Medical Properties (dis)Trust

Aggressive healthcare property roll-up caters almost exclusively to distressed tenants. Rent is round-tripped via "fake" purchases of massively inflated assets. The fat lady is singing.

January 26, 2023 – Viceroy Research is short Medical Properties Trust (NASDAQ : **MPW**), a healthcare property REIT who has engaged in billions of dollars of uncommercial transactions with its tenants and their management teams in order to mask a pervasive revenue round-robin scheme and / or theft.

The value of MPW's assets, as a result of capitalizing these uncommercial transactions, are massively overstated. MPW employed an aggressive, debt-fuelled roll-up strategy in order to affect these transactions. We believe the true value of MPW's LTV is ~85%, creating enormous **credit risk**. We believe MPW will have no choice but to significantly **cut dividends**.

Substantially all of MPW's major tenants appear distressed. This precedes the need to engage in revenue round-robin transactions. **MPW is a subprime asset roll-up generating prime yields**.

The Transactions

Broadly, we believe MPW engaged in 4 major types of uncommercial transactions with its clients. We believe substantial portions of cash is round-tripped back to MPW. Some may overlap:

Sale-Leasebacks

Many MPW property acquisitions are on leaseback terms, where the vendor becomes the tenant of the properties. MPW has engaged in billions of dollars of uncommercial sale-leaseback transactions

- MPW almost exclusively engages in these transactions with counterparties who are in financial ruin.
- Despite this, MPW appear to constantly overpay for fire sale assets, sometimes by as much as 10x, which in-turn allow debt-crippled tenants to meet their financial rent obligations as and when they fall due in the short term.

Salt Lake City Portfolio **Annexure 2**	MPW loaned Steward $1.4b to purchase a Salt Lake City Hospital operator IASIS and their portfolio of 19 hospitals. IASIS owned and operated 17 hospitals. A $700m portion of this loan was immediately extinguished in exchange for 9 properties. The second $700m loan was secured against only a further 2, leaving Steward with 7 properties courtesy of MPW at a value of $750m.	**$750m - overpayment**

Cash-Giveaways

MPW engages in various transactions with a common cast of friends in which hundreds of millions of dollars go missing. MPW has disappeared hundreds of millions of dollars in what appear to be fraudulent transactions.

- Underlying asset values are, also, fractions of the transaction values. Similarly: only fractions of the consideration are received by the vendors. In many instances, it appears that a middle-man is involved in brokering these transactions.

Malta Hospitals **Annexure 5**	MPW invested $205m for a 49% stake in an unnamed JV with Steward & MPW management. It paid $205m for 3 hospitals worth $27m in Malta formerly operated by a group of businessmen under investigation for corruption. Steward reaped a $173m windfall and the $5m difference between MPW's acquisition loan and the price paid to Steward remains unaccounted for.	**$173m overpayment** **$5m missing**

Bailouts

MPW engages in various in run-of-the-mill bailout transactions. MPW has spent hundreds of millions of dollars bailing out distressed tenants.

- MPW will acquire equity in failing operators or issue them loans in order to mask uncollectable rent via round tripping revenues and, consequently, avoid impairment of their assets.

Prospect **Annexure 7**	In 2019 MPW entered into a $113m promissory note with Prospect, payable in August 2022 or the sale-leaseback of the properties. Rhode-Island regulators approved Prospect's MBO contingent on the removal of the sale-leaseback option, effectively leaving MPW holding the bag.	**$113m unrecoverable**

Capex Assistance & Fake Builds

MPW appear to collude with tenants to establish "fake" projects in order to siphon money away from the company. It is also frequently strong-armed by distressed tenants and regulators for financial assistance for maintenance capex on triple-net leases.

- Various of MPW's ongoing developments appear to be either non-existent or have not broken ground. Despite this, MPW claim to have spent tens of millions of dollars on each development. Site visits of barren construction sites and local news sources suggest this is a lie.
- MPW's tenants are exclusively on triple-net leases, meaning they are on the hook for real estate taxes, insurance, and maintenance. Despite this, various filings and MPW's financial accounts show substantial cash amounts being devoted to capex, including maintenance, of its distressed tenants.

Wadley Regional Medical Centre **Annexure 1**	MPW committed $169m to build a Steward facility which. Wadley Regional Medical Center and MPW, in its Q3 2022 interim report, said that it had already spent $58m on the development. News stories, including a site visit in October 2022, show that the development site does not appear to have broken ground, and does not even have a site office. Local news agencies captured video of the site, which shows a sprawling bushland surrounded by temporary blue fencing.	**$58m - missing**

Figure 1 – Screen Capture – KSLA News 12 site visit to Wadley Regional Medical Centre[1]

The above image is from a local news stie visit to Wadley Regional Medical Centre in October 2022. MPW claimed to have outlaid $58m on this development, with over $100m in further commitments. The site did not even appear to have an office.

[1] https://www.ksla.com/2022/10/20/construction-apparently-paused-texarkana-hospital/

The Financials

It's important to understand MPW's financial gimmicks in order to properly evaluate the impact of MPW misrepresentations. Viceroy's analysis of MPW's operational cash flows show that it consistently generates enormous losses, cumulating to $1.9b since 2015.

Medical Properties Trust -Viceroy Free Cash Flow $000's	2015-2019	2020	2021	Q3 2022	Cumulative 2015-Q3 2022
Normalized FFO - Management	**2,019,387**	**831,212**	**1,035,920**	**829,487**	**4,716,006**
Reconcile to cash flow from operations					
Straight-line revenue & other	(387,895)	(226,906)	(288,717)	(214,435)	(1,117,953)
Share based compensation	77,706	47,154	52,110	33,001	209,971
Debt costs amortization	36,436	13,099	16,856	13,123	79,514
Other	(45,622)	(64,144)	(17,632)	(26,666)	(154,063)
Working capital	77,107	17,221	13,119	(76,595)	30,852
Cash flow from operations	**1,777,119**	**617,636**	**811,656**	**557,915**	**3,764,326**
Capex & suspect round-tripping					
Equity investments/investments in unconsolidated JV's	(932,985)	(233,593)	(123,427)	(399,456)	(1,689,461)
Other loans/investments in unconsolidated operating entities	(995,321)	(309,523)	(909,669)	(131,105)	(2,345,618)
Capex-adjecent line items	(1,142,494)	(104,530)	(356,964)	(242,090)	(1,846,078)
Proceeds from return of equity investment	-	69,224	65,546	14,295	149,065
Viceroy Adjusted Free Cash Flow	**(1,293,687)**	**39,213**	**(512,859)**	**(200,442)**	**(1,967,774)**

Figure 2 – Viceroy Analysis

- MPW's adoption of straight-line revenue model hides a pervasive rent-deferral program for distressed tenants. Viceroy do not believe straight-line rent is collectable. Straight-line revenues have increased from ~8% of total rent in 2015 to ~20% of total rent in 2021.
- Our research shows material portions of MPW's billed rent is round tripped through uncommercial loans and equity investments[2]. Viceroy include these outflows in our FCF calculation as our research suggests they are instrumental to operations and to MPW receiving rent from distressed tenants.
- MPW's tenants are exclusively on triple-net leases. Despite this, various filings and MPW's financial accounts show substantial cash amounts being devoted to capex, including maintenance, of its properties. Viceroy included these outflows in our FCF calculation as our research show MPW is strongarmed into making absurd investments for distressed clients in order to receive rent.

A break-down of MPW's cash flows shows that it has financed both a heavily loss-making operation *and* an aggressive (and unsuccessful) roll-up strategy in a zero-rate environment with mountains of debt and dilutive equity raises. The fat lady is singing.

Medical Properties Trust -Viceroy Cash Flow Analysis $000's	2015-2019	2020	2021	Q3 2022	Cumulative 2015-Q3 2022
Viceroy Adjusted Free Cash Flow	**(1,293,687)**	**39,213**	**(512,859)**	**(200,442)**	**(1,967,774)**
Remaining cash flows from investing activities	-				
Acquisitions & other related investments**	(10,216,349)	(3,706,064)	(4,317,143)	(441,682)	(18,681,238)
Asset sale proceeds, net of costs	1,907,736	94,177	246,468	2,185,574	4,433,955
Principal received on loans receivable, net of investment in loans	1,825,221	1,243,536	1,536,776	(127,405)	4,478,128
Viceroy adjusted cash flows from investing activities	**(6,483,392)**	**(2,368,351)**	**(2,533,899)**	**1,616,487**	**(9,769,155)**
Cash flows from financing activities					
Net proceeds / (repayment) of term debt & credit facilities	5,603,012	1,578,583	2,576,526	(933,661)	8,824,460
Proceeds from sale of units, net of offering costs	5,166,274	411,101	1,051,229	-	6,628,604
Distributions paid	(1,503,705)	(567,969)	(643,473)	(524,536)	(3,239,683)
Other financing activities	(146,037)	(20,641)	(36,674)	(85,492)	(288,844)
Cash flow from financing activities	**9,119,544**	**1,401,074**	**2,947,608**	**(1,543,689)**	**11,924,537**

Figure 3– Viceroy Analysis

[2] These are reflected in "Equity investments / investments in consolidated JVs" and in "Other loans/investments in unconsolidated operating entities"

The Valuation & Credit Risk

It is difficult to assign a valuation to MPW as we believe investors are working with misleading and incomplete information. We believe MPW presents enormous short-term downside. Viceroy have nonetheless recreated the copy-paste sell-side future FFO valuation model with some adjustments which we believe begin to illustrate the value-destructive nature of MPW's actions.

Viceroy's adjusted FFO per share removes the impact of straight-line rent (which has historically equated to ~25% of FFO). It also attempts to remove the impact of MPW's round-robin transactions (50% is generous[3]).

Medical Properties Trust - Viceroy Valuation		Notes
Consensus 2023 FFO	1.78	
Straight-line rent reduction	(0.45)	25% off FFO
Round Trip Estimate	(0.89)	50% off FFO
Viceroy Adjusted FFO	**0.45**	

Medical Properties Trust - Viceroy Valuation Range	Multiple	Valuation ($/share)	Downside
Bullish	10.00	4.45	**-67%**
Mid	8.75	3.89	**-71%**
Bearish	7.50	3.34	**-75%**
Stock Price @ 24 Jan 2023	13.48		
Current Multiple on consuensus 2023 FFO	7.57		

Figures 4 & 5 – Viceroy Analysis

Around current forwards FFO multiples, we deduce a short-term downside of 67% - 75%.

This valuation does not consider that MPW is subject to immense credit risk. It has played an aggressive, debt-fuelled roll-up strategy in a zero-interest bull-market. It has had the best economic conditions of all time to fester into one the largest financial disasters to plague the USA – and indeed global – medical industry.

Medical Properties Trust - LTV Calc $000's	Q3 2022	Adjustments	Viceroy LTV
Net debt			
Debt	(9,476,144)		(9,476,144)
Cash & equivalents	299,171		299,171
Accounts payable & accrued expenses	(569,017)		(569,017)
Interest & rent receivables	117,555		117,555
Deferred revenue	(18,569)		(18,569)
Obligations to tenants & other lease liabil	(146,438)		(146,438)
Net debt and obligations	**(9,793,442)**	**-**	**(9,793,442)**
Assets			
Net investment in real estate assets	14,264,905	(3,566,226)	10,698,679
Straight-line rent receivables	710,082	(710,082)	-
Investments in unconsolidated real estate	2,850,071	(2,850,071)	-
Other loans	200,245		200,245
Other assets	601,387		601,387
Asset base	**18,626,690**	**(7,126,379)**	**11,500,311**
LTV	**52.58%**		**85.16%**

Figure 6 & 7 – Viceroy LTV Analysis

Viceroy believe MPW's` LTV is closer to 85%.
This kneecaps MPW's ability to continue paying dividends.

In December 2022, S&P placed MPW on downgrade watch. It already sits below investment grade at BB+[4].

[3] The quantum of round-robin transactions typically exceeds FFO. We believe a 50% haircut is generous.
[4] https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2932303

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.

About Viceroy

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

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1. Financial Analysis

It is contextually important that readers understand MPW's financial accounting gimmicks and executive incentives prior to diving into the weeds of the malfeasance. Acquiring terrible businesses, siphoning cash through acquisitions, and bailing out failing tenants aligns with the financial goals of the board.

This section will highlight MPW's operational cash shortfalls, revenue round-tripping, and accounting gimmicks. It will also highlight *how* MPW actually "makes" money (*spoiler*: debt & unit offerings).

1.1 FFO, AFFO

MPW uses Funds From Operations (FFO) as their main performance indicator. FFO (or a slightly Adjusted FFO) is also utilized by most analysts covering MPW to derive valuations. Executives are compensated based on normalized FFO and EBITDA.

Medical Proerties Trust - FFO Breakdown						Cumulative
$000's	2015-2018	2019	2020	2021	Q3 2022	2015-Q3 2022
Net income less participating share in earnings	1,664,442	372,376	429,345	653,860	1,042,036	4,162,059
Depreciation & amortization	437,303	183,921	306,496	374,599	300,731	1,603,050
(Gain) / Loss on sale of real estate	(797,259)	(41,560)	2,833	(52,471)	(536,788)	(1,425,245)
Real estate impairment charges	48,007	21,031	19,006	-	-	88,044
Funds from operations (FFO) - Management	**1,352,493**	**535,768**	**757,680**	**975,988**	**805,979**	**4,427,908**
Write-off of straight-line rent & other*	30,333	15,539	26,415	(2,271)	27,444	97,460
Debt refinancing & unutilized financing costs	82,019	4,367	28,180	27,650	(12,563)	129,653
Release of income tax valuation allowance	(8,361)	-	-	-	-	(8,361)
Non-real estate impairment charges	7,229	-	-	-	-	7,229
Tax rate & other changes	-	-	9,295	42,746	(825)	51,216
Non-cash fair value adjustments	-	-	9,642	(8,193)	9,452	10,901
Normalized FFO - Management	**1,463,713**	**555,674**	**831,212**	**1,035,920**	**829,487**	**4,716,006**

Figure 8 – MPW Management FFO Calculations

FFO is a **completely unsuitable metric** without significant adjustments that can account for MPW's enormous revenue round tripping, distressed straight-lined rent, and suspected theft. Our calculations in [Figure XX] below account for various cash outflows, including investment outflows, which we believe are necessary for MPW's operations.

Medical Properties Trust -Viceroy Free Cash Flow					Cumulative
$000's	2015-2019	2020	2021	Q3 2022	2015-Q3 2022
Normalized FFO - Management	**2,019,387**	**831,212**	**1,035,920**	**829,487**	**4,716,006**
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Viceroy Adjusted Free Cash Flow	**(1,293,687)**	**39,213**	**(512,859)**	**(200,442)**	**(1,967,774)**

Figure 9 – Viceroy Adjusted Free Cash Flows

Viceroy's assessment is that MPW's cumulative free cash flow since 2015 is ***negative $1.9b.***

We believe MPW's multi-billion dollar roll-up strategy has conclusively failed in generating any real cash-flows. In fact, MPW appears to have burnt more money than ever in the last 3 years.

1.2 Straight-Line Rent – Suspect Uncollectible

MPW 's rent revenue is split into 2 balance sheet components:

1. Rent billed – as in, of the recorded rent revenue, how much was remitted in cash or is currently receivable; and
2. Straight-line rent - an additional amount of rent MPW should have collected per period if the entire payment stream of the rent contract was recognized evenly over the rental period (which it is not).

> We receive income from operating leases based on the fixed required rents (base rents) per the lease agreements. Rent revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rents earned over the term of a lease, taking into account contractual rent increases over the lease term. The straight-line method typically has the effect of recording more rent revenue from a lease than a tenant is required to pay early in the term of the lease. During the later parts of a lease term, this effect reverses with less rent revenue recorded than a tenant is required to pay. Rent revenue, as recorded on the straight-line method, in our consolidated statements of net income is presented as two amounts: rent billed and straight-line rent. Rent billed

Figure 10 – MPW annual report extract of straight-line accounting policy

MPW's adoption of straight-line revenue model for its tenants suggests that significant portions of rent has been deferred, and will only be collectable in the future[5]. Straight-line rent has rapidly increased as a percentage of rent revenues since 2015.

Medical Proerties Trust - Straight Line Rent Analysis $000's	2015	2016	2017	2018	2019	2020	2021	Q3 2022
Rent-billed	247,604	327,269	435,782	473,343	474,151	741,311	931,942	737,029
Straight-line rent	23,375	41,067	65,468	74,741	110,456	158,881	241,433	146,114
Total rent revenues	**270,979**	**368,336**	**501,250**	**548,084**	**584,607**	**900,192**	**1,173,375**	**883,143**
Straight-line as % of total revenues	**8.6%**	**11.1%**	**13.1%**	**13.6%**	**18.9%**	**17.6%**	**20.6%**	**16.5%**

Figure 11 – Viceroy straight-line rent analysis

This report will show that substantially all MPW's major tenants are in financial distress:

- Material portions of MPW's rent-billed is round tripped through uncommercial loans and equity investments.
- Straight-line revenue appears to be utilized as a method of rent-deferral for distressed tenants, and is likely uncollectable.

While straight-lining of rents is normally a permitted accounting treatment, ASC 842 requires recognition on a cash-basis when collectability is in question:

> Under ASC 842, a lessor's pattern of revenue recognition for an operating lease is impacted by its assessment of the collectibility of lease payments. If collectibility is probable at commencement, lease income is generally recognized on an accrual basis (generally on a straight-line basis) over the term of the lease. Otherwise, lease income is limited to the lesser of (1) income that would have been recognized if collectibility was probable, or (2) lease payments collected (i.e., a cash basis).
>
> Collectibility should be reassessed during the lease term. If collectibility is no longer probable (i.e., the lease subsequently becomes "troubled"), and cumulative cash receipts are less than lease income recognized to date, the excess lease income would be reversed.

Figure 12 – Extract from ASC 842[6]

Viceroy Research believe that the straight-lining of rent hides the deteriorating underlying financial health of MPW's tenants. Executives are compensated based on normalized FFO, FFO and EBITDA, none of which back-out straight-line rent.

We note that MPW has written off ~$100m in straight line rent since 2015.

[5] There are instances where straight-line rent is required to price in minimum yearly rent increases. In MPW's case, straight-line has rapidly increased as a percentage of rent revenues billed since 2015.

[6] https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/leases/leases__4_US/chapter_8_other_topi_US/8_9_Lessor-operating-leases_impact-of-collectibility_assessment-_added-November-2019_.html

1.3 Capex & suspect round-tripping

This report will highlight that MPW frequently engaged with its own tenants in various types of uncommercial transactions which we believe constitute rent round-tripping. It will also highlight transactions where MPW supports distressed clients on triple-net leases by providing significant support in the form of capex.

Viceroy's adjusted free cash flows attempt to adjust for these transactions, however accounts are incredibly opaque and the business is vast to reliably track all of these transactions.

MPW's "growth strategy" and executive incentive schemes reward "Acquisitions". The exact terms or measurement of "Acquisitions" is undefined, however management has consistently scraped the bottom of the barrel in its search for new properties and new tenants. All these transactions will look good on paper. All these transactions will qualify executives for bonuses. Investors must look beneath the surface.

Broadly, we believe MPW engaged in 4 major types of uncommercial transactions with its clients. Some may overlap:

Sale-Leasebacks

Many MPW property acquisitions are on leaseback terms, where the vendor becomes the tenant of the properties. MPW almost exclusively engages in these transactions with counterparties who are in financial ruin.

Despite this, MPW appear to constantly overpay for fire sale assets, sometimes by as much as 10x, which in-turn allow debt-crippled tenants to meet their financial rent obligations as and when they fall due in the short term.

MPW has engaged in billions of dollars of uncommercial sale-leaseback transactions.

Cash-Giveaways

If overpaying wasn't enough MPW engages in various transactions with its tenants in which millions of dollars are basically given to tenants. Underlying asset values are fractions of the transaction values, and only fractions of the consideration is received by the vendors.

These transactions tend to be international, perhaps as a deterrent for analysts to investigate the matter further. In any case, Viceroy believe they must be scrutinized by MPW's auditors.

MPW has disappeared hundreds of millions of dollars in what appear to be round-trip transactions. We believe substantial portions of cash is round-tripped back to MPW.

Bailouts

MPW engages in various in run-of-the mill bailout transactions, where it will acquire equity in failing operators in order to mask uncollectable rent and, consequently, avoid impairment of their assets.

MPW has spent hundreds of millions of dollars bailing out distressed tenants.

Capex assistance & fake developments

MPW's tenants are exclusively on triple-net leases, meaning they are on the hook for real estate taxes, insurance, and maintenance. Despite this, various filings and MPW's financial accounts show substantial cash amounts being devoted to capex, including maintenance, of its properties.

In the instance of Pipeline Health, MPW has devoted tens of millions in capex to maintain and build new facilities as part of Pipeline Health's restructuring plan! **MPW doubles down on losers.**

Various of MPW's ongoing developments appear to be either non-existent or have not broken ground. Despite this, MPW claim to have spent tens of millions of dollars on each development. Site visits of barren construction sites and local news sources suggest this is a lie.

1.5 Executive Compensation Incentives

Substantially all executive performance-based incentives are tied to FFO, FFO Growth, EBITDA, and "Acquisitions".

Base Salary	Based on duties, experience and internal pay equity	Provides a fixed level of cash compensation to attract and retain talented executives
Annual Cash Bonus	**50%** Normalized FFO per Share **20%** EBITDA/Interest Expense	Aligns our executives with near-term financial goals and strategic priorities, which for 2021 included FFO growth and managing leverage
	10% ESG Initiatives	For 2021 as we remain focused on the importance of ESG for both internal and external stakeholders, we continued to include the achievement of ESG initiatives in our annual cash bonus program as standalone assessment criteria
	20% Qualitative Performance	Given that the majority of our compensation is based on pre-established metrics and goals, allows for a subjective assessment of performance on a more holistic basis and considers factors that may not be quantifiable
Time-Based Shares	Vest ratably over 3 years	Promotes retention and aligns executives with stockholders
Performance-Based Shares	**30%** FFO per Share Growth	Rewards executives for meaningful FFO per share growth in both the short- and long-term. Achievement of these goals requires significant accretive growth on an annual and cumulative basis
	40% EBITDA	Ensures that executives are focused on profitability and stockholder value creation through sector-leading EBITDA growth in both the short-term and long-term periods
	30% Acquisitions	Motivates our executives to execute our growth strategy that involves making accretive acquisitions to achieve portfolio growth that would not be achieved through a simpler organic growth model focused only on leasing spreads
	Absolute and Relative TSR Modifier	Adjusts payouts to align with long-term stockholder returns on both an absolute and relative basis

Figure 13 – MPW 2022 Proxy Statement extract

This compensation structure has fostered and encouraged management's trigger-happy acquisition spree and does not disincentivize bad behavior. It's important to note in analysis that executive incentives are aligned with fraud, bailouts, and creative accounting.

1.6 How Does MPW Make Money?

For a long time, the business of being an aggressive roll-up was substantially better than the business of being a health facility landlord. MPW's aggressive roll-up strategy in a strong bull-market has masked the underperformance of its underlying business.

A break-down of MPW's cash flows shows that it has financed both a heavily loss-making operation *and* an aggressive (and unsuccessful) roll-up strategy in a zero-rate environment.

Medical Properties Trust -Viceroy Cash Flow Analysis $000's	2015-2019	2020	2021	Q3 2022	Cumulative 2015-Q3 2022
Viceroy Adjusted Free Cash Flow	**(1,293,687)**	**39,213**	**(512,859)**	**(200,442)**	**(1,967,774)**
Remaining cash flows from investing activities	-				
Acquisitions & other related investments**	(10,216,349)	(3,706,064)	(4,317,143)	(441,682)	(18,681,238)
Asset sale proceeds, net of costs	1,907,736	94,177	246,468	2,185,574	4,433,955
Principal received on loans receivable, net of investment in loans	1,825,221	1,243,536	1,536,776	(127,405)	4,478,128
Viceroy adjusted cash flows from investing activities	**(6,483,392)**	**(2,368,351)**	**(2,533,899)**	**1,616,487**	**(9,769,155)**
Cash flows from financing activities					
Net proceeds / (repayment) of term debt & credit facilities	5,603,012	1,578,583	2,576,526	(933,661)	8,824,460
Proceeds from sale of units, net of offering costs	5,166,274	411,101	1,051,229	-	6,628,604
Distributions paid	(1,503,705)	(567,969)	(643,473)	(524,536)	(3,239,683)
Other financing activities	(146,037)	(20,641)	(36,674)	(85,492)	(288,844)
Cash flow from financing activities	**9,119,544**	**1,401,074**	**2,947,608**	**(1,543,689)**	**11,924,537**

Figure 14 – Viceroy Analysis

1.7 LTV Analysis

MPW's Loan-To-Value ration (**LTV**) sits above 50% without any adjustments for:

- Pervasive overpayments of assets & real estate;
- Revenue round-tripping transactions; and
- Straight-line revenue deferrals provisions to distressed clients.

Viceroy's analysis below attempts to account for MPW's accounting gimmicks. We believe MPW's real LTV is closer to 85%.

Medical Properties Trust - LTV Calc **$000's**	**Q3 2022**	**Adjustments**	**Viceroy LTV**
Net debt			
Debt	(9,476,144)		(9,476,144)
Cash & equivalents	299,171		299,171
Accounts payable & accrued expenses	(569,017)		(569,017)
Interest & rent receivables	117,555		117,555
Deferred revenue	(18,569)		(18,569)
Obligations to tenants & other lease liabil	(146,438)		(146,438)
Net debt and obligations	**(9,793,442)**	**-**	**(9,793,442)**
Assets			
Net investment in real estate assets	14,264,905	(3,566,226)	10,698,679
Straight-line rent receivables	710,082	(710,082)	-
Investments in unconsolidated real estate	2,850,071	(2,850,071)	-
Other loans	200,245		200,245
Other assets	601,387		601,387
Asset base	**18,626,690**	**(7,126,379)**	**11,500,311**
LTV	**52.58%**		**85.16%**

Figure 15 – Viceroy Analysis of MPW's LTV

It is difficult to make an accurate calculation of MPW's real LTV as financial accounts are opaque, transactions are needlessly complex, and the scope of the business is vast. Viceroy believe MPW's accounts should be subject to greater scrutiny in order to provide investors will a real view of MPW's underlying business and balance sheet.

We note the following in relation to Viceroy's estimate LTV calculations above:

- Viceroy believe MPW's net investment in real estate is overvalued by *at least* 25% ($3.6b). We note that our review of a handful of Steward transactions alone evidence over $1b of overpayments of real estate.
- Viceroy do not believe straight-line rent is collectible given the financial state of MPW's tenants. A review of major tenants show substantially all of them appear to be distressed, and all appear to receive financial assistance from MPW in order to pay rent to MPW. This brings us to our final adjustment:
- Viceroy do not believe MPW's financial investments in unconsolidated operators and in JVs are of any value. We believe these investments largely constitute round-tripping of revenues.

Viceroy estimate MPW's LTV is ~85%.

2. The Customers – A Summary

Viceroy conducted background due diligence on dozens of MPW transactions. Substantially all of them looked uncommercial.

Several detailed case studies on various transactions are annexed to this report. Broadly, these case studies comprise most of MPW's major tenants, and are spread across various geographies. Viceroy have identified many further suspicious transactions however we simply do not have the capacity to cover all of them.

A brief overview of each transaction and their relevant Annexure is below:

Transaction & Annexure	Overview	Financial Impact
Wadley Regional Medical Centre **Annexure 1**	MPW committed $169m to build a Steward facility which. Wadley Regional Medical Center and MPW, in its Q3 2022 interim report, said that it had already spent $58m on the development. News stories, including a site visit in October 2022, show that the development site does not appear to have broken ground, and does not even have a site office. Local news agencies captured video of the site, which shows a sprawling bushland surrounded by temporary blue fencing.	**$58m - missing**
Salt Lake City Portfolio **Annexure 2**	MPW loaned Steward $1.4b to purchase a Salt Lake City Hospital operator IASIS and their portfolio of 19 hospitals. IASIS owned and operated 17 hospitals. A $700m portion of this loan was immediately extinguished in exchange for 9 properties. The second $700m loan was secured against only a further 2, leaving Steward with 7 properties courtesy of MPW at a value of $750m.	**$750m - overpayment**
Massachussetts Portfolio **Annexure 3**	In October 2016 MPW acquired 9 Massachusetts facilities from Steward: 5 of them outright for 600m, 4 for 600m in mortgage loans and 50m in equity contributions. In Q2, Q3 and Q4 2018 MPW extinguished the mortgages on these 4 facilities by taking ownership. Steward's 2018 financials show additional consideratio of $42.8m was made. As part of the conversion there also appears to be a ping-pong exchange of the St Joseph Medical Centre which MPW acquired in September 2017. In March 2018 it sold the property to Steward for a $148m mortgage, only to reacquire months later again in Q3 2018 for an extra $15m.	**$57.8m - overpayment**

Transaction & Annexure	Overview	Financial Impact
Colombia Hospitals **Annexure 4**	On November 17, 2020, MPW claims to have purchased 3 Colombian hospitals for $135m from local operator National Clinics Colombia an unnamed JV. Local filings suggest 2 of the 3 Colombian Hospital properties were sold for only ~$36m, which still represents 2-3x what Steward paid for these properties in preceding years. We believe ~$60m of the $135m total consideration for 3 Colombian hospitals is unaccounted for. While originally presented as an "investment", this was actaially a mortgage loan against the 3 properties.	**$60m overpayment**
Malta Hospitals **Annexure 5**	MPW invested $205m for a 49% stake in an unnamed JV with Steward & MPW management. It paid $205m for 3 hospitals worth $27m in Malta formerly operated by a group of businessmen under investigation for corruption. Steward reaped a $173m windfall and the $5m difference between MPW's acquisition loan and the price paid to Steward remains unaccounted for.	**$173m overpayment** **$5m missing**
Investment in Steward **Annexure 6**	In its 2018 annual report MPW disclosed a 9.9% equity stake in Steward valued at $150m, however as of its 2020 annual report MPW has declined to disclose the value of its stake which remains at 9.9%. This stake appears to be a result of the equity contributions from the Massachusetts and IASIS transactions MPW also made a $335m loan to Steward in January 2021 used to redeem a similarly sized loan from Steward's private equity sponsors, Cerberus . Cerberus had transferred its controlling stake to Steward management in exchange for a convertible note of unspecified size. If this $335m was the value of the 90% stake, then it values MPW's 9.9% stake in Steward at ~$36.85m. In 2019 MPW disclosed a $44m promissory note from Steward but would not reveal its size until its 2021 filings. The purpose of this note is not stated by MPW.	**$115m - overvaluation** **$44m - opaque loan**
Prospect **Annexure 7**	In 2019 MPW entered into a $113m promissory note with Prospect, payable in August 2022 or the sale-leaseback of the properties. Rhode-Island regulators approved Prospect's MBO contingent on the removal of the sale-leaseback option, effectively leaving MPW holding the bag.	**$113m unrecoverable**

Transaction & Annexure	Overview	Financial Impact
Priory Annexure 8	MPW financed acquisition of Priory by Waterland Private Equity with a £1,050m loan: £800m netted off against the purchase of 35 Priory properties and £250m acquisition loan against the same properties. Priory's seller, Acadia's filings suggest that all 279 of Priory's properties have a combined market value of only £925 million. It seems MPW believed the 35 properties were worth £800m. It is absurd to suggest that the remaining Priory business and a further 244 properties were worth only £250m. For MPW's financing to make any sense the entire Priory business less property would be valued at close to zero.	**~$600m - overpayment $? - investment in tenant**
Pipeline Health Annexure 9	MPW acquired 6 facilities from Pipeline Health for $215m on leaseback terms. Despite this short term liquidity, Pipeline nonetheless filed for bankruptcy. Bankruptcy filings show this requires MPW to sink $23.5m into new facilities & capex. Much of this appears to be offset from rent owed by Pipeline health, and will now form part of Lease Base calculations	**$215m - payment for hospital with bankrupt tenant $25m - capex investment in bankrupt tenant**

Also annexed to this report are several background checks on the remainder of MPWs largest tenants with whom they do not conduct transactions with (or at least, none that we could easily identify within the swamp of MPW transaction data).

Steward Health Care Financials - Viceroy Analysis	**2017**	**2018**	**2019**	**2020**
Revenues	3,705,641	626,189	6,727,521	5,413,904
Gross profit	(321,597)	(269,186)	125,313	(439,161)
Gross margin	-8.7%	-43.0%	1.9%	-8.1%
Net loss	(207,181)	(279,547)	82,493	(407,593)
Net margin	-5.6%	-44.6%	1.2%	-7.5%

Circle Health Holdings Financials - Viceroy Analysis (2020 & 2021 figures have removed BMI Healthcare)	**2017**	**2018**	**2019**	**2020**	2021
Revenues	100,882	100,728	102,894	121,147	96,526
Gross profit	29,948	29,506	30,835	(66,013)	(119,593)
Gross margin	30%	29%	30%	-54%	-124%
Net loss	(6,155)	(11,934)	(20,833)	(6,505)	(39,376)
Net margin	-6%	-12%	-20%	-5%	-41%
Free cash flow	(6,588)	(3,886)	(1,383)		

BMI Healthcare - Viceroy Analysis	**2017**	**2018**	**2019**	**2020**	2021
Revenues	886,947	1,313,265	918,149	863,729	955,116
Gross profit	323,622	456,819	357,747	278,397	325,715
Gross margin	36%	35%	39%	32%	34%
Net loss	(97,394)	(59,886)	14,326	(53,871)	(13,300)
Net margin	-11%	-5%	2%	-6%	-1%

Prospect Medical Holdings Financials - Viceroy Analysis	**2017**	**2018**	**2019**	**2020**
Revenues	2,538,695	2,766,929	2,487,156	2,733,388
Gross profit	72,220	(45,858)	206,445	(103,314)
Gross margin	2.8%	-1.7%	8.3%	-3.8%
Net loss	34,252	(244,165)	(137,718)	(99,610)
Net margin	1.3%	-8.8%	-5.5%	-3.6%

Swiss Healthcare - Viceroy Analysis	**2017**	**2018**	**2019**	**2020**	2021
Revenues	(109,154)	70,398	97,731	(10,525)	955,116
Gross profit	(88,869)	(58,625)	17,134	(53,771)	325,715
Gross margin	81%	-83%	18%	511%	34%
Net loss	-	-	-	1,734	(13,300)
Net margin	0%	0%	0%	-16%	-1%

3. Key Takeaways, Valuation & Credit Risk

- MPW has engaged in billions of dollars of uncommercial transactions with its tenants and their management teams in order to mask a pervasive revenue round-robin scheme and / or theft.
- The value of MPW's assets, as a result of capitalizing these uncommercial transactions, are massively overstated.
- MPW engaged in an aggressive, debt-fuelled roll-up strategy in order to affect these transactions. We believe the true value of MPW's LTV is ~85%, creating enormous credit risk.
- Many of MPW's tenants are severely distressed. This precedes the need to engage in revenue round-robin transactions.
- Financial accounting gimmicks ensure MPW's management are incentivised to continue engaging in uncommercial transactions and possible fraud. These align with management incentive schemes.

3.1 Valuation

In light of the above, it is incredibly difficult to assign a valuation to MPW as we believe investors are working with false information. We believe MPW presents enormous short-term downside. It is also incredibly difficult to for management to justify payment of dividends given its precarious financial position and incredible cash-burning furnace.

Viceroy have nonetheless recreated the copy-paste sell-side future FFO valuation model with some adjustments which we believe begin to illustrate the value-destructive nature of MPW's actions. We reiterate that these valuations are subject to management figures which we believe are incorrect and require audit scrutiny.

Medical Properties Trust - Viceroy Valuation $000's		Notes
Consensus 2023 FFO	1.78	
Straight-line rent reduction	(0.45)	25% off FFO
Round Trip Estimate	(0.89)	50% off FFO
Viceroy Adjusted FFO	**0.45**	

Figure 16 – Medical Properties Trust Viceroy Valuation

Viceroy's adjusted FFO per share removes the impact of straight-line rent (which has historically equated to ~25% of FFO). It also attempts to remove the impact of MPW's round-robin transactions (50% is generous to MPW[7]).

Medical Properties Trust - Viceroy Valuation Range	Multiple	Valuation ($/share)	Downside
Bullish	10.00	4.45	**-67%**
Mid	8.75	3.89	**-71%**
Bearish	7.50	3.34	**-75%**
Stock Price @ 24 Jan 2023	13.48		
Current Multiple on consuensus 2023 FFO	7.57		

Figure 17 – Medical Properties Trust Viceroy Valuation

Around current forwards FFO multiples, we deduce a short-term downside of ~67% - 75%.

Viceroy will consider a review this price target after a thorough investigation of MPW's dealings, specifically surrounding the quantum uncommercial dealings.

It is important to note that this valuation does not consider that MPW is subject to immense credit risk. It has played an aggressive, debt-fuelled roll-up strategy in a zero-interest bull-market. It has had the best economic conditions of all time to fester into one the largest financial disasters to plague the USA – and indeed global – medical industry.

Over the last 6 months, this environment has changed drastically. MPW is overburdened. The fat lady is about to sing. Please take your seats.

[7] The quantum of round-robin transactions typically exceeds FFO. We believe a 50% haircut is generous.

3.2 Credit Risk

In December 2022, S&P placed MPW on downgrade watch. It already sits below investment grade at BB+[8]. S&P notes MPW's enormous exposure to Steward as the main reason for concern.

Medical Properties Trust Ratings Placed On Watch Negative On Increased Exposure To Pressured Tenant Steward Health Care

Figure 18 – Medical Properties Trust Ratings Placed On Watch Negative

We believe S&P will be subject to downgrades following investigations into round-tripping transactions with many of is tenants, and an investigation into their wellbeing. This will deteriorate MPW's ability to obtain cheap financing.

Medical Proerties Trust - Debt Overview						
Issuer	**ISIN**	**Maturity Date**	**Security Type**	**Coupon Rate (%)**	**Currency**	**$000's ****
MPT Operating Partnership, L.P.	XS2390849318	15/10/2026	Corporate Debentures	0.993	EUR	543,478
MPT Operating Partnership, L.P.	US55342UAH77	15/10/2027	Corporate Debentures	5	USD	1,400,000
MPT Operating Partnership, L.P.	XS2085724073	5/12/2023	Foreign Currency Debenture	2.55	GBP	494,945
Medical Properties Trust, Inc.		1/02/2024	Revolving Credit	Variable	USD	920,245
Medical Properties Trust, Inc.		1/02/2026	Term Loans	Variable	USD	200,000
MPT Operating Partnership, L.P.	US55342UAM62	15/03/2031	Corporate Debentures	3.5	USD	1,300,000
MPT Operating Partnership, L.P.	XS1523028436	24/03/2025	Foreign Currency Debenture	3.325	EUR	543,478
MPT Operating Partnership, L.P.	XS2322419776	24/03/2026	Foreign Currency Debenture	2.5	GBP	618,682
MPT Operating Partnership, L.P.	XS2322420352	24/04/2030	Corporate Debentures	3.375	GBP	433,077
MPT Operating Partnership, L.P.	XS2085724156	5/06/2028	Foreign Currency Debenture	3.692	GBP	742,418
MPT Operating Partnership, L.P.	US55342UAG94	1/08/2026	Corporate Debentures	5.25	USD	500,000
MPT Operating Partnership, L.P.	US55342UAJ34	1/08/2029	Corporate Debentures	4.625	USD	900,000

**Native currency

Figure 19 – MPW Outstanding Maturities[9]

We also note that, per Section XX of this report, we believe MPW's LTV is closer to 85%. Even without adjustments, MPW presents an LTV of ~53%. This is extremely high. Again, bondholders will be incredibly displeased if MPW continues to pay dividends given these findings.

Medical Proerties Trust - LTV Calc $000's	Q3 2022	Adjustments	Viceroy LTV
Net debt			
Debt	(9,476,144)		(9,476,144)
Cash & equivalents	299,171		299,171
Accounts payavle & accrued expenses	(569,017)		(569,017)
Interest & rent receivables	117,555		117,555
Deferred revenue	(18,569)		(18,569)
Obligations to tenants & other lease liabilities	(146,438)		(146,438)
Normalized FFO - Management	**(9,793,442)**	**-**	**(9,793,442)**
Assets			
Net Investment in real estate assets	14,264,905	(3,566,226)	10,698,679
Straight-line rent receivables	710,082	(710,082)	-
Investments in unconsolidated real estate operating entities / JVs	2,850,071	(2,850,071)	-
Other loans	200,245		200,245
Other assets***	601,387		601,387
Asset base	**18,626,690**	**(7,126,379)**	**11,500,311**
LTV	**52.58%**		**85.16%**

Figure 20 – Viceroy Analysis

We believe MPW poses serious credit risks to its bondholders, who should scrutinize MPW's various acquisitions and ascertain true valuations for its property portfolio in order to properly account for:

- Pervasive overpayments of assets & real estate;
- Revenue round-tripping transactions; and
- Straight-line revenue deferrals provisions to distressed clients.

[8] https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2932303
[9] S&P Market Intelligence.

Annexure 1 – Wadley Regional Medical Centre - Texas

MPW committed $169m to build a Steward facility which, according to MPW, commenced works in Q4 2021

- Commenced in the fourth quarter the construction of a replacement hospital for Steward Health Care System's ("Steward") **Wadley Regional Medical Center** in *Texarkana, TX* for a total expected investment of roughly $169 million;

Figure 21 – MPW Q4 2021 announcement

Wadley Regional Medical Center and MPW, in its Q3 2022 interim report, said that it had already spent $58m on the development.

SUMMARY OF CURRENT DEVELOPMENT PROJECTS AS OF SEPTEMBER 30, 2022

(Amounts in thousands)

Operator	Location	Commitment	Costs Incurred as of September 30, 2022	Estimated Commencement Date
Steward Health Care	Texas	$ 169,408	$ 57,911	Q4 2025

Figure 22 – MPW Q3 2022 Supplemental Information[10]

However, a news story from late October shows that the development site does not appear to have broken ground and does not even have a site office.

Local news agencies captured video of the site, which shows a sprawling bushland surrounded by temporary blue fencing.

Figure xx – Screen Capture – KSLA News 12 site visit to Wadley Regional Medical Centre[11]

The latest news was in January 2023 after Steward replaced its general contractor Hoar with Robins & Morton. The completion date is now expected to be complete in late 2025, instead of its original date of Summer 2024[12,13,14].

What has the $58m been spent on?

[10] https://www.medicalpropertiestrust.com/supplementals-reports
[11] https://www.ksla.com/2022/10/20/construction-apparently-paused-texarkana-hospital/
[12] https://www.wadleyhealth.org/wadley-regional-northwest-texarkana
[13] MPW Q3 2022 Earnings Call
[14] https://www.1017hotfm.com/news/news-of-the-ark-la-tex/steward-health-care-robins-and-morton-sign-for-construction-of-wadley-facility/

Annexure 2 – Massachusetts

In October 2016 MPW acquired 9 Massachusetts facilities from Steward: 5 of them outright for 600m, 4 for 600m in mortgage loans and 50m in equity contributions.

> On October 3, 2016, we closed on a portfolio of nine acute care hospitals in Massachusetts operated by Steward. Our investment in the portfolio includes the acquisition of five hospitals for $600 million, the making of
>
> $600 million in mortgage loans on four facilities, and a $50 million minority equity contribution in Steward, for a combined investment of $1.25 billion. The five facilities acquired are being leased to Steward under a master lease agreement that has a 15-year term with three 5-year extension options, plus annual inflation-based escalators. The terms of the mortgage loan are substantially similar to the master lease.

Figure 23 – MPW 2017 Annual Report

Uncommercial fair value mark-ups

In Q2, Q3 and Q4 2018 MPW extinguished the mortgages on the 4 facilities by taking ownership, along with an unnamed cash consideration[15]. Steward's 2018 financials show this was $42.8m.

> During 2018, we acquired the fee simple real estate of five general acute care hospitals, four of which are located in Massachusetts and one located in Texas, from Steward Health Care System LLC ("Steward") in exchange for the reduction of $764.4 million of mortgage loans made to Steward in October 2016 and March 2018, along with additional cash consideration. These properties are being leased to Steward pursuant to the original master lease from October 2016 that had an initial 15-year term with three five-year extension options, plus CPI increases.

> In 2018, the real property associated with the 2016 Mortgages was sold to MPT in exchange for $42.8 million in cash and the repayment of the 2016 Mortgages. The system simultaneously entered into leases with MPT under the MPT Master Lease Agreement for the four hospital campuses that were sold. As a result, approximately $3.5 million of previously capitalized debt issuance costs were written off as additional interest expense in 2018.

Figures 24 & 25 – MPW 2018 Annual Report & Steward 2018 Annual Report

Ping Pong St Joseph

As part of the conversion there also appears to be a ping-pong exchange of the St Joseph Medical Centre which MPW acquired in September 2017. In March 2018 it sold the property to Steward for a $148m mortgage, only to reacquire months later again in Q3 2018. We believe this was done intentionally to muddy the waters.

> *Disposals*
>
> On March 1, 2018, we sold the real estate of St. Joseph Medical Center in Houston, Texas, for approximately $148 million to Steward Health Care System LLC ("Steward"). In return, we received a mortgage loan equal to the purchase price, with such loan secured by the underlying real estate. The mortgage loan has terms consistent with the other mortgage loans in the Steward portfolio. This transaction resulted in a gain of $1.5 million, offset by a $1.7 million non-cash charge to revenue to write-off related straight-line rent receivables on this property.

Figure 26 – MPW 2018 Annual Report

As part of the IASIS deal in September 2017 in which St Joseph's was acquired, $15m of additional cash was paid to Steward by MPW. This is recognized in Steward's accounts as an "additional to the loan bases for the 2016 mortgages" and the $115m (not the previously stated $100m) in cash consideration of the IASIS merger.

> On September 29, 2017, the System completed the IASIS Merger by acquiring all of the outstanding shares of IASIS Healthcare Corporation.
>
> Cash provided by Steward totaled $419.2 million. Additional cash consideration received from by MPT approximated $115 million toward the merger partially in exchange for equity interests in Steward.

> Massachusetts, among other items. On September 29, 2017, the date of the IASIS Merger, Steward entered into a Joinder and Amendment to Real Estate Loan Agreement (the Mortgage Joinder) that amended the 2016 Mortgages. As a result of this Mortgage Joinder, additional loan proceeds totaling $700 million were provided simultaneously with the IASIS Merger (the 2017 Mortgages) to retire outstanding debt of IASIS. Additionally, $15 million was added to the loan bases for the 2016 Mortgages. The 2017 Mortgages were secured by the real property associated with hospital

Figures 27 & 28 – MPW 2018 Annual Report

The St Joseph ping-pong transaction allowed MPW to funnel an extra $15m in cash to Steward hence the total mortgage loan reduction of $764.4m: $600m for the 2016 mortgages, $148m for St Joseph's and the leftover $15m and change.

[15] $14.4m disclosed in Q2, the amount is unspecified in later disclosures

Annexure 3 – Salt Lake City Portfolio

In 2017, MPW loaned Steward $1.4b to purchase a Salt Lake City Hospital operator IASIS and their portfolio of 19 hospitals. It also made a further $100m minority interest equity contribution in the transaction. IASIS owned and operated 17 hospitals.

Steward Transactions

On September 29, 2017, we acquired, from IASIS Healthcare LLC ("IASIS"), a portfolio of ten acute care hospitals and one behavioral health facility, along with ancillary land and buildings that are located in Arizona, Utah, Texas, and Arkansas. The portfolio is now operated by Steward which separately completed its acquisition of the operations of IASIS on September 29, 2017. Our investment in the portfolio includes the acquisition of eight acute care hospitals and one behavioral health facility for approximately $700 million, the making of $700 million in mortgage loans on two acute care hospitals, and a $100 million minority equity contribution in Steward, for a combined investment of approximately $1.5 billion.

Figure 29 – MPW 2017 Annual Report

A $700m portion of this loan was immediately extinguished in exchange for 9 properties.

The remaining $700m was a mortgage loan against 2 unnamed properties: Jordan Valley Medical Center and Davis Hospital & Medical Center.

On July 8, 2020, we acquired the fee simple real estate of two general acute care hospitals located in the Salt Lake City, Utah area, Davis Hospital & Medical Center and Jordan Valley Medical Center, in exchange for the reduction of the mortgage loans made to Steward for such properties and additional cash consideration of $200 million based on their relative fair value. The approximate $950 million investment in these two facilities is now subject to the Steward master lease that has an initial fixed term ending in October 2031 with multiple extension options and annual escalation provisions.

Real Estate Loan Agreement and Sale of Property

At December 31, 2019, the System held mortgage agreements with MPT related to the real property of two acute care hospital campuses. On July 2, 2020, the System sold the real property of the two acute care hospital campuses to a joint venture, of which MPT is the majority owner. The System subsequently leased the property from the joint venture. Due to specified forms of continuing involvement, under the provisions of Accounting Standards Codification Topic 840-40, Leases – Sale-Leaseback Transactions, the System is required to continue to capitalize the real estate and to recognize an obligation for the sales proceeds received. The System recognized an initial obligation of $937.2 million, which included the former mortgage obligations of $737.2 million as well as $200.0 million in sale proceeds. The obligation will be amortized

Figures 30 & 31 – MPW 2020 Annual Report and Steward Health Care 2019 Annual Report

On July 8, 2020, MPW acquired the Jordan Valley Medical Center and Davis Hospital & Medical Center in exchange for a total extinguishment of the loan and an additional $200m cash payment it labelled a fair value increase.

Jordan Valley Medical Centre and Davis Hospital & Medical Centre were certainly not the largest hospitals in this portfolio.

Hospital	Location	Licensed # of Beds
Davis Hospital and Medical Center	Layton, UT	220
Jordan Valley Medical Center	West Jordan, UT	172
Jordan Valley Medical Center—West	West Valley, UT	102
Mountain Point Medical Center	Lehi, UT	40
Salt Lake Regional Medical Center	Salt Lake City, UT	158
Mountain Vista Medical Center	Mesa, AZ	178
St. Luke's Medical Center	Phoenix, AZ	200
St. Luke's Behavioral Health Center	Phoenix, AZ	124
Tempe St. Luke's Hospital	Phoenix, AZ	87
Odessa Regional Medical Center	Odessa, TX	225
Southwest General Hospital	San Antonio, TX	327
St. Joseph Medical Center	Houston, TX	790
The Medical Center of Southeast Texas	Port Arthur, TX	199
The Medical Center of Southeast Texas—Victory	Beaumont, TX	17
Wadley Regional Medical Center	Texarkana, TX	370
Glenwood Regional Medical Center	West Monroe, LA	278
Wadley Regional Medical Center	Hope, AR	79
Pikes Peak Regional Hospital	Woodland Park, CO	15
		3,581

Figure 32 – Steward Health Care Annual Report 2018

The first $700m loan was exchanged for 9 properties, and the second $700m loan was secured against a further 2, but Iasis owned and operated 18 facilities in total at the time of acqusition. Steward basically received 7 of them for free.

Steward Transactions

On September 29, 2017, we acquired, from IASIS Healthcare LLC ("IASIS"), a portfolio of ten acute care hospitals and one behavioral health facility, along with ancillary land and buildings that are located in Arizona, Utah, Texas, and Arkansas. The portfolio is now operated by Steward which separately completed its acquisition of the operations of IASIS on September 29, 2017. Our investment in the portfolio includes the acquisition of eight acute care hospitals and one behavioral health facility for approximately $700 million, the making of $700 million in mortgage loans on two acute care hospitals, and a $100 million minority equity contribution in Steward, for a combined investment of approximately $1.5 billion.

At the time of the completion of the IASIS Merger, IASIS owned and operated seventeen hospitals, one behavioral health hospital, and several affiliated outpatient service facilities and physician clinics. The hospitals acquired include:

Figures 33 & 34 – MPW Annual Report 2017 & Steward Annual Report 2017

On a back-envelope, per-beds basis, we estimate that the purchase price of Jordan Valley Medical Centre and Davis Hospital & Medical Centre was ~$196m[16]. Given Steward is running its hospitals business to the ground, we do not believe any fair value adjustment is warranted. We believe MPW must take a $700m write off on this transaction alone representing the $950 mortgage and payment less a conservative $250m for the value of Jordan Valley and Davis.

The pattern in the Masschusetts portfolio of increasing loans continued with the Salt Lake City portfolio with Steward adding a further $27m in Q4 2018.

2016 Mortgages. The 2017 Mortgages were secured by the real property associated with hospital campuses located in Utah acquired as part of the IASIS Merger. On November 30, 2018, Steward entered into amendments to the 2017 Mortgages increasing the principal amount of these mortgages by $27 million. The 2017 Mortgages bear the same interest rate as the 2016 Mortgages of 7.5% for 2018. All payment terms and the maturity date of October 31, 2031 are identical to the 2016 Mortgages as a result of the Mortgage Joinder

Figure 35 – Steward 2018 Annual Report

The FTC has blocked Steward's sale of operations in Utah to HCA Healthcare on the grounds of maintaining competition in the area[17].

[16] Iasis PPE balance of $1.79b, portfolio beds of 3,581

[17] https://www.ftc.gov/news-events/news/press-releases/2022/06/ftc-sues-block-merger-between-utah-healthcare-rivals-hca-healthcare-steward-health-care-system

Annexure 4 – Colombia

Colombia is a textbook example of MPW's opacity in its dealings with Steward.

On November 17, 2020, MPW claims to have invested in 3 Colombian hospitals for $135m from local operator National Clinics Colombia (NCC) through an unnamed JV[18]. The hospitals acquired were Clinica Centenario, Clinica Los Nevados and Clinica San Rafael.

- In reality the JV Cordiant Health Care acquired the first 2 hospitals and the only the real estate to San Rafael, entering into a collaboration agreement with San Rafael[19].

> On November 17, 2020, we invested in the real estate of three general acute care hospitals in Colombia for approximately $135 million. These properties will be operated by the new international joint venture discussed below.

Figure 36 – MPW 2020 Annual Report

Local filings show Cordiant paid NCC COP134.93b ($39.45m) for NCC's operations but notes that NCC did not own the real estate to San Rafael. NCC had engaged in sale-and-leaseback transaction with GSRVC for its San Rafael hospital for in 2016[20]. The 2019 sale-leaseback liability on NCC's book amounts to COP112b ($34.15m) and the JV would have had to purchase this property separately.

> **1.2 Acuerdo de Venta de Acciones**
>
> El 30 de Julio 2020 se firmó el acuerdo de Compraventa "Share Purchase Agreement" entre National Clinics Colombia S.A.S (NCC) como vendedor y Cordiant Health Services Colombia S.A.S como comprador; la transacción contempló: (i) la venta de los intangibles poseídos por la sociedad (derecho de nombrar miembros de Junta Directiva del Hospital Universitario Clínica San Rafael - HUSCR y cesión del acuerdo de colaboración entre National Clinics Colombia y el Hospital Universitario Clínica San Rafael) por $123,438,780 y (ii) la venta por parte de NCC del 100% de las acciones de Capital que se poseían en National Clinics Centenario S.A.S. y National Clinics Nevados S.A.S, por $11,498,586.
>
> Adicionalmente los inmuebles donde opera National Clinics Centenario, National Clinics Nevados y el Hospital Universitario Clínica San Rafael debían ser parte de la transacción, aunque NCC no fuera dueño de los inmuebles. La venta de estos inmuebles debía hacerse de manera simultánea a la venta de los activos de NCC.

On July 30, 2020, the Share Purchase Agreement was signed between National Clinics Colombia S.A.S (NCC) as seller and Cordiant Health Services Colombia S.A.S as buyer; The transaction contemplates: (i) the sale of intangible assets owned by the company (right to appoint members of the Board of Directors of the Hospital Universitario Clínica San Rafael - HUSCR and assignment of the collaboration agreement between National Clinics Colombia and the Hospital Universitario Clínica San Rafael) for $123,438,780 and (ii) the sale by NCC of 100% of the Capital shares held in National Clinics Centenario S.A.S. and National Clinics Nevados S.A.S, for $11,498,586.
*Additionally, the properties where National Clinics Centenario, National Clinics Nevados and Hospital Universitario Clínica San Rafael operate were to be part of the transaction, **even though NCC was not the owner of the properties**. The sale of these properties was to be done simultaneously with the sale of NCC's assets.*

Figure 37 & Tramslation– National Clinics Colombia Annual Report 2020 & Translation[21]

Local news reports show that one of the hospitals, Los Nevados, was severely damaged in an earthquake and needed extensive repairs. The hospital appears to remain closed according to google reviews and local press and Steward Colombia's page on Los Nevados is "under construction"[22].

MPW's $135m investment was actually a $135m mortgage loan on the properties[23]. These details raise the question: what was the $135m spent on? This transaction MUST be scrutinized by investors and regulators:

- NCC filings show its operations, and two Colombian hospital properties were sold for only ~$40m.
- We believe a sale of San Rafael for the remaining $95m is unlikely considering it would constitute a 2.8x in increase in value in 4 years during a weakening exchange rate.
- The ownership structure of the Colombian hospitals suggest it is owned and/or controlled by Steward and/or its executives, not by MPW.

We believe a write-off of ~$60m is required for this transaction alone ($135 less $40m for NCC and $35m from San Rafael).

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[18] https://www.toprankedlegal.com/press-release/medical-properties-trust-and-steward-health-care-to-enter-into-the-colombian-health-care-market-with-the-acquisition-of-clinics-operated-by-national-clinics/
[19] https://www.beckershospitalreview.com/hospital-transactions-and-valuation/steward-acquires-3-hospitals-in-colombia.html
[20] https://www.prnewswire.com/news-releases/rizk-ventures-announces-healthcare-real-estate-sale-leaseback-transaction-of-san-rafael-hospital-in-bogota-colombia-300286010.html
[21] Emphasis ours, all figures in 000's Colombian pesos
[22] https://forbes.co/2020/11/25/negocios/el-millonario-plan-de-steward-health-care-en-colombia-tras-la-compra-de-tres-hospitales/
[23] MPW 2020 Annual Report pg 116

Annexure 5 – Malta

In Q2 2020, MPW invested $205m for a 49% stake in an unnamed JV with Steward and MPW management, paying $205m for assets worth $27m and funneling $173m of cash into Steward. The assets purchased were 3 hospitals in Malta formerly operated by a group of businessmen under investigation for corruption.

(6) Related Party Transaction

On May 11, 2020, there was a related party transaction involving Steward Health Care International Holdings Ltd ("Steward International"), the System's international operations. Steward International was transferred to a company owned by certain of the System's management equity holders and Medical Properties Trust, Inc. (MPT). The System received $200.0 million in cash for the sale of Steward International. Total assets sold by the System were approximately $27.0 million, resulting in a net cash contribution from the management equity holders of $173.0 million to the System. The transaction has been accounted for as a related party transaction and is shown as a contribution to equity on the accompanying consolidated statement of changes in members' deficit of $130.5 million after taking into account the tax impact of the contribution.

Figure 38 – Steward Health Care 2020 Annual Report

MPW were vague about the deal and for good reason: the hospitals purchased in Malta were the Vitals Global Healthcare group of hospitals in Malta purchased by Steward in 2017[24].

- Vitals sold their concession to Steward for a nominal €1 after paying out huge bonuses to executives and doing nothing to develop the hospitals, the entire premise of the concession[25]. Former Vital's CEO Armin Ernst was found to have worked at both Steward and Vitals at the time the sale was being negotiated[26] with Malta's Health Minister Chris Fearne stating it was Ernst's idea that Steward purchase the concession[27].
- Vitals had no experience in healthcare, but was awarded an €7b, 30-year concession to operate the Gozo, St Luke, and Karin Grech hospitals in 2015 before going bankrupt in 18 months after taking €51m of Maltese taxpayer's money and €55m in debt.
- Steward International's business development director, Asad Ali, was involved in the tender from the outset. Ali was a shareholder of Pivot Holdings signatory to the original MOU in October 2014. Former Maltese government officials are under investigation in the matter. Shaukat Ali Abdul Gafoor, a relation of Asad, has continued work on behalf of Steward and is also alleged to be another member of the Vitals organization.
- Steward has failed to meet its obligations and is now attempting to renegotiate with the Maltese government. Reporting shows the hospitals in an advanced state of disrepair with Steward claiming that until its agreements are renegotiated, no further works will be done[28,29].

A full summary of the Vitals saga is beyond the scope of this report. The Shift News has a complete summary of the affair at the link below[30].

MPT closed in mid-May on a $205 million investment to own 49% of a joint venture with Steward CEO and Founder Dr. Ralph de la Torre and members of his management team organized to invest in select international hospitals. The distinct entity simultaneously purchased from Steward the rights and existing assets related to all present and future international opportunities previously owned by Steward for strategic, regulatory, and risk management purposes. In a transaction expected to close in the fourth quarter, MPT expects to invest $100 million in a portfolio of three hospitals in underserved areas of Colombia to be operated by the new joint venture.

Figure 39 – Medical Properties Trust, Inc. Reports Second Quarter Results

In summary, MPW paid $205m to a JV owned by MPW management, Steward Management and MPW. Of this, $200m was paid to acquire Steward International with total assets of $27m, mostly 3 controversy-laden hospitals in a politically charged setting. Steward reaped a $173m windfall and the $5m difference between MPW's acquisition loan and the price paid to Steward remains unaccounted for.

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24 https://www.maltatoday.com.mt/news/national/83233/vitals_selling_malta_hospitals_concession_american_steward_healthcare#.YS3rAI4zaUk
25 https://www.maltatoday.com.mt/news/national/100594/vitals_global_healthcare_boss_ram_tumuluri_paid_himself_5_million_bonus#.YP5w_Y4zaUk
26 https://timesofmalta.com/articles/view/vitals-ceo-profile-says-he-worked-simultaneously-for-new-concession.666264
27 https://timesofmalta.com/articles/view/ex-vitals-ceo-is-now-president-of-steward.667175
28 https://theshiftnews.com/2022/07/04/in-pictures-the-hospitals-managed-by-steward-healthcare-from-bad-to-worse/
29 https://theshiftnews.com/2022/07/22/while-maltas-hospitals-deteriorate-steward-healthcare-insists-on-renegotiation-of-concession-terms/
30 https://theshiftnews.com/2019/10/24/the-big-pay-off-a-key-hidden-investor-in-vitals-global-healthcare/

Annexure 6 – Investment in Steward

MPW has also directly invested in Steward.

In its 2018 annual report MPW disclosed a 9.9% equity stake in Steward valued at $150m, however as of its 2020 annual report MPW has declined to disclose the value of its stake which remains at 9.9%. This stake appears to be a result of the equity contributions from the Massachusetts and IASIS transactions.

> the master leased properties, cross default provisions for the leases, and a right of first refusal for the repurchase of the leased properties. The master loan agreement has independent extension options for each property and does not provide comparable cross default provisions. At December 31, 2018, we hold a 9.9% equity investment in Steward for $150 million.

> opportunities for participation in the value of Steward's growth. All of the proceeds from this loan were used to redeem a similarly sized convertible loan from Steward's former private equity sponsor. Finally, we hold a 9.9% equity investment in Steward.

Figures 40 & 41 – MPW 2018 & 2021 Annual Reports, respectively

MPW also made a $335m loan to Steward in January 2021 used to redeem a similarly sized loan from Steward's private equity sponsors, Cerberus[31].

> On January 8, 2021, we made a $ 335 million loan to affiliates of Steward, all of the proceeds of which were used to redeem a similarly sized convertible loan from Steward's former private equity sponsor.

Figure 42 – MPW 2021 Annual Financial Statement Extract

Cerberus had transferred its controlling stake to Steward management in exchange for a convertible note of unspecified size[32,33]. If this $335m was the value of the 90% stake, then it values MPW's 9.9% stake in Steward at ~$36.85m.

In 2019 MPW disclosed a $44m promissory note from Steward but would not reveal its size until its 2021 filings. The purpose of this note is not stated by MPW.

> or none of the master leased properties and a right of first refusal for the repurchase of the leased properties. In addition to the master lease, we hold a promissory note which consists of three tranches with varying terms and a 9.9% equity investment in Steward.

Figure 43 – MPW 2019 Annual Financial Statement Extract

[31] Q1 2022 Page 16
[32] https://www.bizjournals.com/boston/news/2020/06/02/steward-buys-out-cerberus-capital.html
[33] https://www.wsj.com/articles/pe-backed-hospital-chain-got-help-from-major-landlord-as-losses-mounted-11624014000

Annexure 7 – Prospect Transaction(s)

Prospect is a private-equity fueled roll-up of hospitals which engaged MPW for large-scale sale and leaseback transaction. Management has recently been the subject of scrutiny for the state it has left Prospect prior to engaging in a minority interest MBO.

This is because Prospect was borderline bankrupt and had landed itself in this position by selling off assets to MPW and paying its shareholders enormous dividends with the proceeds.

Background

A Prospect investor consortium are proposing to sell their combined 66% stake to its remaining 34% owners, Samuel Lee and David Topper, for $11.9 million. As this represents a change of control, Lee and Topper have to seek approval from the various states where Prospect has hospital facilities. The last state where approval was pending was Rhode Island, where the MBO faced concerted opposition.

This is because Prospect was borderline bankrupt and had landed itself in this position by selling off assets to MPW and paying its shareholders enormous dividends at the expense of the state.

> Our investigation revealed a company whose principals and investors have issued millions of dollars in dividends from a business responsible for the safety-net hospitals and services they own, which has translated into debt held by the entire system, such that liabilities now exceed assets by over $1 billion. In an ever-changing healthcare market, this debt-to-asset ratio raises a concern for the Attorney General that the national company that owns these Rhode Island Hospitals can become unstable, disrupting and even threatening Rhode Island's third largest hospital system. In other words, PMH is a system that is at risk of developing a lack of financial ability to respond to the volatility of the healthcare market, putting every hospital in its system including our Rhode Island Hospitals at risk of reduction in services, sale, or closure.

Figure 44 – Statement from Rhode Island Attorney General[34]

There are a number of documents – particularly those relating to MPW's transactions with Prospect in 2019 – that were agreed by the State of Rhode Island Attorney General to be commercially confidential. These documents have not been publicized. However, there is a

- a list of the confidential documents
- a list of questions asked by the RIAG following a review of the confidential documents; and
- a report by RIDH's financial adviser PYA, who had access to the confidential documents

[34] https://riag.ri.gov/sites/g/files/xkgbur496/files/documents/Prospect_Chamber_Ivy_AG_HCA_Decision.pdf

Leaseback Transaction

In August 2019, Prospect closed a $1.4b sale-leaseback transaction with MPW. As a result of the sale lease back transaction, Prospect actually has higher expenses from rent versus its previous debt service, which crippled the business[35].

- On August 23, 2019, PMH closed a series of transactions with MPT, a publicly traded REIT, whereby PMH sold to MPT hospital real estate assets in California, Connecticut, and Pennsylvania for an aggregate purchase price approximating $1.386 billion[7]. Proceeds from the sale were utilized, in part, to extinguish the long-term debt assumed in FY2018. Concurrent with the real estate transactions, PMH entered into two master lease agreements whereby the assets sold to MPT were leased back for an initial 15-year term with options to extend. These long-term lease arrangements are recorded on the PMH balance sheet as liabilities. No Rhode Island facilities were included in the MPT sale/leaseback transactions. In addition to this sale/leaseback transaction and other transactions between MPT and PMH involving PMH real property assets, MPT and PMH entered into the aforementioned TRS Note which can be satisfied, among other alternatives, by entering into a sales/leaseback transaction for the PCC facilities.

Figure 45 – PYA Financial Analysis of Prospect

Substantial portions of the proceeds from this transaction were used to pay Prospect shareholders dividends. Prospect's leverage position. Leverage actually *increased* in the year of the transaction.

The Rhode Island Attorney General's investigation of Prospect's financials show clear signs of distress including a negative equity value of >$1b, negative operating income and negative free cash flows (ex-sale of assets).

Table 5

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Income Statement				
Total Net Revenue	$ 2,914,497	$ 2,893,888	$ 2,849,198	$ 2,733,388
Total Operating Expenses	2,847,665	2,888,619	2,853,052	2,836,702
Net Operating Income (Loss) before grants and investments	66,832	5,269	(3,854)	(103,314)
Net Income (Loss)	34,252	(244,165)	(297,736)	(99,610)
EBITDA	212,344	36,512	(48,613)	89,762
Balance Sheet				
Total Assets	1,862,400	1,818,633	1,866,367	2,042,389
Total Liabilities	1,795,084	2,440,982	2,836,427	3,102,004
Total Stockholders Equity (Deficit)	67,316	(622,349)	(970,060)	(1,059,615)
Net Working Capital Surplus (Deficit)	27,932	(136,886)	58,335	130,032

(Dollars in Thousands)	FY2017	FY2018	FY2019	FY2020
Cash Flow Statement				
Cash from Operating Activities	$ 50,239	$ (5,962)	$ (71,448)	$ 412,236
Cash from Investing Activities	(90,461)	(108,799)	(65,587)	(4,670)
Cash from Financing Activities	37,744	95,346	181,432	(72,833)
Liquidity				
Total Cash	27,109	7,694	52,091	386,824
Available Line of Credit	29,900	41,000	175,600	210,800

Figure 46 – PYA Financial Analysis of Prospect[36]

MPW also held a promissory note for $113m secured against Prospect's Rhode Island properties. The note's maturity was set for August 2022 or the sale-leaseback of the properties, effectively a delayed sale-leaseback agreement.

Additionally, the Company entered into a promissory note (the "TRS Note"), under which MPT has advanced to the Company $112,937,000 related to and secured by the value of the properties in Rhode Island. The interest on this note is 7.5% per annum and is subject to annual escalation of consumer price index, limited to a minimum of 2% and a maximum of 4%. The maturity date of this note is the earlier of August 2022 or the conversion to and sale-leaseback of the properties in Rhode Island. The balance due under this note is reflected in long term debt in the accompanying consolidated financial statements (see Note 9).

Figure 47 – Prospect Medical Holdings Annual Report 2019

We note that in its 2019 Annual Report Prospect Medical Holdings discloses a "current portion of MPT liabilities" of $43m.

This seems to have backfired with Rhode Island regulators' approval of Prospect's MBO on the condition that this $113m loan be extended by 5 years with the removal of the sale-and-leaseback option. This effectively leaves MPW holding the bag as Prospect are prohibited from repaying the note the only way possible.

[35] Prospect Financial Statements 2018/2019
https://pestakeholder.org/broken-promises-rhode-island-regulators-question-leonard-greens-investment-in-prospect-medical-holdings/#_edn30
[36] https://riag.ri.gov/sites/g/files/xkgbur496/files/documents/Prospect_Chamber_Ivy_AG_HCA_Decision.pdf

• PMH must extend the payment date of a $113 million loan by five years and remove the sale and lease back of the Rhode Island hospitals as an option to pay back that loan during that time. Further, any transfer of assets or financial encumbrances on the Rhode Island hospitals beyond the five years, including a sale/leaseback, must be approved by the Attorney General.

Figure 48 – Attorney General imposes unprecedented conditions on hospital ownership change to ensure future operations[37]

Crucially, there is conflicting information as to whether – even if all relevant conditions are met – the $113m TRS note is actually secured against the relevant hospital properties.

Never one to let circumstances stop them throwing good money after bad, MPW made a $100m mortgage loan to Prospect, secured against a California hospital, in Q2 2022 for unspecified reasons. We doubt the collectability of this loan.

	For the Six Months Ended June 30, 2022	2021
Land and land improvements	$ 34,204	$ 345,039
Buildings	290,256	825,322
Intangible lease assets — subject to amortization (weighted-average useful life of 20.1 years for 2022 and 45.0 years for 2021)	16,949	96,455
Mortgage loans(1)(2)	100,000	1,090,400
Investments in unconsolidated real estate joint ventures	399,456	—
Investments in unconsolidated operating entities	131,105	845,646
Liabilities assumed	(25,727)	(65,411)
	946,243	3,137,451
Loans repaid(1)	—	(1,090,400)
Total net assets acquired	$ 946,243	$ 2,047,051

(1) The 2021 column includes an £800 million mortgage loan advanced to the Priory Group ("Priory") in the first quarter of 2021 and converted to fee simple ownership of 35 properties in the second quarter of 2021 as described below.

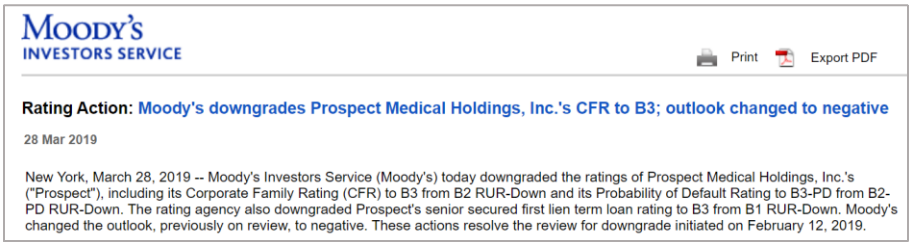
(2) In the 2022 second quarter, we increased our mortgage loan to Prospect Medical Holdings, Inc. ("Prospect") that was originated in 2019 and that is secured by a first lien on a California hospital. The loan bears interest at a current market rate plus a component of additional interest upon repayment, which is anticipated during the fourth quarter.

Figure 49 – MPW Q2 2022 10-Q

[37] https://riag.ri.gov/press-releases/attorney-general-imposes-unprecedented-conditions-hospital-ownership-change-ensure

Future Prospects

Beyond its dire financial situation Prospect's credit rating is in the toilet after a series of bond issuances that prompted Moody's to downgrade their credit rating to junk status in March 2019 citing poor liquidity outlook and leverage levels[38]. The sale-and-leaseback agreement with MPW failed to materially change Moody's view on their "continuing operating challenges and lease-adjusted leverage"[39].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Rating Action: Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to negative

28 Mar 2019

New York, March 28, 2019 -- Moody's Investors Service (Moody's) today downgraded the ratings of Prospect Medical Holdings, Inc.'s ("Prospect"), including its Corporate Family Rating (CFR) to B3 from B2 RUR-Down and its Probability of Default Rating to B3-PD from B2-PD RUR-Down. The rating agency also downgraded Prospect's senior secured first lien term loan rating to B3 from B1 RUR-Down. Moody's changed the outlook, previously on review, to negative. These actions resolve the review for downgrade initiated on February 12, 2019.

Figure 50 Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to negative

Since the hospital company was reporting operating losses even with lower debt servicing, the new arrangement will push the losses wider and likely require restructuring of the expense base.

Prospect's poor financial...prospects… are also reflected in regular media coverage of its facilities; ProPublica has penned several articles detailing the decline of its hospitals including operational, hygiene and staffing failures[40,41].

In this event: a round-tripping transaction appears to have actually worsened the financial wellbeing of an MPW client, despite providing short-term liquidity

[38] https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518
[39] https://www.moodys.com/research/Moodys-Prospect-Medicals-sale-leaseback-improves-liquidity-however-operating-challenges--PR_405116
[40] https://www.propublica.org/article/investors-extracted-400-million-from-a-hospital-chain-that-sometimes-couldnt-pay-for-medical-supplies-or-gas-for-ambulances
[41] https://www.propublica.org/article/a-hospital-chain-said-our-article-was-inaccurate-its-not

Annexure 8 – Priory Transaction

In December 2020 owners of Median Kliniken, Waterland Private Equity, acquired UK-based Priory Group from Acadia Healthcare for £1,078m[42]. Both Median Kliniken & Priory were MPW hospital operators, so the transaction consolidated MPW's 4th and 5th largest tenants by lease assets at the time.

Acadia purchased this business for £1.3b in 2016 and put it back on the market just 2 years later.

MPW financed Waterland's entire transaction with a £1,050m loan: £800m mortgage loan against 35 properties from Priory, and a further £250m acquisition loan secured against the same properties. The mortgage loan would be converted into ownership of those properties in June 2021. MPW received a 9.9% stake in Waterland's Priory fund for an *additional* "nominal amount".

PORTFOLIO UPDATE

During and subsequent to the first quarter, MPT continued to execute on accretive acquisitions.

MPT expects to replace the £800 million Priory real estate loan with sale-leaseback transactions involving 35 properties by the end of the second quarter, at which time the Company will begin to recognize a GAAP investment yield of 8.6%.

2021 Activity

Priory Group Transaction

On January 19, 2021, we completed the first of two phases in the Priory Group ("Priory") transaction in which we funded an £800 million interim mortgage loan on an identified portfolio of Priory real estate assets. In phase two, in a series of transactions we expect will be completed during the 2021 second quarter, we will acquire a portfolio of select real estate assets from Priory (now owned by Waterland Private Equity Fund VII C.V. ("Waterland VII")) in individual sale-and-leaseback transactions, subject to customary real estate and other closing conditions. As all conditions to closing for a particular asset are satisfied, the applicable purchase price for the asset will be paid by us by proportionally converting and reducing the principal balance of the interim mortgage loan we made to Waterland VII in phase one. The aggregate purchase price for the real estate assets we acquire from Priory is thus expected to be approximately £800 million, plus customary stamp duty, tax, and other transaction costs.

In addition, we agreed to provide Waterland VII with a 364-day £250 million acquisition loan, which we funded on January 19, 2021, in connection with the closing of Waterland VII's acquisition of Priory. The loan is secured by the same security assets securing the £800 million interim mortgage loan.

In connection with these transactions, we also acquired a 9.9% passive equity interest in the Waterland VII affiliate that indirectly owns Priory for a nominal amount.

Figures 51 & 52 – MPW Q1 2021 results and 10-Q[43]

MPW claimed that this £1,050m loan was collectively secured against a subset of Priory's properties.

However Acadia's 2020 10-K shows the Priory business consisted of "345 inpatient behavioral health facilities with approximately 8,200 beds" of which 279 were owned and 66 leased. The PPE assets for the sale were valued at $1.298m (£949m) at the lesser of carrying value and fair value less costs to sell.

40 states, the United Kingdom ("U.K.") and Puerto Rico. During the year ended December 31, 2020, we added 460 beds in the United States ("U.S."), consisting of 240 added to existing facilities and 220 added through the opening of two joint venture facilities, and we opened six comprehensive treatment centers ("CTCs"). On January 19, 2021, we completed the sale of the U.K. business, which included 345 facilities and approximately 8,200 beds.

children's services facilities and approximately 60% were adult care facilities at December 31, 2020. At December 31, 2020, we owned 279 of the properties at our U.K. Facilities and leased 66 properties.

It seems MPW believed the 35 properties were worth £800m. It is absurd to suggest that the remaining Priory business *and* a further 244 properties were worth only £250m. For MPW's financing to make any sense the entire Priory business less property would be valued close to zero.

A back-of-envelope calculation assuming homogenous property values across the portfolio suggests an overpayment of at least £600m.

[42] https://www.ft.com/content/6058bdd8-3ff2-4f54-93c6-5911c1ec29d5
[43] https://www.businesswire.com/news/home/20210429005594/en/Medical-Properties-Trust-Inc.-Reports-First-Quarter-Results

Priory Transaction Analysis - Viceroy Research		
Acadia PPE value	£m	949
Total number of properties	#	279
Avg property value	£m	3.40
MPW mortgage loan	£m	800
Security assets converted	#	35
Total value of security assets	£m	119
Overpayment	£m	681

Figure 53 – Priory Transaction Analysis

MPW has absolutely no concern for high-risk investments, and casually engages in quasi-unsecured lending of hundreds of millions of dollars for the purchase of firesale assets.

High leverage put on by its PE sponsor contribute to Priory's weak financial position. According to the Financial Times, Priory's new annual rent cost would be around ~£50m.

> The agreement burdens the Priory with significant rental costs of about £50m a year, and a minimum annual increase of 2 per cent, according to three sources close to the transaction.

Figure 54 – Priory property deal saddles mental health chain with high rents – Financial Times[44]

Priory has also had a number of operational issues/negligence at its hospitals[45,46,47]

Annexure 9 – Pipeline Health

On July 6, 2021, MPW acquired 4 hospitals and 2 on-campus medical office buildings from Pipeline Health for $215m. These were leased back to Pipeline Health System.

> On July 6, 2021, we acquired four acute care hospitals and two on-campus medical office buildings in Los Angeles, California for $215 million. These hospitals are leased to Pipeline Health System ("Pipeline") pursuant to a long-term lease with annual inflation-based escalators.

Pipeline Health was a forced seller in this scenario due to a liquidity crisis. It nonetheless filed for bankruptcy in October 2022:

[44] https://www.ft.com/content/56c04cd9-80ec-4ddb-9165-e8e634a7ce99
[45] https://www.bbc.com/news/uk-england-nottinghamshire-63415407
[46] https://www.laingbuissonnews.com/healthcare-markets-content/priory-group-hospital-ratings-suspended-over-fresh-safety-concerns/
[47] https://www.nelsonslaw.co.uk/priory-hospital-arnold/

44. ***Property Financing.*** While Pipeline owns the real estate and buildings for its operations in Illinois, Pipeline has entered into agreements for the use of real property that allow it to operate in its California and Texas markets respectively. With respect to the operations in California, on July 6, 2021, certain Pipeline entities entered as lessees in a sale-leaseback arrangement under that certain master lease agreement, dated July 6, 2021 (the "California Property Financing") with certain affiliates of Medical Properties Trust, Inc., a real estate trust focused on developing net-leased hospital facilities. The California Property Financing purported to lease back such real estate so that the Debtors could continue its operations for a term of 20 years, subject to extensions. Entry into the California Property Financing arrangement was intended to pay off debt, lower interest rates, and providing capital support for the organization with a focus on repairing aging building infrastructure. With respect to the operations in Texas,

Figure 55 – Pipeline Health Bankruptcy Documents[48]

On January 13, 2022, MPW announced that Pipeline Health would reassume the master lease terms of the Los Angeles hospitals. It caveats this announcement by stating 30% of 2023 rent would be "deferred" (or, straight-lined), and MPW will invest in *more* facilities for Pipeline Health[49].

Following the December sale of its Illinois hospitals, Pipeline is primarily focusing its post-bankruptcy business plan on opportunities within its attractive Los Angeles footprint. On the effective date of the Plan, MPT will be paid all rent that accrued through the first half of January 2023, and it has agreed to defer approximately $5.6 million, or approximately 30%, of 2023 cash rent into 2024 when it will be collected with interest. MPT and Pipeline also agreed to complete Pipeline's pre-bankruptcy plans to add a behavioral facility within Coast Plaza Hospital. MPT will fund the capital addition, which will be joined to the master lease and earn rent at the lease rate upon completion.

Figure 56 – Extract from MPW market announcement 13 January 2023

Viceroy have pulled the amended restructuring plans from the same date of this announcement. MPW must sink $23.5m into new facilities and into standard repairs and maintenance as part of the settlement terms. Much of this appears to be offset from rent owed by Pipeline health, and will now form part of Lease Base calculations.

[48] https://document.epiq11.com/document/getdocumentbycode?docId=4110689&projectCode=PIH&source=DM
[49] https://www.businesswire.com/news/home/20230113005440/en/

Capital Expenditure Funding	Following the Plan Effective Date, MPT shall fund $23.65 million in capital expenditures to be utilized only for the benefit of the L.A. Hospitals through a combination of: • a release of up to $9.4 million in security deposits; provided, however, that a letter of credit from a financial institution reasonably acceptable to the MPT Lessors is posted in favor of the MPT Lessors in the amount released. • Up to $6 million for Capital Additions pursuant to section 10.3(b) of the Original Lease related to the construction of the Debtors' proposed behavioral facility at Coast Plaza Hospital, to include reimbursement of reimbursable expenses that have already been incurred by the Debtors as of the Agreement Effective Date; *provided* that such $6 million in Capital Additions shall be included in the calculation of Lease Base in the Amended Lease. • Up to an additional $5 million for additional Capital Additions to be available on the Agreement Effective Date for projects to be identified in the Lease Amendment, such funding to be provided pursuant to section 10.3(b) of the Original Lease and to include Major Repairs; *provided* that such $5 million in Capital Additions shall be included in the calculation of Lease Base in the Amended Lease. • Up to $3.25 million in repairs and upgrades to be funded from the existing reserve held by the MPT Lessors, which would remain intact and accessible for the purposes specified in the Original Lease.

Figure 57 – Pipeline Health Bankruptcy Filings - final restructuring proposal

We reiterate that MPW tenants are on triple-net leases. Clearly, this is not actually the case. MPW has not recognized a write-down on the Pipeline assets to date, but it is unfathomable that MPW continue to engage in high-risk transactions with bankrupt entities which are, in no uncertain terms, still distressed. This transaction must be scrutinized.

Pipeline Health System

On October 2, 2022, Pipeline filed for reorganization relief under Chapter 11 protection of the United States Bankruptcy Code in the Southern District of Texas, while keeping its hospitals open to continue providing care to the communities served. As mentioned above in this same Note 3, all of the facilities we lease to Pipeline are located in California, representing 1% of our total assets. At September 30, 2022, Pipeline has made all of its required rental payments, and we have on-hand cash deposits of approximately $13 million. We believe our investment in these facilities is fully recoverable at this time, but no assurances can be given that we will not have any write-offs or impairments in future periods.

Figure 58 – MPW Pipeline Health announcement

Annexure 10 – Steward – Financial Health

Steward is MPW's largest customer by assets and revenue. Steward was formed in November 2010 when Cerberus Capital acquired the Charitas Christi system[50] before expanding aggressively, but ultimately not profitably. MPW came to the rescue in 2016 through a sale-and-leaseback arrangement, whereby MPW would acquire Steward's facilities and lease them right back to Steward.

Steward resumed its aggressive acquisition strategy and continued to engage MPW for sale-leaseback transactions. This made Steward the largest private hospital operator in the United States by revenue and number of hospitals.

Steward's failure to achieve profitability despite scale has led to a mutually parasitic relationship with MPW.

Massachusetts State Reports

The Massachusetts Center for Health Information and Analysis (CHIAMass) publishes annual reports on financial and operating statistics for each hospital in the state including Steward Health System[51]. Steward even sued the state in 2017 to prevent filing financial information[52], all reports after 2018 by CHIAMass rely on publicly available financials.

The result of these reports: Steward at the bottom of the ladder in almost every financial metric amongst hospitals in the state reporting ($271m) in losses, negative margins and ($1.2b) in negative equity[53]. Most other hospitals in the state reported positive financial indicators.

Entity	Organization Type	Months Reported	Operating Margin	Non-Operating Margin	Total Margin	COVID Funding in Operating Revenue [1]	Excess (Deficit) of Revenue over Expenses	Current Ratio	Net Assets
Cambridge Health Alliance		**3**	**-7.5%**	**0.6%**	**-6.8%**	**$0.0**	**($14.3)**	**3.5**	**$281.9**
Cambridge Health Alliance ε	Teaching Hospital	3	-7.4%	0.6%	-6.8%	$0.0	($14.2)	3.5	$275.0
Shriners Hospitals for Children		**9**	**-35.3%**	**31.5%**	**-3.8%**	**$0.0**	**($28.4)**	**8.0**	**$9,305.4**
Shriners Hospital for Children - Boston*	Specialty Hospital	9	* Shriners Hospital Boston (SHB) and Shriners Hospital Springfield are part of the national Shriners Hospitals for Children system (SHC) and are reliant upon support from the SHC endowment to cover the costs associated with fulfilling their mission to provide care to patients regardless of their ability to pay. This support is provided through transfers from the SHC's endowment to the hospitals, as these transfers are not considered revenue for the purpose of calculating profitability margin. SHB's and SHS's profitability margins are not comparable to other acute hospitals. Therefore, they have been excluded from the graphics but are included in the statewide median and the databook.						
Shriners Hospital for Children - Springfield*	Specialty Hospital	9							
Steward Health Care			**Steward Health Care did not submit the required hospital health system data**						
Morton Hospital	Community-High Public Payer	9	-1.7%	0.0%	-1.7%	$0.0	($2.0)	1.6	$23.0
Nashoba Valley Medical Center	Community-High Public Payer	9	-6.0%	0.0%	-6.0%	$0.0	($3.2)	1.8	$8.0
Steward Carney Hospital ε	Teaching Hospital	9	-30.8%	0.0%	-30.8%	$0.0	($23.3)	1.1	$7.9
Steward Good Samaritan Medical Center	Community-High Public Payer	9	6.6%	0.0%	6.6%	$0.0	$15.4	1.7	$31.3
Steward Holy Family Hospital	Community-High Public Payer	9	-1.9%	0.0%	-1.9%	$0.0	($3.8)	1.7	$20.4
Steward Norwood Hospital	Community-High Public Payer	9	-39.6%	0.0%	-39.6%	$0.0	($11.9)	0.1	($10.3)
Steward Saint Anne's Hospital	Community-High Public Payer	9	12.6%	0.0%	12.6%	$0.0	$30.5	2.3	$43.3
Steward St. Elizabeth's Medical Center ε	Teaching Hospital	9	-2.0%	0.0%	-2.0%	$0.0	($6.7)	1.9	$65.1
Steward Medical Group	Physician Organization	Steward Health Care did not submit the required physician organization data							

Figure 59 – CHIAMass extract

MPW also filed Steward's 2020 financials as part of a significant tenant disclosure. Steward's positive performance in 2019 did not carry over to 2020 with losses widening to ($407m). MPW has not filed Steward's financials for 2021.

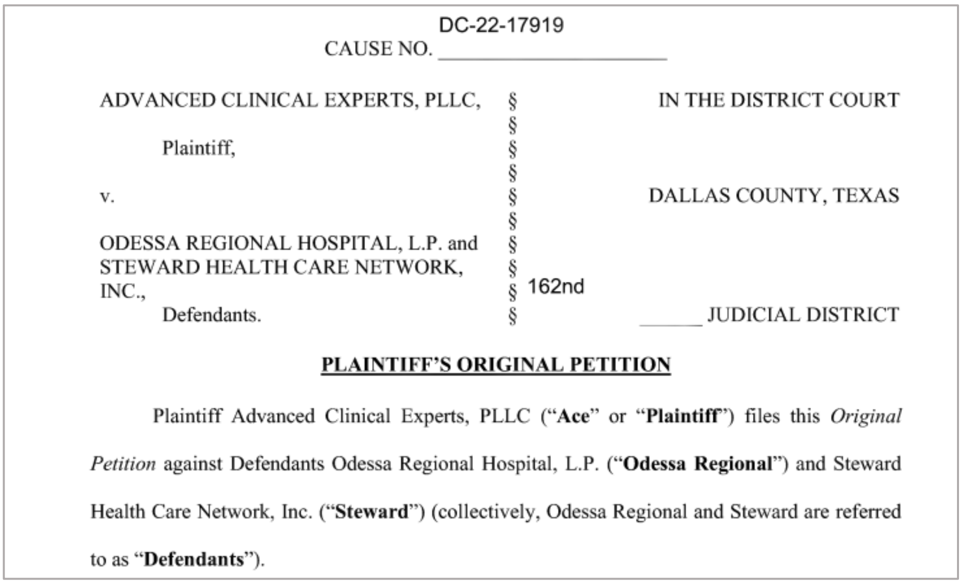
Steward Health Care Financials - Viceroy Analysis				
	2017	2018	2019	2020
Revenues	$ 3,705,641	$ 626,189	$ 6,727,521	$ 5,413,904
Gross profit	$ (321,597)	$ (269,186)	$ 125,313	$ (439,161)
Gross margin	-8.7%	-43.0%	1.9%	-8.1%
Net loss	$ (207,181)	$ (279,547)	$ 82,493	$ (407,593)
Net margin	-5.6%	-44.6%	1.2%	-7.5%

Figure 60 – Steward Health Care Financials – Viceroy Analysis

[50] http://archive.boston.com/business/healthcare/articles/2010/11/28/caritass_owner_has_a_history_of_quiet_buyouts_that_pay_off/
[51] https://www.chiamass.gov/hospital-financial-trend-analysis
[52] https://www.beckershospitalreview.com/finance/steward-health-care-sues-massachusetts-to-avoid-financial-disclosures.html
[53] https://www.healthcarefinancenews.com/news/losses-mount-steward-health-care-as-concern-over-its-future-grows

Odessa Hospital

Steward Healthcare and its local Odessa operating subsidiary are currently being sued for non-payment of wages:



DC-22-17919
CAUSE NO. ________________

ADVANCED CLINICAL EXPERTS, PLLC, Plaintiff, v. ODESSA REGIONAL HOSPITAL, L.P. and STEWARD HEALTH CARE NETWORK, INC., Defendants.	§ § § § § § § § § §	IN THE DISTRICT COURT DALLAS COUNTY, TEXAS 162nd JUDICIAL DISTRICT

PLAINTIFF'S ORIGINAL PETITION

Plaintiff Advanced Clinical Experts, PLLC ("**Ace**" or "**Plaintiff**") files this *Original Petition* against Defendants Odessa Regional Hospital, L.P. ("**Odessa Regional**") and Steward Health Care Network, Inc. ("**Steward**") (collectively, Odessa Regional and Steward are referred to as "**Defendants**").

Figure 61 – Extract from Cause No. DC-22-17919

This demonstrates one of many distressed Steward facilities in MPW's rent-roll:

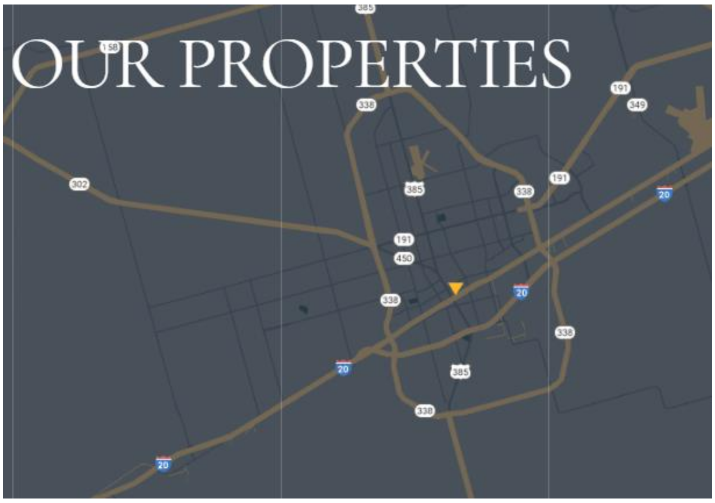


Figure XX – MPW Property Map identifying Steward facility in Odessa, TX

Annexure 11 – Circle Health Holdings – Financial Health

Circle was the company behind the first privately run hospital in the UK but fell afoul of regulators for poor standards of care and practice. Since being taken private by Toscafund in 2017, Circle has not reported a single year of profitability or free cash flow.

UK based Circle Health Holdings acquired competitor BMI Healthcare's operations in December 2019. MPW acquired BMI's properties for £1.5b in the same transaction and leased them back to Circle.

Circle Health Holdings Financials - Viceroy Analysis (2020 & 2021 figures have removed BMI Healthcare)	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	100,882	100,728	102,894	121,147	96,526
Gross profit	29,948	29,506	30,835	(66,013)	(119,593)
Gross margin	30%	29%	30%	-54%	-124%
Net loss	(6,155)	(11,934)	(20,833)	(6,505)	(39,376)
Net margin	-6%	-12%	-20%	-5%	-41%

Figure 62 – Circle Health Holdings Financials – Viceroy Analysis

BMI, now the largest component of Circle, has a similar history of loss-making operations.

BMI Healthcare - Viceroy Analysis	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	886,947	1,313,265	918,149	863,729	955,116
Gross profit	323,622	456,819	357,747	278,397	325,715
Gross margin	36%	35%	39%	32%	34%
Net loss	(97,394)	(59,886)	14,326	(53,871)	(13,300)

Figure 63 – BMI Healthcare Financials – Viceroy Analysis