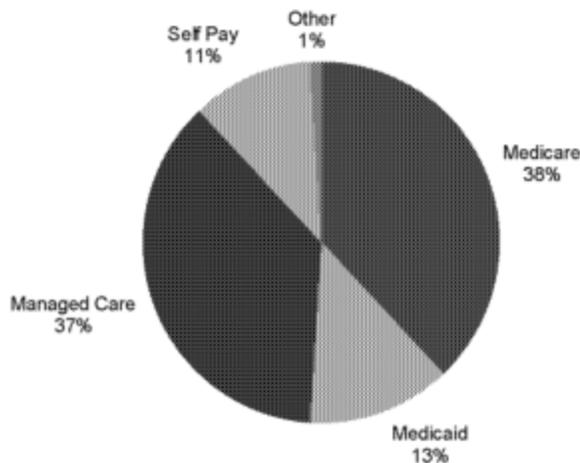




Elevated government reimbursement risk

While an updated payor mix has not been provided since August 2014, Medicare (38%) and Medicaid (13%) accounted for roughly half of US net revenue at that point. This is a function of MPW's focus on hospitals, which have a higher government payor mix. While private pay is typically considered a higher-quality revenue source for the hospital operators, as in other property types, we think well-located hospitals in underserved markets should remain in demand with more profitable operators replacing weaker ones in the event of default.

Figure 7: U.S. Payor Mix



Data as of 8/31/14. Based on net revenue

Source: Deutsche Bank, company data

Diversifying internationally

MPW's portfolio is primarily located in the US, with an increasing exposure to Western Europe. MPW has a target portfolio mix of 70% US to 30% Europe, though the mix may shift outside these targets periodically. By investment, the mix is currently 78% US to 22% Europe. At least some of the appeal to invest in Western Europe is driven by long resolution times around healthcare policy changes out of Washington, a process that can take years and may effectively stall transactions in the hospital space domestically. Over time, MPW's experience in international markets should smooth its investment cycle.

The company entered Germany in November 2013 when it acquired 11 rehabilitation facilities (1,649 beds) from RHM for €175MM. In 4Q14, MPW acquired three additional rehabilitation facilities (730 beds) from RHM for €64MM. As of 1Q16, MPW owns 45 rehabilitation facilities and 1 acute care hospital across 12 German states, totaling over 9,500 licensed beds.

The UK portfolio was created in July 2014 when MPW acquired CircleBath Hospital, a 28-bed acute care facility in Bath, England, from Circle Health for £28MM through a sale leaseback transaction.