

27 January 2009

## Primary Health Properties

Year End	Revenue (£m)	PBT* (£m)	DPS (p)	Yield (%)	NAV/share (p)	Disc. to NAV (%)
12/06	12.2	3.6	13.5	4.6	N/A	N/A
12/07	15.7	2.6	15.0	5.1	369	21
12/08e	18.8	5.6	16.5	5.7	321	9
12/09e	21.4	6.0	17.0	5.8	318	8

Note: \*PBT and EPS are normalised, exclude goodwill amortisation and unrealised valuation gains or losses. FY06 & FY07 are proforma figures from 2007 Report & Accounts.

### Investment summary: Patient profit building

Primary Health Properties has an established track record as an investor in primary care property, a secure asset class characterised by strong covenants and stable growing revenues. This strategy underpins prospects for dividend growth and asset value stability, relative to other types of UK property. The stock's defensive attributes include a safe dividend, covered by rents largely guaranteed by the UK government, no unexpected vacancies or pressure on rental values. The shares should appeal to investors that seek an attractive yield in a low interest rate environment.

### Primary care property: Defensive asset class

Government reports confirm a shortage of modern primary care property, driven by a need for the NHS to upgrade its facilities if it is to meet targets for greater efficiency in patient care over the next few decades.

### Growth: Drivers intact, despite market turmoil

The group has a strong record of revenue and dividend growth. The short-term outlook is supported by H108 acquisitions, rolling reviews and a structural shortage of the kind of property in which it invests.

### Financials: Revenue growth intact

H108 saw a 72% increase in underlying operating profit to £7.1m, adjusted for non-cash items, including unrealised changes in valuations. Group debt is £206m post a further £52.4m of acquisitions in FY08, well within £265m of committed facilities, with gearing and interest cover comfortably below existing loan covenants.

### Valuation: Underpinned by safe yield and secure niche

Portfolio valuations reflect the pressure on other UK commercial property, with a £13m revaluation deficit expected for H208. There was a further upward shift in the valuation yield to 5.9% and while a further rise can not be ruled out, other aspects, ie rental values, voids and tenant security, remain intact. The shares are underpinned by a secure, attractive yield and a DCF appraised portfolio value of 421p per share.

Price 292p  
Market Cap £98m

#### Share price graph



#### Share details

Code PHP  
Listing FULL  
Sector Real Estate (UK-REIT)  
Shares in issue 33.59m

#### Price

52 week High 325p Low 237p

#### Balance Sheet as at 30 June 2008

Debt/Equity (%) 158  
NAV per share (p) 373.4  
Net borrowings (£m) 198

#### Business

Primary Health Properties invests in primary healthcare property, let to GPs, PCTs and other NHS entities backed by the UK government. This tenant profile provides an exceptionally secure revenue outlook.

#### Valuation

	2007	2008e	2009e
P/E relative	25%	224%	179%
P/CF	6.5	7.2	5.5
EV/Sales	10.7	16.0	14.0
ROE	19%	7%	8%

#### Revenues by geography

	UK	Europe	US	Other
100%	0%	0%	0%	0%

#### Analyst

Roger Leboff 020 3077 5700  
rleboff@edisoninvestmentresearch.co.uk

## Investment summary: Patient profit building

---

### Company description: UK-REIT focused on primary care assets

Primary Health Properties (PHP) is a dedicated healthcare real estate investment trust (REIT). It invests exclusively in primary healthcare property, an asset class that generates one of the most secure rental streams available from UK commercial property. Around 90% of group rents are derived from GPs (reimbursed by the NHS), ie effectively UK government risk; with the balance mainly pharmacies co-located within its properties. This type of property is in relatively short-supply while the portfolio has an exceptionally low risk profile, ie 99.5% let at an average lease length of over 18 years unexpired.

### Valuation

The shares are well supported by a secure, growing dividend yield, underpinned by rental growth and the group's UK-REIT status, which obliges it to distribute 90% of its tax exempt profits. The shares stand at a 5% discount to our FY08 NAV/share estimate. External valuations are subject to further volatility, but NAV is supported by further increases in rent and the probability that recent falls in interest rates will limit further rises in investment yields. However, we take the view that the group's infrastructure style revenues are well suited to a DCF appraisal. Our appraised NPV of the property portfolio, at 421p/share, provides further support.

### Sensitivities

The group's track record as a leading investor in this niche suggests that the operational risks are minimal. Valuations have nonetheless been impacted by the malaise affecting the UK commercial property sector generally, although in this case, PHP's focus on a single, highly secure asset class represents a compelling and defensive business model. The NAV impact of any adjustments to external valuations is, however, amplified by the group's geared balance sheet and further, investment yield led declines in valuations cannot be ruled out in 2009. Recent interest rate falls should limit the impact, but will result in material (non-cash) reductions in the mark-to-market value of the swap portfolio in FY08. Due to its focus on a niche, highly secure asset class, the portfolio does not appear to be vulnerable to the major factors that continue to negatively impact the UK's commercial real estate industry, while the opportunities for further acquisitions and enhancement of its properties remain intact.

### Financials

The financial model is relatively uncomplicated. The business pivots on a secure, visible and growing rental stream, derived mainly from UK government backed long-dated tenancies, which covers administrative costs, management fees and debt servicing. The nature of PHP's UK-REIT status means that it will distribute 90% of its tax exempt profits as dividends. The balance sheet remains robust, with scope for further additions to the portfolio. The group is comfortably meeting its debt service and loan-to-value covenants. We estimate the latter at 64% (FY08e) vs a 75% agreed limit, which provides some cushion against further markdowns in portfolio values. PHP paid a 10% increase in dividends for FY08; we forecast a 3% increase for FY09.

## Company description: Secure property investment

---

Primary Health Properties is a leading investor in primary healthcare property in the United Kingdom. These assets are leased predominantly to GPs, Primary Care Trusts (PCTs), health authorities and other associated healthcare users. The advantages of this asset class include a secure revenue profile and strong prospects for growth in rents and capital values. PHP has one of the sector's longest track records. It was founded in 1994 by its current CEO, Harry Hyman, and has been listed in London since 1996 (Main Market 1998).

### Business activities

The group is a traditional property investor. It divides its business activities into three areas, each dedicated to the expansion and enhancement of its property portfolio:

<b>Investment Acquisitions</b>	Acquisition of new, state of the art medical centres, via forward purchase agreements with developers or purchases of complete and let properties in the open market.
<b>Sourcing New Investment/ Development Opportunities</b>	Working with GPs and PCTs in the Primary Care sector to explore new and innovative ways to procure primary care development and estates expansion within the NHS.
<b>Proactive Management</b>	Adding value to the existing portfolio through lease renewals, rent reviews and lease re-gearing to maximise the investment returns, for the benefit of both shareholders and tenants.

### Management and fees

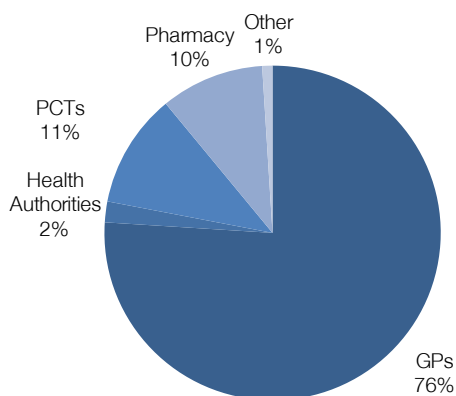
The group is jointly managed by Nexus PHP Management Limited and J O Hambro Capital Management Limited. The Nexus group specialises in the health and education sector. In addition to its role as joint manager of PHP, it manages an unquoted property fund that invests in nursery schools, a corporate finance business and publishes two magazines, HealthInvestor and, from early 2009, EducationInvestor. Nexus PHP Management Limited is responsible for identification of properties, negotiation of purchases and provision of property management services, including the MD and property director. J O Hambro CML provides administrative and accounting services.

<b>Annual Fees</b>	1% of the first £50m of gross assets, thereafter 0.75% of gross assets in excess of £50m.
<b>Performance Incentive Fee</b>	<p>The joint managers are also entitled to a performance incentive fee (PIF) of 15% of any performance in excess of 8% pa increase in the total return.</p> <p>The total return is determined by calculating the change in NAV/share adding back gross dividends. If the total return is less than 8%, any deficit has to be made up in subsequent years before any PIF is paid.</p>

## Investment strategy

PHP acquires freehold and long leaseholds of modern, purpose built primary healthcare properties. The existing portfolio comprises 112 properties (including six under development) let to exceptionally secure tenants, ie c 99% of the rent roll derived directly or indirectly from the NHS, GPs, PCTs and pharmacy operators. Recent performance at review, ie rent increases of 3.65% pa, underlines the prospects for continued rental growth that will, in turn, flow through to dividends.

### Exhibit 1: Tenant profile by rent contribution

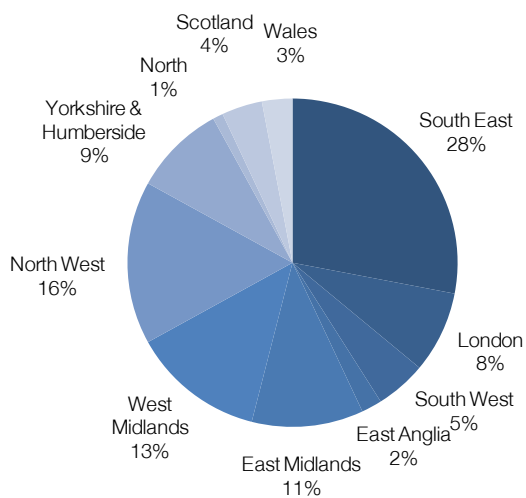


Source: Primary Health Properties documents

## Portfolio

The portfolio was valued at £353m at the interim stage, including commitments. The mid year annualised rent roll was £18.6m, 16% ahead relative to end December, a combination of rent review and further acquisitions during H108.

### Exhibit 2: Geographical spread



Source: Primary Health Properties documents

## Recent portfolio activity

PHP does not undertake greenfield development, but works closely with specialist Primary Care developers to create new and thus pre-let investments for acquisition. In addition to the purchase of completed investments in the open market, PHP also directly sources new development opportunities and enters into forward purchase agreements. It has links with a number of developers with good pipelines and has in addition, reviewed a number of situations to take advantage of the benefits of its tax exempt UK-REIT status to acquire companies with material capital gains tax liabilities.

Exhibit 3 illustrates the group's ability to acquire at relatively consistent initial yields, sufficient to provide a surplus relative to borrowing costs and enhance prospects for capital and dividend growth, particularly post recent sharp falls in UK interest rates. The group still has facilities available and scope for further enlargement of its portfolio.

**Exhibit 3: Recent transactions**

Date	Size £m	Details of property acquired/transaction	Tenant	Initial rent £m pa	Initial yield % pa
Dec 2008	4.40	New medical centre in Treharris, Mid Glamorgan, South Wales, expected to be completed in spring 2010.	Two local NHS trusts/ GP practices, pharmacy and Rhondda CynonTaff Local Health Board.	N/A	
Nov 2008	9.60	Purchase and funding agreements for new medical centre in Clwyd, North Wales, scheduled for completion in February 2010.	Three GP practices & NHS Trust	N/A	
May 2008	2.60	New medical centre in Coalville Leicestershire.	GP practice/pharmacy	N/A	
May 2008	15.60	New medical centre in Port Talbot.	GP practices, NHS Trust, pharmacy, PCT	N/A	
May 2008	4.50	A new medical centre in Belper Derbyshire.	GP practice/pharmacy	N/A	
April 2008	7.96	A new medical centre in Cullompton, Devon.	Devon PCT, GP practice, pharmacy	N/A	
Jan 2008	7.75	Two newly built medical centres in Cheshire, at Shavington and Northwich.	GP practices, PCT and pharmacy	0.45	5.7
Dec 2007	4.20	New medical centre in Sale, Manchester.	GP practice/pharmacy	N/A	
Sep 2007	1.60	New medical centre in Loudwater, Bucks.	GP practice	0.10	6.0
Sep 2007	2.10	A modern purpose built medical centre in Waterloo, Huddersfield.	GP practice/pharmacy	0.12	5.7
July 2007	7.00	Two modern purpose built primary medical facilities in North Yorkshire.	GP/PCTs, ambulance service, pharmacy.	0.40	5.7
Mar 2007	2.90	New medical centre in Kirkintilloch, Scotland.	GP practice	0.16	5.5
Mar 2007	2.90	New medical centre in Paisley, Scotland.	GP practice/pharmacy	0.16	5.5
Mar 2007	6.70	New medical centre in Lossiemouth, Scotland.	GP practices/pharmacy	0.38	5.7
Mar 2007	2.10	New medical centre in Morriston, South Wales.	GP practice/pharmacy	0.12	5.8
Mar 2007	3.60	New medical centre in Sandown, Isle of Wight.	GP practice/pharmacy	0.21	5.7
Mar 2007		Placing and open offer at 430p/share to raise £38.6m net.			
Jan 2007	1.60	Modern medical centre in Wednesbury, West Midlands.	GP practice/pharmacy	0.10	6.1
<b>Jan 2007</b>		<b>Conversion to UK-REIT</b>			
Dec 2006	39.20	Acquisition of Cathedral Healthcare Holdings Ltd for total cash consideration of £39.225m. Nine primary healthcare facilities across the UK to be incorporated into PHP portfolio.		2.00	5.1

Source: Primary Health Properties RNS

## Industry background: Primary healthcare property

---

**We regard the outlook for this asset class as more stable than that for UK commercial property generally. There is relatively limited supply of new, purpose built accommodation for the supply of primary care services, while nearly all new space is developed on a pre-let basis. With little or no speculative development, the sector is not subject to the endemic cyclical oversupply problems experienced by other sectors of the UK property market.**

In addition to government backing, long leases and steady rent increases on review, there has typically been relatively modest turnover of medical centres, relative to other classes of commercial property. This has generally been due to limited supply, market domination by a small number of specialist funds and a preference by some developers to hold newly let properties as investments.

The dynamics that drive investment in and the value of primary care properties pivot upon government strategy to increase the efficiency and cost effectiveness of patient care.

### Wanless Report: Proposals for investment in UK health estate

UK government reports have identified a structural shortage of the type of property in which PHP invests. The 2002 Wanless Report 'Securing Our Future Health: Taking a Long-Term View' set out an assessment of the resources required to provide high-quality health services in the future. This identified what would be required to first catch up and then keep up with other developed countries that had moved ahead of the UK over recent decades.

The report illustrated considerable differences in expected cost depending upon the ability of health services to be more productive and let patients fully engage with their own health. It identified the resources needed to improve access to service and supply, including IT support and renewing premises. It suggested that the UK's entire primary care estate would need to be upgraded or replaced over the following decade, a process likely to require total estimated investment of c £6bn. With regard specifically to the UK's primary care properties, the report stated that:

- c 80% were below recommended size and over 60% are over 30 years old
- Only 40% were purpose built; 50% were adapted residential buildings or converted shops
- One-fifth were private rented, two-thirds owner occupied and the remainder NHS owned, and
- Less than 5% of premises were co-located with a pharmacy.

Progress relative to the Wanless Report was reviewed in September 2007. This established that since 2001, some 3,000 GP surgeries have been substantially refurbished or replaced and around 625 new, one-stop primary care centres created, with plans for a further 125 by end 2008. The update, however, doubted that the government would meet its objective to upgrade the remaining 7,500 properties by 2010/11.

In June 2008 the government published a study undertaken by Lord Darzi, 'Our NHS our Future: NHS next stage review', which, *inter alia*, identified a need for at least 100 further GP surgeries and 150 new polyclinics. This is expected to drive further expenditure on the primary care estate.

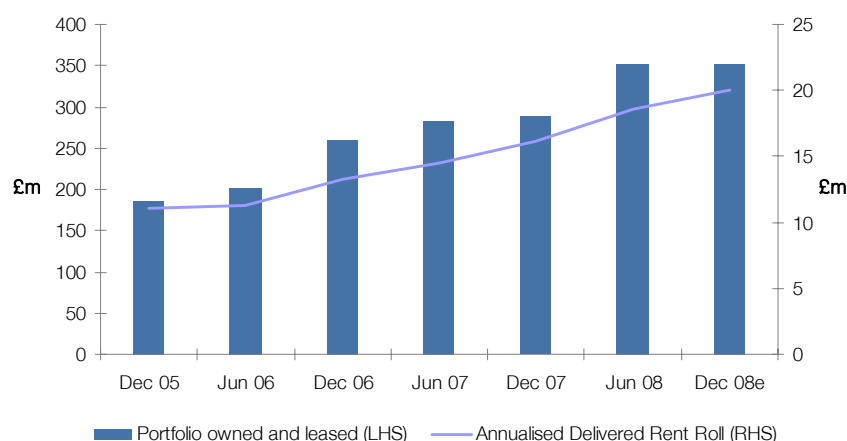
## Financials

Group finances are relatively uncomplicated. Secure rental income is derived from strong tenant covenants on long leases. This covers the cost of fixed rate borrowings, management charges and dividends. As a UK-REIT, PHP's profits do not attract UK corporation tax or CGT.

Nonetheless, year-on-year comparison is difficult as the last reported figures (FY07) covered an 18-month period, the final 12 months of which was PHP's first as a UK-REIT. This adds further one-offs, ie the adoption of UK-REIT status resulted in the release of £29.6m of deferred tax liabilities and a £5.1m REIT conversion charge, payable over four years. Finally, there was also a £5.5m goodwill write-off post the purchase of Cathedral Healthcare Holdings Ltd.

A better illustration is provided by the pro-forma P&L for the 12 months to end December 2007 contained in the FY07 accounts, which showed a 29% increase in rents y-o-y. Another illustration of the group's steady progress against its strategic objectives is given in Exhibit 4 below, with stable performances by portfolio valuations and rents, particularly relative to the current backdrop for UK, and indeed global, property markets.

### Exhibit 4: Portfolio value & Annualised Rent Roll



Source: Primary Health Properties accounts, Edison Investment Research estimates

### P&L: Strong underlying growth, unrealised write-downs

The fundamentals for primary care property remain sound. PHP achieved average rent increases of c 4% pa during FY07 and maintained this performance in FY08. Opportunities to enhance revenues are continually appraised; PHP may extend properties where adjacent land is available.

During Q308 PHP took delivery of three completed fully let investment properties and in November and December entered into purchase and funding agreements for the acquisition of two new medical centres in Wales for c £14m, scheduled for completion in H1 2010.

### Conversion to UK-REIT: Tax & dividend benefits

Post its conversion to a UK-REIT from January 2007 the group is exempt from UK tax on the income and capital gains from its property rental business, including property developed or acquired where the intention at the outset is to retain the building as an investment property.

The move further underlined the commitment to progressive dividend growth, although it already had a strong track record in this regard. In order to retain its tax-exempt status, a UK-REIT must distribute as dividends 90% of its tax exempt profits (as calculated for tax purposes). PHP is not, however, required to distribute any gains on disposal of properties that are part of that business.

## **Balance sheet: Resilient outlook relative to other UK property**

### **External valuations reflect market pressure**

The UK property market has been under pressure since the group converted to a UK-REIT. PHP's specific investment niche is not affected by most of the factors behind markdowns in values of the UK's business premises or retail centres, such as tenant failure or oversupply. In its case, valuation adjustments have largely reflected changes in the views of external valuers with regard to relevant investment yields. These have increased from 5.0% (December 2006) to 5.55% (June 2008) and 5.9% at end December 2008, according to PHP's recent trading update. We have assumed a further small increase to 6.1% by end 2009, reflected in our FY09e forecasts.

### **Borrowings**

Group year end borrowings were c £206m, well below its aggregate facilities of £265m (£255m on a term basis, £10m overdraft). The term facilities are not due for renewal/repayment until January 2013 and provide the resources for further investments in the current market.

Under the UK-REIT legislation and the covenants within the group's banking facilities, PHP must satisfy an interest cover ratio (exempt profits/finance costs) of 1.25x which, was 2.1x at the end of June. The maximum gearing available to the group under its Articles of Association is 75% of gross assets vs 63% for FY08, according to PHP's recent trading update.

### **Interest rate hedges**

PHP maintains a relatively high level of cover against its variable interest rate borrowings. In September 2008, it entered into a three-year swap, with a deferred start, at a rate of 4.915% to cover £10m of its principal debt. As at end 2008, the group had fixed rate cover of £193m, which included £88m of callable swaps reviewed on a quarterly basis, ie the next call date in February 2009. As interest rates decline the board believes that there will be opportunities to secure keener lending rates and it will actively pursue opportunities in this regard.

The swaps mitigate exposure to interest rate risk but mark-to-market movements on the swaps portfolio are taken through the P&L. This can add material volatility to declared profits, as the value of the derivative portfolio fluctuates with movements in term interest rates and in the case of the callable swaps, market volatility. Although these are unrealised adjustments (not cash items), in a period of rapidly declining interest rates, headline profits and NAV will be adversely affected.

At June 2008, the derivative portfolio was valued at £5m, but a mark-to-market deficit of £28.4m is expected for FY08, post recent sharp reductions in long-term interest rates. The FY09 outcome will depend upon the direction of interest rates this year, but we have stripped out the MTM impact on swaps from our NAV/share calculation, in line with European Public Real Estate Association (EPRA) guidelines, which exclude fair value adjustments for debt and related derivatives.

## Sensitivities

---

### External valuations

The group's quasi-government tenant and rent profile provides a fundamentally stable revenue outlook and removes a number of the variables that affect typical property investment businesses. Although the UK property market has been under considerable pressure since the group became a UK-REIT in January 2007, its specific investment niche is not affected by issues such as tenant failure or oversupply, which have driven down valuations of commercial business premises or retail centres. Nonetheless, valuations of primary care property have seen material declines, with others in the sector, such as Assura, similarly reporting increases in valuation yields to c 6%.

The group's portfolio is externally valued every six months. In a volatile market it is difficult for valuers to establish accurate figures, particularly in the absence of the volumes of comparable transactions upon which they rely in a normal market. Portfolio valuations have fallen as external valuers have taken a more pessimistic outlook, reflected in the choice of investment yield, which during FY08 has increased from 5.35% to 5.9% for PHP's portfolio overall. Group NAV remains vulnerable to further such yield movements, as these are determined by valuers according to their view of risks and the prevailing market rate, ie comparable transactions. The impact should, however, gradually be mitigated by recent falls in market interest rates.

### Borrowings: Loan covenants and interest rate swaps

Group borrowings are at variable rates, but PHP has entered into interest rate swaps and other financial instruments to mitigate its exposure to variations in market interest rates. Conversely, this exposes the group to a notional P&L hit due to the accounting for mark-to-market valuations of swap contracts. Although this is a non-cash item, there is nonetheless potential for the value of the outstanding contracts to fall further in line with lower interest rates.

Group borrowings are subject to a number of covenants. Under the terms of its loan agreements, the group must maintain an interest cover (rent/interest charges) ratio of 1.3/1; this was running at 2.1/1 at the interim stage. Under UK-REIT legislation, the group must satisfy a separate interest cover ratio (exempt profits/finance costs) of 1.25/1, which was 1.8/1 at the mid year.

### Maintaining UK-REIT status

The group's status as a UK-REIT depends upon its compliance with the relevant conditions. A UK-REIT is required to distribute at least 90% of the profits from its property rental business (eg profits from leases rather than disposals) in each accounting period. Assuming that it meets the criteria, all property profits, both income and capital gains on disposal are exempt from UK taxation.

### Limited execution risk

The group enters into development loan agreements with third party developers in respect of certain properties under development. The group will in each case have entered into contracts to purchase the properties under development when they are completed in accordance with the terms of the contracts. The loans are repayable at the option of the developer at any time, or in the event that the building work is not completed, in accordance with the purchase contracts.

## Valuation: Secure dividend, rent & portfolio outlook

---

The current 5.7% prospective dividend yield is underpinned by (1) UK-REIT status, which obliges PHP to distribute 90% of its tax exempt profits and (2) an inherently secure cashflow profile, ie rents subject to indexation and secured by long leases and in the case of the 90% of passing rent represented by NHS lettings, effectively guaranteed by the UK government.

### Revenue outlook remains positive

We see strong probability of steady revenue growth over the medium term, certainly better than for most classes of commercial property in the UK. Firstly, there is minimal risk of void or default, due to the blue chip, mainly government backed tenants that occupy the properties. The rents on that portion of the portfolio (10%) that is not quasi government risk is let to pharmacies (9%) and other entities (1%) such as dentists and physiotherapy clinics that directly benefit from co-location or attachment to the primary care facility.

Rent reviews are typically carried out on a rolling three-year basis, by the district valuer's office due to the reimbursement to the doctor's practice by the NHS. Over the past 18 months rents have risen by, on average, 3.6% pa. We would argue that the outlook is for further growth of this scale, because of the short supply of such property due both to demand factors, such as the need for further upgrade and modernisation of the way in which healthcare is delivered in the UK, restrictions on planning consents for new centres which act to limit direct competition.

### Portfolio valuation: Market volatility, but helped by interest rate cuts

Net asset value is based upon an external valuation carried out by Lambert Smith Hampton every six months. The only meaningful variable in this calculation remains the choice of investment yield. Although this moved out to 5.9% by end 2008, further rises should be tempered by recent falls in interest rates. Other components of portfolio valuations, such as assessment of tenant strength and rental values, have remained stable for primary care property assets.

The overall value represents the aggregate of the appraisal of individual properties and in a normal market it could also be argued that it would be appropriate to attach a premium, arguably 5-10% to the valuation, should the portfolio be available for acquisition as a single lot.

### DCF support at 421p/share

The portfolio's secure and visible revenue profile is well suited to a discounted cash flow appraisal. We have assessed the portfolio's long-term, largely government-backed revenues at 421p per share, using a 7% discount rate, compared with the 3.7% prevailing long gilt return, and similarly assessed the terminal value of the portfolio at the end of a 20-year period, assuming steady investment yields and repayment of associated debt.

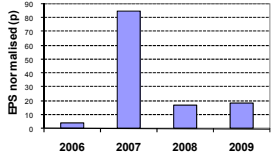
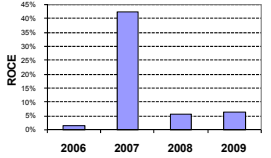
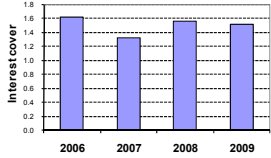
This assumes continuing demand from primary health/NHS occupiers for medical centres and, therefore, renewal of leases on similar terms, subject to possible renewal or refurbishment of buildings and other facilities.

**Exhibit 5: Financials**

Note: 2006 year to June. 2007 18-month period to December.

	£'000s	June 2006 UK GAAP	(18 mths) 2007 IFRS	2008e IFRS	2009e IFRS
Year end 31 December					
<b>PROFIT &amp; LOSS</b>					
<b>Revenue</b>		<b>11,131</b>	<b>22,209</b>	<b>18,750</b>	<b>21,400</b>
Cost of Sales		0	0	0	0
Gross Profit		11,131	22,209	18,750	21,400
<b>EBITDA</b>		<b>8,843</b>	<b>14,412</b>	<b>15,624</b>	<b>17,953</b>
<b>Operating Profit (before GW and except.)</b>		<b>8,843</b>	<b>14,412</b>	<b>15,624</b>	<b>17,953</b>
Intangible Amortisation		0	(5,551)	0	0
Exceptionals		0	0	0	0
Other		0	0	0	0
<b>Operating Profit</b>		<b>8,843</b>	<b>8,861</b>	<b>15,624</b>	<b>17,953</b>
Net valuation gain on property portfolio		14,997	1,107	0	0
Net Interest		(5,437)	(10,844)	(10,000)	(11,800)
<b>Profit Before Tax (norm)</b>		<b>3,406</b>	<b>3,568</b>	<b>5,624</b>	<b>6,153</b>
<b>Profit Before Tax (FRS 3)</b>		<b>18,403</b>	<b>(876)</b>	<b>5,624</b>	<b>6,153</b>
Tax		(2,466)	20,485	0	0
<b>Profit After Tax (norm)</b>		<b>940</b>	<b>24,053</b>	<b>5,624</b>	<b>6,153</b>
<b>Profit After Tax (FRS 3)</b>		<b>15,937</b>	<b>19,609</b>	<b>5,624</b>	<b>6,153</b>
Average Number of Shares Outstanding (m)		22.7	28.3	33.6	33.6
EPS - normalised (p)		4.1	85.0	16.7	18.3
EPS - FRS 3 (p)		70.3	69.3	16.7	18.3
Dividend per share (p)		13.5	15.0	16.5	17.0
Gross Margin (%)		100.0	100.0	100.0	100.0
EBITDA Margin (%)		79.4	64.9	83.3	83.9
Operating Margin (before GW and except.) (%)		79.4	64.9	83.3	83.9
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>205,188</b>	<b>290,095</b>	<b>316,727</b>	<b>315,421</b>
Investment properties		199,569	282,495	312,879	315,421
Development properties		0	2,853	3,848	0
Other incl. derivative interest rate swaps		5,619	4,747	0	0
<b>Current Assets</b>		<b>5,018</b>	<b>8,101</b>	<b>9,050</b>	<b>9,745</b>
Stocks		0	0	0	0
Debtors		1,033	4,186	5,000	5,500
Cash		3,973	3,862	4,000	4,200
<b>Current Liabilities</b>		<b>(5,325)</b>	<b>(11,281)</b>	<b>(10,075)</b>	<b>(10,600)</b>
Creditors		(5,325)	(11,281)	(10,075)	(10,600)
Short term borrowings		0	0	0	0
<b>Long Term Liabilities</b>		<b>(133,556)</b>	<b>(162,838)</b>	<b>(236,000)</b>	<b>(235,700)</b>
Long term borrowings		(112,363)	(159,219)	(205,000)	(205,000)
Other long term liabilities		(21,193)	(3,619)	(31,000)	(30,700)
<b>Net Assets</b>		<b>71,325</b>	<b>124,077</b>	<b>79,702</b>	<b>78,866</b>
<b>CASH FLOW</b>					
<b>Operating Cash Flow</b>		<b>8,785</b>	<b>12,743</b>	<b>13,558</b>	<b>17,953</b>
Net Interest		(5,437)	(10,844)	(10,000)	(11,800)
Tax		(34)	(826)	0	0
Capex		0	0	0	0
Acquisitions/disposals		(20,405)	(81,565)	(45,000)	0
Financing		0	41,443	0	0
Dividends		(2,803)	(5,979)	(5,290)	(5,542)
Net Cash Flow		(19,894)	(45,028)	(46,732)	611
<b>Opening net debt/(cash)</b>		<b>87,688</b>	<b>108,390</b>	<b>155,357</b>	<b>201,000</b>
HP finance leases initiated		0	0	0	0
Other		(808)	(1,939)	1,089	(411)
<b>Closing net debt/(cash)</b>		<b>108,390</b>	<b>155,357</b>	<b>201,000</b>	<b>200,800</b>

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
			Litigation/regulatory	○
			Pensions	○
			Currency	○
			Stock overhang	○
			Interest rates	◐
			Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics	Company details		
EPS CAGR 05-09e	N/A	ROCE 08e	5.6	Gearing 08e	252	Address: 2nd Floor Griffin House West Street Woking GU21 6BS	
EPS CAGR 07-09e	N/A	Avg ROCE 05-09e	6.0	Interest cover 08e	1.6		
EBITDA CAGR 05-09e	N/A	ROE 08e	7.1	CA/CL 08e	0.9		
EBITDA CAGR 07-09e	11.6	Gross margin 08e	N/A	Stock turn 08e	N/A	Phone	01483 749020
Sales CAGR 05-09e	N/A	Operating margin 08e	83.3	Debtor days 08e	97.3	Fax	01483 749021
Sales CAGR 07-09e	N/A	Gr mgn / Op mgn 08e	N/A	Creditor days 08e	195	www.phpgroup.co.uk	

Principal shareholders	%	Management team
Nexus	6.3	<b>MD: Harry Hyman</b> A chartered accountant and member of the Association of Corporate Treasurers. He has been PHP's MD since he founded the group in 1994. He was previously with Baltic plc, involved in property development and structuring mezzanine funding. He is also founder and MD of Nexus Structured Group Holdings of which Nexus PHP Management Limited is a subsidiary. Also a non-exec director of General Medical Clinics PLC and other companies.
Legal & General	5.1	
Axa	4.9	
Aberdeen	4.6	
Montanaro	3.2	
UBS	3.1	
		<b>Non-Executive Director: Jamie Hambro</b>
		Chairman of J O Hambro Capital Management Group Limited and its subsidiaries and corporate entities, including J O Hambro Capital Management Limited. He is also a director of Singer and Friedlander AIM 3 VCT PLC and Hansteen Holdings PLC.
Forthcoming announcements/catalysts	Date *	<b>Non-Executive Chairman: Graeme Elliot</b> Appointed to the board in February 1996. He was formerly executive vice chairman of Slough Estates PLC prior to which he held senior positions at Rio Tinto PLC.
Prelim results	March 2009	
AGM	June 2009	
Interim results	August 2009	
<i>Note: * = estimated</i>		

## EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading independent investment research company. With a team of 50 including over 30 analysts supported by a department of supervisory analysts, editors and assistants, Edison writes on more than 200 companies across every sector. Working directly with corporates, investment banks and fund managers, Edison's research is read by every major institutional investor in the UK, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority.

## DISCLAIMER

Copyright 2009 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Primary Health Properties and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.

## Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk  
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.