S&P Global
Market Intelligence

Medical Properties Trust, Inc. NYSE:MPW

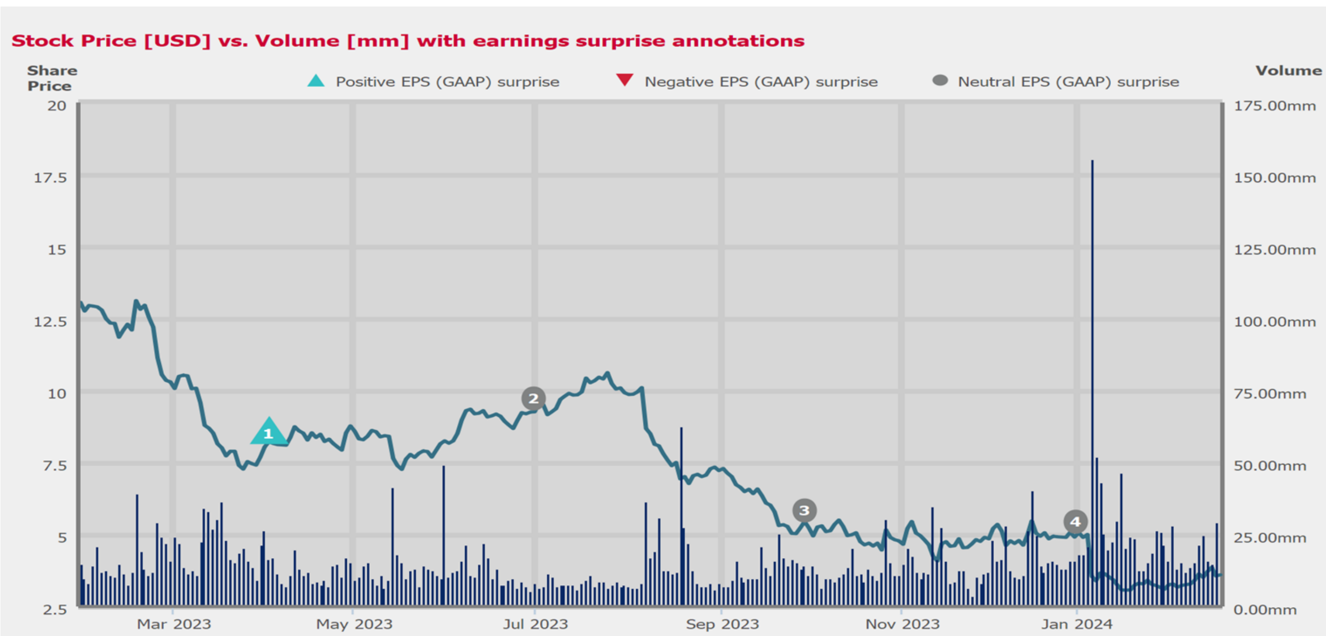
FQ4 2023 Earnings Call Transcripts

Wednesday, February 21, 2024 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	0.18	(1.11)	NM	0.16	0.36	(0.93)	NM	0.69
Revenue (mm)	242.96	(122.38)	NM	297.21	1249.63	871.80	(30.24 %)	1242.91

Currency: USD
Consensus as of Feb-21-2024 4:12 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.22	0.29	1 31.82 %
FQ2 2023	0.22	(0.07)	NM
FQ3 2023	0.19	0.19	2 0.00 %
FQ4 2023	0.18	(1.11)	NM

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Call Participants

EXECUTIVES

Charles R. Lambert
VP, Treasurer & MD of Capital Markets

Edward K. Aldag
Founder, Chairman, President & CEO

James Kevin Hanna
Senior VP, Chief Accounting Officer & Controller

R. Steven Hamner
Founder, Executive VP, CFO & Director

Rosa H. Hooper
Senior VP of Operations, Assistant Secretary and MD of Asset Management & Underwriting

ANALYSTS

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Connor Serge Siversky
Wells Fargo Securities, LLC, Research Division

John Joseph Pawlowski
Green Street Advisors, LLC, Research Division

Joshua Dennerlein
BofA Securities, Research Division

Michael Albert Carroll
RBC Capital Markets, Research Division

Michael William Mueller
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Omotayo Tejumade Okusanya
Deutsche Bank AG, Research Division

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

Presentation

Operator

Good day, and welcome to the Medical Properties Trust Inc. Fourth Quarter 2023 Conference Call. [Operator Instructions] Please note this event is being recorded.

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

Charles R. Lambert
VP, Treasurer & MD of Capital Markets

Thank you. Good morning. Welcome to the Medical Properties Trust conference call to discuss our fourth quarter and full year 2023 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.

Edward K. Aldag
Founder, Chairman, President & CEO

Thank you, Charles, and thanks to all of you for joining us this morning on our fourth quarter 2023 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.

As discussed in detail last quarter, our primary focus right now is executing a capital allocation strategy that will aim to generate at least $2 billion of additional liquidity in 2024 and help us satisfy our debt maturities for several years into the future. Since outlining this new capital allocation approach last year, we have made significant strides and I'd like to begin today by highlighting that progress.

During the fourth quarter, we closed on the sale of our four remaining Australian facilities for approximately $305 million or a 5.7% cap rate. And in our press release earlier this morning, we announced another $480 million of agreed upon liquidity transactions including the sale of five hospitals to Prime at a 7.4% economic cap rate as well as the sale of our syndicated term loan investment in MEDIAN, the parent company of Priory Group. We believe these recent transactions and other processes we are actively engaged in, clearly demonstrate that our assets remain attractive to operators and sophistic real estate investors around the world.

We are actively working on several additional sell -- asset sale opportunities as well as other transactions that we believe will validate underwritten asset values. And the prices we have achieved to date are broadly consistent with initial indications of market value that we received on these other assets. As such, we remain disciplined and optimistic in our ability to continue to execute transactions on attractive terms, and we feel good about where we stand today relative to our $2 billion target for 2024.

The Board will meet later this quarter to discuss the dividend. The Board's policy on the dividend remains unchanged. As has always been the case, the Board will review all aspects of the company, including items such as FFO payout ratios, REIT requirements and liquidity.

Before I turn it over to Rosa, Kevin and Steve, to go through our results in more detail, I wanted to provide a brief update on Steward and prospect. During our last call in October, we discussed Steward's revenue cycle management challenges, which has resulted in a sizable accounts payable backlog. Unfortunately, since that time, Steward's cash collection challenges have become more pronounced and the resulting changes to vendor payment terms have put pressure on supplies constraining Steward's ability to perform higher-margin surgeries that are a key driver of cash flow.

As a result, in early January, we shared that we have been working with Steward and its advisers to develop an action plan to strengthen their balance sheet, liquidity, accelerate recovery of unpaid rent and ultimately significantly reduce our exposure to Steward. This plan contemplates a wide range of strategic transactions, including transitioning certain hospitals to new tenants and selling its managed care business called Stewardship.

While it will take some time for Steward to execute these steps, we are encouraged by the early progress. As this plan is executed, Steward needs access to liquidity to continue to operate its critical hospital facilities. As we previously disclosed in January, we funded a $60 million bridge loan, which provided MPT, a second lien on Stewardship's business subordinate only to Steward's ABL lenders.

We also consented to a limited and tapering deferral of rent until the end of June or the completion of the anticipated asset sales. In the fourth quarter, Steward paid approximately 25% of all rent and interest owed to MPT. In our press release this morning, we shared that MPT and certain lenders in the ABL Group are negotiating a new bridge facility under which each party would fund an additional -- initial $37.5 million for Steward, of which MPT has already funded $20 million.

Any additional funding is entirely dependent on Steward's achieving significant milestones towards optimizing the amount and timing of MPT's recoveries. Turning to Prospect. Importantly, in California, Prospect is current on all rent and interest due through January 2024. Though they have not yet paid February's rent. Prospect's EBITDARM has improved year-over-year, driven by increased admission volumes, higher medical reimbursement rates and lower supplies cost. We are encouraged by their most recent December trailing 12-month rent coverage, which was above 1x.

While we do not have a meaningful update to share today on the sale of Prospect 3 Connecticut hospitals to Gale, New Haven. As a reminder, our $2 billion of targeted liquidity transactions does not include this expected transaction or the expected recovery of our investment in PHP Holdings. As detailed in our press release this morning, we have moved Steward in prospect to cash basis accounting and divided our portfolio into two categories. Our hope is that this split will make it easier for investors to track the performance of our stabilized portfolio, which consists of more than $11 billion of assets and is accounted for using the accrual method.

As this breakdown demonstrates, the portfolio continues to perform well, reinforcing our conviction in MPT's underlying business model. While hospital operators have spent the past several years, navigating challenges ranging from the COVID-19 pandemic to unprecedented labor shortages, to insufficient reimbursement rates and some tenants have suffered more long-term impacts from those headwinds than others. The simple fact remains that there are no more essential services than those provided by acute care hospitals.

For more than 20 years, our underwriting approach is centered on these essential infrastructure-like characteristics and identifying hospitals that are integral to sustaining community health over many years. Given the highly diversified portfolio of assets we've assembled over that period, we are confident in our ability to find competent replacement operators as needed and continue to execute sales and achieve our objectives.

I will now turn it over to Rosa to provide an update on performance of the stabilized portfolio during the fourth quarter. Rosa?

Rosa H. Hooper
Senior VP of Operations, Assistant Secretary and MD of Asset Management & Underwriting

Thank you, Ed. It's great to be able to participate in today's discussion and take you through some of the highlights across our portfolio of critical hospital real estate. Beginning with Europe, broadly speaking, we are encouraged by recent market trends, including increased occupancy rate, growing reimbursement revenue and the continued normalization of labor cost.

As private insurance coverage expands in the U.K., Circle Health continues to demonstrate steady financial performance. Circle has seen an increase in orthopedic joint procedures of more than 50% compared to pre-COVID data. Inpatient admissions also remain on an upward trajectory as patients continue to seek high-quality care alternatives to long wait times.

In addition to being named Private Hospital Group of the Year by Health Investor U.K. for the third consecutive year, Circle was also named as an outstanding company to work for by Best Companies in 2023.

Let's turn now to Priory, which is the largest independent mental health care provider in the U.K. by a number of beds. Priory delivered EBITDARM coverage of 2.2x for the quarter and continues to benefit from the rapid growth of behavioral health services in the U.K. It is capitalizing on this trend by driving increases to its already high utilization rate, negotiating reimbursement rate increases and ensuring efficient cost management. As a reminder, Priory is managed by one of MPT's long-term operators MEDIAN, which is based in Germany. MEDIAN continues to steadily improve occupancy, although at a slower ramp than originally anticipated, following government-imposed COVID restrictions. Negotiated reimbursement rate increases in Germany were above expectations, and a stabilization in energy expenses have allowed MEDIAN to achieve its 2023 financial targets.

Swiss Medical Network had a highly productive 2023, completing several renovation and expansion projects and executing a handful of smaller-sized acquisitions that will complement their capabilities in existing markets. Earlier this year, Swiss Medical launched the first integrated care organization in Switzerland, providing a first mover advantage in an untapped market.

Additionally, Swiss Medical remains focused on the development of its Genolier Innovation Hub. A state-of-the-art multi-tenant lab training simulation platform and office space attached to their flagship acute care hospital which is expected to accelerate the transfer of innovative clinical solutions from bench to bedside. The Innovation Hub is on track to open in the second half of 2024.

Shifting to our approximately $5 billion Americas portfolio, we have been pleased to see operators largely maintain hospital volumes while making significant progress in reducing contract labor. Our Colombian hospitals continue to see high demand in their respective communities and the two Colombian operators have maintained coverage in excess of 1.5x. Common Spirit, which recently announced that it would take over direct management of our five Utah hospitals from Centura Health continues to deliver strong property level performance, reporting steady volumes across hospitals during the quarter.

Prime delivered another quarter of strong performance with trailing 12-month EBITDARM coverage of 2x after removing the impact of St. Francis, which is no longer reported in our supplemental, given the transaction announced today. Prime has successfully reduced contract labor costs while inpatient and ER volumes continue to increase year-over-year across our facilities. As Prime remains focused on efforts to negotiate more favorable payer contracts, we expect to see increased surgical volumes over time.

Overall, our Earnest portfolio continues to deliver steady performance. While its long-term acute care hospitals continue to navigate the impacts of admission criteria waivers that were eliminated in the first half of 2023. Earnest Rehab business has offset any declines associated with that. In fact, when examining the IRF portfolio exclusive of ramp-up costs associated with their new developments, same-store IRF achieved approximately 3x EBITDARM coverage.

Volumes at our LifePoint hospitals remain relatively flat on a year-over-year basis. LifePoint has made significant strides in reducing contract labor by nearly half as they execute on their recruiting and retention initiatives, particularly on the physician recruitment side, which, over time, we expect will result in improved volumes and revenue.

This is particularly true at their Conemaugh Memorial Hospital in Pennsylvania where any underperformance has an outsized impact on coverages for this portfolio. Conemaugh recently dedicated a new self-funded $77 million cardiovascular and Surgical Care Pavilion that will provide state-of-the-art care for patients. The vast majority of LifePoint's investment over $60 million went into the real estate, while the remaining portion went towards new cutting-edge equipment.

The new leadership for this market is excited about the positive clinical impact this will have for their patients. And combining this with their physician recruitment successes, we believe this market is well positioned for improved performance. Our LifePoint behavioral facilities continue to benefit from increased revenues resulting from increased inpatient volume. LifePoint behavioral's ability to manage labor costs in a rising wage environment has further enabled them to maintain strong performance.

We continue to make progress on the construction of our new LifePoint behavioral facility in McKinney, Texas, along with multiple other expansion projects at our hospitals in Texas and Kansas. ScionHealth has produced consistent quarter-over-quarter coverage improvements in the past year by growing revenue while reducing contract labor.

ScionHealth's general acute hospitals have seen an 11% increase in year-to-date revenue over prior year, driven by increases in both admissions and surgeries. We are pleased with our portfolio's Q3 2023 performance compared to that of public reporting hospitals.

Excluding Steward, for trailing 12 months Q3 2023, MPT's portfolio of acute care hospitals reported volume increases that were, for the most part, higher than that of the public reporting companies and income statement growth metrics that were generally in line with those of the public reporters.

Over the years, MPT has carefully constructed a well-diversified portfolio in terms of care settings, operators and geographies. We have over 50 unique tenants operating across the highest acuity care settings, including rehabilitation, behavioral and acute care hospitals. After Steward, our second largest operator, Circle Health, represents 12% of our portfolio, followed by Priory at 8% and Prospect at 6%. Geographically, our properties are spread across nine countries was nearly 40% outside the United States. Importantly, this deliberate diversification strategy helps safeguard against any operator-specific challenges that may arise as well as geopolitical and economic disruption.

With that, I will turn the call over to Kevin, to discuss our financial results. Kevin?

James Kevin Hanna
Senior VP, Chief Accounting Officer & Controller

Thank you, Rosa. This morning, we reported a GAAP net loss of $1.11 per share and normalized FFO of a positive $0.36 per share for the fourth quarter of '23. As Ed mentioned and as described in the press release this morning, we have moved Steward to cash basis accounting effective January 1, 2024. We want to highlight that included in fourth quarter normalized FFO is approximately $0.12 per share of Steward quarterly revenue recognized prior to this accounting change.

In the press release, we also detailed approximately $770 million of charges recorded this quarter, primarily related to Steward. Importantly, these charges were recorded pursuant to U.S. GAAP accounting rules and reflect conservative assumptions regarding potential recoveries. These charges consisted of the following: $154 million of rent reserves and $224 million of straight-line rent reserves. $81 million of reserves on unpaid PIC and other interest receivables related to Steward loans and a loan to our international joint venture. $112 million of real estate impairments with the assistance of a third-party independent appraiser, we analyzed all Steward properties and many others were possible impairment this quarter and identified less than 10 properties where our net book value exceeded the estimated fair value, and we adjusted our books accordingly.

We also had $171 million of non-real estate impairments, which, again, using a third-party independent appraiser, we adjusted our non-real estate investments in Steward to reflect the current estimated fair value of our related collateral.

Finally, we made a $30 million charge in earnings from equity interest to reflect the reserves for billed and straight-line rent on the properties included in the Massachusetts joint venture. These charges were recorded on several different line items of our income statement and we have included additional tables in our release this morning showcasing the impact of these charges.

Beyond impairment charges, we did have two other adjustments to normalized FFO that I want to highlight. As is typical, we recognized fair value adjustments in the quarter from adjusting certain marketable securities, like our Swiss investment in [AEVIS] to market. This $8.4 million negative adjustment is net of a gain recognized on our PHP investment as the managed care business continues to perform well.

Second, and due to Steward and the significant adjustments made this quarter, we recorded a $6.6 million cumulative adjustment to stock compensation expense to reflect our updated estimate of expected payouts for certain software grants over the past years. And with that, I will turn it over to Steve for a discussion of our liquidity position and plans. Steve?

R. Steven Hamner
Founder, Executive VP, CFO & Director

Thank you, Kevin. I will wrap up our prepared remarks with some perspective around our near-term recapitalization process that Ed mentioned at the start of the call. On last quarter's call, we described our plans for accessing capital through asset sales and limited secured financing. We announced an initial target of about $2 billion over the course of 2024. This morning, we announced that we have so far agreed to transactions aggregating almost 25% of that initial target. The largest of these transactions is our agreement to sell two hospitals to Prime for $350 million. Importantly and encouragingly, the economics of the transaction imply a capitalization rate of about 7.4% that is obviously much better than what our share price implies or even what some investors believe our secured financing rate would be.

Moreover, we expect to realize an approximate $50 million GAAP gain on the transaction. and the purchase price exceeds our undepreciated initial investment by about $30 million. We expect to receive $250 million of the purchase price in cash upon expiration of a short notice period and the remaining $100 million before or on the expiration of a 9-month interest-bearing mortgage note due to MPT.

In addition, we were able to consolidate our four remaining hospitals leased to Prime under a new 20-year master lease with a lease base of $238 million. Notably, the original master lease in place for three of these hospitals was otherwise set to expire next year. In addition to the benefit of extending the term of this lease, our relative rent will increase by approximately $5 million. So the economic 7.4% cap rate is based on the $350 million purchase price and $26 million of net rent. That is the $31 million of contractual rent on the two hospitals we sold, offset by the $5 million rent increase that results from the increased lease base added to the new master lease.

The new lease also provides Prime an option to purchase these facilities at any time for $260 million, which would represent an additional gain on sale of real estate of approximately $95 million for MPT over and above the $50 million gain I just mentioned. These are all attractive hospitals. And in our view, Dr. Prem Reddy and his management team are amongst the most reliable and capable operators of acute hospitals in the country. But the geographic location of these hospitals are not necessarily the best in our portfolio and yet they traded at a 7.4% economic capitalization rate.

This speaks very strongly of continued investor interest and confidence in well underwritten hospitals that are necessary to a community's overall health care infrastructure. We have proven that repeatedly over the past couple of years, and Prime is just the most recent example. Other recent transactions that have validated the value of our assets include, but are certainly not limited to, the sale of our Australian portfolio in October of last year at an integrated capitalization rate of less than 6%. The new lease put in place with Common Spirit in Utah roughly one year ago. which effectively placed a mid-7% cap rate on the rental stream.

Other recent hospital sales to prime for $460 million, which generated very attractive IRRs and fully recovered our initial investment from at least 10 years earlier. All these transactions and more have been executed in global economic and financial markets that have not necessarily been friendly to sellers of large operating facilities. And that is why we are encouraged by the progress we are making and our potential path to exceeding our initial $2 billion target, which as a reminder, does not account for any proceeds from a sale of our Connecticut assets to Yale, any monetization of our interest in prospects PHP managed care business or any possible proceeds from resolution of the previously mentioned so-called non-top 10 operator that we discussed on last quarter's call.

Although we are not prepared to announce specifics this morning, the valuation metrics of potential transactions that are currently subject to letters of intent and in-process definitive documentation are adjusted for geography, size and tenant characteristics highly comparable to these recent transactions and, in particular, the Prime transaction. As we realize capital from these transactions, we expect to immediately reduce our debt maturities. In 2024, we have only two maturing loans, approximately $300 million in May and $130 million in December.
In the interim, we will reduce our revolver balances, which in recent months have carried an interest rate of around 6.9% for the U.S. dollar borrowings. In 2025, we will have roughly $900 million in bank debt and $550 million in unsecured notes maturing. And as just noted, we expect our planned sales and secured financing transactions will provide more than sufficient proceeds to satisfy these maturities. And with that, we have time for a few questions, and I'll turn the call back over to the operator.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Austin Wurschmidt from KeyBanc Capital Markets.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

On Steward, one, have they paid you the partial rent payment that you agreed upon earlier this year February? And second, I guess, just given the additional capital that you and other ABL lenders have agreed to fund, how much confidence do you have in the ramp in cash rent payments in the coming months that you laid out earlier this year?

R. Steven Hamner
Founder, Executive VP, CFO & Director

So Steward is compliant with our previous agreement for ramping up the rent, and we expect that they will remain compliant through June when that ramp gets all the way back to 100%.

Austin Todd Wurschmidt
KeyBanc Capital Markets Inc., Research Division

Got it. And then just as far as on the $2 billion of liquidity, I believe 40% of that amount was expected to be through loans or secured debt, I think more specifically, I mean how far along are you in negotiations on that front? Any sense when you could close? And I guess, what are you hearing around terms for any such proceeds?

R. Steven Hamner
Founder, Executive VP, CFO & Director

So to clarify, I'm not sure -- I don't remember, in fact, saying that 40% would be secured debt. I think all we've done is -- all we said is there'll be limited secured debt. We're not in a position this morning to give the details. But I did mention, by the way, that a significant amount of the remaining $2 billion is under either LOI or being negotiated through definitive documents.

And further, we tried to mention that the pricing that you saw not only with the most recent Prime transaction, but with transactions last year, it's generally consistent with the valuation metrics and that means pricing or interest rates that we're seeing in those transactions that are in progress.

Operator

Next question comes from Joshua Dennerlein from Bank of America.

Joshua Dennerlein
BofA Securities, Research Division

Just a follow-up on that. What kind of gives you the confidence that Steward will be able to ramp up and start paying full rent starting in June?

R. Steven Hamner
Founder, Executive VP, CFO & Director

So it's driven by two key strategies that we mentioned early last month. One of those is the aggressive efforts at repositioning, re-tenanting or otherwise selling facilities that are now occupied and operated by Steward. Secondly, it's dependent upon a satisfactory monetization of its own stewardship managed care business.

Edward K. Aldag
Founder, Chairman, President & CEO

And Josh, in addition to that, we've been getting weekly cash flow reports from Steward's advisers to which they've exceeded every one of them thus far.

Joshua Dennerlein

BofA Securities, Research Division

Okay. And maybe a follow-up to that answer. Just how easy is it to re-tenant a facility? And how do you guys think about just like the transition period, if you were to re-tenant a Steward property?

Edward K. Aldag
Founder, Chairman, President & CEO

So the answer to that varies from state. Some states, it's really easy. It can be done overnight. Some states take a little bit longer. The real answer to that question, I think, for us, is that we've been extremely pleased with the amount of interest we've gotten in almost all of the facilities. And in almost all the facilities, we've got more than one party who is interested in the facilities.

Operator

The next question comes from Michael Carroll from RBC.

Michael Albert Carroll
RBC Capital Markets, Research Division

I wanted to circle back on the Steward bridge loan. I just want to get this straight. So MPW has already funded an additional $20 million, but the other certain ABL lender that was going to match that, they haven't yet provided those funds?

R. Steven Hamner
Founder, Executive VP, CFO & Director

That transaction has not closed yet.

Michael Albert Carroll
RBC Capital Markets, Research Division

And then what is -- what are you waiting for on now? I guess, what milestones need to be achieved for that money to be paid out? And what other milestones need to be achieved for you to pay out the other $17.5 million that you agreed to do?

R. Steven Hamner
Founder, Executive VP, CFO & Director

Well, so those milestones have been reached. So in other words, the $37.5 million each that MPT and the ABL lenders are expected to fund. Those milestones have been reached. And in order to fund anything further than that, then additional milestones which are directly related to those two key strategies that I just mentioned, re-tenanting and selling the noncore stewardship assets. There are some very specific relatively stringent milestones that have to be met in order to fund anything else. But again, just to clarify, the first $37.5 million a piece, of which we have funded $20 million, is expected to close soon, depending on having already met the early milestones.

Michael Albert Carroll
RBC Capital Markets, Research Division

So why hasn't the other ABL lender provided their initial funding yet?

R. Steven Hamner
Founder, Executive VP, CFO & Director

The documentation is not complete.

Michael Albert Carroll
RBC Capital Markets, Research Division

Okay. And then just if I can squeeze one more in there. I guess for the potential buyers of the Steward assets, is there concerns of fraudulent conveyance at all related to them potentially selling off parts of their business? And do those buyers have that concern?

R. Steven Hamner
Founder, Executive VP, CFO & Director

I wouldn't know how to answer that for any particular buyer. But clearly, Steward is in a distressed situation, and there are multiple advisers, including legal advisers, and no transaction would happen under any type of fraudulent conveyance. So that -- one of the keys to our underwriting over the years has been we own hospitals that nobody wants to see closed. And so there's a great deal of cooperation, particularly in some of the eastern states that typically have heavier regulatory hand for the regulators, for the state or others to help facilitate these transactions. So I don't think there's going to be an issue with fraudulent conveyance.

Edward K. Aldag
Founder, Chairman, President & CEO

And Mike, obviously, we've done this before, and there are plenty of advisers working on these transactions.

Operator

The next question comes from Mike Mueller from JPMorgan.

Michael William Mueller
JPMorgan Chase & Co, Research Division

For the $350 million of Prime sales, I guess why isn't using -- why isn't it looking at the 8.8% cap rate just on that rent stream going away the right way to look at it versus netting the rent escalator in there. And then just on top of that, are the transactions you're looking at going forward, the economics are more similar to that net number in the 7s? Or the stand-alone number in the high 8s.

Edward K. Aldag
Founder, Chairman, President & CEO

Well, the [part] answer to that question is that very simple, it was all done in one transaction. Second part of that question is that, yes, it's -- they are more similar to the number that we quoted.

Operator

The next question comes from Vikram Malhotra from Mizuho.

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

Just maybe first one, I wanted to understand the -- maybe if you can give us a little bit more color on the $2 billion of plan sales. You mentioned there's a bunch on LOIs as well. I'm just trying to understand, can you give us a flavor of what type of buyers these are, timing-wise, let's just say things get delayed. Is there a plan B in terms of addressing the debt coming due?

R. Steven Hamner
Founder, Executive VP, CFO & Director

Well, we've addressed the debt all the way through this year and significantly, we expect 2025 also. And you broke up a little bit, Vikram, but I think the question was what type of buyers and timing. And from the beginning, going back to last October, we said this was a 3- to 4-quarter transition. And so in the first of those 3 to 4 quarters, we've done 25%. That's not to predict that the next transactions will be done as rapidly. But again, just to reiterate, we do have a significant amount of the $2 billion under LOI. We're actively negotiating with highly capable counterparties, and we're encouraged by the terms that we've negotiated, which again are very consistent with what you saw with the Prime transaction.

Edward K. Aldag
Founder, Chairman, President & CEO

And Vikram to answer the rest of the question, everything that Steve mentioned that we're working on actively either in the LOI stage or definitive documents all have backups with them.

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

Okay. And then just sort of clarify on Steward, I think you said on the call, correct me, but last payment was, I think about 25% of the contractual rent. But what about the prior period where they've made partial payments. Like just maybe back up and give us a sense of what's the backlog of far? Or is it just that they've been delayed on those months and that's all going to be paid when things get resolved.

And just related to that, are you -- given your comments on full payment are you linking that sort of -- there must be a link, but I'm just trying to bridge that between where you see the dividend going? Because it feels like at this point, the proceeds for the dividend or not paying the dividend would probably be beneficial. So I'm just trying to think about like what have they actually paid and what's the backlog?

Edward K. Aldag
Founder, Chairman, President & CEO

We, I'll start with the end part of that question and the dividend is not dependent on Steward's rent. It's more dependent on our ability to close some of these liquidity transactions.

R. Steven Hamner
Founder, Executive VP, CFO & Director

And again, if I heard the question correctly, about 25% of the rent that Steward owes on two master leases, one is the Massachusetts joint venture and the other is everything else. In total, about 25% of that was paid in the fourth quarter. I think that's the question.

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

If I remember correctly, the shortfall started, was it October or was it prior to October?

R. Steven Hamner
Founder, Executive VP, CFO & Director

Yes. It was in October. All rent was 100% paid as of the end of the third quarter. And any rent that is not paid was October and thereafter.

Operator

The next question comes from Connor Siversky from Wells Fargo.

Connor Serge Siversky
Wells Fargo Securities, LLC, Research Division

In the context of some of the write-downs related to Steward that were outlined today in the press release, has your equity stake in Steward already been written down or any of the loans that have been provided to Steward, have those already been written down? Or are those still sitting at full value?

James Kevin Hanna
Senior VP, Chief Accounting Officer & Controller

Connor, yes, they have been written down. I mean, we look at it on a combined basis, the operator loans as well as the equity, and we wrote down in combination around $90 million for the non-operator investments, we'll call it.

Connor Serge Siversky
Wells Fargo Securities, LLC, Research Division

Does that include loans?

James Kevin Hanna
Senior VP, Chief Accounting Officer & Controller

Yes, it's a combination. Again, we look at them together. So it's a $90 million reduction for all combine.

Connor Serge Siversky
Wells Fargo Securities, LLC, Research Division

Okay. And then in the press release, in the comments that outlines $5 billion worth of assets that are in the cash accounting pool. And then in the detail, it states $4.6 billion. I'm wondering if Steward and Prospect are the only operators currently subject to cash accounting? Or is there anything else in there?

James Kevin Hanna
Senior VP, Chief Accounting Officer & Controller

Yes. We have three, I would call them small operators. They represent about less than 1.5% of our total assets that we've been accounting for them on a cash basis. One's been there since day 1, just very small.

Operator

The next question comes from John Pawlowski from Green Street.

John Joseph Pawlowski
Green Street Advisors, LLC, Research Division

Could you provide some more details on just domestic operator number 1 was 0.3x coverage, what's going on that operator? And have you or do you expect to give financial support to that operator through loans or rent abatements, rent deferrals?

Edward K. Aldag
Founder, Chairman, President & CEO

The first answer to the last part of that question is no, we have not.

Rosa H. Hooper
Senior VP of Operations, Assistant Secretary and MD of Asset Management & Underwriting

And John, no. We have confidence in this operator, in this particular market, which we're not going to disclose the particular operator. But we do expect to see turnaround over the course of 2024.

Edward K. Aldag
Founder, Chairman, President & CEO

And that particular operator just made significant investments in new facilities at that particular place that Rosa is referring to.

John Joseph Pawlowski
Green Street Advisors, LLC, Research Division

Okay. And so you don't expect to give any financial support this year to that operator?

Rosa H. Hooper
Senior VP of Operations, Assistant Secretary and MD of Asset Management & Underwriting

No, it will not be needed.

John Joseph Pawlowski
Green Street Advisors, LLC, Research Division

Appreciate it. Last question for me. Steve, can you give us a sense for the average general acute care hospital in your portfolio right now, what type of secured financing you'd be able to get on those assets in terms of LTV rate? Any details would be appreciated.

R. Steven Hamner
Founder, Executive VP, CFO & Director

We expect to be able to announce that. We hope relatively soon with to at least one of the transactions that we've been referring to, that is a secured financing transaction that's included and those that are referred to as being under LOI and definitive document negotiation. But we'll wait until we have something definitive to announce.

Operator

The next question comes from Tayo Okusanya from Deutsche Bank.

Omotayo Tejumade Okusanya
Deutsche Bank AG, Research Division

In regards to the upcoming asset sales or the secured financing, could you just walk us through how you were unsecured, the syndicators of your line of credit, in particular, mean how they have to get involved in this in any way? I'm assuming just given there's a large balance on the line of credit that kind of looking at all this movement? And what kind of conversations do you have to have with them to make sure they're comfortable with everything that's going on?

R. Steven Hamner
Founder, Executive VP, CFO & Director

So as we tried to walk you through a few minutes ago, as we complete these transactions, we will pay down the pending maturity starting with the $300 million in May and excess until the next maturity will absolutely go to the bank group to the revolver. So obviously, the bank lenders are very satisfied to see that.

Operator

The next question is a follow-up from Michael Carroll from RBC.

Michael Albert Carroll
RBC Capital Markets, Research Division

How tight are your financial covenants right now? And then how confident are you that you have the full access to your line of credit?

R. Steven Hamner
Founder, Executive VP, CFO & Director

Fully confident. We have significant headroom in our own financial covenants, either with the bank group or with the unsecured bond and interest.

Michael Albert Carroll
RBC Capital Markets, Research Division

And then, Steve, what is the covenant that's the tightest, I don't know if you can provide any color on where it is today? Is it the interest coverage ratio? Is that the one that we should be looking at? And where is it at versus where it needs to be?

R. Steven Hamner
Founder, Executive VP, CFO & Director

Yes, that's not a schedule we normally publish, but we have significant headroom in all of the covenants. The one you mentioned is certainly not an issue.

Michael Albert Carroll
RBC Capital Markets, Research Division

Okay. And then last one for me, Steve, is what is the assumed cap rate on the prime purchase options on that remaining portfolio? So if they exercise those purchase options, I guess, what would the cap rate be on those sales?

R. Steven Hamner
Founder, Executive VP, CFO & Director

I'd have to come back to you on that. I don't have that right in front of me. But what I would point you to is if they exercise that option, it would be a $268 million -- I'm sorry, $260 million. And that includes -- or let me put it this way, that -- the lease base on those assets is now $238 million. And that $238 million actually includes -- I'm not sure we disclosed this, but I will, $45 million in additional lease base that as part of this, as Ed called it a comprehensive unified transaction, was added to this new master lease.

So all of that's kind of a long-winded way of saying the $260 million purchase price will represent almost $100 million gain on those assets. So I'm happy to come back to you on a cap rate basis, but I think that's very, very indicative.

Michael Albert Carroll
RBC Capital Markets, Research Division

And then $100 million...

R. Steven Hamner
Founder, Executive VP, CFO & Director

The point in disclosing all that, again, is just to show the interest in the valuation that the market puts on these assets.

Michael Albert Carroll
RBC Capital Markets, Research Division

Okay. Great. And then that $100 million gain, that's the depreciated booking and the other number you gave us was the gross book value of the assets.

R. Steven Hamner
Founder, Executive VP, CFO & Director

That's right.

Operator

The next question is a follow-up from Tayo Okusanya from Deutsche Bank.

Omotayo Tejumade Okusanya
Deutsche Bank AG, Research Division

Yes. Just a quick one. I'm not sure if you talked about this, and I apologize if you did, but the LTAC rent coverage going down to 1.1x with the most recent reporting versus 1.4x for the reporting before 1.9x a year ago. Is that all Earnest? Or is there something else going on there that you could talk about a little bit?

Edward K. Aldag
Founder, Chairman, President & CEO

Yes. No, we've talked about this for the last few quarters. The reason for the decline in the LTAC is that the waivers that everybody had during COVID have obviously all gone away. We only own 15 LTAC remaining, all of the LTAC are have a parent guarantee or either cross-defaulted with IRFs that covers obviously much higher facilities. Of those 15 facilities, more than half of them are covering it more than 1.5x.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Ed Aldag for any closing remarks.

Edward K. Aldag
Founder, Chairman, President & CEO

Jason, thank you very much, and thank all of you for listening in today. If you have any follow-up questions, please don't hesitate to contact Drew or Tim. Thank you very much.

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