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Medical Properties Trust, Inc. (MPW)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the First Quarter 2023 Medical Properties Trust Earnings Conference Call. All participants will be in a listen-only mode for a 60-minute duration. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please also note that this event is being recorded today.

I would now like to turn the conference over to Charles Lambert, Vice President. Please go ahead, sir.

Charles Reynolds Lambert

Vice President, Treasurer & Managing Director-Capital Markets, Medical Properties Trust, Inc.

Thank you. Good morning and welcome to the Medical Properties Trust conference call to discuss our first quarter 2023 financial results. With me today are Edward K. Aldag, Jr, Chairman, President and Chief Executive Officer of the company; and Steven Hamner, Executive Vice President and Chief Financial Officer.

Our press release was distributed this morning and furnished on Form 8-K with the Securities and Exchange Commission. If you did not receive a copy, it is available on our website at medicalpropertiestrust.com in the Investor Relations section. Additionally, we're hosting a live webcast of today's call which you can access in that same section.

During the course of this call, we will make projections and certain other statements that may be considered forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are subject to known and unknown risks, uncertainties and other factors that may cause our financial results and future events to differ materially from those expressed in or underlying such forward looking statements.

We refer you to the company's reports filed with the Securities and Exchange Commission for a discussion of the factors that could cause the company's actual results or future events to differ materially from those expressed in this call. The information being provided today is as of this date only, and except as required by the federal securities laws, the company does not undertake a duty to update any such information.

In addition, during the course of the conference call, we will describe certain non-GAAP financial measures, which should be considered in addition to and not in lieu of comparable GAAP financial measures. Please note that in our press release, Medical Properties Trust has reconciled all non-GAAP financial measures to the most directly comparable GAAP measures in accordance with Reg G requirements. You can also refer to our website at medicalpropertiestrust.com for the most directly comparable financial measures and related reconciliations.

I will now turn the call over to our Chief Executive Officer, Ed Aldag.

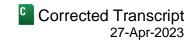
Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

Thank you, Charles; and thanks to all of you for joining us this morning for our earnings call. The overall preliminary results from our operators for the first quarter of 2023 are following in the same positive trends we have recently seen from other publicly reporting hospital operators. Remember, we report a quarter in arrears, so today's results are from the quarter ending 12/31/22.



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On the volumes side, our domestic operators, same-store admissions across our portfolio are positive, with admissions steadily increasing over the last few months, including January 2023. Surgical volumes look even better. On a same-store basis, surgeries are up year-over-year, trailing 12 months Q4 2022 versus trailing 12 months Q3 2022. We're also seeing good momentum on a discrete quarter basis, with quarter four up 3% over quarter three.

The number of ER visits have been steadily rising since the beginning of 2022, topping off in December with the highest ER volumes our portfolio saw in all of 2022. Internationally, we are seeing particularly strong demand both from an admission and surgical perspective in the Spanish market. Recall that we are currently developing three ground-up general acute care hospitals along the Mediterranean coast of Spain with IMED.

It's great to see the demand in this market continuing to grow at such a high rate, with our IMED Valencia Hospital seeing admissions up 8% year-over-year and surgical volumes up 11% during the same period. The German and UK markets are also experiencing continued improvement, with the German occupancy up 6% year-over-year through February 2023. In the UK, Circle's admissions and outpatient volumes continue to increase, with overall volumes exceeding pre-pandemic levels.

In Colombia, 2022 admissions and surgeries were up over 20% year-over-year. You can refer to our supplement filed this morning for more information on our EBITDARM coverages, but some points I'd like to highlight for you. We're getting close to the point where CARES Act grants will no longer impact the trailing 12-month coverages. General acute, inpatient rehab and behavioral health were all flat for the trailing 12-month quarter three over quarter four. Long-term acute care coverages declined from 2.3 to 1.9 times.

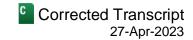
Remember that [indiscernible] (00:05:42) represent only 1.4% of our total portfolio, and the 1.9 times coverage is more in line with historical coverages. I know that people are specifically interested in Steward Hospital's performance. So excluding grants, Steward Hospital's 2022 coverage increased to almost 2.5 times from approximately 2.2 times in 2021. Coverage had increased another 18 points for the trailing 12-month ending February of 2023. Also relating to Steward, the transaction with CommonSpirit is still scheduled to close next week. We look forward to expanding our relationship with CommonSpirit and the liquidity this transaction brings to Steward.

On Prospect, we've seen some positive events which Steve will go over in more detail in a few moments. But just briefly for me, on the gain on sale, this continues to move along positively. This week, one of the biggest unions came out to support the sale. The California operations continue to see improvements with volumes near historic levels. Additional capitation agreements have been signed by the hospitals, which will allow those volumes to continue to grow.

Labor costs continue to hold down the trailing 12-month coverages, but they've seen good improvement in that over the last few months. The managed care business continues to grow its membership and its profits. It continues to exceed budgets. We remain confident that our overall investment in Prospect will be fully realizable from that investment.

Our recent announcement to sell our Australian investments operated by Healthscope, is a testament to the steady demand of hospitals. Anticipated cash proceeds from this divestiture will result in sufficient liquidity to repay the term loan used to fund the acquisition back in 2019. Our well laddered debt maturities schedule, along with our inflation protected long-term leases, allows for our cash flow to continue to increase without adding additional properties.

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Until the global markets stabilize, we do not anticipate making any significant acquisitions. However, our relationships with our operators create numerous organic growth opportunities. We will continue to analyze these opportunities as they come in and make prudent decisions about the use of our capital. We announced this morning an acquisition with Priory for five behavioral hospitals for £44 million, disclosed in the second quarter.

Additionally, we closed on the purchase of two MEDIAN rehabilitation hospitals in Germany for €47 million, with a third expected to close later this quarter for €23 million. Speaking of growing relationships, it was announced earlier this month that Intermountain Health based in Utah, has acquired a minority Opco interest in both of our Idaho Falls Community Hospital and Mountain View Hospital.

This partnership will provide these two hospitals with additional access to highly trained specialists and vast resources as a result of collaborating with one of the region's largest and most successful health systems. While the financial terms of the investment have not been disclosed, we can say that they are an impressive valuation resulting from this equity investment, which once again proves the essential nature of our hospital real estate.

Steve?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Thank you, Ed. This morning we reported net income and normalized FFO of \$0.05 and \$0.37 per diluted share, respectively, for the first quarter of 2023. There are a few components of these reported results that I will point out.

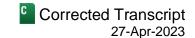
First, this includes no rent or interest income related to Prospect. As we reported last quarter, we are currently recognizing Prospect's rental income only as cash is received; and Prospect paid no rent or interest during the quarter. I will have a further – a little further information on our Prospect investment in just a few minutes.

Second, there are two transactions that we expect will generate more than \$900 million in cash proceeds that we plan to use to repay debt. About \$830 million will come from the previously announced binding agreements to sell our Australian assets. And just this morning we announced that Prime Healthcare has elected to exercise its option to repurchase three general acute care hospitals for \$100 million in cash.

Because both transactions are binding and considered probable, accounting principles mandate that we recognize their estimated earnings impact, even though neither has closed yet. Accordingly, we adjusted normalized FFO for the non-cash real estate impairment and other charges of approximately \$90 million as follows. About a \$11 million is related to unbilled straight line rent on the three Prime hospitals. And I'll come back to Prime in just a minute.

And about \$79 million in charges relates to the Healthscope sale. That's further broken down as follows. Of the total \$79 million, these are US dollars, by the way, approximately \$37 million is unbilled straight line rent. Then, there are \$8 million in fees and cost to sell the hospitals, \$13 million is the recognition of previously capitalized currency exchange rate deferrals. And finally, there is a net \$20 million difference between the contractual purchase price and our current carrying value, offset by the value of our related interest rate swap agreement. And we will continue to earn rent until closing of both of these transactions, and we'll report that in future quarters as earned.

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Finally, we do not include in normalized FFO \$7.7 million in direct costs and expenses incurred to respond to the defamatory statements published by certain parties, including those who were defendant in the lawsuit we filed late last month.

So, upon closing of the Healthscope and Prime transactions, receipt of the \$900 million plus in cash and the reduction of debt with those proceeds, we have refined our 2023 calendar normalized FFO estimate to a range of between a \$1.50 and a \$1.61 per share. This also adjusts for the acquisitions in England and Germany that Ed mention, and our estimates of revenue from Prospect during the year.

With respect to Prospect, during the first quarter we agreed as part of an expected series of additional agreements, to invest \$50 million in a convertible loan issued by Prospect's managed care entities. Subsequent to quarter end, Prospect received a binding commitment from several third-party lenders for financing which should provide Prospect with significant liquidity.

Importantly, a portion of the proceeds of this anticipated financing will be used to pay off Prospect's existing receivables backed loan arrangement, the result of which will be the Prospect will face no near-term debt maturities. In conjunction with these commitments we and Prospect agreed to pursue certain follow on transactions at the closing of which MPT's investment in Prospect asset will be comprised of the following. A master lease covering six California hospitals. MPT purchased these hospitals in 2019 for about \$500 million. The current contractual cash rental rate is roughly 8.25% and escalates annually reference to inflation.

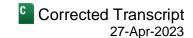
We presently expect to recommence collection of a portion of the contractual monthly rent in September of this year. Secondly, a first lien mortgage on the Pennsylvania real estate. Third, up to \$75 million in a loan secured by first-liens on Prospect's accounts receivable. This amount, which will be fully – the receivables will be fully unencumbered, is well below the existing ABL arrangements borrowing base. And finally, a significant non-controlling ownership interest in Prospect's managed care business that will have an agreed value closely tied to the remainder of NPT's recorded investments, which will include unpaid rent and interest. The managed care business has continued to perform well, and we think that is the evidenced by the commitment letters for attractive new financing that Prospect has received.

As our press release noted, and in light of continuing global inflationary banking and other economic conditions, we made limited investments during the quarter. In fact, we continue to emphasize transactions that generate return of capital to us and liquidity for debt reduction. With liquidity at quarter end of approximately \$1 billion, plus the more than \$900 million from sales that I just mentioned. Along with additional cash expectations from the sale of Connecticut to Yale, repayment of Steward loans and other transactions, we will be well able to satisfy all of our roughly \$1.4 billion in 2023 and 2024 debt maturities.

Just a couple of comments, back to the Prime expected repurchase. This is not a bargain purchase option. Prime is required to pay us the amount that we originally bought the properties for 10 plus years ago. The vast majority of our leases that have repurchase options provide for a repurchase price of the greater fair value and our original investment. In fact, this \$100 million portfolio is the last of the Prime master leases that is Apex fixed original price. We were satisfied with these terms at the time we completed the original transactions because of the very attractive lease rate that we negotiated in return, and that will make the sale back to Prime FFO dilutive, albeit a relatively small impact because of the high rents we have earned until recently.

But the benefits of recycling this capital and the greater liquidity and lower leverage offset that slight dilution. Shortly after quarter end, we closed or committed to acquire a total of eight behavioral and rehabilitation hospitals in England and Germany for up to an approximate \$150 million investment. Similar to our limited late 2022

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acquisitions, these acquisitions selectively add to certain existing relationships in ways that strategically strengthen the respective portfolios.

At present, there are no other scheduled or expected near-term acquisitions. We have virtually completed our new build hospital for Ernest in Stockton, California; and it will come online and begin paying rent during this second quarter. The Ernest new build in South Carolina is still underdeveloped. We continue development of a new state-of-the-art behavioral hospital in Texas for Springstone, now a part of LifePoint. And we continued construction of the three general acute care hospitals for our premier Spanish tenant, IMED.

In conjunction with the redevelopment of Steward's Norwood Hospital, which you may remember was made unusable by storms and floods during COVID, we advanced \$50 million that is secured by, among other things, proceeds from Steward's insurance claims well in excess of the advance. This development is well underway. Finally, we have already noted the Prospect convertible debt of \$50 million we funded in conjunction with the binding funding commitments from third-party lenders to Prospect.

Also as noted in this morning's press release, our board has declared a quarterly dividend unchanged at \$0.29 per share and will be paid on July 13 to stockholders of record on June 15. After a virtually unchanged business model since we started the company almost 20 years ago, I thought I would make a few comments that are relevant to analysis of that model sustainability.

At the highest level, one might say that the product MPT sells to its lessees is capital; and capital, of course, has a cost. Our business plan has always recognized that we do not control the cost of that capital, particularly with respect to debt cost, and this is true for most REITs and other real estate investors. That is why all of our long-term debt is at fixed rates. It is also why we carefully plan on staggered maturities.

Both of those cornerstone strategies are consciously designed to help avoid a situation that might otherwise arise if interest rates spike upward and significant amounts of debt mature simultaneously. But critically, our model has always anticipated the likelihood of rising interest rates and the need for our contractual rental rates to increase with the inflationary pressures that result in higher interest rates.

Hospital leases typically do not have provision for periodic market rent resets. There are good reasons for that, but beyond the scope of this morning's discussion. Instead, virtually every one of MPT's leases provide for annual contractual rental increases that are tied to inflation. Moreover, even in recent years when inflation has been minimal and in some cases even negative, our cash rent has continued to escalate each year.

Based on these annual contractual increases in our cash rent and under almost any reasonable and historically normalized assumptions, rents from our existing portfolio only are expected to increase at rates at least comparable to interest rate increases in our maturing debt issues. My point, of course, is that our model is designed to anticipate normal course volatility and interest rate and other macroeconomic conditions. And moreover, analyzing a straw man scenario that any REIT might be forced to immediately refinance all of its debt at shock interest rate, even though that debt matures over many years in the future is probably not a good use of anyone's time.

Finally, we did point out in this morning's press release that recent transactions have supported the values of our leased assets. We think it's important to point that out because it demonstrates that sophisticated investors and operators recognize and are willing to invest billions of dollars based on the long-term sustainability of our model, particularly our receipt of annually increasing rental payments that are generated from local hospital operations.

With that, we have time for a few questions and I'll turn the call back over to the operator.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will take our first question, which will come from Connor Siversky with Wells Fargo. Please go ahead with your question.

Connor Siversky Analyst, Berenberg Capital Markets LLC	Q
Good morning out there. Thank you for having me back on the call.	
Edward K. Aldag, Jr. Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.	A
Hey, Connor.	
Connor Siversky Analyst, Berenberg Capital Markets LLC	Q
Yeah. Quickly on Prospect. You can see you removed the East Coast asset from the leaving coverage at one times. I mean, is there any indication or any color as to what look like towards the end of the year, and – in consideration of the comments that the general is improving?	you think that number could
Edward K. Aldag, Jr. Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.	A

Yeah. I don't know what it would be obviously by the end of the year. But just based on what we've seen in the early part of 2023, the volumes continued to skyrocket from where they were in the early part of 2022. Labor costs are higher there than they are anywhere else. Little disappointed to still see what those were in the fourth quarter. But those numbers do appear to be going down. The Prospect feels really good about it. So, we think that California could get back by the end of the year to close to what it was maybe pre-pandemic levels.

Connor Siversky Analyst, Berenberg Capital Markets LLC

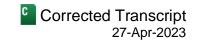
Okay. Thanks for that. And then just want to jump back to guidance. I mean, you mentioned on the last earnings call that the range would be impacted by timing and planned asset sales, timing of Prospect revenues and so on. So on balance, just in consideration of the \$0.04 reduction at the top end, how are those factors affecting the change? I mean, what is contributing to that reduction of \$0.04 at the top end?

R. Steven Hamner	Λ
Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.	
Hi. It's primarily almost exclusively the failed transactions between Healthscope and Prime.	

Connor Siversky

Analyst, Berenberg Capital Markets LLC

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Okay. Thank you. And then, one more for me, just broadly speaking, okay. I think we can all appreciate the challenges inherent in hospital real estate. And these are magnified in the fallout of COVID in a tough labor environment. And MPT is really the only public REIT that is underwriting these assets.

So in the context of the new lease with CommonSpirit in Utah, some of the challenges we've seen related to hospital closures. I mean, when we look out to future acquisitions or portfolio transitions, should we be assuming that the operator market will be looking for lower rents than may have been initially contemplated, say, over the balance of the last five years.

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

Yeah, Connor. I don't think that's a fair assessment at all. I think when you look at CommonSpirit versus Steward, that was entirely based on the financial strength of CommonSpirit versus the financial strength of Steward. So if you look at all things being equal from the same financial strengths of different operators, I don't think you're going to see any change in the interest rates.

I mean, it's already in the cap rates other than cap rates are obviously higher today overall than they were more than a year ago. So, I don't think that that's the right assessment. The assessment is that we get stronger operators. You're going to see lower cap rates. But as we've pointed out in the whole CommonSpirit [indiscernible] (00:24:35) with CommonSpirit being the tenant, it makes those properties more valuable even at the lower rate.

Connor Siversky

Analyst, Berenberg Capital Markets LLC

Got it. Understood. I'll leave it there. Thank you for the time.

Operator: And our next question will come from Michael Carroll with RBC Capital Markets. Please go ahead with your question.

Michael Carroll

Analyst, RBC Capital Markets LLC

Yeah, thanks. Steve, I just wanted to touch on your comments related to the pending Prospect agreement. I mean, what has to happen for that deal to close? I mean, does Prospect need to complete the Connecticut sale and maybe the Rhode Island sale for that to close? Or what are the stumbling blocks that's still ahead of them?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

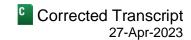
Yeah. So, we're still a little bit constrained on what we can say other than, I'll reiterate, Prospect has binding commitments for the financing that we mentioned. And I can say that those commitments are not conditioned on a sale of Connecticut or of Rhode Island.

Michael Carroll

Analyst, RBC Capital Markets LLC

Okay. Are there any material differences in this agreement versus the prior agreement that fell through in mid-January?

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R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Well, there are differences. There are. And frankly, we're very satisfied with this agreement. Remember, what has all happened since late in the fourth quarter, even early in the fourth quarter, the market disruptions, the credit facility disruptions, the inflationary pressures, then we had the banking panic. And yet through all of that, we're very satisfied with what we expect the outcome to be, and the fact that although when named these lenders, will be very recognizable when the transaction closes and announcements are made.

Michael Carroll

Analyst, RBC Capital Markets LLC

Okay.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

So my point there is, these lenders are willing to commit meaningful amounts to a business that last quarter we indicated our view was – based on some pretty good evidence, we thought that was worth at least \$1 billion. And I think our view is that that is even further validated by virtue of the commitments we have.

Michael Carroll

Analyst, RBC Capital Markets LLC

Okay. And then just last one for me is, I guess what's the reason for the \$50 million loan that you provided [ph] pause backed (00:27:06) in the first quarter? And is there an expected timing of when these transactions can close?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

The reason is, just to continue to advance this process that has been going on, as you know, for well over a year. Has been through at least two earlier iterations. And I forget the second part of your – oh, timing. Yeah, we're not making any announcement on timing. Yeah, we're just not making any further announcement on that now.

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

But it shouldn't change any from what we announced last quarter in the 12 to 18 months for all of this to work through.

Michael Carroll

Analyst, RBC Capital Markets LLC

Okay.

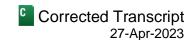
R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

That's right. Yeah. If that was your question, that's absolutely right. I thought you were talking about timing of closing of the loan transactions. But it is absolutely correct. It will not affect our expectation on the ultimate outcome.

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Michael Carroll

Analyst, RBC Capital Markets LLC

So, does the ultimate outcome include this transaction being completed or does the ultimate outcome including this transaction and other stuff being completed? I mean, could this deal close in the beginning of 2024?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

We're both not sure which deal you're talking about, so let me drive [ph] from there (00:28:21). So the deal that Steve just was talking about, should close [ph] very soon (00:28:26). Yeah.

Michael Carroll

Analyst, RBC Capital Markets LLC

Okay.

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

And then, resolution of the entire transaction primarily will build on a monetization of the managed care business.

Michael Carroll

Analyst, RBC Capital Markets LLC

Okay. Perfect. Thank you.

Operator: And our next question will come from Jonathan Hughes with Raymond James. Please go ahead with your question.

Jonathan Hughes

Analyst, Raymond James & Associates, Inc.

Hey, good morning. Could you remind us just of the timing of Healthscope [indiscernible] (00:28:52)? I think that's a phased transaction. And then, maybe the timing and the expected disposition yield on the Prime purchase options?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

So on Healthscope, you're correct. It is a basically two phased transaction. The first and most significant part of the exchange will be we think in this second quarter. And the second phase could be second quarter, but more likely third quarter. On Prime, ultimate closing probably is mid- to- late third quarter.

Jonathan Hughes

Analyst, Raymond James & Associates, Inc.

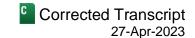
Okay. And then you'd mention that's one of the last kind of fixed purchase options or fixed purchase prices. Can you share the yield? Or can we assume maybe a similar disposition yield as the purchase options from late last year?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

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No. If you take our 2023 passing rent, it's low double-digit yield on that \$100 million.

Jonathan Hughes

Analyst, Raymond James & Associates, Inc.

Okay. So similar to the one last year. Okay. And then, taken somewhat with capital allocation. You will have invested over I think \$400 million in prior year MEDIAN – and MEDIAN since the start of the fourth quarter of last year. Yes, the stock has traded well above an 8% cash cap rate and your debt's yielded double digits that entire time.

I understand that repurchasing stock would not help lower leverage which is the main priority today. But investing in the company, buying back stock or buying back debt comes with zero underwriting certainty. So my question is, why not buyback some of your long-term debt? It will be accretive, help with deleveraging and also send a message of confidence in MPW's outlook beyond your comments and obviously what you gave us earlier on the call. But if you send that message of confidence to the market versus going out there and investing externally.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

No, it's not an unfair comment at all, especially just considered from the total mathematical perspective and it's not off the table.

Jonathan Hughes

Analyst, Raymond James & Associates, Inc.

Okay. I guess, how deep is that discussion gone up to the board level? And then, maybe also related to that about the dividend. I think it's – you've made it clear it's covered. But nonetheless, the market seems to be giving very little credit to it today, yielding north of 14%. So, has the cut also been considered by the board and wouldn't that perhaps be another good capital allocation decision and use those potential retained funds to shore up the balance sheet even faster and pay down debt.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Yeah. Well, we're very satisfied [indiscernible] (00:31:52). We made announcement that we – we declared the dividend this morning. We're satisfied with where we are on the foreseeable future. But all of those are levers that any company has to pull, whether it's dividend or property sales or share repurchases or debt tenders.

Thankfully, we're in a very, very strong position liquidity wise, the value of our asset, the growth in the NOI of our assets. And again, none of those considerations are off the table, as any company would do. We – and it starts at the board level, frankly, can continue to observe all those conditions.

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

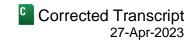
And Jon, these are detailed conversations the board has on a regular basis. And the board makes decisions based on the long-term health of this company; not short term. And we're very comfortable with the decisions that we've made.

Jonathan Hughes

Analyst, Raymond James & Associates, Inc.



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All right. Thanks for the time.

Operator: And our next question will come from Steven Valiquette with Barclays. Please go ahead with your question.

Steven J. Valiquette

Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning, everybody. My question here is also kind of regarding the potential monetization of the Prospect medical managed care business. [indiscernible] (00:33:24) just trying to better understand this new binding commitment from a third-party lender versus the potential managed care transaction that was under negotiation previously that – the third party that stalled out back in January that you kind of mentioned on the last quarterly call.

[indiscernible] (00:33:41) I thought maybe the old one might involve a third party, taking more ownership of that. But now something under this new binding commitment, MPW would have more direct ownership of that managed care business in the interim, and maybe you monetize that somewhere later down the road.

So, I don't know if that is true or not true on the difference between the two, but just trying to understand your level of comfort, I guess if you're going to own part of this managed care business before it maybe gets monetized to some other third party later versus what might have been considered previously. I hope that the question makes sense, just trying to get more color around all that. Thanks.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Yeah. Well, rather than trying to reconcile back to a deal that's kind of long been dead, maybe I'll just reiterate what we expect at, let's say, phase next which would be execution on these commitment letters, which would provide prospect with, as I mentioned, a significant amount of liquidity, take that pressure off of its operations, of its management team and provide even a better platform for growth of the managed care business. While at the same time, as Ed mentioned, presumably California continues to improve.

And so, we would end up with a roughly \$500 million investment in the California assets that under normalized circumstances and again that includes not draining cash out of California for the East Coast; that includes having management have attention to pay to the California operations and so forth. So \$500 million in a performing master lease. Ed commented earlier on the continuing [ph] Prospect's partnered fund (00:35:39) of the Yale sale. That will provide significant amount of cash return to us.

And then the interest that we're talking about would be security entries, pledges and collateral interest in the equity of the managed care company. The monetization of managed care has always been the key to the timing of our recovery of our entire investment. And that really hasn't changed between at least the potential transaction that was being considered during the [indiscernible] (00:36:15) and the one that we now expect to execute.

Edward K. Aldag, Jr.

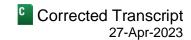
Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

So Steve, if I understand your question correctly, the big picture hasn't changed at all. That was the same contemplation all along, even before we thought we had a deal back in January. Just a little bit of the change in the details, but the big picture is the same.





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Steven J. Valiquette

Analyst, Barclays Capital, Inc.

Okay. That's helpful. Maybe I'll just follow up offline with you guys later with a few follow ups on that. But thanks for the color. Thanks.

Operator: And our next question will come from Austin Wurschmidt with KeyBanc Capital Markets. Please go ahead with your question.

Austin Wurschmidt

Analyst, KeyBanc Capital Markets, Inc.

Great. Thanks, everybody. So Steve, when you kind of wrap everything up of what's assumed in guidance, can you just give us that, like you did last quarter, a little bit of additional detail of now what's assumed kind of at the high end, low end of the range. And with the collection of Prospect's rent in California beginning in September, how has that factored in to the range? And what sort of the probability that you could end up within the higher end of the range, just given the better visibility around some of the moving pieces within guidance?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Well, probably I wouldn't handicap what's most likely pinpoint result. I think it is fair to say that the differences is represented primarily by what may happen with Prospect. And look, we're hopeful that in the next reasonably short period, we'll have more detail about, as I described it earlier, Prospect [ph] to step next (00:37:55) and maybe that will help us and analysts and investors better handicap that.

Austin Wurschmidt

Analyst, KeyBanc Capital Markets, Inc.

Is any potential sale of the Eastern [indiscernible] (00:38:08) portfolio on the table today, or is that been sort of side line for the near term?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Well, no. I mean, we've got a binding purchase agreement. Again, Prospect has a binding purchase agreement for the East Coast as it relates to Yale. They are making progress, it is our understanding on a sale of Rhode Island which only leaves Pennsylvania. And we're not aware and I think we would be; we're not aware of any advanced negotiations for any particular seller about Pennsylvania. But the other two markets absolutely. Yeah.

Austin Wurschmidt

Analyst, KeyBanc Capital Markets, Inc.

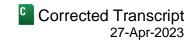
And then, just the last one for me. I guess, as you and the board kind of discuss, capital allocation and balance sheet management. In your eyes, what are the next steps to bring leverage down to levels that are more consistent with the company's longer-term average?

Edward K. Aldag, Jr.

 $Founder,\ Chairman,\ President\ \&\ Chief\ Executive\ Officer,\ Medical\ Properties\ Trust,\ Inc.$

Well, as Steve pointed out earlier, we will have all of the maturities coming due through 2024, taking care of in short order. And then we feel very comfortable about where the remaining maturities are and where they're

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laddered. And we'll obviously not going to make any knee jerk reactions. We've got good cash flow that well covers the dividend on a growing basis. And so, again, just not going to make knee jerk reactions.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

And just to be clear, point something out, it's obvious. But if you look in our supplemental leverage page which we've adjusted a little bit for this quarter, it's highly dependent upon any particular three-month period EBITDA. And in the last two, three month period EBITDA where we're not including Prospect income, it's really disproportionately impacts that kind of number whether it's our 7.2 or another way to look at, it was I think it's 6.5.

Look, all of that what we want to do by changing that page this quarter is, give analysts and investors the inputs they need and then they can make their own assumptions about, well, how much EBITDA is really depressed right now and should we really be saying, well, MPT is levered seven plus times, but that's only because we're not recognizing anything from Prospect and that could change very quick.

So again, I'm stating the obvious, but it's really kind of a soft objection to being over leverage, only if you use that in a particular period. We're not reporting all of the revenue that we think ultimately we will based on the in-place existing portfolio.

Austin Wurschmidt

Analyst, KeyBanc Capital Markets, Inc.

Now, that's definitely a fair comment, trying to understand the moving pieces and I guess how you guys are thinking about the balance sheet in the kind of near- to medium-term, but appreciate on the comment here.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Yeah. It's a good point. Let me just reiterate that – your question thinking about the balance sheet. We've got no pressing maturities now for two years. And again, by kind of pointing to the transactional values that we've executed with sophisticated third parties in recent weeks even during this global panic, hadn't seen anything like this at least since the financial crisis.

And even during all of that, our underwriting and our values have been validated. And I think I described upwards of 2-plus billion dollars in anticipated liquidity in the very near term, and then even more than that on transactions we expect to have. And so then, no unaddressed maturities for the next two years. And during that two years, my personal opinion is, things will normalize like they always do after a panic. Things will normalize. We'll see a more normal debt market hopefully, and I believe this firmly. We're not going to be looking at imply double-digit bond rates for us. And at the same time, we'll continue to work through the Prospect situation.

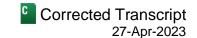
So, all that's a long winded way of saying, we have a lot of liquidity, we have a lot of value, we have a lot of levers to pull, and we don't even have to be thinking about really what's next, that we're not thinking about it, but there's nothing pressing until 2025. And I'm not even saying that's pressing; I'm just saying we have to address some coming maturities at that time.

Austin Wurschmidt

Analyst, KeyBanc Capital Markets, Inc.

Now, none of that's lost on us, but appreciate the comments. Thanks, Steve.

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Operator: And our next question will come from Vikram Malhotra with Mizuho. Please go ahead with your question.

Vikram Malhotra

Analyst, Mizuho Securities USA LLC

Thanks for taking the questions. Maybe if you could just clarify just to be crystal clear, so in the guidance, Prospect's rent through September. Is that sort of the high end? And could you just translate that guide like you did last time into what a rough AFFO or FAD range would be?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

You broke up, Vikram. I think the question was kind of a repeat of Austin's and...

Vikram Malhotra

Analyst, Mizuho Securities USA LLC

No. I just wanted to make sure I knew at the high end of the range, it was a Prospect rent through September. Is that the high end essentially? And then, I may have missed it, but could you just translate the guide, the FFO guide into kind of the - as you see it today, what the FAD guide would be just thinking kind of dividend coverage at both ends of the range?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Yeah. So again, instead of trying to pinpoint exactly what we expect from admittedly a number of moving parts on Prospect. The range, the 50 to 61 range is not exclusively, but the great majority of that range varies on your Prospect assumptions. And the low end - I can't say the low end does include what Prospect even under the pending contractual payment starting in September, it does include that amount. Other than that, again the rest of the range just depends. And yeah, I think that was.

Vikram Malhotra

Analyst, Mizuho Securities USA LLC

Okay. Makes sense. Can you just remind us sort of a run rate? Roughly, what is the bump? If we look sort of 12 months forward, what is the bump - on annual basis, I should say, a bump from inflation, given the CPI linked escalators.

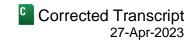
R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Well, it varies across every one of our lease arrangements. In fact, if I understand the question, I think I do. Typically, almost all of our leases have a floor and let's just say that has a weighted average floor of 2%. So we've been realizing those cash bumps even recently when inflation has been less than 2%.

And then the ceiling, which almost all of our leases have some type of a high end, that high end could be unlimited inflation which some of our leases have, and some of our leases have a ceiling on that. And let's just say that, on average if there's a ceiling, let's call it 4%, if you wait all of our leases, you'll probably come up with a portfolio number of a ceiling. I mean, a floor of 2 and a ceiling probably in the 5 range.

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Vikram Malhotra

Analyst, Mizuho Securities USA LLC

Okay. That makes sense. I'm assuming sort of on a run rate basis, kind of embedded and guide into that number towards the higher end, just given where inflations played out recently.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Yeah, right. It's been actual inflation, yes. It's embedded in, right. Because remember, most of our leases reset on January 1. Regardless of when the lease starts, most of our leases reset on January 1. So we know as of January 1 what the cash rent. To a great extent, we know what it's going to be for the calendar year.

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

If I understand what you're asking, Vikram, it's not – the run rate is not a – we haven't projected what inflation is going to be. It's actual increase...

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

Actual, right.

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

... than what the leases have been.

Vikram Malhotra

Analyst, Mizuho Securities USA LLC

Okay. That's helpful. Yeah. I didn't realize all of the – the whole, the reset was basically [ph] earthed (00:47:33) like Jan 1. I thought it might have been staggered through the year, but...

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

The vast majority are January.

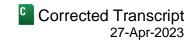
Vikram Malhotra

Analyst, Mizuho Securities USA LLC

Okay. And then just last one, thinking about you mentioned capital availability, you mentioned transaction, the values being validated. So just two things. Can you clarify, on values being validated, how do we think – how do we translate all of these transactions into a – whether it's a range of cap rates or a per foot value or replacement cost value?

Would you venture to say sort of versus say, the original Macquarie transaction, where are you seeing those cap rates? Number one. And then number two. From a capital availability standpoint, given say broader real estate capital is very thin, how does that translate into, say, doing a new receivables or ABL loans for hospitals in terms of just the hospital's access to capital?

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R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

So, the first part of that – let me try and I'll just give you the history. Going back a year ago, we did, as you point out, the Macquarie transaction. That was basically a 5.6% capitalization rate and that's measurable, that's objective. And so, again, that was before the panic that we got in recently.

The Australian deal, again we signed that deal at the very peak of the banking panic a few weeks ago and that's about a 5.7. And then if you look at other recent transactions we've done that we can point to, with sophisticated third parties [indiscernible] (00:49:19) Now, that wasn't a real estate deal, but that transaction was valued based on our Springstone investment. Very, very attractive financing. We generated very strong return on our Springstone investment that we then sold to Lifepoint.

The fact that Yale is willing to pay what it's willing to pay for that hospital. And then again, Prime has a fixed repurchase, but they're willing to pay what the hospitals were on our books for. All of these are the indicators, and then there are other transactions that we're not involved with. For example, there was a recent transaction in France for a very, very significant kind of unique portfolio whose characteristics in their hospitals are not nearly as strong as ours, which went for a low five handle cap rate.

So, all of those are the reasons we pointed out this morning. And we continue to say that our values, our underwritten values have been sustained even in this market, this global kind of economic market that we've suffered with recently. Our values have seemingly been sustained. And we think the reason is, obviously it's not because the public markets are giving us credit, but sophisticated private investors are, whether it be the Macquarie transaction, whether it be an operator, sophisticated operator like CommonSpirit, whether it be Apollo backed Lifepoint, and then others, look, because these were competitive transactions.

And I can tell you, we continue to get a high level of interest in doing similar transactions. And I think that's available to us if, in fact, we decide we want or need to do that at some time. I'm sorry, I went on on that, Vikram, but...

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

Yeah. The second part of your question was regarding banks, I'm sorry outflows and their access to capital. We don't have any operators that have expressed concerns to us about their refinancing of any ABLs that may or may not be coming due. Obviously, we've had a specific example with Prospect where they had a number of choices to refinance their ABL. So even in that strained situation, there certainly were avenues out there. I'm not aware of any of our operators that had any issues with some of the West Coast banks that went through the issues in the last couple of months. So, everything seems to be operable out there right now.

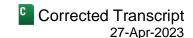
Operator: Thank you. And our next question will come from Josh Dennerlein with Bank of America. Please go ahead with your question.

Daniel Byun

Analyst, BofA Securities, Inc.

Hello. This is Dan Byun dialing in for Josh Dennerlein. Could you provide a little bit more details on the terms of that \$50 million loan that you provided to Prospect?

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R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

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The convert?

Daniel Byun

Analyst, BofA Securities, Inc.

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Yeah.

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.



Yeah. Well, it's a convertible loan and we're not disclosing the terms right now. They're very attractive to us. The point being that we have the right to convert it into the, what we think is the much more valuable managed care equity.

Daniel Byun

Analyst, BofA Securities, Inc.



Got it. No, that makes sense. And then, I guess to just kind of follow up on that. How does the third-party [indiscernible] (00:52:55) commitment impact your Prospect financing? And what are your thoughts on providing Prospect additional support from here on?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.



You broke up on that last part. But the third-party commitment is to the managed care company. And what it really, really does for us very attractively, A, it frees up all of the locked up collateral that is presently under the current ABL. That gets repaid, totally unencumbers the Prospect receivables and gives them liquidity to continue to operate and invest in their hospitals. And ultimately, as we've said, we expect beginning in September pay our rent.

Daniel Byun

Analyst, BofA Securities, Inc.



Got it. And then, I didn't catch that last part – on the second part of my question, about what your thoughts were on providing more potentially additional support for Prospect.

R. Steven Hamner

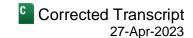
Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.



Well, we may. We may. I think we said – at least in my prepared remarks, we said that part of our – the outcome of this, that's the reason I mentioned the receivables is, we may advance another up to \$75 million which would be secured by the receivables balance, which is well in excess of the \$75 million.

And this is why Ed mentioned a minute ago that operators really don't have issues accessing ABL type financing, because it's very, very well collateralized with government and insurance receivables. And again, just assume a current kind of apples to apples borrowing base for Prospect of \$175 million, and we may advance up to \$75 million and earn a very attractive rental rate on that, by the way. And that helps facilitate the next steps for ultimately monetizing — A, monetizing managed care; and B, stabilizing and improving the California hospitals.

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Daniel Byun

Analyst, BofA Securities, Inc.

Got it. Thank you. Really appreciate the color here.

Operator: And our next question will come from Michael Mueller with JPMorgan. Please go ahead with your question.

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Yeah. Hi. Ed, you talked a little bit about Steward before. I was wondering, back I guess on the prior conference calls at the end of last year [indiscernible] (00:55:23) you put out some benchmarks for where you thought their EBITDA ramp was going to for 2023. And just can you give us an update there in terms of what's changed, what hasn't changed?

Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

Yeah, Mike. I really don't have an update other than to say that the January numbers, we [ph] didn't much to go on, (00:55:40) but the January numbers year-over-year are close to \$100 million.

Michael W. Mueller

Analyst, JPMorgan Securities LLC

Got it. Okay. That's it. Thank you.

Operator: Okay. And our next question will come from John Pawlowski with Green Street Advisors. Please go ahead with your question.

John Joseph Pawlowski

Analyst, Green Street Advisors LLC

Thanks for the time. I have a follow-up on the – just the aggregate amount you expect to invest with Prospect in these additional commitments. And so, \$50 million loan and then up to \$75 million in ABL financing. Are you contemplating additional support for Prospect above those announced this year?

R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

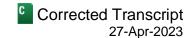
No. [indiscernible] (00:56:27) and deferral of rent. So, no further cash investments for lack of a better term. Our plans with the Prospect and we mentioned this last quarter also, it includes some deferral of rent. That rent deferral whatever it may be, goes into our interest in the managed care company. So the expectation based on our valuations is that that we would recover that.

John Joseph Pawlowski

Analyst, Green Street Advisors LLC

Okay. And then turning to Steward. Could you just confirm to me, there was another roughly \$25 million in loans provided late last year to Steward. And then you expect additional cash to go to Steward this year outside of the, I guess, the insurance recoveries prepayment.

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R. Steven Hamner

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

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Yeah. The last question is no, we do not expect any further – again I'll term it operating support, liquidity support for Steward other than what you've just described in redevelopment cost. On the late 2022, there was another \$28 million that we advanced. This was because Steward had – as many of our operators do, they participate in what known as supplemental programs. So, Steward had the opportunity to participate in a meaningful supplemental program.

They didn't have to spend this \$28 million. But had they not contributed, this is called the tax, that was the tax part was to pay a tax of \$28 million to particular programs. In return for that, then the operators are reallocated. Some are beneficiaries and some are not, of additional government reimbursement because Steward's business plan really serves to great extent lower income patients in some areas, Steward is always a beneficiary.

So by paying this \$28 million, Steward has received and will receive in the near future multiples of that \$28 million by virtue of the reallocation. And so, we elected to go ahead and fund that because otherwise it was just leaving money on the table.

John Joseph Pawlowski

Analyst, Green Street Advisors LLC

Understood. I guess I'm struggling with last quarter on this call, I asked you directly, have you extended Steward additional capital, and you said no. And so, I guess why wasn't that disclosed verbally on the call?

R. Steven Hamner



Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

I don't remember that question, John. I do remember you ask a question that carved out Prospect and Steward. But if you had asked a direct question like that, the answer should have been yes. I would have given you the same answer that I just did.

John Joseph Pawlowski

Analyst, Green Street Advisors LLC



Okay. Last one for me, is \$0.30 and adjusted funds from operations in the quarter. Can you just give us a sense how much of non-cash or deferred rent and interest is in that \$0.30 figure in the quarter?

R. Steven Hamner

Α

Co-founder, Executive Vice President, Chief Financial Officer & Director, Medical Properties Trust, Inc.

No, I don't have that off the top of my head. Yeah. Sorry.

John Joseph Pawlowski



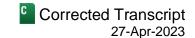
Analyst, Green Street Advisors LLC

Okay. Thanks for the time.

and over to

Operator: And that concludes our question-and-answer session. I would like to turn the conference back over to Ed Aldag for any closing remarks.

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Edward K. Aldag, Jr.

Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

Thank you, operator. And as always, if you have any follow-up questions, don't hesitate to call Drew or Tim. Thank you very much.

Operator: The conference is now concluded. Thank you very much for attending today's presentation. You may now disconnect your lines.

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