Full Year Results – year ended 31 December 2015

Investing in the future of integrated healthcare

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

AGENDA

- Introduction
- Financial Results
- UK supply/demand imbalance
- Opportunity in Ireland
- Strong pipeline
- Outlook
- Appendices

INTRODUCTION

Overview of Primary Health Properties PLC (“PHP”)

- UK Real Estate Investment Trust (“REIT”)
- Leading investor in flexible, modern primary healthcare accommodation
- 273 properties located across the UK; 91% of income from UK government
- Tenants include GPs, NHS & pharmacy operators; 3.2m patients registered at PHP properties
- 19 consecutive years of dividend growth
- First investments in Republic of Ireland under offer
- Strong pipeline of acquisition opportunities




Highlights

Return to full dividend cover

- EPRA earnings per share 4.9p (+19.5%)
- 2015 dividend per share 5.0p (+2.6%)
- 2015 full year cover 98%
- 2015 second half year cover 107%

Supply and demand in UK

- Ageing, inadequate supply of premises
- Current stock limits services expansion
- Government aim of 24/7 access to GPs
- NHS budget increased by extra £10 billion

Opportunity in Ireland

- Drive to increase access to primary care
- Large scale development of new assets
- HSE anchor tenant – 60% to 75% of income
- Attractive rental yield spread over debt

Strong pipeline of opportunities

- NHS starting to approve new development
- Strong relationships with developers
- £39 million of transactions in solicitors hands
- Further £100 million identified and in progress

FINANCIAL RESULTS

Key performance indicators

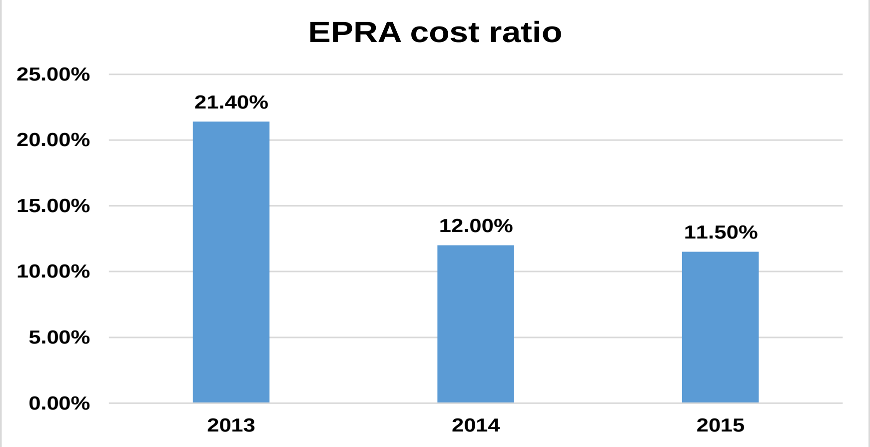
Performance	2015	2014	Growth
Net rental income (£'m)	62.3	59.3	5.1%
EPRA earnings (£'m)	21.7	18.2	19.2%
EPRA earnings per share (pence)	4.9	4.1	19.5%

Position	2015	2014	Growth
Investment property (£'bn)	1.1	1.0	7.3%
EPRA NAV per share (pence)	87.7	79.7	10.0%
Loan to value	62.7%	64.1%	-1.4%

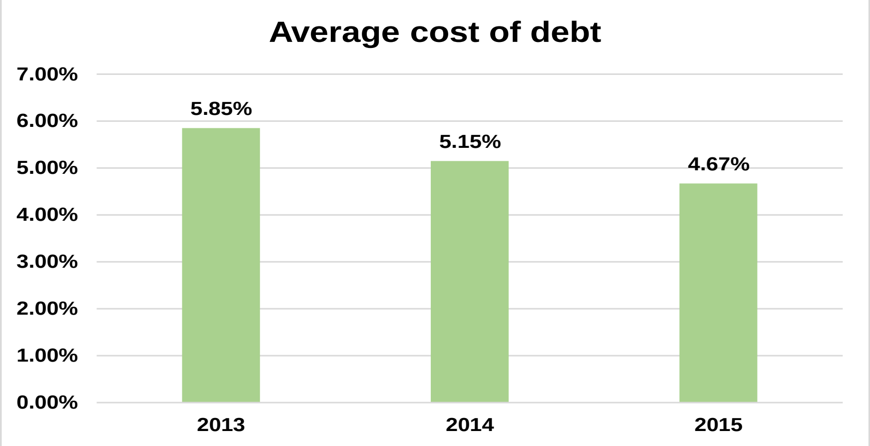
Management	2015	2014	Change
EPRA cost ratio	11.5%	12.0%	-50bps
Average cost of debt	4.67%	5.15%	-48bps
Growth on rent review	0.9%	1.8%	-0.9%

Efficient management and funding

- External management structure demonstrates efficiency
  - EPRA cost ratio reduced to 11.5% (2014: 12.0%)
  - Lowest cost ratio in UK listed property sector



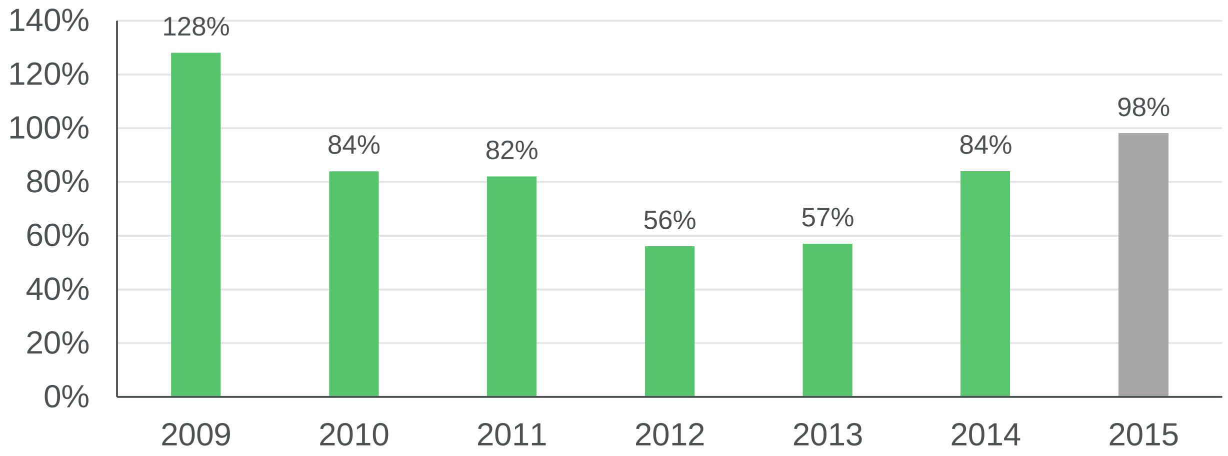
- Active management reduces average debt costs
  - Swap portfolio revised in year to lengthen and extend
  - Average cost of debt reduced by 50 basis points to 4.67%



Dividend cover restored

- 19th successive year of dividend growth
  - 5.0p per share paid in 2015, a 2.6% increase over total paid in 2014 (4.875p[1])
- Aggregate 2015 dividend cover increased to 98% (2014: 84%)
- 2015 second half dividend covered 107% by second half earnings
- First quarterly dividend to be paid in February 2016: 1.28125p per share[2]

Historic dividend cover



1) Updated to reflect the Company's four for one share sub-division undertaken in November 2015
2) Record date 15 January 2016, payment date 26 February 2016

Continued growth in shareholder returns

Return	2015	2014	Growth
Total property return	9.7%	8.9%	0.8%
Total NAV return	16.3%	12.8%	3.5%
Total shareholder return	23.5%	12.0%	11.5%

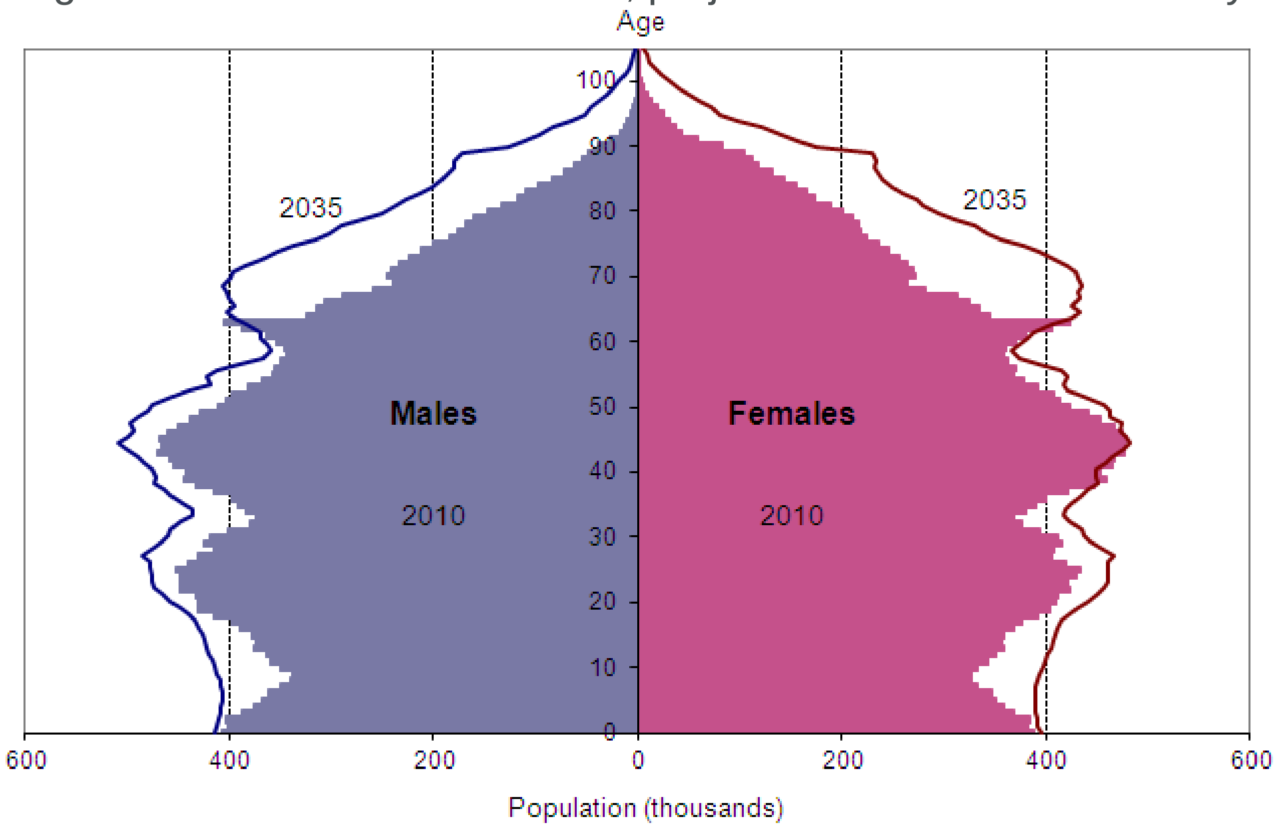
- Total property return of 9.7% (IPD All Property Index: 13.8%)
  - Property portfolio increased by 7.3%
  - Acquisition in the year totalled £44 million
  - Underlying like-for-like valuation growth of 3.9%
- Total returns to shareholders show strong growth in 2015
  - Total NAV return (balance sheet based): 16.3%
  - Total shareholder return (share price based): 23.5%
    - FTSE All-Share Index: 1%[1]
    - FTSE All-Share REIT Index: 10.6%[1]

1) Source: Bloomberg

UK SUPPLY/ DEMAND IMBALANCE

Demand for healthcare services increasing

- Ageing population, declining health
  - 11.4 million currently aged over 65, projected to increase by 10% over next 15 years
  - Increasing incidence of chronic disease, projected to affect 2.9 million by 2018



1) Source: ONS

GP services underpin NHS development

NHS strategy

- NHS England Five Year Forward View reaffirms list based primary care as being the bedrock of the NHS
  - NHS to invest more in primary care
  - Greater emphasis on out of hospital care
  - Greater integration of health and social care
- Launch of Vanguards to develop new models of care
  - Strategic plans being developed to include premises requirements
  - Modern fit for purpose properties can facilitate service delivery savings

Government commitment

- Government targets 24/7 access to GP services by 2020
  - More than 1.3 million GP visits per day, 90% of all NHS patient contact[1]
  - Additional funding of £10bn per annum committed; £6 billion in 2016-2017[2]
  - Primary care spend to rise 4%-5% per annum[2]
- Primary Care Transformation Fund established
  - £1.1 billion funding for over four years for premises improvement
  - CCGs to more closely influence where funds applied

1) Source: NHS Analytical Service
2) Spending Review 2015

Primary Care Property demand drivers

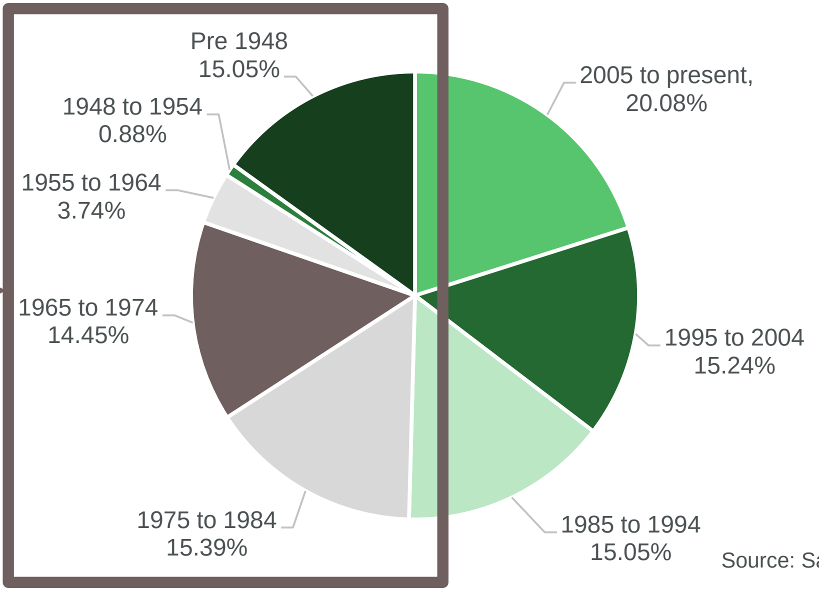
Inadequate, ageing supply

2014 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

Development commitment

Kimmerfields Health Centre, Swindon

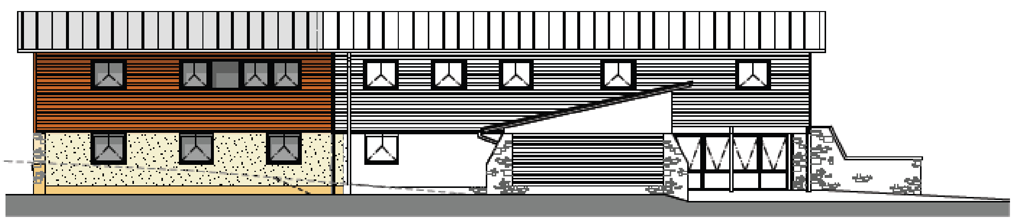
A forward funding agreement for a new health centre to be let to NHS Property Services. The total proposed floor area extends to 2,458 sqm and the property will be let on a 20 year term on completion. The development is expected to reach Practical Completion in February 2017.

- **Tenants:** NHS Property Services
- **Date contracted:** November 2015
- **Expected completion date:** February 2017
- **NIA:** 2,458 m^2
- **Cost:** £10.4m
- **Patient list size:** 20,000

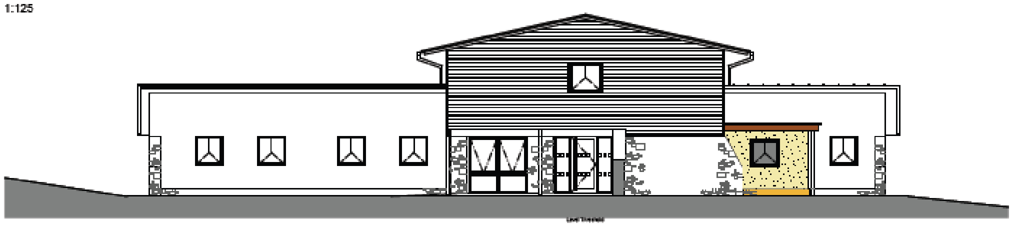
Asset Management Projects

Winchcombe, Gloucestershire – Completion due May 2016

Extension and refurbishment of a purpose built rural medical centre for a 6 GP practice. The project provides a new 235 sqm extension to improve patient access due to significant local population growth, whilst maintaining the property as fit for purpose for the new 21 year lease term. The project is expected to cost a total of around £0.83m and generate a cash yield of over 6%.



North Elevation
1:125



West Elevation
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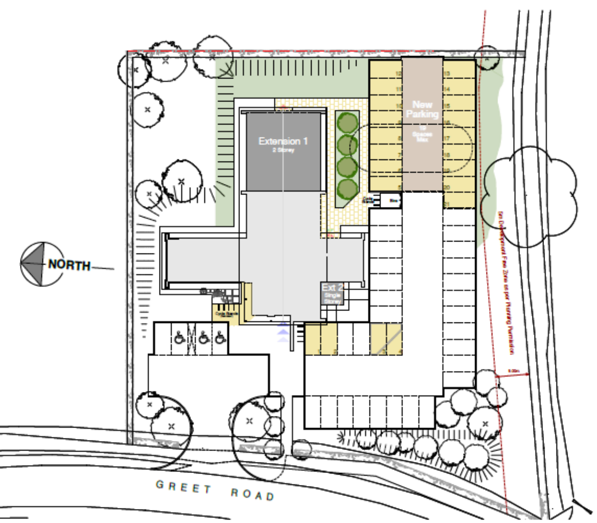
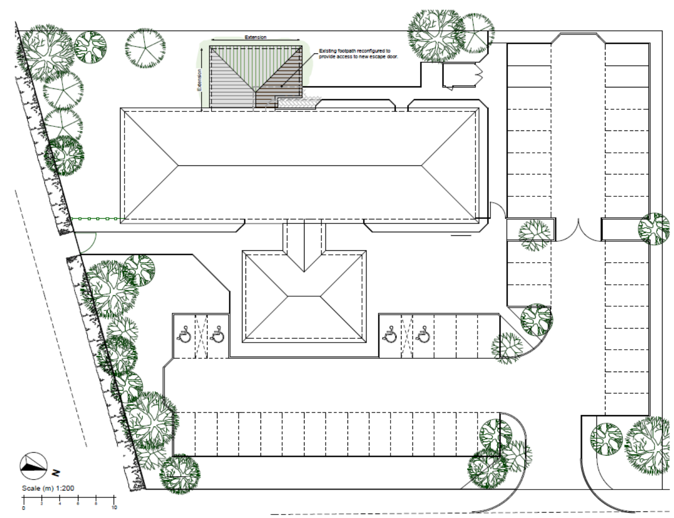


Asset Management Project

Lenton, Nottinghamshire – Completed November 2015

Extension of a purpose built medical centre on the outskirts of Nottingham City Centre. The project provided a new, 3 Consulting Room extension for the practice in return for a new 25 year lease upon practical completion. The project cost a total of £0.23m and generate an ongoing investment yield on cost of over 7%.

North Elevation (Proposed)
1:100



OPPORTUNITY IN IRELAND

Republic of Ireland - overview

- Background
  - Population of 4.6 million, projected to rise to 5.2 million by 2031[1]
  - Population ageing and increasing incidence of chronic disease[2]
  - Department of Health in Ireland ("DoHI") to widen access to primary care; free for over 70's and under 6's
- Government support
  - DoHI aim to implement "single-tier health service", based on primary care
  - Health Service Executive, executive agency of DoHI, majority occupier in new centres
  - Healthcare budget saw modest increase in 2015, first for seven years

1) Source: Central Statistics Office Ireland
2) Health Service Executive Corporate Plan 2015-2017

Republic of Ireland - opportunity

- Characteristics
  - Large, modern, integrated primary care centres built or being constructed
  - HSE typically represent 60% to 75% of income for 20 - 25 year lease terms
  - Remaining space let to GPs, pharmacy operators and associated healthcare users
  - 5 yearly rent reviews linked to CPI
- PHP activity
  - Exclusivity secured on first opportunities, documentation being prepared
  - Pipeline of further rent producing and development assets identified
  - Partnering with local operators to identify opportunities and secure transactions

Republic of Ireland – risk mitigating

Risk	Mitigating factor
Underlying rental covenant	HSE, government agency typically represents 60% to 75% of rent roll
Leases linked to CPI – upwards/downwards	Irish economy currently fastest growth rate in Europe (7% y-o-y Q3 2015)
Tax structure outside of REIT	Use of tax free ICAV structure; remittance to UK not to be taxed in REIT
Investment and cash flows denominated in Euro	Asset and liability to be matched where possible by use of Euro denominated debt
Availability of finance following financial crisis	Appetite to lend is good; discussions ongoing with variety of lenders
Pricing of investments to reflect risk	Good level of government covenant and yields attractive compared to UK; cost of funding lower – yield spread greater

PHP

STRONG PIPELINE

Strong and growing pipeline of opportunities

- UK market
  - NHS starting to approve new developments, slowly but to increase
  - Well established links to GP owner occupiers leading to opportunities
  - Pipeline agreements with developers delivering forward funding transactions
- Republic of Ireland
  - Completed due diligence on sector and specifics of purchase and lease structure
  - Numerous meetings with owners and developers has revealed a pool of transaction potential
  - Partnering with local operators to identify opportunities and secure transactions

Pipeline advanced and expanding

- Transactions agreed and in solicitors hands
  - UK – totalling £28 million
  - Republic of Ireland – totalling €14 million
- Transactions under offer and progressing
  - UK – totalling £70 million
  - Republic of Ireland – totalling €40 million

OUTLOOK

Positive outlook

Low risk, long term, non-cyclical market	➢ Development opportunities emerging in UK ➢ New pool of opportunity in Republic of Ireland, priced very attractively ➢ Majority of rents in both jurisdictions funded by government for long lease terms
Strong, high quality and growing cash flows	➢ Positive yield gap between acquisition yield and funding costs ➢ Effectively upward-only or indexed rent reviews ➢ Simple cost structure enhance earnings
Efficient management and reducing cost of funds	➢ EPRA cost ratio reduced in 2015 and will continue to fall as portfolio grows ➢ Average cost of debt reduced and interest rate markets back to historic lows ➢ Underlying investment characteristics make PHP attractive to investors
Sector demand factors dictate continued development of healthcare premises	➢ Healthcare demand increasing due to ageing population ➢ Unwavering political support in UK and Ireland and promotion of integrated care ➢ 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; quarterly dividend in 2016 (Feb, May, Aug, Nov) ➢ Strong yield characteristics, low volatility

APPENDICES

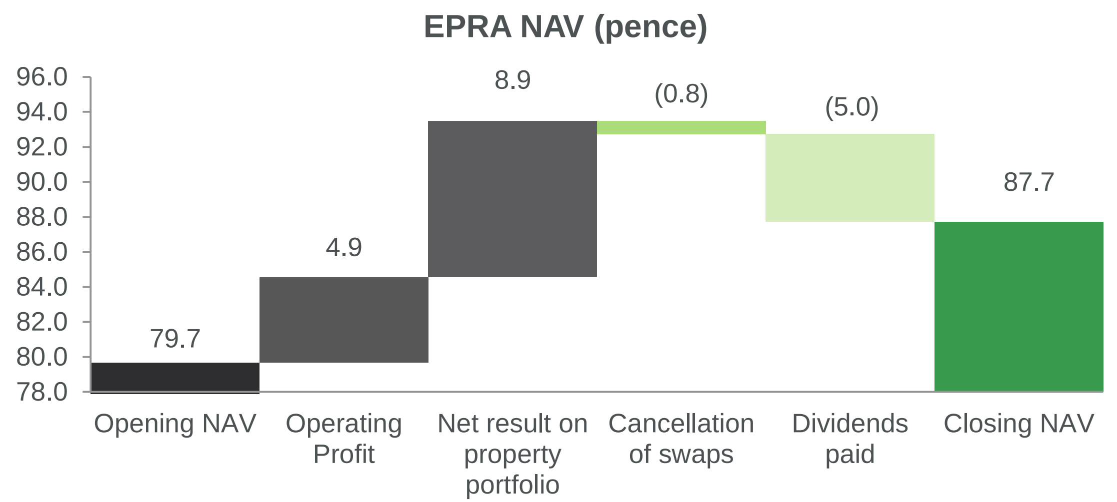
Income Statement

	2015 £m	2014 £m
Net rental income	**62.3**	**59.3**
Administrative expenses	(6.8)	(6.8)
Operating profit before revaluation gain and financing	**55.5**	**52.5**
Net financing costs	(33.8)	(34.3)
EPRA earnings	**21.7**	**18.2**
Net result on property portfolio	39.8	29.2
Early loan repayment fee	-	(1.2)
Fair value (loss)/gain on interest rate derivatives	1.0	(2.4)
Fair value (loss)/gain on convertible bond	(6.5)	(4.5)
Non-recurring: convertible bond issue costs	-	(2.4)
Profit before tax	**56.0**	**36.9**
EPRA earnings per share	**4.9p**	**4.1p[1]**

1) Updated to reflect the Company's four for one share sub-division undertaken in November 2015

Balance Sheet

	31 December 2015	31 December 2014
EPRA Net Assets	£391.6m	£354.6m
EPRA net asset value per share	87.7p	79.7p[1]
Property portfolio[2]	£1,100.6m	£1,026.3m
Net Debt	£689.8m	£658.1m
LTV	62.7%	64.1%
Future minimum lease payments receivable[3]	£899m	£885m



1) Updated to reflect the Company's four for one share sub-division undertaken in November 2015
2) Book value i.e. net of development property commitments to be paid (£21.8 m)
3) Completed assets only. Does not reflect any uplift on review

Property portfolio

- 273 healthcare centres – 267 completed and owned, 6 under development
- Portfolio value (incl. commitments): £1.12bn – net initial yield 5.32%
- Average lot size: £4.1m; average age of buildings – 9 years
- Annual contracted rent roll: £63.7m[(1)]; 99.7% occupancy rate
- Average unexpired lease term – 14.7 years

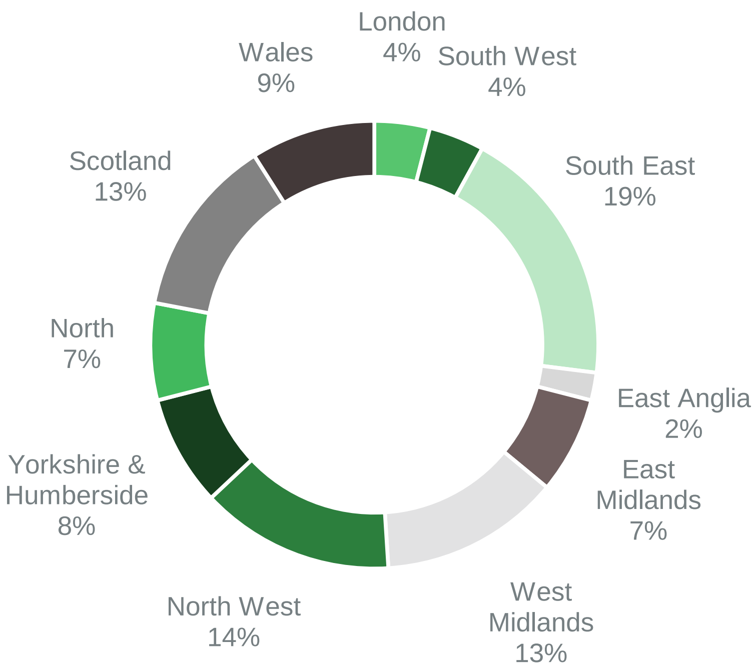
Capital value	No. of assets	Value (£'m)	% of portfolio
£10m +	17	250.5	22.3%
£5 - £10m	40	269.4	24.0%
£3 - £5m	86	328.5	29.3%
£1 - £3m	127	271.5	24.2%
£0 - £1m	3	2.7	0.2%
Total	**273**	**1,122.6**	**100.0%**

(1) Including development properties

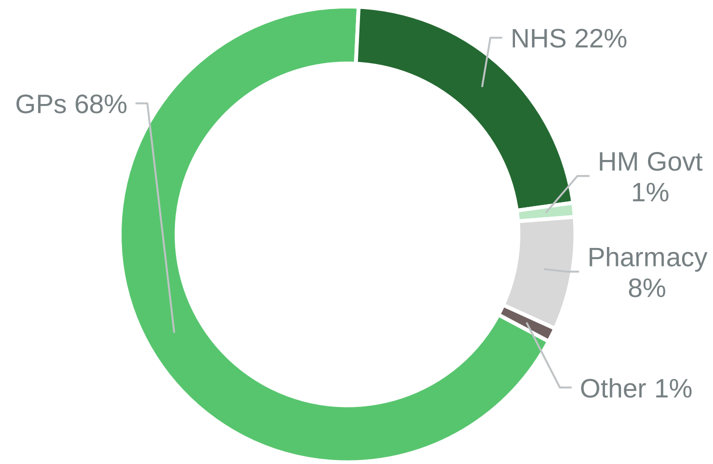
Portfolio analysis by rent

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

Wide geographical spread



Strong rental covenant



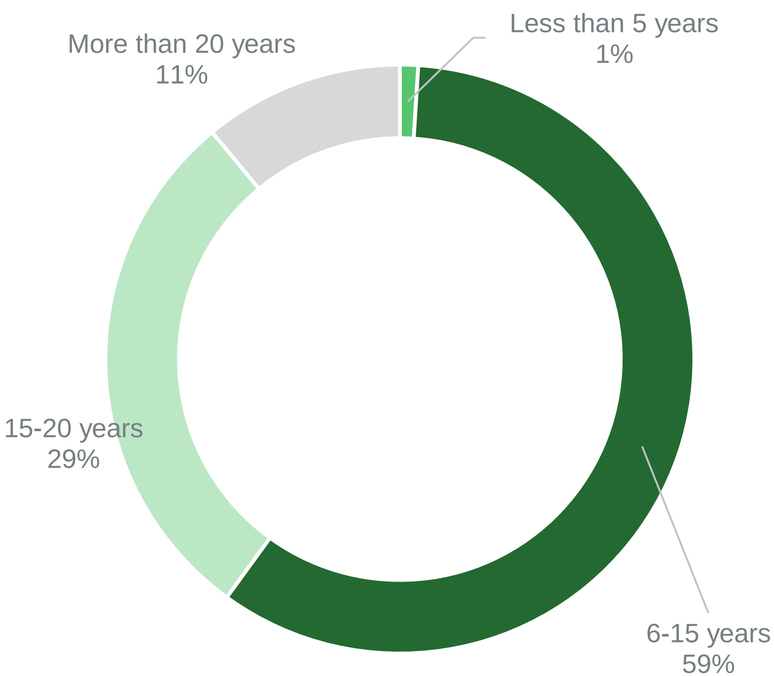
Long leases with growth potential[1]

- 40% of rent with more than 15 years remaining
- 153 reviews completed in 2015 generated additional rent of £0.4m per annum
- Average increase 0.9% p.a. (2014: 1.8%)
- Effectively upward only rent roll[2]
  - 6% on fixed uplift (ave. 2.65% p.a.)
  - 19% index linked (ave. 1.6% p.a.)
  - 75% reviewed to open market

Drivers of Rental Growth

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

Analysis of leases unexpired by rent roll



(1) Data for completed properties only
(2) Rental agreements have upward and downward provisions however a review can only be instigated by the landlord.

Investment acquisition

White Horse Medical Centre, Westbury

- **Tenants:** GP Practice, Dental 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

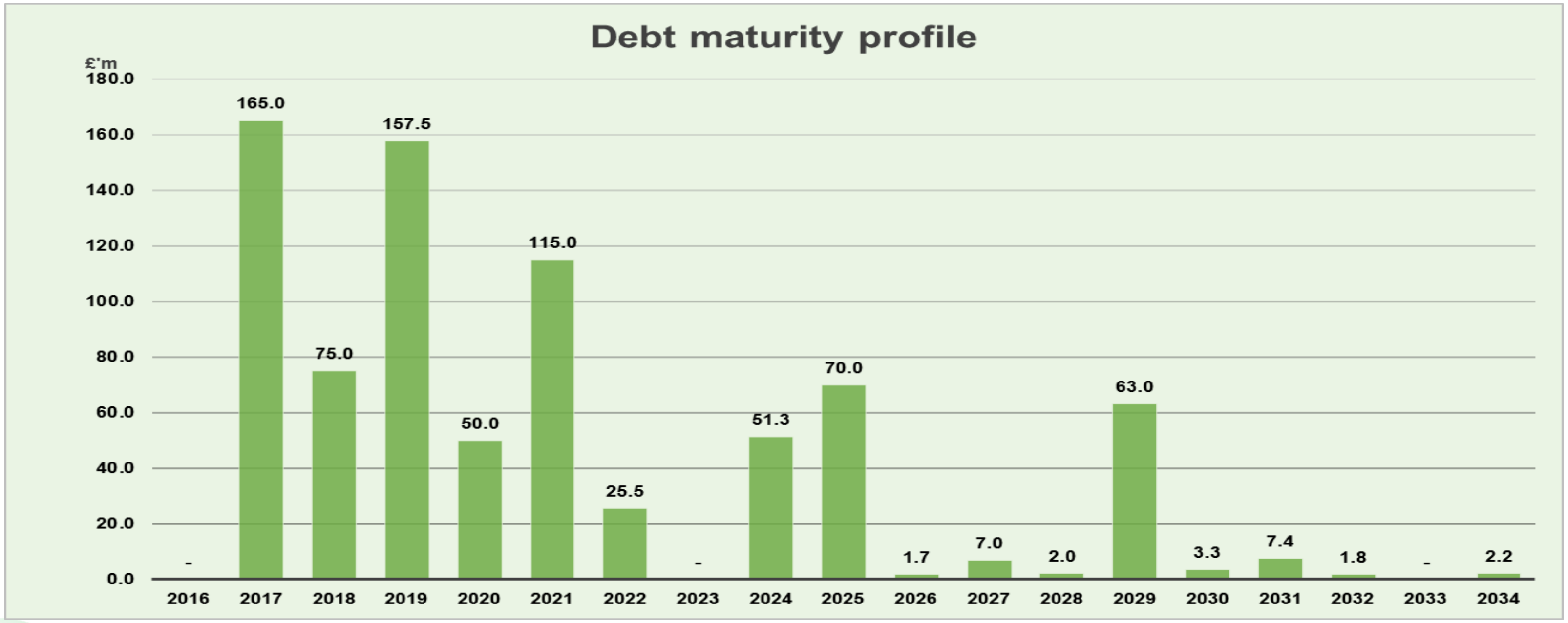
Secure Long Term Funding

	2015 £m	2014 £m
Total debt facilities		
Secured	**645.2**	628.9
Unsecured	**157.5**	157.5
	802.7	786.4
Average maturity of debt facilities	**5.8 years**	6.2 years
Net debt		
Drawn debt	**692.7**	670.1
Cash on deposit	**(2.9)**	(12.0)
	689.8	658.1
Total collateral	**1,100.6**	1,026.2
Group Loan to Value ratio	**62.7%**	64.1%
Development commitments – cost to complete[1]	**21.8**	11.2

(1) Not reflected in total collateral balance

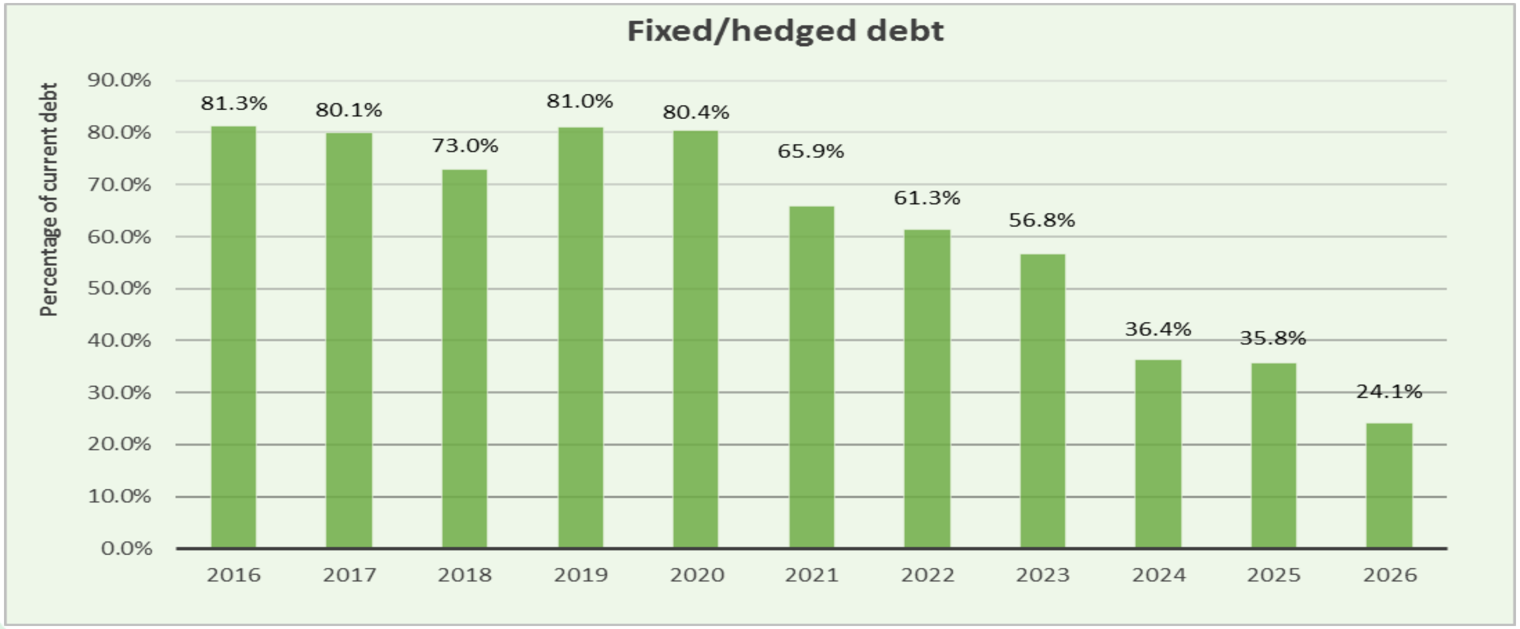
Maturity of Debt

- Weighted maturity period at 30 June 2015: 5.9 years (2014: 6.2 years)
- HSBC £50m facility extended for new five year term from July 2015; maturity July 2020
- Barclays facility extended by £15m with AIB providing additional funds; new five year term for whole £115m facility from January 2016
- 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 focussed on longer term rate and debt maturity profile



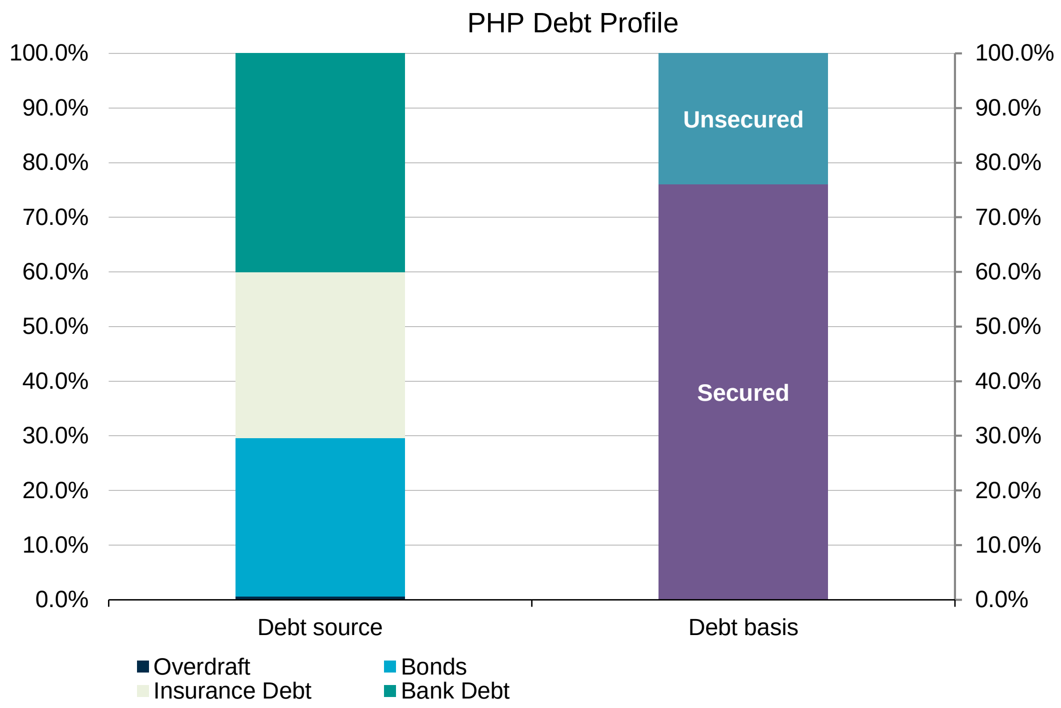
Spread of Funding Sources

	Secured Facilities									Unsecured facilities[1]	
Provider	RBS/ Santander	HSBC	Barclays/ AIB	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	Jan-21	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[2]	£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) Includes only assets mortgaged to the applicable facility

Borrowing Facilities

- Total facilities available to PHP: £802.7m[(1)]
- Available headroom: £91.6m (after development commitments)
- 23% of net debt on an unsecured basis – Retail Bond and Convertible Bond



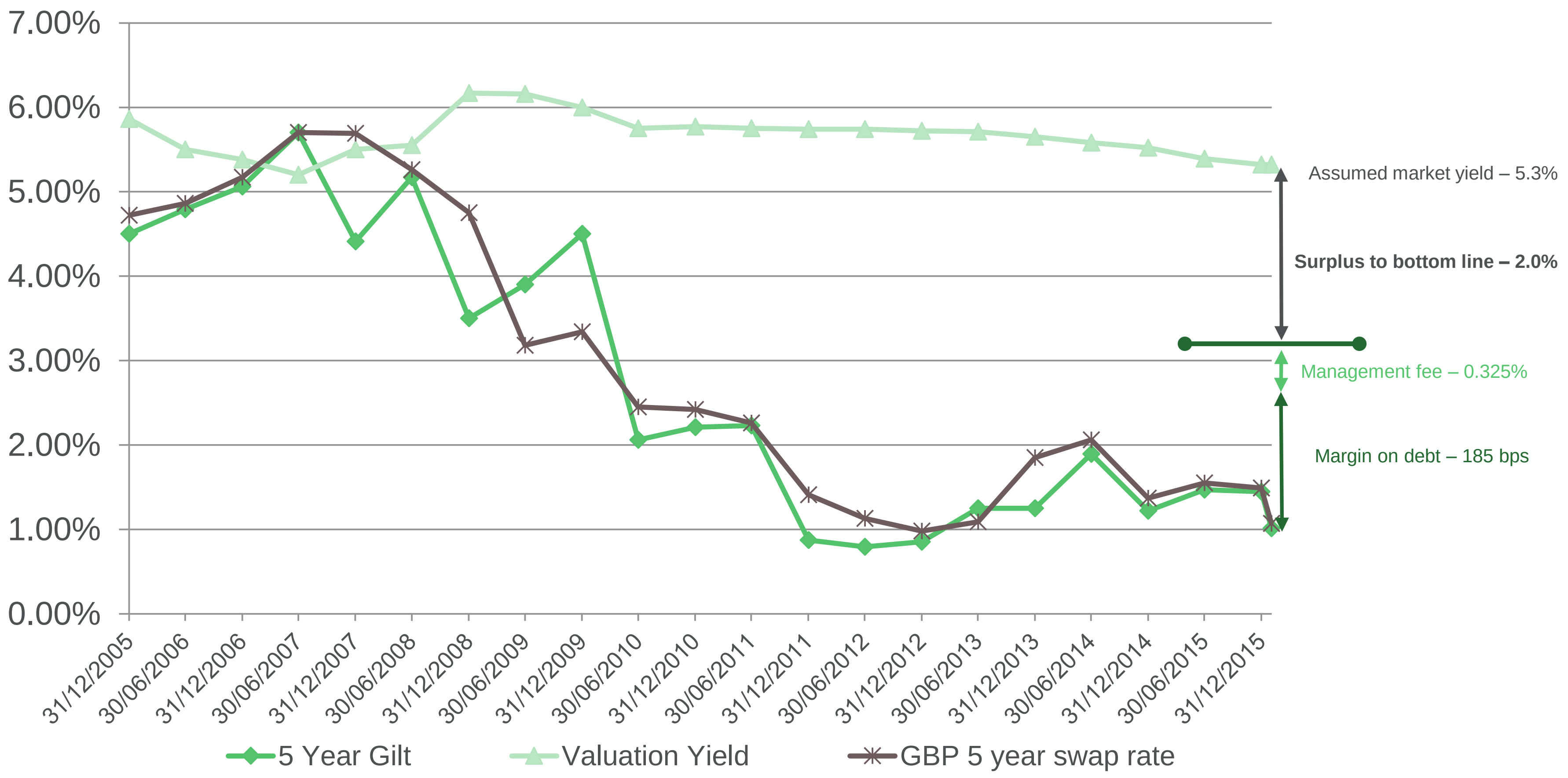
(1) Includes £5m overdraft
(2) Weighted average maturity date

Advisers and fee base

- Nexus provide all advisory services from 1 May 2014
- Enhances service quality and information management
- Reduced Group's overhead costs
  - Average fee rate for services of advisers reduced to 50 bps (2014: 55 bps)
  - Including overheads, EPRA cost ratio reduced to 11.5% (2014: 12.0%)
- Scope for further reductions
  - Admin fees on fixed basis upwards/downwards RPI adjustment (cap at +/- 5%)
- Incremental fee rates for advisory fee

Gross asset value	Fee rate
First £250m	0.500%
Between £250m and £500m	0.475%
Between £500m and £750m	0.400%
Between £750m and £1bn	0.375%
Between £1bn and £1.25bn	0.325%
Above £1.25bn	0.300%

Acquisitions contribute due to yield gap



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February 2016