



2015 interim results presentation  
May 2015

A photograph of the Highcroft Medical Centre building. The building is a modern, multi-story structure with a light-colored facade and large windows. The name 'Highcroft Medical Centre' is prominently displayed in white lettering on a dark horizontal band above the glass entrance. A person is walking past the entrance in the foreground, and there are young trees and greenery in front of the building.

Highcroft Medical Centre

# Agenda

1. Introduction
2. Portfolio review
3. Key financials
4. NHS and primary care update
5. Investment opportunity



# Introduction

Specialist primary healthcare infrastructure fund



## MedicX Fund Objectives and overview



- ✘ Leading investor in modern purpose-built primary healthcare properties leased to doctors and the NHS generating government-funded long term secure cash flow
- ✘ FTSE All Share £302 million<sup>1</sup> market capitalisation
- ✘ Fund not a developer or operator
- ✘ External investment adviser
- ✘ Guernsey based investment company
- ✘ Objective of dividend and capital growth

<sup>1</sup>As at 19 May 2015

## MedicX Fund Highlights in the period



- ✘ Total shareholder return of 5.4% for the six month period<sup>1</sup>
- ✘ 24.8% increase in EBITDA to £13.8 million<sup>2</sup> (31 March 2014: £11.0 million)
- ✘ Dividend cover of 67% for the six month period<sup>3</sup> (31 March 2014: 48%)
- ✘ Capital appreciation of the portfolio of £13.6 million less £0.8 million of purchasers costs incurred on acquisitions generating a revaluation gain for the six months of £12.8 million
- ✘ New committed investment and approved investments since 1 October 2014 of £17.2 million
- ✘ £535.5 million committed investment in 141 primary healthcare properties an increase of 3% in the period (30 September 2014: £518.2 million, 137 properties)<sup>4,5</sup>
- ✘ Annualised rental growth of 1.7% on reviews completed in the year
- ✘ New thirteen and a half year £50 million loan note at a fixed rate of 3.838%

<sup>1</sup>Based on share price growth between 30 September 2014 and 31 March 2015 and dividends received during the period

<sup>2</sup>Excluding (as appropriate) revaluation gains £12.8m and finance costs £6.8m

<sup>3</sup>Dividend cover excludes revaluation gains, performance fee and fair value on reset of loans.

<sup>4</sup>As at 19 May 2015

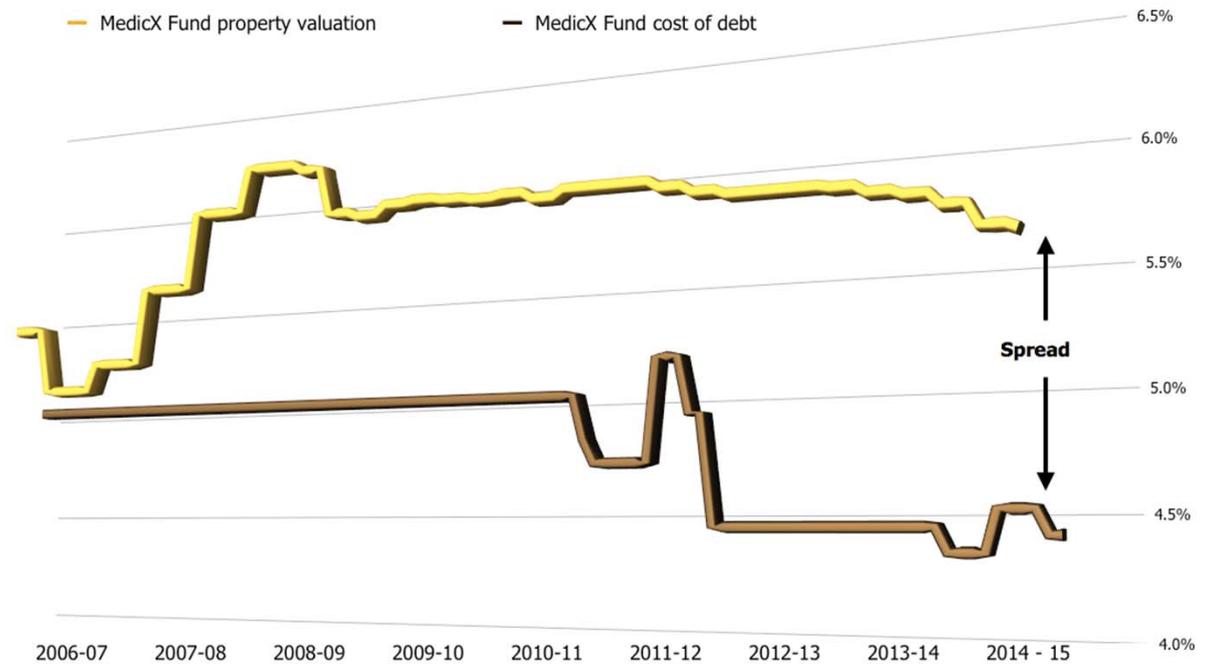
<sup>5</sup>Includes completed properties, properties under construction and committed investment

## MedicX Fund Robust financial position



### Property yield vs borrowing cost

- ✘ Committed investment **£535.5m<sup>1</sup>**
- ✘ Property valuation yield **5.57%<sup>2</sup>**
- ✘ Adjusted NAV **68.8p<sup>2</sup>**
- ✘ Adjusted NAV plus debt **61.5p<sup>2</sup>**
- ✘ Average lease term **15.4 years<sup>1</sup>**
- ✘ Total drawn debt facilities **£291.5m<sup>2</sup>**
- ✘ Average cost of debt **4.42%<sup>1</sup>**
- ✘ Average debt term **14.0 years<sup>1</sup>**
- ✘ Adjusted gearing **49.7%<sup>2</sup>**
- ✘ Average property age **7.2 years<sup>1</sup>**



<sup>1</sup>As at 19 May 2015  
<sup>2</sup>As at 31 March 2015

## MedicX Fund Value drivers



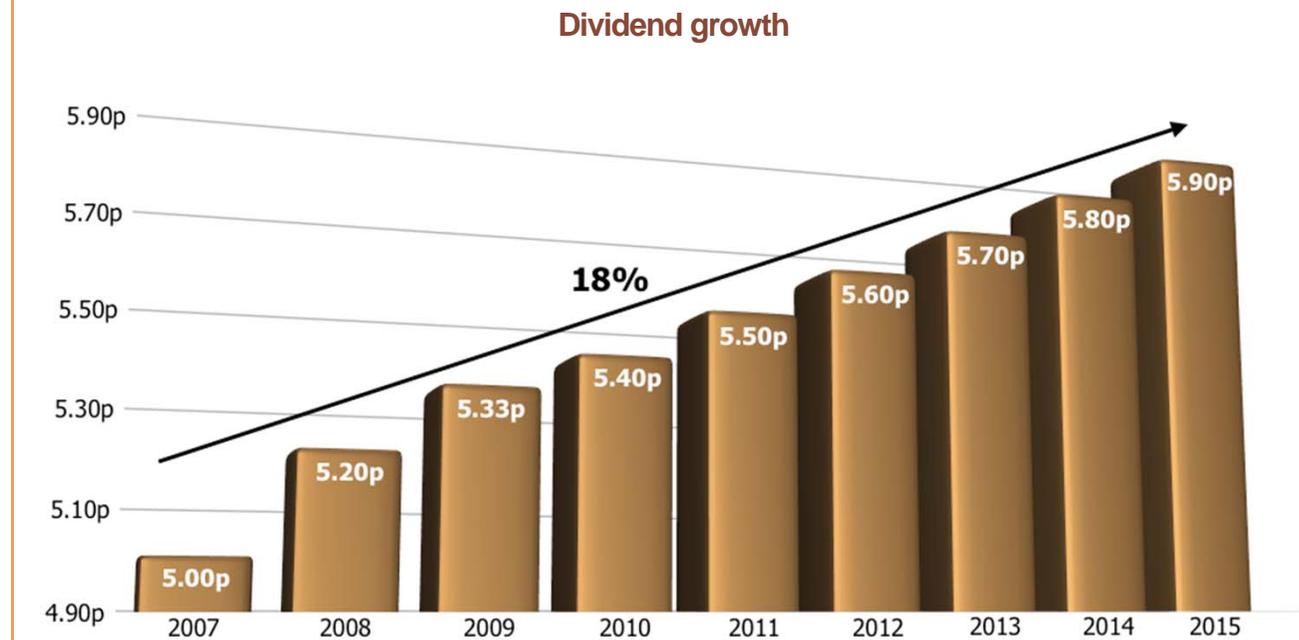
<b>Investment quality</b>	✓	£17.2 million of new property invested with 19.2 year average unexpired lease term
<b>Financing capability</b>	✓	Sector leading financing structure
<b>Asset management</b>	✓	14 active initiatives £1.4 million rent reviews agreed in the period with the equivalent of an average 1.7% per annum increase
<b>Cost control and scale</b>	✓	Fees continue to reduce with scale
<b>Performance record</b>	✓	10.5% per annum average total shareholder return over last five years
<b>Transparency and clarity</b>	✓	Low risk model is clearly understood by investors, building confidence and enhancing valuation
<b>Dividend</b>	✓	Dividend paid increased from 5.8p to 5.9p

## Shareholding returns

Continuing to deliver consistent returns



	Dividends and share price growth
Mar 2015	5.4% <sup>1</sup>
Sept 2014	12.0% <sup>2</sup>
Sept 2013	13.1%
Sept 2012	9.0%
Sept 2011	9.4%
Sept 2010	8.6%
Sept 2009	10.8%



✘ 10.5% per annum average total shareholder return over last five years

<sup>1</sup>Share price as at 31 March 2015 85.0p; Shareholder return 1 October 2009 to 31 March 2015

<sup>2</sup>As at 30 September 2014

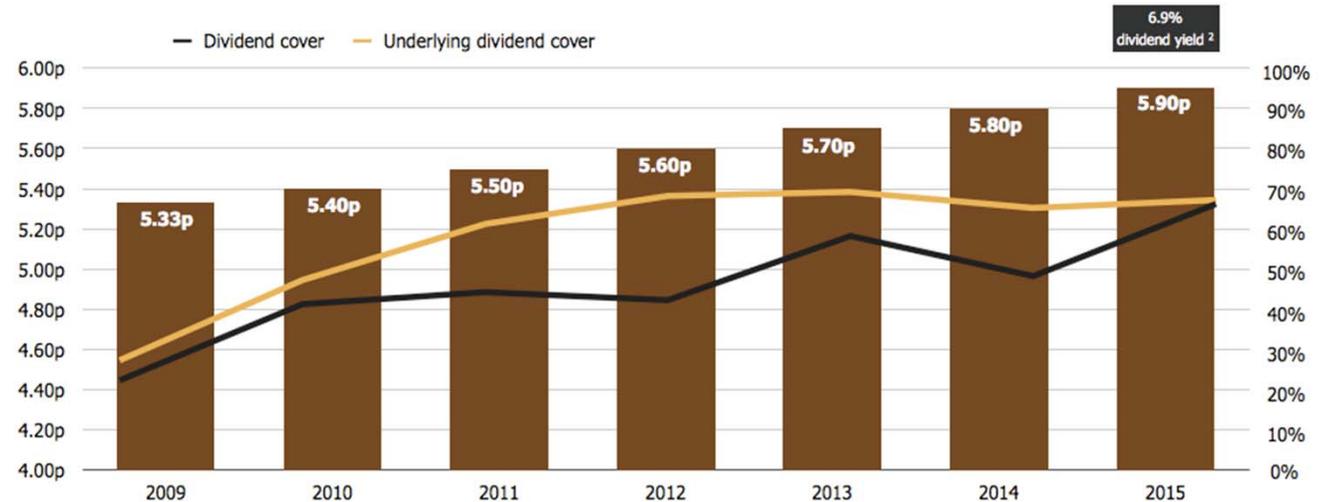
## Dividends

### Progressive dividend policy



- ✘ Dividend cover of 67% for the first half of the year
- ✘ On full investment at 5.5% and 60% gearing, underlying dividend cover<sup>3</sup> would be c.73%

	Yield (%)
Dividend <sup>1</sup>	5.9p
Share price <sup>2</sup>	85.0p
Yield on share price	6.9%



	Sept 2011 dividend	Mar 2012 dividend	Sept 2012 dividend	Mar 2013 dividend	Sept 2013 dividend	Mar 2014 dividend	Sept 2014 dividend	Mar 2015 dividend
Scrip take up	4%	9%	12%	10%	9%	22%	12%	14%

<sup>1</sup>For the financial year ended 30 September 2015

<sup>2</sup>As at 31 March 2015

<sup>3</sup>Underlying dividend cover is adjusted to reflect completion of the properties under construction



# Portfolio review

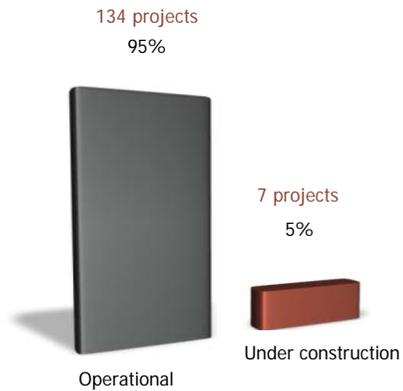
Specialist primary healthcare infrastructure fund



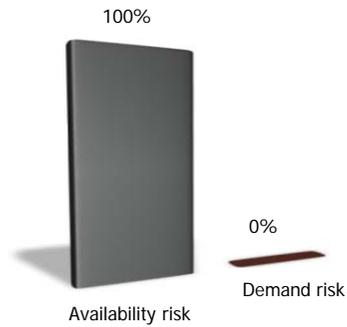
# Portfolio of modern purpose built assets Portfolio review<sup>1</sup>



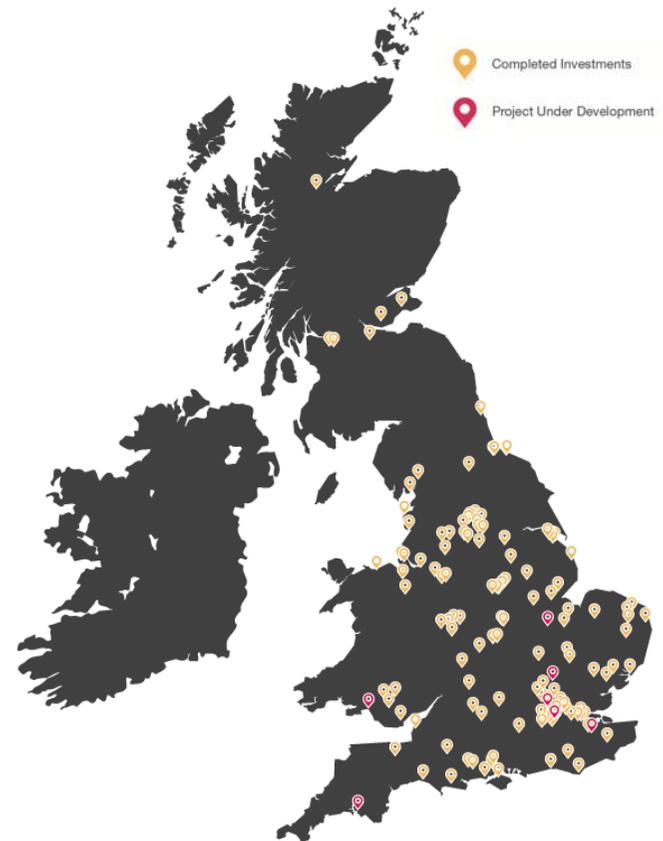
## 141 assets



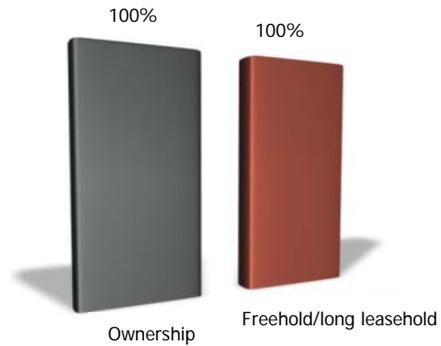
## Contractual certainty of income



## Portfolio geographical spread



## Security of tenure



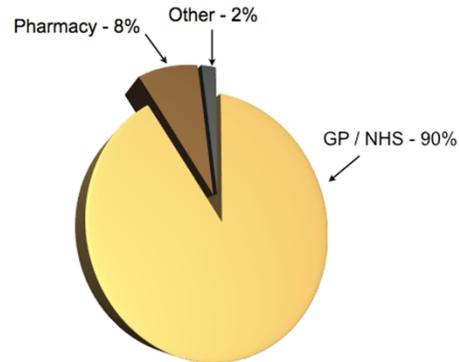
<sup>1</sup>As at 19 May 2015

# Portfolio of modern purpose built assets

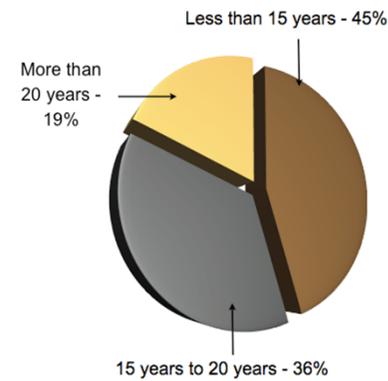
## Portfolio review<sup>1</sup>



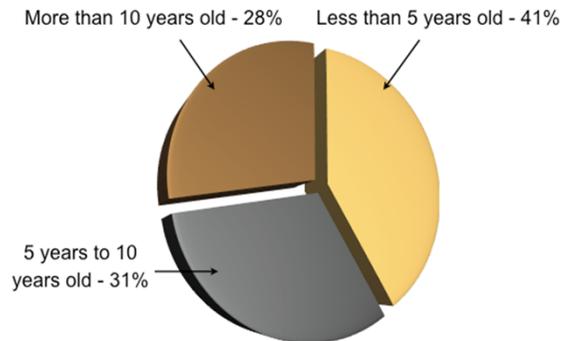
**Security of income by tenant type**



**Security of income by lease expiry**

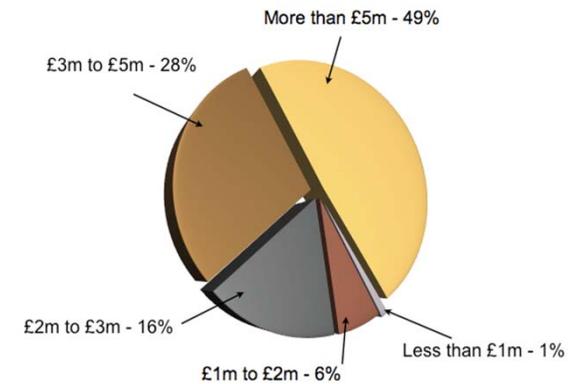


**Modernity of assets**



- Average unexpired lease term 15.4 years<sup>2</sup>
- Average age 7.2 years<sup>2</sup>
- Average value £3.9 million<sup>2</sup>

**Value per property**



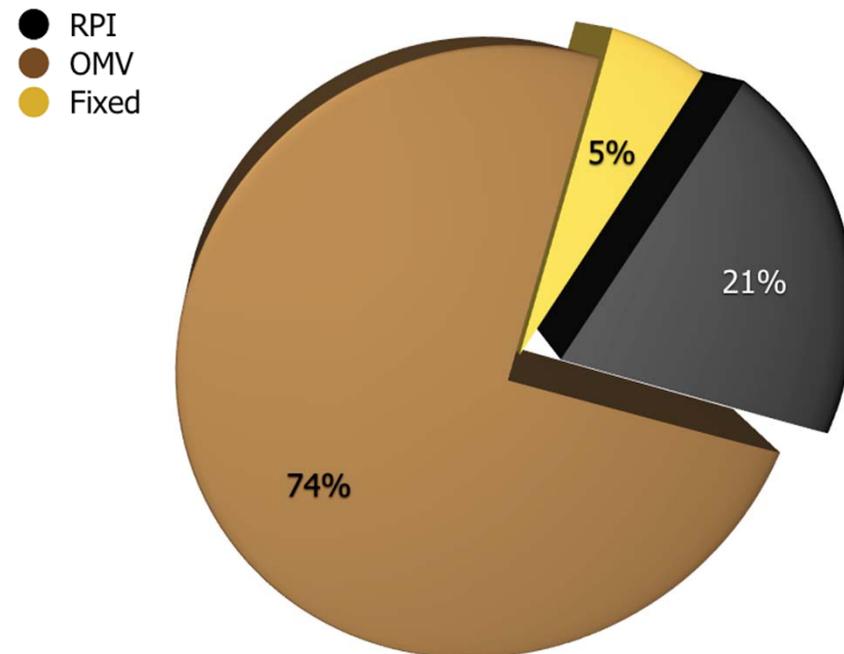
<sup>1</sup>As at 31 March 2015; includes completed value of properties under construction  
<sup>2</sup>As at 19 May 2015; includes completed value of properties under construction

## Portfolio of modern purpose built assets Rental growth<sup>1</sup>



- ✘ Total rent roll £33.9 million
  - ✘ £32.2 million completed
  - ✘ £1.7 million under construction
- ✘ £14.4 million passing rents under negotiation<sup>2</sup>
- ✘ £1.4 million rent reviews agreed during the period<sup>3</sup>
- ✘ Equivalent to 1.7% per annum increase achieved
  - ✘ 1.4% open market reviews
  - ✘ 2.9% RPI uplifts
- ✘ Continued pressure on open market reviews

Rent review profile



<sup>1</sup>As at 19 May 2015

<sup>2</sup>As at 31 March 2015

<sup>3</sup>Period from 1 October 2014 to 31 March 2015

## Rent reviews by period<sup>1</sup>

Consistent rental growth over time



	Year to Sept 07	Year to Sept 08	Year to Sept 09	Year to Sept 10	Year to Sept 11	Year to Sept 12	Year to Sept 13	Year to Sept 14	Period to Mar 15
Passing rents agreed	£1,814,809	£1,134,357	£3,198,193	£2,785,382	£3,237,636	£4,122,166	£2,347,994	£2,430,324	£2,347,994
Annualised increase	3.1%	2.4%	2.0%	2.3%	2.1%	2.1%	2.1%	2.2%	2.7%
- Open market reviews	3.0%	1.8%	2.0%	2.2%	1.6%	1.1%	1.5%	1.5%	n/a
- RPI	3.8%	3.9%	1.4%	2.6%	4.6%	3.4%	3.4%	2.7%	2.7%
- Fixed uplifts	n/a	2.5%	2.5%	n/a	2.5%	2.5%	n/a	2.7%	n/a
Passing rents to be agreed	-	-	-	£140,500	£471,100	£2,002,531	£3,440,154	£4,227,993	£4,115,327

<sup>1</sup>Based on review date falling due in the year ending 30 September

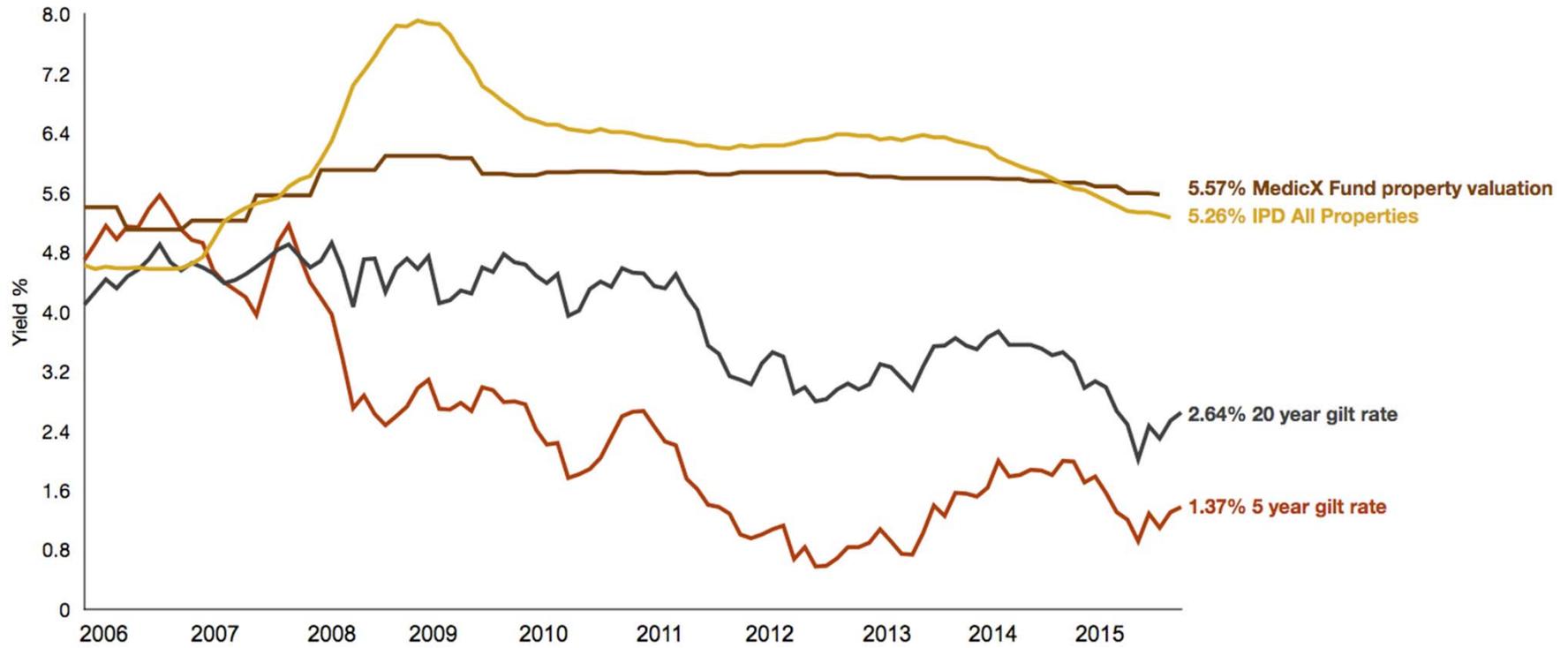
Acquisitions since October 2014  
 Total investment of £17.2 million in 4 properties



Acquisition	Developer	Investment £m	Properties
Kingsbury	GPI	4.8	1
Maidstone	GPI	7.0	1
Streatham	Intra Urban	2.9	1
Northampton	MPA	2.5	1



# MedicX Fund Property valuation yields stable<sup>1</sup>



<sup>1</sup>MedicX Fund property valuation as at 31 March 2015, IPD data as at 30 April 2015 and Gilt rate data as at 19 May 2015



# Key financials

Specialist primary healthcare infrastructure fund



## Key financials

### Income statement



	6 months to 31 Mar 2015 £000	6 months to 31 Mar 2014 £000	Change
Rent receivable	16,652	13,415	24%
Other income <sup>1</sup>	382	436	(12)%
<b>Total income</b>	<b>17,034</b>	<b>13,851</b>	<b>23%</b>
Direct property costs <sup>2</sup>	892	718	24%
Investment advisory fee	1,845	1,593	16%
Overheads	514	497	3%
<b>Total expenses</b>	<b>3,251</b>	<b>2,808</b>	<b>16%</b>
<b>EBITDA</b>	<b>13,783</b>	<b>11,043</b>	<b>25%</b>
Finance income	26	301	(91)%
Finance costs	6,786	6,636	2%
<b>Adjusted earnings<sup>3</sup></b>	<b>7,023</b>	<b>4,708</b>	<b>49%</b>
Valuation gain	12,767	4,810	165%
<b>Adjusted earnings including valuation gain</b>	<b>19,790</b>	<b>9,518</b>	<b>108%</b>

<sup>1</sup>Including loss on disposal of property

<sup>2</sup>Including property management fees

<sup>3</sup>Adjusted to exclude revaluation gain, deferred taxation, performance fees, fair value adjustments for financial instruments and exceptional costs

## Key financials

### Balance sheet



	As at 31 Mar 2015 £000	As at 31 Mar 2015 Pence per share
Investment properties	527,436	144.8
Debt	289,499	79.5
Cash	23,925	6.6
Net debt	265,574	72.9
Adjusted NAV <sup>1</sup>	250,596	68.8
Adjusted NAV plus debt MtM <sup>1</sup>	223,954	61.5
DCF	340,584	93.5

	As at 31 Mar 2015	Restrictions / covenants
Adjusted gearing <sup>1</sup>	50%	75%
Aviva debt service interest cover <sup>2</sup>	204%	140%
Aviva loan to value <sup>2</sup>	60%	75%

<sup>1</sup>Adjusted to exclude goodwill, deferred tax not expected to crystallise, financial derivatives and the excess of the fair value to the reset cost of the Aviva PMPI loans

<sup>2</sup>Relate to £100 million Aviva loan only

## Key financials

### Debt funding



- ✘ Average all-in fixed rate of debt of 4.42% and an average unexpired term of 14.0<sup>1</sup> years, close to unexpired lease term of the investment properties
- ✘ In addition, there is a £25 million revolving loan facility with the Royal Bank of Scotland Plc which at current rates is expected to cost 3%

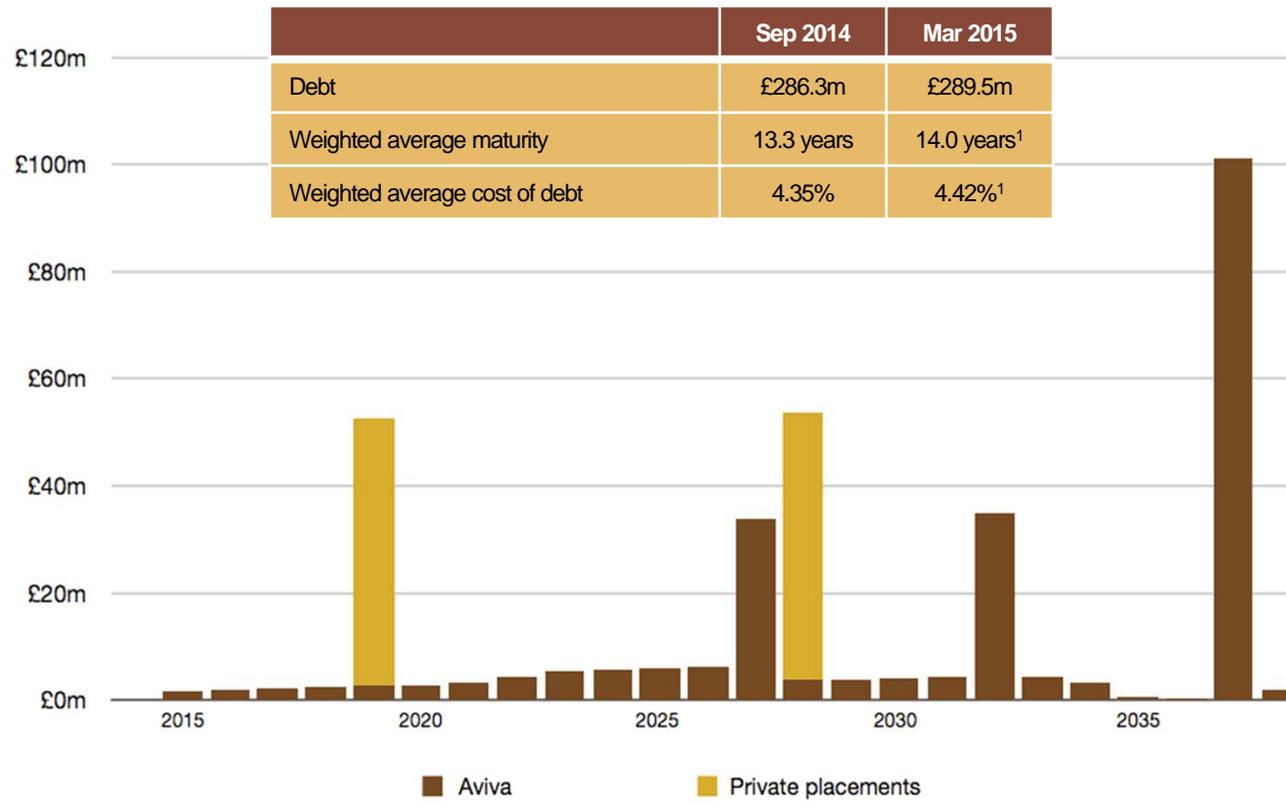
	Aviva £100m facility	Aviva £50m facility	Acquired Aviva facilities - PMPI	Acquired Aviva facilities - GPG	Private placement	Private placement
Facility size	£100 million	£50 million	£62.5 million	£34.6 million	£50.0 million	£50.0 million
Committed	December 2006	February 2012	July 2012	May 2013	August 2014	April 2015
Drawn	£100 million	£50 million	£62.5 million	£31.3 million	£50.0 million	£25.0 million
Expiry	December 2036	February 2032	February 2027 <sup>2</sup>	November 2032 <sup>2</sup>	August 2019	September 2028
Interest rate (incl. margin)	5.01%	4.37%	4.45%	4.47%	3.80%	3.84%
Hedging activities	n/a	n/a	n/a	n/a	n/a	n/a
Loan to value draw down	60%	54%	n/a	n/a	64%	65%
Repayment terms	Interest only	Amortises from year 11 to £30 million at year 20	Amortising	Amortising	Interest only	Interest only
Interest cover covenant	140%	110%	104% <sup>2</sup>	103%	150%	150%
Loan to value covenant	75%	75%	n/a	n/a	67%	67%

<sup>1</sup>As at 19 May 2015

<sup>2</sup>Based on the major facility acquired

## Key financials

### Long term debt position



<sup>1</sup>As at 19 May 2015



# NHS and primary care update

Specialist primary healthcare infrastructure fund



NHS and primary care update  
Political and NHS perspectives



**Jeremy Hunt**  
**13 May 2015**

- ✘ Extra £8 billion per year by 2020 increased spending on key development areas
- ✘ 5,000 more GPs in the next five years
- ✘ 7 day 8-8 service from primary care
- ✘ Same day appointments for the over 75s
- ✘ Online access for all patients
- ✘ Full electronic records by 2018

**David Cameron**  
**18 May 2015**

- ✘ **The government accepts that there will be a £30 billion funding gap by 2020**
- ✘ **They recognise that they will have to make at least £22 billion of 'efficiency savings'**
- ✘ **Free at the point of delivery for all services**
- ✘ **New GP contract essential to new working practices for GPs**
- ✘ **The NHS will continue to be the best in the world**

## NHS and primary care update Premises and GP earnings



### Premises

- ✘ BMA review underpins the need for new infrastructure
- ✘ 70% of existing premises regarded as unfit by GPs to expand or sustain services<sup>1</sup>
- ✘ NHS policy focussed on primary care in the community as the focus for care in the future
- ✘ Co-location of services and integration of care being key

### GPs

- ✘ **GP income down by 25% in real terms since the 2004 contract<sup>2</sup>**
- ✘ **1 : 3 GPs feel current workload unmanageable<sup>3</sup>**
- ✘ **Recruitment and retention of GPs at lowest level for 20 years**
- ✘ **GPs need to become more competitive to survive – they can only do that with better premises**

<sup>1</sup>BMA Review of GP Practices 2014

<sup>2</sup>GOnline.com article September 2013

<sup>3</sup>GOnline.com article April 2015



# Investment opportunity

Specialist primary healthcare infrastructure fund



Pipeline<sup>1</sup>  
Pipeline of new opportunities



- ✘ Investment Adviser with proprietary market access and deal flow
- ✘ Forward funding framework with developers Octopus Healthcare Property and GPI
- ✘ Strong pipeline of c.£100 million potential acquisitions when fully developed including £20 million in legals
- ✘ Circa £6 million rent roll
- ✘ 28 properties including 23 from Octopus Healthcare Property and GPI
- ✘ Further completed property acquisition opportunities under review

<sup>1</sup>As at 19 May 2015

## Investment opportunity Conclusion



- ✘ Strong pipeline of c.£100 million potential acquisitions when fully developed
- ✘ Earnings enhanced as MedicX Fund grows
- ✘ Management well placed to take advantage of opportunities
- ✘ Attractive total return proposition and track record
  - ✘ 7.1% dividend yield at 82.75 pence per share
  - ✘ 10.5% p.a. average total shareholder return over last five years<sup>1</sup>

<sup>1</sup>Share price growth plus dividends paid. 2009/10 8.6%, 2010/11 9.4%, 2011/12 9.0%, 2012/13 13.1%, 2013/14 12.0% and 1 Oct 14 to 31 Mar 15 5.4%



# Appendices

Specialist primary healthcare infrastructure fund



**MedicX**  
Fund



# Rental growth prospects

## Supply and demand in primary care



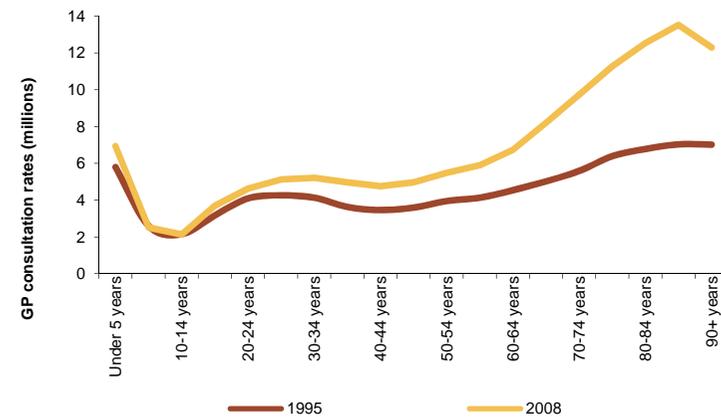
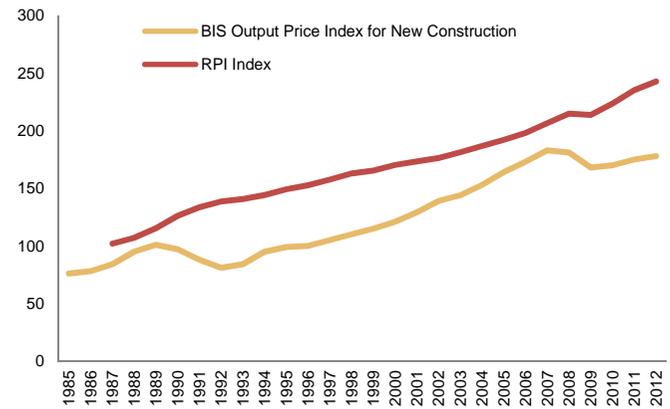
### Rental growth driven by construction costs and new build rental evidence

#### Construction costs<sup>1</sup>

- ✘ Economic activity now increasing
- ✘ The BIS Output Price Index for All Work (2010): all Construction 2nd Quarter 2013 increased by 0.8% on the previous quarter and by 2.9% year-on-year
- ✘ The BIS Output Price Index for New Construction (2010): all New Construction for 2nd Quarter 2013 increased by 0.6% on the previous quarter and by 2.9% year-on-year

#### Demand

- ✘ Increasing pressure for new premises due to low activity for past three years
- ✘ 60% of GPs work from unsuitable premises
- ✘ Commissioners are likely to buy more services at a local level
- ✘ Clinical Commissioning Groups now established and making decisions
- ✘ Over 85's to double from 1.4 million to 2.8 million by 2033<sup>2</sup>



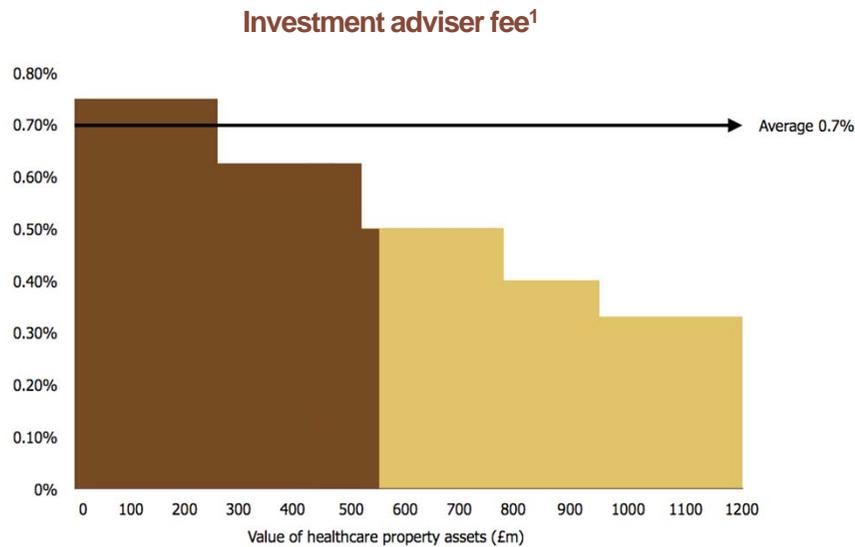
<sup>1</sup>Source: Department for Business, Innovation and Skills (BIS) website, data extracted 27 September 2013

<sup>2</sup>Source: Age UK Later Life in the United Kingdom Report, August 2013

## Investment adviser and property management fee structure Further reductions



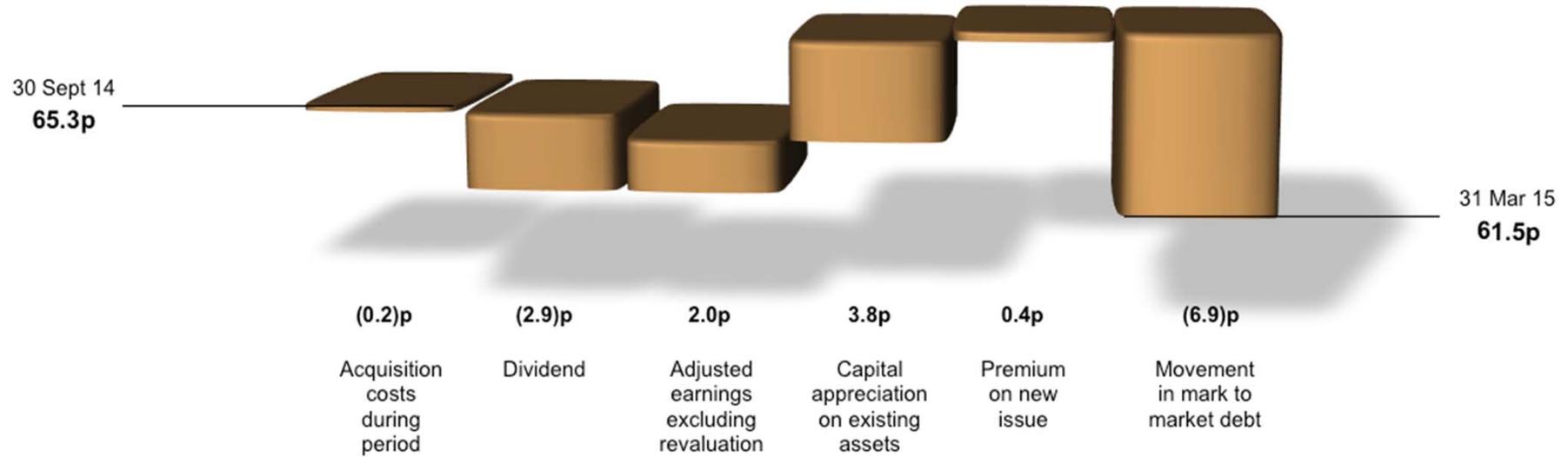
- ✘ Lower investment adviser and property management fees
  - ✘ Fees on healthcare property assets only rather than gross assets (excluding cash)
  - ✘ Reduced investment adviser fee of 0.33% above £1 billion gross assets
  - ✘ Property management fees reduced from 3% to 1.5% above £25 million
- ✘ Incremental fees reduced further as portfolio grows



<sup>1</sup>As at 31 March 2015, based on committed investment of £535.5 million in 141 properties with a £33.9 million rent roll

## Key financials

Adjusted NAV plus debt<sup>1</sup>



<sup>1</sup>Adjusted to exclude goodwill, the impact of deferred tax not expected to crystallise, financial derivatives, and the post year-end impact of resetting debt interest costs

MedicX Fund  
Adjusted NAV plus debt sensitivities<sup>1</sup>



NAV pence per share	Cost of 20 year debt (bps)					
	%	-20	-	+20	+50	+100
Net initial yield	6.25	43.4	45.3	47.1	49.6	53.7
	6.00	48.9	50.8	52.6	55.2	59.2
	5.75	54.9	56.8	58.6	61.2	65.3
	5.57	59.6	61.5	63.3	65.9	69.9
	5.50	61.5	63.4	65.2	67.8	71.8
	5.25	68.7	70.5	72.3	74.9	79.0
	5.00	76.6	78.5	80.3	82.8	86.9

NAV pence per share	ERV					
	%	-1%	-	+1%	+2%	+3%
Net initial yield	6.25	43.8	45.1	46.4	47.8	49.1
	6.00	49.3	50.6	52.0	53.4	54.8
	5.75	55.2	56.7	58.1	59.6	61.0
	5.57	60.0	61.5	63.0	64.5	66.0
	5.50	61.8	63.3	64.8	66.3	67.8
	5.25	68.9	70.5	72.1	73.7	75.2
	5.00	76.8	78.4	80.1	81.7	83.4

<sup>1</sup>As at 31 March 2015

## Key financials DCF NAV sensitivities<sup>1</sup>



### Discount rate

NAV pence per share	Completed					
Under construction	%	6.0	6.5	7.0	7.5	8.0
	6.0	105	100	95	90	86
	7.0	104	99	94	90	86
	8.0	103	98	93	89	85
	9.0	103	98	93	89	84
	10.0	102	97	92	88	84

### Rental and capital value increases per annum

NAV pence per share	Rental					
Capital	%	0.5	1.5	2.5	3.5	4.5
	-1.0	67	72	78	84	91
	0.0	74	80	85	92	98
	1.0	82	88	93	100	107
	2.0	92	97	103	109	116
	3.0	102	108	113	120	127

<sup>1</sup>As at 31 March 2015

# MedicX Fund performance Sector comparison<sup>1</sup>



### Dividend yield



### Share price total return



- MedicX Fund (External investment adviser and investor)
- Assura Group (Internally managed, investor and developer)
- Primary Health Properties (External investment adviser and investor)
- Ashley House (Internally managed and developer)

<sup>1</sup>As at 19 May 2015 – Canaccord Genuity / DataStream

✘ **David Staples, Chairman**

Guernsey based quoted Fund Director (FCA, CTA)

✘ **John Hearle, Director**

Chairman and Head of Healthcare Division of Aitchison Raffety (FRICS)

✘ **Shelagh Mason, Director**

Guernsey based Commercial Property Lawyer and quoted Fund Director

✘ **Steve Le Page, Director**

Guernsey based quoted Fund Director (FCA, CTA)

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