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\$1.25B Steward Health Acquisition

Upsized Equity Offering Bolsters Unique Position

What's Incremental To Our View

We view MPW's \$1.25B Steward Health Care System investment and upsized equity offering positively - adding a new operator relationship and portfolio diversification benefits. MPW is acquiring nine hospital properties from Steward (a Cerberus Capital Management affiliate) for \$1.2B along with a \$50M equity investment in Steward. Combined with the additional portfolio/capital market activities (~\$800M dispositions, \$300M MEDIAN investment, 11.9M share ATM), MPW projects ~10% per share accretion. We believe MPW will continue to leverage its unique market position into additional opportunities.

- The deal structure with Steward Health is anticipated to be split equally between master lease (five properties) and mortgage loan arrangements (four properties) with cross-default provisions and corporate guarantees, reflecting a 10.1% GAAP cap rate and CPI based escalators. The agreement also includes the right of first refusal for MPW to acquire future Steward hospitals.
- MPW will invest \$50M in equity in Steward Health that, in addition to providing a 4.9% economic interest, offers certain protective rights regarding Steward credit decisions. Cerberus has also agreed to invest \$150M in MPW through a private placement transaction.
- The Steward deal should deliver meaningful diversification benefits, with Steward becoming MPW's largest tenant at 17.8% of assets (replacing Prime previously at 20.8%). Prime, MEDIAN, Ernest, Adeptus and RCCH fill the next five spots, representing 16.1%, 14.9%, 8.7%, 7.1% and 6.5% of total gross assets, respectively.
- MPW raised ~\$700M in equity through its 50M share overnight equity offering (priced at \$14.50) and expects an additional \$150M private placement from Cerberus. While the company initially projected an incremental ~\$700M in debt, with the upsized equity offering, we think the debt offering may be more likely in the \$500M range, helping MPW maintain its low leverage.
- We view this deal positively, and think it further strengthens MPW as a key financial partner with its hospital tenants. We also believe the deal size and relationship should enhance MPW's recognition and unique position in the hospital sector.
- We have updated our model, with our 2016 Normalized FFO estimate moving lower to \$1.19 (from \$1.30), reflecting the upsized equity offering and assumed incremental \$500M in debt, but no Steward revenue (assume deal closes near year end for modeling purposes). Our 2017-2018 Normalized FFO estimates move higher to \$1.38, and \$1.47 (from \$1.34 and \$1.43), reflecting the expected incremental benefits of the Steward investment.

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SEE PAGE 3 FOR REQUIRED DISCLOSURE INFORMATION

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Buy

Price Target: \$18.00
Prior: \$18.00

Price (Sep. 27, 2016)	\$14.80
52-Wk Range	\$15.80-\$9.86
Market Cap (\$M)	\$3,537
ADTV	3,172,050
Shares Out (M)	239.0
Short Interest Ratio/% Of Float	7.0%
Dividend/Yield	\$0.92/6.2%
TR to Target	27.8%

Total Debt	\$2,758.6
Cash And Equivalents (\$M)	\$181.6

	2015A	2016E		2017E	
		Curr.	Prior	Curr.	Prior
FFO					
1Q	\$0.28	\$0.35A	\$0.35	\$0.33	\$0.32
2Q	\$0.30	\$0.32A	\$0.32	\$0.34	\$0.33
3Q	\$0.32	\$0.31	\$0.31	\$0.35	\$0.34
4Q	\$0.35	\$0.23	\$0.32	\$0.36	\$0.35
CY	\$1.25	\$1.19	\$1.30	\$1.38	\$1.34
P/FFO	11.8x	12.4x		10.7x	
AFFO					
CY	\$1.17	\$1.11	\$1.19	\$1.24	\$1.27
P/AFFO	12.6x	13.3x		11.9x	
Revenue (\$M)					
CY	\$442	\$517	\$517	\$656	\$536
P/Sales	8.0x	6.8x		5.4x	
Consensus FFO					
CY	\$1.25	\$1.30		\$1.33	
FYE Dec					

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Updated on 09/27/2016

Medical Properties Trust, Inc. - Income Statement/Funds From Operations 2015 - 2018E																
(\$ Thousands)	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16E	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
Revenues																
Total revenues	95,961	99,801	114,570	131,546	441,878	134,999	126,300	127,379	128,235	516,913	158,908	161,085	166,985	169,339	656,317	688,091
% change YoY	31.3%	30.4%	41.8%	60.2%	41.4%	40.7%	26.6%	11.2%	(2.5%)	17.0%	17.7%	27.5%	31.1%	32.1%	27.0%	4.8%
Expenses																
Real estate D&A	14,756	14,956	20,016	20,140	69,868	21,142	22,832	20,000	20,113	84,087	25,224	25,338	25,450	25,563	101,575	103,687
Property-related	351	530	1,727	1,184	3,792	901	784	1,045	1,021	3,751	1,150	1,273	1,330	1,401	5,154	6,001
Acquisition expenses	6,239	25,809	24,949	4,345	61,342	(1,065)	4,767	987	888	5,577	625	650	587	525	2,387	2,625
G&A	10,905	10,642	10,778	11,314	43,639	11,471	12,045	11,106	11,525	46,147	11,975	12,090	12,185	12,275	48,525	50,705
Total operating expenses	32,251	51,937	57,470	36,983	178,641	32,449	47,803	33,138	33,547	146,937	38,974	39,351	39,552	39,764	157,641	163,018
Operating income	63,710	47,864	57,100	94,563	263,237	102,550	78,497	94,241	94,688	369,976	119,934	121,734	127,433	129,575	498,676	525,073
% margin	66.4%	48.0%	49.8%	71.9%	59.6%	76.0%	62.2%	74.0%	73.8%	71.6%	75.5%	75.6%	76.3%	76.5%	76.0%	76.3%
Other income (expense)																
Interest and other income	(375)	(563)	(80)	(484)	(1,502)	(319)	16,928	0	0	16,609	0	0	0	0	0	0
Interest expense	(27,359)	(24,812)	(33,897)	(35,741)	(121,809)	(44,005)	(41,501)	(36,465)	(42,880)	(164,850)	(42,790)	(42,701)	(42,612)	(42,523)	(170,626)	(169,942)
Net other expense	(27,734)	(25,375)	(33,977)	(36,225)	(123,311)	(44,324)	(24,573)	(36,465)	(42,880)	(148,241)	(42,790)	(42,701)	(42,612)	(42,523)	(170,626)	(169,942)
Income from continuing operations	35,976	22,489	23,123	58,338	139,926	58,226	53,924	57,776	51,808	221,735	77,144	79,033	84,821	87,052	328,050	355,131
shares - diluted	203,615	208,640	223,948	237,011	218,304	237,819	239,008	252,241	312,320	260,347	312,520	312,720	312,920	313,120	312,820	313,505
FFO information:																
Net income	35,897	22,407	23,057	58,238	139,473	57,927	53,724	57,726	51,758	221,136	77,084	78,973	84,761	86,992	327,810	354,881
Participating securities' share in earnings	(266)	(250)	(265)	(248)	(1,029)	(144)	(132)	(128)	(125)	(529)	(120)	(117)	(112)	(105)	(454)	(400)
Net income, less participating securities	35,631	22,157	22,792	57,990	138,444	57,783	53,592	57,598	51,633	220,607	76,964	78,856	84,649	86,887	327,356	354,481
Depreciation and amortization:																
Continuing operations	14,756	14,956	20,016	20,140	69,868	21,472	23,335	20,000	20,113	84,087	25,224	25,338	25,450	25,563	101,575	103,687
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss (gain) on sale of real estate	0	0	(3,268)	0	0	(40)	(22,613)	0	0	0	0	0	0	0	0	0
Funds from operations	50,387	37,113	39,540	78,130	208,312	79,215	54,314	77,598	71,746	304,694	102,188	104,194	110,099	112,450	428,931	458,168
Acquisition costs	6,239	25,809	24,949	4,345	61,342	4,233	4,801	987	888	5,577	625	650	587	525	2,387	2,625
Write-off /reserve of straight-line rent	0	0	3,928	0	0	0	3,063	0	0	0	0	0	0	0	0	0
Normalized funds from operations	56,864	62,922	72,497	82,523	274,806	83,452	75,528	78,585	72,634	310,271	102,813	104,844	110,686	112,975	431,318	460,793
Normalized FFO per share	\$0.28	\$0.30	\$0.32	\$0.35	\$1.25	\$0.35	\$0.32	\$0.31	\$0.23	\$1.19	\$0.33	\$0.34	\$0.35	\$0.36	\$1.38	\$1.47
Share-based compensation	2,603	2,598	2,515	2,521	10,237	1,695	1,814	2,228	2,049	7,786	2,502	2,527	2,543	2,563	10,135	10,994
Debt costs amortization	1,377	1,394	1,523	1,792	6,086	1,835	2,062	2,072	2,083	8,052	2,093	2,104	2,114	2,125	8,435	8,478
Additional rent received in advance	(300)	(300)	(300)	(300)	(1,200)	(300)	(300)	(300)	(300)	(1,200)	(300)	(300)	(300)	(300)	(1,200)	(1,200)
Straight-line rent revenue	(6,332)	(6,928)	(9,840)	(11,118)	(34,218)	(10,829)	(11,204)	(9,097)	(8,752)	(39,882)	(15,027)	(15,109)	(15,201)	(15,312)	(60,649)	(61,548)
Adjusted funds from operations	54,212	59,686	66,395	75,418	255,711	75,853	67,900	73,489	67,714	285,027	92,081	94,066	99,842	102,050	388,039	417,517
AFFO per share	\$0.27	\$0.29	\$0.30	\$0.32	\$1.17	\$0.32	\$0.28	\$0.29	\$0.22	\$1.11	\$0.29	\$0.30	\$0.32	\$0.33	\$1.24	\$1.33

Source: Company documents, SunTrust Robinson Humphrey estimates

Company Description

Medical Properties Trust is a self-advised real estate investment trust (REIT) that acquires and develops net-leased healthcare facilities. Medical Properties focuses primarily on acute care hospital operators, in addition to long-term acute care hospitals and inpatient rehabilitation hospitals. Medical Properties currently has investments across the U.S., U.K. and Germany, leased under long-term triple net leases. MPW is the only publicly traded REIT focused exclusively on hospital real estate.

Investment Thesis

We are bullish on Medical Properties Trust given its niche focus on acute care hospital properties, a sizable acquisition marketplace, potential RIDEA investment upside, and strong underlying demand in the healthcare sector. While challenges remain, including soft volume trends and the potential for increased reimbursement risk in the area of government pay (Medicare, Medicaid), we view the challenges as manageable given the strong rent coverage of the portfolio.

Valuation and Risks

Our \$18 price target is based on the stock trading at ~13.0x 2017E normalized FFO, closing the discount to the overall sector (14.0x). We believe this multiple is appropriate given the increasing portfolio size, improved leverage profile, and potential upside from its RIDEA investments. Risks to our estimates and price target include increased competition for properties; delays in expected capital deployment; concern for hospital cash flows in an environment of budget and regulatory pressure; and risk associated with concentration of property type and the single-use nature of hospital facilities.

Companies Mentioned in This Note

Cerberus Capital Management (private)

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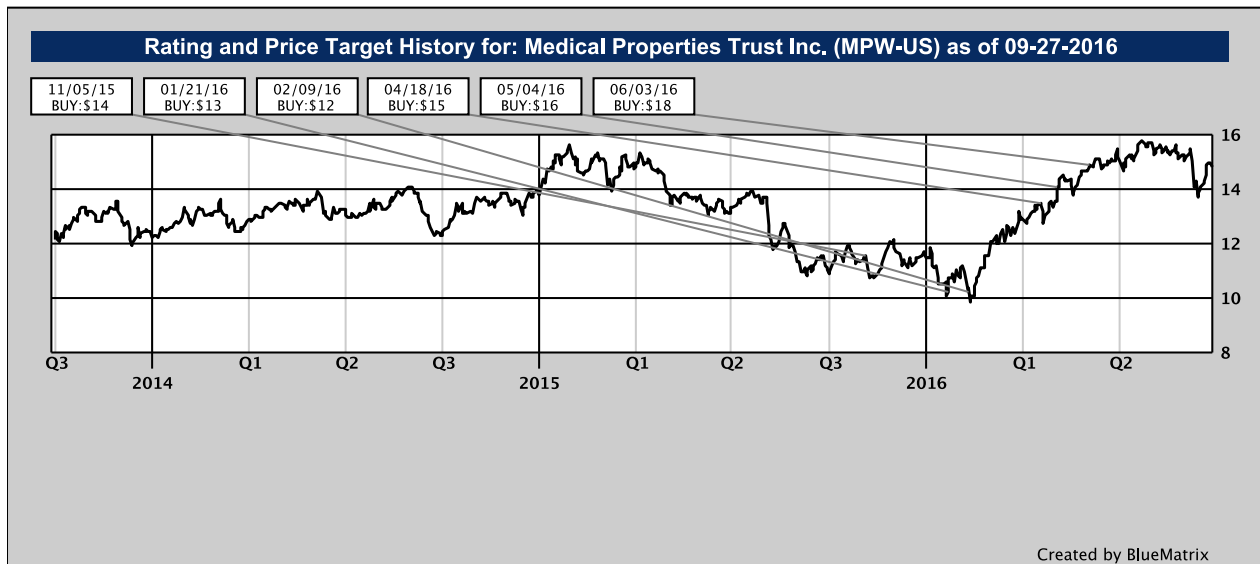
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*Total return (price appreciation + dividends)

**Price targets are within a 12-month period, unless otherwise noted

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