the DPP Distributions, meaning that the Defendants owe them approximately \$4.6 million in DPP Distributions.³³

Figure 1 – Steward vs Tenet C.A. No. 2022-0289-SG

Steward, who run dozens of hospitals in the USA outside of the former Tenet group, bizarrely claim that changing administrative providers or transferring these hospitals into their system is somehow prohibitive. Future Viceroy publications will show that this is likely because Steward has no back-end of its own, and relies heavily on endless transitioning services from vendors.

Interim judgement

In a spectacular backfire, the court has ruled that Steward must put up a \$2.8m bond as security for Tenet to continue service under its APA until the case is concluded. This is indicative of the outcome.

III. CONCLUSION

For the foregoing reasons, the Plaintiffs’ PI Motion is GRANTED, subject to the Plaintiffs’ satisfaction of a \$2.8 million monthly surety bond. The parties should confer and submit a form of order consistent with this Memorandum Opinion.

Figure 2 – Steward vs Tenet C.A. No. 2022-0289-SG

In determining what level of bond should be set, the Judge determined that a “high-end” estimate was appropriate, given Steward’s financial distress and inability to pay bills as and when they fall due (i.e. Steward are insolvent). This was evidenced by “an eviction notice that [Steward] received for failure to pay rent” and “credit holds relating to [Steward’s] failure to pay six vendors.



In considering whether to set a bond, and if so, at what amount, I first note that the Defendants have submitted some evidence that the Plaintiffs have failed to pay certain debts as they have come due. For example, the Defendants cite an eviction notice that the Plaintiffs received for failure to pay over \$63,000 in rent and credit holds relating to the Plaintiffs' failure to pay six vendors.⁶³ I also note that

Figure 3 – Memorandum of Opinion 2022-0289-SG

Doors wide shut – Tenet force discovery

In continuation of the case, on February 20, 2023, Tenet lodged a reply in support of their Motion to Compel discovery. Steward, as always, appears to be actively fighting against revealing the true state of its financial affairs.

Specifically, Steward is refusing to “prove” that it has filed “extreme” financial hardship applications with CMS, the federal agency who administers Medicare and Medicaid, alongside states. Steward does not dispute that these applications are based on “extreme financial hardship”.

13. Steward does not dispute that its Applications included a showing of “extreme” financial hardship. Instead, Steward argues the Applications are not

Figure 4 – Steward vs Tenet C.A. No. 2022-0289-SG

The substance of the filing was allegedly to seek payment extensions or some other form of relief on the repayment of its Covid Accelerated & Advanced Payment Program (“AAPP”) repayment obligations.

Incredulously, Steward is now claiming that Tenet is liable for these repayment obligations, despite the fact that extensions were only entered into “because Steward refused to reimburse [Tenet] for the same” (i.e. it was netted against the transaction cost).

The document further notes that a Demand Letter was issued to Steward by CMS. Steward further declines to provide documentation relating to whether or not this demand was ever paid up.

20. The fact that CMS issued a Demand Letter to Steward provided no indication that Steward filed Applications for “extreme” financial hardship. It also says nothing about whether the so-called “actual” October AAPP obligation of over [REDACTED] was ever actually paid. Opp. at Ex. E (emphasis added). Instead, even

Figure 5 – Steward vs Tenet C.A. No. 2022-0289-SG



Inconsistency against MPW Blue Sky analysis

MPW, presumably via Steward, has consistently communicated Steward exemplary financial performance in 2022.

In its August 2022 Investor Update, MPW claimed that Steward was outperforming expectations and costs were under control.

OPERATIONS RAMPED-UP TO STRONG RUN-RATE DURING Q2 2022¹

Results improving substantially versus Q1 2022, as restrictions on elective surgeries in Massachusetts have expired and as staffing and other cost pressures have eased.

- **Volume metrics up** across all key categories
- **Higher-quality volume** improving profitability
- **EBITDAR increased** in majority of regions
- **Contract labor expense decreased 21%**, with labor costs now < 50% of revenue
- **May and June significantly outperformed** original expectations
- **Q2 2022 +11% versus pre-COVID Q2 2019** (excluding South Florida)

Figure 6 – MPW Investor Update, August 2022

MPW went as far as to say Steward was “substantially and sustainably positive free cash flow” beginning in Q4 2022.

LIQUIDITY UPDATE¹

Recent improvements to hospital operations noted above are expected to continue through the remainder of the year and to coincide with positive developments related to Steward’s liquidity position:

- **\$350 million annual labor and non-labor cost savings initiative** is fully-implemented as of August
- **\$70 million** in Medicaid reimbursement previously delayed due to dispute between Texas and CMS is now being collected
- **\$70 million** collection in Q3 2022 of accounts receivable related to Tenet transition in Florida
- **\$125 million** in cash expected from CareMax transaction, expected to close in Q4 2022
- **\$45-50 million current monthly pace of Medicare advance and Tenet management contract repayments ends in September**

Steward expects a **substantial and sustainable positive free cash flow run-rate beginning in Q4 2022**

Figure 7 – MPW Investor Update August 2022

Despite this, Steward continues to claim to federal agencies that it is under “extreme” financial hardship, and appears to have hoarded unpaid demand letters from CMS.

If, as MPW claim, Steward is not insolvent or in any sort of “extreme financial hardship”, then Steward may have defrauded the Government.

If Steward is under extreme financial hardship, then may have defrauded MPW and its investors



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