

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 users."

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Full Year Results – year ended 31 December 2011

21 February 2012

Private and Confidential

Highlights



Primary Health Properties

- **Group agrees refinancing of bi-lateral loans**
 - **Total of £300 million of debt secured or with credit approved terms**
 - **Weighted average term of new loans of 4.6 years**
 - **Refinance achieved without need to impact swap portfolio**
- **15th successive year of dividend growth – total of 18.0 pence per share paid**
- **Interim dividend of 9.25 pence declared and payable on 5 April 2012**
- **£48 million of additions completed in year - £12 million of commitments for further assets**
- **Rent reviews achieve average 3% per annum increase**
- **Total contracted rent roll (including commitments) of £32.3 million**

Operational Highlights



Primary Health Properties

- **Portfolio 100% let**
- **Rents received in year increased by 14% to £30.7 million (31 Dec 10: £26.9 million)**
- **Rental growth of 3.0% p.a. on completed reviews (2010: 3.22%)**
- **Profit before revaluation result and fair value gain/loss on derivatives rose from £9.1 million to £10.0 million**
- **Interest cover of 2.0x for 2011 (covenant minimum 1.3x, rising to 1.4x¹)**
- **Issue of 5,084,021 shares in April 2011 at 305 pence raised £15.7 million (net)**
- **Payment of 18.0p dividend during the year (2010: 17.5p)**
- **Total dividend of 18 pence gives a yield of 5.63% on a share price of 320 pence**

Note:

1. Covenant minimum increased to 1.4 times when refinance completed

Shareholder Value



Primary Health Properties

- **161 healthcare centres – 156 completed and owned, 5 committed to acquire**
- **Portfolio including commitments valued at £539.7 million (31 Dec 2010: £507.8 million) - an initial yield of 5.74% (31 Dec 2010: 5.79%)**
- **Strong pipeline of investment and development acquisitions to provide growth**
- **£50 million, three year, interest only debt facility obtained from Clydesdale Bank**
- **£75 million, seven year, fixed rate interest only facility closed Aviva**
- **Terms agreed for refinance of £175 million of bi-lateral facilities for four year term**
- **Loan to value ratio 57.8% at 31 December 2011 (covenant - 70%, becoming 65%¹)**
- **Basic NAV of 246.3p per share (31 Dec 2010 : 262.3p) as swap MTM rose**
- **EPRA NAV of 318.7p per share (31 December 2010: 311.5p)**

Note:

1. Covenant maximum reduced to 65% when refinance completed

Results in Brief



Primary Health Properties

	2011	2010
	£m	£m
Revenue	30.7	26.9
Net Financing Costs	(15.4)	(12.7)
Profit before revaluation result and fair value gain/loss on derivatives	10.0	9.1
Fair value loss on derivatives	(8.0)	(4.7)
Property revaluation gain	10.6	22.8
Profit before tax	12.6	27.2
Dividends Paid	11.8	10.8

Balance Sheet Highlights



Primary Health Properties

31/12/11 31/12/10

Net Assets	£168m	£165m
Net asset value per share	246.3p	262.3p
EPRA net asset value per share	318.7p	311.5p
Investment portfolio including finance leases	£528.7m	£472.3m
Debt	£303.0m	£268.3m
LTV	57.8%	57.6%
Future minimum lease payments receivable	£526m	£466m

Relative Performance



Primary Health Properties

- **PHP annualised total return out performs equities benchmarks over 1,3 and 5 years**

	1 year	3 years	5 years
Primary Health Properties	0.45%	27.71%	-0.37%
FTSE All-Share Real Estate Index	-8.80%	5.00%	-17.10%
FTSE All-Share Index	-3.50%	12.90%	1.20%

Source: IPD

- **PHP annualised real estate portfolio out performs benchmark over 1,3 and 5 years**

	1 year	3 years	5 years
Primary Health Properties	8.24%	7.13%	4.68%
IPD All Property Index	8.10%	-2.50%	1.10%

Source: IPD

- **PHP return since inception in 1996**
 - IRR over period since inception of 13.6%¹
 - Average inflation (CPI) over period – 2.09%

Notes:

1. IRR includes total dividends paid to date of 169 pence and assumes the sale of the underlying ordinary shares at 329.5 pence, the closing mid market price as at 1 February 2012

Completed Development



Oswestry, Shropshire

Tenants: GP Practice (4 GPs), Local PCT

Completed: August 2011

NIA: 4,909 sqm

Cost: £8.8million

Patient numbers: 6,000



Completed Development



Primary Health Properties

Blackpool, Lancashire

Tenants: GP Practice (5 GPs), Local PCT and a Pharmacy

Delivery Date: August 2011

NIA: 1,613 sqm

Cost: £4.1million

Patient numbers: 7,500



Completed Development



Primary Health Properties

Chesham, Buckinghamshire

Tenants: 2 GP Practices (11 GPs, Local PCT and Pharmacy)

Delivery Date: December 2011

NIA: 1,613 sqm

Cost: £4.1million

Patient numbers: 15,900



Investment Acquisition



Grimsby, Humberside

Tenants: 5 GP Practices (12 GPs), PCT, Local Authority and Pharmacy

Acquisition Date: November 2011

NIA: 3,294 sqm

Cost: £8.0million

Patient numbers: 16,200



Asset Management Projects

8 projects completed in 2011, additional rent of £82,000, generating a 35% valuation uplift on cost



Primary Health Properties

Killick Street, N1 – Completed June 2011



A physical extension of the practice of 80 sqm and the commencement of a new 25 year lease – an increase in term of 13 years

10 GPs , 8,400 patients

Cost £365,000



Consett Pharmacy, Consett – Completed August 2011



Extension to existing pharmacy premises and reconfiguration of car parking. 7% rental yield on cost on a lease with 13 years remaining

12 GPs, 20,000 patients

Cost £439,000



7 further projects approved for 2012, 2 already on site

- Include pharmacy additions, minor refurbishment programmes and practice extensions
- Total projected cost of £3.5 million, rental yield on cost of 6.2%
- Valuation surplus over cost of 34%

Portfolio Strength



Primary Health Properties

- **Key characteristics**
 - **Average lease length of 16.3 years**
 - **Strong tenant covenant – 90% of rent roll paid for directly/indirectly by the Government**
 - **86.6% of leases subject to triennial rent reviews**
 - **All leases effectively upward only rent reviews**
- **These characteristics result in highly visible cash flows and stable valuation yields**
- **Total contracted rents receivable from remaining term certain of portfolio - £526.1 million**
- **Portfolio net initial yield stable at 5.74% (2010: 5.79%), yield on cost 7.11%**

Portfolio Rental Levels at 31 December 2011



Primary Health Properties

Tenant	Area (sqm)	Area (sq ft)	Rent (£psm)	Rent (£ psf)
NHS	160,842	1,721,009	175	16.17
Pharmacy	9,685	104,211	278	25.84
Other	3,910	42,072	110	10.22
Total	174,438	1,867,292	178	16.54

Note:

1. Conversion factor – 1 square metre equals 10.76 square feet

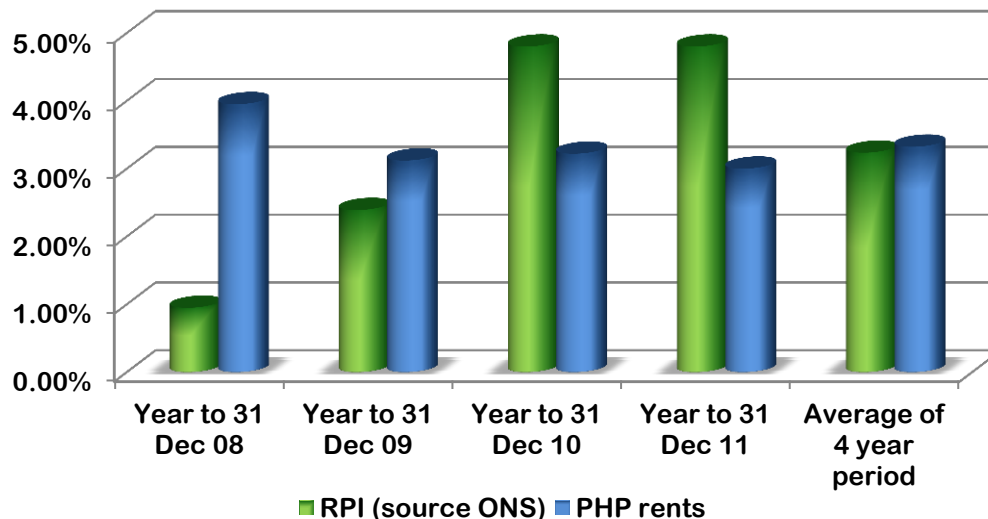
Rental Increases Achieved



Primary Health Properties

- 2011 increase in rents received 3.0% per annum (2010: 3.2%)
- % of rent roll on fixed uplift – 1.89%
- % of rent roll index linked – 11.53%
- Balance open market effectively upwards only
- Historically rental increases have broadly tracked RPI increases – see below

PHP Rent Review Performance v's Inflation



Drivers of Rental Growth

- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost
- Inflation

Forthcoming Rent Reviews by Annual Rent at 31/12/11



Primary Health Properties



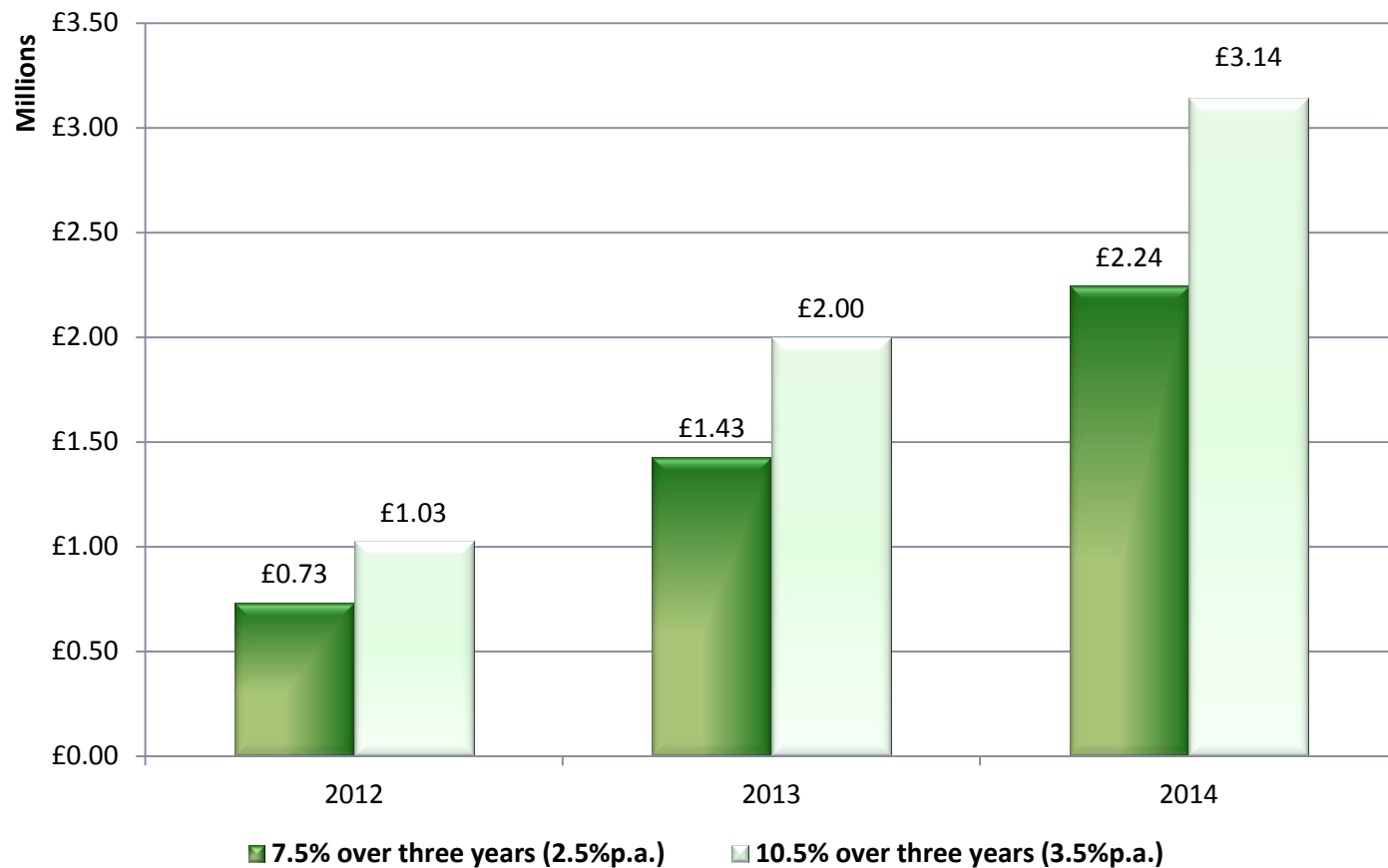
Annual contracted rent on completed assets - £31.37 million

Cumulative Cash Flow from Rent Reviews



Primary Health Properties

Impact of average return on rent reviews over three years



How Rents Are Assessed



- **Because of the reimbursement to the practice the NHS generally 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**
- **Successful PHP challenge to appeals procedure has improved the process and will improve rental growth prospects over time.**

Types of Leases – Full Repairing and Insuring (FRI)



Primary Health Properties

Approximately 75% 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 years loss of rent
- PCT/NHS refund tenants costs
 - Tenant receives “Current Market Rent” (CMR) including 5% repairs allowance from PCT/NHS on quarterly basis
 - Tenant pays PHP CMR less repairs allowance
- Usual 3 yearly effective upwards only rent reviews

Types of Leases – Tenants Internal Repairing (TIR)



Primary Health Properties

- TIR style leases account for 25% of rent roll
- 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 years loss of rent
- PCT/NHS fund estimated costs of Landlords additional burden through rental payments
 - Tenant receives CMR including 5% repairs allowance from PCT/NHS on quarterly basis
 - Tenant pays PHP CMR including 5% repairs allowance, as rent
- Usual 3 yearly effective upwards only rent reviews

Conventional Independent Valuation



Primary Health Properties

- Portfolio valued every 6 months using Lambert Smith Hampton valuations
- Basis is aggregation of INDIVIDUAL values
- No “lotting premium” (“portfolio effect”) effect taken account of
- Length of leases 16.3 years + covenant ⇒ defensive characteristics
- Rental increases drive valuation increases so not dependent upon yield shift
- Achieving good increases in excess of 3% per annum on average
- Initial yield of 5.74%. True equated yield of some 6.06%

Portfolio analysis



Primary Health Properties

- 66% of assets are greater than £3 million in value
- Average lot size in portfolio - £3.35 million (2010: £3.14 million)

Capital value	No. of assets	Value (£'m)	%'age	Cumulative %'age
£9 million +	4	46.42	8.6%	8.6%
£3 - £9 million	69	310.63	57.6%	66.2%
£1 - £3 million	84	179.81	33.3%	99.5%
£0 - £1 million	4	2.82	0.5%	100.0%
Total	161	539.66	100.0%	

DCF Valuation – as at 31 December 2011



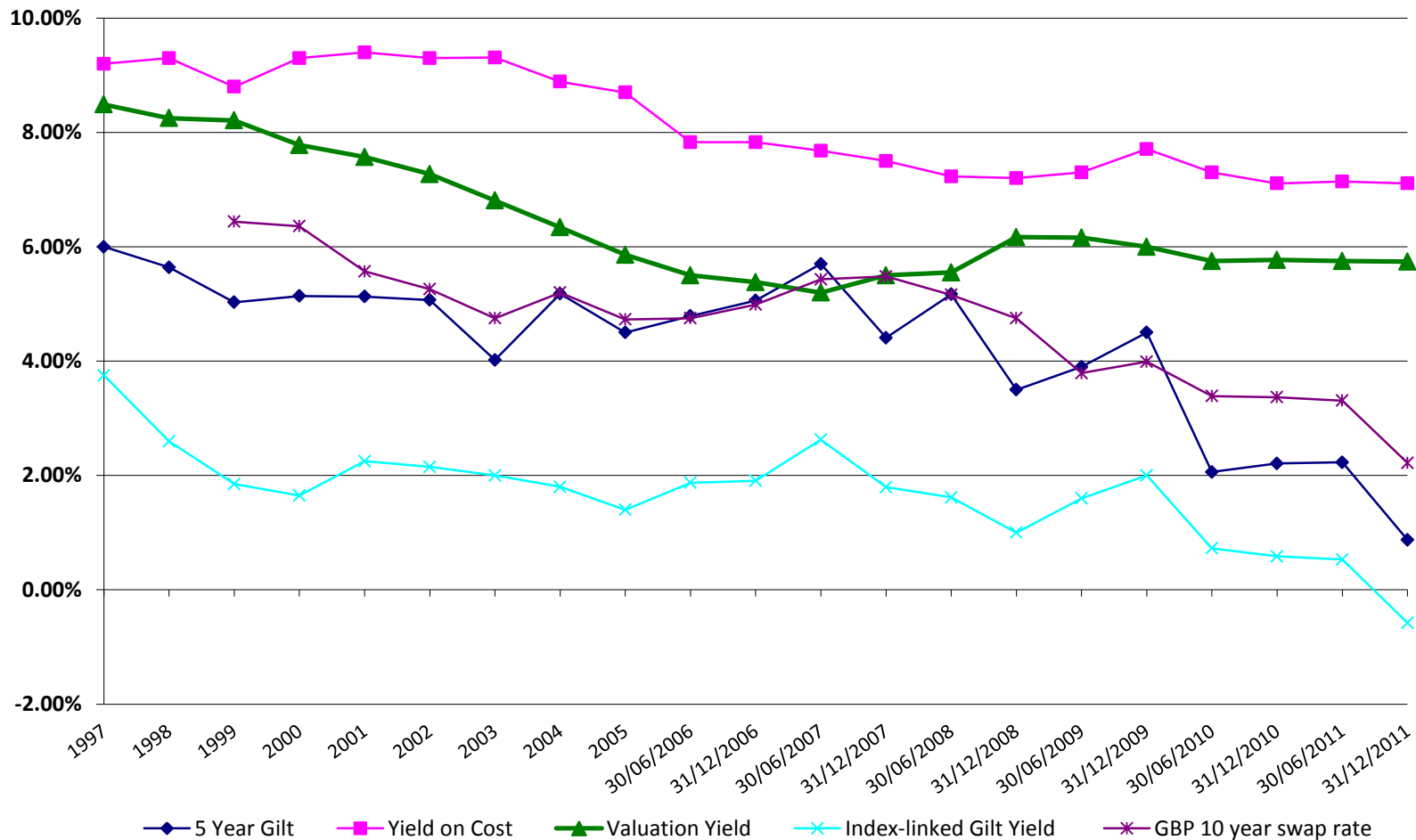
Primary Health Properties

- The length of leases produces robust DCF valuations to underpin valuation of PHP
- Additional valuation based on discounted cash flow¹
 - £589million vs £539million
 - £50million increase
 - Equates to 73 pence per share of additional NAV
- Discounted using 7% per annum
- 2.5% rental growth per annum
- 1% growth in residual values per annum
- 65% from rents 35% from residual values
- Discount rate sensitivity:
 - At 6.5%, valuation of £620million
 - At 7.5%, valuation of £561million

	£'m	Annual Rental Growth Assumption				
		0%	1%	2%	2.50%	3%
DCF RATE	6.0%	£576.9	£605.2	£636.6	£653.7	£671.7
	6.5%	£547.4	£574.3	£604.2	620.4	£637.5
	7.0%	£520.0	£545.6	£574.1	£589.4	£605.6
	7.5%	£494.5	£518.9	£545.9	£560.5	£575.9
	8.0%	£470.7	£493.9	£519.7	£533.6	£548.2

¹ on assets owned/committed at 31 December 2011

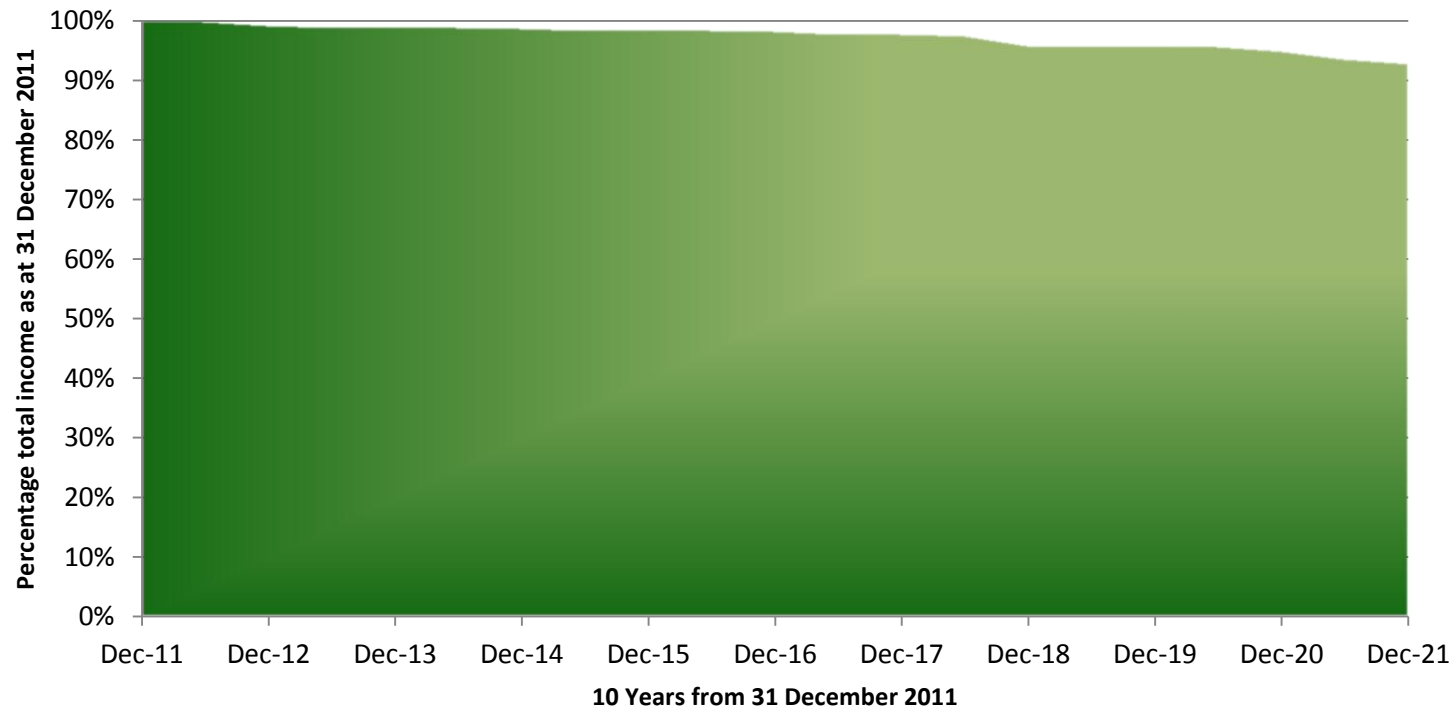
Yield on Cost and Value



Security of Income by Lease Expiry



Primary Health Properties

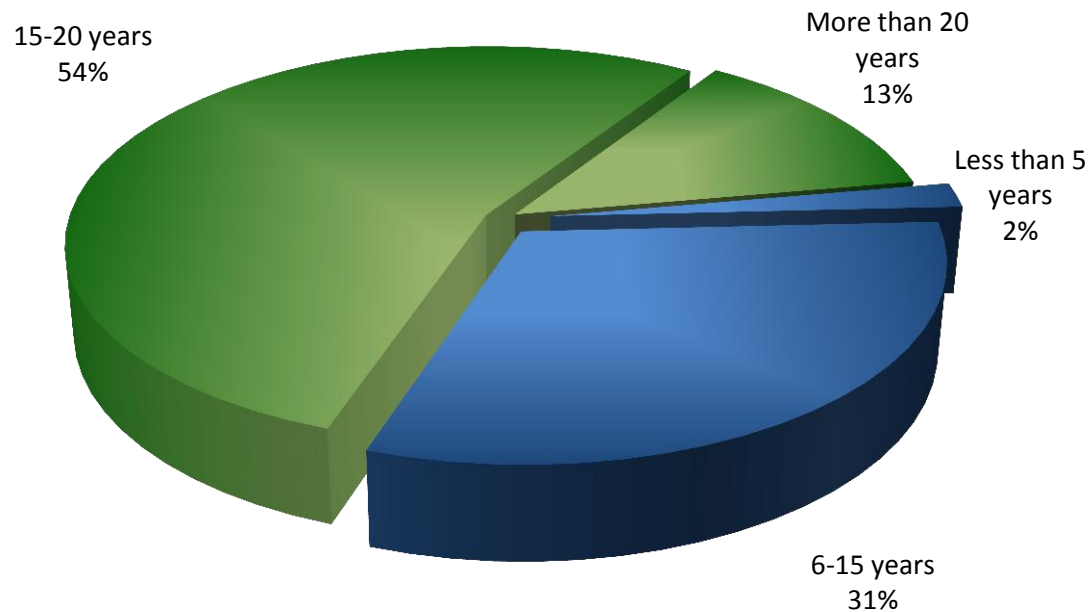


**Receiving over 90% of current passing rent in 10 years time
assuming no review increases and no lease extensions**

Analysis of Annual Rent by Term Unexpired



Primary Health Properties



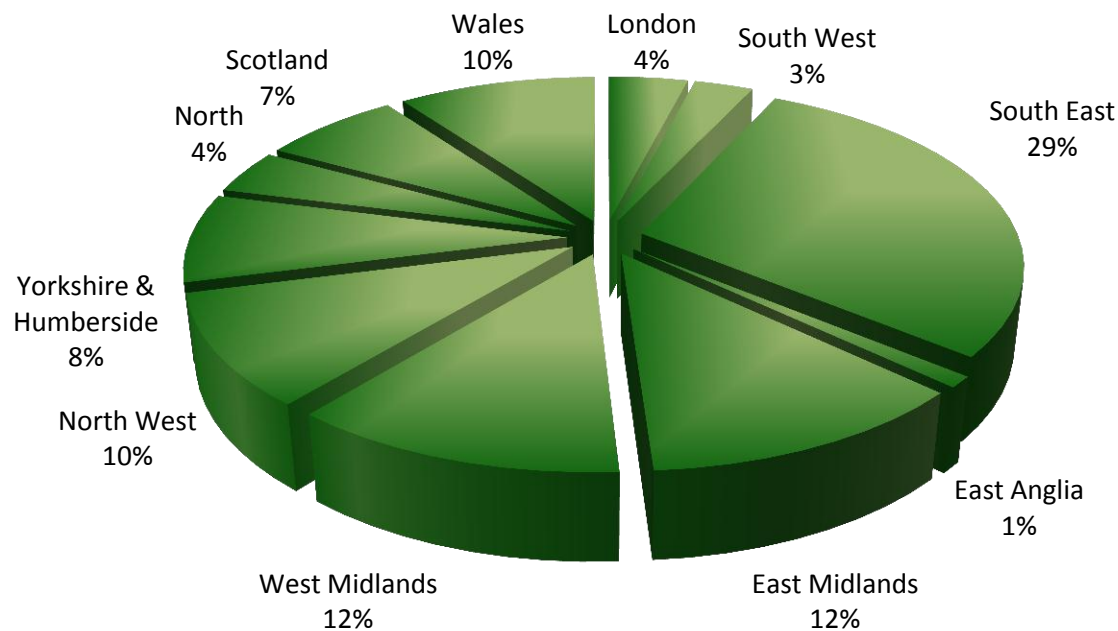
67% > 15 years income unexpired

31 December 2011

Annual Rent by Region



Primary Health Properties

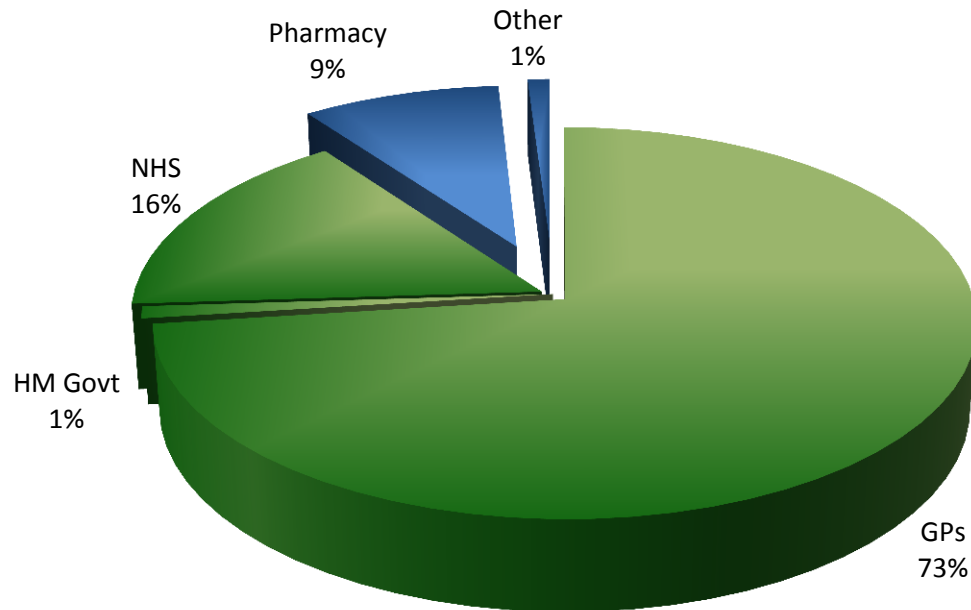


31 December 2011

Covenant Analysis of Annual Rent



Primary Health Properties

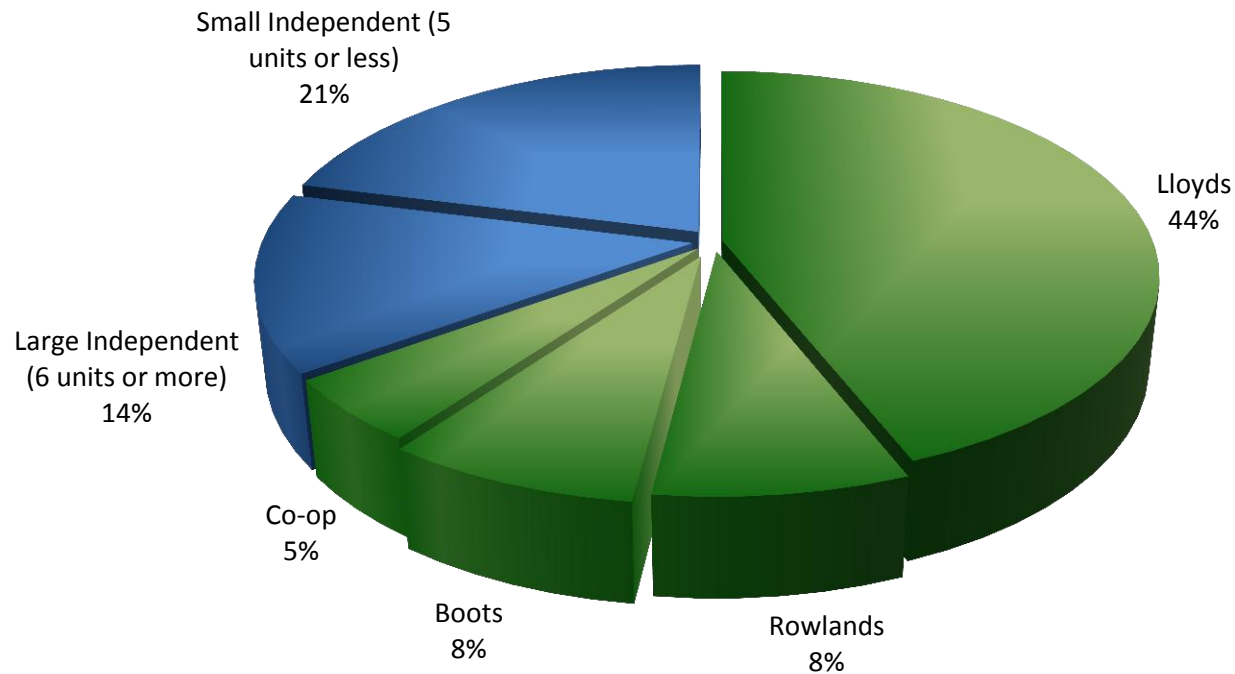


90% directly or indirectly from the Government
31 December 2011

Pharmacy Tenant Split By Rent



Primary Health Properties



65% National Covenants
31 December 2011

Headroom and principal covenants



Primary Health Properties

- **Borrowings at 31/12/11 £303million vs facilities of £392million**
- **LTV at 31/12/11 57.8% (2010: 57.6%)**
- **Covenants maximum of to 70% LTV**
- **Interest cover at 31/12/11 – 2.0x (2010: 2.2x) Covenant of 1.3x**
- **At 31/12/11 commitments of £11million**
- **Headroom available to Group of £78million**

Substantial Re-finance of Banking Facilities



Primary Health Properties

- Total of £300m of banking facilities secured in last 12 months
- New facilities have weighted maturity of 4.6 years
- Terms agreed and approved to re-finance £175m facilities with RBS and Santander
 - New 4 year, interest only term to commence March 2012
 - Maximum LTV covenant reduced from 70% to 65%
 - Minimum ICR covenant increased from 1.3x to 1.4x
 - Extension currently being documented
- £50m 3 year interest only facility provided by Clydesdale Bank
- Average margin of 230 basis points (2011: 70 basis points)
- £75m 7 year interest only facility provided by Aviva
 - Fixed interest rate of 4%

Extended Headroom and Average Maturity



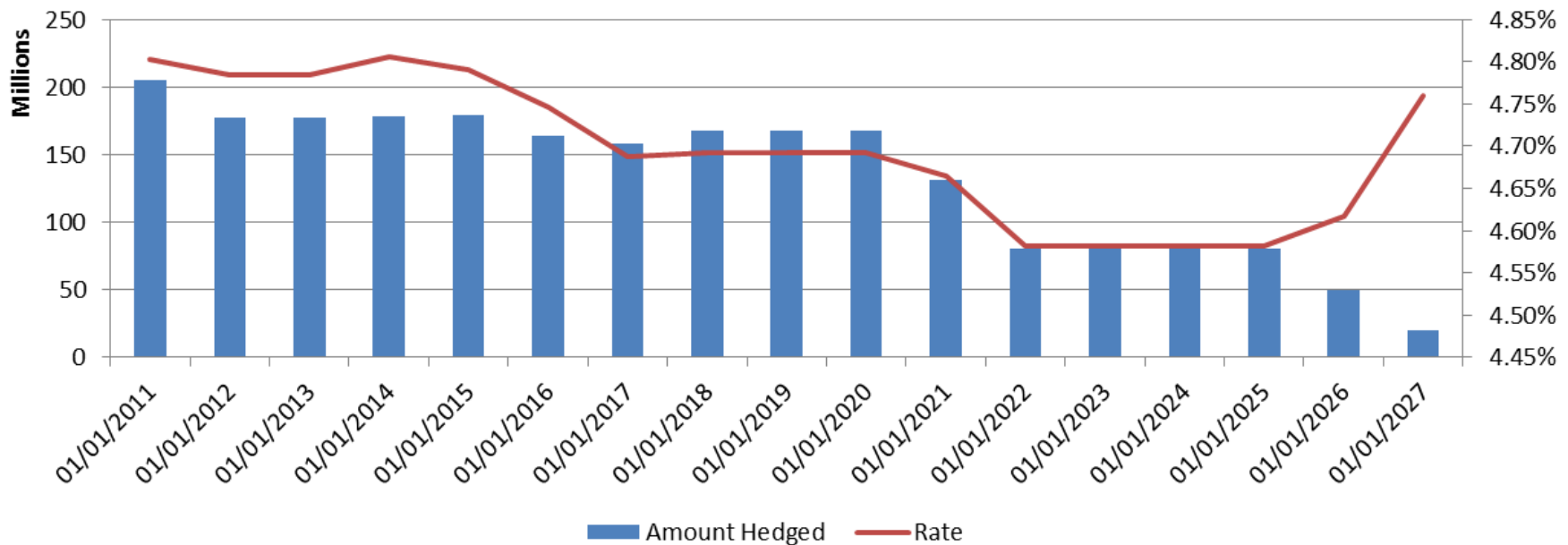
Provider	Maturity	Facility	Drawn	Headroom
Royal Bank of Scotland	Jan 2013	5.0	-	5.0
Allied Irish banks	Jan 2013	30.0	30.0	-
Clydesdale Bank	July 2014	50.0	14.2	35.8
Royal Bank of Scotland/Santander	Mar 2016	175.0	156.5	18.5
Aviva	Nov 2018	75.0	75.0	-
Aviva	Dec 2020	25.0	-	25.0
Aviva	Jan 2032	27.3	27.3	-
Total		387.3	303.0	84.3

Average maturity of 5.6 years – would have been 2.5 years

Bank Debt Hedged - callable not called



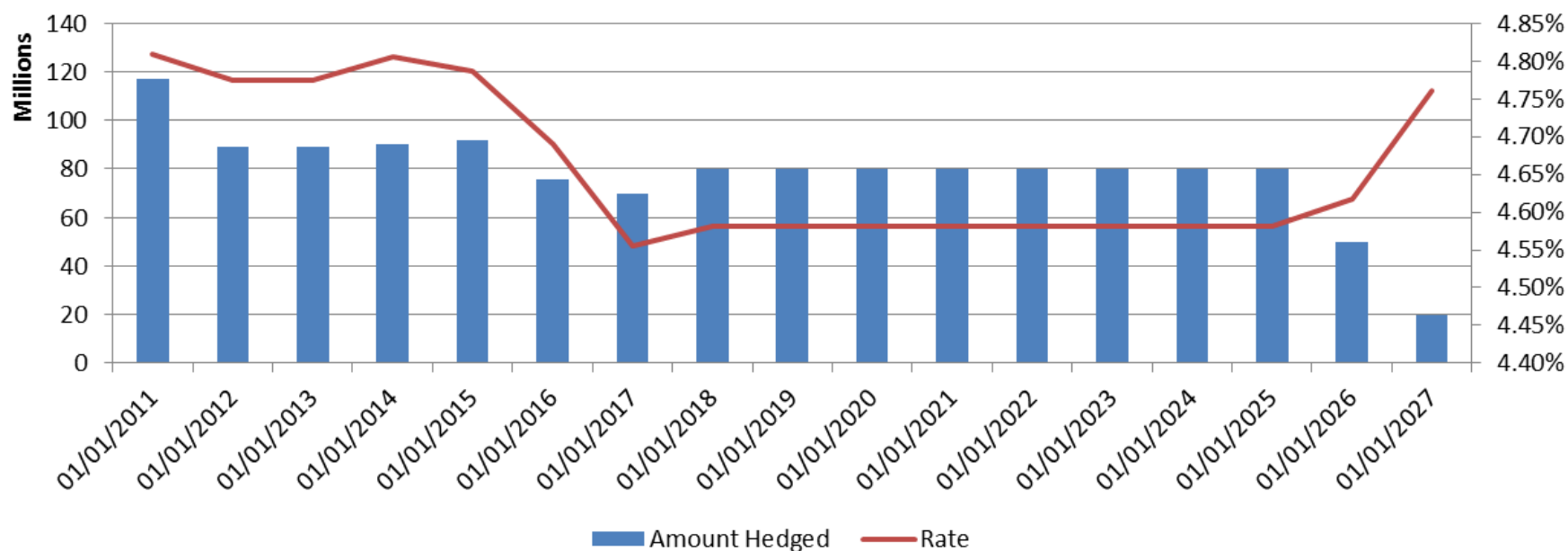
Primary Health Properties



Bank Debt Hedged – callable called



Primary Health Properties



Dividend policy



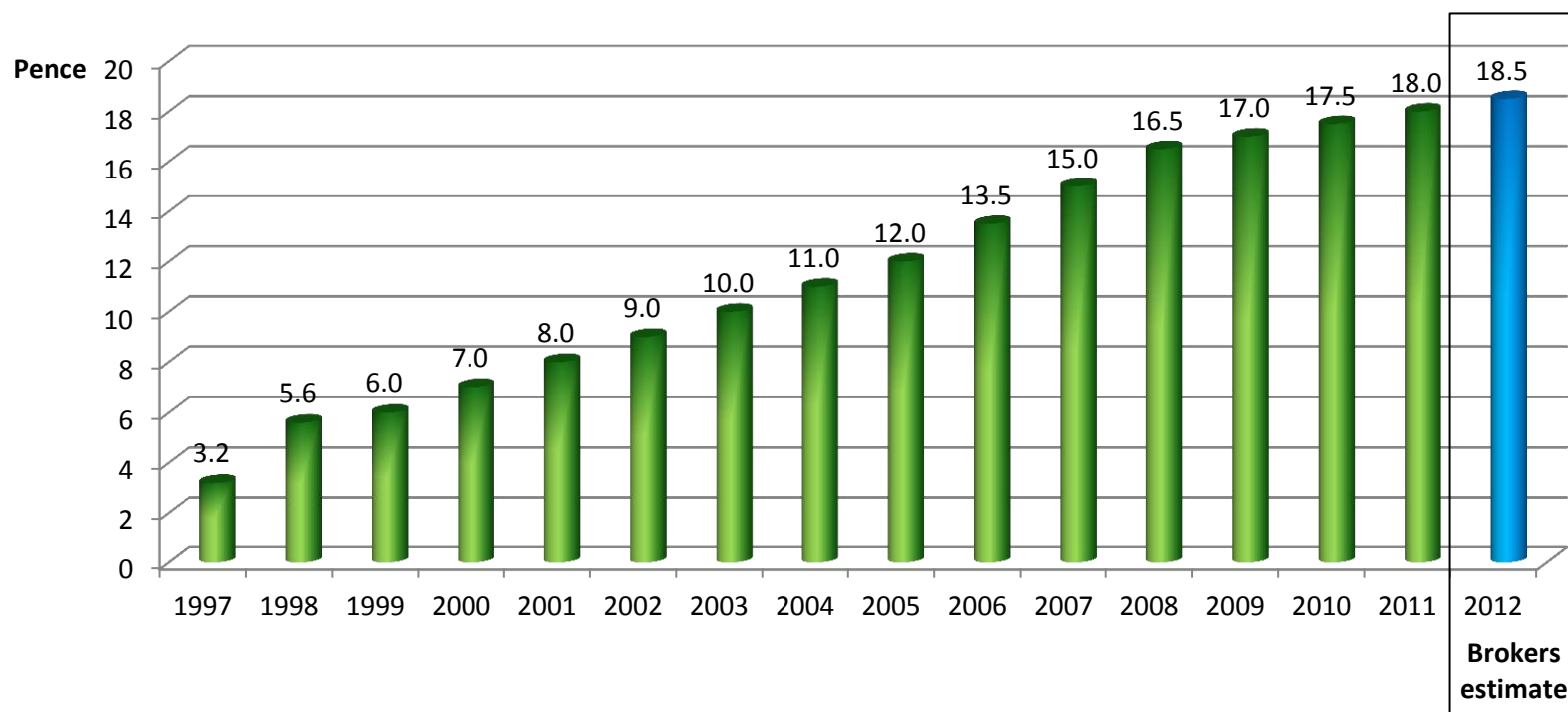
Primary Health Properties

- **15 year track record of progressive dividend policy**
- **Commitment to pay out substantially all available profits as dividends**
- **REIT status**
- **Dividend for 2011 of 18.0p (9.00p paid March 2011, 9.0p paid in October 2011)**
- **Historic dividend yield of 5.63% at share price of 3.20p**
- **First 2012 dividend declared at 9.25p payable 5 April 2012**
- **A person investing at IPO will have had his initial outlay (100 pence) entirely repaid through dividends plus an additional 78.25 pence**

Progressive Annual Dividend



Primary Health Properties



Total dividend paid - 169.3p to 28/10/11 + 9.25p April 2012 = 178.5p

Other Matters



Primary Health Properties

- **Share Save Scheme**
- **Repurchase Authority in place**
- **Scrip dividend**
- **Corporate video (www.phpgroup.co.uk)**

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 between acquisition yield and funding costs**
- **Well funded following refinance of significant majority of debt facilities**
- **Proven business model – 100% occupancy**
- **Substantial benefits of being a REIT**
- **Demographic and political drivers – ageing population, cross party commitment to NHS**
- **Well positioned to be instrumental in next phase of Primary Care premises development following Health Bill devolution of budget and responsibility to GPs**
- **Committed management team with firm alignment of shareholder interests through substantial shareholding**
- **Long term non-cyclical market**
- **Inflation hedge characteristics with progressive dividend policy and track record**

Appendices



Primary Health Properties

PHP History



Primary Health Properties

- Founded in 1994 by Harry Hyman
- Moved to AIM in 1996. Raised £16million equity and £4m from Convertible Loan Stock
- Moved to Main Market in 1998
- Placed 5% in 2001 at 146p per share
- 1.6 million shares issued 2002/3 at 100p per share as options exercised
- August 2004 loan stock converts into 3.4 million ordinary shares
- Placing of 1 million shares in March 2005
- Subscription of 1.6 million shares September 2006
- Convert to a REIT (01/01/07)
- Placing raised £40million at 430p per share (15/03/07)
- 31 December 2007 - 33.5 million shares in issue, market cap - £94million at 280p/share
- ADR programme incepted end March 2008
- March 2009 Placing of 1,679,354 shares raising £3.7million at 220p per share
- Sept 2009 Placing of 19,033,667 shares and open offer of 7,053,289 shares raising £57.5million net at 230p per share.
- June 2010 Issue (part of HI acquisition) of 1,005,153 shares raising £2.9million at 290p per share
- April 2011 Placing of 5,284,041 shares raising £15.7 million at 305p per share
- 31/12/11 - 68,272,299 shares in issue, market cap £217.5million at 318.5p per share

PHP Board



- **Graeme Elliot (66) Non Executive Chairman**
- **Harry Hyman (55) Managing Director**
- **Mark Creedy Non Executive Director – former Managing Director of L&G Property fund management division**
- **Martin Gilbert (53) Non Executive Director (alternate William Hemmings (43))**
- **Jamie Hambro (61) Non Executive Director**
- **Alun Jones (62) Non Executive Director – SID and Chairman, Audit Committee (former partner of PwC)**
- **Dr Ian Rutter (55) Non Executive Director (practising GP)**

Major shareholders



Shareholder	Number of Shares	%
Nexus Group Holdings	3,711,940	5.44%
Blackrock	3,035,591	4.45%
Legal & General	2,492,675	3.65%
Aberdeen Asset Management	2,150,350	3.15%

Issued share capital at 31 Dec 2011 - 68,272,229 ordinary shares

Joint Managers and Fee Base



Primary Health Properties

- Nexus TradeCo Limited and J O Hambro Capital Management Limited act as joint managers to the Company
- Management fees restructured with effect from 1 January 2011 to reduce fees on assets over £500 million (previously 0.75%)

Gross asset value	NPM	JOHCML	Total
Up to £50 million	0.5500%	0.4500%	1.0000%
Incremental fee charged on assets:			
Above £50 million, less than £350 million	0.4125%	0.3375%	0.7500%
Above £350 million, less than £450 million	0.4875%	0.2625%	0.7500%
Above £450 million, less than £500 million	0.5625%	0.1875%	0.7500%
Above £500 million, less than £750 million	0.4500%	0.0750%	0.5250%
Above £750 million	0.3750%	0.0625%	0.4375%

- Incentive fee payable, based on performance (replaces options previously held). 15% of excess over total return hurdle of 8% per annum. No incentive payment since 2007 and deficit of £57.5million needs to be earned back before any further payments will fall due.
- Total management fees for year ended 2011 £3.9 million (2010: £3.4m)

Nexus TradeCo Limited



- **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.**

Nexus TradeCo Limited Personnel



Primary Health Properties

- **Harry Hyman** Managing Director (55) 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
- **Phil Holland** Deputy Managing Director (42) Qualified Chartered Accountant
- Formerly a CFO of Natixis Capital Partners Limited, a pan-European real estate fund manager
- Previously CFO of UK listed, pan European real estate companies
- Joined Nexus in January 2011
- Responsible for financial oversight and strategic management PHP
- **Tim Walker-Arnott** Property Director (60) 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
- Supported by an experienced team of 6 property professionals within the Nexus Group

J O Hambro Capital Management



Primary Health Properties

- **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**

What is the NHS Currently?



Primary Health Properties

- **NHS created in 1948**
- **A national service across the UK population of 60m**
- **Employs 1.4m people**
- **Budget this fiscal year £110billion**
- **Rent reimbursed to GP practices – effectively paid by Government**
- **34,000 GPs in the UK, 10,400 surgeries**
- **At least £6billion of capital required to upgrade (Wanless 2002)**
- **Since 2001 more than 3,000 premises replaced or substantially modified**
- **1 million patients visits to GP premises every working day**
- **Moving 5% of activity from secondary care into primary care**
- **Cutbacks likely to affect secondary care more than primary care**
- **Impact of Health and Social Care Bill positive in medium term**

Disclaimer



Primary Health Properties

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February 2012