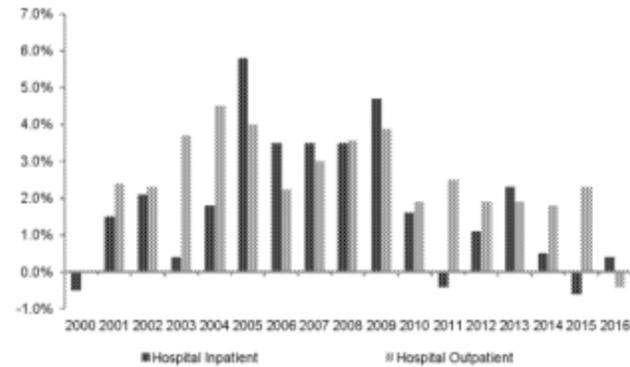




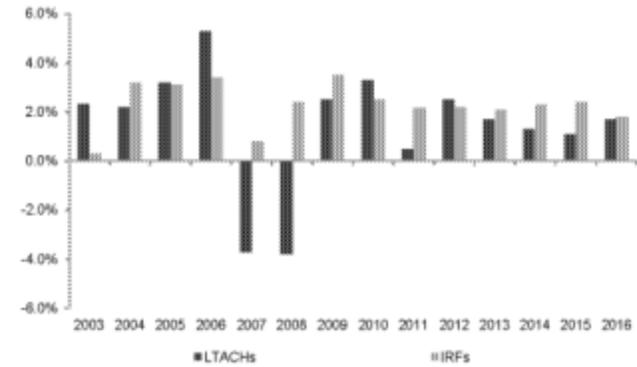
In each of the past 5 years, the final reimbursement rate for inpatient services has been higher than the proposed rate, averaging 80bps higher than the proposed rates over this period. Final outpatient rates have been revised upward from proposed rate in 2 of the last 5 years, lowered twice, and kept unchanged once, with the increase from the proposed level averaging out to 0bps.

Figure 20: General Acute Care Medicare Reimb Rates



Source: Deutsche Bank, CMS

Figure 21: LTACH & IRF Medicare Reimbursement Rates



Source: Deutsche Bank, CMS

Hospital revenues and margin profiles positive for MPW

Overall hospital financials have been improving. Figure 22 shows broader hospital revenue growth and margin trends per data from the American Hospital Association. Notably, aggregate hospital revenue growth and margins remained positive throughout the Great Recession, while MPW's reported acute care EBITDAR coverage ratio remained healthy at ~4.8x in 2008. Also of note was the ability of hospitals to drive margins higher despite slower revenue growth in 2013 and a relatively high rate of outpatient volumes.

After reviewing more recent data for publicly traded hospital operators, we found that EBITDA margins have remained relatively stable since 1Q14. We expect 2016 margins to track within the 2014-2015 ranges as per full-year outlooks issued by some of the operators. In addition to margin stability, publicly traded hospital operators in our review group posted greater than +3% y/y revenue growth per admission since 1Q15 (on a same facility basis). Thought recent operating trends have been steady and we believe near-term risks are limited, hospitals and post-acute providers continue to face a number of challenges put forth by the Affordable Care Act, including the transition from volume to value-based payment systems and site-neutral reimbursements (see our discussion below).