MPW Annual Report 2022 Analysis

More tenant financing, more issues at Steward and shoddy tenant disclosures, just another day at MPW

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March 17, 2023 – On March 1, 2023 MPW released its annual report for 2022. Viceroy's analysis shows similar red flags to those raised in our Q4 2022 analysis. This report will go through those issues as well as further developments. We reiterate our belief that MPW's tenant base is in significant financial distress and the company is seriously exposed to tenant failures.

Without further ado, lets see how bad things have gotten.

Steward's tab keeps growing

MPW just keeps on giving…to Steward. MPW's accounting practices around these sorts of tenant loans appears to have undergone a major change.

- The company's promissory note loan to Steward has increased to $220m in five tranches from $44m in three tranches 2021.

> In addition to the master leases, we hold a promissory note totaling approximately $220 million, which consists of five tranches with varying terms. On January 8, 2021, we made a $335 million loan to affiliates of Steward, the terms of which provide us opportunities for participation in the value of Steward's growth. All of the proceeds from this loan were paid to Steward's former private equity sponsor to redeem a similarly sized convertible loan. Finally, we hold a 9.9% equity investment in Steward totaling approximately $126 million.

Figure 1 – MPW 2022 10-K

- MPW appears to have changed its accounting treatment to combine its "equity investments" and "other loans and assets" into a new "investments in unconsolidated operating entities" line item. This includes MPW's $335m promissory note to Steward, the proceeds of which were used to buy out Steward's private equity sponsors.

	2021	2020	2019
Land and land improvements	$ 642,312	$ 365,281	$ 400,539
Buildings	2,381,654	2,547,313	1,951,066
Intangible lease assets — subject to amortization (weighted-average useful life of 34.5 years in 2021, 27.5 years in 2020, and 19.1 years in 2019)	262,385	642,699	227,468
Investment in financing leases	—	114,797	1,386,797
Equity investments	123,427	233,593	415,836
Mortgage loans	1,113,300	176,840	51,267
Other loans and assets	909,669	309,523	135,258
Liabilities assumed	(82,508)	(140,866)	(2,637)
	$ 5,350,239	$ 4,249,180	$ 4,565,594
Loans repaid(1)	(1,103,410)	(834,743)	—
Total net assets acquired	$ 4,246,829	$ 3,414,437	$ 4,565,594

	2022	2021	2020
Land and land improvements	$ 135,301	$ 642,312	$ 365,281
Buildings	487,698	2,381,654	2,547,313
Intangible lease assets — subject to amortization (weighted-average useful life of 21.3 years in 2022, 34.5 years in 2021, and 27.5 years in 2020)	45,394	262,385	642,699
Investment in financing leases	—	—	114,797
Mortgage loans(1)(2)	159,735	1,113,300	176,840
Investments in unconsolidated real estate joint ventures	399,456	—	233,593
Investments in unconsolidated operating entities	131,105	1,033,096	205,000
Other loans	—	—	103,195
Other assets	—	—	1,328
Liabilities assumed	(25,727)	(82,508)	(140,866)
	$ 1,332,962	$ 5,350,239	$ 4,249,180
Loans repaid(1)	—	(1,103,410)	(834,743)
Total net assets acquired	$ 1,332,962	$ 4,246,829	$ 3,414,437

Figures 2 & 3 – MPW 2021 10-K and 2022 10-K

- MPW has not marked down its investment in its Maltese international joint venture with Steward despite multiple public issues around this concession. Recently a Maltese court has revoked the joint

venture's concession and ordered the hospitals returned to the state and opined that Steward Health Care International fraudulently obtained the concession.

Operator	As of December 31, 2022	As of December 31, 2021
Steward (loan investment)	$ 362,831	$ 360,164
International joint venture	231,402	219,387
Springstone	200,827	187,450
Priory	156,575	42,315
Swiss Medical Network	157,145	159,208
Steward (equity investment)	125,862	139,000
Prospect	112,777	112,283
Aevis Victoria SA ("Aevis")	72,904	61,271
Aspris Children's Services ("Aspris")	16,023	8,356
Caremax	8,526	—
Total	$ 1,444,872	$ 1,289,434

Figure 4 – MPW 2022 10-K

More Steward financial trouble

On March 1, 2023, Steward announced it would close the Texas Vista Medical Center (TVMC) on May 1, 2023. It laid blame for the impending closure at the feet of UHS and Bexar County claiming it had put forward a proposal for UHS and Bexar County to take over operations.

> SAN ANTONIO--(BUSINESS WIRE)--Steward Health Care today announced its decision to close Texas Vista Medical Center (TVMC) effective May 1, 2023. On limited resources, TVMC supports limited-income, high-needs patient populations. Nearly one quarter of the hospital's patients cannot and do not pay for the services the hospital provides. Additionally, over half of TVMC patients are government pay patients, which means the hospital is paid less than the cost of patient care. Steward has put forth a proposal for University Health System (UHS) and Bexar County to take over control of TVMC, but UHS and Bexar County have not accepted our offer.

Figure 5 – Texas Vista Medical Center to Close Barring Take Over or Significant Government Relief[1]

The same day UHS published their response which declined to go into specifics but stated that Steward's takeover terms were not mutually acceptable and that MPW was an obstacle their takeover of the operations. Steward's press release made no mention of MPW.

> While we are not able to release any details of conversations or analysis, it has become increasingly clear that our mission and values are not aligned with Medical Properties Trust, the real estate investment trust (REIT), which owns the assets of Texas Vista Medical Center and collects lease payments from Steward Health, who operates the hospital.

Figure 6 – University Health Response to Steward Health March 1, 2023, News Release[2]

On March 4, 2023, Texas Public Radio published an article concerning Steward effectively threatening to shut down the facility due to financial hardship. Steward and its "parent company" Medical Properties Trust approached Bexar County to ask for a bailout stating it needed ~$5m to $10m to continue operating.

> Employees of Steward Health Care, along with its parent company Medical Properties Trust, have made pleas to the public, saying the only way to save them is through a Bexar County bailout that would cost the taxpayers millions of dollars. The alternative is to leave the South Side in what one health care official called a "public-health crisis."
>
> The announcement surprised Bexar County officials. A spokesperson said they only had one Zoom meeting with Steward Health. It lasted less than an hour, during which Steward Health officials said they didn't plan to close but needed between $5 million and $10 million to stay open.

Figure 7 – Financial impropriety allegations swirl around companies behind San Antonio hospital closure[3]

We believe this points to both Steward's financial hardship and MPW's unsustainable leases and believe this series of events will continue to play out across Steward's locations.

[1] https://www.businesswire.com/news/home/20230301005997/en/Texas-Vista-Medical-Center%C2%A0to%C2%A0Close-Barring%C2%A0Take-Over-or-Significant-Government-Relief%C2%A0
[2] https://www.universityhealth.com/news/response-to-steward-health-news-release
[3] https://www.tpr.org/bioscience-medicine/2023-03-04/financial-impropriety-allegations-swirl-around-companies-behind-san-antonio-hospital-closure

Priory refinance

- MPW participated in a syndicated term loan facility originated on Priory's behalf by its purchaser Waterland to the tune of GBP100m. The total loan size was GBP250m. We believe this loan was used to repay MPW's acquisition loan to Waterland.

> On February 16, 2022, we agreed to participate in an existing syndicated term loan with a term of six years originated on behalf of Priory. We funded £96.5 million towards a £100 million participation level, reflecting a 3.5% discount. The loan carries a variable rate that was 8.3% at December 31, 2022.

Figure 8 – MPW 2022 10-K

- MPW had previously stated that Waterland had repaid the GBP250m loan with interest on October 22, 2021, in its Q3 2021 10Q but qualifying language in its Short-term Liquidity Requirements section implied that funds had not been received by November 1, 2021.

> In addition to the real estate investment, on January 19, 2021, we made a £250 million acquisition loan to Waterland VII, in connection with the closing of Waterland VII's acquisition of Priory, which was repaid in full plus interest on October 22, 2021.

> *Short-term Liquidity Requirements:*
>
> At November 1, 2021 and including receipt of £250 million repaid by Waterland VII pursuant to the Priory acquisition loan (as described in Note 3 to Item 1 of this Form 10-Q) subsequent to September 30, 2021 (as described in Note 12 to Item 1 of this Form 10-Q), our liquidity approximates $1.0 billion. We believe this liquidity along with our current monthly c distributions from our joint venture arrangements, approximately $250 million of availability under our at-the-market equity program, and expected cash proceeds from the Macquarie Tran

Figures 9 & 10 – MPW Q3 2021 10-Q

- The following Short-term Liquidity Requirement section had no qualifying language and is dated February 18, 2022, 2 days after MPW's participation in the syndicated term loan.

> *Short-term Liquidity Requirements:*
>
> As of February 18, 2022, our liquidity approximates $1.0 billion. We believe this liquidity along with our current monthly cash receipts from rent and loan interest, regular distributions from our joint venture arrangements, and expected cash proceeds from the Macquarie Transaction of approximately $1.3 billion (as described in Note 3 to Item 8 of this Annual Report on Form 10-K) is sufficient to fund our operations, dividends in order to comply with

Figure 11 – MPW 2021 10-K

- S&P states that the proceeds were used to refinance a bridge loan to Waterland relating to its acquisition of Priory ultimately funded by MPW. Strangely the size of the Sterling loan is the same as the acquisition loan MPW made to Median, GBP250m.

> The facility is part of a financing that supported Waterland's refinancing of the combined capital structure of Median and Priory Group and acquisition of the group by the private equity firm's continuation fund. The deal also included a €500 million facility that priced at E+500 with a 0% floor offered at 97 in November 2021. The entire financing was first shown on a lender call in September 2021, with the sterling piece guided at S+575-600. Syndication was then postponed in early October.

Figure 12 – Median prices £250M loan for refinancing and acquisition; terms[4]

- As noted above, the syndication was postponed in early October 2021 due to the airing of a BBC documentary about Priory's business[5]. We believe this postponement was covered up by MPW and that funds were not received until February 18, 2022, and further that MPW's participation was due to slack demand in Priory's debt offering.

[4] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/median-prices-163-250m-loan-for-refinancing-and-acquisition-terms-68961202

[5] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/median-priory-wraps-8364-500m-term-loan-67456916

Prospect and others

- Prospect’s $112m term loan originally due July 2022 has clearly not been paid off. Originally this was to be redeemed in exchange for Prospect’s Rhode Island Hospitals which has been blocked by the Rhode Island Attorney General.
- The increase in MPW’s Q2 2022 mortgage loan on Prospect’s California hospital was revealed to be a $100m increase to the $51.3m advanced in 2019. According to the Rhode Island Attorney General this California hospital and the Rhode Island Hospitals are all the property Prospect has left.

Our expert: “PMH has sold substantially all its real property except for [one California hospital] and the Rhode Island properties. There is very little leverage to provide liquidity.” *Carris Report, p.9*

Figure 13 – Decision in Propect Medical Holdings HCA Review: Rhode Island AG

- The credit loss recovery from Pajaro’s acquisition of Watsonville community hospital has changed from 20m in Q3 2022 to 15m in Q4 2022. No explanation is given for this change.

approximately $32 million of the loans previously provided to the hospital. This loan repayment resulted in a credit loss recovery of approximately $20 million in the 2022 third quarter as shown in the "Other (including fair value adjustments on securities)" line of the condensed consolidated statements of net income. To date, Pajaro has been current on its monthly rental payments to us.

of the Watsonville Community Hospital and lease the real estate from us. On August 31, 2022, Pajaro completed this purchase of the operations of the Watsonville Community Hospital. As a result of this transaction, we were repaid approximately $32 million of the loans previously provided to the hospital. This loan repayment resulted in a net credit loss recovery of approximately $15 million in 2022 and reflected in the "Real estate and other impairment charges, net" line of the consolidated statements of net income. To date, Pajaro has been current on its monthly rental payments to us.

Figures 14 & 15 – MPW Q3 2022 10-Q & MPW 2022 10-K

Tenant distribution

MPW also significantly changed how it calculates its assets and revenues by operator and geography moving from “Adjusted gross assets and revenues” to the GAAP-compliant “Total Assets and Revenues”.

MPW states that these changes were made to comply with SEC non-GAAP measurement guide in December 2022 that stated that “non-GAAP measurements must be presented with related GAAP measures in equal prominence”. The company then failed to publish any way to reconcile the numbers between the new GAAP and previous non-GAAP measurements until pressed by analysts on its earnings call.

We believe it is this passage specifically that forced the change in presentation.

Question: Can a non-GAAP measure be misleading if it, and/or any adjustment made to the GAAP measure, is not appropriately labeled and clearly described?

Answer: Yes. Non-GAAP measures are not always consistent across, or comparable with, non-GAAP measures disclosed by other companies. Without an appropriate label and clear description, a non-GAAP measure and/or any adjustment made to arrive at that measure could be misleading to investors. The following examples would violate Rule 100(b) of Regulation G:

- Failure to identify and describe a measure as non-GAAP.
- Presenting a non-GAAP measure with a label that does not reflect the nature of the non-GAAP measure, such as:
  - a contribution margin that is calculated as GAAP revenue less certain expenses, labeled “net revenue”;
  - non-GAAP measure labeled the same as a GAAP line item or subtotal even though it is calculated differently than the similarly labeled GAAP measure, such as “Gross Profit” or “Sales”; and
  - a non-GAAP measure labeled “pro forma” that is not calculated in a manner consistent with the pro forma requirements in Article 11 of Regulation S-X. [December 13, 2022]

Figure 16 – SEC.gov Non-GAAP Financial Measures

What is clear is that MPW’s previous disclosures took significant liberties to artificially reduce exposure and inflate revenue per customer.

- For some reason, MPW counts its own cash and other assets in the “other” segment diluting the operator level exposure. Previously this was not noticeable as the total asset count did not match the balance sheet. We believe these assets should be excluded.
- MPW previously included a pro-rata share of GAAP revenue from its unconsolidated real estate JVs in addition to interest on its loan investments which runs contrary to their supposed lack of consolidation.
    - This explains, we believe, the ~$30m of revenue that evaporated in the Steward Massachusetts and Swiss Medical Network line items.
    - Q4 2022 revenues from Steward’s Massachusetts network fell from $23.3m to $6.5m. This corroborates Viceroy’s previous analysis on the Macquarie deal.
    - Q4 2022 revenues from Swiss Medical Network fell from $11.8m to an undisclosed amount.
- MPW appear to aggressively recognize changes in their customer mix ahead of time. The company previously included:
    - The sale of Prospect’s Connecticut hospitals despite management stating this transaction would close in 12-18 months as of March 2023.
    - The purchase of Springstone by Lifepoint which only concluded in February 2023. USD14m of revenue seems to have evaporated from this change. We question how MPW planned to explain $14m of revenue from an entity not yet a tenant.

These changes show how MPW previously used non-GAAP measurements to manipulate its distribution away from its riskier customers. Steward’s percentage of assets jumps from 19.8% to 24.2% in the new GAAP measurement.

GAAP vs Non-GAAP analysis - Viceroy Research	GAAP method				Non GAAP			
	Total Assets	% of assets	Q4 2022 revenues	% of revenues	Total Assets	% of assets	Q4 2022 revenues	% of revenues
Steward Health Care	4,762,673	24.2%	99,399	26.1%	4,199,541	19.8%	116,289	27.3%
Circle Health	2,062,474	10.5%	45,282	11.9%	2,211,306	10.4%	45,282	10.6%
Lifepoint					1,407,706	6.6%	14,104	3.3%
Swiss Medical Network					1,348,920	6.4%	11,816	2.8%
Prospect Medical Holdings	1,483,599	7.5%	43,781	11.5%	1,184,772	5.6%	43,781	10.3%
Priory Group	1,290,213	6.6%	20,151	5.3%	1,317,110	6.2%	20,151	4.7%
Springstone	985,959	5.0%	21,930	5.8%	-	0.0%	21,930	5.1%
Other operators	7,461,923	38.0%	149,943	39.4%	8,290,210	39.0%	153,157	35.9%
Other assets	1,611,159	8.2%	0	0.0%	1,280,792	6.0%	-	0.0%
Total	**19,658,000**	**100%**	**380,486**	**100%**	**21,240,357**	**100%**	**426,510**	**100%**

Figure 17 – GAAP vs Non-GAAP analysis - Viceroy Research

More shockingly, this GAAP adjustment means MPW appears to have found 3 hospitals in a presumably uninhabited state somewhere in the US.

GAAP vs Non-GAAP analysis - Viceroy Research	GAAP method					Non GAAP				
Location	Number of facilities	Total Assets	% total assets	Q4 2022 revenues	% Q4 2022 revenues	Number of facilities	Total Assets	% total assets	Q4 2022 revenues	% Q4 2022 revenues
Texas	52	1,967,948	10.0%	41,625	11%	52	2,005,798	9.4%	41,625	10%
California	20	1,450,112	7.4%	41,313	11%	20	1,488,203	7.0%	41,313	10%
Florida	9	1,324,555	6.7%	25,466	7%	9	1,410,907	6.6%	25,466	6%
Utah	7	1,224,484	6.2%	34,714	9%	7	925,932	4.4%	34,714	8%
Massachusetts	10	761,694	3.9%	6,662	2%	10	1,262,683	5.9%	23,552	6%
Other States	122	4,245,306	21.6%	120,418	32%	119	4,227,575	19.9%	120,418	28%
Other	-	1,028,946	5.2%	0	0%	0	876,663	4.1%	-	0%
United States	**220**	**12003045**	**61.1%**	**270,198**	**71%**	**217**	**12,197,761**	**57.4%**	**287,088**	**67%**
United Kingdom	87	4,083,244	20.8%	77,502	20%	87	4,308,233	20.3%	77,502	18%
Australia	11	854,582	4.3%	14,157	4%	11	924,579	4.3%	14,157	3%
Switzerland	17	748,947	3.8%	868	0%	17	1,348,920	6.3%	11,816	3%
Germany	82	664,900	3.4%	8,040	2%	82	1,200,212	5.6%	22,747	5%
Spain	9	222,316	1.1%	1,919	1%	9	355,176	1.7%	3,508	1%
Other Countries	18	498,753	2.5%	7,802	2%	18	521,347	2.5%	9,692	2%
Other	-	582,213	3.0%	0	0%	0	404,309	1.9%	-	0%
International	**224**	**7654955**	**38.9%**	**110,288**	**29%**	**224**	**9,062,776**	**42.6%**	**139,422**	**32.7%**
Total	**444**	**19658000**	**100.0%**	**380,486**	**100%**	**441**	**21,260,537**	**100.0%**	**426,510**	**100%**

Figure 18 – GAAP vs Non-GAAP analysis - Viceroy Research

Its telling that it took official SEC changes for MPW to update their figures to something actually useful and representative of their business.

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Medical Properties Trust, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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