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Medical Properties Trust, Inc. (MPW)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day. And welcome to the Medical Properties Q2 2023 Trust Earnings Conference Call. All participants will be in a listen-only mode for the 60 minute 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 Reynolds Lambert

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

Good morning. Welcome to the Medical Properties Trust conference call to discuss our second 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 and/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 on our second quarter 2023 earnings call. As we've always said and continue to firmly believe, there is no scenario where a world exists without hospitals. Even as health care delivery has changed over the years, with technological advances, the importance of hospitals to the delivery system not only remains critical, but has grown in importance.

Hospital services remain the largest single category of spending in the US health care. According to CMS projections, hospital services are expected to continue to make up 31% of total health care spending in 2023. That equates to approximately $1.5 trillion. Importantly, hospital services are projected to continue growing. CMS expects hospital services to grow almost 6% over the next seven to eight years because of the aging population, growing consumer demand and expanded medical service offerings.

Combined, this volume growth, with the fact that our operators are generally seeing 3% to 6% average rate increases, as they negotiate new payer agreements, along with continued Medicare rate increases over the last several years. And you see a compelling case for strong performance from the hospital sector.

During the COVID pandemic, governments all over the world validated the essential nature of hospitals with various types of provider relief funds. These funds sustained hospitals through the pandemic. And now as volumes have come back and continue to grow, hospitals all over the world continue to show improvement in performance.

You can refer to our supplemental information filed this morning for more detailed information on our portfolio. And remember, while reviewing that information, we report one quarter in arrears.

Most of you probably have seen the reporting by various publicly reporting hospital operators on their most recent quarters. Their numbers, which are one quarter more recent than ours, continue to show the overall market improving.

Let me take a few moments to highlight some of our larger tenants. This past Friday, Steward refinance their ABL five months ahead of the December 2023 maturity. The new ABL is led by a group of third-party private credit lenders, whose aggregate assets under management exceed $50 billion. The new ABL provides significantly more liquidity to Steward than the most recent facility. There are seven unrelated lenders in the ABL.

Steward taking the concerns of the market for the ABL refinancing off the table and having a new ABL with a much larger liquidity availability with a maturity of four years, plus Steward having the right to extend that maturity, is a very strong positive.

MPT's investment in the credit facility is pari passu with all the other lenders and provides MPT with a strong return. This participation is not an operating loan to Steward. This is well first secured by receivables that MPT would not otherwise have a security interest in.

Steward continues to perform well operationally. In fact, their EBITDARM coverage is currently one of the strongest in our portfolio at 2.9 times. Steward's volumes are doing well and they expect to continue improvement throughout 2023 and 2024. Their primary focus going forward will be, one, to divest some of their lines that don't fit into their overall future plans and to continue to reduce their use of contract labor, which is down 43% from 12/31/2022 to around only 1% or their total FTEs.

I spent some time in California a few weeks ago visiting the Prospect and Pipeline management teams and a few of the respective hospitals. Let me start with Prospect. Prospect, California continues to perform in line with our expectations. One of the hospitals I visited was the Culver City Hospital. The area has seen an impressive revitalization, and the hospital itself was extremely busy. Prospect is making improvements to several areas of the facility, including a brand new state-of-the-art emergency department.

Prospect is also moving their corporate headquarters to this area to be closer to this hospital. The managed care business continues to be profitable and on track to meet revenue and EBITDA targets and timelines. They are still planning for monetization event of the managed care business in 2024.

Some of you may have seen that, late last week, Prospect was hit with a ransomware attack. The FBI is assisting in this case. According to Prospect, patient care at Prospect hospitals has been minimally impacted, thanks to the extraordinary efforts of the nurses, doctors, and all of the hospital staff, following in-place downtime procedures. Prospect is working hard to bring the impacted systems back online.

Many other hospital providers in the country have been hit with similar attacks. During the first six months of 2023 alone, the health care sector, including health care providers, health plans, and business associates, have suffered approximately 295 breaches. These include providers such as HCA, CommonSpirit, Johns Hopkins, CHS, Kaiser and many more.

The Yale-Connecticut transaction is still progressing to close pursuant to the APA. Neither we nor Prospect are aware of any opposition to this transaction.

I'm pleased to report that Pipeline facilities in California, which only represent 1% of our portfolio, continue to be on track. Volumes are steadily improving and contract labor continues to subside. The state recently approved the behavioral hospital portion of Coast Plaza Hospital. Coast Plaza should see significant increases to EBITDA from this unit in the near-term. The grand opening of this unit was this past weekend.

Regarding LifePoint, the performance for their overall portfolio for the second quarter saw good improvement over our reporting today of the first quarter results. You may have seen the bond issue that was recently announced by LifePoint. The bond issue had the second quarter results included and was upsided from its original target. All of this is a good indication of their current operations. There are several initiatives going on in the third and fourth quarters that should show significant improvement in their results by end of the year. Senior management team continues to be bullish on their facilities.

Moving on to the operations in the United Kingdom, we continue to be pleased with the overall performance of that portfolio. In addition, the recent press releases issued by the UK government, reflecting the Elective Recovery Taskforce implementation plan to address the historically large NHS patient waitlist was a further endorsement of the private health care sector.

Notably, the plan contemplates utilization of available private sector capacity to help resolve that waitlist, as well as advocating increased patient choice to access more care. We believe this will positively impact our UK hospitals over time.

Most importantly, this plan continues to validate what we have known all along that our private hospitals in the UK are a vital component of the health care landscape in the UK and continues momentum behind the alignment of the NHS and private health care sector, ensuring quality, patient care overall in the UK.

Our other European hospitals continue to be a steady rock. Overall, from a trailing 12 months quarter-over-quarter, our acute care sector improved from 2.6 times in Q4 2022 to 2.8 times in Q1 2023. Inpatient rehabilitation facilities and [ph] behavioral (00:11:38) were essentially flat quarter-over-quarter to approximately 1.8 times. LTACs at just over 1% of our portfolio declined from 1.7 times to 1.5 times.

Also, just as a reminder, we no longer include any grant money in any of the trailing 12-month calculations.

While our stock and bond prices have recovered some in the past couple of months, we're not satisfied that they reflect the true value and strength of our portfolio, especially given the sustained, inflation protection and growing cash rents that our master lease structures provide and the demonstrated value of our portfolio.

More than a year ago, we told our investors that our board will continually evaluate our deleveraging and investment strategies, as our debt and equity pricing reacts to our continued performance.

Steve?

R. Steven Hamner

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

Thank you, Ed. This morning, we reported a GAAP net loss of $0.07 and normalized FFO of $0.48 per diluted share for the second quarter of 2023. There are a few components of these reported results that I will point out, and we will, of course, then take questions in a few minutes.

First, as we have previously disclosed, our very attractive lease of former Steward Utah hospitals to CommonSpirit resulted in a non-cash charge for the acceleration of the amortization of intangible lease assets and the write-off of straight line rent, aggregating about $380 million. Neither adjustment affected normalized FFO.

Second, we have restructured our ownership of most of our approximately $4.1 billion of assets in the UK under a REIT regime, resulting in a tax benefit of approximately $160 million. Again, not affecting normalized FFO. However, in addition to providing more efficiency and strategic flexibility, we do expect it to be an important contributor to our cost reduction efforts going forward.

Third, we recognized about $68 million in Prospect rent and interest. This is based on the previously disclosed Prospect recapitalization transactions that included our exchange of certain real estate and other assets for interest in Prospect's managed care business.

In brief summary, you will recall our May 23rd announcement that, as of the end of the first quarter, we carried these assets at approximately $573 million. After obtaining updated valuations and an appraisal to determine marketability discount, the estimated value of our interest in managed care as of the May closing was approximately $655 million. That's in addition to our roughly $515 million of leased California hospitals and $355 million of cash that we expect to collect from the sale to Yale of our Connecticut hospitals.

Accordingly, we recognized in the second quarter the rent and interest that would have been collected in 2023 through the May closing date. Those are the most significant items.

Just a few additional and less important comments. First, costs related to our short seller litigation, which we normalize out of FFO, were about $2.5 million. You may note that we added a line in our normalized FFO reconciliation for adjustments reflecting the likelihood of achieving certain performance metrics and which is partially offset by the acceleration of share-based compensation related to the retirement of one of our founders.

And finally, the quarterly adjustment for non-cash increases and decreases in mark-to-market investment was unfavorable this quarter by approximately $8 million.

During the quarter, we completed the sale of seven hospitals in Australia and the related repayment of approximately AUD 730 million in debt. This had a nominal impact on normalized FFO. During the third or early fourth quarter, we expect to complete the sale of the remainder of our Australian hospitals for approximately AUD 470 million, proceeds of which we expect to use for further debt reduction.

One last point, although it has no impact on normalized FFO. Subsequent to June 30, we completed the previously announced sale of three hospitals to Prime for approximately $100 million.

Our primary focus continues to be on use of capital for debt reduction. This includes the expected use of cash proceeds of approximately $800 million from sales of our Australian and $100 million from our Prime portfolios. The $355 million expected cash from the sale of our Connecticut hospitals to Yale and repayment of the $60 million mortgage loan to Infracore affiliate that we received late in the second quarter.

There are also a few smaller transactions that are possible of closing during the remainder of 2023 that could aggregate as much as $200 million plus in cash proceeds.

During the second quarter, we also received, from Steward, $100 million in repayment of the loan we made in 2022. As our press release and Ed earlier described, our primary new capital commitment came in the third quarter as we elected to participate in Steward's new syndicated ABL facility for up to $140 million. This facility is secured by first-lien interest in patient receivables – that is, receivables from government payors, commercial insurers, managed care companies and others.

There are several compelling benefits to this investment. Given the conditions in the bank lending market since the SVB and other disruptions earlier this year, the return on these first-lien collateralized facilities has been very attractive. The lending group in the Steward facility, including MPT, will be paid monthly at double-digit rate. And as noted, our investment is collateralized by borrowing base of government and commercial receivables. There is a well-developed market for these participations and that should give us optionality for liquidity if, during the four year term of the lending agreement, we elect to assign our investment and reallocate the capital for different uses.

In deciding to allocate this capital to this particular investment, we considered, among other things, and in addition to the attractive collateral package and the cash return, that Steward's operations continue to perform well, most recently generating EBITDARM coverage of approximately 2.9 times. And our $140 million participation represents approximately 4% of our Steward investment overall and accordingly allows us to capture attractive, incremental and accretive new operating income at nominal incremental risk.

So, as we stated in this morning's press release, we have refined our 2023 calendar normalized FFO estimate to a range of between $1.53 and $1.57 per share. Simply as a directional indication, based only on year-to-date inflation data, in the countries where we have meaningful investments – and, of course, this data will continue to evolve – we anticipate that 2024 cash rents will increase by more than $50 million. Of that, approximately $30 million is already included in our GAAP basis straightline projections.

And 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: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Joshua Dennerlein with Bank of America. Please go ahead.

Joshua Dennerlein
Analyst, BofA Securities, Inc.
Q

Yeah. Hey, guys. Steve, one comment I picked up on when you were mentioning that you created the UK REIT, you mentioned cost reduction. I guess what else are you looking to do as far as, like, reduce costs across the organization?

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

So, as the velocity of the acquisitions changes, as the nature of the transactions over the last, certainly, couple of years and the inflationary and debt environment, our cost toward acquisitions is continually monitored. We look at really every component over the – what would impact G&A. You will note also – I think I mentioned share-based compensation was reduced because of the unlikelihood that prior awards would be met.

With respect to the taxes that you mentioned, we expect at least a $2 million quarterly benefit on a go-forward basis, simply from the UK restructuring. That restructuring reflected about 70%, 75% of our UK properties. And as certain tax attributes evolve over the remainder of those properties, there will be additional benefit that we pickup.

Joshua Dennerlein
Analyst, BofA Securities, Inc.
Q

And then for the guidance range, just what's assumed in there? Is the $0.11 from the PHP included? And is the Steward loan included in there, as well? And then, if so, what were the kind of offsets?

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

A

So, the Steward loan is marginal. Again, it represents, as I mentioned, less than – way less than 5% of what we already get from Steward. It's – even at $140 million, it's not relatively large that would impact – that would have a net impact on FFO going forward. What was the first part of the question?

Joshua Dennerlein
Analyst, BofA Securities, Inc.

Q

$0.11.

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

A

Yeah, yeah, yeah. Yeah. That's in there. That's historical FFO. Now, we've made clear, of course – we said clearly that that's not cash. I think the press release actually said it. It came in lieu of cash. It is a reflection of the excess in value of the managed care interest that we have over the book values of the real estate and other assets that we exchanged for that managed care business.

So just to be clear, the other thing – I'm sorry, go ahead.

Joshua Dennerlein
Analyst, BofA Securities, Inc.

Q

No, no, no. I was going to ask, is – was that included in the prior guidance that you released at 1Q?

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

A

Yes, it was. Yes. And estimate for that was included in the prior guidance.

Joshua Dennerlein
Analyst, BofA Securities, Inc.

Q

Okay, okay. I'll jump back in the line. Thank you.

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

A

Thanks.

Operator: The next question comes from Austin Wurschmidt with KeyBanc Capital Markets. Please go ahead.

Austin Wurschmidt
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Good morning, everybody. So will the convertible loan related to PHP and – in your equity stake, I guess, will there be any recurring cash flow from those investments?

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

A

No, not at this time. We expect to realize that value upon the ultimate monetization of the PHP business. But, no, we're not expecting any cash income related to that instrument. To be clear, beginning in September, we will start collecting, at the 50% level, the rent on the California facilities, and that increases to 100% collection in March of next year.

Austin Wurschmidt
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Understood. And then so – I know it's all happening real time, but what's sort of the current plan to monetize the investment and what does that timeline look like at this point?

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

A

So – I'm sorry...

Edward K. Aldag, Jr.
Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

A

Austin, it's still scheduled for 2024, the revenue and EBITDA numbers are still on track. They're still performing well, probably doing slightly better than original projections. And the hope is that they can monetize that sometime in 2024.

Austin Wurschmidt
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. And so, then just last one for me. Just to help understand the guidance, so we really need to back out the $0.11 from the current run rate to think about sort of that quarterly figure moving forward and then not plan on, I guess, any cash from PHP. So, really, it's just the pick-up that you're getting from California from this point. So, I guess, that – what was that, $0.37 plus any California pickup in the back half of the year? Is that the right way to think about it?

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

A

That is all correct, yes.

Austin Wurschmidt
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from Steven Valiquette with Barclays. Please go ahead.

Steven J. Valiquette
Analyst, Barclays Capital, Inc.

Q

Hi. Thanks. Good morning, everyone. Yeah, like my question was kind of similar to that of – one that was just asked around the guidance because, obviously, if you were $0.38 in the first quarter on normalized FFO, $0.48 this quarter with some moving parts, the back half guidance, I thought, maybe was implying only $0.68 to $0.72

on normalized FFO, which would be $0.35 a quarter, which is below where the Street is right now at $0.40 a quarter. Just sounds like that's not the right way to think about. So just want to make sure there was not some step down in the quarterly run rate of FFO in the back half of the year versus what was happening, maybe, versus that $0.38 in the first quarter. Just if you could reconcile that. Thanks.

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

A

Yeah. Only to the extent of what you already know, which is we've had some dilutive sales, obviously, Australia, Prime, although Prime's just not that meaningful, but with those clarifications, yes, you are correct.

Steven J. Valiquette
Analyst, Barclays Capital, Inc.

Q

Okay, all right. Just want to make sure. Okay. That was it for me. Thanks.

Operator: The next question comes from Vikram Malhotra with Mizuho. Please go ahead.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Thanks for taking the question. Just I wanted to go back to the Steward ABL and your participation. I know you said double-digit returns. But you also mentioned it's not really moving the guidance. So can you maybe just step back and, A, walk us through what was the need – if there's six other investors, what was the need for you to participate in that? Did Citi and other syndicate members not want to participate? And now that you're in the syndicate, I'm assuming that the 2022 financials are done and dusted and you have access to them?

Edward K. Aldag, Jr.
Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

A

So, Greg, on the dislocation in the lending market right now, the main traditional banks, national banks, regional banks just aren't doing these types of loans anymore. So that's why you've got these different types of lenders that are in it now. It is six other lenders totally unassociated with any of us, with Steward or with MPT.

The reason for us participating is as simple as it was getting – decision of getting it done right now versus maybe getting it done in 30 days. There continues to be good interest from other potential lenders in participating in the syndicate, but this takes the ABL off the table. It takes the questions that we keep getting about when is Steward going to refinance, are they going to be able to refinance? Now having an ABL that's out there for four plus years because they have the right to extend it, merely a trade off on timing.

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

A

And yes, Vikram, we do plan to file Steward's 2022 financials once we receive them. That will appear as a new exhibit to our 2022 10-K. To be clear, we're doing so at the request of the SEC specifically for 2022, and it should not be taken as a precedent that we will file these annually going forward.

As a reminder, the SEC's rules provide very specific guidelines as to when tenant financials may need to be filed, and we generally will not and actually may not be permitted to file the tenant's private financial statements unless clearly required by these guidelines.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

That's helpful. Thanks so much. And then just bigger picture, on this loan, is it fully – can you give us some sense of like what's the incremental liquidity and is it fully drawn? And just stepping back related to that, is there an official or maybe an internal limit as to how much you can or would like to invest or lend to a specific tenant?

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

A

So, Vikram, we've got a really bad connection, but I think I can answer your questions with respect to the sizing and the amount of incremental liquidity to Steward, that's not for us to share. And so, we can't comment on that, other than what we Ed had said in his opening comments that it does provide liquidity to Steward, significantly more than they had under the old facility.

The second part of your question is I think – no, we don't have any guidelines, we don't have any policies. I'm not aware, certainly, other than the REIT rules and the various buckets that we're able to invest in as a REIT, which this certainly does not implicate. We have no plans at this point to make this an ongoing business line.

Edward K. Aldag, Jr.
Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

A

Vikram, just further answering that question, these decisions are made at the board level.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Got it. Okay. And then, just one last, if I may. Just stepping back with the environment we've talked on and off about, you're still seeing interest from potential new investors in the hospital landscape, whether in the US or globally, any anecdotes, examples you can share of new investors stepping in, finding hospital real estate attractive and what that may mean for pricing? Thanks so much.

Edward K. Aldag, Jr.
Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

A

Vikram, I don't think it's appropriate at this time, given some of the conversations that we have other than to tell you that we have had literally new people calling us, at least monthly.

Vikram Malhotra
Analyst, Mizuho Securities USA LLC

Q

Thank you.

Operator: The next question comes from Mike Mueller with JPMorgan. Please go ahead.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Yeah, hi. Couple of things. Can you remind us how much California income is baked into the back half of the year guidance first?

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

Well, I'll just give you off the top of my head. Maybe somebody can help me out here while I'm telling you. But it's a roughly $500 million investment at a 8-plus-percent contractual rate that we will collect 50% on from September to the end of the year. Somebody writing something down, and I can't read the writing here.

Is that $10 million, [ph] Drew (00:32:52)? Yeah, about $10 million of rent.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Got it. And then, in March, that goes to 100%.

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

Exactly.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

And is that [indiscernible] (00:32:59) is that a cash rate or is that a [indiscernible] (00:33:01) tax rate?

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

No, that's cash. And in March, that will be upwards of 8.4%, I think. On the $513 million.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

Got it. And then on the Steward ABL, how much of that do you expect to be drawn down, I guess, initially? I guess you can have up to $140 million outstanding.

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

$140 million, you should assume is initially drawn.

Michael W. Mueller
Analyst, JPMorgan Securities LLC
Q

$140 million. Okay. And last question. Is it possible to give a sense as to where you think your 10 year debt costs are today across the regions, US, UK, Europe?

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

No, we really can't. Obviously – you can imagine we follow that. But there's actually very little trading in a disrupted market. So we don't – we don't necessarily believe that, if we're showing a discount on $1 million of trade for a bond issue that doesn't mature for six or eight years, we really don't take that as indication of where we would refinance.

Now, very thankfully, and by design, of course, we don't have to refinance now. We have the single maturity coming due later this year, £400 million, we have the liquidity and liquidity resources to simply write a check for that. The only maturity – again, I'm repeating what we've been going through for a while, but the only maturity in 2024 then is the Australian term loan, which we've already paid down a significant majority of that. And then, as Ed alluded to earlier, we continue to monitor our cost of capital as reflected by those indications that you mentioned in the debt markets and certainly by our share price and our board continually considers the different levers that we have to pull to make sure that our liquidity is significantly more than the minimum required.

Michael W. Mueller
Analyst, JPMorgan Securities LLC

Q

Good. Okay, thank you.

Operator: Our next question comes from Connor Siversky with Wells Fargo. Please go ahead.

Connor Siversky
Analyst, Wells Fargo Securities LLC

Q

Good morning. Thanks for having me on the call. A year or so ago, MPW described Steward's operating restructuring efforts. I believe there was a ramp of several hundred million dollars in improvement to EBITDAR. How far along the line of these restructuring efforts is Steward currently? When could we expect for this to be completed? And does this strategy change at all with the new ABL and/or input from the credit funds involved?

Edward K. Aldag, Jr.
Founder, Chairman, President & Chief Executive Officer, Medical Properties Trust, Inc.

A

Yeah. No, not at all, Connor. They have completed all of their cost restructuring. They're benefiting from all of that cost restructuring. 2022 numbers will show a positive EBITDA number and 2023 and 2024 will continue to show vast improvement.

Connor Siversky
Analyst, Wells Fargo Securities LLC

Q

Okay. And apologies if I missed this earlier, but related to Vikram's question on asset pricing, just looking down the line towards 2025 and 2026 where there are significant debt maturities, is there a plan in place to sell more assets? Or if you could just walk us through what you're thinking to refinance that stack?

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

A

So it's what we've just mentioned. We have these levers to pull, one of which is asset sales. And I'll come back to pricing in a minute. And the other is something similar but not quite, joint ventures like we've done in the past with Primonial and Macquarie and, as already mentioned, the kind of over the transom interest that we get literally monthly from others who are very eager to find similar ways to participate in these assets.

On the pricing, all we can point to is what we've done most recently. And if you've seen our NAREIT investor deck, we've got a slide in there that lists every transaction we've done since the beginning of 2022, which demonstrate that there remains a very vibrant private market for infrastructure-like community assets, like many of our assets are, that are well underwritten, necessary in the community, inflation protected and demonstrated as infrastructure like by virtue of what we saw during COVID with government and peoples doing everything possible to maintain these community assets.

So that, obviously, doesn't say that – what we sold Australia for at [ph] 5.7 (00:38:09) or what we sold Steward, Macquarie for at [ph] 5.6 (00:38:12) or the great pricing we're getting on CommonSpirit. That doesn't prove that it's going to happen in the future, but we've seen no indication that this private market is diminishing at all for assets like this. So again, just to reiterate that that is – those are major levers we can pull as we get closer to the 2025, 2026 timelines or earlier. There may be opportunities to do things earlier, of course.

Connor Siversky
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Operator: Our next question comes from Jonathan Hughes with Raymond James. Please go ahead.

Jonathan Hughes
Analyst, Raymond James & Associates, Inc.

Q

Hi there. I'm just curious, why was guidance maybe not revised in conjunction with the Prospect recapitalization announcement from May? Was there just some timing uncertainty related to that? I'm just trying to understand [indiscernible] (00:39:14) versus today?

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

A

And I hate to be thick, Jonathan, but we did revise guidance. Are you saying why didn't we do it earlier? Is that the question? Why didn't we make it...?

Jonathan Hughes
Analyst, Raymond James & Associates, Inc.

Q

Yes. Yeah, back in May versus today.

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

A

Well, a couple of reasons. One, it's not our practice. And based on my experience, probably not the practice of many of our peers to revise guidance between quarterly reporting. That may or may not be, but it's not generally our practice.

Secondly, it's a relatively minor compression of guidance from what we had earlier.

Thirdly, the transaction happened on May 23. And as I tried to point out earlier, we had multiple validations, multiple independent third parties who took different perspectives on the value of the managed care business. It's a private company. It's not uncomplicated that what Prospect has done is to extract various different operations and subsidiaries from across the Prospect ownership and put it into a single operating company and measured that, and then provide that information to the appraisers and so forth, such that we only got something that the auditors were able to look at. And we were confident in the $655 million value. That didn't happen on May 23. It didn't happen for six plus weeks afterwards. So, between those two reasons, it's just – it's not what we do generally unless there was something really material and dramatic and we just simply didn't have the information until more recently.

Jonathan Hughes
Analyst, Raymond James & Associates, Inc.

Q

Okay. And I guess then just sticking with that, the updated guidance from this morning, the midpoint of kind of the third quarter and fourth quarter FFO implied by the updated guidance is about $0.35. And then, if you take out the non-cash income, you'd get to just call it $0.28 or so of FFO, which would be below the quarterly dividend. But I know that's expected improvement in next year. And I asked about sustainability of that dividend last quarter and you are comfortable with – and you said you were comfortable with it, but the market today is still giving you a little credit with the stock yielding 13% and leverage is up from last quarter to nearly 7 times.

So I just have to ask, again, has the board seriously considered a cut to retain more funds to more quickly improve the balance sheet and pay down debt?

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

A

So I would just reiterate what both Ed and I have already said, and that is we're not satisfied with our cost of capital, as implied by the share price. We're not getting the credit that that we think we should. And so, going all the way back to, I think, our fourth quarter call back in February, I think we actually said everything is on the table and that's at the board level. And then again, just a few minutes ago, I said the board is constantly evaluating, considering that. And we've talked already on this call about liquidity opportunities, and I'll just repeat it that everything is on the table.

Jonathan Hughes
Analyst, Raymond James & Associates, Inc.

Q

All right. Thank you.

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

Thank you, operator. And I appreciate everybody's interest today. On a personal note, I'd like to take just a moment. This, today, will mark the very last time in almost 20 years that I will sit across the table with Emmett McLean, one of our original founders. As we have previously announced, Emmett is retiring this month. Emmett, we wish you the very best. We wish you the very best with your grandchildren, your wife. Enjoy yourself. Well-earned. Thank you.

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