



# Growth Opportunities

With the majority of MPW's leases structured as long-term net leases, internal growth is largely limited to rent escalators built into the leases themselves and which average about 1.5% annually for the total portfolio. RIDEA investments accounted for ~13% of MPW's total investments as of 1Q16, the majority of which are Capella assets, though the management company has since been sold to Funds managed by affiliates of Apollo Global Management. Pro-forma for this sale we estimate RIDEA investments will account for about 7% of total investments. Though MPW has indicated that it will be judicious in its near-term investments given what they see as a still-discounted valuation, we think recent improvements in MPW's cost of capital could lead to increased growth. We also believe VTR's entry into the U.S. hospital space will open further opportunities as hospital operators increasingly see the benefits of their real estate as an attractive source of funds. Near term the more reserved outlook for acquisitions will likely limit growth in 2016 and 2017 as the full-year impacts of recent sales activity and 2016 capital raises flow fully into 2017.

---

## Acquisitions to fuel long-term growth

### Strong acquisition pipeline to drive the long-term growth trajectory

Over the long run, we see ample scope for MPW to grow via acquisition with opportunities both in the U.S. and Europe. With almost 5,000 community hospitals in the U.S., including ~1,000 for-profit and ~2,900 not-for-profit hospitals, versus MPW's portfolio of 101 owned acute care hospitals, we see ample room for growth as hospital operators gain comfort in the sale/leaseback model and as improving hospital fundamentals spur investment activity that can be financed via real estate sales. Additionally, Ventas' acquisition of Ardent Health Services for \$1.75B in August 2015 should provide additional validation to the sale leaseback model given Ventas' effort to educate and market the benefits of the sale leaseback model to the hospital segment potentially spurring additional deal volume.

### Near-term acquisition activity could pick up on improving cost of capital

While our long-term acquisitions outlook is positive, MPW has pulled back on activity since last summer given leverage and cost-of-capital issues. With significant improvements in liquidity, leverage, and cost of capital over the past few quarters, we think MPW is poised to re-engage on the acquisition front should the right opportunities present themselves. We wouldn't expect large portfolio deals soon, but have baked in about \$250MM of acquisitions through 1H17 in our model, which would still leave the company with plenty of firepower to capitalize on additional opportunities. We estimate roughly \$1.7 billion of liquidity via its fully untapped \$1.3 billion LOC and an estimated \$400 million of cash on the balance sheet following the recently announced disposition activity and bond offering.

### Managed care consolidation should spur additional hospital consolidation

We believe the recent wave of consolidation in the managed care sector will incentivize hospital operators to consolidate in order to increase bargaining power. Consolidation in the managed care sector has been picking up over the past several years with 7 publicly traded health insurers expected in 2016, down from 14 in 2011, according to Bloomberg reports. Given the fragmented