

# Building a brighter future for healthcare investment

Annual results presentation 2017



Highlights and achievements

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Key financials

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Acquisitions and disposals

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Portfolio review

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NHS and primary care update

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Holland House  
Surgery

Lytham Primary Care Centre  
North Lancashire Health



## AT A GLANCE

- Leading UK and Republic of Ireland primary healthcare REIT
- 11 year successful track record
- 156 modern primary healthcare properties<sup>1</sup>
- Disciplined investment approach
- 89% of rent government backed
- FTSE All Share £390 million<sup>1</sup> market capitalisation – 6.6% yield<sup>1</sup>
- Objective of rising rental income and capital growth
- Meeting the needs of the NHS

AVERAGE LOT  
VALUE

£8.0m

OF ACQUISITIONS  
IN THE YEAR

AVERAGE LOT  
VALUE

£4.4m

OF THE  
PORTFOLIO

<sup>1</sup> As at 30 September 2017

## A STRONG YEAR WITH GOOD PROGRESS ACHIEVED

EPRA NAV PER  
ORDINARY SHARE

76.5p

2016: 73.2p

PROPERTY  
VALUATION

£680.4m

2016: £612.3m

RENT ROLL

£40.0m

2016: £37.2m

LOWER AVERAGE  
COST OF DEBT

4.29%

2016: 4.45%

+4.5%



+11.1%



+7.5%



-16bps



## STRONG PORTFOLIO FUNDAMENTALS

GOVERNMENT  
BACKED RENT

**89.7%**

2016: 89.2%

AVERAGE LOT  
VALUE<sup>1</sup>

**£4.4m**

2016: £4.1m

AVERAGE AGE OF  
PROPERTIES

**8.7yrs**

2016: 8.0 years

7 DISPOSALS  
SINCE 01 OCT 2016

**£7.7m**

2016: £0.2m

AVERAGE  
UNEXPIRED DEBT  
TERM

**12.7yrs**

2016: 14.0 years

AVERAGE  
UNEXPIRED LEASE  
TERM

**14.1yrs**

2016: 15.5 years

ROI  
PIPELINE

**£90.0m**

2016: £50.0m

UK  
PIPELINE

**£85.0m**

2016: £58.0m

<sup>1</sup> Average Net Initial Area of completed properties



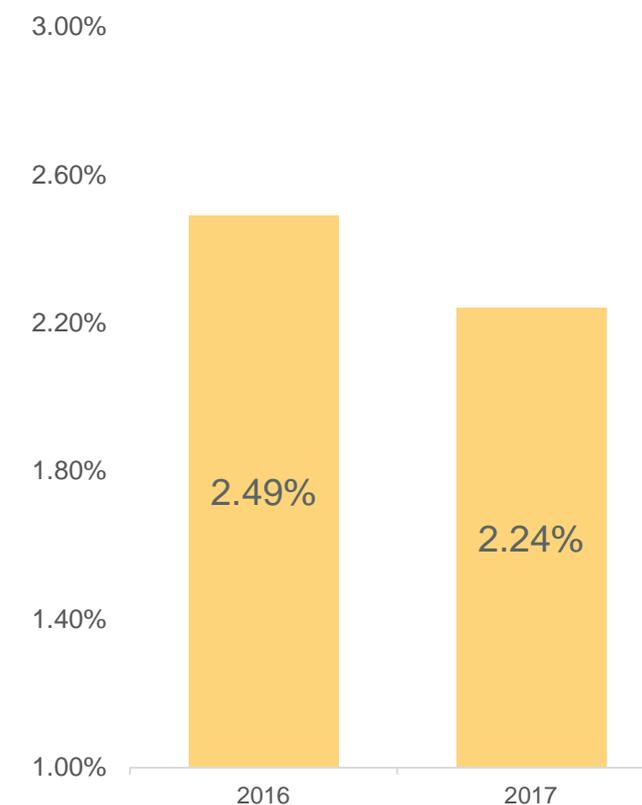
# KEY FINANCIALS

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# INCOME STATEMENT

	30-Sep-17	30-Sep-16	Change
	£'000	£'000	%
Rent receivable	37,108	35,145	5.6
Other income	193	372	(48.1)
Direct property expenses	(1,354)	(1,195)	13.3
<b>Net rental income</b>	<b>35,947</b>	<b>34,322</b>	<b>4.7</b>
<b>Valuation movements</b>	<b>18,602</b>	<b>15,554</b>	<b>19.6</b>
Investment advisory fee	(3,867)	(3,852)	0.4
Investment performance fee	-	(1,553)	
Property management fee	(925)	(889)	4.0
Other overheads	(1,296)	(1,015)	27.7
<b>Total expenses</b>	<b>(6,088)</b>	<b>(7,309)</b>	<b>(16.7)</b>
<b>EBITDA</b>	<b>48,461</b>	<b>42,567</b>	<b>13.8</b>
Finance income	432	1,149	(62.4)
Finance costs	(15,581)	(15,529)	0.3
<b>Profit before tax</b>	<b>33,312</b>	<b>28,187</b>	<b>18.2</b>
EPS	9.4pps	7.1pps	32.4
EPRA EPS	3.5pps	3.4pps	2.9
<b>OCR</b>	<b>2.24%</b>	<b>2.49%</b>	<b>(10.0)</b>

Ongoing charges including direct property costs v EPRA NAV

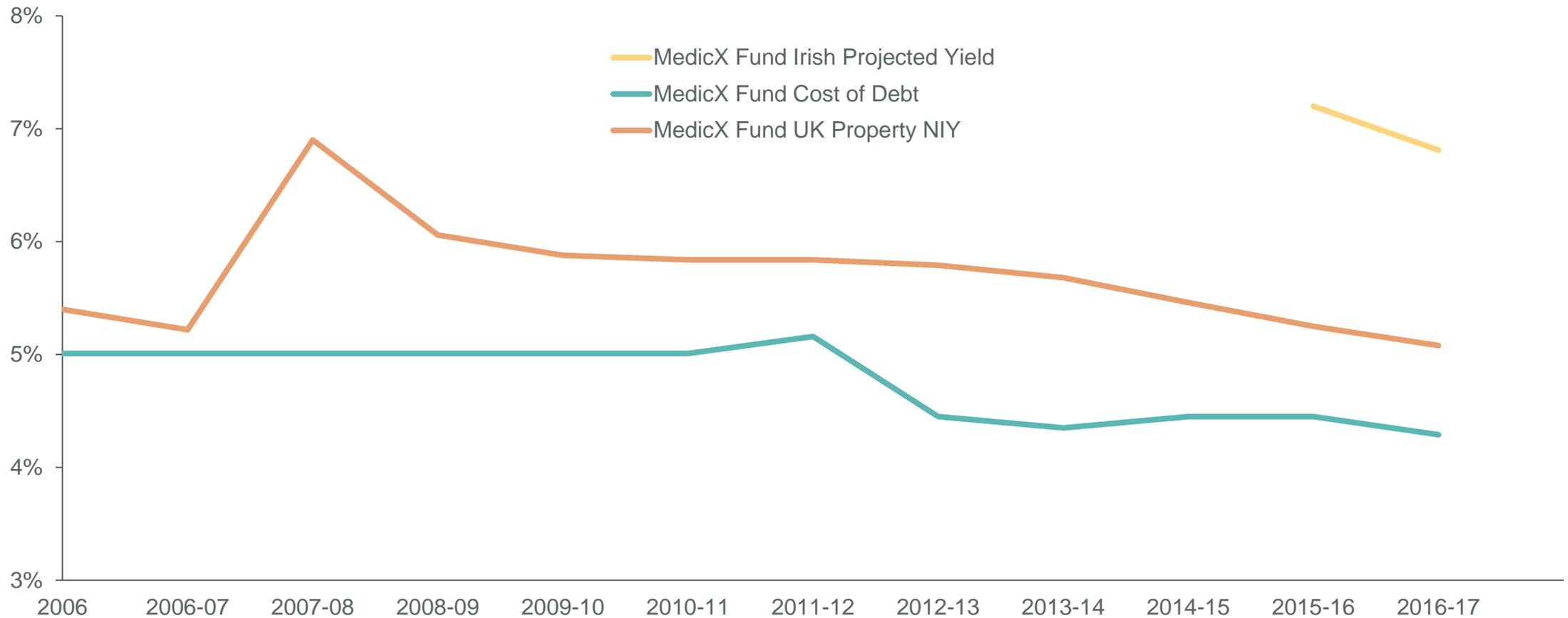


## FINANCIAL POSITION

	30 Sept 2017	30-Sep-17	30-Sep-16	30-Sep-17
	£'000	Pence per share	£'000	Pence per share
Investment properties	681,390	159.0	612,264	157.8
Debt	372,796	87.0	336,290	86.7
Cash	32,145	7.5	20,968	5.4
Net debt	340,651	79.5	315,322	81.3
EPRA NAV	327,777	76.5	284,048	73.2
EPRA NNNNAV	284,628	66.4	219,027	56.4
DCF	422,424	98.5	374,872	96.6
Adjusted gearing <sup>1</sup>	49.5%		50.8%	
Purchaser's costs	43,109	10.1	39,470	10.2

<sup>1</sup> Adjusted gearing is the ratio of net debt to total assets less cash

# PROPERTY YIELD VS BORROWING COST<sup>1</sup>



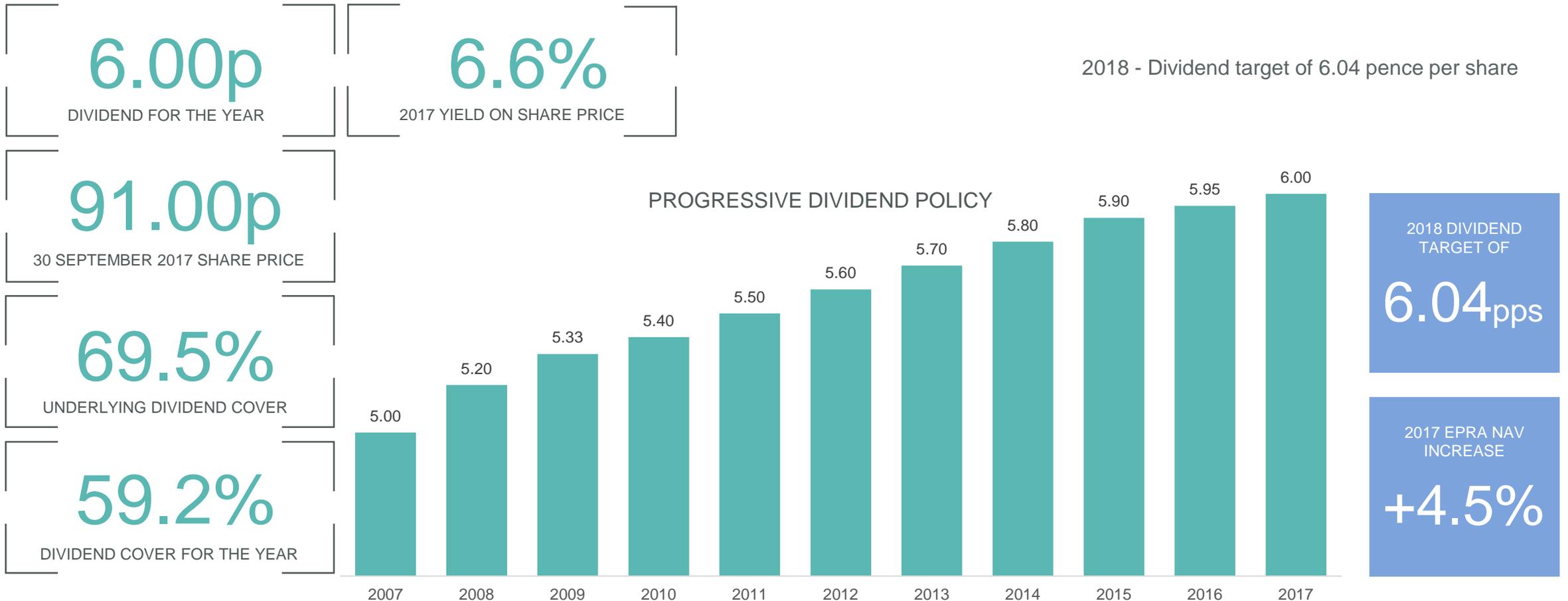
<sup>1</sup> As at 30 September 2017

## FUND RAISING IN THE YEAR

- Continued high demand for new shares during the year met through tap issuance
- 39.75<sup>1</sup> million new shares issued between 1 October 2016 and 30 June 2017 at an average price of 87.9 pence per share
- Average premium to EPRA NAV of 18%
- Temporary fall in dividend cover (c.5%) whilst funds are deployed initially into assets under construction

<sup>1</sup> Excludes scrip shares issued in lieu of cash dividend

# CONTINUING TO DELIVER CONSISTENT RETURNS



## DEBT PORTFOLIO

	Aviva £100m facility	Aviva £50m facility	Acquired Aviva PMPI	Acquired Aviva GPG	Private placement	Private placement	Bank of Ireland	Private placement
Facility size	£100 million	£50 million	£62.5 million	£34.6 million	£50.0 million	£50.0 million	€29.1 million	£27.5 million
Committed	Dec 2006	Feb 2012	July 2012	May 2013	Aug 2014	Apr 2015	Mar 2017	July 2017
Drawn	£100 million	£50 million	£57.8 million	£27.4 million	£50.0 million	£50.0 million	£12.3 million	£27.5million
Expiry	Dec 2036	Feb 2032	Feb 2027 <sup>2</sup>	Nov 2032 <sup>2</sup>	Dec 2028	Sept 2028	Sept 2024	Sept 2028
Interest rate (inc. margin)	5.01%	4.37%	4.45%	4.47%	3.99%	3.84%	3.00% <sup>3</sup>	3.00%
LTV draw down	55.4%	50.4%	58%	61.3%	59.2%	65.2%	28.2%	65.2%
Repayment terms	Interest only	Amortises from year 11 to £30	Amortising	Amortising	Interest only	Interest only	Amortises €1m pa for final 5 yrs	Interest only
Interest cover covenant	140%	110%	104% <sup>2</sup>	103%	115%	115%	165%	115%
LTV covenant	75%	75%	n/a	n/a	74%	74%	65%	74%

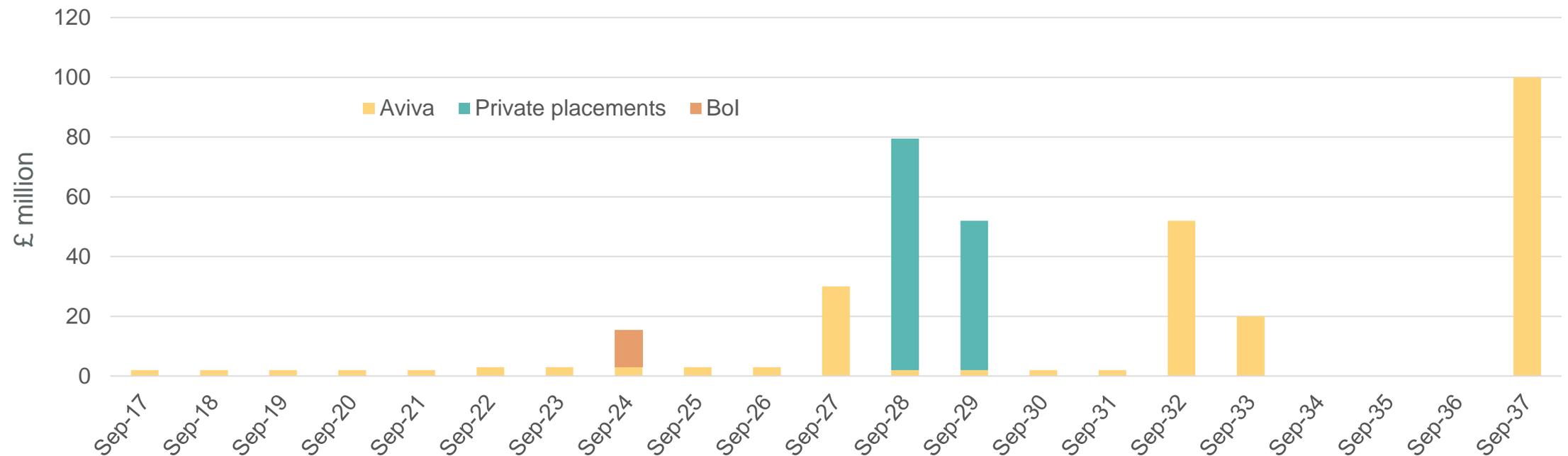
<sup>1</sup> As at 31 March 2017

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

<sup>3</sup> 4% over EURIBOR until secured property achieves PC

# FIXED LONG TERM PROTECTION

	September 2017	September 2016	September 2015
Debt	£373.5 million	£336.3 million	£338.3 million
Weighted average maturity	12.7 years	14.0 years	15.0 years
Weighted average cost of debt	4.29%	4.45%	4.45%





# ACQUISITIONS AND DISPOSALS

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# ACCELERATING UK INVESTMENT

Acquisition	Value	Scheme	Developer
Brynmawr	£5.7m	Forward funded	GPI Framework
Leavesden	£4.0m	Income producing	Bellway Homes
Walsall	£10.3m	Income producing	Private vendor
Handsworth	£12.0m	Income producing	Private vendor
Cromer	£3.7m	Forward funded	Medcentres Framework

### Investments post year end

Acquisition	Value	Scheme	Developer
Vale of Neath	£4.6m	Forward funded	HPC Framework

LEAVESDEN



HANDSWORTH



High quality acquisitions in line with strategy

Framework agreements set to deliver

Average lot value of recent UK acquisitions £6.7m

## FURTHER PROGRESS IN IRELAND

Acquisition	Value	Scheme	Developer
Tallaght	£13.7m	61,000 sq ft Forward funded conversion	Feasible Developments <b>Framework</b>
Mullingar <sup>1</sup>	£2.5m	12,000 sq ft Forward funded extension	Feasible Developments <b>Framework</b>
Rialto	£10.3m	35,000 sq ft Forward funding	Guardian Developments <b>Framework</b>
Crumlin	£7.1m	28,000 sq ft Forward funding	St.Agnes & McGill <b>Framework</b>

TALLAGHT



MULLINGAR



High quality  
acquisitions  
in line with  
strategy

Framework  
agreements  
set to  
deliver

Average lot  
value of  
recent Rol  
acquisitions  
£10.4m

<sup>1</sup> Phase III; Extension to £11.75 million completed property – excluded from average lot calculation

# DISPOSALS – CONSTANTLY IMPROVING PORTFOLIO

Property	Sale value
Harleston	£0.8m
Verwood	£1.3m

### Disposals post year end

Property	Sale value
Wolverhampton	£1.1m
Woolston	£1.5m
Shorne	£0.8m
Leicester	£1.1m
Grimsby	£1.1m

HARLESTON



WOOLSTON



Sub scale  
assets sold  
average  
value £1.1m

No further  
disposals  
identified

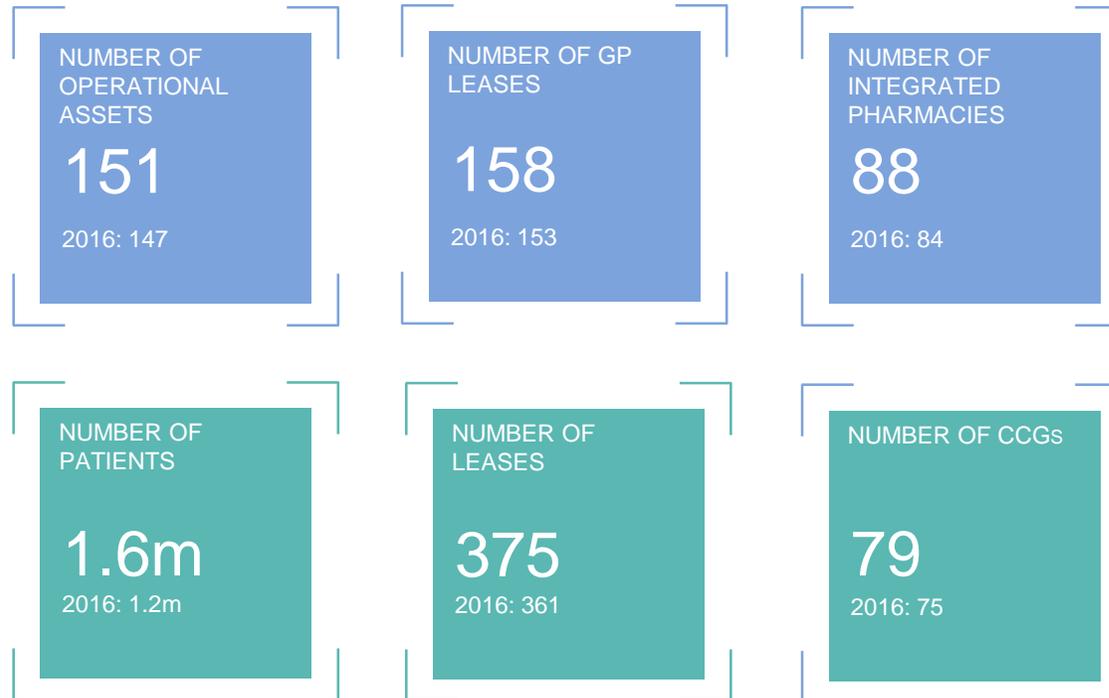
Disposals  
sold above  
book value



# PORTFOLIO REVIEW

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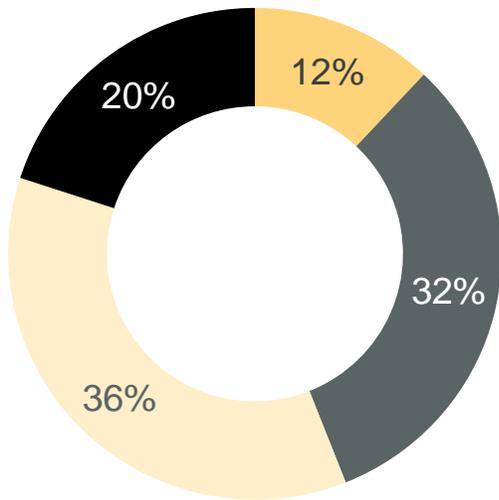
## KEY METRICS OF THE PORTFOLIO<sup>1</sup>



<sup>1</sup> As at 30 September 2017 / 30 September 2016

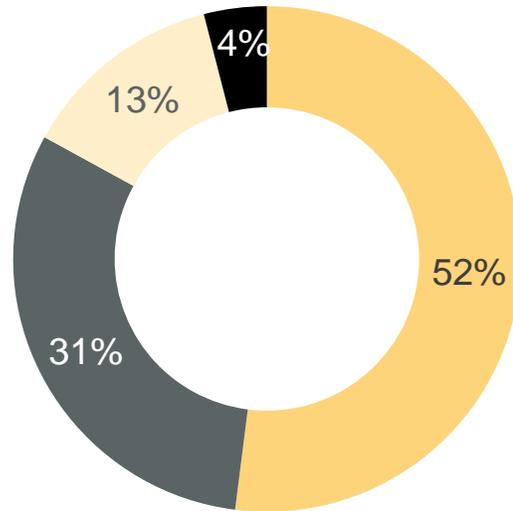
# PORTFOLIO OF MODERN PURPOSE-BUILT ASSETS<sup>1</sup>

SECURITY OF INCOME BY LEASE EXPIRY

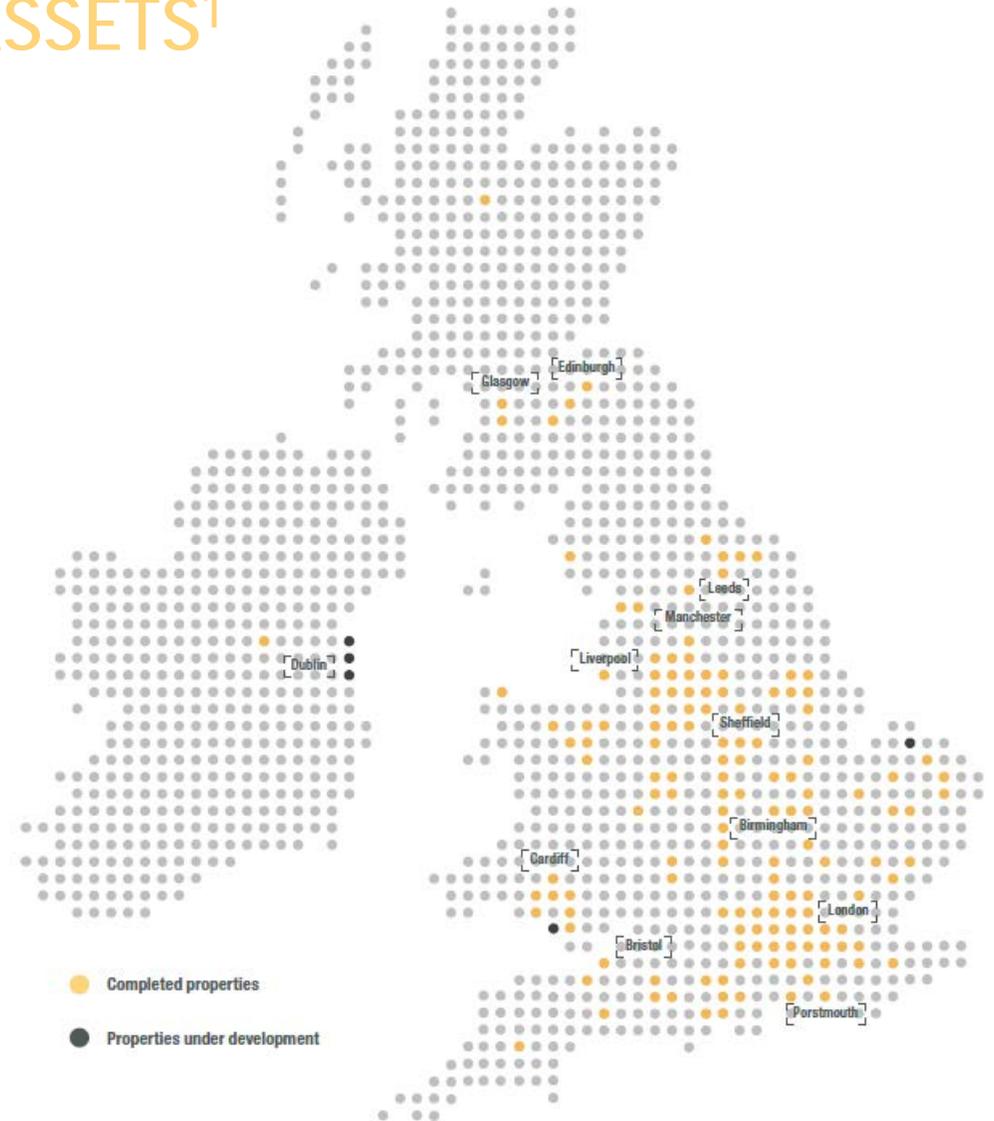


- Less than 10 years
- 10 - 15 years
- 15 - 20 years
- Over 20 years

PORTFOLIO VALUATION PROFILE

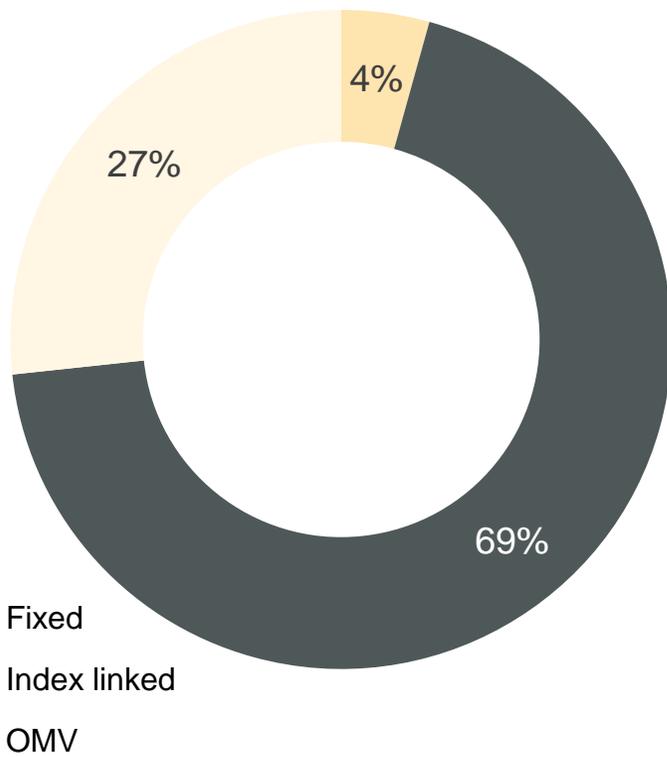


- More than £5m
- £3m - £5m
- £2m - £3m
- Less than £2m



<sup>1</sup> As at 30 September 2017

# RENT REVIEWS PROFILE<sup>1</sup>



- Total rent roll £40.0 million<sup>2</sup>
  - £37.9 million completed
  - £2.1 million under construction
- £22.2 million passing rents under negotiation
- £9.0 million rent reviews agreed during the year
- Equivalent to 1.0% per annum increase achieved
  - 0.5% open market reviews
  - 1.7% RPI uplifts
  - 2.4% fixed uplifts

£40.0m

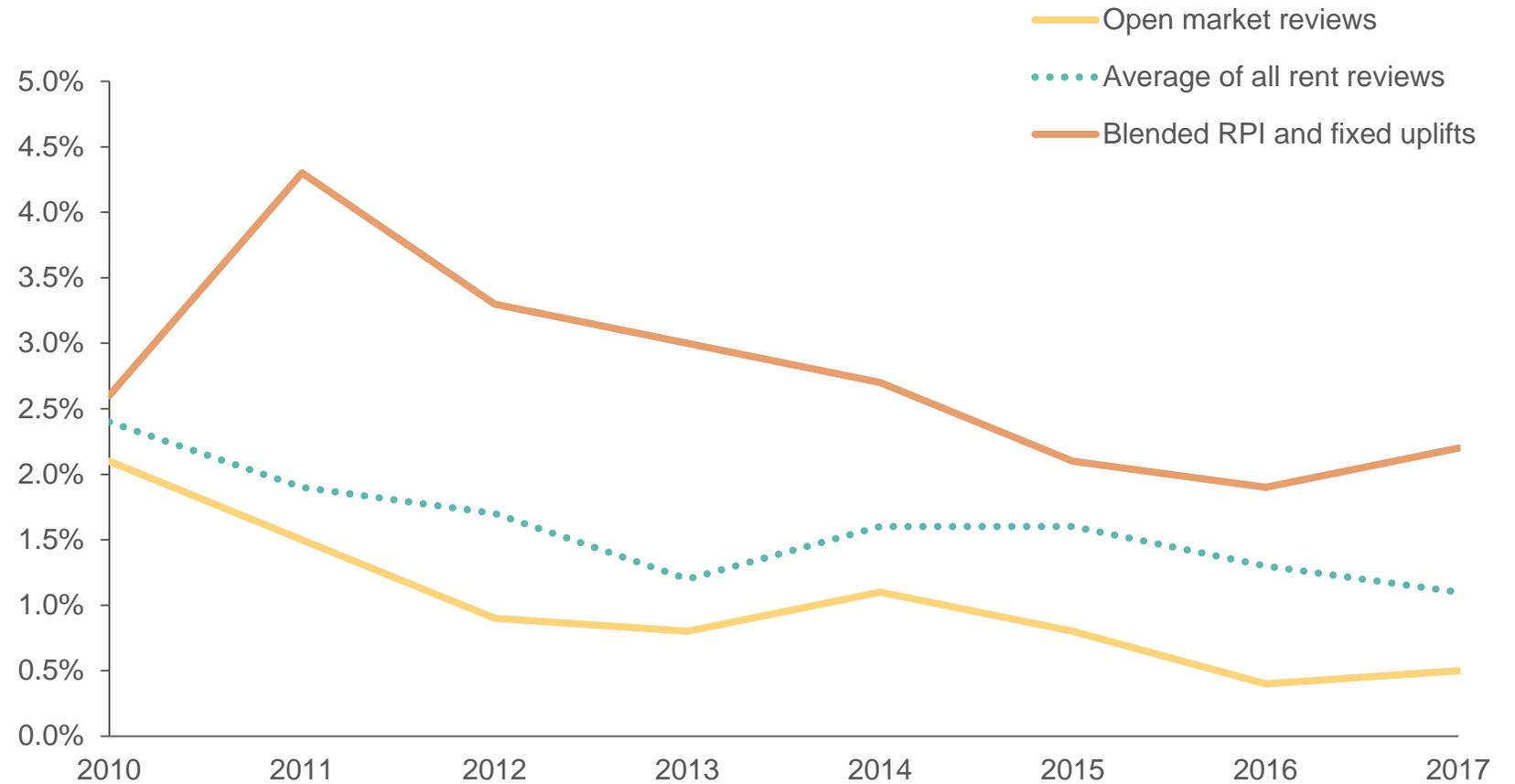
TOTAL RENT ROLL

<sup>1</sup> As at 30 September 2017

<sup>2</sup> Index linked consists of 21.6% UK RPI and 5.1% Irish CPI

# RENT REVIEW BY PERIOD

Year to	Passing rents agreed	Passing rents under review to be agreed
Sept 2010	£2.9m	-
Sept 2011	£3.6m	-
Sept 2012	£5.6m	£0.2m
Sept 2013	£4.8m	£0.7m
Sept 2014	£5.3m	£2.1m
Sept 2015	£7.5m	£4.5m
Sept 2016	£3.6m	£6.5m
Sept 2017	£2.9m	£8.2m



<sup>1</sup> As at 30 September 2017

## ASSET MANAGEMENT

- 375 leases in 151 completed UK and Ireland assets
- 15% of leases less than years 10 years remaining
- Strategy prepared for all 55 leases:
  - 12 property strategies at an advanced stage
  - Business case decisions pending on three assets
- Two completed asset management projects in 2017

NUMBER OF  
LEASES

375

ACROSS 151 UK  
AND ROI ASSETS

OUT OF THE 375  
LEASES ONLY

55

HAVE LESS THAN 10  
YEARS LEASE  
LENGTH

# ASSET MANAGEMENT PROJECT

- Thakeham House Surgery, Shoreham-by-Sea
- Extension to existing pharmacy of 39m<sup>2</sup>
- Increase in rental value of £14,200 to £45,800 per annum
- Overall value increase of c.£180,000
- Improved pharmacy service and patient experience



LEASE REGEAR

25  
YEARS

PROJECT VALUE

£1.0m



ROBIN LANE HEALTH AND WELLBEING CENTRE, PUDSEY

SMART ASSET  
MANAGEMENT

Our vision has always been to offer the highest quality primary healthcare to our patients here in Pudsey, and to enable them to live longer and healthier lives. We know that this can only be achieved by taking a proactive approach to healthcare services in the local community, focused on preventative solutions as well as treatments.”

**Mev Forbes**  
Managing Partner

Over the last five years Robin Lane Health and Wellbeing Centre has seen patient numbers grow from 8,500 to over 13,500.

With a vision to provide more urgent care in the community, as well as building on a philosophy of proactive personal care planning, it was clear that the premises needed re-development to meet demand.

The Centre is more than a GP practice, it is a centre for proactively promoting health and wellbeing in the local community, and was recently awarded 'Outstanding' by the Care Quality Commission.

EXTENSION SIZE

+ 167m<sup>2</sup>

COMPLETION

Oct 2017

PATIENT LIST

13,500





# NHS AND PRIMARY CARE UPDATE

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## NHS AND PRIMARY CARE UPDATE

- Consistent direction of travel leading to GPs operating at scale as set out in the Five Year Forward View
- Demand for services continues to rise as population ages
- GPs continue to suffer with workload, recruitment and increased regulation issues
- GP 'super-practices' gaining momentum – patient list sizes now in the 100,000's
- NHS Foundation Trusts taking over primary care practices in some areas
- Growing use of electronic and video consultations



NHS PRIMARY  
CARE FUNDING

£2.4bn

Extra per year  
by 2025

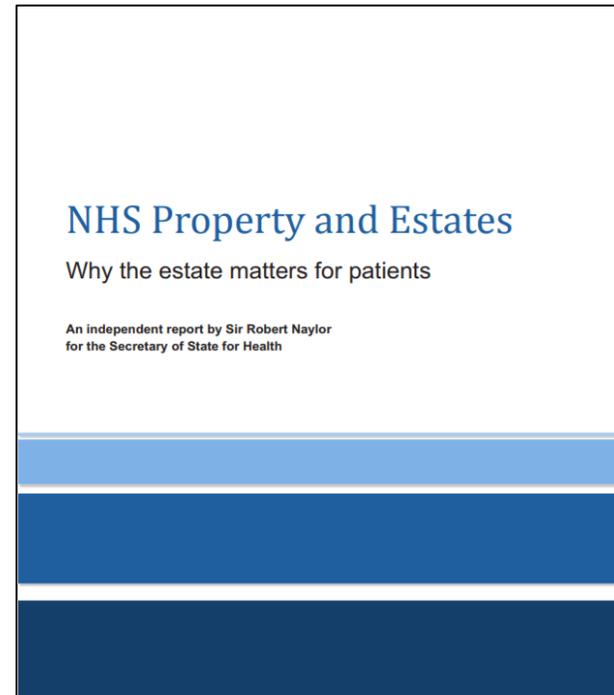
GP PRACTICE  
CLOSURES

92

In 2016

# NHS AND PRIMARY CARE UPDATE

- Cross party support for primary care investment
- Consolidation of NHS entities leading to strategic clinical and estates strategies
- Autumn budget an improvement, but capital and revenue funding for new infrastructure still restrained
- STPs with clear clinical strategies getting financial support to allow new infrastructure going forward
- Naylor Report on NHS Estate has encouraged more engagement with 3PD investors



NAYLOR REPORT

£5bn

Potential proceeds from sale of surplus NHS estates

STP FUNDING

£2.6bn

Pledged in autumn budget 2017



# PIPELINE AND STRATEGY

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## PIPELINE AND STRATEGY

- Selectively buying high quality dominant assets and forward funding new assets under framework agreements with a range of experienced developers in UK and Republic of Ireland
- Irish opportunity accelerates growth improving economies of scale and diversification
- Pipeline of £175 million of high quality assets<sup>1</sup>
- Considering small increase in 20% limit should strong ROI acquisition pipeline require this
- Partnering with GPs, Commissioners and Provider Groups to support Five Year Forward View and STPs
- New debt facilities under negotiation to further reduce average borrowing rate
- Strategy in place for sustainable growth and improving dividend cover
- Investment Adviser fee frozen for next £102 million<sup>1</sup> of new investment and assets in the Republic of Ireland reaching completion

PIPELINE

£85m

UK ASSETS

PIPELINE

£90m

IRELAND ASSETS

<sup>1</sup> As at 30 September 2017



# OUTLOOK

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# OUTLOOK

**Strong  
portfolio  
fundamentals**

**Primary  
care core to  
NHS  
agenda**

**Framework  
agreements  
delivering**

**Maintaining  
investment  
discipline**

**Reduced  
cost of debt**

**Cost ratios  
reducing  
with scale**



# APPENDICES

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# INVESTMENT ADVISER AND PROPERTY MANAGEMENT FEE

## Further reductions with asset growth

- Reducing relative investment adviser fees
  - Annual base fee payable to the Investment Adviser will be held at £3.878 million until property assets equal or exceed £782 million
  - Enables the Fund to increase its property assets by approximately £102 million<sup>1</sup> without any corresponding fee increase
  - Reduced investment adviser fee of 0.30% above £1 billion property assets
- Incremental fees reduced further as portfolio grows
- Performance fee in place at 15% of total shareholder return over 10% compounded hurdle

### INVESTMENT ADVISER FEE

Property assets	Investment Adviser fee <sup>2</sup>
0 - £750 million	0.5%
£750 million - £1 billion	0.4%
£1 billion +	0.3%

### PROPERTY MANAGEMENT FEE

Gross rental income	Investment Advisor fee
0 - £25 million	3.0%
£25 million +	1.5%

<sup>1</sup> As at 30 September 2017

<sup>2</sup> Subject to minimum annual base fee of £3.878 million up to property asset value of £782 million

# DCF NAV

## Sensitivities<sup>1</sup>

NAV pence per share		DISCOUNT RATE					
		Completed					
		%	6.0	6.5	7.0	7.5	8.0
Under construction	6.0	110	105	100	96	91	
	7.0	109	104	99	95	91	
	8.0	108	103	99	94	90	
	9.0	108	103	98	93	89	
	10.0	107	102	97	93	89	

NAV pence per share		RENTAL AND CAPITAL VALUE INCREASES					
		Rental					
		%	0.5	1.5	2.5	3.5	4.5
Capital	-1.0	71	76	82	89	95	
	0.0	78	84	90	96	103	
	1.0	87	93	99	105	112	
	2.0	97	102	108	115	121	
	3.0	108	113	119	126	132	

<sup>1</sup> As at 30 September 2017

# EPRA NNAV

## Sensitivities<sup>1</sup>

EPRA NNAV pence per share	Cost of 20 year debt (bps)					
	%	-20	-	+20	+50	+100
Net initial yield	5.75	51.0	53.1	55.0	57.8	62.2
	5.50	55.6	57.7	59.6	62.4	66.8
	5.25	60.7	62.7	64.6	67.5	71.9
	5.08	64.4	66.5	68.4	71.2	75.6
	5.00	66.2	68.2	70.2	73.0	77.4
	4.75	72.3	74.4	76.3	79.1	83.5
	4.50	79.2	81.2	83.1	85.9	90.3

EPRA NNAV pence per share	Passing rent higher/lower					
	%	-1	-	+1	+2	+3
Net initial yield	5.75	47.2	48.6	49.9	51.3	52.6
	5.50	53.3	54.7	56.2	57.6	59.0
	5.25	60.0	61.5	63.0	64.5	66.0
	5.08	65.0	66.5	68.0	69.6	71.1
	5.00	67.4	69.0	70.5	72.1	73.6
	4.75	75.5	77.2	78.8	80.5	82.1
	4.50	84.6	86.3	88.1	89.8	91.5

<sup>1</sup> As at 30 September 2017

# KEY FINANCIALS

## DCF NAV sensitivity<sup>1</sup>

	DCF	Share price
Pence per share	98.5p	91.0p
Weighted discount rate	7.0%	7.9% <sup>2</sup>
Risk premium to 20 year gilt rate	5.0%	n/a
Rental growth per annum	2.5%	1.2% <sup>2</sup>
Capital appreciation per annum	1.0%	0.1% <sup>2</sup>

	DCF reconciliation
EPRA NAV	76.5p
Purchasers costs at 6.8%	+10.9p
Implied yield shift to 4.70%	+11.1p
DCF NAV	98.5p

	Alternative NAV
EPRA NAV	76.5p
Purchasers costs at 6.8% - 2.3%	+7.2p
Portfolio premium 5.00%	+7.9p
Alternative NAV	91.6p

<sup>1</sup> As at 30 September 2017

<sup>2</sup> Assumption required to result in DCF of 91.00 pps

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