Interim Results – 30 June 2015

Investing in the future of integrated healthcare

Helping to deliver a 24/7 NHS

Primary Health Properties PLC (PHP.L)
A dedicated healthcare REIT
www.phpgroup.co.uk

AGENDA

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Financial Results
Investment Rationale
Portfolio Review
Funding
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Primary Health Properties PLC
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HIGHLIGHTS

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Continued momentum

- Net rental income increased by 5.2% to £30.6m (30 June 2014: £29.1m)
- EPRA earnings increased by 20.7% to £9.9m (30 June 2014: £8.2m)
- EPRA cost ratio reduced to 11.6% (30 June 2014: 12.7%) – lowest in sector
- Property portfolio reaches £1.1bn in value[1] (31 Dec 2014: £1.0bn)
- Surplus on revaluation of £23.9m, 2.3% like-for-like growth
- Increased interim dividend – 10.0p per share paid in April 2015 (30 June 2014: 9.75p)
- Dividend cover increased to 89% (31 Dec 2014: 84%; 30 June 2014: 76%)
- Total shareholder return[2] 9.4% for the six months (30 June 2014: 5.9%)
- Second interim dividend of 10.0 p per share to be paid in October 2015, total 20.0p for 2015
- Company to move to quarterly dividend payments from 2016 – January, April, July & October
- Debt and swap restructuring lowers average cost of debt by 43 basis points from July 2015 and will improve dividend cover for the remainder of 2015 and future periods

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[1] – includes development and purchase commitments as completed
[2] – increase in NAV per share plus dividend paid in period

Financial highlights

Performance	Six months ended 30 June 2015	Six months ended 30 June 2014
EPRA earnings per share	8.9 pence	7.4 pence
Dividends paid	10.0 pence	9.75 pence
Dividend cover	89%	76%

Portfolio	As at 30 June 2015	As at 31 December 2014
Investment portoflio[1]	£1.1bn	£1.0bn
Annualised contracted rent roll[1]	£62.9m	£60.9m
Weighted average unexpired lease term (“WAULT”)	15.1 years	15.3 years

Position	As at 30 June 2015	As at 31 December 2014
EPRA net asset value per share	339 pence	319 pence
Net debt	£679.6m	£658.1m
Loan to value ratio	63.2%	64.1%

[1] – includes development and purchase commitments as completed
[2] – increase in NAV per share plus dividend paid in period

Delivering on strategic objectives

- Increased shareholder returns
  - Dividend increased for 19th consecutive year – 10.0p per share paid April 2015
  - Dividend cover increased to 89% (30 June 2014: 76%)
  - Total shareholder return for six month period - 9.4% (30 June 2014: 5.9%)
  - Second interim dividend declared, payable 30 October – total 20.0p for 2015
- Continued portfolio growth
  - Portfolio now 272 assets, £33.6m acquired in period, adding £1.9m p.a. rent
  - Valuation surplus of £23.9m or 21.5p per share
  - Strong acquisition pipeline in solicitors hands or terms agreed
- Effective and efficient management
  - Two asset management projects completed in the period
    - £2.1m capex; £0.3m p.a. income added; average 21 years additional lease term
  - EPRA cost ratio reduced to 11.6% (30 June 2014: 12.7%)
- Diversified, long term funding
  - Swap portfolio restructured lowering average cost of debt by 43 bps from July 2015

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Relative performance

- PHP total FTSE shareholder return[1] for 1, 3 and 5 years compared to indices

	1 year	3 years	5 years
Primary Health Properties	20.4%	14.9%	15.5%
FTSE All-Share Real Estate Index	19.5%	26.0%	26.3%
FTSE All-Share Index	2.6%	12.3%	13.3%

Source: Bloomberg

- PHP annualised total property compared to IPD All Property benchmark for 1, 3 and 5 years

	1 year	3 years	5 years
Primary Health Properties	9.3%	7.8%	7.8%
IPD All Property Index	15.6%	12.1%	10.1%

Source: IPD

[1] - Total FTSE return is movement in share price in period plus dividends paid as percentage of opening price

FINANCIAL RESULTS

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Operating performance

£m (30 June)	2015	2014
Net rental income	**30.6**	**29.1**
Administrative expenses	(3.4)	(3.7)
Operating profit before revaluation gain and financing	**27.2**	**25.4**
Net financing costs	(17.3)	(17.2)
EPRA earnings	**9.9**	**8.2**
Net result on property portfolio	23.9	16.1
Non-recurring: early loan repayment fee	-	(0.9)
Non-recurring: convertible issue cost	-	(2.4)
Fair value gain on interest rate derivatives	2.2	1.1
Fair value loss on convertible bond	(3.6)	-
Profit before tax	**32.4**	**22.1**
EPRA earnings per share	**8.9p**	**7.4p**
Dividend per share paid	**10.0p**	**9.75p**
Dividend cover	**89%**	**76%**

- Net rental income increased by 5.2% to £30.6m (30 June 2014: £29.1m)
- Operating profit before tax increased by 46.6% to £32.4m (30 June 2014: £22.1m)
- EPRA Cost Ratio reduced to 11.6% (31 Dec 2014: 12.7%)
- Average cost of debt finance has fallen by 50bps to 4.9%
- EPRA earnings per share increased by 20.3% to 8.9p (30 June 2014: 7.4p)
- Dividend paid increased by 2.6% to 10.0p per share (30 June 2014: 9.75p)
- Dividend cover rises to 89% (30 June 2014: 76%)

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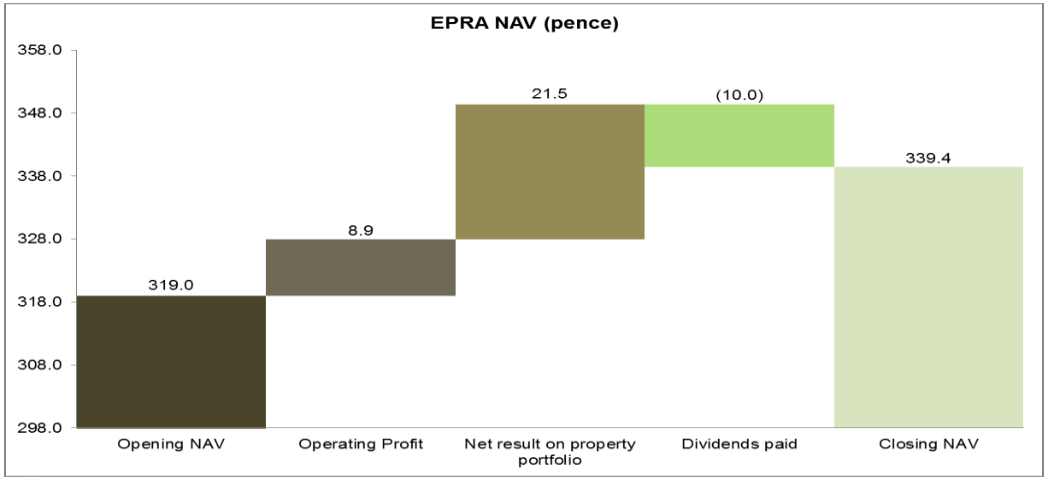
Balance Sheet

	30 June 2015	31 December 2014
Investment portfolio[1]	£1.1bn	£1.0bn
Future minimum lease payments receivable[1]	£912m	£885m
Net Debt	£679.6m	£658.1m
LTV	63.2%	64.1%
EPRA Net Assets	£377.5m	£354.6m
EPRA net asset value per share	339.4p	319.0p



- Gross assets increased by 5% to £1.1bn (31 Dec 2014: £1.0bn)
- Valuation surplus of £23.9, like-for-like growth of 2.3%
- Net portfolio initial valuation yield 5.39% (31 Dec 2014: 5.52%)
- Total property return[2] for six month period 5.2% (30 June 2014: 4.8%)
- Including development and purchase commitments, portfolio grown to £1.1bn
- EPRA NAV per share increased by 6.3% to 339p (31 Dec 2014: 319p)
- Total EPRA NAV return of 9.4%

[1] - Completed assets only. Does not reflect any assumed uplift from rent reviews
[2] - net rental income plus change in market value divided by opening market value plus capital additions

Funding overview

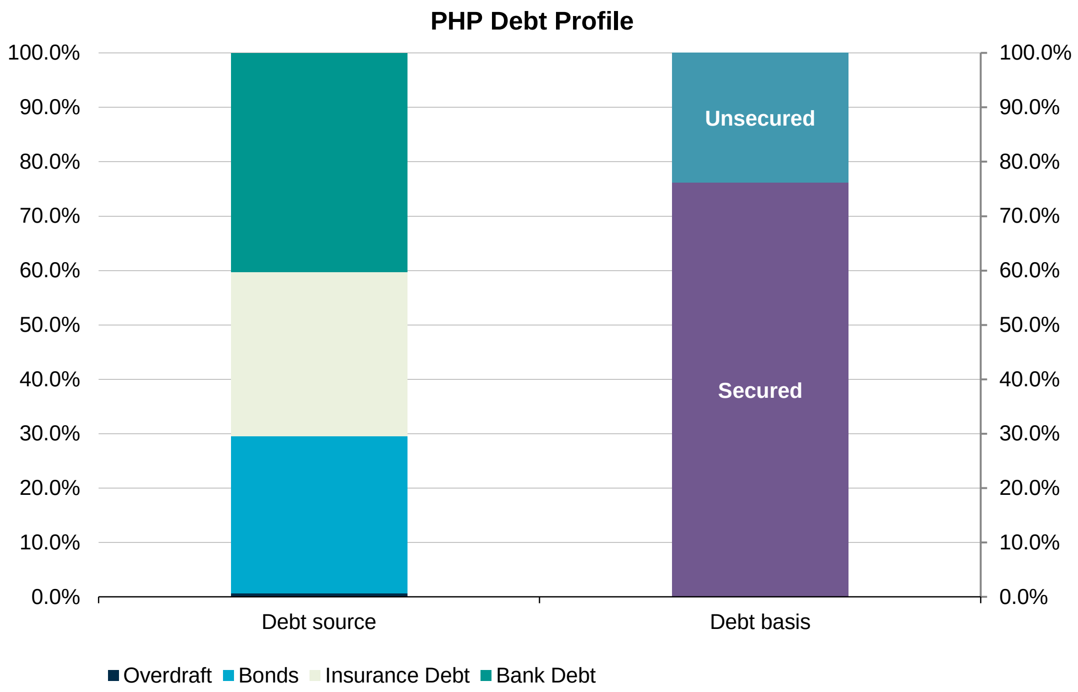
	30 June 2014	31 December 2014
Total debt facilities	**£'m**	£'m
Secured	**630.6**	628.4
Unsecured	**157.5**	157.5
	788.1	785.9
Average maturity of debt facilities	**6.1 years**	6.2 years
Net debt	**£'m**	£'m
Drawn debt	**681.1**	670.1
Cash on deposit	**(1.5)**	(12.0)
	679.6	658.1
Total collateral[1]	**£1,074.8m**	£1,026.2m
Group Loan to Value ratio	**63.2%**	64.1%
Commitments – cost to complete(1)	**£21.8m**	£11.2m

- Refinance activity in 2014 reduces average cost of debt by 50bps to 4.9%
- £50m debt facility with HSBC extended for a new 5 year term from July 2015 to July 2020
- Swap portfolio restructured in July 2015
  - Two forward starting contracts procured
    - £25m, five years, start Jan 2018 @ 2.47%
    - £75m, five years, start Jan 2019 @ 2.65%
  - Current contract for £80m notional debt with coupon of 4.805% terminated
    - Average cost of debt reduced by 43 bps with immediate effect

[1] - Not reflected in total collateral balance. Completed assets only.

Borrowing facilities

- Total facilities available to PHP - £788.1m[1]
- Available headroom - £86.7m (after commitments)[2]
- 24% of net debt on an unsecured basis – Retail Bond and Convertible Bond



[1] - Includes £5m overdraft
2- Development and purchase commitments total £21.8m as at 30 June 2015

INVESTMENT RATIONALE

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Growing commitment to primary care

- NHS England Five Year Plan reaffirms list based primary care as the bedrock of the NHS
  - NHS must deliver savings of £22bn per annum
  - Reconfiguring primary care estate to contribute significantly with service delivery savings
  - Greater emphasis on out of hospital care
  - Greater integration of health and social care
- Positive new Government action and intentions
  - Additional funding of £8bn per annum delivered by Queen's Speech
  - 5,000 more doctors to be working in general practice
  - Primary target to provide 24 hour/7 day a week access to GPs
- Jeremy Hunt statement 19 June 2015
  - "….ever changing and ever increasing demand…need significant improvements in quality of physical infrastructure."
- CCGs to develop strategic estates plans by December 2015

Primary Care Property Demand Drivers

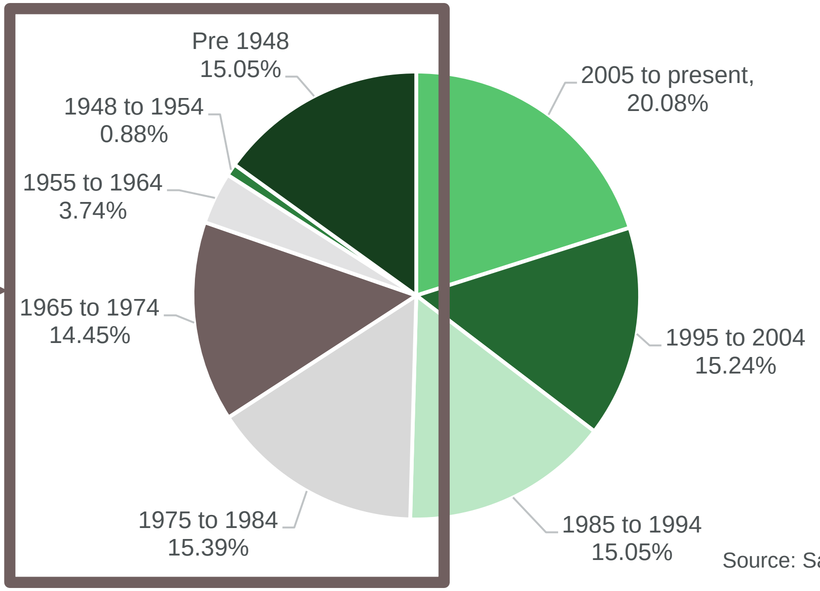
Inadequate, ageing supply

In recent BMA survey of GPs

- 70% stated their premises are too small to deliver extra/additional services
- 60% stated their premises are too small to provide vital training and education
- 52% said that their premises had seen no investment or refurbishment in the last 10 years

Age profile of premises in the primary care sector

50% of primary care premises are more than 30 years old, mostly residential conversions

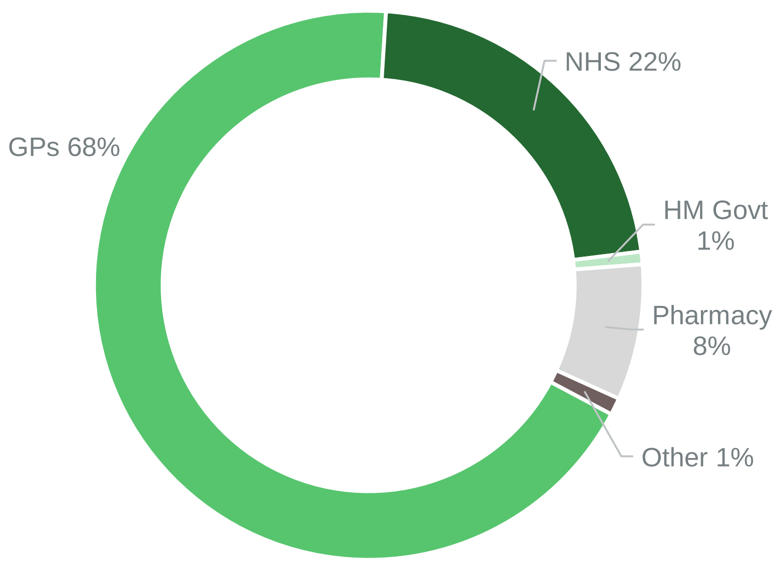


Source: Savills/EC Harris

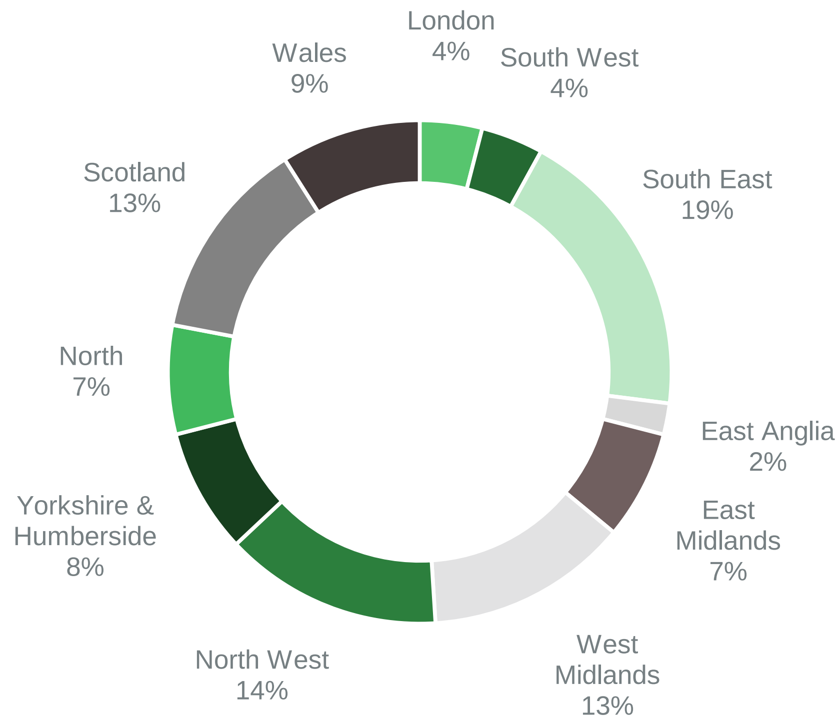
Government covenant underpins PHP income

- 264 completed assets spread across the UK
- 91% of rental income directly or indirectly from UK Government

Strong rental covenant[1]



Wide geographical spread[1]



[1] - Data for completed properties only

High quality recurring rental income

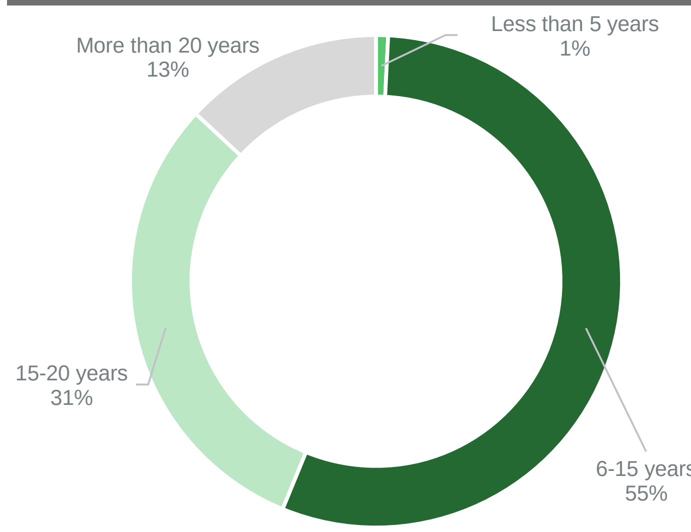
Key characteristics of PHPs portfolio

Average lease length of over 15 years	Strong tenant covenant – 91% of rent roll paid directly/indirectly by the Government	Substantially all leases have effectively upward only rent reviews	10% of leases subject review on annual basis; 76% on triennial basis

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

- Contracted rent roll of £62.9m p.a.[(1)]
- 44% of rent with more than 15 years remaining
- Rental growth averaged 1.1% p.a. on reviews settled in period
- Effectively upward only rent roll[(3)]
  - 4% on fixed uplift (ave. 2.75% p.a.)
  - 19% index linked (ave. floor 2% p.a.)
  - 77% reviewed to open market
- Prospects for rental growth
  - Inflation returning to UK economy
  - Increased demand for modern premises
  - Increasing approval of new premises

Analysis of leases unexpired[2]



[1] - Including purchase and development commitments as completed
[2] - Completed assets only
[3] - Rental agreements have upward and downward provisions however a review can only be instigated by the landlord

Yield on Cost and Value

PORTFOLIO REVIEW

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Property portfolio

- 272 healthcare centres – 264 completed, 8 under development
- Portfolio value[1] – £1.1bn – net initial yield 5.39% (31 Dec 2014: 5.52%)
- Average lot size - £4.0m; average age of buildings – 10.5 years (31 Dec 2014: £3.9m)
- Annual contracted rent roll - £62.9m (31 Dec 2014: £60.9m); 99.6% occupancy rate
- Average unexpired lease term – 15.1 years (31 Dec 2014: 15.3 years)

Capital value	No. of assets	Value (£'m)	% of portfolio
£10m +	14	213.2	19.4%
£5 - £10m	42	285.0	26.0%
£3 - £5m	81	309.9	28.3%
£1 - £3m	132	286.0	26.1%
£0 - £1m	3	2.5	0.2%
Total	**272**	**1,096.6**	**100.0%**

[1] – including development and purchase commitments as complete

Investment acquisition

White Horse Medical Centre, Westbury

- **Tenants:** GP Practice, NHS Foundation and Pharmacy
- **Date acquired:** February 2015; WAULT 27.5 years
- **Date built:** September 2012
- **Size:** 1,900 m²
- **Acquisition Cost:** £7.75m
- **Patient list size:** 19,500

Investment acquisition

Thornaby Medical Centre, North Yorkshire

- **Tenants:** 2 GP Practices, Optician, NHS Property Services, NHS Trust and Pharmacy
- **Date acquired:** June 2015; WAULT 13.5 years
- **Date built:** November 2003
- **Size:** 2,637m²
- **Acquisition Cost:** £7.45m
- **Patient list size:** 42,000

Development commitment

Two Rivers Medical Centre, Ipswich

A forward funding agreement for a new health centre to be let to a newly merged Practice of 16 GPs and a pharmacy. The site is adjacent to Ipswich Hospital and will provide a wide range of services for patients. The total proposed floor area extends to 1,987 sqm. and the property will be let on 25 year terms on completion. The development is expected to reach Practical Completion in summer 2016.

- **Tenants:** GP Practice and Pharmacy
- **Date contracted:** April 2015
- **Expected completion date:** June 2016
- **NIA:** 1,987 m^2
- **Cost:** £6.7m
- **Patient list size:** 25,000

Asset Management Project

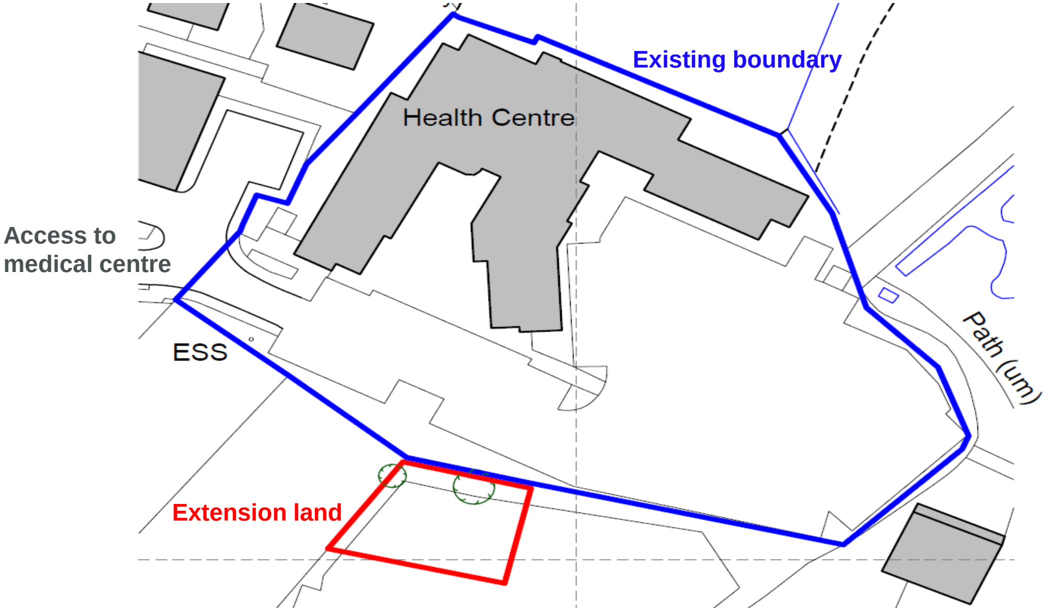
Willesden, London – completion April 2015

Refurbishment and reconfiguration of a purpose built 1980s urban medical centre for a 10 GP practice. The project improves NHS service delivery and patient access and maintains the property as fit for purpose for the new 21 year lease term. The building includes a pharmacy and accommodation planned for NHS occupation. The project cost a total of £1.67m and generates a cash yield of over 7%.

Asset Management Project

Cowbridge, Cardiff – Completed May 2015

A development project at the Cowbridge Medical Centre, near Cardiff in South Wales to construct a 120 sqm pharmacy unit pre-let to Lloyds Pharmacy for a 17 year term from completion. The project required the purchase of a parcel of land adjoining the existing medical centre and the relocation of a pharmacy licence. The project cost a total of £0.5m and generated a cash yield of 7%.



FUNDING

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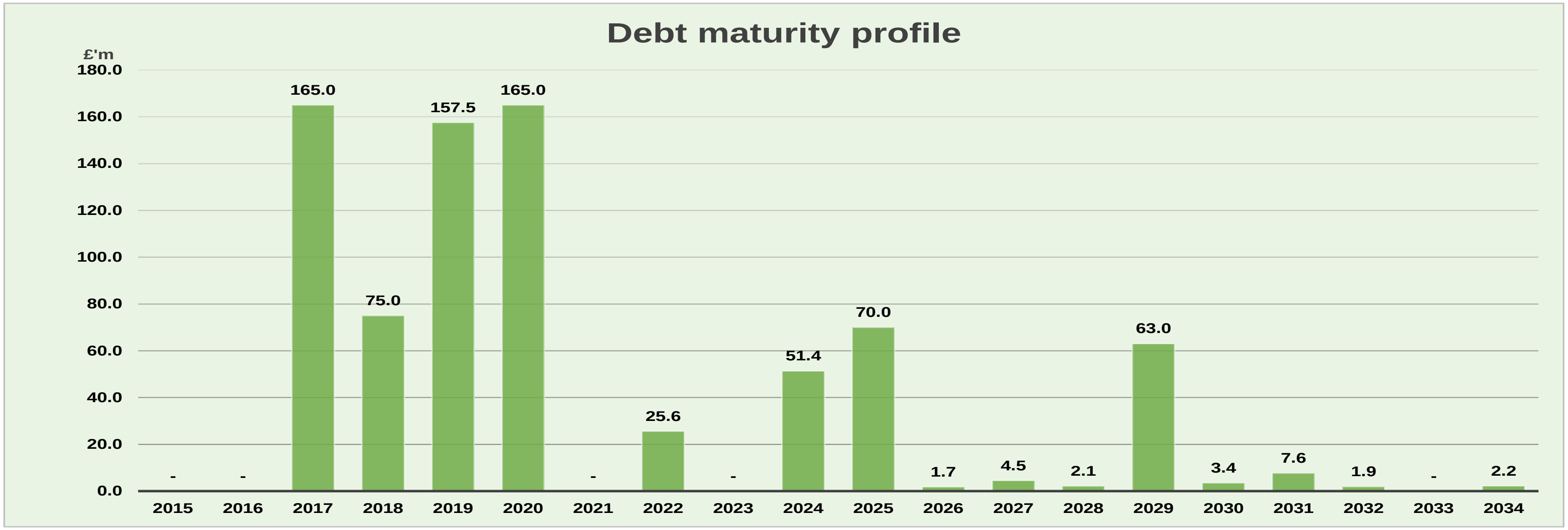
Spread of Funding Sources

	Secured Facilities									Unsecured facilities[1]	
Provider	RBS/ Santander	HSBC	Barclays	Aviva	Aviva	Secured Bond	Aviva	Aviva	RBS (Willams & Glyn)	Retail Bond	Convertible Bond
Tenor	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Amortising	Amortising	Bullet	Bullet	Bullet
Expiry	Aug-17	Jul-20	Aug-20[2]	Nov-18	Dec-22	Dec-25	Oct-29	Jan-32	Dec-27	Jul-19	May-19
Facility	£165m	£50m	£100m	£75m	£25m	£70m	£113m	£25m	£2.5m	£75m	£83m
Drawn	£136m	£22m	£55m	£75m	£25m	£70m	£113m	£25m	£2.5m	£75m	£83m
Collateral[3]	£294m	£50m	£147m	£121m	£38m	£115m	£175m	£43m	£7.5m	-	-
Passing Rent	£17m	£3m	£8m	£7m	£2m	£7m	£10m	£2m	£0.4m	-	-
LTV Max	55%	55%	60%	65%	70%	67%	75%	n/a	n/a	-	-
LTV actual	46%	43%	38%	62%	65%	61%	65%	59%	n/a	-	-
ICR Min	1.4x	1.4x	1.5x	1.4x	1.1x	1.4x	1.0x	1.0x	1.1x	-	-
ICR actual	1.7x	3.3x	3.6x	2.2x	2.4x	3.2x	1.7x	1.6x	3.8x	-	-

1 - Excludes overdraft
2 – Credit approved terms being documented to extend for a new five year term from August 2015
3 - Includes only assets mortgaged to the applicable facility

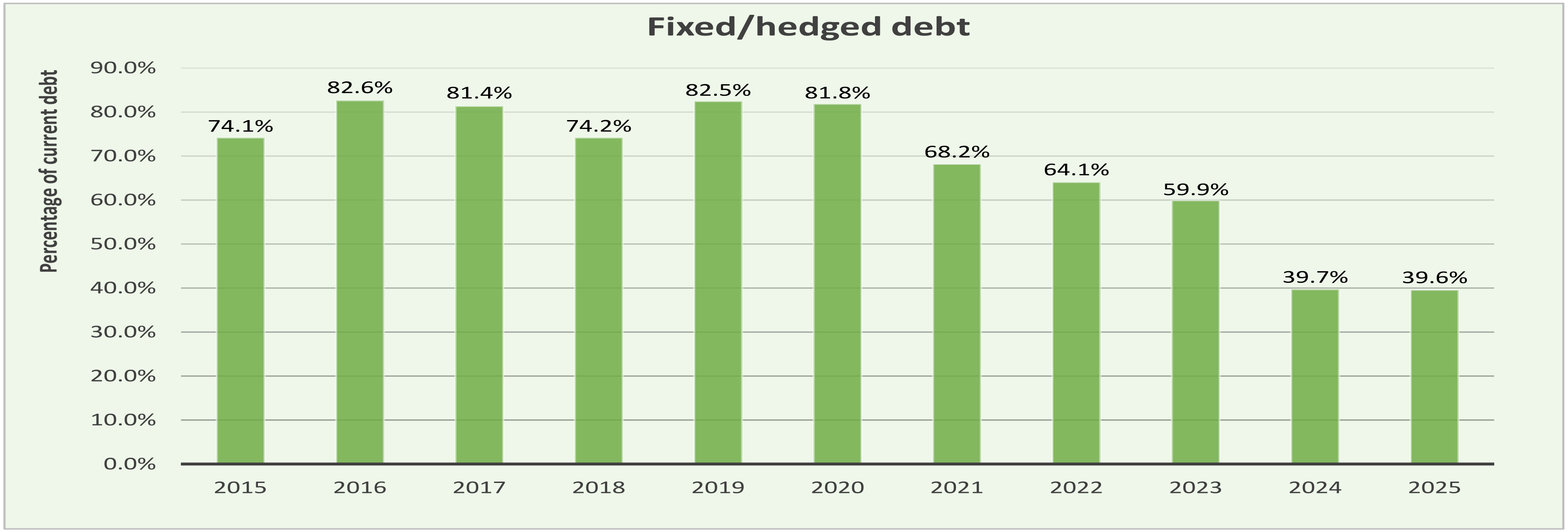
Maturity of Debt

- Weighted maturity period at 30 June 2015 – 6.1 years (2014: 6.2 years)
- HSBC £50m facility extended for new five year term from July 2015; maturity July 2020
- Barclays facility to be extended by £15m with AIB providing additional funds; new five year term for whole £115m facility from August 20154
- Discussions commenced to extend Club facility due to mature in 2017



Interest rate protection

- Long term interest rate protection
  - £80m notional contract to July 2016 terminated; reduces average debt cost by 43bps
  - Additional swap contracts lengthen interest rate protection
  - More than 80% of debt protected to 2020
  - Efforts now focussed on longer term rate and debt maturity profile



OUTLOOK

Primary Health Properties PLC
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Positive outlook

Low risk, long term, non-cyclical market	➢ No speculative development, but commissioning tightly controlled by NHS ➢ High occupancy rates; Long initial lease durations ➢ Majority of rents funded by UK Government
Strong, high quality and growing cash flows	➢ Positive yield gap between acquisition yield and funding costs ➢ Effectively upward-only rent reviews ➢ Simple cost structure enhance earnings
Efficient management and reducing cost of funds	➢ EPRA cost ration reduced to 11.6% and will be cut further in H2 2015 ➢ Average cost of debt reduced by 50bps to 4.9% in H1 2015 ➢ Swap restructuring cuts average cost of debt by further 43bps effective July 2015
Sector demand factors dictate continued development of healthcare premises	➢ Healthcare demand increasing due to ageing population ➢ Unwavering political support for NHS and promotion of integrated care ➢ GP/NHS owned primary care estate is ageing and in need of replacement
Stable, increasing returns	➢ Growing shareholder return through dividend increase and capital appreciation ➢ Excellent dividend track record; to pay quarterly dividend from 2016 (Jan, Apr, Jul, Oct) ➢ Strong yield characteristics, low volatility

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August 2015