Favorable Conditions for Hospital Leaseback Explosion

Price $15.92 **Dividend Purchase** **July 18, 2022**

- 7.4% Yield, Estimated Fair Value of $20.
- 91.1% of asset leases to expire after 2030, holding $21.4 billion in assets across 9 countries and 438 properties.
- Second largest global owner of hospitals in the world, with no operational risk.
- Favorable tailwinds include aging population and push for better access to behavioral health.
- Increasing interest rates make leasebacks cheaper than debt financing for expansion.

Investment Thesis

Medical Properties Trust (MPW) is a global REIT focused on investment in hospital real estate with 438 properties across 9 countries, with a footprint across 4 continents. MPW is the second largest non-government owner of hospitals in the world, with a portfolio of roughly 50,000 beds and $21.4 billion in assets. Additionally, they have the second-best adjusted funds from operations p (AFFO) valuation in the sector at 12.5x. In addition, AFFO has a 10-year CAGR at 9.4%. REIT's distributions are unfortunately not qualified dividends.

In the last 35 years, Medicare spending on hospitals has only declined a single time. With an aging population it is likely that Medicare spending will continue to grow over the next several decades as the bulk of Baby Boomers reach Medicare age and life expectancy has increased. Additionally, there has been a massive push for behavioral healthcare facilities.

In the wake of COVID-19 and the resulting intensive care bed shortage, there is a critical need for expanding hospital capacity. With interest rates on the rise financing expansion through leaseback agreements may prove to be cheaper for hospitals than traditional debt financing.

Estimated Fair Value EFV = \$1.20 2023 Dividend divided by Yield of 6%

EFV = \$1.20 / 6% = \$20 per share.

Medical Properties Trust	E2022	E2023	E2024
Price-to-Sales	6.3	6.1	5.6
Price-to-Earnings	8.9	12.5	11.8
EV/EBITDA	13.6	13.0	12.0

Growth and Strategy

MPW is the second largest operator of hospitals in the world with \$21.4 billion in assets globally. There is substantial room for expansion with roughly \$500-700 billion in owner-operator hospital real estate present in the United States alone. A common trend seen in the last decade is a consolidation of for-profit hospital networks while they search for competitive advantages in economies of scale. MPW can capitalize on this trend. MPW has a substantial opportunity within the not-for-profit operation sector as well, as operators still require significant access to capital for expansion. Over the last decade, MPW has had a 31% CAGR for assets with 91.1% of lease agreements expiring far after 2030.

MPW possesses a high level of expertise in hospital operations which has been a critical part of the underwriting process. Hospital operators face a unique set of risks They are dependent on referrals to the hospital by doctors, and sometimes a concentrated network of physicians. Additionally, community need is decided based on various factors including whether population trends like age or income. If there is a hospital competing for the same base, or if the barriers for a competitor are very low, MPW may elect not to participate elect the area.

Although healthcare being government-run in most place outside of the United States, there exists a very diverse private insurance and private operator base across the globe. In 2021 there was a renewed push toward behavioral and mental health care, with COVID-19 proving to be an exacerbating factor. The supply of behavioral healthcare has historically low and the primarily limiting factor is a shortage of psychiatrists. This is a \$260 billion market with very low penetration in the short and medium term, and a growing number of hospitals and networks need free capital for deploying

M&A in a traditionally fragmented industry. MPW has deployed $972 million for acquiring a portfolio of behavioral health facilities in the United Kingdom, and $900 million for the acquisition of similar properties in the United States.

Country	% of MPW Assets	Median Age	Opportunity for MPW
United States	58.6%	38.5	• Massive market for private hospitals, total addressable market may be over $1 Trillion. • Monetization of healthcare is growing trend. • Large amounts of market consolidation.
United Kingdom	21.9%	40.6	• Increasing commonality of leaseback model. • Acute care providers are consolidating quickly.
Germany	6.1%	47.8	• Heavily fragmented acute care and rehab hospital operators that critically need more funding for expansion. • Well-established private ownership model, including private equity owners that may be interested in leaseback.
Switzerland	5.9%	42.7	• Huge real estate value potential. • Fragmented operator landscape, very conducive to consolidation which will require free capital.
Australia	4.6%	37.5	• Private hospitals are gaining market share due to capacity constrained public system. • Critical need for facility expansion. • Not-for-profit system giving way to consolidation from for-profit systems.

Structure

MPW's model begins as a source of capital for hospital operators with a lease model in which the tenant bears all of the maintaining and utility costs of the leased property, with 10-to-20-year initial terms. Many of these originate as sale leaseback model, which is when the original builder of the property sells the property to a holding company and incrementally pay rent on the property until they are returned the title. This can greatly assist in the hospital operation business as it allows operators to essentially unlock capital that would otherwise be locked within property values. Advantageously for operators, rent payments on leasebacks are fully tax deductible and according to MPW often reduce the cost of capital for operators.

What separates MPW from a traditional REIT is the criticality of the properties with 99% of leases having fixed escalators with inflation floors to include inflation resistance. Additionally, 95% of properties are master leased: this means that they are cross guaranteed by a higher party or are cosigned by a guarantor.

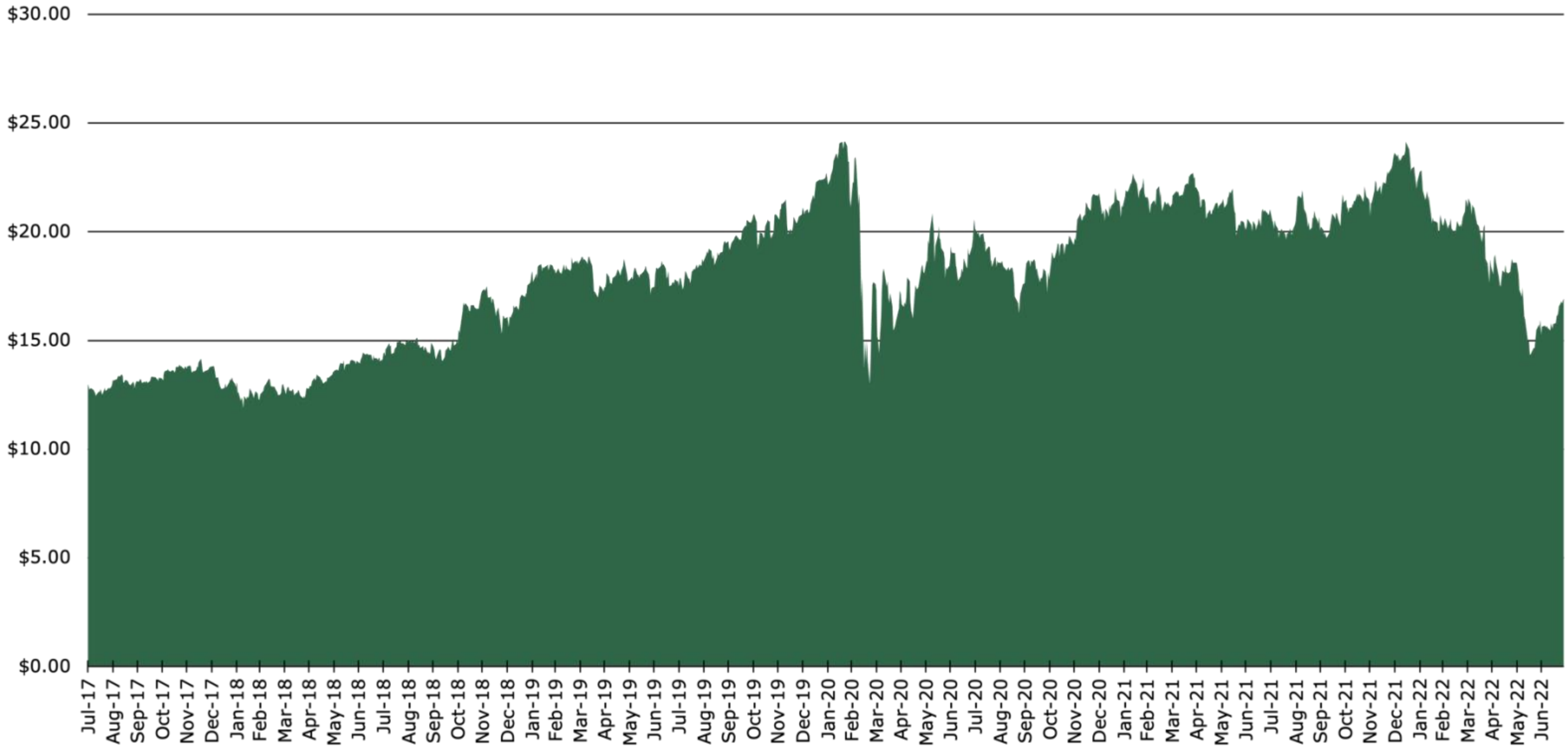
Risks

While no one property makes up more than 2.5% of MPW's total assets, certain partners do make up a significant amount of revenue, such as Steward Healthcare which makes up 19.2% of gross assets. Healthcare margins tend to be thin, which during times of high inflation like presently, can be detrimental for the operator given the inflation escalators in many of the rental agreements.

Competitive Comparisons

Estimated Next 12 Months	Dividend Yield	EV/EBITDA	Price-to-Sales	Price-to-Earnings
Medical Properties Trust (MPW)	7.4%	13.2	5.9	10.4
Omega Healthcare Investors (OHI)	8.9%	13.1	7.7	17.9
Sabra Healthcare REIT (SBRA)	8.3%	12.3	5.2	20.4
Healthpeak Properties (PEAK)	4.7%	18.0	6.8	58.8
Physicians Realty Trust (DOC)	5.6%	16.9	6.9	66.2
Welltower (WELL)	3.2%	22.3	6.1	70.6
Ventas (VTR)	3.7%	18.3	4.7	227.2

Medical Properties Trust (MPW)



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