

# Hardman Investor Forum

## Primary Health Properties PLC

Leading the way in modern primary health properties

November 2019



## Agenda

PHP at a glance

MedicX merger – compelling rationale

Strong track record of dividend growth

Strong track record of relative performance

Equity raise – use of proceeds

Property Portfolio

Funding

# Primary Health Properties PLC at a glance

- ✓ Leading investor in flexible, modern primary healthcare accommodation across UK and Ireland
- ✓ Leading portfolio of 485 properties valued at £2.4 billion
- ✓ FTSE 250 UK Real Estate Investment Trust (“REIT”) with £1.7 billion market capitalisation
- ✓ 90% of income funded by government bodies (GPs, NHS or HSE)
- ✓ 23 consecutive years of dividend growth; dividend covered by earnings
- ✓ Strong capital base with a prudent balance of shareholder equity and debt finance
- ✓ All share merger with MedicX completed on 14 March 2019 and businesses successfully integrated
- ✓ H1 2019: L4L rental growth of £1.0m (0.8%) accounting for the majority of the revaluation surplus





The image shows a modern, multi-story building with a mix of white and brown panels. A sign on the left side of the building reads 'Ionad Cúram Priomhúil Cill Droichid Celbridge Primary Care Centre'. Below this, there is a logo with the letters 'ICE'. To the right of the main building, there is a lower section with a blue sign that says 'carePLUS PHARMACY' and a green sign that says 'TUSLA'. Several cars are parked in the lot in front of the building. In the foreground, there is a green lawn and a low hedge. The sky is clear and blue.

## MedicX merger

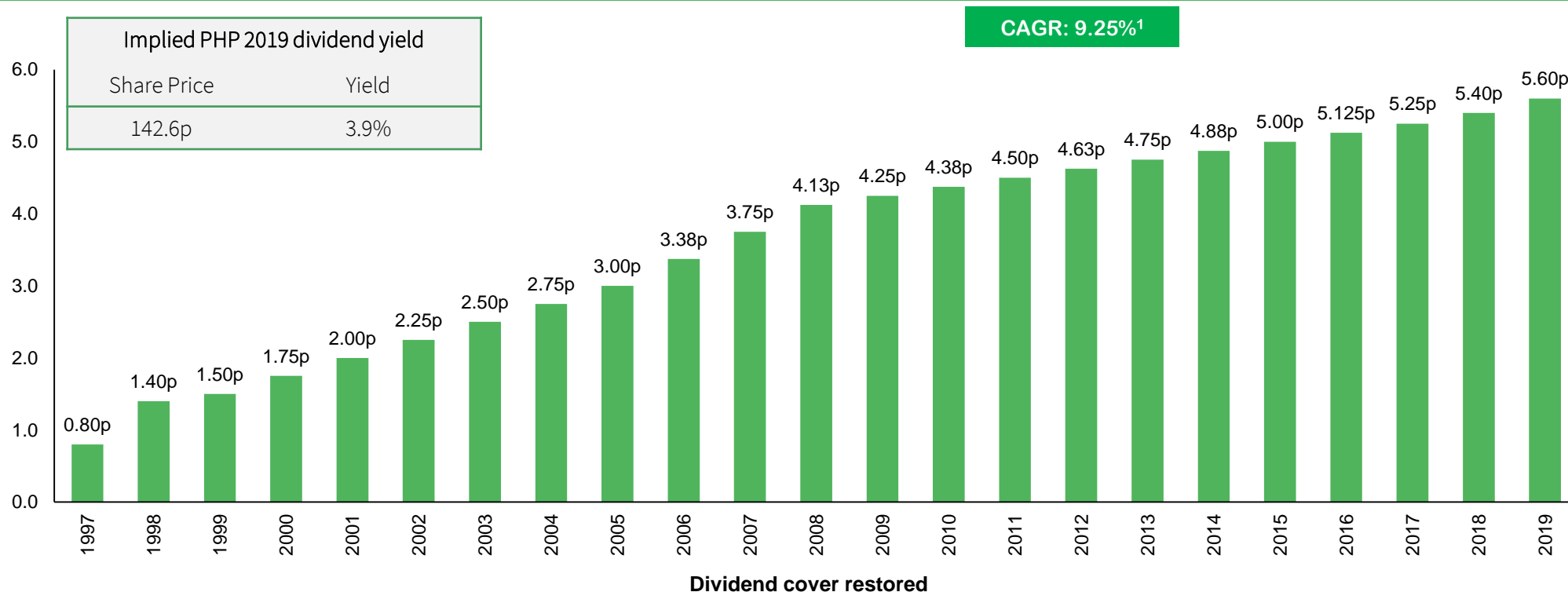
**Compelling strategic,  
operational and financial  
rationale**

# MedicX merger - investment highlights

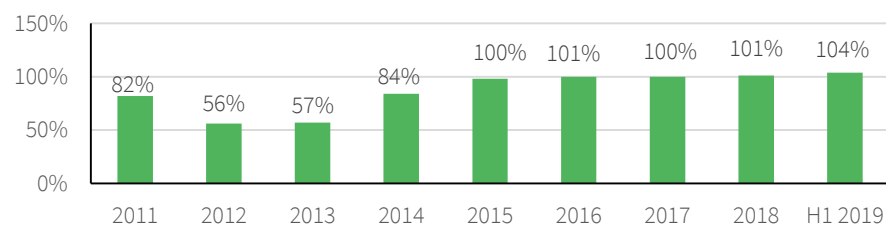
Successful all-share merger with MedicX	<ul style="list-style-type: none"> <li>✓ Created one of the UK's largest listed primary health property investors with over 485 properties valued at £2.4 billion</li> <li>✓ FTSE 250 REIT with market capitalisation of £1.7 billion and improved share liquidity</li> <li>✓ Highly complementary portfolios of flexible, modern primary healthcare accommodation – the combined business has a stronger platform with greater scale and financial resources</li> <li>✓ Operational cost synergies, estimated at £4.0m per annum, leading to EPRA cost ratio expected to be lowest in the UK REIT sector</li> <li>✓ Access to lower cost of debt funding expected over the medium term with 32bp of savings already delivered post merger</li> </ul>
Low risk, long-term, low volatility market	<ul style="list-style-type: none"> <li>✓ Continued disciplined approach to acquisitions and asset management initiatives avoiding asset obsolescence</li> <li>✓ Increased opportunities in the UK and Ireland</li> <li>✓ 90% of income funded by government bodies (NHS or HSE) on long lease terms – WAULT of 13.0 years</li> </ul>
Strong, high-quality and growing cash flows	<ul style="list-style-type: none"> <li>✓ Positive yield gap between acquisition yield and funding costs</li> <li>✓ Effectively upward-only or indexed rent reviews with improving outlook</li> <li>✓ Simple and transparent cost structure enhancing earnings</li> </ul>
Adding value and reducing costs	<ul style="list-style-type: none"> <li>✓ Continued organic rental growth from rent reviews and asset management projects</li> <li>✓ Proactive approach to refinancing to access lower cost of funds over the medium term</li> <li>✓ EPRA cost ratio expected to be the lowest in the UK REIT sector</li> <li>✓ Underlying investment characteristics make the enlarged group attractive to investors</li> </ul>
Sector demand factors dictate continued development of healthcare premises	<ul style="list-style-type: none"> <li>✓ Healthcare demand increasing due to ageing and growing populations in the UK and Ireland</li> <li>✓ Unwavering political support in UK and Ireland and promotion of integrated care</li> <li>✓ Historic underinvestment in primary care estate – in need of replacement and modernisation</li> </ul>
Proven business model with strong management	<ul style="list-style-type: none"> <li>✓ Proven track record of successfully identifying and investing in new assets on attractive terms to grow the portfolio</li> <li>✓ Consistently maintained high level of occupancy – currently 99.5%</li> <li>✓ Experienced management team with corporate, financial, property, investment and NHS experience</li> </ul>

# Strong track record of dividend growth

Historic dividend progression



Historic dividend cover



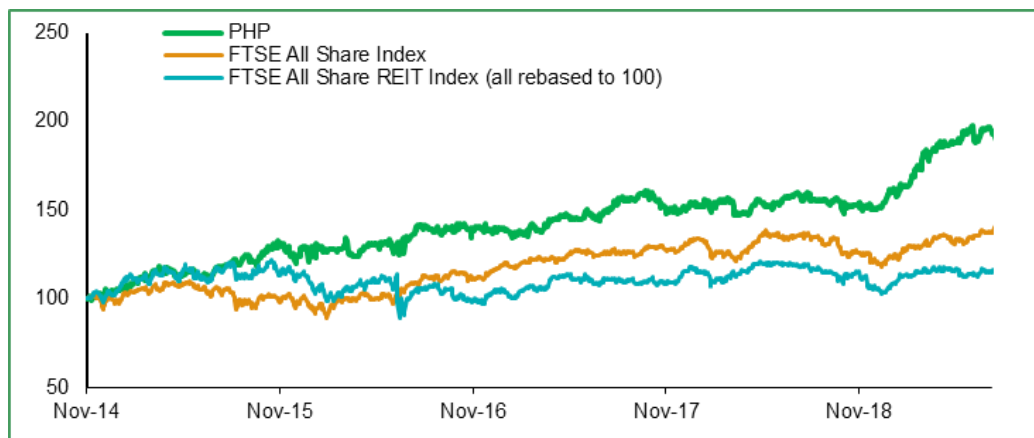
<sup>1</sup> CAGR: 1997 to Q4 2019

- ✓ 2019 dividend per share of 5.6p a 3.7% increase and 23<sup>rd</sup> year of growth
- ✓ Dividend paid quarterly
- ✓ H1 2019: dividend cover at 104%
- ✓ H1 2019: total dividends paid increased by 58.9%

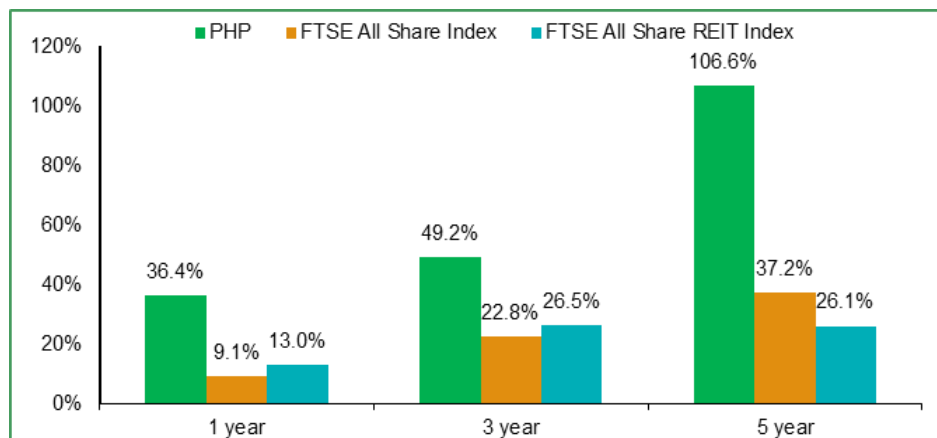
# Strong track record of relative performance

✓ IRR over period since inception of 13.3%<sup>1</sup> (Average annual inflation (RPI) over period: 2.8%)

PHP 5 year relative TSR performance



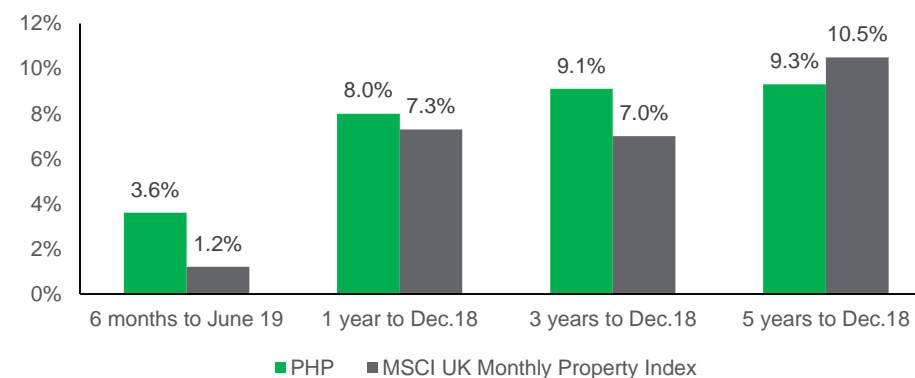
PHP TSR (absolute change) – 1yr / 3yr / 5yr



CAGR total shareholder returns

	PHP	Assura	EPRA UK
1 year	36.4%	33.6%	12.7%
3 years	14.3%	10.9%	8.0%
5 years	15.6%	13.3%	4.6%
10 years	12.9%	13.5%	8.1%
20 years	14.5%	-	6.4%

PHP TPR vs MSCI UK Monthly Property Index



# Equity raise - use of proceeds

Total funding requirement of c.£150m over the next 18 months to fund a mix of recent acquisitions, committed development funding, future acquisition pipeline and asset management

1

## Recent acquisitions/ completions

Investment acquisitions completed in FY19 to date:

Property	Cost
Oakwood Lane Medical Centre, Leeds	£5.4m
The Meath Primary Care Centre, Dublin, Ireland	£9.8m (€10.9m)

2

## Committed development funding

Selected current development funding commitments include:

Region	Number	Cost
UK	4	£14.4m
Ireland	4	£45.1m (€50.3m)

3

## Pipeline

Short-term pipeline opportunities in legal due diligence, commercial terms agreed, include:

Region	Number	Est. acq'n/dev't cost
UK	4	£20.1m
Ireland	4	£49.6m (€55.4m)

4

## Asset management

Active management of existing assets to create additional value  
Completed, on-site or board approved

Property	Number	Asset Management cost
Completed	8	£1.6m
On-site	3	£1.1m
Board approved	11	£2.1m

## Funding requirement

FY19 YTD acquisitions of c.£15m

Total cost of committed development funding c.£60m

Estimated pipeline of c.£70m

Estimated capex on projects in FY19 of c.£5m



# Property Portfolio



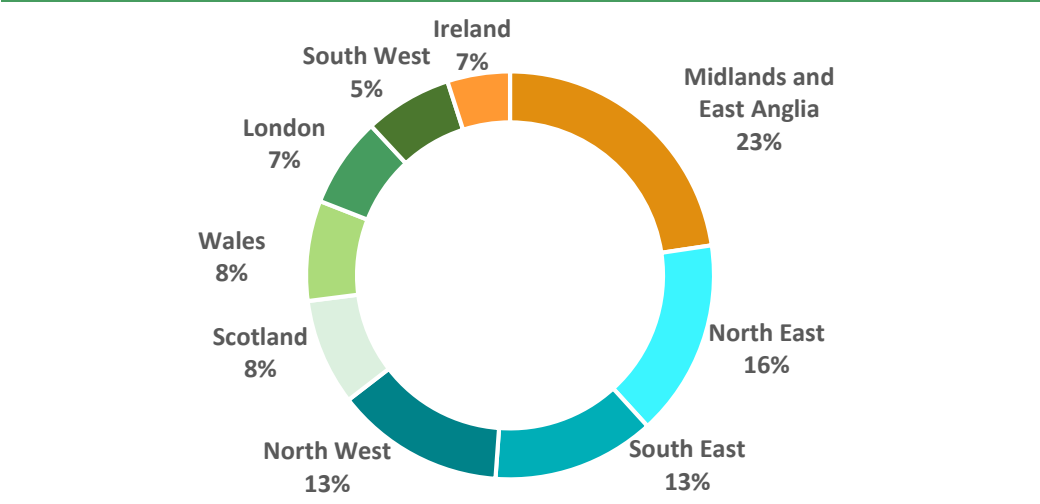
# Property portfolio overview

Key Figures	PHP	MedicX	Combined
Total number of properties	318	167	485
Including properties in Ireland	10	5	15
Investment portfolio value (£bn)	1.59	0.81	2.4
Floor area (000's sqm)	419	225	644
Capital value (£ per sqm)	3,665	3,615	3,650
Contracted rent roll (£m)	81.1	44.5	125.6
Net initial yield (NIY)	n/a	n/a	4.85%
Average lot size (£m)	4.9	4.9	4.9
Average WAULT (years)	12.8	13.4	13.0
Occupancy	99.8%	98.9%	99.5%
Government backed rent	90%	91%	90%

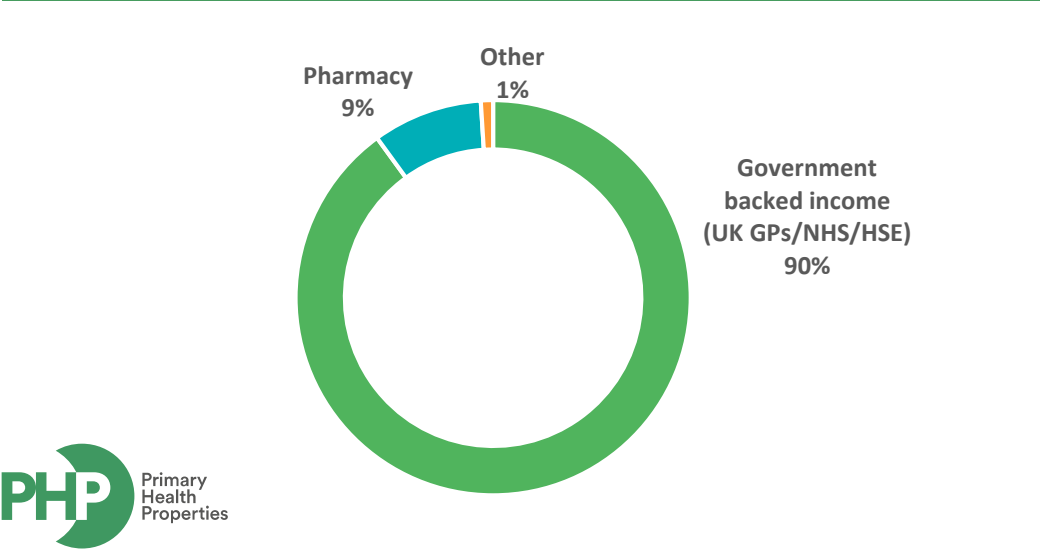
Capital Value <sup>1</sup>	Number	Value (£m)	%
> £10m	43	625	26.5%
£5m - £10m	109	755	32.0%
£3m - £5m	154	597	25.3%
£1m - £3m	171	375	15.8%
< £1m (incl. land £4.1m)	8	10	0.4%
Total	485	2,362	100.0%

## Property portfolio overview

## Geographical spread by valuation



## Covenant exposure by rent roll



Numbers in green dots represent the number of properties in that region.

# High quality recurring income

## Key characteristics of the portfolio

Weighted average  
unexpired lease  
length of  
13.0 years

Occupancy  
rate of  
99.5%

Strong tenant  
covenant – 90% of  
rent roll paid  
directly/indirectly  
by Government  
bodies

The majority of  
leases have  
effectively upward  
only rent reviews

32% of portfolio  
on fixed or  
indexed uplifts.  
68% OMV review,  
typically every  
three years

...these characteristics result in highly visible cash flows and stable valuation yields

- Contracted rent roll of over £125.6m p.a.
- HY19 - L4L rental growth of £1.0m (0.8%) accounting for the majority of the revaluation surplus
- Rate of rental growth expected to improve in future years
- Peers also reporting positive rental growth outlook



# Long leases with growth potential

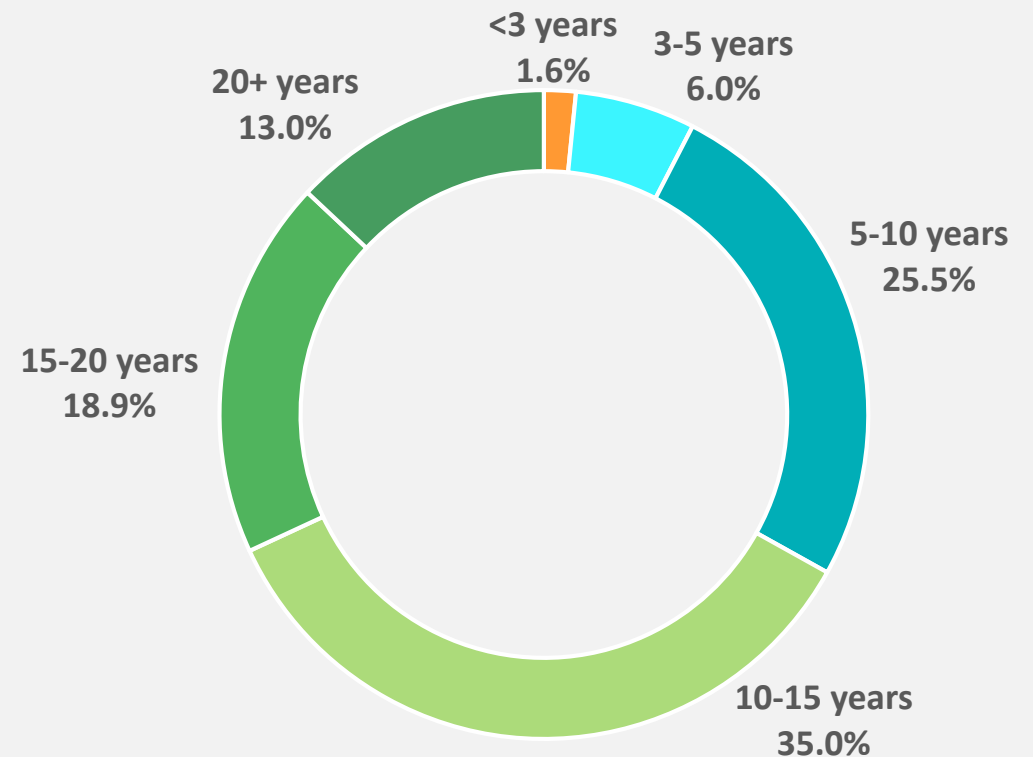
## Effectively upward only rent roll Rent review profile

- 6.6% on fixed uplift
- 25.3% index linked
- 68.1% reviewed to open market

## Drivers of rental growth

- Increased development activity
- Building cost inflation
- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost

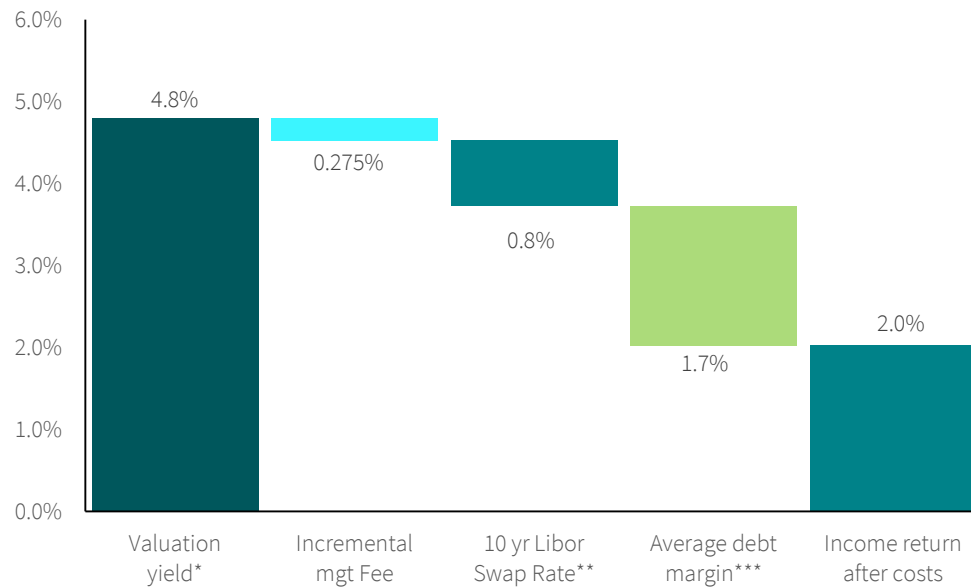
## Income expiry profile – WAULT of 13.0 years



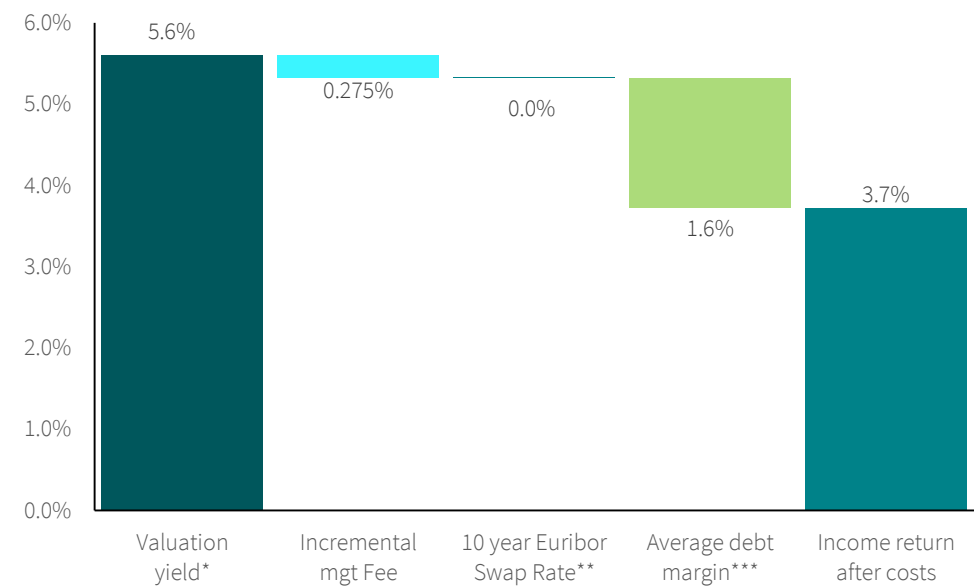
# Positive yield gap

## Illustrative yield gap on property investment

### UK Acquisitions



### Ireland Acquisitions



# Growing Development Pipeline

- Eight schemes on site with a net development cost of £59.5m

## Emerald Gardens, Kew Medical Centre, UK



### Tenants

- GP practice
- Social prescribing charity

Purchase date: March 2019  
 PC date: Q4 2019  
 Acquisition cost: £4.8m  
 Size: 845 sqm  
 Number of GPs: 3  
 WAULT: 22.0 years  
 Rent review: OMIV

## Bray Primary Care Centre, Ireland



### Tenants

- Health Service Executive (HSE)
- GP Practices
- Pharmacy
- Café
- Car park operator

Purchase date: July 2018  
 PC date: Q4 2019  
 Acquisition cost: £20.1m (€22.4m)  
 Size: 4,822 sqm  
 WAULT: 21.5 years  
 Rent review: Irish CPI

## Mansfield Medical Centre, Peterborough



### Tenants

- GP Practices
- Private Medical

Purchase date: April 2018  
 PC date: Q3 2019  
 Acquisition cost: £3.5m  
 Size: 918 sqm  
 WAULT: 20 years  
 Rent review: OMIV and RPI

## Athy Primary Care Centre, Ireland



### Tenants

- Health Service Executive (HSE)
- GP Practices
- Tusla
- Pharmacy

Purchase date: February 2019  
 PC date: Q4 2019  
 Acquisition cost: £11.6m (€12.9m)  
 Size: 3,486 sqm  
 WAULT: 28 years  
 Rent review: Irish CPI

# Investment

- Five assets acquired for £31.3m (average lot size £6.3m)
- Strong active pipeline in UK and Ireland totalling £150m including £70m in legal due diligence

## Oakwood Lane Medical Centre, Leeds



### Tenants

- GP practice
- Pharmacy

**Purchase date:** February 2019  
**Acquisition cost:** £5.4m  
**Size:** 1,177 sqm  
**Number of GPs:** 9  
**WAULT:** 20.6 years  
**Rent review:** OMV AND RPI

## The Meath Primary Care Centre, Dublin, Ireland



### Tenants

- Health Service Executive (HSE)
- 3 GP Practices
- Pharmacy
- Diagnostics
- Dentist
- Physio
- STD clinic

**Purchase date:** July 2019  
**Acquisition cost:** £9.8m (€10.9m)  
**Size:** 2,304 sqm  
**Number of GPs:** 9  
**WAULT:** 14.4 years  
**Rent review:** Irish CPI



# Asset Management – enhancing existing portfolio

- Eight projects completed, three on-site and eleven approved and due to commence shortly
- £4.9m invested, £0.3m additional rent and WAULT extended back to 17 years
- Strong pipeline of over 60 potential projects

## Robin Lane Medical Centre, Pudsey



Project description: Medical centre extension, refurbishment and upgrading works to provide eleven new clinical rooms, two new treatment rooms, Healthcare Assistant room and new basement storage. As well as a newly configured and updated reception, administration and waiting areas.

Completion date: May 2019  
 Capex: £1.0m  
 Additional Rent: £29,500 pa  
 New Lease: 25 years  
 Size: 167 sqm extension  
 Patients: 13,500 patients  
 Number of GPs: 3

## Westwoods Surgery, Northleach



Project description: Medical centre refurbishment to bring the building up to current infection control standards. To include internal reconfiguration to create a further two clinical rooms.

Completion date: Expected Q1 2020  
 Capex: £0.4m  
 Additional Rent: £6,000 pa  
 New Lease: 21 years  
 Size: n/a  
 Patients: 11,000 patients  
 Number of GPs: 5

## Milton Keynes Village Practice



Project description: Medical centre extension to include six new consulting rooms, new minor operations suite, health promotion room and district nurses' locality office.

Completion date: October 2018  
 Capex: £0.8m  
 Additional Rent: £33,500 pa  
 New Lease: 21 years  
 Size: 330 sqm extension  
 Patients: 18,000 patients  
 Number of GPs: 6

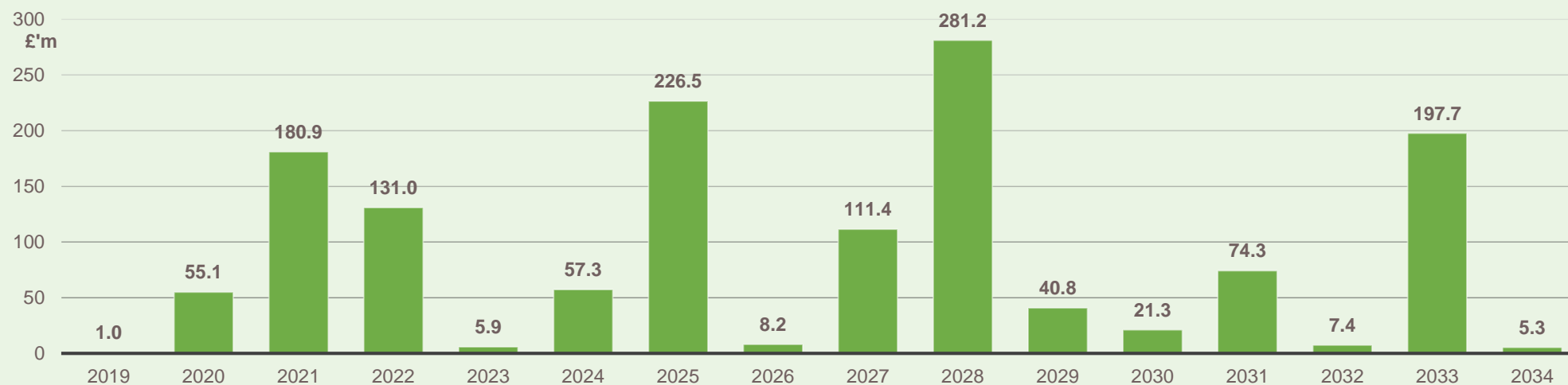


**Funding**

# Debt summary

- ✓ Broad range of lending partners with 93% of debt fixed or hedged
- ✓ Total debt facilities of £1.4bn<sup>(1)</sup>
- ✓ Drawn net debt £1.1bn
- ✓ Group LTV 47.9% (proposed fundraise of between £75m to £100m reduces the LTV ratio by between 3% to 4%)
- ✓ Average cost of debt 3.68%<sup>(1)</sup>, 32bp reduction since the merger with MedicX
- ✓ Long weighted average debt maturity of 7.5 years<sup>(1)</sup>
- ✓ £150m/2.875% unsecured convertible bond issued for 6 year term in July 2019
- ✓ €70m/1.509% secured private placement loan note issued for 12 year term in September 2019; repaying €32.6m Bank of Ireland facility at 3% margin
- ✓ Unfettered portfolio valued at £138m<sup>(1)</sup>

## Debt maturity profile



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**November 2019**