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## Q1 2024 Medical Properties Trust Inc Earnings Call

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## PRESENTATION

**Operator**

Good day, and welcome to the First Quarter 2024 Medical Properties Trust Earnings Conference Call. (Operator Instructions) Today's call is scheduled for 60 minutes. Please note this event is also being recorded. I would now like to turn the conference over to Mr. Charles Lambert. Please go ahead.

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**Charles R. Lambert** ***Medical Properties Trust, Inc. - VP, Treasurer & MD of Capital Markets***

Thank you, and good morning. Welcome to the Medical Properties Trust conference call to discuss our first quarter 2024 financial results. With me today are Edward K. Aldag, Jr., Chairman, President and Chief Executive Officer of the Company. Steven Hamner, Executive Vice President and Chief Financial Officer; Kevin Hanna, Senior Vice President, Controller and Chief Accounting Officer; and Rosa Hooper, Senior Vice President of Operations and Secretary.

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.

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**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Thank you, Charles, and thanks to all of you for joining us this morning on our first quarter 2024 earnings call. I'm pleased to be joined again today by Steve Hamner, Rosa Hooper and Kevin Hanna. You will hear from each of them shortly.

For the past several quarters, you've heard me say that we're focused on executing a capital allocation strategy to generate at least $2 billion of additional liquidity in 2024. I'm pleased to share that we've made strong progress on this strategy, executing $1.6 billion of total liquidity transactions this year, including the recently announced sale of 75% of our interest in 5 Utah hospitals to a new joint venture with a leading multibillion-dollar asset manager.

We've used the proceeds from these transactions to pay down near-term debt, including full repayment of our Australian term loan that was due in 2024. Importantly, while we've already reached 80% of our initial liquidity target, we're just getting started. And now expect to exceed that amount for the year.

Our early results prove there is strong demand for our assets at attractive valuations. We have several available levers to generate additional liquidity and we remain actively engaged in numerous discussions. As with the transactions already executed, we expect to continue demonstrating the value and cash flow potential embedded in our portfolio throughout the year.

Turning to Steward and its decision earlier this week to commence a Chapter 11 restructuring process. There has obviously been a great deal of media attention on this filing. And we want to take a few minutes to share our perspective directly with all of you. First, if you've had an opportunity to read through the first day declarations that Steward filed with the U.S. Bankruptcy Court. You will find a clear story of how Steward got here.

Notably, no mention was made of rent as a contributor to Steward's distress. We believe that bankruptcy will facilitate the re-tenanting or sale of Steward hospitals in an orderly and timely fashion. We firmly believe that an orderly transition of Steward Hospitals to new operators is in the best interest of everyone, and we're committed to providing a $75 million in debt financing to help achieve that.

We expect Steward to use this financing to ensure continuity of patient care while accelerating the retenanting of these hospitals. To be clear, we have not committed to providing any additional funding beyond this initial $75 million.

As I said before, rent is never mentioned by Steward on the list of contributing factors to his financial stress. That's because rent, which represents only a small fraction of a hospital's total revenue is virtually never the primary cost of financial stress for hospitals. And as Steward wasn't paying rent, they'd be paying interest and principal repayments on some type of financing for the facilities, because as we all know, buildings are not free.

While we've seen a great deal of misinformation recently reported about our business model, the fact remains that MPT provides hospital operators permanent and affordable capital enabling them to redirect the substantial cash resources that would otherwise be used for real estate to their primary mission, healing patients.

We continue to be pleased with the progress we are making with parties interested in the Steward Hospitals. It would be inappropriate for us to discuss the details of each of these transactions until they are approved by the court. I will now turn it over to Rosa to discuss the performance of our portfolio. Rosa?

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**Rosa H. Hooper** ***Medical Properties Trust, Inc. - Senior VP of Operations & Secretary***

Thank you Ed. As with the past few quarters, I'll take you through some of the highlights across our portfolio of critical hospital real estate, beginning with a few high-level comments.

During the fourth quarter of 2023, we were pleased with the solid sequential and year-over-year coverage improvements delivered across our portfolio. In fact, on a discrete quarter-over-quarter sequential basis, our general acute inpatient rehab and LTACH segments all reported increasing coverage in the fourth quarter.

And during the first quarter of 2024, volume trends across our portfolio, excluding Steward and Prospect grew in line with and, in some cases, outpaced the growth of large public operators. Behavioral health hospitals, which represent 14% of our portfolio, continue to see increasing volumes year-over-year as these facilities prove their enduring value in their respective communities.

While LTACHs have seen declining year-over-year volumes as a result of the CMS waiver expiration last May, it is worth noting that these facilities represent just 1.5% of our portfolio and are generally part of larger operators that include inpatient rehab and/or acute care hospitals, therefore, ensuring diversification and additional coverage for ongoing rent payments.

Going forward, we will no longer provide individual disclosure of LTACH coverages but will instead begin to combine them with inpatient rehab coverages for a post-acute property type. In the U.K. and Continental Europe, operators continue to benefit from strong growth in reimbursement rates, overall volumes and higher acuity emission. Leading most operators to report increasing operating profit year-over-year.

Circle remains well positioned in the U.K. private health care market with steady volume growth and increasing patient acuity that is expected to extend through 2024. With the sustained growth of private health insurance coverage and self-pay in the U.K. Circle has delivered steady financial performance and expect that strong performance to be maintained. As the largest independent mental health care provider in the U.K. by a number of beds priority continues to capitalize on increased demand for behavioral health services within the U.K.

They are seeing steadily improving reimbursement trends, along with stable occupancy levels and remain focused on cost-effective management to ensure quality and efficient care. Together, these focus areas are driving incremental improvements in coverage and earnings. (inaudible) parent company, MEDIAN, has largely recovered from the impacts of the COVID-19 pandemic on its German operations with improving occupancy, favorable reimbursement rates, moderating inflation and strong cost control.

MEDIAN's operating margins have proven resilient over the past several years and we expect them to maintain that stability. While Swiss Medical's profitability was marginally impacted by inflationary pressures, and investments related to its pioneering integrated care network in 2023. Initial results from the first quarter already indicate that these temporary headwinds are abating. In addition, Swiss Medical's Genolier Innovation Hub, which began construction in 2021, remains on track to open in the second half of 2024.

Turning to our U.S. portfolio. Excluding Steward and Prospect, we're seeing increasing admissions almost universally across our diversified portfolio of general acute hospitals, inpatient rehabilitation facilities, or IRFs, and payroll health facilities. Reimbursement rates are generally accelerating and operators are doing a commendable job of controlling costs in this inflationary environment.

A major highlight for the quarter was the announcement of the new JV, we formed with a leading investment firm involving our hospitals in the Salt Lake City area of Utah operated by common spirits. We are pleased to retain an approximate 25% interest in these facilities and expect strong performance trends to persist over the long term.

Ernest Health reported stable performance with consolidated EBITDARM coverage above 2x. Ernest IRF are performing well with coverage in excess of 2x on their same-store IRF, excluding Ernest's 3 recent developments, it is approaching 3x. Ernest total reported coverage was adversely impacted at its LTACH facilities by the volume headwinds I mentioned earlier.

As an important reminder, LTACH comprised less than 20% of our investment in Ernest and their rent is more than covered by the IRFs. Shifting to Prime, as part of the California and New Jersey sale transaction, MPT and Prime agreed to a new 20-year master lease for our remaining 4 Prime hospitals.

The new master lease includes a purchase option for Prime to buy the real estate of these remaining hospitals for a minimum purchase price of $238 million. They report increasing volumes and normalization of labor costs, which has led to improved EBITDARM for MPT owned hospitals.

At our LifePoint hospitals, volumes have sustained momentum following the nice rebound we saw in the fourth quarter of 2023. As a result, LifePoint MPT-owned LifePoint facilities have delivered meaningful EBITDARM improvements over the last several months, including an encouraging March in which they deliver the highest monthly EBITDARM in more than 2 years.

LifePoint's recently dedicated cardiovascular and surgical care Privilion at Konami, Memorial and Pennsylvania, has been very well received by the community, and we remain optimistic that it will further position that market for future success. Our LifePoint behavioral facilities inpatient volumes have steadily increased offsetting seasonal declines in volumes from partial hospitalization programs and intensive outpatient programs.

At SionHealth, general acute facilities reported nearly a full turn improvement in coverage year-over-year to 1.9x, driven by double-digit volume increases and substantial reductions in contract labor. However, like Ernest, LTACH performance has been adversely impacted by the waivers that expired in 2023.

Finally, Prospect paid cash rent and interest of approximately $7 million during the quarter and reported EBITDARM coverage of approximately 1x on its California portfolio for the 12 months ended December 31, 2023. Coverage has further increased to approximately 1.3x on a trailing 12-month basis through the end of February. Prospect paid March rent for California after the end of the quarter. However, at this time, MPT has not yet received rent for the months of April and May.

To briefly summarize, before I turn it over to Kevin, the majority of operators in our highly diversified portfolio continued to perform well, and we are encouraged by the volume and cost trends we're seeing across geographies and care settings. As such, we remain confident in the core pillars of our business model and the long-term cash flow potential of our portfolio. Kevin?

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**Kevin Hanna** ***Medical Properties Trust, Inc. - Senior VP, CAO & Controller***

Thank you, Rosa. This morning, we reported a GAAP net loss of $1.23 per share and normalized FFO of $0.24 per share for the first quarter of 2024.

As mentioned in our earnings release, first quarter results included approximately $18 million of consolidated cash revenue from Steward and Prospect. It is worth noting that Steward additionally continue to make full payment as it relates to the Massachusetts partnership portfolio, about $19 million in the first quarter at MPT share.

Subsequent to quarter end, Steward has paid $9.5 million in rent, half of which is MPT share. And prospect has paid roughly $7 million. We also described approximately $693 million in noncash impairments recorded in the quarter, primarily related to non-real estate investments in Steward and International joint venture. These charges were estimated and recorded pursuant to U.S. GAAP accounting rules and reflect conservative assumptions regarding potential recoveries, which MPT remains committed to pursuing.

As was the case last quarter, investments in the operations of Steward and investment in the operations of the international joint venture were evaluated with assistance of a third-party independent appraiser. The first quarter charges included the full impairment of MPT's approximately $360 million loan to Steward made in 2021, the remainder of its equity investment in Steward and other obligations.

Further, we impaired our full investment in the international joint venture. As a reminder, these investments were previously moved to cash basis accounting and no related income was recorded in the first quarter. It is worth noting a couple of other adjustments to normalized FFO.

First, we adjusted the book value of our investment in PHP Holdings downward by approximately $60 million, based on the most recent third-party independent appraisal. Further, we recognized an approximately $8 million loss on our sales of priority term loan, as well as an $8 million negative adjustment to the fair value of marketable securities, such as our shares and EBIT.

One thought before I hand it over to Steve, we remind investors in advance of our 10-Q filing, that first quarter cash flows from operations is typically influenced negatively by the timing of cash interest payments on our debt, assuming no impact from transactions or Steward retaining activity, we would expect 2024 cash flow from operations to be seasonally weighted to the back half of the year.

With that, I will turn it over to Steve for a discussion of liquidity and our overall capital allocation strategy. Steve?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Thank you, Kevin. I'll begin by echoing Ed's earlier comments about the success of the liquidity plan we described late last year, which is working even better than we predicted. At that time, we estimated that during all of 2024, we would generate $2 billion from asset sales and secured financing.

By halfway through April, we had achieved $1.6 billion or 80% of the initial estimate. And those transactions were executed during a particularly volatile period, in terms of inflation and interest rates. Based on those early successes, we believe we will exceed our $2 billion target for 2024, with additional transactions at attractive valuations and capitalization rates well inside of what our public securities imply.

Going back a bit further. MPT has reduced its net debt by $1.6 billion since this time last year. We've accomplished this de-levering primarily with about $2.4 billion of proceeds from profitable asset sales, including completely exiting Australia, selling hospitals back to operators pursuant to their repurchase options and most recently, our sale of 75% on of our Utah facilities for almost $900 million of cash proceeds, and that does not include the $190 million of nonrecourse financing proceeds.

As a slide note, this Utah transaction fully validates the price we paid for these hospitals in 2020, when they were operated by Steward. We are pleased to retain a 25% interest, which provides us the opportunity to participate in any future increases in the values of these assets.

We currently have about $900 million in immediately available liquidity through cash balances and revolver capacity. Planned uses for this current liquidity as well as future operating cash flows and any proceeds from potential additional transactions include upto $75 million for the Steward debtor in possession loan. And as Ed mentioned, we have made no commitment to fund any more than that.

Repayment of GBP 100 million, that's about USD 130 million in a sterling-denominated seller financing loan, due late this year and prepayment of approximately another GBP 105 million or another roughly $130 million, related to our Sterling denominated term loan. And up to about $230 million in development commitments, including 2 projects that may be sold, so the actual amount of that funding is uncertain.

Partly in recognition of our success in selling assets at attractive valuations and also in light of the deteriorating Steward situation prior to its bankruptcy filing, we recently amended our bank facilities. One of our bank loan financial covenants limits the amount of unsecured debt as a percentage of unencumbered assets to 65%. For that calculation, the amount of unencumbered assets leased to tenants in bankruptcy is limited to 10%.

The Bank Group agreed to waive this 10% limitation through the early -- through the quarterly June 30 test, which means that all else equal, Steward assets will remain in the unencumbered asset calculation for financial covenants until the next quarterly test on September 30.

Our plan and expectation are that during the 5 months until September 30, we will replace Steward with better qualified operators at many of our hospitals they are currently leased to Steward. So that even if Steward remains in bankruptcy at that time and the waiver is not extended, its effect on our unencumbered asset value-based financial coveted expected to be mitigated.

Second, given our current priorities and the liquidity generated from asset sales and financing transactions already executed and expected in the future, we no longer need the large $1.8 billion revolving credit facility that we had during earlier years, when our acquisitions exceeded $3-plus billion annually.

Accordingly, we offer to reduce the revolver commitment by $400 million down to $1.4 billion. Further, because the majority of these liquidity transactions are expected to be sales rather than secured financings, we project relatively low levels of secured borrowings for the foreseeable future. And accordingly, we were willing to reduce our secured debt basket from 40% down to 25%.

Before going to questions, I'll just summarize and point out, we have addressed all our 2024 maturities. We have only the 100 million-pound sterling mortgage remaining to be paid. And we expect to have significant liquidity going into 2025, and that's before considering the possible liquidity that we expect to achieve from the additional transactions that I've alluded to.

Our plans remain to continue to monetize assets, increase liquidity and reduce debt and re-tenant hospital real estate that is currently leased to Steward. And with that, I will turn it over to questions, operator.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And the first question will come from Austin Wurschmidt with KeyBanc Capital Markets.

**Austin Todd Wurschmidt** ***KeyBanc Capital Markets Inc., Research Division - VP***

First, just wondering if all of the facilities leased to Steward are open and operating and whether you expect that will remain the case? And just wondering if you're still receiving the weekly cash flow reports from Steward's advisers and just any changes for better or worse there?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

So, Austin, all of the facilities other than the ones that were previously closed prior to bankruptcy continue to be operating. And then the second question, we do continue to receive cash flow reports from Steward advisers, and they have so far exceeded their projections on, I believe, every week.

**Austin Todd Wurschmidt** ***KeyBanc Capital Markets Inc., Research Division - VP***

So as you start negotiations or have been in negotiations with other parties to backfill the operations at these facilities, I mean, what's the thinking around potential rent moving forward relative to Steward's prior contractual cash rent?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

So the hospitals, as we've been saying for many months, on a localized 4-wall perspective are generating positive EBITDAR. The issues with Steward, which are very well laid out in the bankruptcy filings, are around legacy payables, revenue cycle management, the level of revenue reimbursement. So all of that is to say that we believe that these hospitals can continue to pay rent at the contractual levels.

Now there's obviously a lot that goes into negotiation. And with bankruptcy, there's more scrutiny. But that's a long-winded way of saying we anticipate across the portfolio to continue to get at or near the amount of rent that the current lease agreements call for.

**Austin Todd Wurschmidt** ***KeyBanc Capital Markets Inc., Research Division - VP***

And then just last one for me. I guess, any sense on the time line of when you could start to get any of these facilities back or whether any of these leases will be rejected for any reasons either for better or worse?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

I'm sorry. I think your question was around the time line. And I think, again, in the bankruptcy filings, there are some very strict target date to have agreements in place, that would then start the regulatory process.

I won't get into bankruptcy law because I don't think many of us are lawyers on this call. But we have no indication that Steward would have any motivation in rejecting either of the 2 master leases.

**Operator**

Next question will come from Joshua Dennerlein with Bank of America.

**Joshua Dennerlein** ***BofA Securities, Research Division - VP***

Just curious on the DIP financing, why did you guys feel the need to provide the Dip financing? And then I was looking over the PK documents. Just curious why it's called junior debt and then what is it in your deal?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Josh, the reason that we decided to do the $75 million dip financing is exactly as I said in my prepared remarks is that we think it's very important that the hospitals continue to operate as we go through this process.

**Joshua Dennerlein** ***BofA Securities, Research Division - VP***

Were there no other potential folks you would be willing to provide the financing in the BK?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Yes, they absolutely were. There are other lenders involved, as you know, but we're not going to get into the details of those negotiations at this point.

**Joshua Dennerlein** ***BofA Securities, Research Division - VP***

Okay. And then in the BK document, it was referred to as junior financing, I think it's correct term. Just curious, does that mean it's junior to other like debt or claims? Or why was that term used?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Well, because of the security waterfall, and as you alluded to, there is -- there are other lenders that have first liens on the typical collateral of receivables.

**Joshua Dennerlein** ***BofA Securities, Research Division - VP***

Okay. I am -- if I was -- I'm wrong, but I always thought that financing was like the most secure claim. Any on the PHP Holdings write-down, just could you kind of walk us through like what drove the fair market adjustment? Like what's driving that? And how does that potentially impact the potential monetization, I think you guys have talked about in the past?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

It's based on, as we do every quarter, independent appraisals and evaluations of a lot of inputs, including things like discount rate financing rates. So it's really on a private basis. I think, as Kevin described, like any other security that we value on a fair market basis. It's clearly an estimate, and it is not based on our -- necessarily our expectation of what happens to PHP or when.

**Joshua Dennerlein** ***BofA Securities, Research Division - VP***

Okay. So just the way that you answered it, was it more based on just like moves in interest rates? Or was there something that changed with like the cash flows of the underlying investments?

**Kevin Hanna** ***Medical Properties Trust, Inc. - Senior VP, CAO & Controller***

Yes. I think the biggest piece, as Steve alluded to, was the discount rate, and some working capital adjustments as well, but mainly the discount rate.

**Operator**

(Operator Instructions) Our next question will come from Vikram Malhotra with Mizuho.

**George Hoglund** ***National Storage Affiliates - President,Investor Relations***

This is George Hoglund on for Vikram. Can you just comment on prospects? How should we think about the rent recovery there?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

The rent recovery, is that what...

**George Hoglund** ***National Storage Affiliates - President,Investor Relations***

Yes, rent recovery.

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Yes. Well, the rent recovery...

**Rosa H. Hooper** ***Medical Properties Trust, Inc. - Senior VP of Operations & Secretary***

Rent recovery. I think he said rent recovery.

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Well, as Rosa pointed out, we have collected the rent on the California assets through March but that March payment came subsequent to March. And as of now, we've not collected April or May.

**Rosa H. Hooper** ***Medical Properties Trust, Inc. - Senior VP of Operations & Secretary***

There's a point, the cost payments are expected in the coming months, which will be a slug of cash for prospects. So we would anticipate getting -- them having additional proceeds at the time.

**George Hoglund** ***National Storage Affiliates - President,Investor Relations***

Okay. That's helpful. And just can you provide more color on the pricing of the dispositions that you did in April and you mentioned you're likely to exceed the $2 billion target of liquidity. How does this number look like today? And what are your expectations?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

So I think we mentioned this, and it's a good question last quarter. with respect to the Prime assets that we sold, which we calculated a mid-7s cap rate. And we said that the negotiations we were under going at that time, and frankly, we remain where we closed one of those and we remain negotiating others. That cap rate in the mid-7s plus or minus, is very indicative when adjusted for geography and size and quality of assets to what we expect to achieve on the additional sales or financings that we have mentioned.

**George Hoglund** ***National Storage Affiliates - President,Investor Relations***

And just how large do you think the pipeline would be? Like how much above the $2 billion? If you can provide more color, that would be super help.

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Well, you're breaking up a little bit, but if I heard you correctly, of course, we've already achieved 80% of the $2 billion. And based on those results, and our visibility into the market into potential buyers and financing sources. That's why we said we think we'll ultimately exceed the $2 billion, through the remainder of 2024 and we think it will be at similar pricing, attractive pricing for us.

**Operator**

Next question will come from Michael Carroll with RBC.

**Michael Albert Carroll** ***RBC Capital Markets, Research Division - Analyst***

Steve and Rosa, I wanted to circle back on the prospect situation. I guess how concerning is it that they haven't paid April and May rents? And I know Rosa, you said that QAF payments are going to come in. I mean, does that fix their situation? And what month do those QAF payments come in?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

So your question, how concerning is, of course, the prospects have been on a cash basis for some time. And as Rosa mentioned, I'll let her address the QAF in a minute. We've always had with our California operators this QAF issue.

And then when you combine it with respect specifically to Prospect, and delays in disposing of other regions in the country, they have significant cash pressures on. But aside from that, having been paid through the quarter, with the QAF issue, that again, is not unexpected. We remain confident that ultimately the cash will come in to pay the rent in California.

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

And California coverage continues to improve.

**Rosa H. Hooper** ***Medical Properties Trust, Inc. - Senior VP of Operations & Secretary***

Those QAF payments are due at the end -- or should come in by the end of this month into May, and it's a substantial sum. It should really help them with their cash flow.

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

And Mike coverage in February was almost 1.3.

**Michael Albert Carroll** ***RBC Capital Markets, Research Division - Analyst***

Yes. I'm assuming that what the Connecticut and Pennsylvania and maybe the Rhode Island assets are kind of weighing that down. If they -- as they are missing these rent payments, do they have other cash pressures that are making their position tighter, I guess, does missing these rent payments in April and May solve their cash issues? Or are they falling behind another vendor payables that they may have?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

I don't think we have a comment on that. Again, we expect to get our rent, and they're operating at a level. And again, as mentioned, the very positively improving coverage. Now you have to convert that coverage to cash, and that's what we expect comes in with the QAF.

**Michael Albert Carroll** ***RBC Capital Markets, Research Division - Analyst***

Okay. And then just finally, Steve, can you talk a little bit about the -- what you're expecting for the Steward transitions? I know you said in your prepared remarks that didn't need the 10% BK covenant test in September because you expect it transitions to occur, do you expect a portion of transitions to occur? And I did look at the BK filing saying that they expect some of the stuff to get done by the beginning of August, I mean I'm assuming for this to get done by the beginning of August, you would need to have a lot of process already underway?

I mean, can you comment on how much interest there are in those hospitals right now? And are people looking at the financials to get ready to put in bids? Or is that process just starting right now?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Mike, it's been going on for almost 5 months now. We're way down the road with many different people.

**Michael Albert Carroll** ***RBC Capital Markets, Research Division - Analyst***

And then, Steve, your comment on the 10% BK covenant, was that -- do you expect a percentage of the Steward hospitals to be transitioned? Or like can you kind of clarify that comment?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Well, I'll try to clarify. I won't try to predict. The point I was trying to make is, if we need relief from that covenant at the end of September, we would expect that need all else equal, to be substantially mitigated by the number of hospitals that move away from the Steward relationship into new relationships.

Now we don't try to predict exactly which hospitals will transition on which date. But between now and the end of this almost 5-month period, we do think that, again, based on what Ed just said, remember this didn't just start with the filing of bankruptcy. They've been marketing these hospitals for at least 5 or 6 months.

But we do expect without specifying which hospitals go win, we do expect that a meaningful amount of Steward exposure will be moved away to new operators before the end of September.

**Operator**

Your next question will come from Mike Mueller with JPMorgan.

**Michael William Mueller** ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Maybe a couple of quick ones here. I guess following up on the prior question. Can you give us a high level sense of at the end of this process, what portion of Steward assets you think you have now will ultimately be managed by other operators, either by sold or transitioned or whatever?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Mike, I'm not sure, I completely understand your question, but I think you said at the end of this transition whenever it is, do we expect any of the facilities to continue to be operated by Steward? Is that the question?

**Michael William Mueller** ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Let me rephrase it. I guess, at the end of this bankruptcy process at the other side of it, what portion of your Steward assets now do you think we'll be in the hands of other operators as opposed to being operated by Steward?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

I would guess, we're close to 100%.

**Michael William Mueller** ***JPMorgan Chase & Co, Research Division - Senior Analyst***

Okay. Okay. And then I guess, as it relates to the recent news with Connecticut and Yale New Haven, I guess can you give us I guess, current thoughts on what the Plan B is there, if that -- if those assets do not get sold?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Yes. With the ongoing discussions between the state Yale and Prospect, we're just not going to comment on that right now.

**Operator**

Next question will come from Jonathan Hughes with Raymond James.

**Jonathan Hughes** ***Raymond James & Associates, Inc., Research Division - Director & Senior Research Associate***

Are there any concerns or discussions with new potential operators for the Steward properties, focusing on increasing market share that might lead to concentration issues and maybe scrutiny from the FTC? Or is it because Steward is in bankruptcy, the primary goal is to find a new operator and preserve health care services regardless of increased market share?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

It's a lot of different markets. So I can't be 100% accurate on this, but the best of my recovery right this moment, I don't think there are any that would require a market concentration issue.

**Jonathan Hughes** ***Raymond James & Associates, Inc., Research Division - Director & Senior Research Associate***

Okay. And then -- maybe my second question on the dividend. The last month's dividend was declared after the Utah and the Prime transactions, which was consistent with your prior comments that the dividend is dependent on liquidity transactions. And that press release mentioned that it was a regular dividend, but that April dividend was declared more than 5 months after the prior.

So is it fair to assume future dividends might also be more sporadic and maybe given the change in Steward's status since then and focus on preserving liquidity, is the Board still comfortable with that current dividend amount?

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Yes. Jonathan, our next Board meeting is the same day as our Annual Meeting, which I believe is May 30, and it will be discussed at that point.

**Operator**

Your next question will come from John Pawlowski with Green Street.

**John Joseph Pawlowski** ***Green Street Advisors, LLC, Research Division - MD of Residential and Health Care***

My first question is on the Utah transaction. The press release said $1.1 billion in proceeds prior to costs and reserves. Can you quantify what the cost and reserves are and I imagine some of it's CapEx? So any additional color on the deferred CapEx in that portfolio and how it impacted the transaction price would be helpful.

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

Well, the reference to cost and reserves are just customary cost of a transaction fees, brokerage and typical reserves that our first lien lender may require. And I'm not quite sure if the follow-up question.

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

There was nothing extraordinary in those expenses in reserve...

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

No. No, that's my point. I'm not sure what was meant by CapEx.

**John Joseph Pawlowski** ***Green Street Advisors, LLC, Research Division - MD of Residential and Health Care***

There's no additional CapEx that MPW needs to fund to get that headline purchase price?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

This is an absolute net lease that the operator, Common Spirit is responsible for CapEx.

**John Joseph Pawlowski** ***Green Street Advisors, LLC, Research Division - MD of Residential and Health Care***

Okay. Next question is on Steward. So with the Macquarie JV, just given that Steward is still paying rent or MPWs lease payments due from Steward on either of your master leases with Steward subordinated to the JV when that was structured?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

No.

**John Joseph Pawlowski** ***Green Street Advisors, LLC, Research Division - MD of Residential and Health Care***

Last question for me. Did you pledge any of your real estate as collateral in conjunction with the Steward ABL or bridge loan refinancing? And if so, how many assets have leaned against them right now?

**R. Steven Hamner** ***Medical Properties Trust, Inc. - Founder, Executive VP, CFO & Director***

No.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Ed Aldag for any closing remarks. Please go ahead.

**Edward K. Aldag** ***Medical Properties Trust, Inc. - Founder, Chairman, President & CEO***

Thank you, Chuck, and we appreciate everyone listening today. If you have any additional questions, please don't hesitate to call Drew or Tim, and they'll get your questions responded to as quickly as we can. Thank you.

**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.