Full Year Results – year ended 31 December 2013

Primary Health Properties PLC
A dedicated healthcare REIT

Landlord to the NHS

20 February 2014

The year in summary

- A year of considerable achievement for PHP
- £300m of acquisitions take property portfolio to £958 million (including commitments)
- Raised £65.8m of new in June 2013 (net of issue costs)
- Developed new bank lines and issued £70m secured floating rate bond
- Acquired PPP in December for £41.2m
  - Consideration met in PHP shares
  - 54 assets; acquisition value £233m; rent roll £14.4m
- Reduced on-going marginal costs of managing portfolio
- On track to achieve main management priority to reach full dividend cover by end 2015
- Secured stage one of refinance of PPP debt in February 2014; full year saving c£1.4m
- Harnessing yield gap to enhance earnings and dividend cover
- Will see results of 2013 activity in dividend cover in 2014

Performance

- Rents received increased by 27% to £42.0 million (2012: £33.2 million)
- Operating profit increased by 19% to £32.8 million (2012: £27.6 million)
- Adjusted profit £9.5 million (2012: £7.4 million)
- Rent reviews achieve average 2.2% per annum increase (2012: 2.4%)
- Total contracted rent roll at year end (incl. commitments) £57.6m (2012: £38.9m)
- EPRA net assets increase by 43% to £330.9m (2012: £231.9m)
- 17th successive year of dividend growth – 19.0p per share paid (2012: 18.5p)
- First interim dividend for 2014 declared at 9.75p per share, payable on 25 April 2014[1]

[1] – Record date 14 March 2014

Portfolio

- 259 healthcare centres – 252 completed and owned, 7 forward purchase commitments
- Portfolio value (incl. commitments) – £959m – net initial yield of 5.65% (2012: 5.72%)
- Average lot size increased to £3.7 million (2012: £3.5 million)
- Annual contracted rent roll as at 31 December 2013 £57.6m (31 Dec 12: £38.9m)
- Average unexpired lease length of 16 years (31 Dec 12: 16 years)

Capital value	No. of assets	Value (£'m)	%'age	Cumulative %'age
£9 million +	11	158.5	16.6%	16.6%
£3 - £9 million	108	508.5	53.0%	69.6%
£1 - £3 million	136	288.5	30.1%	99.7%
£0 - £1 million[1]	4	3.2	0.4%	100.0%
Total	**259**	**958.7**	**100.0%**	

[1] – includes one asset contracted to be sold in July 2014

Funding

- Refinancing of Apollo loans completed in March 2013
  - New £70m, four year revolving, interest only facility with Barclays Bank
  - Funding margin at 220 bps; drawn debt locked into four year swap at 90 basis points
- £70 million, twelve year secured corporate bond issued November 2013
  - Floating interest rate at 220 basis points over six month LIBOR
  - Interest rate protected by existing Group swap portfolio
- Multi structured equity raise completed raising net proceeds of £65.8m
  - Issued 21.7 million shares at 315 pence per share; 3% premium to NAV
- Acquisition of PPP portfolio wholly satisfied by the issue of PHP shares
  - 12.86 million shares issued at 320 pence per share, 6.3% premium to NAV
- Conservative debt finance – LTV of 61.6% (31 Dec 2012: 60.9%)

FINANCIALS

Results in Brief

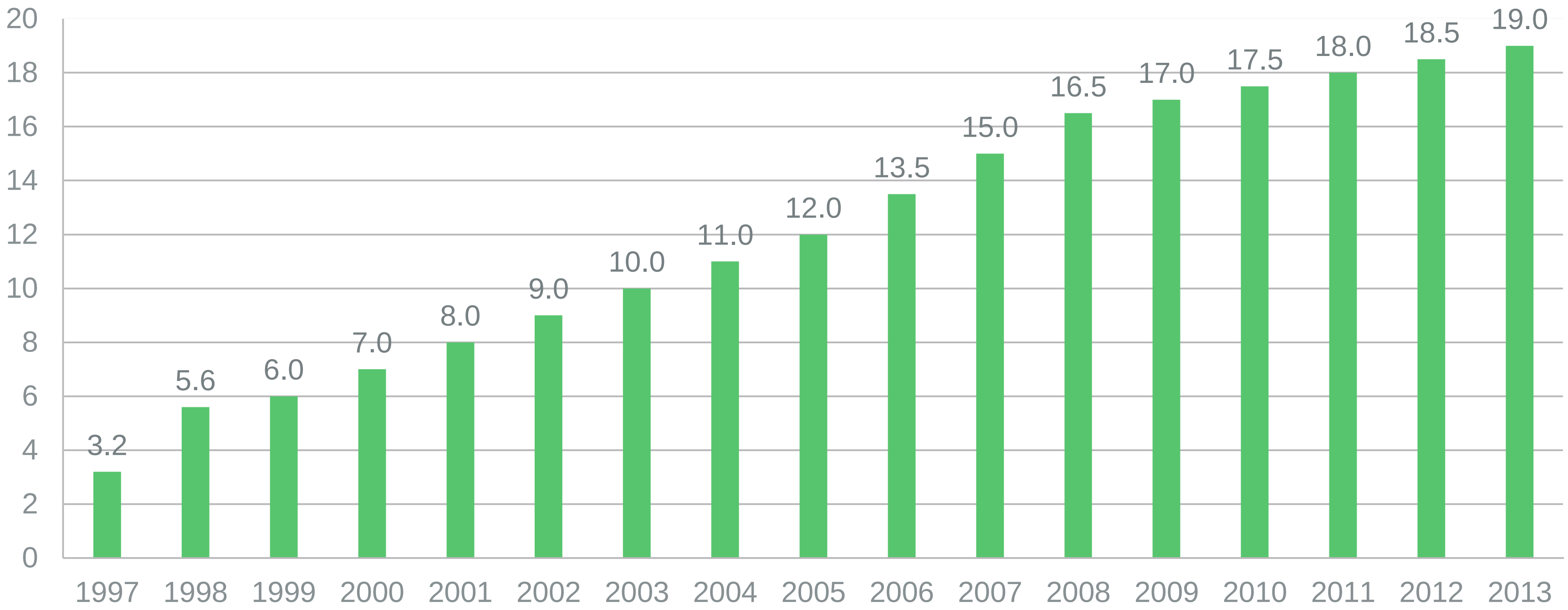
	2013 £m	2012 £m
Revenue	**42.0**	33.2
Net Financing Costs	**(26.0)**	(20.2)
Adjusted profit	**9.5**	7.4
Profit on sale of finance lease	0.6	-
Early loan repayment fee	(0.9)	(1.6)
Net result on property portfolio	2.3	(1.8)
Fair value gain/(loss) on derivatives	11.4	(2.9)
Non-recurring expenses	(2.7)	-
Profit before tax	**20.2**	1.1
Dividends Paid (pence per share)	**19.0**	18.5
Dividend Cover	**58%**	56%

Dividend cover

- Number one management priority to rebuild dividend cover
- Progressive dividend policy maintained – 2.7% increase in 2013
- Positive spread from new business in 2013 drops down to bottom line in 2014
  - PHCC acquisition to include full year impact
  - PPP portfolio to increase profitability in 2014
  - Refinance of PPP debt with effect from 1 January 2014 adds c£1.4m p.a. to earnings
- Restructuring to advisory services to lower fee rates
  - Transfer of administrative services to Nexus locks in savings in excess of £0.8m p.a.
  - Reduced incremental property advisory fees above £1 billion as portfolio grows
- Upwards only rent reviews with increased RPI and fixed elements

Dividend growth

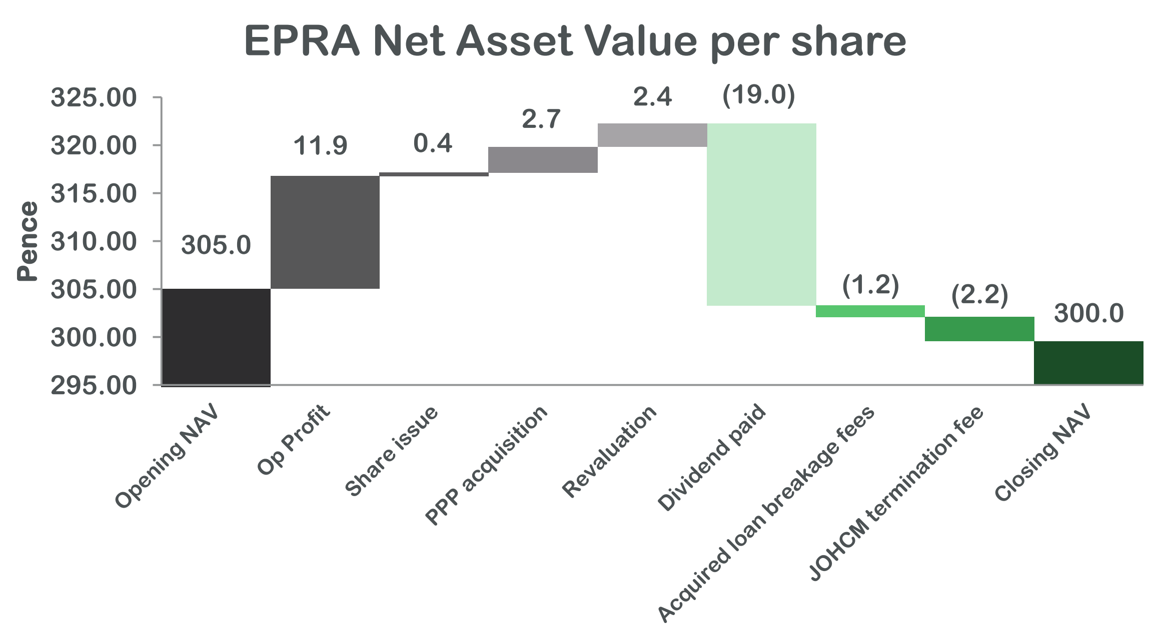
- 17 year track record of progressive dividend growth
- Total dividend for 2013 of 19.0 pence – an increase of 2.7% on 2012
- First 2014 dividend declared of 9.75p, payable on 24 April 2014[1]



[1] – record date 14 March 14, ex-dividend date 12 March 14

Balance Sheet

	31 December 2013	31 December 2012
EPRA Net Assets	£330.9m	£231.9m
EPRA net asset value per share	300.0p	305.0p
Property portfolio	£941.6m	£625.5m
Net Debt	£579.7m	£380.9m
LTV	61.6%	60.9%
Future minimum lease payments receivable	£911m	£612m



Relative performance

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

	1 year	3 years	5 years
Primary Health Properties	7.6%	8.3%	14.0%
FTSE All-Share Real Estate Index	19.6%	14.1%	14.4%
FTSE All-Share Index	20.8%	10.3%	19.0%

Source: Bloomberg

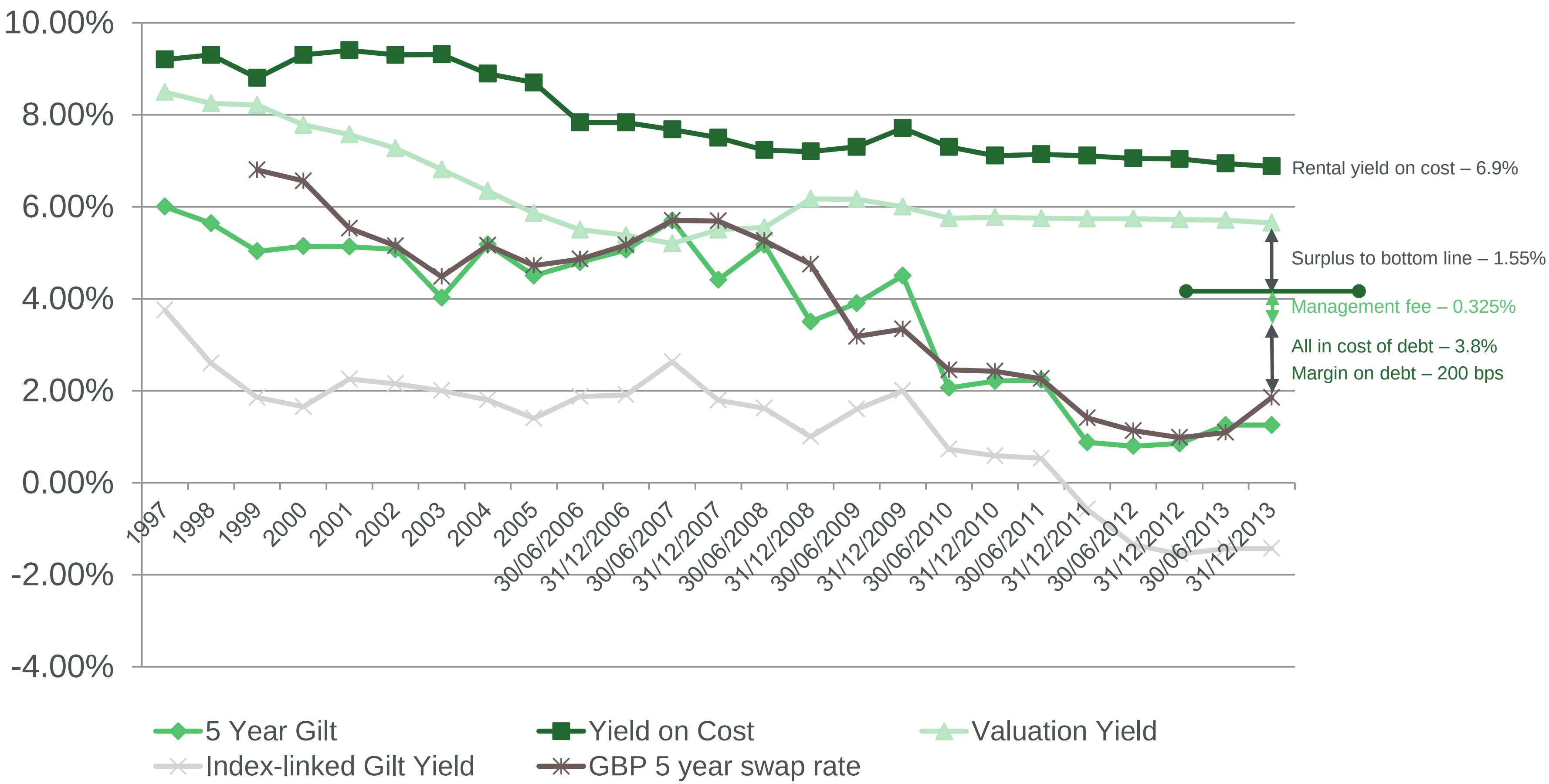
- PHP annualised real estate portfolio out performs benchmark over 1,3 and 5 years

	1 year	3 years	5 years
Primary Health Properties	8.3%	5.6%	8.1%
IPD All Property Index	10.9%	6.9%	7.8%

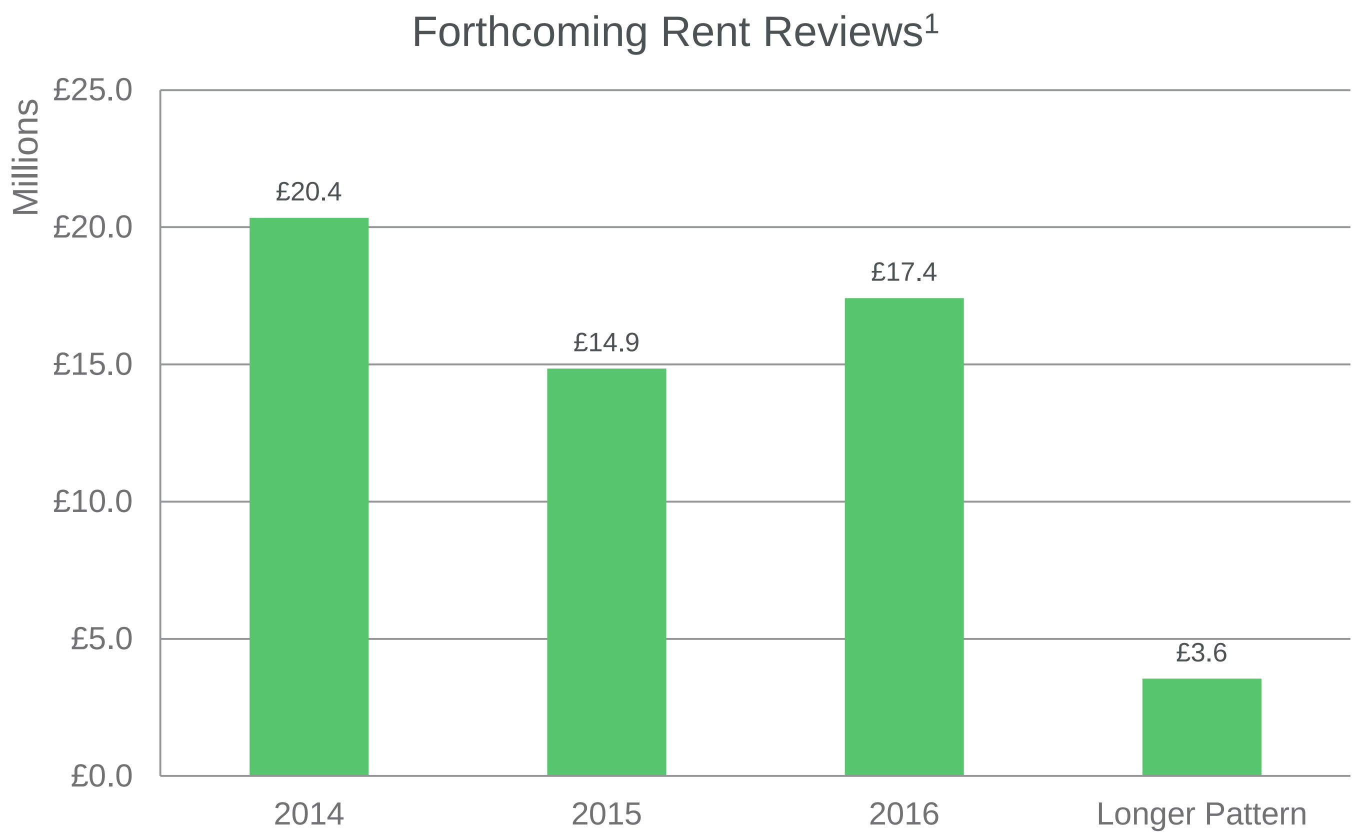
Source: IPD

OPERATIONAL REVIEW

Yield on Cost and Value



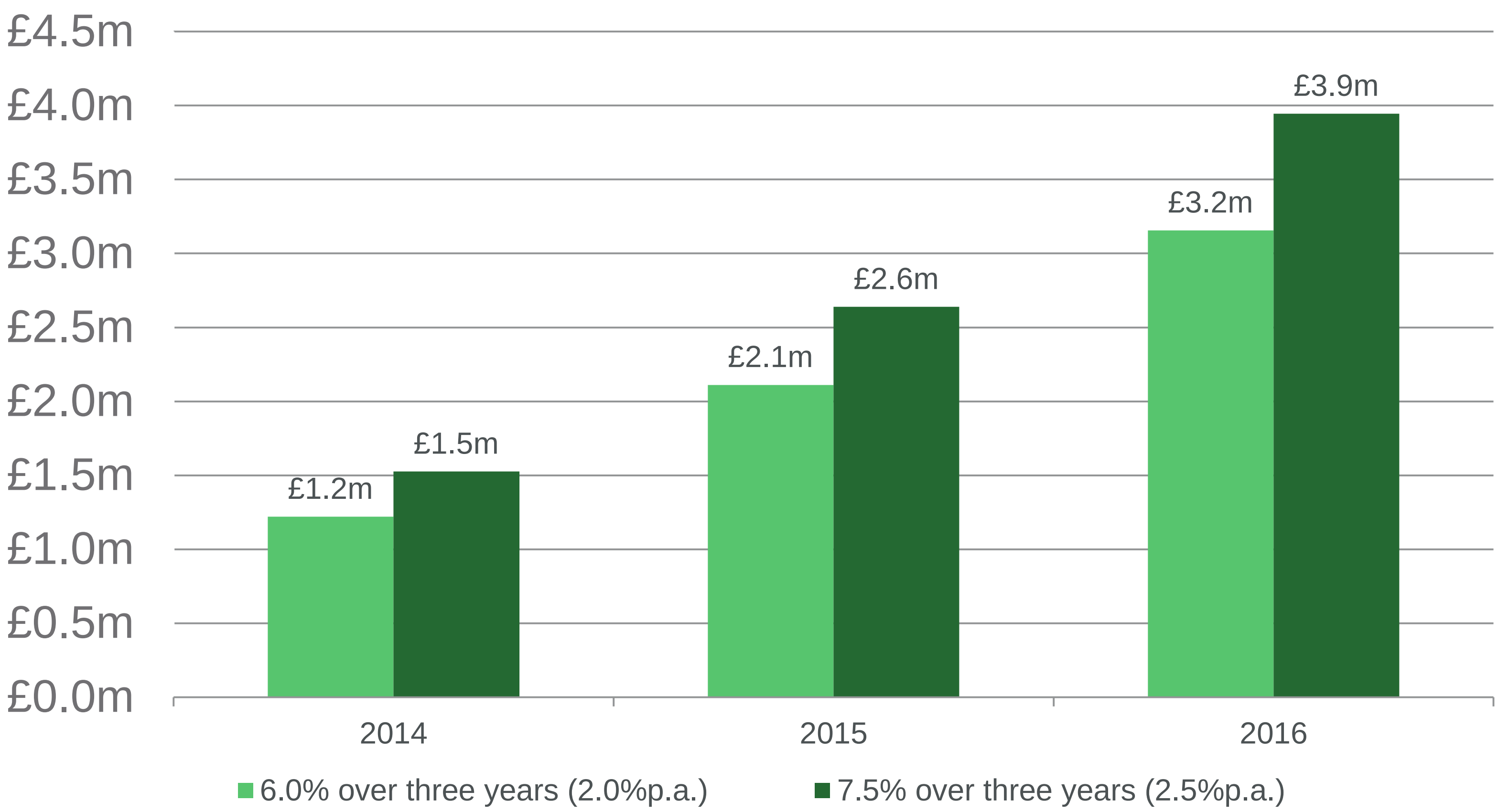
Forthcoming Rent Reviews by Annual Rent at 31 December 2013



Annual contracted rent on completed assets - £56.3 million

[1] – includes rent on completed assets only

Cumulative Cash Flow from Rent Reviews[1]



[1] – includes rent on completed assets only

Portfolio Strength

- Key characteristics
  - 252 completed rent producing assets
  - Weighted average unexpired lease term of 16 years (31 December 2012: 16 years)
  - 7 forward purchase commitments (all to be delivered in 2014)
  - Strong tenant covenant – 92% of rent roll paid for directly/indirectly by the Government
  - All leases effectively upward only rent reviews
- These characteristics result in highly visible cash flows and stable valuation yields
- Portfolio net initial yield stable at 5.65% (31 Dec 2012: 5.72%), yield on cost of 6.9%

DCF Valuation – as at 31 December 2013

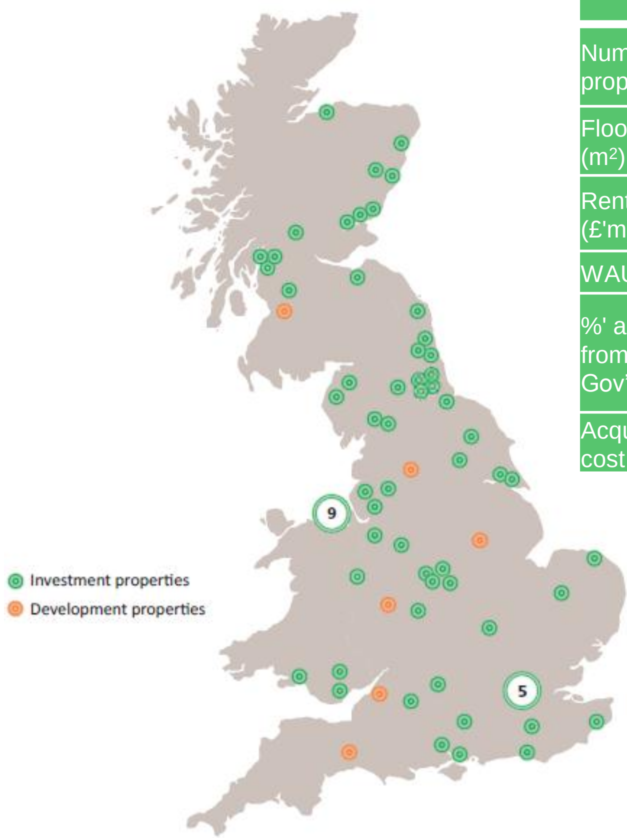
- The length of leases produces robust DCF valuations to underpin valuation of PHP
- Additional valuation based on discounted cash flow[1]
  - £1.01 billion vs £958.69 million
  - £51million increase
  - Equates to 51 pence per share of additional NAV
- Discounted using 7% per annum
- 2.5% rental growth per annum
- 1% growth in residual values per annum
- 63% from rents 37% from residual values
- Discount rate sensitivity:
  - At 6.5%, valuation of £1.1 billion
  - At 7.5%, valuation of £965 million

£'m	Annual Rental Growth Assumption					
		0%	1%	2%	2.50%	3%
DCF RATE	6.0%	£1,011.9	£1,052.1	£1,096.3	£1,122.5	£1,135.2
	6.5%	£961.5	£999.6	£1,041.6	£1,066.4	£1,079.2
	7.0%	£914.5	£950.8	£990.6	$\boxed{£1,014.1}$	£1,026.9
	7.5%	£870.7	£905.2	£943.1	£965.3	£978.0
	8.0%	£829.8	£862.7	£898.7	£919.8	£932.4

PHP

[1] – on assets owned/committed at 31 December 2013

2013 Acquisitions Summary



	London	South West	South East	East Anglia	East Mids	West Mids	North West	Yorks & Humbs	North	Scotland	Wales
Number of properties	4	4	8	2	1	8	13	5	14	15	3
Floor area (m^2)	3,677	3,660	8,803	1,551	952	12,956	19,388	4,495	13,968	23,345	3,099
Rent roll (£'m)	1.0	0.6	1.9	0.3	0.2	2.7	4.2	0.8	2.4	4.2	0.4
WAULT	20.2	18.1	13.4	19.8	21.0	15.1	20.6	16.8	13.3	17.1	18.0
%' age rent from UK Gov't	100%	100%	92%	93%	83%	92%	92%	84%	93%	98%	92%
Acquisition cost (£'m)	16.8	10.4	29.7	4.4	3.0	43.3	70.2	13.0	39.6	68.5	7.1

PPP Investment – acquired December 2013

St Catherine’s Health Centre, Liverpool

- **Tenants:** NHS, Medicx Pharmacy
- **Constructed:** August 2012
- **NIA:** 4,614 m²
- **Value:** £21.63 million
- **Patient numbers:** 7,956*

*NHS clinics operated from on site as adjoins local hospital

PPP Investment – acquired December 2013

Nairn Medical Centre, Scotland

- **Tenants:** 2 GP Practices and Scottish Ministers
- **Constructed:** July 2012
- **NIA:** 4,977 m²
- **Value:** £16.9 million
- **Patient numbers:** 14,475*

* NHS operates two wards for overnight stay

PPP Investment – acquired December 2013

Victoria Central Health Centre, Liverpool

- **Tenants:** NHS Property Services, 3 GP Practices and Pharmacy
- **Constructed:** May 2009
- **NIA:** 4,904m²
- **Value:** £17.8 million
- **Patient numbers:** 8,108

PPP Investment – acquired December 2013

The Lyng Centre, West Bromwich

- **Tenants:** 4 GP Practices and NHS Property Services
- **Constructed:** April 2005
- **NIA:** 5,630m²
- **Value:** £18.3 million
- **Patient numbers:** 20,722

Development delivery

The Beacon Centre for Health, SA1 Swansea

- **Tenants:** 2 GP Practices, Local Health Board, Swansea University & pharmacy
- **Date acquired:** December 2012
- **Date completed:** April 2013
- **NIA:** 2,902m²
- **Cost:** £8.4 million
- **Patient numbers:** 10,526[1]

New premises

Old premises

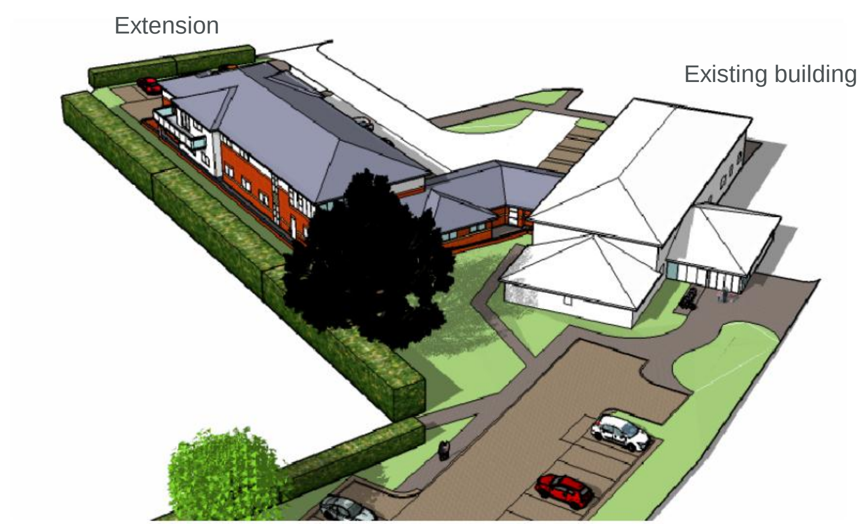
[1] GP practices only

Asset Management Projects

Poplar Grove, Aylesbury – On site October 2013, completion October 2014

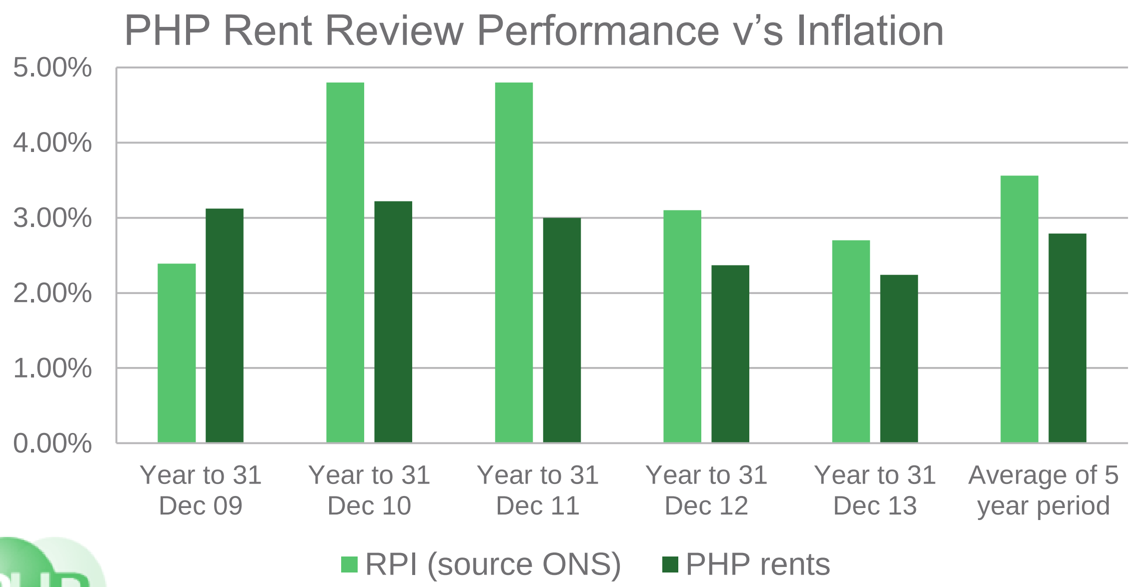
Extension to double the size of the existing medical centre to accommodate local practice merger. Whole of enlarged centre to be fully let for new 24 year term (existing centre has 12 years remaining). Cost of project £2.3 million, additional rent £0.15 million

To be 11 GPs- 20,000+ patients



Rental Increases Achieved

- Reviews completed to 31 Dec 13 average increase 2.2% per annum (2012: 2.4%)
- % of rent roll on fixed uplift – 3% (2012: 5%)
- % of rent roll index linked – 18% (2012: 11%)
- Balance open market effectively upwards only – 79% (2012: 84%)
- Historically rental increases have broadly tracked RPI increases



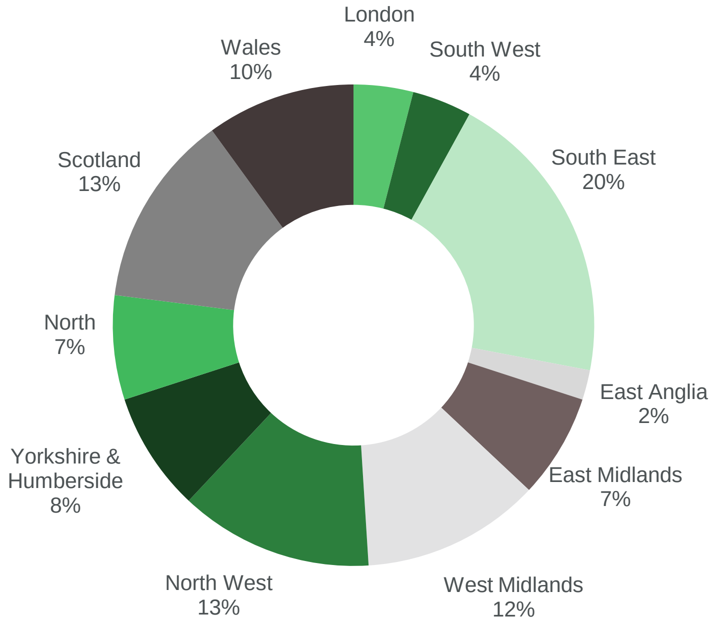
Drivers of Rental Growth

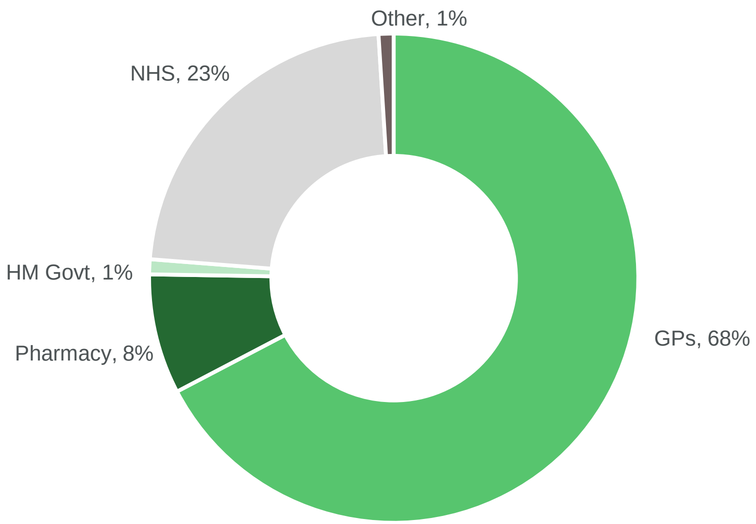
- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost
- Inflation

Portfolio analysis by rent

- 259 primary care facilities, 252 completed and 7 committed
- 92% of rental income directly or indirectly from UK Government

Wide Geographical Spread	Strong rental covenant

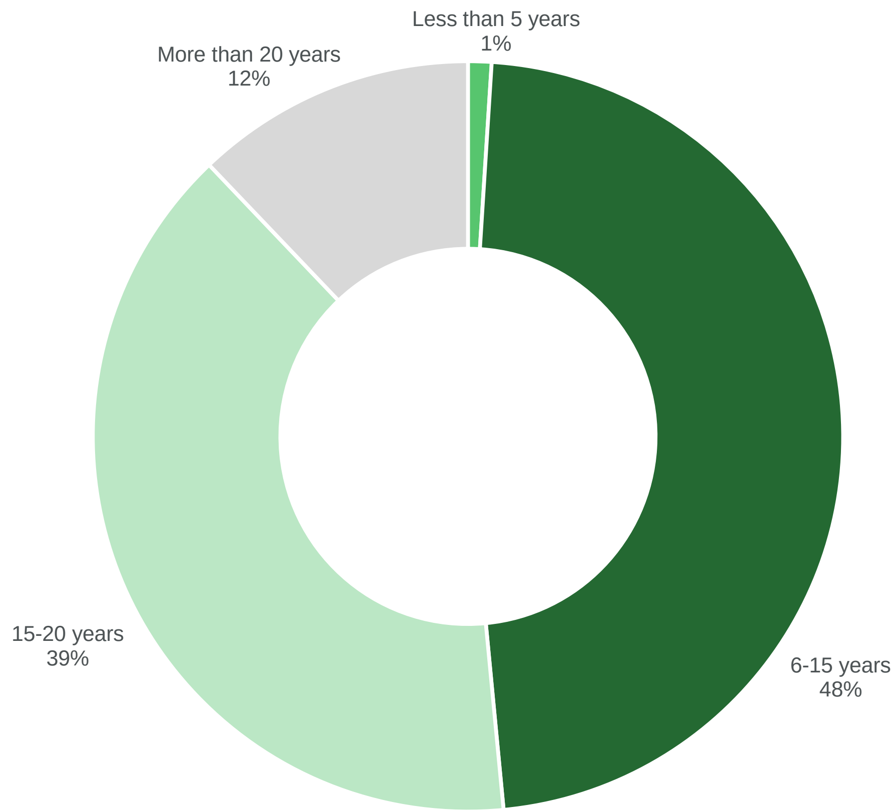




Long Leases

- 51% of leases with more than 15 years remaining
- Active asset management and lease renewals maintenance lease length
- 10% of leases subject to annual rent reviews; 75% triennial rent reviews
- Effectively upward only*
  - 3% of rent roll on fixed uplift (2012: 5%)
  - 18% of rent roll index linked (2012: 11%)
  - 79% of rent reviewed to open market (2012: 84%)

Analysis of leases unexpired by rent roll



*Rental agreements have upward and downward provisions however a review can only be instigated by the landlord.

FUNDING

Primary Health Properties PLC
A dedicated healthcare REIT

Secure Borrowing Facilities

Average maturity of bank debt – 8.8 years

Provider	Maturity	Facility	Headroom
RBS (overdraft)	Mar 2015	5.0	5.0
RBS/Santander	Mar 2016	140.0	39.5
Barclays	Mar 2017	70.0	20.5
Aviva	Nov 2018	75.0	-
Aviva	Dec 2022	25.0	-
Aviva	Jan 2032	26.1	-
Aviva (PPP)	Dec 2030*	177.9**	-
Retail Bond	July 2019	75.0	-
Secured Bond	Dec 2025	70.0	10.0
Total facilities		664.0	75.0
Cash on deposit			9.3
Cost to complete development commitments			(17.1)
Net headroom (as at 31 Dec 13)			67.2

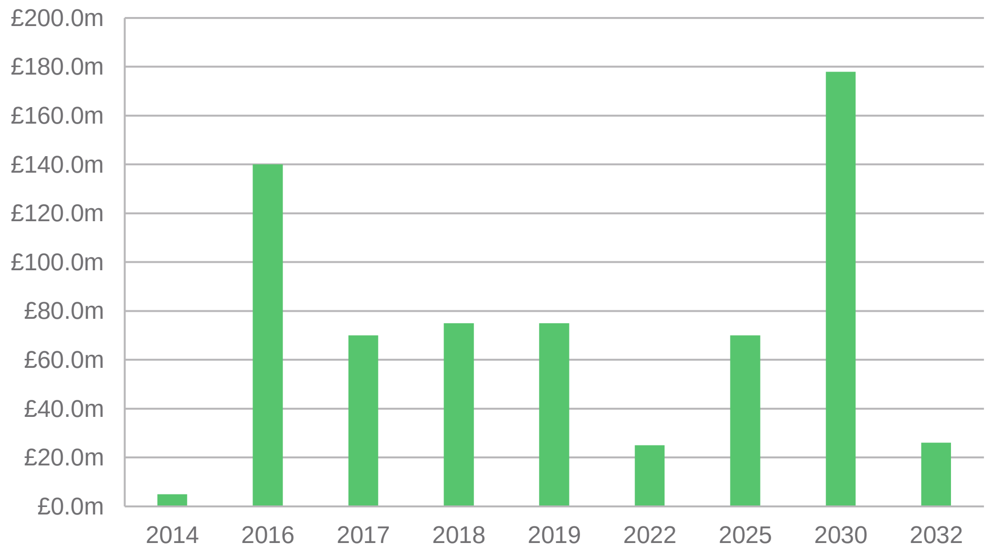
- £70m, 4 year, interest only facility with Barclays March 2013
  - Maximum LTV covenant 60%
  - Minimum ICR covenant 1.4x
- Average bank debt margin of 220 bps
- £70million, twelve year, secured bond issued in November 2013
- Group LTV – 61.6% (2012: 60.9%)
- Club facility increased by £25m in Feb 14
- Stage 1 PPP debt refinance completed
  - Interest rate reduce by 80 bps effective 1 January 2014
  - Second stage to further reduce rates
- Additional banking relationships being built

* Weighted average maturity

** Figure represents nominal value of debt as at 31 Dec 2013

Maturity of Debt

- Strategic objective to extend debt facilities to better match lease duration
- 12 year secured bond issued in November 2013
- £178m of debt acquired with PPP portfolio; average maturity of 17 years (2030)
- Weighted maturity period at 31 December 2013- 8.8 years (2012: 6.9 years)
- PPP debt to be refinanced in 2014
  - First stage completed February 2014
  - Second stage nearing completion
- Weighted average maturity period following refinance to be 8 years



Joint Advisers and Fee Base

- Nexus TradeCo Limited to provide all advisory services from 30 April 2014
  - Fixed fee basis separates cost of administration from value of gross assets
  - Annualised saving to be in excess of £0.8 million
- Reduced incremental fee rates agreed for periods after 30 April 2014 for gross assets above £1 billion
- Illustration of impact on overall advisory fees (based on gross portfolio value as at 31 December 13)
  - Annualised advisory fee under new arrangements - £5.2 million
  - Fee as percentage of gross assets - 54 basis points
  - 2013 actual fee as percentage of gross assets - 71 basis points

Gross asset value	Total
Up to £250 million	0.500%
Between £250 million and £500 million	0.475%
Between £500 million and £750 million	0.400%
Between £750 million and £1 billion	0.375%
Between £1 billion and £1.25 billion	0.325%
Above £1.25 billion	0.300%

CONCLUSION

Conclusion

- Low risk business model, more than 90% of rents underpinned by Government funding
- Proven business model – 100% occupancy
- Demographic and political drivers – ageing population, cross party commitment to NHS
- Long term non-cyclical market
- Well positioned to lead next phase of Primary Care premises development following Health Act and devolution of budget and commissioning responsibility to GPs
- Well funded - varied sources of debt and demonstrated access to debt capital markets
- Strong pipeline of acquisition opportunities at attractive valuations to return company to full dividend cover
- Positive yield gap between acquisition yield and funding costs
- Reduced advisory cost structure to generate boost to earnings
- Successful refinance of acquired PPP debt to contribute £1.4m p.a. to earnings
- Maintained progressive dividend policy with clear path back to full dividend cover

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February 2014