

MPW – Q4 2022 Analysis

MPW's Q4 2022 results raise more questions than answers and show tenant quality decline.

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March 1, 2023 – On February 23, 2023, MPW released their Q4 2022 results and held their earnings call, both of which raised several issues and confirmed Viceroy's continued belief in the weakness of their tenant base.

Commonspirit

- Management confirmed that the sale of the Utah sale to Commonspirit would result in a rent reduction for the new tenant. Set at 7.8% of the \$1.22b investment base with annual increases of 3%, this is a significant decline from what Steward was paying calculated through public CPI figures and the Steward Master lease.
- By our calculations, Commonspirit's annual rent on these properties will not exceed Steward's forecast 2023 rent until 2027.

Utah properties analysis - Viceroy Research								
Investment basis (USDm)		1,220						
Steward				Commonspirit				
Year	Lease rate	Increase	Rent	Year	Lease rate	Increase	Rent	
2020	8.0%		97.60	2023	7.80%	3%	95.16	
2021	8.2%	2.0%	99.55	2024	8.03%	3%	98.01	
2022	8.6%	5.0%	104.53	2025	8.28%	3%	100.96	
2023	8.7%	2.0%	106.62	2026	8.52%	3%	103.98	
				2027	8.78%	3%	107.10	

Figure 1 – Utah properties analysis – Viceroy Research¹

Straight-line shenanigans

- As part of Prospect's declining...prospects, MPW claim to have impaired or written off (see below) \$112m in unbilled rent.
- MPW appear to have hidden past unbilled rent write-offs and impairments through undisclosed sales of equity investments and "other" items. A comparison of their FFO calculations for 2021 as presented in 2022 and 2021 shows that a \$2.27m recovery of unbilled rent was a (\$7.23m) write-off offset by gain on sale of equity investments.

2021 FFO Financials Analysis - Viceroy Research				
Presented	Q4 2022	Q4 2021	Q4 2022	Q4 2021
	FY 2021		Q4 2021	
Funds from operations	975,988	975,988	259,398	259,398
Write-off of unbilled rent and other	7,213	(2,271)	8,814	(670)
Gain on sale of equity investments	(40,945)		(40,945)	
Other impairment charges, net	39,411		39,411	
Non-cash fair value adjustments	(8,193)	(8,193)	(5,430)	(5,430)
Tax rate changes and other	34,796	42,746	(7,950)	-
Debt refinancing and unutilized finar	27,650	27,650	25,311	25,311
Normalized funds from operations	1,035,920	1,035,920	278,609	278,609

Figure 2 – FY 2021 & Q4 2021 FFO Financials Analysis

[Note that the figures highlighted in each column as presented in Q4 2022 net out to the figures highlighted as presented in Q4 2021.]

- MPW is also unclear on whether it is writing off Prospect's straight-line rent or impairing it, as both appear in the 8-K.

Fourth quarter 2022 net loss and full-year 2022 net income include a real estate impairment of approximately \$171 million related to four properties leased to Prospect Medical Holdings ("Prospect") in Pennsylvania as well as a write-off of roughly \$112 million in unbilled Prospect rent also included in Funds from Operations ("FFO") but excluded from normalized results:

¹ Terms from the master steward lease, assuming a constant investment basis of \$1.22b



Funds from operations	\$ 128,333	\$ 259,398	\$ 934,312	\$ 975,988
Write-off of unbilled rent and other	3,390	8,814	37,682	7,213
Gain on sale of equity investments	—	(40,945)	—	(40,945)
Other impairment charges, net	112,368	39,411	97,793	39,411

Figures 3 & 4 – MPW Q4 2022 8K

- The “other impairment charges, net” line item, which in Q4 2022 includes the \$112m impairment of Prospect straight line rents, is not elaborated upon however we believe it is in part previous straight line rent impairments.
- Using these figures to determine comparable figures for past period results in higher “write off of unbilled rent” but also a negative impairment charge for Q1 – Q3 2022.

2022 FFO Financials Analysis - Viceroy Research				
Presented	Q4 2022		Q3 2022	
Period	Q4 2022	FY 2022	Q1 - Q3 2022	Q1 - Q3 2022
Funds from operations	128,333	934,312	805,979	805,979
Write-off of unbilled rent and other	3,390	37,682	34,292	27,444
Gain on sale of equity investments	-	-	-	-
Other impairment charges, net	112,368	97,793	(14,575)	-
Non-cash fair value adjustments	10,230	(2,333)	(12,563)	(12,563)
Tax rate changes and other	3,795	10,697	6,902	(825)
Debt refinancing and unutilized financial	-	9,452	9,452	9,452
Normalized funds from operations	258,116	1,087,603	829,487	829,487

Figure 5 – 2022 FFO Financials Analysis – Viceroy Research

- Without comparable figures for previous years, we are unable to determine the length or extent of this practice however it raises serious questions about MPW’s previous straight-line rent impairments as none were disclosed for 2021.
- We look forward to further clarity in the publication of the company’s full 2022 10-K.

Poor Prospects

- MPW confirmed that tenant Prospect had not paid all its rent for January and February and evaded the question of whether they had paid any rent in January and February. Given management’s guidance assumed collecting no rent whatsoever from Prospect for the year, we believe Prospect has indeed paid no rent this year.

Michael Albert Carroll
RBC Capital Markets, Research Division

Did Prospect pay their full rent in January and February?

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

No.

Michael Albert Carroll
RBC Capital Markets, Research Division

Okay. Did they pay any rent in January and February?

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

That we haven't disclosed, but no, they did not pay their full rent.

Figure 6 – MPW Q4 2022 earnings call transcript

- Prospect’s problems in Pennsylvania will not be easily solved by repurposing activities: the former seller has sued Prospect over closures², the company is being held in contempt of court for altering services³, and has been accused of intentionally short staffing its hospitals. We have serious doubts in a \$1b valuation for Prospect’s managed care segment.
- Despite previous comments that Prospect’s California hospitals were performing well, management confirmed when questioned that these hospitals also had not paid all their rent for 2023 so far.

² <https://www.inquirer.com/business/health/delaware-county-memorial-hospital-petition-block-closure-filed-20220928.html>

³ <https://www.inquirer.com/business/health/prospect-medical-attorney-general-contempt-delaware-county-memorial-20221115.html>



Edward K. Aldag

Founder, Chairman, President & CEO

So that's a good question. So we included Pennsylvania in the coverage this time. And it's important to note that the California facilities continue to perform at acceptable levels. The Pennsylvania facilities are not where we would like them to be, certainly disappointed in where they are. I think that the changes or some of the changes that Prospect has going on at Pennsylvania is certainly in the right direction. Haven't borne the fruit that we certainly would hope that they would at this particular time. But remember, they've got the managed care business, which is extremely profitable that generates strong cash flow for them.

And as Steve pointed out earlier, there are potential transactions out there that we're not in a position where we can comment any further than that on that gives us comfort at this particular time. And we remain comfortable in the California facilities.

John Joseph Pawlowski

Green Street Advisors, LLC, Research Division

Okay. Are they paying rent currently under the California for hospitals?

R. Steven Hamner

Founder, Executive VP, CFO & Director

No. For -- as I mentioned a little earlier, very little of January, February rent has been paid.

Figures 7 & 8 – MPW Q3 2022 & Q4 2022 earnings call transcript

- Unpaid billed rent from Prospect was also cited as the reason for the increase in accounts receivable raising the question of how long Prospect has been in arrears for.

And then the AR receivables being up \$50 million, and anything going on there with kind of slower...

R. Steven Hamner

Founder, Executive VP, CFO & Director

Yes, Prospect is a big piece of unpaid billed rent.

Figure 9 – MPW Q4 2022 earnings call transcript

- It seems fairly clear that Prospect is in a terrible position and possibly insolvent considering they are not paying their rent as it comes due and have not done so for some time. MPW is effectively banking on a Prospect sale at this point to recoup its losses.

Conclusion

It is becoming clear that MPW and its tenants long-term financial situation is unsustainable. Tenants selling operations result in rent cuts, tenants unable to do so are not paying their rent in full and MPW is having to write off or impair its straight line rent receivables which it had previously assured investors were safe.

Auditors should place greater scrutiny on MPW's accounting treatment of these assets.

We look forward to more clarity on these issues when the company releases its annual report.



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