

# Primary Health Properties

Completion of merger

A scale platform for further growth

Primary Health Properties' (PHP's) all-share merger with MedicX completed as planned on 14 March 2019, creating the leading primary healthcare investor in the UK and the Republic of Ireland. Our earnings forecasts immediately benefit from cost efficiencies, while the combination of two high-quality portfolios creates a scale platform, well placed to profitably address the substantial investment needs of the primary healthcare sectors in both countries.

| Year end | Net rental income (£m) | EPRA earnings* (£m) | EPS* (p) | EPRA** NAV/share (p) | DPS (p) | P/NAV (x) | Yield (%) |
|----------|------------------------|---------------------|----------|----------------------|---------|-----------|-----------|
| 12/17    | 71.3                   | 31.0                | 5.2      | 100.7                | 5.25    | 1.27      | 4.1       |
| 12/18    | 76.4                   | 36.8                | 5.2      | 105.1                | 5.40    | 1.22      | 4.2       |
| 12/19e   | 115.6                  | 59.3                | 5.6      | 106.4                | 5.60    | 1.20      | 4.4       |
| 12/20e   | 131.9                  | 68.1                | 6.0      | 110.6                | 5.80    | 1.16      | 4.5       |

Note: \*Diluted EPRA basis, excludes valuation movements and other exceptional items.  
 \*\*EPRA basis adjusts for fair value of derivative interest rate contracts and convertible bond.

## Strong rationale for the merger

The merger brings together two complementary high-quality portfolios, focused on modern, flexible, purpose-built, primary healthcare facilities located across the UK and Republic of Ireland (RoI), with long leases that are mostly government backed. The targeted near-term cost savings, focused on revised management schedules, are highly deliverable and the increased scale of the group offers further strong potential in the medium term. This includes enhanced access to funding, both debt and equity, leaving PHP well positioned for further profitable growth. Not included in our forecasts, a significant medium-term refinancing opportunity exists as the larger group benefits from improved borrowing terms. Our FY19e EPRA EPS and DPS are increased with further strong growth forecast for FY20–21. After merger-related costs, our FY19e EPRA NAV per share growth reduces slightly.

## Enhanced growth prospects

In both the UK and Ireland, there is broad political will to reform healthcare provision, placing more emphasis on primary care to meet the increasing healthcare needs of growing and ageing populations. The requirement for larger, more flexible, higher-quality premises will provide significant investment opportunities for the enlarged group in coming years. PHP and MedicX have recently reported on their own strong acquisition pipelines, amounting to well over £300m, with little or no overlap between the two. More than half of this relates to the RoI, where PHP becomes the leading investor, and where yields remain c 75–100bp above those in the UK.

## Valuation: Secure income, enhanced growth

PHP offers an attractive and growing dividend, fully covered by earnings. Income visibility is strong, with revenues supported by secure, long-term income, substantially subject to upward-only review, with little exposure to the economic cycle, or fluctuations in occupancy. The complementary nature of the merger and added scale enhance future growth prospects.

Real estate

10 April 2019

**Price** 128p  
**Market cap** £1,452m

|                                   |          |
|-----------------------------------|----------|
| Net debt (£m) at 31 December 2018 | 673.2    |
| Net LTV at 31 December 2018       | 44.8%    |
| Shares in issue                   | 1,134.7m |
| Free float                        | 96.7%    |
| Code                              | PHP      |
| Primary exchange                  | LSE      |
| Secondary exchange                | N/A      |

### Share price performance



|                  |     |        |        |
|------------------|-----|--------|--------|
| %                | 1m  | 3m     | 12m    |
| Abs              | 5.0 | 12.7   | 18.3   |
| Rel (local)      | 1.0 | 5.3    | 15.4   |
| 52-week high/low |     | 131.6p | 106.4p |

### Business description

Primary Health Properties is a long-term investor in primary healthcare property in the UK and the Republic of Ireland. Assets are mainly long-let to GPs and the NHS or HSE, organisations backed by the UK and Irish governments, respectively. The tenant profile and long average lease duration provide an exceptionally secure rental income stream.

### Next events

|                 |              |
|-----------------|--------------|
| AGM             | 11 June 2018 |
| Interim results | July 2019    |

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**Primary Health Properties is a research client of Edison Investment Research Limited**

## Leading UK primary healthcare REIT

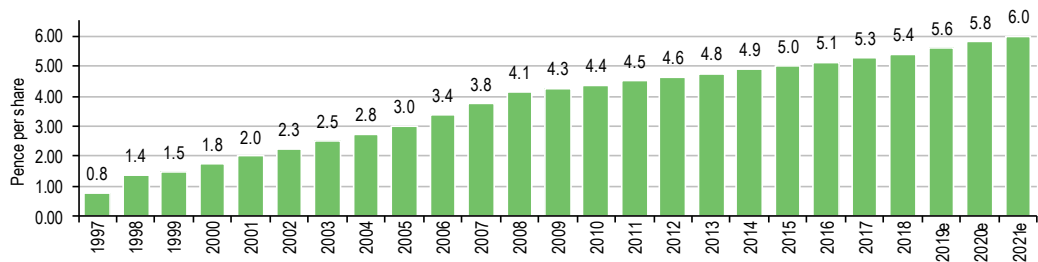
PHP is a UK real estate investment trust (REIT) and, following completion of the agreed merger with MedicX, has become the leading long-term investor in modern, flexible, purpose-built, primary healthcare facilities located across the UK and, more recently, in the RoI. The majority of these are leased to general practitioners (GPs), government health service organisations (the UK NHS or RoI HSE) and other associated healthcare providers, such as pharmacies and dentists. Investment is targeted at assets that can generate long-term rental income with scope for capital gains.

The company was founded by managing director, Harry Hyman, in 1995. It floated on the AIM market of the London Stock Exchange (LSE) in 1996, moved to the Main Market of the LSE two years later and converted to REIT status in 2007. PHP has a proven record of successfully investing in the sector. The agreed merger with MedicX, a UK listed closed-ended investment company and UK REIT and a similar long-term investor in primary healthcare assets in the UK and RoI, completed on 14 March 2019.

Post-merger, and including continuing acquisitions, the enlarged PHP portfolio has reached 484 assets, with a value of c £2.3bn and a contracted annual rent roll of c £125m.

Since it was founded, PHP has delivered 22 years of unbroken dividend growth and targets a further increase, 5.6p for the current (FY19) financial year, fully covered by earnings.

### Exhibit 1: 22 years of unbroken dividend per share growth



Source: PHP, Edison Investment Research

Primary healthcare property is a specialist sector alongside the broader mainstream commercial property subsectors (offices, retail, industrial). As well as having good growth prospects – driven by an ageing population with increasing healthcare needs – that are effectively immune to the economic cycle, the key factors that differentiate it from the broad commercial property sector are as follows:

- Long leases at inception. Typically 20–25 years, with upwards-only rent reviews in the UK.
- A strong tenant covenant; 90% of rent roll is funded directly or indirectly (through cost reimbursement) by the NHS in the UK or the HSE in the ROI.
- No speculative development and minimal vacancy. PHP itself is not a developer and only funds development properties on a pre-let basis.

Together, these characteristics provide primary healthcare property with a high level of income visibility and returns that have historically been much less sensitive to economic cycles than other commercial real estate subsectors.

## Brief summary of the merger details and rationale

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The agreed merger between PHP and MedicX was first announced on 24 January 2019 and, following overwhelming support from the shareholders of both parties, became effective on 14 March 2019. PHP issued 0.77 new shares (c 341.0m) for each Medicx share, such that former MedicX shareholders now own a little more than 30% of the enlarged group.

At the time the merger was announced, PHP's share price of 115.2p represented a c 14% premium to the MedicX share price and a narrower c 9% premium to its 31 December 2018 unaudited NAV per share. However, given the strong rationale for the merger, identified immediate cost synergies, and prospect for further scale benefits, the market values of both companies increased significantly during the offer period, generating further returns for both sets of shareholders. At completion of the transaction, the PHP share price was 129.2p.

### Creating a stronger player, with immediate synergies

There is a growing structural demand for investment in primary care health facilities in both the UK and RoI, as governments and health authorities strive to meet the challenge of ageing populations with growing healthcare needs. In both there is a general acceptance of the critical role of primary healthcare in meeting growing demands and of the advantages for healthcare services to be more integrated within the community as the NHS and HSE strive to improve levels of care and efficiency. To make this happen, the under-invested healthcare estate needs significant resources and requires modern, purpose-built, flexible premises of the type in which PHP invests.

With respect to the merger itself, the main benefits include:

- **The merger has brought together two complementary and high-quality portfolios** with limited geographic overlap. The greater scale this brings should enhance PHP's ability to meet the increasing and substantial investments needs of the primary healthcare sectors in both the UK and RoI. Including transactions undertaken during and subsequent to the merger process, PHP owns a portfolio 484 assets with a gross value of c £2.3bn and an annual contracted rent roll of c £125m. PHP's nearest rival, the quoted Assura, has a portfolio of more than 550 assets, valued at c £1.9bn, with an annualised rent roll of c £100m.
- **The acquisition pipelines of both companies were strong.** With its FY18 results in January, PHP indicated a pipeline of acquisition opportunities of more than £190m, with slightly more than half (£100m) in the RoI. Similarly, in its FY18 results in December MedicX reported a pipeline of £144m (£60m in the UK and £84m in the RoI). Management indicates little or no overlap in the acquisition pipelines of the respective companies, which is a positive indicator for near-term growth.
- **PHP expects c £4.0m pa of recurring cost synergies from in the first full year of the merger** comprising management fee savings from the unification of property management under Nexus (c £3.0m, net of a £0.5m pa fee rebate from Nexus) and savings on administrative and direct property costs (c £1.0m). This is expected to reduce to c £3.5m pa from the sixth year once the five-year Nexus fee rebate comes to an end. Management fee savings will be achieved immediately as prescribed in the revised fee schedules, while the administration and direct property costs are expected to be delivered progressively over the first year. PHP expects the EPRA cost ratio to fall to at least 12.0% following the merger, from 14.3% in FY18, already low relative to the UK REIT sector.
- Although not quantified at this early stage, management expects the strong and enlarged balance sheet will provide **broader and more competitively priced access to debt funding**. Other things being equal, larger companies are typically able to borrow at lower margins and although we have not built this into our forecasts, over the medium to long term as existing

facilities mature and new facilities are arranged, we would expect a potentially significant further saving from funding costs. We provide a sensitivity on page 10.

- We also believe the larger market capitalisation and expected increase in trading liquidity will increase the appeal of PHP's shares to a **wider pool of investors** both domestically and internationally, improving access to equity capital funding as well as debt funding in support of the expected portfolio growth. The current market capitalisation of the enlarged group is now approaching £1.5bn compared with c £886m for PHP and c £344m for MedicX immediately before the merger was announced.

The total costs of the transaction, incurred by the enlarged company, are expected to be c £24.5m comprising a one-off contractual termination payment to Octopus, the former MedicX investment adviser, of £10m (although fee rebate agreed by Nexus will see £2.5m of this cost recovered over the first five years), and c £14.5m of merger related fees and expenses incurred by the two companies. However, the merger avoids the payment of stamp duty in respect of the transfer of the MedicX assets, which we estimate would have amounted to c £40m had PHP made a similar-sized asset acquisition.

## Revised management fees will drive efficiencies

PHP is managed by the board of directors, and with no direct employees the board appoints specialist third-party advisers to assist with the day-to-day running of the group. Nexus Tradeco (Nexus) is appointed to provide property advisory and management services, including the services of the managing director and finance director, Harry Hyman and Richard Howell, as well as administrative and accounting services. It has a successful track record of creating value for PHP and its shareholders since the company was founded in 1995, including managing the successful implementation and integration of previous acquisitions including that of Prime Public Partnership (Holdings) in 2013 (54 properties with a value of £233m).

Since the completion of the merger there have been a number of changes to the PHP board aimed at maintaining an appropriate size and balance, with the complementary skills required to take the enlarged group forward. The former non-executive chair of the MedicX board, Helen Mahy, has joined the PHP board as deputy chair and senior independent NED, subject to shareholder approval at the AGM in June. Former MedicX NED Laure Duholt has also joined the PHP board, subject to shareholder approval. PHP directors Nick Wiles and Geraldine Kennel will step down from the board at the AGM.

Following these changes, the board of PHP will comprise six independent directors, Steven Owen (chair), Helen Mahy (deputy chair and senior NED), Peter Cole, Laure Duhot, Dr Stephen Kell and Ian Krieger, along with Harry Hyman (managing director) and Richard Howell (finance director).

## Cost ratio should fall further

PHP's 2018 EPRA cost ratio of 14.3% already compares well with UK REIT sector, but management expects this to fall to c 12% in the first full year of the merger. MedicX did not publish an EPRA cost ratio, but we estimate it was c 18% for the year ended 30 September 2018 and, although it would have fallen subsequently as a result of lower management fee introduced from 1 October 2018, prior to the merger, the additional merger-related savings represent a further step-change in efficiency.

The property advisory fee payable to Nexus is based on the gross net assets of PHP's portfolio, calculated on a sliding scale, which with incremental asset growth lowers the average fee. With effect from 1 January 2019, the fee schedule has been revised such that the marginal fee rate on assets above £2.0bn is reduced to 0.225% pa and on assets above £2.25bn to 0.20% pa,

enhancing the attractiveness of further portfolio growth for investors. The fixed annual fee for administrative and accounting services increases post-merger from c £1.0m to c £1.25m, much less than the c £1.0m non-management fee administrative cost savings that are targeted from the merger. Additionally, Nexus is entitled to a performance incentive fee (PIF) that gives Nexus 11.25% of the EPRA NAV total return (change in NAV plus dividends paid) above a hurdle rate of 8%, on a cumulative basis, with annual payments subject to caps.

For the first five years after the completion of the merger, the fees paid to Nexus for the management of the formerly MedicX investment portfolio is set at a fixed 0.225% pa, reverting to the PHP fee schedule at the marginal rate. The expected saving on the fees that would have been payable by MedicX to Octopus, under the lower fee schedule that was introduced from 1 October 2018, is c £2.5m pa (before benefit from the £0.5m pa Nexus fee rebate during the first five years).

We believe management has been prudent in estimating the efficiency benefits of the merger and our forecasts look for the EPRA cost ratio to fall to 11.2% in FY20, the first full year of the merger.

## Larger, high-quality portfolio

Exhibit 2 shows a summary of the enlarged PHP portfolio. The long-weighted average unexpired lease term of 13.5 years with 91% of income government backed provides considerable income visibility. In our view, despite a competitive investment market, both PHP and MedicX have taken a disciplined approach in selecting investments to grow their portfolios through acquisition, targeting quality of the assets and their ability to generate growing rents and attractive returns over the long term and not just in the immediate future. It is not easy for investors to assess the quality of the assets in the portfolio, but we would suggest that larger, more modern assets and those with the flexibility to adapt and change are more likely to provide superior long-term rental growth.

|                                  | Pro-forma |        |          | Current, enlarged PHP |
|----------------------------------|-----------|--------|----------|-----------------------|
|                                  | PHP       | MedicX | Combined |                       |
| Total number of properties       | 313       | 166    | 479      | 484                   |
| Of which in Rol                  | 8         | 5      | 13       |                       |
| Investment portfolio value (£bn) | 1.5       | 0.8    | 2.3      | 2.3                   |
| Contracted rent roll (£m)        | 79        | 44     | 123      | 125                   |
| Net initial yield (NIY)          | 4.85%     | 4.85%  | 4.85%    |                       |
| Average lot size (£m)            | 4.8       | 4.8    | 4.8      |                       |
| Average WAULT (years)            | 13.1      | 14.2   | 13.5     |                       |
| Occupancy                        | 99.8%     | 99.0%  | 99.5%    |                       |
| Government backed rents          | 91%       | 90%    | 91%      |                       |

Source: PHP

PHP has continued to acquire assets during the merger period and since, adding five assets for an aggregate investment commitment of c £31m. Two of these are large additional investments in the Rol, where we see good additional growth opportunities and where yields and spreads over funding costs remain higher than in the UK (see our [November update](#)).

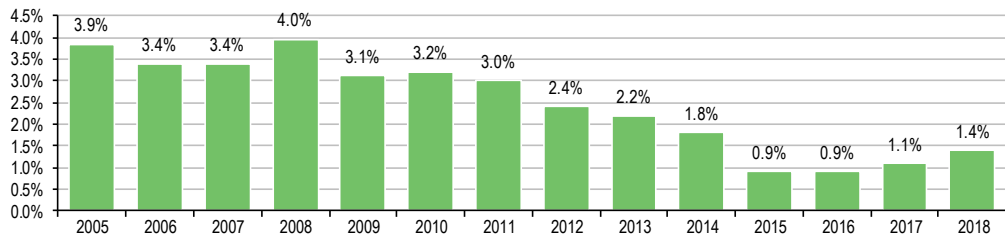
| Exhibit 3: FY19 acquisitions to date         |             |            |                        |               |              |  |
|--|-------------|------------|------------------------|---------------|--------------|--|
| Property                                     | Type        | Area (sqm) | Acquisition price (£m) | WAULT (years) | Rental terms | Tenants/services   |
| Oakwood Medical Centre, Leeds                | Investment  | 1,177      | 5.425                  | 21            | RPI          | GPs, pharmacies  |
| The Meath Primary Healthcare Centre, Dublin* | Investment  | 2,770      | 9.5                    | 16            | CPI          | HSE and GPs (c 64%), diagnostic, dentistry, physio, pharmacy |
| Langwith, Derbyshire                         | Development |            | 1.80                   | 20            |              |  |
| Athy, County Kildare, Rol*                   | Development | 3,975      | 9.91                   | 30            |              | HSE/TUSLA (c 80%), GP, pharmacies/retail                     |
| Kew, London                                  | Development | 845        | 4.6                    | 25            | Open market  | GPs, CWC prescribing charity                                 |
|  |             |            | 31.2                   |               |              |  |

Source: PHP

## Rent growth showing signs of picking up

Low rates of inflation (in contrast to land and building cost inflation) and low open-market rent review increases in recent years have resulted in low overall levels of rent growth. However, the trend of the past three years has moved positively upwards, with an average uplift on review of 1.4% achieved by PHP in FY18.

**Exhibit 4: Rental growth history**



Source: Company data, Edison Investment Research

Around 75% of UK rents are set according to three-yearly open market reviews, with the balance being RPI-linked or fixed uplift agreements. Across the market there is evidence that open-market rent reviews have failed to sufficiently capture the strong rise in land and build costs in recent years, in part the result of financial pressures and reorganisation within the NHS that has slowed decision making of commissioning the development of new primary healthcare facilities. This dearth of new developments has restricted the opportunities for increased land and building costs to be adequately reflected in the rent reviews for existing assets and threatens to restrict the flow of much-needed private investment to support modernisation of the primary healthcare estate. There is now a growing optimism that this is changing as NHS reforms bed down, plans take shape and development activity picks up.

## Financials

### The 2018 results showed good growth with 9.8% total return

The PHP results for the year ended 31 December 2018 (FY18) were released on 31 January 2019 shortly after the merger with MedicX was announced. These were very much in line with our expectations (Exhibit 5), showing good growth in assets, rental income and recurring earnings (basic EPRA earnings increased by c 19% to £36.8m). The increased DPS (5.40p versus 5.25p in FY17) were fully covered by EPRA earnings. Including unrealised valuation gains on the investment portfolio, EPRA NAV per share increased c 4% to 105.1p and, including DPS paid, the NAV total return for the year was 9.8%. MedicX also performed well in the year to 30 September 2018 (FY18), underlining the strategic rationale to the merger. In FY18 MedicX grew its rent roll by 10% to £44.0m and increased EPRA earnings per share by 11.4% to 3.9p. Ahead of the revised MedicX dividend policy coming into effect the DPS was uncovered, but EPRA NAV total return was a strong 14.8%.

**Exhibit 5: Summary of PHP's 2018 results**

| £m unless otherwise stated                                      | 2018        | 2017        |            | 2018e       |
|---|-------------|-------------|------------|-------------|
| Net rental income   | 76.4        | 71.3        | 7%         | 75.9        |
| Administrative expenses   | (9.9)       | (8.7)       | 14%        | (9.8)       |
| <b>Operating profit before revaluation gain &amp; financing</b> | <b>66.5</b> | <b>62.6</b> | <b>6%</b>  | <b>66.0</b> |
| Net financing costs   | (29.7)      | (31.6)      | -6%        | (29.2)      |
| <b>EPRA basic earnings</b>                                      | <b>36.8</b> | <b>31.0</b> | <b>19%</b> | <b>36.9</b> |
| Net result from property portfolio                              | 36.0        | 64.5        |            | 31.2        |
| Fair value loss on derivatives & convertible bond               | 1.4         | (3.6)       |            | 0.3         |
| Gain on disposal of land  | 0.1         | 0.0         |            | 0.0         |
| <b>IFRS PBT</b>   | <b>74.3</b> | <b>91.9</b> |            | <b>68.3</b> |
| EPRA EPS, diluted for convertible bond (p)                      | 5.2         | 5.2         | 1%         | 5.2         |
| EPRA NAV (p)  | 105.1       | 100.7       | 4%         | 105.4       |
| DPS (p)   | 5.40        | 5.25        | 3%         | 5.40        |
| Dividend cover (EPRA earnings/dividends paid)                   | 1.01        | 0.99        |            | 1.01        |
| Investment properties   | 1,502.9     | 1,361.9     | 10%        | 1,472.8     |
| Net LTV   | 44.8%       | 52.9%       |            | 45.9%       |

Source: PHP

## Our revised forecasts include MedicX from the merger completion date

Our revised forecasts to the end of FY21 are shown in Exhibit 6. MedicX is included in PHP earnings from the completion of the merger, making a contribution for just over nine months in FY19.

The significant enlargement of the group renders direct comparison with our previous expectations somewhat meaningless; however, our post-merger EPRA EPS expectations for FY19 are higher than previously, despite a less than full-year merger impact. Our higher FY19 DPS forecast reflects management's target as reflected in the quarterly interim dividends paid year to date, and we expect the increased dividends paid (higher DPS and more shares in issue) to be fully covered by EPRA earnings.

**Exhibit 6: Revised forecasts**

|        | Net rental income (£m) |       |        | EPRA earnings |      |        | Diluted EPRA EPS (p) |     |        | DPS (p) |       |        | Dividend cover |      |        | EPRA NAVPS (p) |       |        |
|--------|------------------------|-------|--------|---------------|------|--------|----------------------|-----|--------|---------|-------|--------|----------------|------|--------|----------------|-------|--------|
|        | Old                    | New   | % diff | Old           | New  | % diff | Old                  | New | % diff | Old     | New   | % diff | Old            | New  | % diff | Old            | New   | % diff |
| 12/19e | 81.4                   | 115.6 | 42.0%  | 43.3          | 59.3 | 36.9%  | 5.5                  | 5.6 | 1.6%   | 5.500   | 5.600 | 1.8%   | 105%           | 101% | -3.4%  | 109.1          | 106.4 | -2.4%  |
| 12/20e | N/A                    | 131.9 | N/A    | N/A           | 68.1 | N/A    | N/A                  | 6.0 | N/A    | N/A     | 5.800 | N/A    | N/A            | 103% | N/A    | N/A            | 110.6 | N/A    |
| 12/21e | N/A                    | 141.3 | N/A    | N/A           | 70.1 | N/A    | N/A                  | 6.1 | N/A    | N/A     | 6.000 | N/A    | N/A            | 102% | N/A    | N/A            | 115.1 | N/A    |

Source: Edison Investment Research

## Underlying growth assumptions

They key underlying forecast assumptions we make relate to asset growth and funding:

- New investment commitments of £150m in FY19, increasing to £150m in FY20, a mix of fully let completed assets and forward funding commitments. We have previously assumed commitments of c £100m pa for PHP and believe the step-up from FY20 represents a prudent uplift assumption for the enlarged group. PHP has committed more than £30m to new investments already in FY19.
- For the UK we assume a blended cash yield on investment of 4.75% for standing assets and 5.00% for development assets and in the RoI we assume 5.25% for standing assets and 5.75% for development assets. The blended yield on our assumed new commitments is 5.13%. We assume a blended average 2.0% pa rental growth.
- Given that cash is deployed to forward funding agreements, the cash investment reflected in our estimates slightly lags the pace of investment commitments. Although we expect PHP to fund its future growth with a mix of new equity and debt capital, we assume all debt funding and

no equity issuance in our forecasts. For new debt we assume a rate of 3.5%. This is above the current marginal rate applicable to PHP's existing facilities of LIBOR +0.90% (or less than 3%), but we feel is more representative of medium-term funding costs. Our forecasts reflect the full conversion of the convertible bond by end May 2019 and we allow for repayment of the outstanding 5.375% retail bonds in July 2019, refinanced by new secured bank debt.

- Our cost estimates are substantially driven by the revised fee schedules described in detail above and allow for the targeted c £1.0m pa of administrative cost savings, with a full-year effect from FY20. In addition, we allow for £1.0m pa PIF payments to the investment adviser.
- We make no assumption of changes in market valuation yields (either up or down) and reflect the assumed rental growth in gross revaluation gains. We estimate that a 0.1% decrease in the portfolio net initial yield would increase FY19e EPRA NAV per share by c 4.3p, with a 0.1% increase in net initial yield having a similar negative impact.

## We look through IFRS merger impacts

We continue to focus on EPRA earnings and NAV as the best indicators of underlying performance. EPRA earnings strip out revaluation movements and non-recurring items from statutory IFRS earnings, and the EPRA net asset value adjusts for temporary unrealised valuation movements. FY19 IFRS earnings will also be affected by several merger-related adjustments, predominantly non-cash, which we have allowed for in our forecasts. The adjustments effectively relate to the accounting treatment of the merger as an asset acquisition, with the costs of the merger and other adjustments treated as valuation adjustments to the fair value of that asset through the income statement:

- In accounting terms, the MedicX net assets at completion of the merger will be consolidated into the PHP balance sheet at fair value, while the new PHP shares issued will be recorded at their market value at the time of issue.
- The main fair value adjustment to the MedicX balance sheet relates to debt, mostly carried at nominal value; the investment properties were already stated at fair value. We have consolidated our c £319m estimate of the fair value of MedicX net assets at the closing of the transaction into the PHP balance sheet, which is our estimate of the IFRS NAV at closing (c £359m, similar to the disclosed 31 December 2018 IFRS NAV) after allowing for our £39.7m estimate of the negative impact of adjusting debt to fair value. We have taken the stated £39.7m mark-to-market adjustment at 31 December 2018, although it will have changed subsequently with movements in market interest rates. The fair value adjustment will not be reflected in EPRA NAV and will be amortised over the effective life of the debt with a positive impact on net interest expense that will similarly be excluded from EPRA EPS.
- The 341.0m new PHP shares issued for MedicX will be recorded at their market value, which was c £441m at a price of 129.2p per share at close of trading on 14 March 2019. In the IFRS financial statements, the difference between the value of the shares issued and the fair value of the MedicX net assets (we estimate £122m) will be written off through the IFRS income statement. The rise in the PHP share price in during the merger process increased the size of the accounting write-off in the IFRS income statement but had no impact on net asset value as the value of shares issued had an equivalent positive impact on equity.
- The £24.5m of expected merger-related costs will also be accounted for as a valuation adjustment in respect of the MedicX fair net asset value.

The impacts on the IFRS financial statements are summarised in the table below. The merger-related costs (c £14.5m) and acquisition premium (c £122m), an aggregate £146.4m, recognised in the IFRS income statement are excluded from EPRA earnings, along with the £2.9m amortisation of debt fair value adjustment. As always, the underlying property revaluation (£33.8m) is also excluded



from EPRA. In the balance sheet, the £39.7m debt fair-value adjustment reflected in IFRS net assets is added back to EPRA net assets along with c £20.7m of other EPRA adjustments.

| <b>Exhibit 7: Summary of FY19 merger adjustments</b> |                |                    |              |
|--|----------------|--------------------|--------------|
| <b>£m unless otherwise stated</b>                    | <b>2019e</b>   |                    |              |
|  | <b>IFRS</b>    | <b>Adjustments</b> | <b>EPRA</b>  |
| <b>INCOME STATEMENT</b>                              |                |                    |              |
| Net rental income                                    | 115.6          |                    | 115.6        |
| Administrative expenses                              | (11.8)         |                    | (11.8)       |
| <b>Merger related revaluation movements</b>          | <b>(146.4)</b> | <b>146.4</b>       | <b>0.0</b>   |
| Other property revaluation movements                 | 33.8           | (33.8)             | 0.0          |
| <b>Operating profit</b>                              | <b>(8.8)</b>   | <b>112.6</b>       | <b>103.8</b> |
| Net financing costs                                  | (41.6)         | (2.9)              | (44.5)       |
| <b>Profit before tax</b>                             | <b>(50.4)</b>  | <b>109.7</b>       | <b>59.3</b>  |
| Tax  | 0              |                    | 0.0          |
| <b>Profit after tax</b>                              | <b>(50.4)</b>  | <b>109.7</b>       | <b>59.3</b>  |
| <b>BALANCE SHEET</b>                                 |                |                    |              |
| IFRS NAV   | 1,149.6        | 60.4               | 1,210.1      |
| Source: Edison Investment Research                   |                |                    |              |

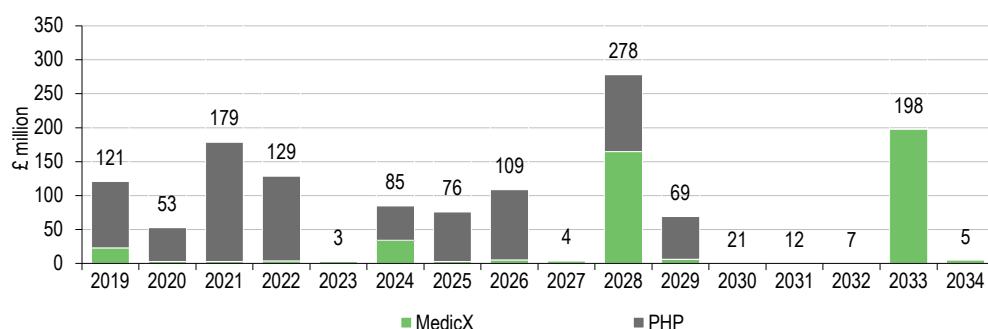
## Balance sheet and funding

The enlarged group has a broadly diversified portfolio of debt facilities amounting to c £1.3bn; coming into FY19 c £0.2bn of this was undrawn. Around 97% of the facilities are fixed or hedged, with an average cost of debt of c 4.0% and an average maturity of around eight years. PHP ended FY18 with an LTV of 44.8%, and even after consolidating MedicX with its higher gearing (52.6% at 31 December 2018) the pro-forma level of 47.8% (46.9% assuming conversion of the convertible bonds) well below the c 50% that we expect the group to target over the medium term.

In terms of our modelling, we have assumed all of the portfolio growth we forecast is debt funded, taking gross debt to c £1.5bn by end-FY21, using currently undrawn debt facilities and requiring additional borrowing to be arranged. In reality we would expect PHP to increase its equity capital resources during this period, although the timing and terms of this are difficult to anticipate. As noted above, we have assumed marginal debt funding rate strikes a balance between the likely medium-term cost of funding and the lower marginal rate of debt funding available in current market conditions.

## Refinancing opportunity

The c 4.0% average cost of debt for the enlarged group reflects the end-FY18 PHP average cost of debt of 3.90% and the c 4.26% average fixed cost of the debt assumed with MedicX. The higher cost of the MedicX debt largely reflects its long-term fixed rate nature (which can be seen clearly in Exhibit 8).

**Exhibit 8: Debt maturity profile of enlarged group**


Source: Company data

The average cost of both the PHP and MedicX debt and derivatives is above current market values, reflected in the published mark-to-market impacts. Other than at maturity, we do not expect PHP to take any significant action to refinance the existing debt as this would trigger settlement of the mark-to-market liability and would be effectively net present value neutral despite lowering recurring interest costs. However, new borrowing should immediately benefit from the increased scale of the group and for existing borrowing we see good potential for the enlarged group to benefit from improved borrowing terms:

- Final conversion of the 4.25% convertible bonds by May 2019 (currently £0.7m nominal outstanding compared with £23.2m at end-FY18) and the repayment at maturity of the 5.375% £75m retail bond in July 2019 provide opportunities to refinance existing at lower cost in the current year. We have assumed refinancing at 3.5%, although in reality this will be achieved at a lower rate given the current marginal rate of funding of less than 3%.
- The impact of further debt maturities in coming years will depend on market rates and financing conditions at the time but provide additional opportunities for the enlarged group to leverage its scale to optimise its funding position.

In Exhibit 9 we show the sensitivity of our FY20 (first full year of the merger) EPRA earnings estimates to a range of fairly small changes in the average cost of debt. We estimate that every 10bp reduction in average interest costs enhances forecast EPRA earnings by almost 2%.

**Exhibit 9: Sensitivity of FY20 forecast to change in interest costs**

| Change in average debt cost | Change in net finance cost | Change in EPRA earnings |
|-----------------------------|----------------------------|-------------------------|
| -0.25%                      | (3.2)                      | 4.7%                    |
| -0.20%                      | (2.5)                      | 3.7%                    |
| -0.15%                      | (1.9)                      | 2.8%                    |
| -0.10%                      | (1.3)                      | 1.9%                    |
| -0.05%                      | (0.6)                      | 0.9%                    |
| <b>0.00%</b>                | <b>0.0</b>                 | <b>0.0%</b>             |
| 0.05%                       | 0.6                        | -0.9%                   |
| 0.10%                       | 1.3                        | -1.9%                   |
| 0.15%                       | 1.9                        | -2.8%                   |
| 0.20%                       | 2.5                        | -3.7%                   |
| 0.25%                       | 3.2                        | -4.7%                   |

Source: Edison Investment Research

## Valuation

Given strong primary healthcare property investment fundamentals and an environment of continuing low interest rates, the security and length of PHP's lease portfolio with good prospects for continuing growth continues to be attractive to investors. Historical returns on primary

healthcare assets have been higher than other sectors of the UK commercial property market, with a lower level of volatility. This has been a function of more resilient income, with no material voids and rents continuing to grow through downturns and more muted yield shifts.

Our forecast FY19 dividend of 5.60p represents a 4.5% dividend yield on the current share price, with growth potential, and is covered by forecast cash earnings off a secure, long-term income stream. With c 91% of the rent roll funded directly or indirectly by the NHS in the UK or HSE in Ireland, it is tempting to draw comparison with the generic yield on 10-year gilts at little more than 1.0%. This secure and growing dividend return on PHP shares provides support for a continuing valuation premium to EPRA NAV.

Between the end of 2013 and the end of 2018, PHP generated an EPRA NAV total return of 74.6% or a compound 11.8% pa. Dividends paid have accounted for around a half of the return, with capital values benefiting from yield tightening and modest rental growth.

| <b>Exhibit 10: Five-year NAV total return of 11.8% pa compound</b> |              |              |             |              |             |              |
|--|--------------|--------------|-------------|--------------|-------------|--------------|
|  | 2014         | 2015         | 2016        | 2017         | 2018        | 2014-2018    |
| Opening EPRA NAV per share (p)                                     | 74.9         | 79.7         | 87.7        | 91.1         | 100.7       | 74.9         |
| Closing EPRA NAV per share (p)                                     | 79.7         | 87.7         | 91.1        | 100.7        | 105.1       | 105.1        |
| Dividends paid in period (p)                                       | 4.88         | 5.00         | 5.13        | 5.25         | 5.40        | 25.65        |
| <b>NAV total return</b>  | <b>12.9%</b> | <b>16.4%</b> | <b>9.7%</b> | <b>16.3%</b> | <b>9.8%</b> | <b>74.6%</b> |
| <b>Compound annual average return</b>                              |              |              |             |              |             | <b>11.8%</b> |

Source: Edison Investment Research

With indications of open market rental growth picking up and the scope for further yield tightening less clear, we would expect the balance of future returns to shift towards income. At some point we are likely to enter a market environment in which valuation yields stop tightening and may even increase again, although the latter is only likely in the context of a broad property market yield shift. This would have no impact on the rental income from existing assets and would increase the cash yield available on acquisitions. In our near-term estimates, by assuming capital value growth in line with 2.0% assumed rent growth over the next two years, our forecast EPRA NAV total returns to end-FY21 are a compound average 8.0% pa, of which income returns represent around two-thirds of the total.

In Exhibit 11 we show the key valuation and performance metrics for PHP, a group of peers with similarly long lease exposure to a range of asset types with differing covenant strengths, the broad UK property sector and the FTSE All-Share Index. For comparative purposes, the data are on a trailing basis, using the last published EPRA NAVs and trailing 12-month dividends declared. Within the peer group, primary healthcare assets are differentiated by the strength of the tenant covenant (91% NHS/HSE). The mix of lease rental terms that provides significant exposure to a pick-up in open market rents compared with significant index-linked rents amongst peers. Given the multi-year lag in open market rents and signs of acceleration, this may well prove advantageous.

**Exhibit 11: Peer comparison**

|                      | Price (p)  | Market cap. (£m) | P/NAV (x)   | Yield (%)  | Share price performance |            |            |               |
|----------------------|------------|------------------|-------------|------------|-------------------------|------------|------------|---------------|
|                      |            |                  |             |            | 1 month                 | 3 months   | 12 months  | From 12m high |
| Assura               | 57         | 1,372            | 1.09        | 4.7        | 0%                      | 3%         | -5%        | -6%           |
| Impact Healthcare    | 107        | 206              | 1.04        | 5.6        | 3%                      | 3%         | 6%         | -1%           |
| Lxi REIT             | 128        | 450              | 1.13        | 4.3        | 3%                      | 7%         | 28%        | 0%            |
| Secure Income        | 413        | 1,333            | 1.08        | 3.5        | 1%                      | 8%         | 11%        | 0%            |
| Supermarket Income   | 102        | 233              | 1.06        | 5.4        | 0%                      | 5%         | 1%         | -4%           |
| Target Healthcare    | 117        | 450              | 1.09        | 5.6        | 1%                      | 8%         | 9%         | -1%           |
| Tritax Big Box       | 148        | 2,523            | 1.01        | 4.5        | 4%                      | 9%         | 1%         | -6%           |
| <b>Average</b>       |            |                  | <b>1.07</b> | <b>4.8</b> | <b>2%</b>               | <b>6%</b>  | <b>7%</b>  | <b>-3%</b>    |
| <b>PHP</b>           | <b>129</b> | <b>1,461</b>     | <b>1.24</b> | <b>4.2</b> | <b>4%</b>               | <b>12%</b> | <b>18%</b> | <b>-3%</b>    |
| UK property index    | 1,725      |                  |             | 4.5        | 0%                      | 7%         | -4%        | -8%           |
| FTSE All-Share Index | 4,065      |                  |             | 4.5        | 4%                      | 8%         | 3%         | -6%           |

Source: Company data, Edison Investment Research. Note: Based on last reported EPRA NAV and 12-month trailing dividends declared. Prices at 8 April 2019.

PHP's share price performance over the past 12 months has been consistently strong, ahead of peers, the broad property sector and the FTSE All-Share Index. As a result, its trailing dividend yield of 4.2% is a little below the average for the peer group and broad property sector and FTSE All-Share Index but given the stage of the property cycle (the recovery from the last major down-cycle began in 2009), this difference may be explained by the visible growth prospects for primary healthcare income in general, and the expected merger benefits still to come through at PHP. Our forecasts include an average 3.6% DPS growth between end-FY18 and end-FY21, with DPS fully covered by earnings.

## Sensitivities

We view PHP as relatively low operational risk as a long-term investor in a specialist sector of the commercial property market characterised by long leases, predominantly government backed, with minimal vacancy and (in the UK) upwards-only lease adjustments supported by predominantly fixed-cost debt. We do not believe the merger with MedicX presents a material integration risk given the complementarity of the businesses, the security of income and the predictability of management fee expenses, and the continuity of management. There are nevertheless a range of factors that could affect the business, especially over the longer term, including structural changes in the markets in which the group operates, changes to government health and fiscal policies, general economic and monetary conditions and operational performance. In particular we note:

- Enhancing rental growth, we expect continuing property acquisitions to be a significant driver of the growth that we forecast, requiring the enlarged group to maintain a suitable pipeline of properties and development assets for investment on favourable terms and conditions. The complementary nature of the current pipelines of both PHP and MedicX should support near-term acquisition-led growth, while the enhanced scale of the enlarged group, bringing together the strong industry relationships of both companies, is a positive long-term indicator.
- Market environment:
  - As discussed above, the demand for healthcare in both the UK and the RoI seems set for further growth, while government and health service planning in both countries puts primary healthcare at the centre of measures to improve delivery and generate overall efficiencies. Primary healthcare estates need substantial modernisation and upgrading to meet this demand.
  - Attractive risk-adjusted yields have enticed new investors to the sector resulting in tightening yields, with competition greatest for the larger, purpose-built properties that are expected provide the best potential for longer-term rental growth and returns. Favourable funding conditions have maintained a positive spread between acquisition yields and costs,

including funding costs, while the spread is higher in the RoI where PHP has a strong and growing presence. Signs of accelerating rental growth are a positive factor.

- Government policy: while changes cannot be ruled out over the longer term, the UK government and all major parties support of health service planning, which includes a larger, community-based role for primary care, with 24/7 access to GP services and supported by increased funding. The Irish government is similarly restructuring its primary care provision.
- General economic and monetary conditions:
  - The non-cyclical nature of the sector reduces the impact of fluctuations in the wider economy and property market and we would include the impact of Brexit in this. We expect such fluctuations to have no material direct impact on PHP's income and, as has been the case historically, we would expect variations in property valuations to be less pronounced than for the broad commercial property sector.
  - With 97% of debt fixed rate or protected by interest rate swaps, short-term interest risk is very limited. The average maturity of the debt facilities has increased to around eight years, although this remains shorter than the c 13-year WAULT, and without assuming further management action, there is a risk that interest rates, particularly real interest rates, may be higher as debt facilities mature in the future.

**Exhibit 12: Financial summary**

| £'000s   | 2017    | 2018    | 2019e     | 2020e     | 2021e     |
|--|---------|---------|-----------|-----------|-----------|
| Year end 31 December                                     | IFRS    | IFRS    | IFRS      | IFRS      | IFRS      |
| <b>PROFIT &amp; LOSS</b>                                 |         |         |           |           |           |
| Net rental income  | 71.3    | 76.4    | 115.6     | 131.9     | 141.3     |
| Administrative expenses                                  | (8.7)   | (9.9)   | (11.8)    | (12.3)    | (12.5)    |
| EBITDA   | 62.6    | 66.5    | 103.8     | 119.6     | 128.9     |
| Net result on property portfolio                         | 64.5    | 36.0    | 33.8      | 42.3      | 46.0      |
| Other acquisition related value adjustment               | 0.0     | 0.0     | (146.4)   | 0.0       | 0.0       |
| Operating profit before financing costs                  | 127.1   | 102.5   | (8.8)     | 161.9     | 174.9     |
| Net Interest   | (31.6)  | (29.7)  | (41.6)    | (47.9)    | (55.1)    |
| Net other income/expense                                 | (3.6)   | 1.5     | 0.0       | 0.0       | 0.0       |
| Profit Before Tax  | 91.9    | 74.3    | (50.4)    | 114.0     | 119.8     |
| Tax  | 0.0     | 0.0     | 0.0       | 0.0       | 0.0       |
| Profit After Tax (FRS 3)                                 | 91.9    | 74.3    | (50.4)    | 114.0     | 119.8     |
| Adjusted for the following:                              |         |         |           |           |           |
| Net gain/(loss) on revaluation                           | (64.5)  | (36.0)  | (33.8)    | (42.3)    | (46.0)    |
| Profit on disposal                                       | 0.0     | (0.1)   | 0.0       | 0.0       | 0.0       |
| Fair value gain/(loss) on derivatives & convertible bond | 3.6     | (1.4)   | 0.0       | 0.0       | 0.0       |
| Exceptional costs related to MedicX acquisition          | 0.0     | 0.0     | 146.4     | 0.0       | 0.0       |
| Amortisation of fair value adjustment to acquired debt   | 0.0     | 0.0     | (2.9)     | (3.6)     | (3.6)     |
| EPRA basic earnings                                      | 31.0    | 36.8    | 59.3      | 68.1      | 70.1      |
| Period end number of shares (m)                          | 619.4   | 769.1   | 1,137.2   | 1,140.1   | 1,143.1   |
| Average Number of Shares Outstanding (m)                 | 600.7   | 708.6   | 1,062.5   | 1,138.5   | 1,141.4   |
| Fully diluted average number of shares outstanding (m)   | 665.5   | 732.7   | 1,062.5   | 1,138.5   | 1,141.4   |
| Basic IFRS EPS (p)                                       | 15.3    | 10.5    | (4.7)     | 10.0      | 10.5      |
| EPRA EPS (p)   | 5.2     | 5.2     | 5.6       | 6.0       | 6.1       |
| Dividend per share (p)                                   | 5.250   | 5.400   | 5.600     | 5.800     | 6.000     |
| Dividend cover (EPRA earnings/dividends paid)            | 99%     | 101%    | 101%      | 103%      | 102%      |
| EPRA cost ratio  | 13.2%   | 14.3%   | 12.1%     | 11.2%     | 10.6%     |
| <b>BALANCE SHEET</b>                                     |         |         |           |           |           |
| Non-current assets                                       | 1,361.9 | 1,503.5 | 2,447.6   | 2,629.5   | 2,825.8   |
| Investment properties                                    | 1,361.9 | 1,502.9 | 2,446.0   | 2,627.9   | 2,824.2   |
| Other non-current assets                                 | 0.0     | 0.6     | 1.7       | 1.7       | 1.7       |
| Current Assets   | 10.5    | 10.5    | 27.1      | 19.8      | 16.4      |
| Cash & equivalents                                       | 3.8     | 5.9     | 13.5      | 6.1       | 2.7       |
| Other current assets                                     | 6.7     | 4.6     | 13.7      | 13.7      | 13.7      |
| Current Liabilities                                      | (33.9)  | (134.5) | (55.3)    | (55.3)    | (55.3)    |
| Current borrowing  | (0.8)   | (102.4) | 0.0       | 0.0       | 0.0       |
| Other current liabilities                                | (33.1)  | (32.1)  | (55.3)    | (55.3)    | (55.3)    |
| Non-current liabilities                                  | (751.7) | (591.5) | (1,269.9) | (1,393.1) | (1,531.3) |
| Non-current borrowings                                   | (729.6) | (573.7) | (1,247.1) | (1,370.3) | (1,508.5) |
| Other non-current liabilities                            | (22.1)  | (17.8)  | (22.8)    | (22.8)    | (22.8)    |
| Net Assets   | 586.8   | 788.0   | 1,149.6   | 1,201.0   | 1,255.7   |
| Derivative interest rate swaps                           | 24.5    | 17.2    | 17.2      | 17.2      | 17.2      |
| Change in fair value of convertible bond                 | 12.3    | 3.4     | 0.0       | 0.0       | 0.0       |
| Other EPRA adjustments                                   | 0.0     | 0.0     | 43.2      | 43.2      | 43.2      |
| EPRA net assets  | 623.6   | 808.6   | 1,210.1   | 1,261.4   | 1,316.1   |
| IFRS NAV per share (p)                                   | 94.7    | 102.5   | 101.1     | 105.3     | 109.9     |
| EPRA NAV per share (p)                                   | 100.7   | 105.1   | 106.4     | 110.6     | 115.1     |
| <b>CASH FLOW</b>   |         |         |           |           |           |
| Operating Cash Flow                                      | 60.1    | 68.5    | 77.7      | 118.0     | 127.3     |
| Net Interest & other financing charges                   | (37.8)  | (35.1)  | (42.7)    | (49.7)    | (56.9)    |
| Tax  | 0.0     | 0.0     | 0.0       | 0.0       | 0.0       |
| Acquisitions/disposals                                   | (75.4)  | (101.9) | (92.0)    | (138.0)   | (148.7)   |
| Net proceeds from issue of shares                        | (0.1)   | 111.0   | 0.0       | 0.0       | 0.0       |
| Debt drawn/(repaid)                                      | 82.3    | (5.6)   | 110.0     | 125.0     | 140.0     |
| Equity dividends paid (net of scrip)                     | (29.8)  | (34.7)  | (55.2)    | (62.7)    | (65.0)    |
| Other cash movements and FX                              | (0.1)   | 0.6     | 9.7       | 0.0       | 0.0       |
| Net change in cash                                       | (1.3)   | 2.1     | 7.6       | (7.4)     | (3.4)     |
| Opening cash & equivalents                               | 5.1     | 3.8     | 5.9       | 13.5      | 6.1       |
| Closing net cash & equivalents                           | 3.8     | 5.9     | 13.5      | 6.1       | 2.7       |
| Debt as per balance sheet                                | (730.4) | (676.1) | (1,247.1) | (1,370.3) | (1,508.5) |
| Convertible bond fair value adjustment                   | 12.3    | 3.4     | 0.0       | 0.0       | 0.0       |
| Unamortised borrowing costs                              | (6.1)   | (6.4)   | (13.6)    | (11.8)    | (10.0)    |
| Net debt   | (720.4) | (673.2) | (1,247.2) | (1,376.0) | (1,515.8) |
| Net LTV  | 52.9%   | 44.8%   | 51.0%     | 52.4%     | 53.7%     |

Source: Edison Investment Research

|   |  |  |            |
|---|--|--|------------|
| <b>Contact details</b>  |  | <b>Revenue by geography</b>  |            |
| 5th Floor<br>Greener House<br>66-68 Haymarket<br>London<br>SW1Y 4RF<br>0207 104 5599<br><a href="http://www.phpgroup.co.uk">www.phpgroup.co.uk</a>  |  | N/A  |            |
| <b>Management team</b>  |  |  |            |
| <b>Steven Owen: Non-executive chairman</b>  |  | <b>Helen Mahy: Non-executive deputy chairman and senior NED</b>  |            |
| Steven Owen joined the board in 2013 and has been non-executive chairman since 18 April 2018. He is a chartered accountant with extensive expertise of investment and development in commercial property in a listed company environment. He began his career with KPMG before moving into property with Brixton, where he was finance director and subsequently deputy CEO. He is CEO and founding partner of Wye Valley Partners, a commercial real estate and asset management business, and is a non-executive director of the Milford Haven Port Authority.  |  | Before joining the board of PHP in March 2019, Helen Mahy was chairman of MedicX Fund from February 2018, having joined the board in April 2017. She is also chairman of The Renewables Infrastructure Group, a FTSE 250 investment company, and is a non-executive director of SSE and of Bonheur, a company listed on the Oslo Stock Exchange, and has previously been a non-executive director of Aga Rangemaster, Stagecoach Group and SVG Capital. Helen was formerly group company secretary and general counsel of National Grid until she retired in 2013. |            |
| <b>Harry Hyman: Managing director</b>   |  | <b>Richard Howell: Finance director</b>  |            |
| Harry Hyman founded PHP in 1996 and has served on the board as managing director since then. On the board he represents PHP's property adviser, Nexus Tradeco, of which he is also managing director and founder. He is a chartered accountant. In addition to his roles at PHP and Nexus Tradeco, he is a director of several private companies as well as being the non-executive chairman of two AIM listed companies, Summit Germany, which invests in German commercial property, and Derriston Capital Group, which invests in the global medical technology industry. In addition, Harry is a nonexecutive director of Biopharma Credit, which invests in the fast-growing science industry. |  | Richard Howell joined Nexus, the property adviser to PHP, in March 2017 and joined the board of PHP in the same month. He is a chartered accountant with more than 20 years' experience working with London listed commercial property companies, gained principally with LondonMetric Property and Brixton. Richard was part of the senior management team that led the merger of Metric Property Investments and London and Stamford Property in 2013 to create LondonMetric Property with a combined property portfolio of £1.4bn.                              |            |
| <b>Principal shareholders</b>   |  |  | <b>(%)</b> |
| CCLA Investment Management  |  |  | 5.4        |
| Blackrock Investment Management   |  |  | 4.9        |
| Investec Wealth & Investment  |  |  | 3.3        |
| Vanguard Group  |  |  | 2.8        |
| Hargreaves Lansdown   |  |  | 2.7        |
| Troy Asset Management   |  |  | 2.3        |
| <b>Companies named in this report</b>   |  |  |            |
| Assura Group (AGR), Impact Healthcare (IHR), LXi REIT (LXI), Secure Income REIT (SIR), Supermarket Income REIT (SUPR), Target Healthcare REIT (THRL), Tritax Big Box (BBOX).  |  |  |            |

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## New Zealand

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