Investor Presentation – Interim results 30 June 2014

Landlord to the NHS

Primary Health Properties PLC
A dedicated healthcare REIT

Highlights

- Property portfolio reaches £1 billion in value[1] (31 Dec 2013: £958.7 million)
- Rental income increased by 50% to £29.4 million (30 June 2013: £19.7 million)
- Adjusted profit increased by 91% to £8.2 million (30 June 2013: £4.3 million)
- Increased interim dividend – 9.75p per share paid in April 2014 (30 June 2013: 9.50p)
- Dividend cover increased to 76% (30 June 2013: 52%)
- Accounting and company secretarial services consolidated to Nexus from 1 May 2014
- Significant debt finance activity changes composition and cost of funding
  - Issued £82.5 million five year, unsecured convertible bond
  - Completed refinance of PPP debt, reducing interest rates by an overall 100 bps
  - New HSBC £50 million five year interest only facility
  - Final £10 million proceeds of Secured Bond received
- Strong pipeline of acquisition opportunities to build on success of first six months

[1] – includes completed value of commitments

Performance

- Operating profit increased by 52% to £25.4 million (30 June 2013: £16.7 million)
- Rent reviews achieve average 1.9% per annum (12 months to 31 Dec 2013: 2.2%)
- Total Expense Ratio reduced to 77bps (12 months to 31 Dec 2013: 88 bps)
- Advisory fees reduced to average 59bps of gross assets (12 months to 31 Dec 2013: 71bps)
- Weighted cost of debt reduced to 4.6% (12 months to 31 Dec 2013: 5.5%)
- Surplus on portfolio valuation £16.1 million, uplift of 1.7%
- EPRA NAV per share increased by 2.7% to 308 pence (31 December 2013: 300 pence)

[1] – Record date19 September 2014

Funding

- Debt assumed with PPP acquisition refinanced to lock in lower fixed rates
  - New £50m, ten year and £63 million, fifteen year facilities with Aviva
  - Interest rate reduced by an overall 100 bps
- New five year £50 million revolving debt facility completed with HSBC
  - Initial margin of 200 bps
  - £15 million tranche to match forward funding commitments
- £82.5 million, unsecured convertible bond 2019 issued in May 2014
- Further restructuring completed August 2014 with immediate effect
  - Extended facility terms for £70 million of bank debt, credit approved for £165 million
  - Secured additional £30 million headroom for 5 year term
  - Average margin reduction of 55 basis points locked in
- Composition of debt portfolio significantly changed with 25% drawn on an unsecured basis
- Conservative debt finance – Group LTV of 63.6% (31 Dec 2013: 61.6%)

Portfolio

- 262 healthcare centres – 257 completed and owned, 5 forward purchase commitments
- Portfolio valued at £1 billion – net initial yield of 5.58% (31 Dec 2013: 5.64%)
- Average lot size increased to £3.8 million (31 Dec 2013: £3.7 million)
- Annual contracted rent roll as at 30 June 2014 £59.4m (31 Dec 13: £57.6m)
- Weighted average unexpired lease term (WAULT) of 16 years (31 Dec 13: 16 years)

Capital value	No. of assets	Value (£'m)	30 June 2014
£10 million +	12	184.2	18.5%
£5 - £10 million	38	250.2	25.0%
£3 - £5 million	72	272.2	27.2%
£1 - £3 million	136	290.3	29.0%
£0 - £1 million	4	3.5	0.3%
Total	**262**	**1,000.4**	**100.0%**

Delivering on strategic objectives

- Continued portfolio growth
  - Acquisitions concluded in period - £23.0 million
  - Asset management projects completed or on site - £6.6 million capex, £0.6 million additional income, additional WAULT – 18 years
  - Strong pipeline in solicitors hands or agreed to provide additional assets in second half
- Effective management of debt
  - £157.5 million refinanced in period; £348 million restructured/agreed in August 2014
  - Average cost of debt reduced to 4.6% (12 months to Dec 2013: 5.5%)
  - Spread of debt providers widened and composition changed with 25% of total debt provided on an unsecured basis
- Shareholder return
  - Maintain progressive dividend policy
    - 9.75 pence per share paid in April 2014
    - 9.75 pence per share declared to be paid in November 2014
  - Dividend cover increased to 76% for the period (12 months to Dec 2013: 56%)

FINANCIALS

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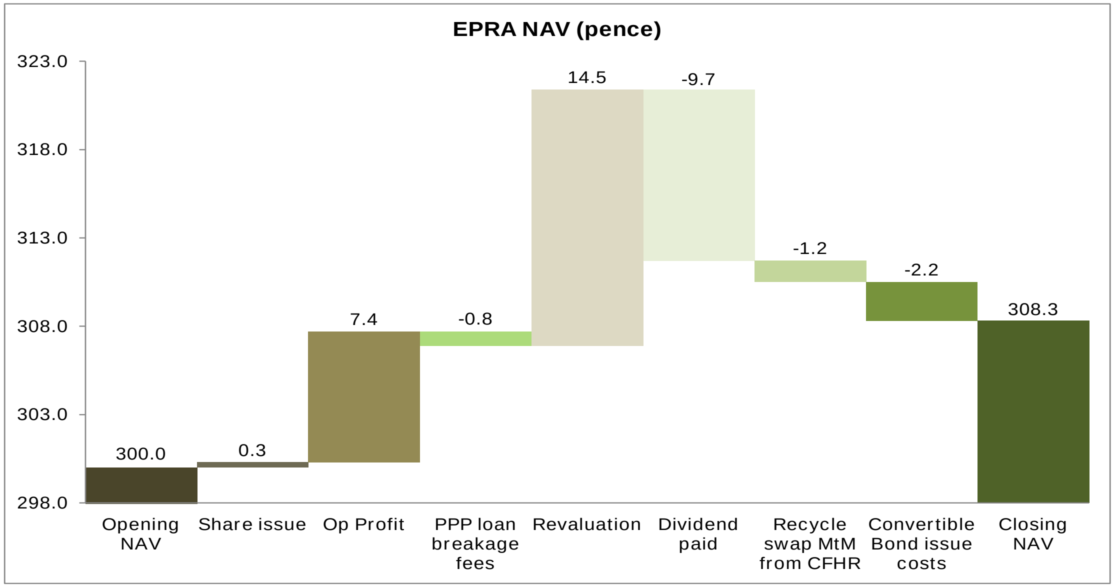
Results in Brief

	Six months ended 30 June 2014	Six months ended 30 June 2013
Revenue	29.4	19.7
Expenses	(4.0)	(3.0)
Operating profit	**25.4**	**16.7**
Net financing costs	(17.2)	(12.4)
Profit before revaluations and other non-recurring items	**8.2**	**4.1**
Property revaluation gain	16.1	0.2
Profit on sale of finance lease	-	0.6
Fair value gain on derivatives	1.1	9.5
Early repayment fee	(0.9)	(0.8)
Non-recurring project costs	-	(0.2)
Non-recurring Convertible Bond issue costs	(2.4)	-
Profit before tax	**22.1**	**13.6**
Adjusted earnings per share	**7.4 pence**	**4.8 pence**
Dividend paid (9.5 pence per share)	**9.75 pence**	**9.5 pence**
Dividend cover	**76%**	**52%**

Balance Sheet

	30 June 2014	31 December 2013
EPRA Net Assets	£341.9m	£330.9m
EPRA net asset value per share	308.0p	300.0p
Property portfolio[1]	£983.3m	£941.6m
Net Debt	£625.4m	£579.7m
LTV	63.6%	61.6%
Future minimum lease payments receivable	£927m	£901m



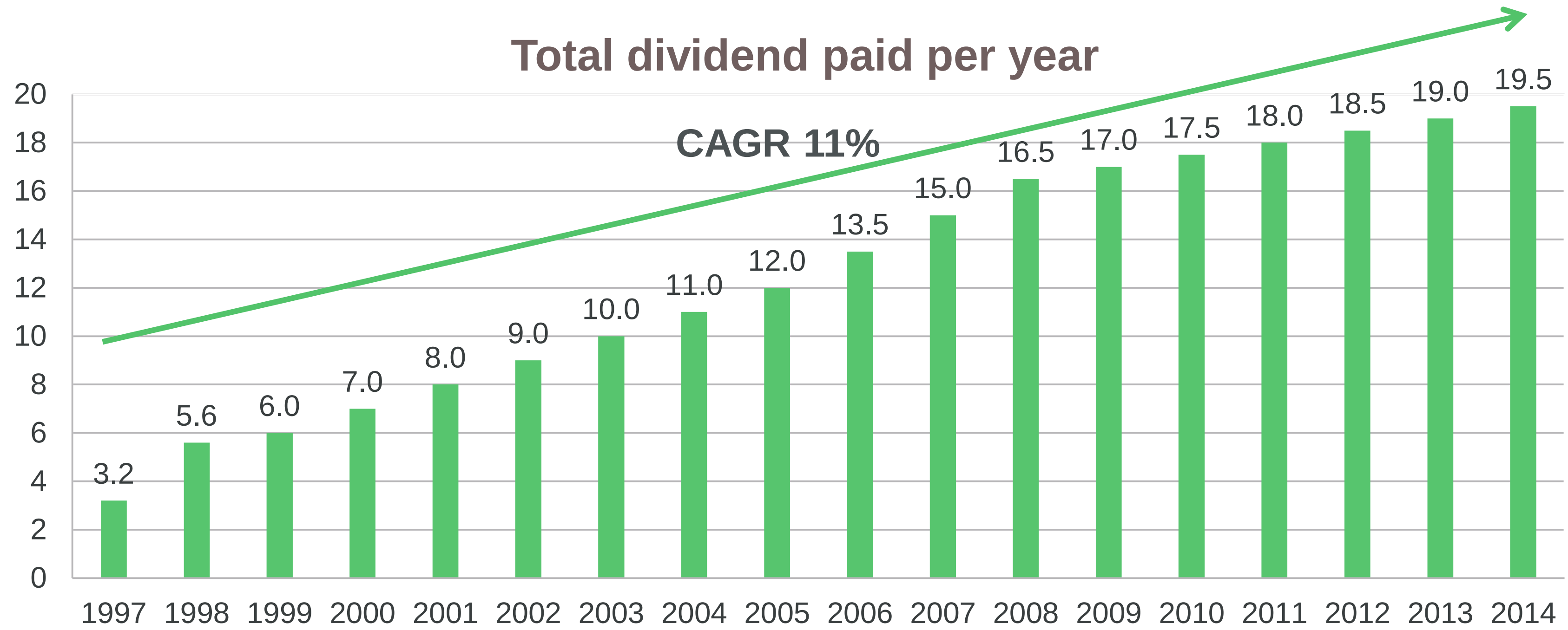
[1] – Book value i.e. net of development property commitments to be paid (£17.1 m)

Dividend cover

- Number one priority to rebuild dividend cover, whilst maintaining progressive dividend
- Positive spread from PPP acquisition in late 2013 reflected in H1 2014 bottom line
  - Full period impact of rental income from PPP acquisition (December 2013)
  - Three stage debt refinance adds in excess of £1.8 million p.a. to earnings
- Restructured and lowered advisory service fee rates
  - Consolidation of administrative services to Nexus – annualised saving c£1.2 million
  - Reduced incremental property advisory fees above £1 billion as portfolio grows
- Major increase in cover in period to 76% (six months to 30 June 2013: 52%)
- Growth in cover to continue
  - Extension in term and reduction of cost of main bank facilities in August 2014
  - Upwards only rent reviews with increased RPI and fixed elements

Dividend growth

- 18th successive year of dividend growth
  - 9.75p per share paid in April 2014
  - 9.75p per share to be paid on 7 November 2014[1]
  - Total of 19.5p represents a 2.6% increase over total paid in 2013



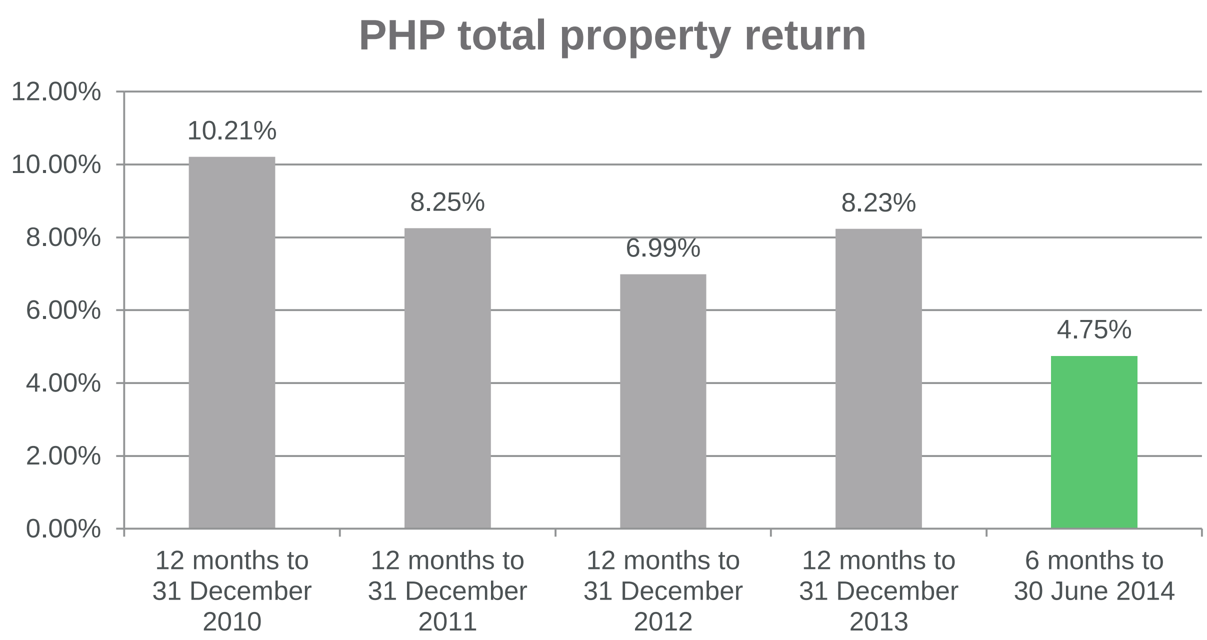
[1] – record date 19 September 2014, ex-dividend date 17 September 2014

Relative performance

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

	1 year	3 years	5 years
Primary Health Properties	8.2%	8.3%	14.0%
IPD Healthcare Property Index	7.2%	7.9%	8.7%
IPD All Property Index	10.5%	6.9%	7.8%

Source: Company, IPD



OPERATIONAL REVIEW

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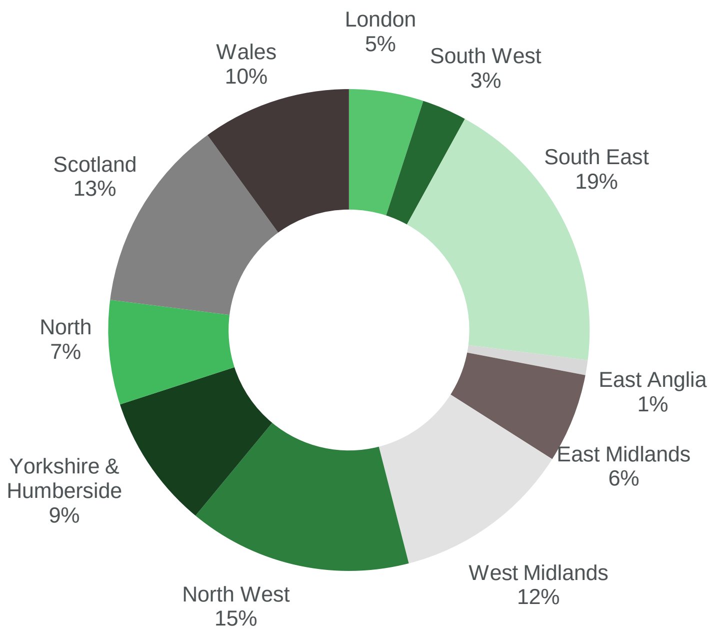
Portfolio Strength

- Key characteristics
  - 257 completed rent producing assets
  - 5 forward purchase commitments (all to be delivered in 2014)
  - Weighted average unexpired lease term of 16 years (31 December 2013: 16 years)
  - Strong tenant covenant – 91% of rent roll paid directly/indirectly by UK Government
  - All leases effectively upward only rent reviews
- Highly visible, long term, growing cash flows reflected in valuation yields
- Portfolio net initial yield stable at 5.58% (31 Dec 2013: 5.64%), yield on cost of 6.8%
- Valuation surplus for period of £16.1 million, uplift of 1.7%

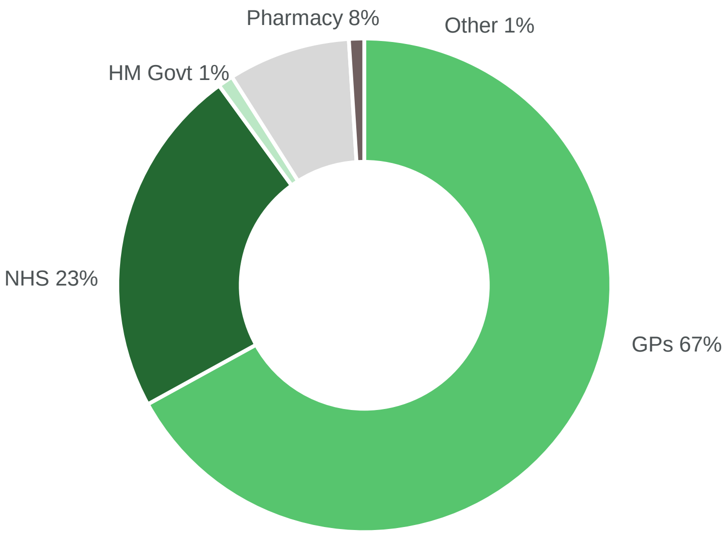
Portfolio analysis by rent

- 262 primary care facilities, 257 completed and 5 committed
- 91% of rental income directly or indirectly from UK Government

Wide Geographical Spread



Strong rental covenant



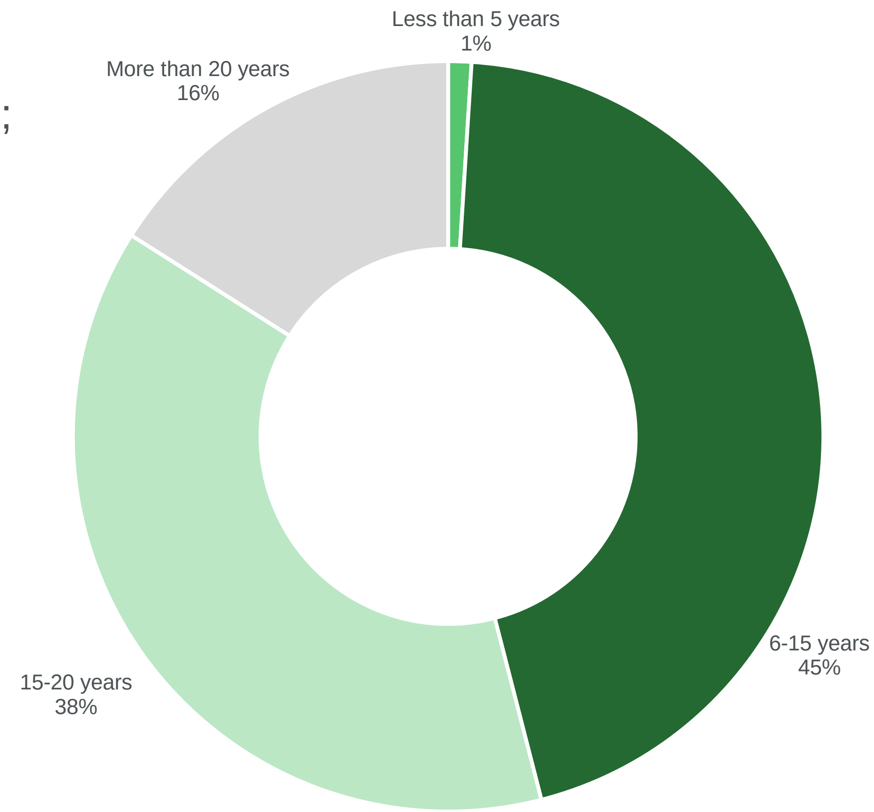
Long Leases with growth potential

- 54% of rent with more than 15 years remaining
- Asset management and lease renewal maintain lease length
- 10% of leases subject to annual rent reviews; 75% triennial rent reviews, balance 5 yearly
- Effectively upward only*
  - 3% of rent roll on fixed uplift
  - 18% of rent roll index linked
  - 79% of rent reviewed to open market

Drivers of Rental Growth

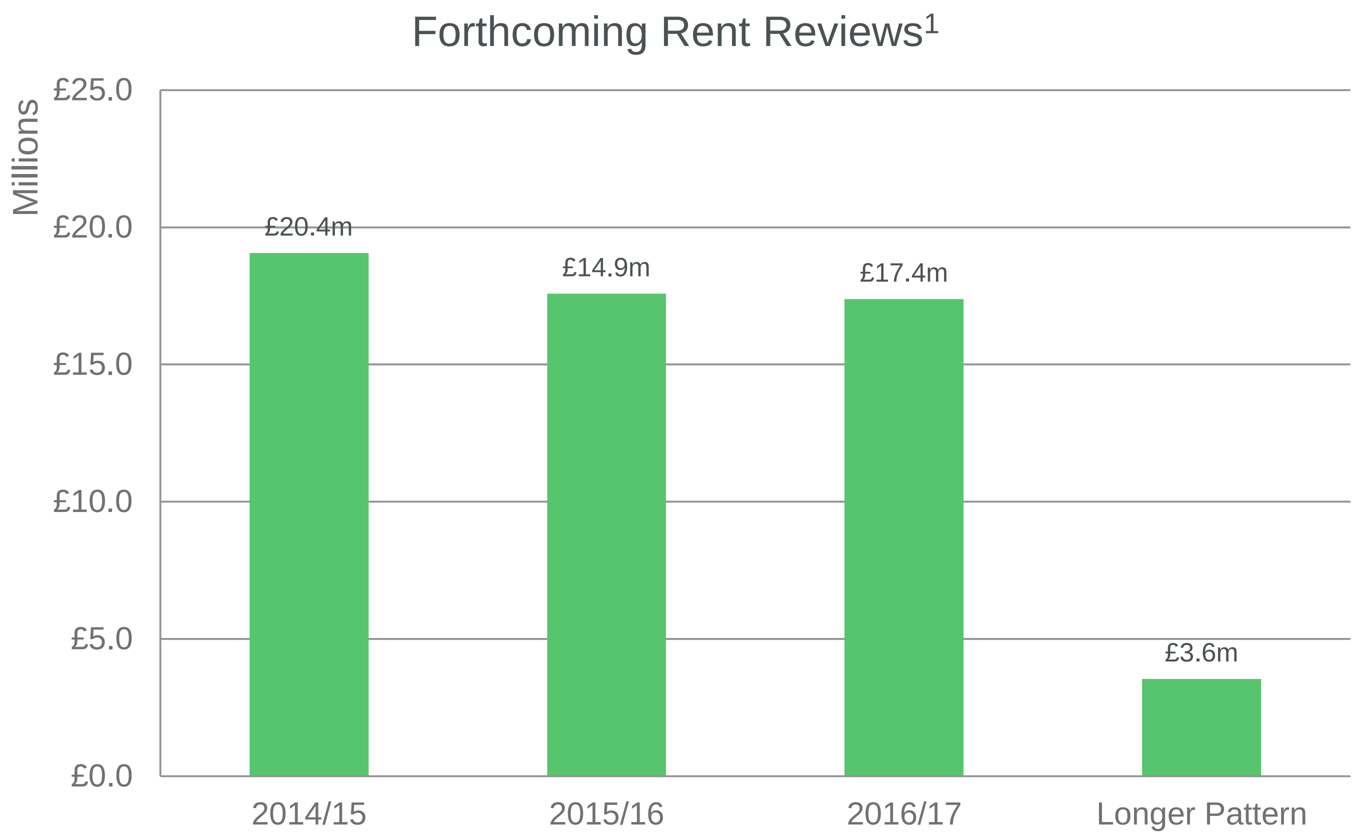
- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost
- Inflation

Analysis of leases unexpired by rent roll



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

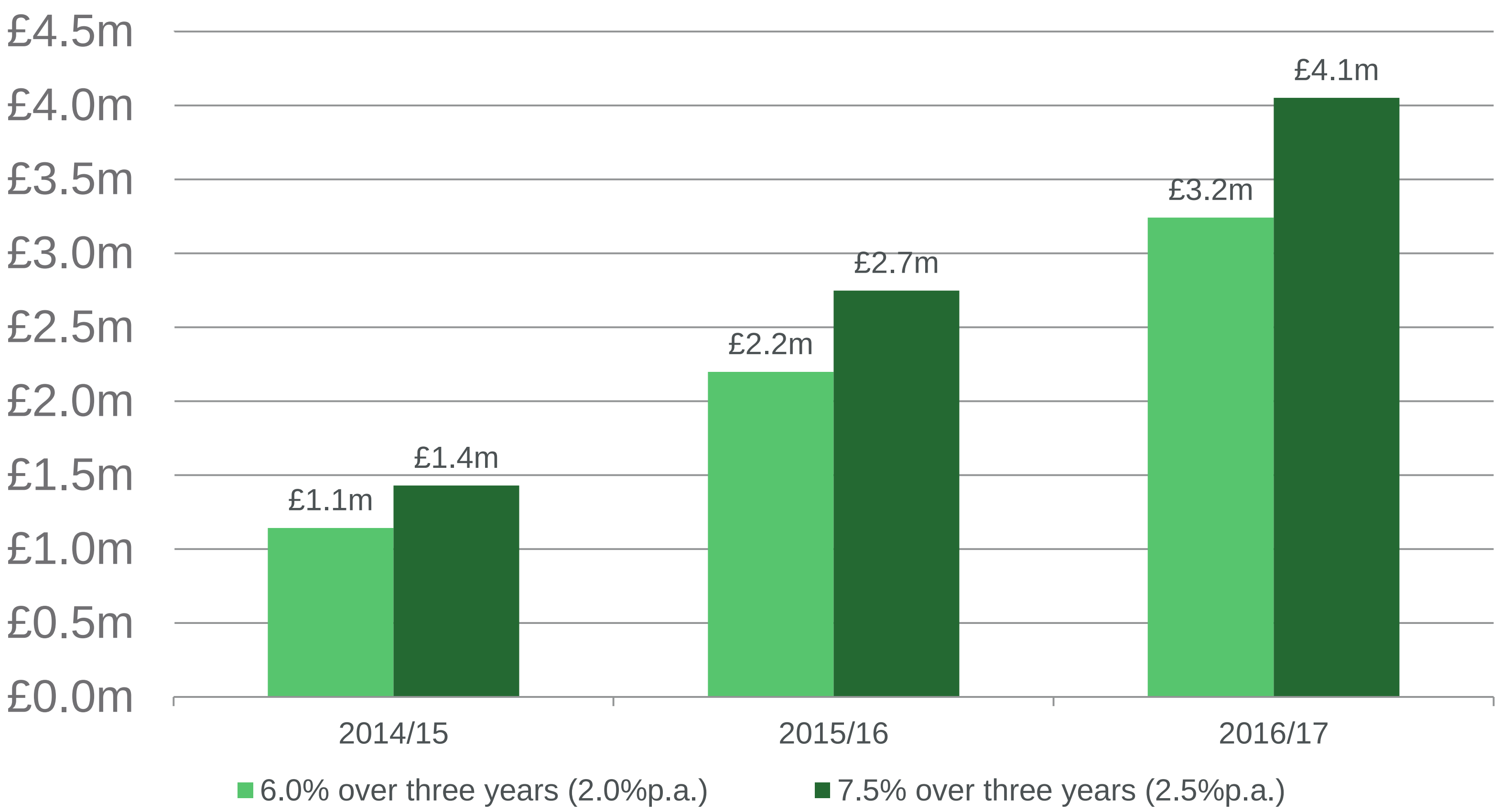
Forthcoming Rent Reviews by Annual Rent[1]



Annual contracted rent on completed assets - £57.6 million

[1] – includes rent on completed assets only as at 30 June 2014

Cumulative Cash Flow from Rent Reviews[1]



[1] – includes rent on completed assets 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, cash yield 6.5%

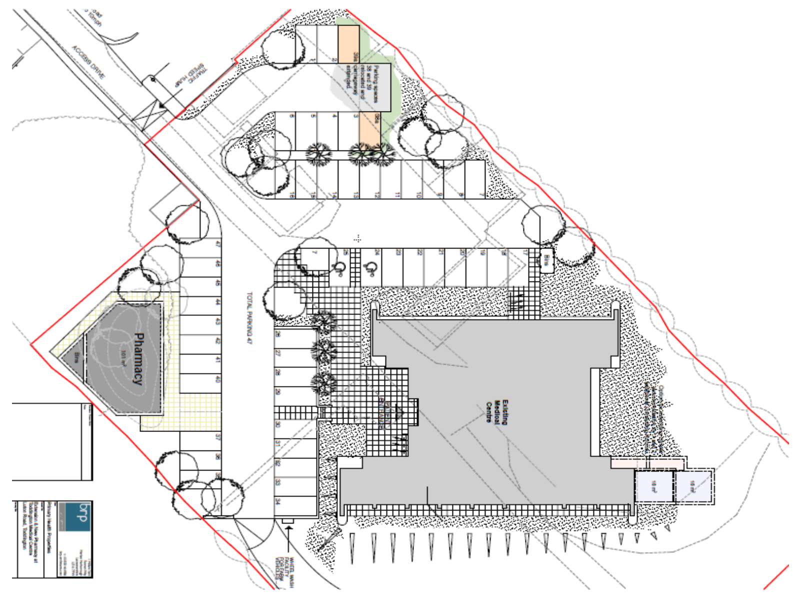
To be 11 GPs- 20,000+ patients

Asset Management Project - completed

Toddington, Bedfordshire – On site October 2013, completion October 2014

Construction of a new 100 m² pharmacy adjacent to and addition of 2 consulting rooms within a purpose built health centre constructed in 1998.

Pharmacy unit and enlarged centre will be fully let for a new 24 year term (existing centre has 8 years remaining). Cost of project £0.38 million, cash yield 6.2%



Development Delivery - 2014

St Johns Surgery, Worcester

- **Tenants:** GP Practice and Pharmacy
- **Constructed:** March 2014
- **NIA:** 1,205 m²
- **Value:** £4.9 million
- **Patient numbers:** 15,110

Development Delivery - 2014

Lion Medical Centre, Stourbridge

- **Tenants:** GP Practice and Pharmacy
- **Constructed:** March 2014
- **NIA:** 2,600 m²
- **Value:** £9.4 million
- **Patient numbers:** 29,500

Development commitment - 2014

Gorse Stacks, Chester

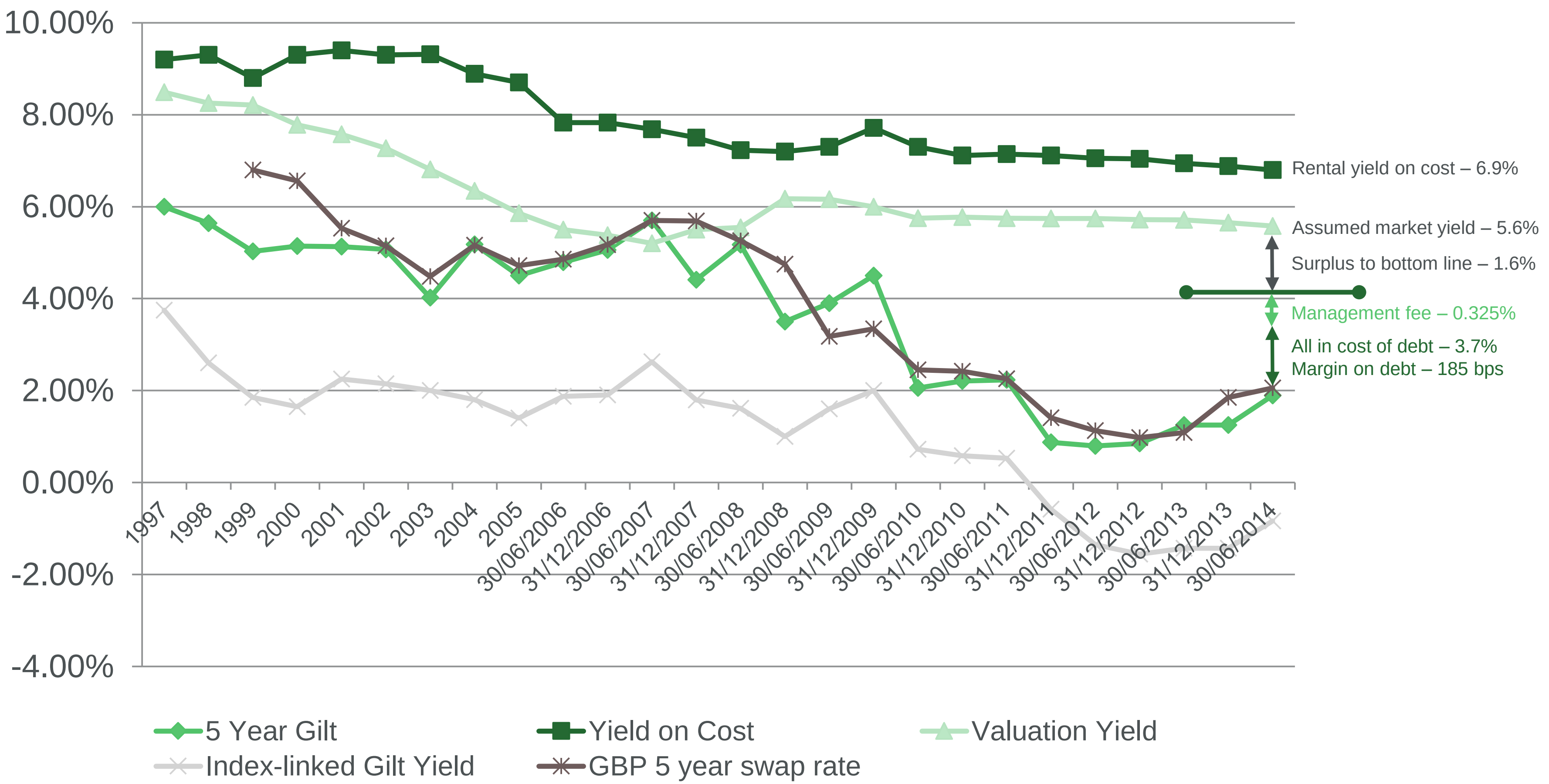
- **Tenants:** 4 GP Practices and pharmacy
- **Date committed:** February 2014
- **Expected completion:** December 2014
- **NIA:** 5,754 m²
- **Expected Cost:** £18.5 million
- **Patient numbers:** 24,235

Acquisition - 2014

New Cumnock Surgery, Ayrshire

- **Tenants:** GP practice
- **Date acquired:** February 2014
- **NIA:** 540 m²
- **Value:** £1.8 million
- **Patient numbers:** 4,100

Yield on Cost and Value



FUNDING

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Secure Borrowing Facilities

Average maturity of bank debt – 7.1 years

Provider	Maturity	Facility	Headroom*
RBS (overdraft)	Mar 2015	5.0	5.0
RBS/Santander	August 2018	165.0	50.0
Barclays	August 2019	70.0	40.9
Aviva	Nov 2018	75.0	-
Aviva	Dec 2022	25.0	-
Aviva	Jan 2032	25.8	-
Aviva (PPP)	Aug 2024	50.0	-
Aviva (PPP)	Aug 2029	62.8	-
HSBC	April 2019	50.0	28.5
Floating rate bond	Dec 2025	70.0	-
Total secured debt		598.6	124.4
Retail Bond	July 2019	75.0	-
Convertible Bond	May 2019	82.5	-
Total unsecured debt		157.5	-
Total facilities		**756.1**	**124.4**
Cash on deposit			6.3
Development commitments			(17.1)
Net headroom*			**113.6**

* As at 30 June 2014

- £50m, 5 year, interest only facility with HSBC April 2019
  - Maximum LTV covenant 60%
  - Minimum ICR covenant 1.4x
  - Initial margin of 200 bps
- £82.5 million, five year, convertible bond issued in May 2014
- PPP debt refinance completed
  - Stage 1 interest rate reduce by 85 bps effective 1 January 2014
  - Stage 2 revised durations and interest rate reduction of 13 bps – August 2014
- Club and Barclays facilities extended by 1.5 and 3 years
  - Average margin reduced by 55 bps
- Group LTV – 63.6% (2013: 61.6%)
- 25% of debt on unsecured terms

Convertible Bond

- £82.5 million convertible bond issued on 20 May 2014
  - Bond issued on an unsecured basis with no asset related covenants
  - Bond matures in May 2019 i.e. 5 year term
  - Issued at par with a 4.25% p.a. coupon
  - Issued through a wholly owned Jersey subsidiary and listed on Channel Islands Stock Exchange
- Conversion terms and protections
  - Initial conversion price set at 390 pence
  - Dividends to equity holders protected up to 19.5p per financial year before conversion price adjusted
  - Market standard terms with regard to future equity issues etc.
- Settlement
  - Right to settle in shares, cash or a combination of shares and cash.

Joint Advisers and Fee Base

- Consolidation of the provision of accounting and company secretarial services to Nexus from 30 April 2014
  - Fixed fee basis with upwards/downwards RPI adjustment (capped at +/- 5%)
  - Breaks link to gross assets for "back office" services
  - Based on gross assets as at 1 May 2014, an annualised saving of £1.2 million
- Enhances service quality and information management whilst reducing the Group's overhead costs considerably
- Reduced incremental fee rates agreed for periods after 30 April 2014 for gross assets above £1 billion

Gross asset value	Fee rate
First £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%

PHP

CONCLUSION

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Conclusion

- Low risk, proven business model – more than 90% of rents underpinned by Government funding, 100% occupancy
- Demographic and political drivers – ageing population, all party commitment to NHS
- Long term non-cyclical market
- Maintained progressive dividend policy with clear path back to full dividend cover
- Well funded – prudent mix of debt and equity and demonstrated access to debt capital markets
- Changes to composition of debt portfolio increases flexibility and allows for reduced cost bank finance
- Positive yield gap between acquisition yield and funding costs
- Reduced advisory cost structure enhances earnings
- Well positioned to lead next phase of Primary Care premises development following Health Act and devolution of budget and commissioning responsibility to GPs

Contact details

Harry Hyman	Phil Holland
Managing Director	Deputy Managing Director
harry.hyman@nexusgroup.co.uk	phil.holland@nexusgroup.co.uk
Telephone: 020 7451 7050	Telephone: 020 7104 5599

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August 2014