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April 26, 2024

Senator Elizabeth Warren
Senator Edward J. Markey

Re: April 15, 2024 Letter Regarding Steward Health Care System

Dear Senators Warren and Markey:

We represent Medical Properties Trust, Inc. ("MPT") in connection with the above-referenced letter conveying concerns about the financial distress of Massachusetts hospitals operated by Steward Health Care System ("Steward"). We welcome the chance to provide you and the public with information about MPT's business model, history with Steward, and MPT's perspective on the current situation in Massachusetts.

MPT Provides Critical Funding to Hospitals

As a real estate investment trust ("REIT"), MPT's primary business is making long-term investments in hospital real estate. MPT plays a valuable role in the healthcare ecosystem because its real estate investments enable operators to access immediate capital that is available for the operator to invest in patient care. As an investor in hospital real estate, MPT's overwhelming strong interest is that each of the hospitals in which it invests remains open and serving its community. In the case of Steward, specifically, MPT has provided millions of dollars of support in bridge loans, rent deferrals, and other forms of financing because MPT believes that Steward's hospitals are critical to healthcare in their communities and MPT is committed to being part of the solution to keeping its hospitals functioning through the transition to new operators.

Accordingly, MPT emphatically denies in the strongest possible terms the statements in the letter that allege that MPT "plundered" Steward's hospitals, that MPT is in any way a "Ponzi scheme," or that MPT's rents are a primary contributing cause of Steward's current financial distress.

MPT is not a hospital operator. MPT does not (and, by law, is not permitted to) play any role whatsoever in the operations or business decisions of the operators of the hospitals it invests in. MPT is also not, by definition, a private equity investor. MPT is a publicly-traded company that is owned by many thousands of individual and beneficial shareholders, including retail shareholders, mutual funds and public pension plans, who depend on MPT and the dividends that its investments generate for savings and retirement income. These shareholders, MPT, and its individual executive officers have lost tremendous value recently as Steward's financial troubles have accelerated.

MPT's Business Model

MPT is focused almost solely on providing capital support for licensed hospital real estate—the critical community infrastructure needed to deliver acute healthcare services. A hospital operator's land and buildings are often its single largest expenditure. This must be funded with some form of capital—whether it be mortgage debt, ownership equity, sale leaseback arrangements, or something else. Regardless of how a hospital operator decides to fund its real estate, that funding carries a cost to the operator.

For example, even if a generously endowed not-for-profit hospital system uses its endowment cash to acquire and fully own its real estate assets outright, there is nonetheless an economic cost to this decision because that cash is no longer available to fund patient services. This may be an appropriate capital allocation strategy for hospital systems with excess available capital, but very few hospital operators enjoy that luxury. For others, MPT provides a financing alternative, one that is relatively inexpensive compared to other choices.

Sale leaseback transactions are routinely used on an enormous scale throughout virtually every industry where real estate plays a significant role. MPT's strategy, in short, has been to use this well-accepted and longstanding concept to enable hospital operators, regardless of their ownership structure, to realize the full value of their land and buildings. By unlocking this permanent and affordable capital, operators are immediately able to fund the improvement of patient services, expansion of services to additional patients, development of new facilities, employment of staff and physicians, investment in cutting edge technologies and equipment, and permanent repayment of expensive debt. In other words, this sale leaseback strategy allows hospital operators to redirect the substantial cash resources that would otherwise be used for real estate to the operator's primary mission—healing patients.

MPT's Sale Leaseback Transactions

MPT recognizes that a hospital's services must be delivered in a specific facility and that each operator must have confidence that its business will remain efficient, affordable and within the operator's control. As a result, MPT's hospital leases generally include the following terms that favor the hospital tenant (in contrast to leases with non-healthcare operators which tend to have terms that favor the landlord):

- First, MPT's hospital leases are generally for very lengthy periods (20-plus years)—hospital operators need to know that they will not be forced to move their operations.

- Second, rent payments under MPT's hospital leases are calculated such that total annual rent payments by the operator to MPT represent only a small percentage (single digits) of the hospital's total sustainable reimbursement revenue. MPT has no incentive to "over rent" its facilities because MPT's primary interest is long-term sustainable receipt of rent payments that are well-covered by normal hospital cash flows.

- Third, during the entire lease period, the annual rent payable to MPT is fixed, usually increasing only with some limited measure of inflation. For example, Steward's Massachusetts lease payments escalate at a maximum of 5% annually, even when, as recently, annual inflation rates exceed that amount. What this means practically is that the hospital operator is not subject to increases in occupancy costs (i.e., rent) due to the ever-increasing value of real estate.

- Fourth, unlike a mortgage loan or other debt alternative to funding, the operator is not obligated to "repay" MPT or otherwise re-acquire the real estate from MPT. Standard mortgage loans often mature during periods of high interest rates, lower appraisal values, constrained availability of debt, and other market conditions that result in unexpected and significant costs and risks to the operator / homeowner.

- Finally, through sale and leaseback transactions, MPT funds up to 100% of the hospital's real estate value on a permanent capital basis, while a mortgage loan or other debt financing strategy would likely be limited to 60% and would carry a shorter term (typically 5-7 years), resulting in significant refinancing risk to the operator if conditions worsen or interest rates rise (for example, if a mortgage has a floating rate, then the interest rate risk is immediate).

These unique and specific terms are designed to provide predictability, stability and control to hospital operators and remove large uncertainties from a hospital's future projected expenses. Indeed, as stated, rent payments resulting from an MPT sale leaseback transaction typically equate to a small percentage of a hospital's net revenue, and pale in comparison to labor and supply costs that typically equate to 65% or more of revenue, have no limits on inflationary increases, and have in fact increased rapidly since the onset of the COVID-19 pandemic. In other words, if a hospital is struggling financially, it is virtually *never* the consequence of its rent obligations; it is because hospital operations are not generating sufficient revenues to offset aggregate costs.

MPT's Relationship with Steward

MPT's investment in Steward dates back to 2016. MPT has been transparent about the nature and details of its relationship with Steward in its public statements and filings with the Securities and Exchange Commission ("SEC") since the inception of the agreements. As with all of MPT's agreements, the Steward leases were carefully structured to ensure rents represented a modest percentage of facility net revenue, and were well-covered by near-term expected cash flows. As your letter noted, MPT has also strongly supported Steward's operations by virtue of certain working capital loans, investment in real estate improvements and developments, and deferral of rent collections. MPT has also invested $150 million in Steward's preferred equity and holds a minority 9.9% equity interest in Steward.

To be clear, however, MPT's primary relationship with Steward has been and remains as a landlord. MPT has no representation on Steward's board of directors nor any overlap in executives or employees.

MPT plays no part in, and cannot directly influence, Steward's day to day hospital operations in any way.

MPT's Perspective on Steward's Financial Challenges

In 2021, Steward agreed to sell its Utah hospital operations to HCA Healthcare. However, the transaction was abandoned in 2022 due to antitrust concerns, and Steward ultimately sold the portfolio to CommonSpirit Health ("CommonSpirit") in 2023. During this period, MPT extended limited working capital loans to Steward to provide a bridge to the CommonSpirit transaction, enable Steward to participate in a provider tax program, and fund development of a state-of-the-art replacement hospital in Norwood, Massachusetts. (As you know, the hospital in Norwood was devastated during a storm in June of 2020. Reconstruction is ongoing, but the hospital remains closed, and many costs and expenses continue.) Critically, Steward's hospitals continued to report strong local rent coverage and MPT had reason to believe that the operator's corporate-level cash flow challenges were temporary based on the operator's plans to improve revenue cycle management, divest certain business units, and raise new third-party capital.

In late 2023, however, it started to become clear to MPT that Steward's corporate-level financial challenges were not temporary. As MPT disclosed in its third quarter 2023 Form 10-Q filing with the SEC on November 9, 2023, for the first time since the inception of the lease agreements, Steward was not able to make timely rent payments in September and October 2023, given revenue cycle management challenges and a backlog of accounts payable. Still, at the time, MPT reasonably believed that Steward would be able to continue to meet its rental obligations over the full term of the lease agreements, based on initiatives reported by Steward management, the reported profitability of Steward's operations at MPT's facilities, the cross-defaulted master lease structure, and the additional security of MPT's overall collateral interests. However, in December 2023, Steward informed MPT that its cash flow challenges had become more pronounced, due to significant changes in vendor payment terms.

In January 2024, MPT announced that Steward had accumulated total unpaid rent of approximately $50 million, and that MPT was working with Steward and its advisors to develop an action plan designed to strengthen Steward's corporate-wide liquidity, restore its balance sheet, and ultimately reduce MPT's exposure to Steward. This plan contemplates re-tenanting hospitals and the sale of Steward's physician group, Stewardship Health. In connection with this plan, MPT disclosed a new secured bridge loan to Steward and consented to tapering deferral of rent through June 2024.

MPT's Efforts to Alleviate Steward's Financial Challenges

MPT has gone to great lengths to alleviate Steward's corporate-level financial strain and enable Steward to keep its hospitals open for the benefit of the communities they serve and ensure an orderly transition to other operators, including by meeting regularly with the Massachusetts Department of Health and

Human Services, which ultimately, is also to the benefit of MPT and its shareholders. We understand that the Senators share these objectives.

However, your letter accuses MPT of "plundering" Steward's hospitals, "saddling" Steward with unsustainable rents, and being a "Ponzi scheme." As stated, MPT denies these allegations in the strongest possible terms, and respectfully submits that these characterizations are demonstrably false when compared with the facts:

- *If MPT is "plundering" hospitals, why has it invested more capital than any other party into Steward in order to keep the hospitals open?* In order to receive the approximately $200-225 million in average annual rent and interest payments from Steward that MPT has received since the inception of the relationship in 2016, MPT has invested nearly $5 billion in hospitals leased to Steward as well as debt and equity investments, much of which never has to be repaid by Steward. Simply put, significantly more money has flowed *from MPT to Steward* than vice versa. Even now, MPT and Steward's asset-backed lenders are the only parties investing actual capital to ensure that Steward is able to maintain orderly operations across its portfolio as it works through its financial difficulties.

- *If rent and interest payments are the primary reason for Steward's financial challenges, why has the deferral of rent payments been an insufficient solution?* As described above, the reality is that rent and interest payments owed to MPT are simply not large relative to the rest of the Steward hospitals' cost structure.

- *The returns expected from MPT's investments with Steward are regular, long-term, and not tied to recruiting new investors.* Your letter accuses MPT of having "the appearances of a Ponzi scheme." But the defining feature of a "Ponzi scheme" is paying early investors with money taken from later investors to create the illusion of profits. MPT invests in real hospital assets. The expected returns on those investments (including Steward's hospitals) are the cash flows from rent payments that do not change (other than for inflation) over the course of multiple decades. This is obviously not how a so-called "Ponzi scheme" would work.

MPT stands ready to cooperate with authorities in Massachusetts and elsewhere to ensure that operator transitions and/or sales of Steward's hospitals are executed with as little disruption in patient care as possible. MPT believes that the Massachusetts hospitals now leased to Steward can be operated profitably by other operators or systems that are not encumbered by the extraneous corporate-wide financial problems that Steward faces.

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Senator Elizabeth Warren
Senator Edward J. Markey
April 26, 2024

MPT believes that the foregoing explanation provides the Senators with the information sought in response to questions in your letter regarding MPT's relationship with Steward. In response to the questions regarding compensation paid to MPT's executive officers, MPT refers the Senators to the Schedule 14A Proxy Statement that MPT filed with the SEC on April 17, 2024 (the "Proxy Statement," a copy of which is enclosed). In particular, we refer you to the mandatory "Compensation Actually Paid" disclosures, which are presented on pages 37 through 39 of the Proxy Statement and which demonstrate that the aggregate 2022 and 2023 "Compensation Actually Paid" to MPT's six most highly-paid executive officers was *negative* \$9.2 million (and approximately \$3.6 million for 2023 only).

This letter, and any information that MPT will provide to you in the future, includes confidential, sensitive business information of MPT. We expect that the Staff would allow us the opportunity to discuss with you the need for continued confidentiality of MPT's responses prior to them being disclosed to the public.

We look forward to continuing to work with you in connection with MPT's cooperation with the Senators' requests.

Sincerely,

Richard M. Strassberg

Enclosure

cc: [redacted], Oversight and Investigations Director
[redacted], Investigative Counsel
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