BUILDING BENJAMINS

Big 10% Dividend - Inflation Growth Kicker - Medical Properties Trust

Price $11.26 | **Dividend Holding** | **November 3, 2022**

- Big Dividend of 10% that grows with inflation.
- Estimated fair value of $14.50.
- Stock down over 50% from its high of $24.13
- One of the largest hospitals owners with 45,000 beds across 10 countries.
- Rent increases based on inflation are permanent even once inflation returns to normal.
- Managed COVID crises without cutting dividend.
- Improving balance sheet with selective sales.
- Improving tenant cashflows makes cashflows less risky.

Investment Thesis

Medical Properties Trust (MPW) is a global REIT focused on investment in hospital real estate with 434 properties across 10 countries, with a footprint across 4 continents. MPW is one of the largest non-government owners of hospitals in the world, with a portfolio of roughly 45,000 beds and just over $19 billion in assets. An advantage of MPW is that in every lease contract, there is an inflation escalator that creates value for shareholders without any additional capital investment. MPW expects to receive $57 million extra in cash rents in FY23 from inflation escalators.

In the last 35 years, Medicare spending on hospitals has only declined a single time. With an aging population, 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 to expand hospital capacity. With interest rates on the rise, financing expansion through sales leaseback agreements may prove to be cheaper for hospitals than traditional debt financing. This is a good environment for MPW.

REIT's distributions are not qualified as dividends for tax purposes.

Estimated Fair Value: Dividend =1.16 divided by Yield 8% = $14.50

Medical Properties Trust (MPW)	E2022	E2023	E2024
Price-to-Sales	4.5	4.3	4.2
Price-to-Earnings	9.3	8.8	8.7
EV/EBITDA	11.3	11.0	10.7

Products and Divisions

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, especially in a high interest rate environment where traditional debt financing may be unattractive for hospital networks.

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 9.4% CAGR in funds from operations per share, growing from $0.71 in 2011 to $1.75 in 2022. 91% of lease agreements expire after 2031 giving MPW great visibility on its revenues.

MPW possesses a high level of expertise in hospital operations, which face a unique set of risks not seen within traditional real estate. Most hospitals are dependent on referrals to specialists by general practitioners, and often are dependent a concentrated network of local physicians. Additionally, competition within a community can vary based on age and 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 in a select area.

Although healthcare is government-run in most places 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 and other mental health professionals. This is estimated to be a $527 billion market with very low penetration. MPW has deployed just over $1 billion 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	61.8%	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	17.6%	40.6	• Increasing commonality of leaseback model. • Acute care providers are consolidating quickly.
Germany	5.2%	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	5.8%	42.7	• Huge real estate value potential. • Fragmented operator landscape, very conducive to consolidation which will require free capital.
Australia	4.1%	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.
All Others	5.5%	N/A	

Leaseback Strategy

MPW is a source of capital for hospital operators with a sale-leaseback model in which the tenant bears all of the maintenance and utility costs of the leased property, with 10-to-20-year initial terms. Many of these originate as a sale-leaseback model, which is when the original builder of the property sells the property to a holding company and incrementally pays rent on the property until they are returned the title. This can greatly assist in the hospital operation business as it allows operators to unlock cash flow that would otherwise be tied to 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 which means that they are cross guaranteed by a higher party or are cosigned by a guarantor like a holding company.

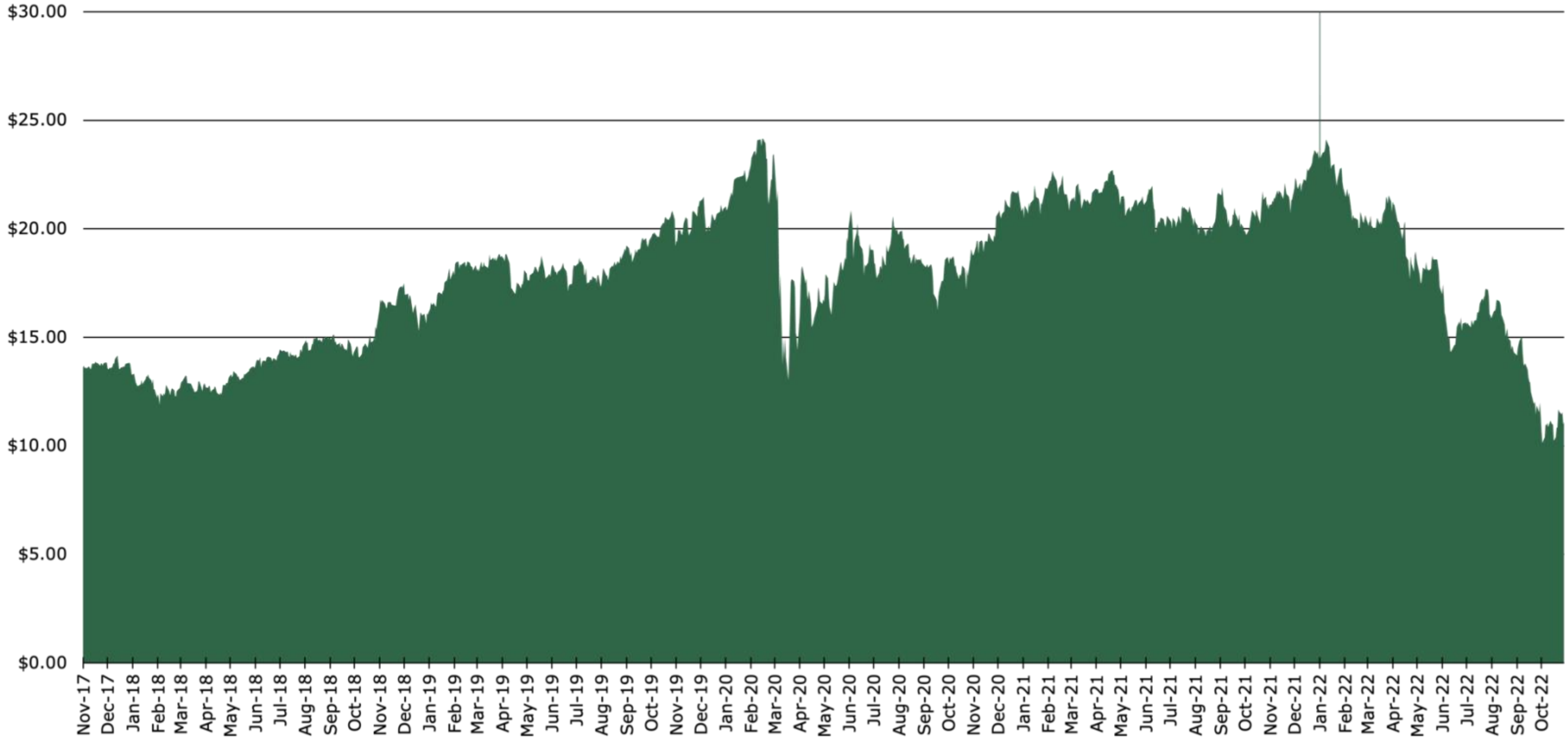
Risk

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 27.8% of quarterly revenues. During COVID-19 Steward Healthcare had difficulties adapting, and as a result their results suffered. Steward's leases are backed up by a private equity sponsor, and has shown a significant decrease in expenses while also increasing patient volume which greatly has improved profitability. Healthcare margins tend to be thin, which during times of high inflation, can be detrimental for the operator given the inflation escalators in many of the rental agreements.

Peer Comparisons

Estimated Next 12 Months	Dividend Yield	EV-to-EBITDA	Price-to-Sales	Price-to-Earnings
Medical Properties Trust (MPW)	10.2%	11.0	4.4	8.4
Sabra Health Care REIT (SBRA)	8.9%	12.5	5.1	22.2
Omega Healthcare Investors (OHI)	8.4%	13.3	7.9	20.5
Healthcare Realty Trust (HR)	6.1%	12.8	13.4	59.8
Physicians Realty Trust (DOC)	6.1%	16.2	6.3	63.7
Healthpeak Properties (PEAK)	5.2%	16.9	6.0	52.4

Medical Properties Trust (MPW)



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