

PRIMARY HEALTH PROPERTIES PLC

"A Dedicated Healthcare REIT"



"The objective of the Group is to generate rental income and capital growth through investment in primary health property in the United Kingdom leased principally to GPs, NHS organisations and other associated health care users."

Harry A Hyman
Managing Director
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18 August 2010

Private and Confidential

Interim Results for 6 months to 30 June 2010

Snapshot



- **Dedicated healthcare REIT paying high quality dividend**
- **Invests in Primary Care property**
- **Only focused on property investment – not a mainstream developer nor a service provider**
- **Strength of covenant of GPs and NHS (90% of rent roll from NHS; balance 90% pharmacy)**
- **100% let at 30/06/10**
- **Supply matches demand in the sector**
- **Average remaining lease length of 17.3 years at 30/06/10**
- **Low risk profile**
- **<1% of market in the UK**
- **Defensive sub sector within real estate**
- **Component of EPRA index at around 1.5% of benchmark**
- **At a share price of £3.00 yield of 5.8% historic**
- **EPRA NAV 304.2p at 30/06/10 (279.9p at 31/12/09)**
- **Triple Net 251.4p at 30/06/10 (247.2p at 31/12/09)**

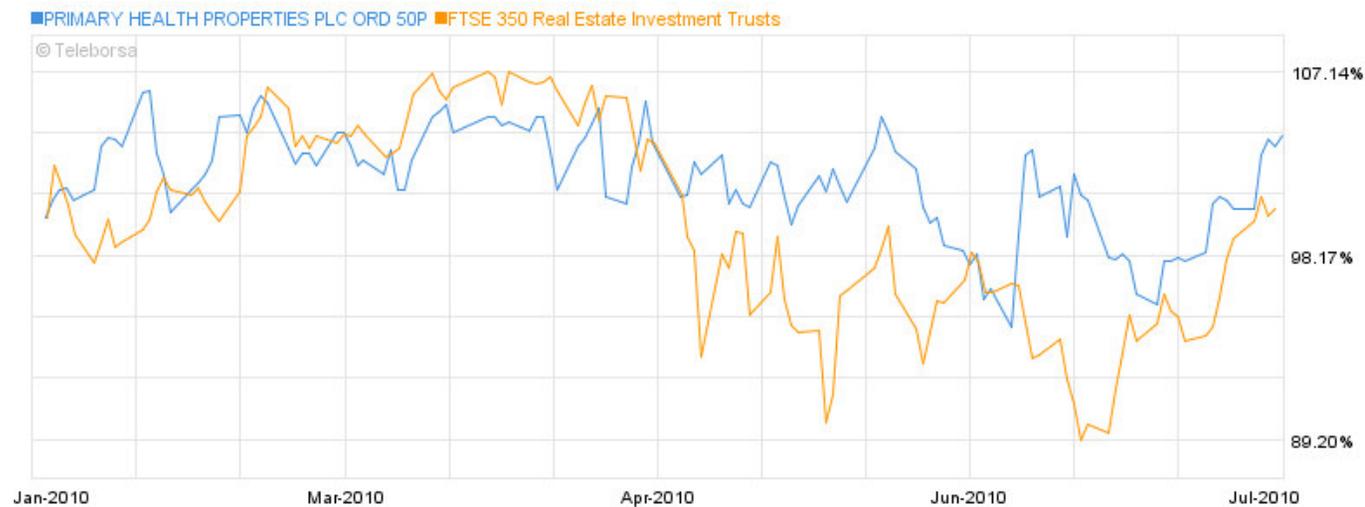
Highlights at First Half of 2010



- **Portfolio at 30/06/10 of £487.8 million including £24.0 million in commitments**
- **Operating profit before revaluation result and fair value gain/loss on derivatives rose from £3.2 million to £4.0 million**
- **Loan to value ratio of 56% at 30 June 2010 against covenant of 70%**
- **Borrowing facilities not due for renewal until 2013**
- **Acquisition of properties totalling £101.1 million during the period**
- **Property revaluation gain of £17.8 million**

10 year share price performance

- PHP was best-performing UK REIT in 2008 (Estates Gazette)
- PHP was best performing property share over last decade (Property Week Dec 2009)



Source: Bloomberg

Eaglescliffe, Sunningdale Drive, Eaglescliffe

Tenants: GP Practice

Date of Purchase: February 2010

NIA: 1,400 sqm

Cost: Part of an acquisition



The Paradigm Shift

From This:

Llandaff North, Cardiff
Tenant: 4 doctor practice
Date of Purchase: 1997
NIA: 473 sqm
Cost: c. £0.71m



To This:

Connah's Quay, Clwyd, North Wales
Tenants: 3 GP Practices, NHS Trust, Pharmacy
Date of completion: July 2010
NIA: 3,450 sqm
Cost: c. £10 m



Sample Properties



Whitely Surgery, Fareham

Tenant(s): GP Practice, pharmacy & complementary therapies suite
Date of Completion: June 2010
NIA: 900 sq m Cost: part of an acquisition



Cowbridge Vale of Glamorgan

Tenant(s): 2 GP Practices, NHS Trust
Date of Delivery: 2010
NIA: 2,450 sq m Cost: c. £6.9m
Developed By: Brackley Investments



Treharris Wales

Tenant(s): GP Practice, NHS Dental service, community Health Services, pharmacy and office accommodation
Date of Delivery: 2010
NIA: 1,544 Cost: c. £4.7m
Developed By: Haven Health Properties Limited



Blackpool, Lancashire

Tenant(s) GP Practice
Date of Delivery: September 2011
NIA: 1,500 sqm Cost: c. £4.1m
Developed By Brackley Investments

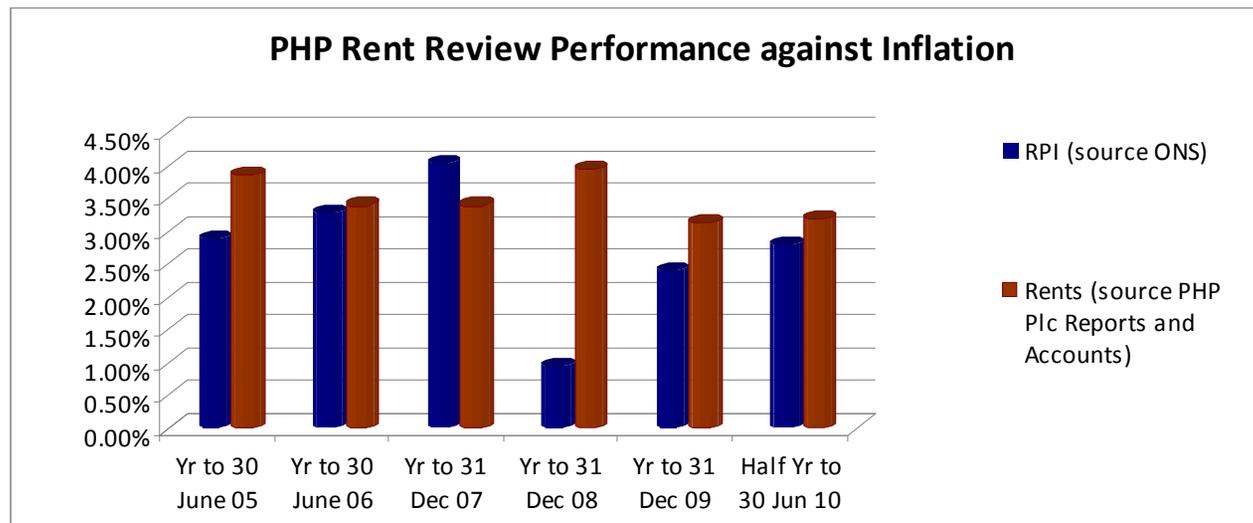
Portfolio Strength



- **Key characteristics**
 - **Average lease length of 17.3 years**
 - **Strong tenant covenant – 90% of rent roll paid for directly/indirectly by the Government**
 - **87% of leases subject to triennial rent reviews - effectively upward only rent reviews**
- **These characteristics result in high visibility cashflows, and yields which have not softened significantly relative to some other companies**
- **PHP's yield had softened to 6.50% and now hardened to 5.75% against 6.0% at previous period end**
- **PHP has outperformed the IPD index**

Rental Increases achieved

- 2010 increases in rents received of 3.2% per annum (3% in 2009)
- % of rent roll on fixed uplift – 1.65%
- % of rent roll index linked – 8.54%
- Balance open market effectively upwards only
- Historically rental increases have broadly tracked RPI increases – see below



Drivers for rental growth



- **Reducing the NHS carbon footprint**
- **Specification creep – see Appendix**
- **Building regulations**
- **Replacement cost**
- **Inflation**

Connahs Quay, Primary Care Resource Centre



- Completed July 2010
- Over 37,000 sq ft NIA
- Natural ventilation utilised wherever possible
- Clinical activities located to maximise use of natural lighting and ventilation
- PIR motion/ heat detectors
- Orientation of building to minimise climatic impact, e.g. solar gain
- 90% of materials achieve A or A+ in 'green guide to specification'
- Green 'sedum' roof increases thermal mass and reduces water runoff

Connahs Quay resource centre



Types of Leases – Full Repairing and Insuring (FRI)



Approximately 76% by rent roll of PHP's leases are FRI and the residue are TIR.

Full Repairing and Insuring (FRI)

- **US “Triple Net” style**
- **Tenants demise includes all building, car park and landscaping**
- **Tenant accepts responsibility for all repairs and maintenance**
- **Tenant refunds PHP's cost of insuring building and 3 yrs loss of rent**
- **PCT/NHS refund tenants costs**
 - **Tenant receives “Current Market Rent” (CMR) plus 5% repairs allowance from PCT/NHS on quarterly basis**
 - **Tenant pays PHP CMR only**
- **Usual 3 yearly effective upwards only rent reviews**

Types of Leases – Tenants Internal Repairing (TIR)



- **Several small differences in division of responsibilities from property to property**
- **Tenant demised internal surfaces of building**
- **Landlord retains structure, foundations and external hard landscaping**
- **Tenant responsibilities limited to internal redecoration, fixtures and fittings**
- **Landlord bears costs of insuring building and 3 yrs loss of rent**
- **PCT/NHS fund estimated costs of Landlords additional burden through rental payments**
 - **Tenant receives CMR plus 5% repairs allowance from PCT/NHS on quarterly basis**
 - **Tenant pays PHP CMR plus 5% repairs allowance, as rent**
- **Usual 3 yearly effective upwards only rent reviews**

Conventional Independent Valuation



- **Portfolio valued every 6 months using Lambert Smith Hampton valuations**
- **Basis is aggregation of INDIVIDUAL values**
- **No “lotting premium” (“portfolio effect”) effect taken into account**
- **Length of leases 18 years + covenant ⇒ defensive characterisation**
- **Rental increases drive valuation increases so not dependent upon yield shift**
- **Achieving good increases around 3% per annum on average**
- **Initial yield of 5.75%. True equated yield of some 6%**

DCF Valuation



- The length of leases produces robust DCF valuations to underpin valuation of PHP
- Additional valuation based on discounted cash flow
- £509 m compared to a market value of £461 m
- £48m increase
- Discounted using 7% per annum (2009: 7%)
- 2.5% rental growth per annum (2009: 2.5%)
- 1% growth in residual values per annum (2009: 1%)
- 67% from rents 33% from residual values

		Annual Rental Growth Assumption				
		0%	1%	2%	2.50%	3%
DCF Rate	6.0%	£496.4	£521.8	£550.1	£565.5	£581.7
	6.5%	£470.5	£494.6	£521.5	£536.0	£551.4
	7.0%	£446.4	£469.3	£494.8	£508.6	£523.2
	7.5%	£424.1	£445.9	£470.1	£483.2	£497.0
	8.0%	£403.3	£424.0	£447.0	£459.4	£472.5

What is the NHS?



- **Statutory responsibility of the Government delegated to the NHS**
- **NHS created in 1948**
- **Healthcare free at point of delivery for anyone in the UK**
- **A national service across the UK population of 62m**
- **Employs 1.4m people**
- **Budget this fiscal year £110 bn**
- **Role of primary care as the gatekeeper**
- **Role of the NHS GP as a physician – a generalist**
- **Commissioned by PCTs to deliver services**
- **Rent reimbursed to GP practices – effectively paid by Government**

The White Paper



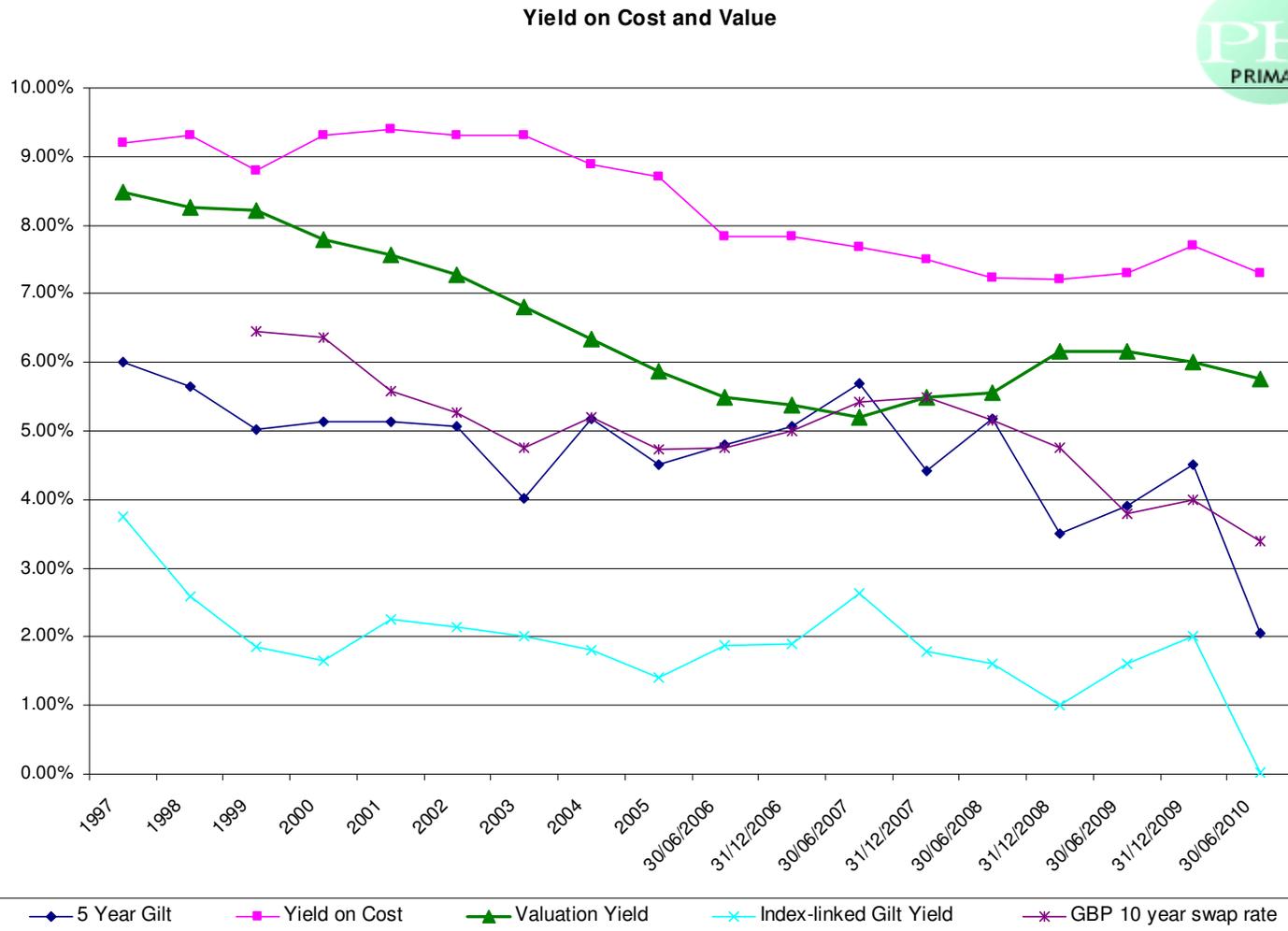
- **The Group welcomes the initiatives announced on 12 July by Secretary of State for Health Andrew Lansley in the Department of Health's White Paper, 'Equity and Excellence: Liberating the NHS'**
- **The White Paper proposes the creation of a regulated market in the purchasing and provision of care via the creation of GP consortia overseen by an independent NHS Commissioning Board and a new economic regulator**
- **The Commissioning Board will take over all aspects of GP and Dentist contracts including premises**
- **PHP believes that the greatly enhanced role of the GP in the provision of NHS services will significantly increase demand for modern purpose-built premises befitting a modern health service environment**
- **PHP is well placed to meet this new demand. The efficient provision of primary care facilities is a key objective that PHP shares with the Government**

The market place



- **The GP is the gatekeeper to the NHS**
- **34,000 GPs in the UK**
- **10,400 surgeries**
- **At least £6 billion of capital required to upgrade (Wanless 2002)**
- **Since 2001 3,000 premises replaced or substantially modified**
- **Paradigm shift**
- **1 million patients visits to GP premises every working day**
- **Darzi report – polyclinics**
- **Moving 5% of activity from secondary care into primary care**
- **Cutbacks likely to affect secondary care more than primary care**

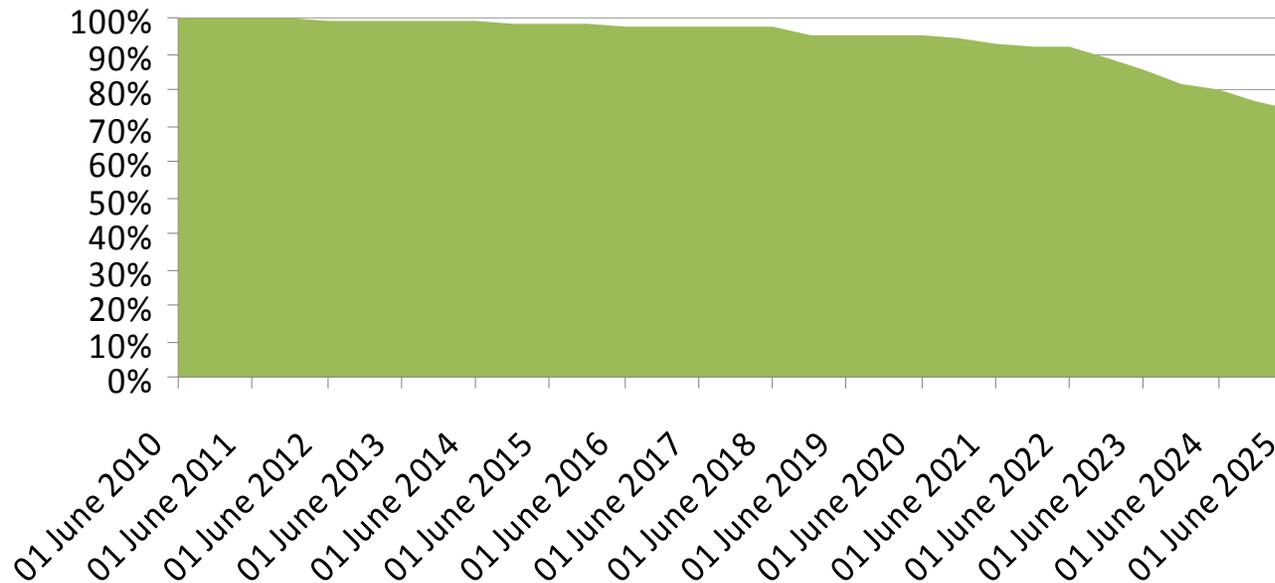
Yield on Cost and Value



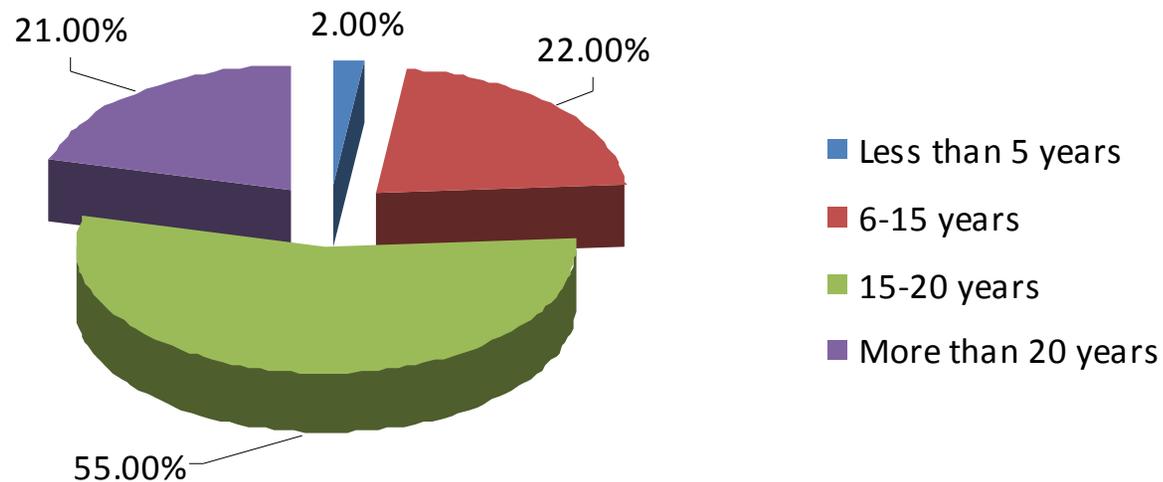
Security of Income by Term Certain



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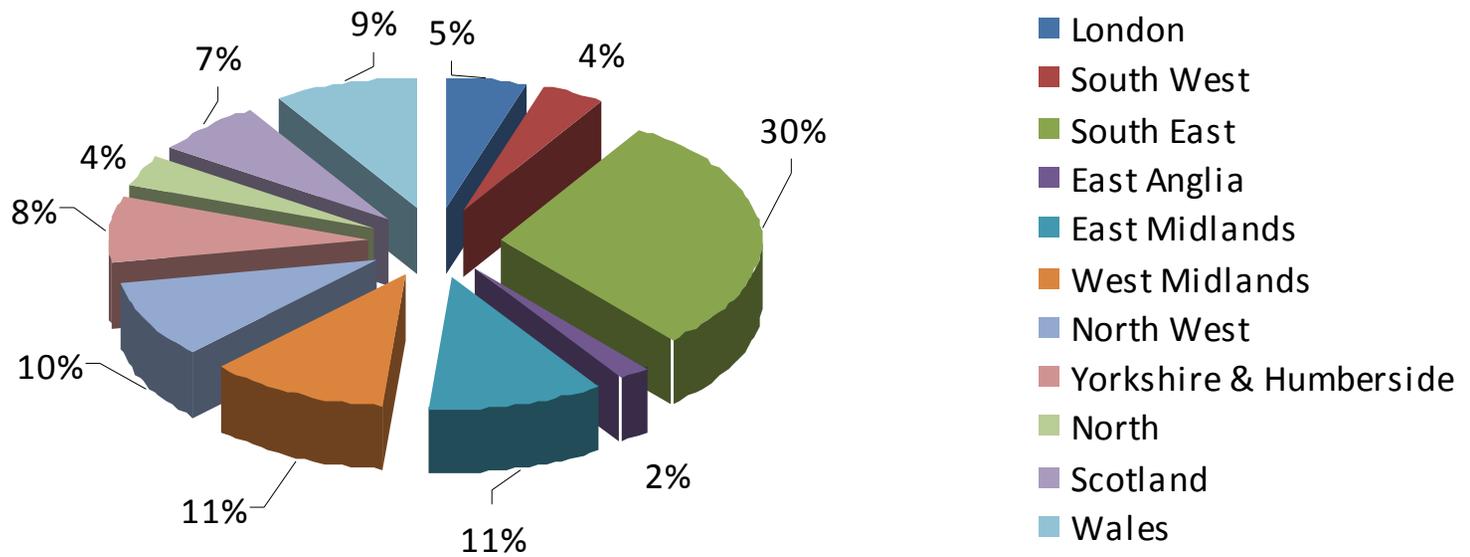
Analysis of Annual Rent by Term Unexpired



76% > 15 years income unexpired

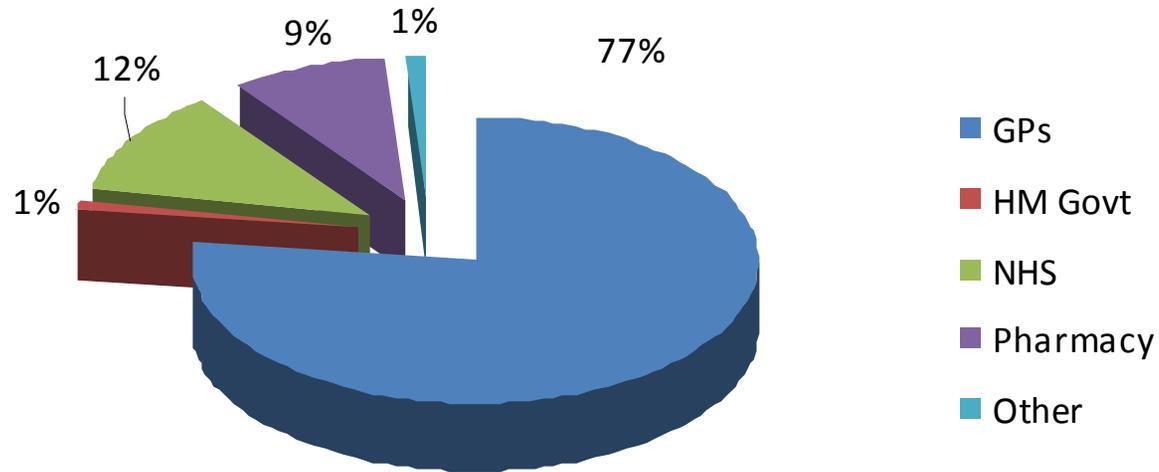
30 June 2010

Annual Rent by Region



30 June 2010

Covenant Analysis of Annual Rent



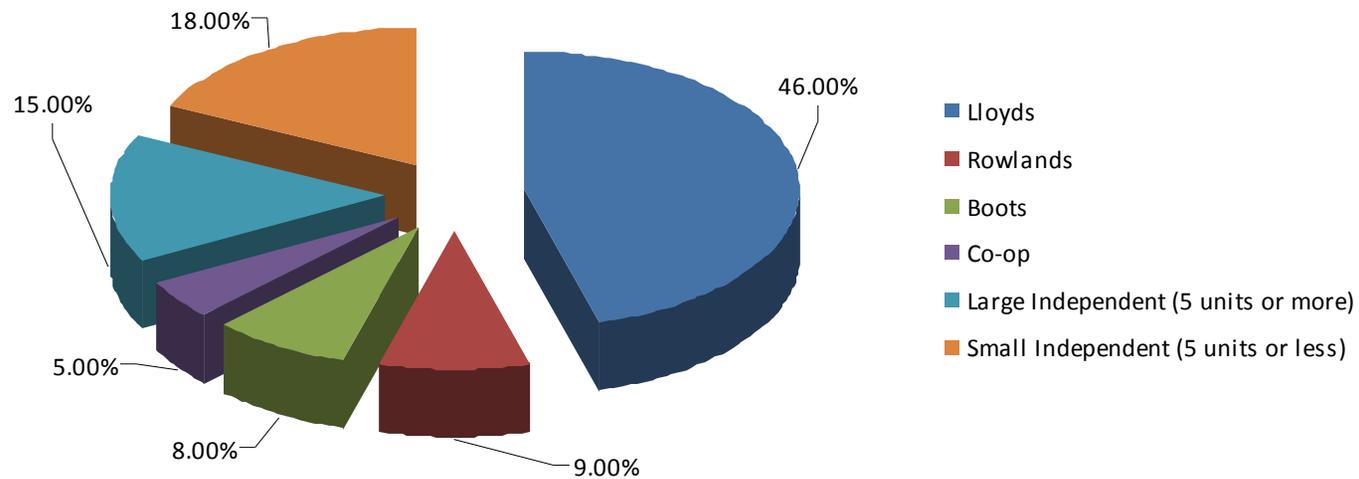
90% directly or indirectly from the Government

30 June 2010

Pharmacy Tenant Spilt By Rent

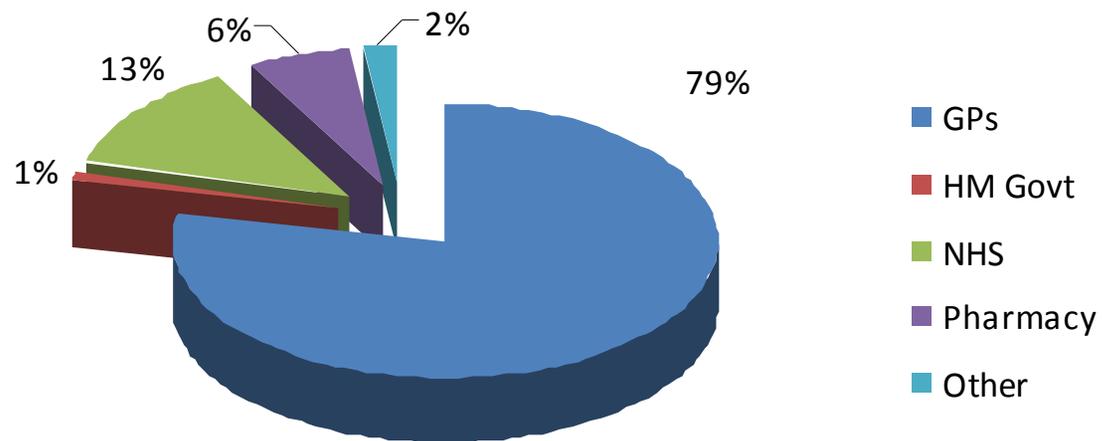


Rental Income by Pharmacy Operator



30 June 2010

Tenancy Split by Floor Area



30 June 2010

Portfolio Rental Levels at 30 June 2010

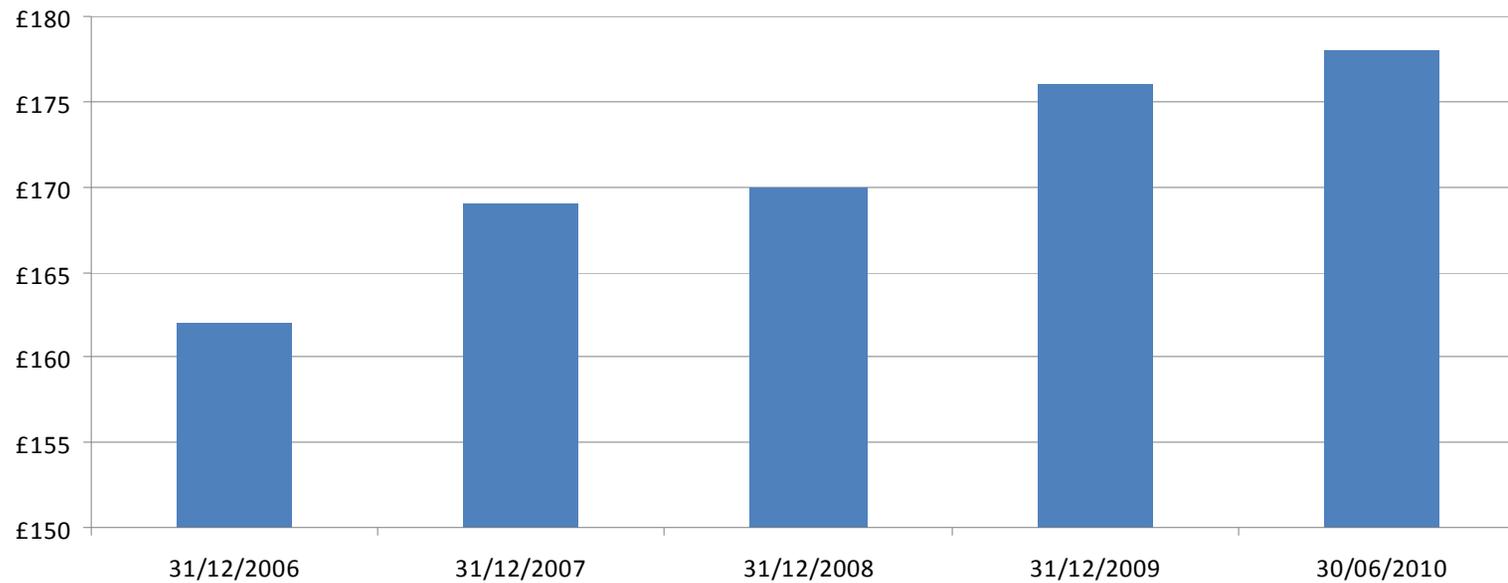


Tenant	Area (sqm)	Area (sq ft)	Rent (£psm)	Rent (£ psf)
NHS	111,365	1,198,744	171	15.87
Pharmacy	7,042	75,801	261	24.25
Other	1,349	14,515	165	15.31
Total	119,755	1,289,060	176	16.36

Rent per sqm & average lease length



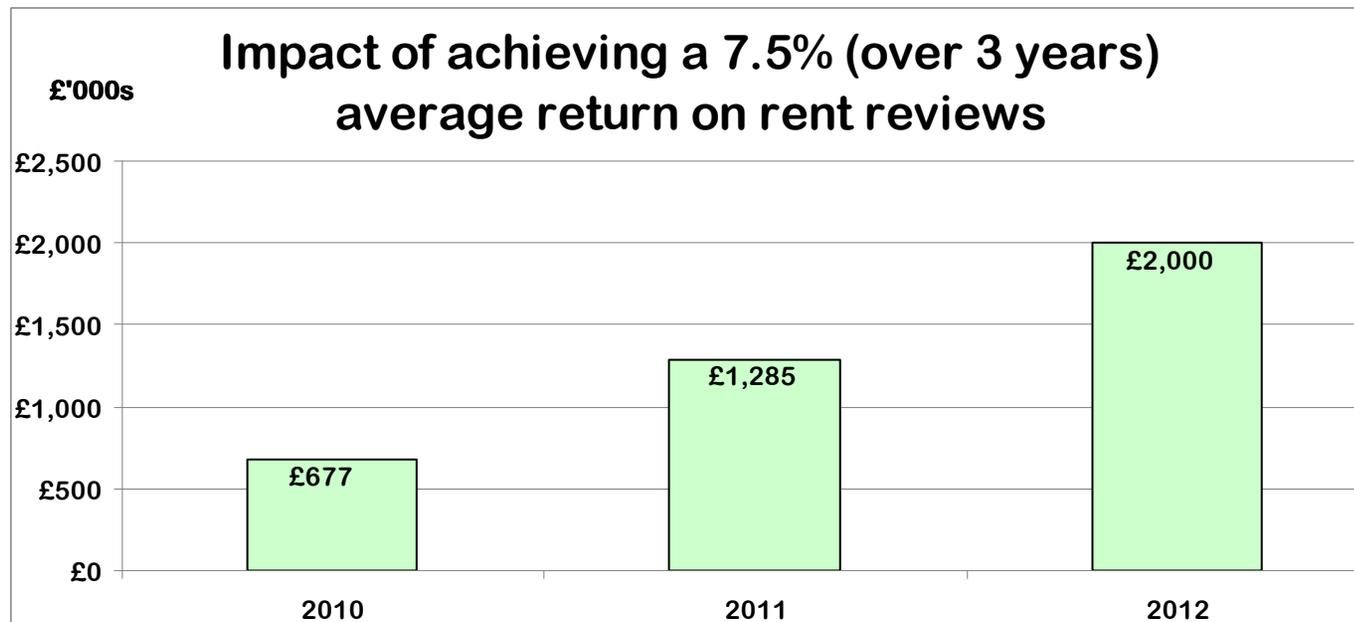
Rent per sqm (Across entire portfolio)



Forthcoming Rent Reviews by Annual rent (£27.6m) at 30/06/10



Cumulative Cash Flow



How Are Rents Assessed



- **Because of the reimbursement to the practice the NHS uses the District Valuer**
- **Values market rents for new developments**
- **Assesses Value for Money in new schemes**
- **Works with the NHS to approve the development of new primary care schemes**
- **Undertakes rent reviews on existing stock**
- **Challenge to appeals procedure now successfully achieved**
- **Should lead to improved process and rental growth prospects over time**

Existing and proposed new banking facilities



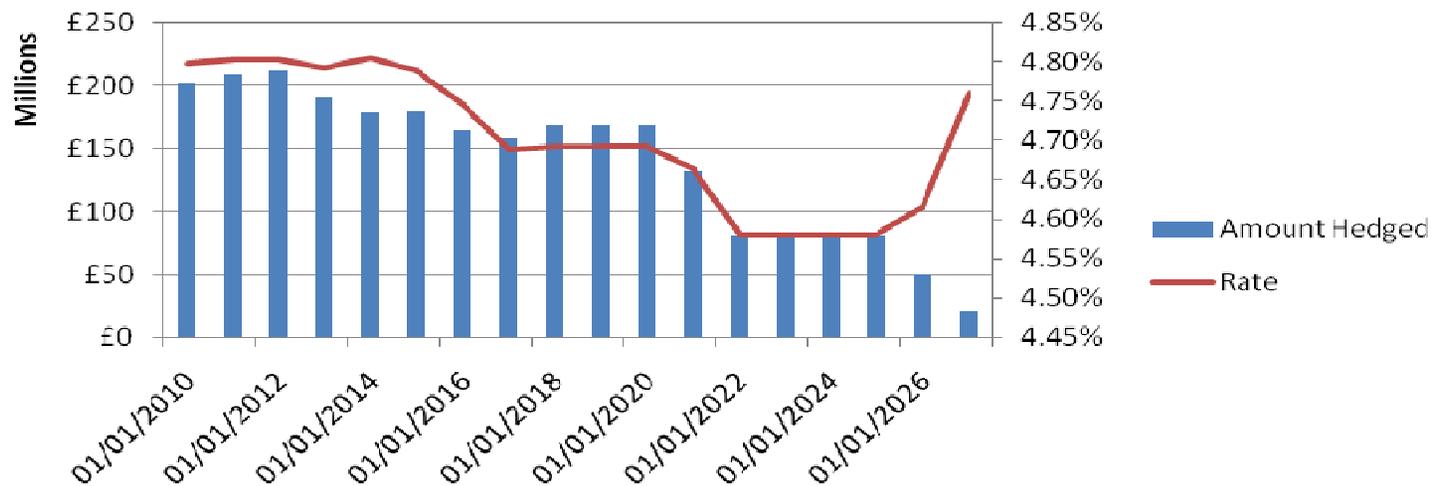
- **Total of £268.3 million committed facilities – £255.0 million to Jan 2013**
- **Term Loans:**
 - **RBS £140m interest only committed term loan to Jan 2013 – banker since 1996**
 - **Allied Irish Bank £50m interest only committed term loan to Jan 2013 – banker since 2004**
 - **Abbey Santander £65m committed term loan to Jan 2013 – new relationship in 2008**
- **Aviva facility of £28.3 million acquired with Health Investments Ltd – fixed term loans at fixed interest rates**
- **Effective hedging policy – normally 70% hedged**
- **Discussions with existing and new banking partners on extra facilities**

Headroom and principal covenants

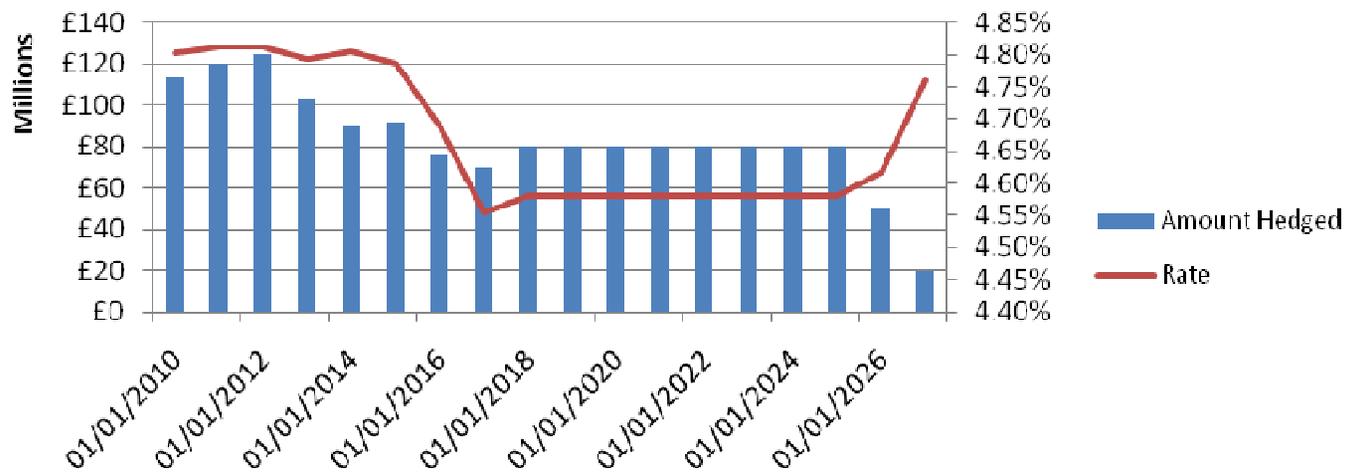


- **Borrowings at 30/06/10 £256.8 million vs facilities of £296.4 million (including £28.3 million fixed secured facilities)**
- **LTV at 30/06/10 56%**
- **Covenants of 70% LTV**
- **Interest cover at 30/06/10 – 2.0x. Covenant of 1.3x**
- **At 30/06/10 commitments of £24.0 million, resulting in headroom of £15.6 million**
- **Maximum target leverage for Group is 70%**

Bank Debt Hedged – callable not called



Bank Debt Hedged - callable called

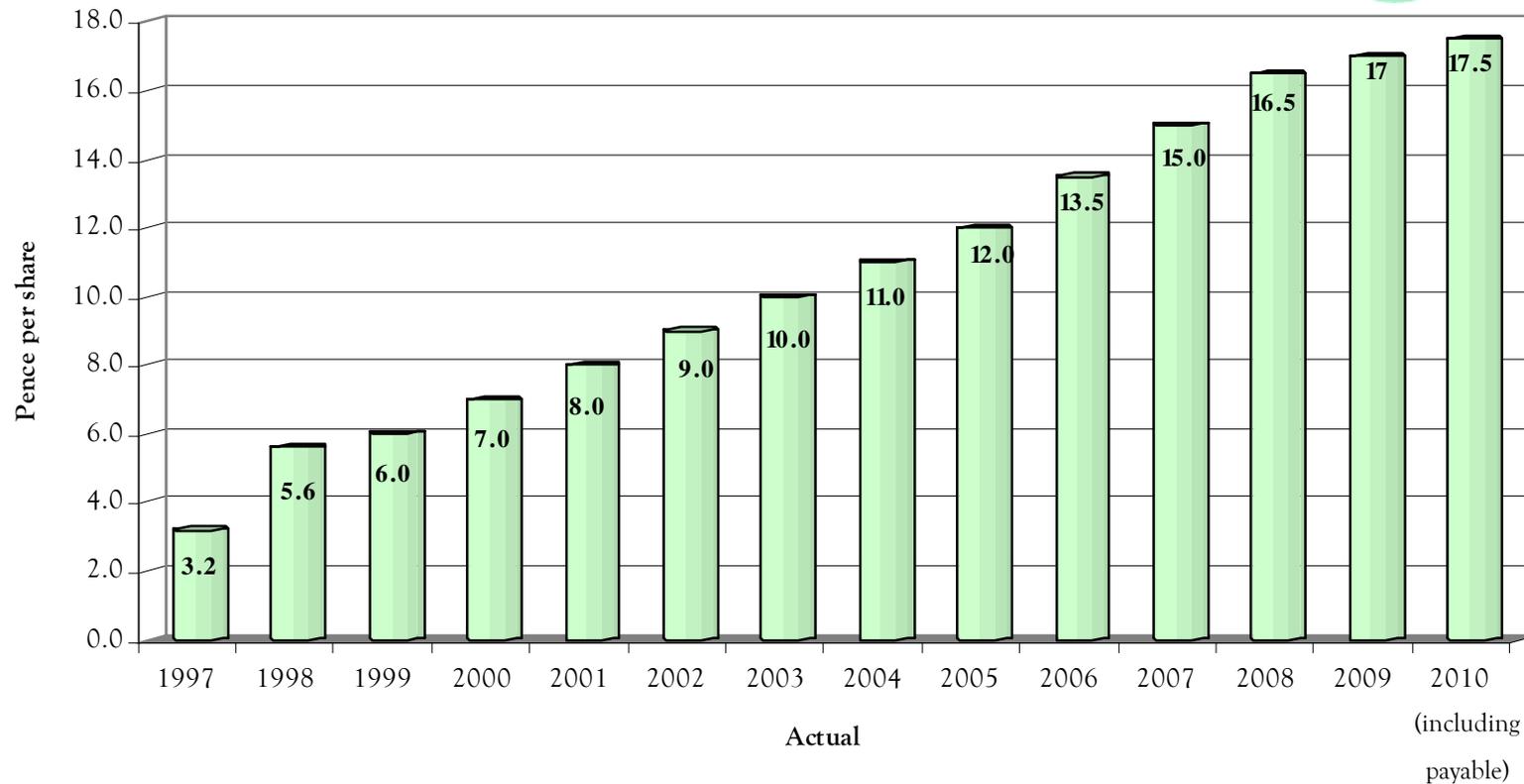


Dividend policy



- **13 year track record of progressive dividend policy**
- **Commitment to pay out substantially all available profits as dividends**
- **REIT status**
- **Dividend for 2010 of 17.5p (8.75p paid March 2010; 8.75p payable October 2010). A historic dividend yield of 5.8% at 300p per share**
- **2010 dividend paid out of recurring profits and cash generated**
- **A person investing at IPO would have had his initial outlay entirely repaid through dividends**

Annual Dividends



Total 150.30 including October payable of 8.75p

|||

PHP Board



- **Graeme Elliot (65) Non Executive Chairman**
- **Harry Hyman (54) Managing Director**
- **Mark Creedy Non Executive Director – former Managing Director of L&G Property fund management division**
- **Martin Gilbert (52) Non Executive Director (alternate William Hemmings (42))**
- **Jamie Hambro (60) Non Executive Director**
- **Alun Jones (61) Non Executive Director – SID and Chairman, Audit Committee (former partner of PWC)**
- **Dr Ian Rutter (54) Non Executive Director (practising GP)**

Major shareholders

Issued share capital 62,571,174 at 30/06/10



	Number of Shares	%
Nexus Group Holdings	3,801,558	6.07%
Blackrock	3,035,591	4.85%
Legal & General	2,548,073	4.07%
Aberdeen	2,150,350	3.43%

PHP History



- **Founded in 1994 by Harry Hyman**
- **Moved to AIM in 1996. Raised £16m equity and £4m from Convertible Loan Stock issued to RBS**
- **Moved to Main Market in 1998**
- **Placed 5% in 2001 at £1.46**
- **1.6 million shares issued 2002/3 at £1.00 per share re options exercised**
- **August 2004 loan stock converts into 3.4 million ordinary shares**
- **RBS shares placed October 2004**
- **Placing of 1 million shares in March 2005**
- **Subscription of 1.6 million shares September 2006**
- **Purchased Cathedral portfolio (22/12/06)**
- **Convert to a REIT (01/01/07)**
- **Placing announced 15/03/07 raised £40 million at 4.30p per share**
- **Share capital 33.5 million shares market cap of £94 million at £2.80 per share**
- **ADR programme incepted end March 2008**
- **March 2009 Placing of 1,679,354 shares raising £3.7m at 2.20p per share**
- **Sept 2009 placing of 19,033,667 shares and open offer of 7,053,289 open offer shares raising £57.5m net at £2.30p per share**

Management: Managers



- **Nexus PHP Management Limited and J O Hambro Capital Management Limited act as joint managers to the Company. Management fees are 1% per annum of the first £50 million of the gross assets of the Group and 0.75% per annum thereafter**
- **Incentive fee payable, based on performance (replaces options previously held). 15% of excess over total return hurdle of 8% per annum. No payment since 2007. No incentive payment in 2008 or 2009 and deficit needs to be earned back before any further payments will fall due**
- **Total management fees for year ended 2009 £2.5 million (2008 £2.6m)**
- **Regularly reviewed by Management Engagement Committee**

Management: J O Hambro Capital Management



- **JOHCM provides administrative and accounting services to the Company and is the Company Secretary**
- **JOHCM provides investment management services to a number of listed investment trusts, venture capital trusts, open ended investment companies and other funds**
- **JOHCM is regulated by the Financial Services Authority**

Management: Nexus PHP Management Ltd



- **Nexus offers financial and management services focusing on property and the healthcare and educational sectors**
- **Nexus offers a full range of property management services including rent collection, insurance, alterations, and day to day management**
- **Nexus also adds value to existing properties through rent reviews, lease re-gearing and renewals and supervision of developments**

Management: Personnel



- **Harry Hyman** Managing Director (54) is a PW qualified Chartered Accountant and member of the Association of Corporate Treasurers
- 1984-1994 worked for a listed asset finance group, involved in extensive property development and structuring mezzanine property funding
- Founder and Managing Director of Primary Health Properties PLC since its inception in 1994

- **Tim Walker-Arnott** Property Director (59) Chartered Surveyor and a fellow of the Royal Institution of Chartered Surveyors
- Formerly a property director of NHP
- Joined Nexus in January 2006
- Responsible for management and acquisition of the PHP portfolio

Management: Personnel



- **Ian Griffiths** Property Director (52) is a Chartered Surveyor with over 30 years experience in commercial property
- Was formerly the head of property at Dunlop Heywood Lorenz and a senior property manager at Skelton Investments
- Joined Nexus in February 2010
- Responsible for sourcing investment and funding opportunities

- **David Sanger** Associate Director (50) is a chartered surveyor with over 30 years experience in property investment
- Over ten years experience in primary healthcare, as a partner in charge of the Cluttons healthcare team, and at the District Valuer's within their London Healthcare Valuation Unit
- Joined Nexus in July 2010
- Responsible for the acquisition and management of the PHP portfolio

Management: Personnel



- **Andrew Birch (45) Chartered Surveyor MRICS**
- **Formerly head of property at Moss Pharmacy and Lloyds Pharmacy**
- **Joined Nexus in 2007**
- **Responsible for all aspects of portfolio asset management**

Total number of staff: 8

Other Matters



- **Share Save Scheme. 48 members. 182,652 shares**
- **Dividend Reinvestment Plan**
- **Repurchase Authority in place**
- **Scrip dividend introduced**

Conclusion



- **Low risk business model with 90% of rental income underpinned by Government funding**
- **Substantial number of acquisition opportunities at historic attractive valuations**
- **Positive yield gap**
- **Proven business model – 100% occupancy with no persistent voids**
- **Substantial benefits of being a REIT**
- **Demographic and political drivers – ageing population, cross party commitment to NHS**
- **Committed management team with firm alignment of shareholder interests through substantial shareholding**
- **Ethical sector with strong Government policy backing**
- **Long term non-cyclical market**
- **Inflation hedge characteristics with progressive dividend policy**

Appendices



Balance Sheet Highlights



	30/06/10 (unaudited)	31/12/09
Net Assets	£157m	£152m
Net asset value per share	251.4p	247.2p
EPRA net asset value per share	304.2p	279.9p
Investment portfolio including finance leases	£463.8m	£344.9m
Debt	£256.8m	£167.0m
Future minimum lease payments receivable	£471.3m	£369m
LTV	56%	48%

Specification Creep

The Last Five Years;

- RICS Building Cost Indices
27% increase
- RPI c12% increase
- Health centre rental growth
say 3% p.a. or 16%

Current influences;

- Building Regulations
 - Part L 2006 8%
 - Part M 2004 2%
- Health Standards
- HBN36 2%
- Performance Guidelines for Planning Authorities 2007
 - Risk assessments 2%



Specification Creep



The Future

- **BREEAM 'Excellent'** 7-10%
 - Sustainable source materials
 - Energy production and conservation (windmills, ground source heat pumps etc)
 - Grey water etc
- **Who pays and who gains?**
 - Building efficiencies should flow through to rent levels.
 - Current VOA guidance;
 - “Good design costs no more but may give;
 - Higher rent
 - Greater rental growth
 - Lower future repairs and service charges”

Disclaimer



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All data is sourced by the Company unless identified as otherwise.

August 2010