MPW **Case Study**- Macquarie

MPW raises debt off balance sheet, disguising borrowings as asset sales and recording false gains on transactions.

PLEASE READ IMPORTANT DISCLAIMER – PAGE 3

March 10, 2023 – On March 16, 2022 MPW completed a partnership with Macquarie Asset Management (MAM). MPW contributed assets worth $1.1b to the joint venture in exchange for an undisclosed cash payment. The joint venture would then raise secured nonrecourse debt with the proceeds going to MPW.

2022 Activity

Macquarie Transaction

On March 14, 2022, we completed a transaction with Macquarie Asset Management ("MAM") to form a partnership (the "Macquarie Transaction"), pursuant to which we contributed eight Massachusetts-based general acute care hospitals that are leased to Steward Health Care System LLC ("Steward") and a fund managed by MAM has acquired, for cash consideration, a 50% interest in the partnership. The transaction valued the portfolio at approximately $1.7 billion, and we recognized a gain on real estate of approximately $600 million from this transaction, partially offset by the write-off of unbilled straight-line rent receivables. The partnership raised nonrecourse secured debt of 55% of asset value, and we received proceeds, including from the secured debt, of approximately $1.3 billion, virtually all of which was used to repay debt. We obtained a 50% interest in the real estate partnership valued at approximately $400 million (included in the "Investments in unconsolidated real estate joint ventures" line of the condensed consolidated balance sheets), which is being accounted for under the equity method of accounting.

Figure 1 – MPW Q1 2022 10-Q

MPW was noticeably light on details, not publishing the joint venture agreement, lending parties, terms or assets involved. A closer look at the transaction shows that this "sale" to MPW's off-balance sheet JV was substantially financed by borrowings, which are also moved off balance sheet. This transaction was designed to disguise MPW's true debt, and provided short term liquidity to cover MPW dividend payments.

- According to MPW the joint venture would "raise nonrecourse secured debt of up to 55% of asset value, and we expect to receive total proceeds, including proceeds from the expected secured debt, of approximately $1.3 billion.".
- Mortgage records show that the joint venture secured a mortgage of $919m from a consortium of Apollo, Athene, and Aspen, implying MAM's cash payment was ~$400m. We believe it is this debt transaction, not MAM's payment, that the $1.78b valuation is based on.

WITNESSETH:

A. This Mortgage is given to secure a loan (the *"Loan"*) in the principal sum of NINE HUNDRED NINETEEN MILLION FIFTY THOUSAND AND NO/100 DOLLARS ($919,050,000.00) or so much thereof as may be advanced pursuant to that certain Loan Agreement dated as of the date hereof by and among Mortgagor and certain affiliates of Mortgagor (collectively, "***Co-Borrowers***", and together with Mortgagor, collectively, "***Borrower***"), Mortgagee and ACREFI, in its capacity as directing lender for the benefit of the Mortgagee (in such capacity, together with its successors and/or assigns, "***Directing Lender***") (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, the *"Loan Agreement"*), and evidenced by that certain Note (as such term is defined in the Loan Agreement). Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Loan Agreement.

Figure 2 – MPW Massachusetts Mortgage – Suffolk County Registry of Deeds[1]

- MPW recorded a gross gain on sale of $600m, offset by $125m of uncollected and unbilled straight-line receivables. This transaction also served to move uncollectable straight-line revenue off-balance sheet.

R. Steven Hamner
Founder, Executive VP, CFO & Director

Thank you, Ed. This morning, we reported as widely expected, normalized FFO of $0.47 per diluted share. There is only one, albeit large, adjustment that I want to point out. We reported a net gain on sale of real estate and other of about $452 million. The gross amount of gains included approximately $600 million related to our sale of 8 Steward facilities to the Macquarie joint venture, but we offset that with the accounting rules required write-off of about $125 million in unbilled straight-line rent.

Figure 3 – MPW Q1 2022 Earnings Call Transcript

[1] Visit https://www.masslandrecords.com/Suffolk/ and search for "MPT of Dorchester"

Deep dive on the assets

- MPW's press release states that the properties accounted for "collected cash rent and interest of more than $475 million over the course of five-plus years" or ~$95m per year[2], before loan service costs.

> MPT's investment basis of roughly $1.2 billion, the approximate $600 million gain on real estate, and collected cash rent and interest of more than $475 million over the course of five-plus years combine to calculate an approximate unlevered internal rate of return of roughly 14%. "At MPT, we have long understood the embedded value in our entire portfolio as well as the proficiency of operators such as Steward. The closing of this transaction provides independent confirmation of the value that sophisticated investors and lenders also attribute to well-underwritten hospital investments," said Edward K. Aldag, Jr., MPT's Chairman, President, and Chief Executive Officer.

Figure 4 – Medical Properties Trust Completes Hospital Partnership With Macquarie Asset Management

- We believe ownership dilution transaction and the ensuing debt structure will cut MPW's earnings on the portfolio to ~$25m a year, a ~73% decrease.
- These hospitals are the Morton, Nashoba Valley, Carney, Good Samaritan, Holy Family, Holy family – Haverhill, St Anne and St Elizabeth hospitals leased to Steward. Based on CHIAMass records we strongly doubt that this loss of revenue can be compensated for through increased rent, with the majority showing poor financial performance[3].

Massachusetts Hospitals Analysis - Viceroy Research							
Name				Operating Margin			
	Q1 2021	Q1 - Q2 2021	Q1 - Q3 2021	FY 2021	Q1 2022	Q1 - Q2 2022	Q1 - Q3 2022
Morton Hospital	(25.4%)	(15.5%)	(11.8%)	(4.1%)	(19.7%)	(6.9%)	(1.7%)
Nashoba Valley Medical Center	(29.0%)	(18.1%)	(15.6%)	(9.3%)	(17.5%)	(3.8%)	(6.0%)
Carney Hospital	(43.5%)	(40.9%)	(49.6%)	(20.8%)	(27.0%)	(30.2%)	(30.8%)
Good Samaritan Medical Center	0.7%	5.0%	4.8%	6.2%	(0.8%)	8.1%	6.6%
Holy Family Hospital	(5.9%)	1.8%	1.4%	4.1%	(8.5%)	1.1%	(1.9%)
St Anne's Hospital	12.5%	15.8%	15.3%	11.4%	6.2%	15.1%	12.6%
St Elizabeth's Medical Center	(1.3%)	1.6%	3.4%	1.4%	(9.8%)	(1.0%)	(2.0%)
Holy Family Hospital - Haverhill				No data			

Figure 5 – CHIAMass Acute Hospital and Health System Financial Performance

- Also absent from the transaction is the Steward Norwood hospital which was "temporarily" closed since July 2020 due to flooding and remains closed today according to Steward's website[4,5].

Note: There is no CHIAMass data on Holy Family Hospital – Haverhill. FY 2022 data is not yet available.

Key Takeaways

The irony of MPW selling hospitals (occupied by Steward) for short-term liquidity is not lost on us.

Put simply, MPW effectively sold yielding assets for short term liquidity and drew down massive amounts of debt off balance sheet. Investors should push MPW to publish the full joint venture agreement between the parties as well as terms of the loan entered into by the JV.

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[2] https://www.businesswire.com/news/home/20220315006306/en/CORRECTING-and-REPLACING-Medical-Properties-Trust-Completes-Hospital-Partnership-With-Macquarie-Asset-Management

[3] https://www.chiamass.gov/hospital-financial-performance/

[4] https://web.archive.org/web/20200808231123/https://www.norwood-hospital.org/newsroom/2020-07-02/statement-norwood-hospital

[5] https://www.norwood-hospital.org/

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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