



Primary Health Properties

Full Year Results

Year ended 31 December 2016

Primary Health Properties PLC (PHP.L)

A dedicated healthcare REIT

www.phpgroup.co.uk



Primary Health Properties

Agenda

Introduction

Delivering progressive returns

Growing property portfolio

Funding diversity and longevity

Supportive market

Outlook

Appendix





Primary Health Properties

Introduction



Primary Health Properties PLC at a glance

- UK Real Estate Investment Trust (“REIT”)
- Leading investor in flexible, modern primary healthcare accommodation
- Portfolio of 296 properties valued at over £1.2 billion
- Properties located across the UK and in the Republic of Ireland
- 90% of income funded by government bodies (NHS or HSE)
- Strong capital base with a prudent balance of shareholder equity and debt finance
- 20 consecutive years of dividend growth; dividend fully covered by earnings
- Strong pipeline of acquisition opportunities in both territories
- £72 million agreed and being processed in the U.K
- €53 million agreed and being processed in the Republic of Ireland

Delivering on strategic objectives

Objective

To create progressive shareholder returns through investing in healthcare real estate let on long term leases, backed by secure underlying covenants, majority funded directly or indirectly by a government body.



Key financial highlights

DELIVER Progressive returns	2016	2015	Change
EPRA earnings per share	4.8p	4.9p	-2.0%
Dividend cover	100%	98%	+2.0%
EPRA NAV per share	91.1p	87.7p	+3.9%
EPRA Net assets	£545.0m	£391.6m	+39.2%

GROW Property portfolio	2016	2015	Change
Total property assets	£1.22bn	£1.12bn	+10.9%
Contracted annual rent roll	£68.0m	£63.7m	+6.8%
Portfolio average valuation net initial yield	5.17%	5.32%	-15bps
WAULT	13.7 years	14.7 years	-1.0 year

Key financial highlights

MANAGE Effectively & efficiently	2016	2015	Change
EPRA Cost Ratio	11.5%	11.5%	-
Rental growth on review (p.a.)	0.9%	0.9%	-
Capital projects	£1.8m invested		
	£0.2m additional rent		
	Ave. 12 years added WAULT		
FUND Diversified and long term	2016	2015	Change
Loan to Value	53.7%	62.7%	-9.0%
Average cost of debt	4.65%	4.67%	-2bps
Net debt	£655.7m	£689.8m	-5.0%
Weighted average facility maturity	5.1 years	5.9 years	-0.8 years



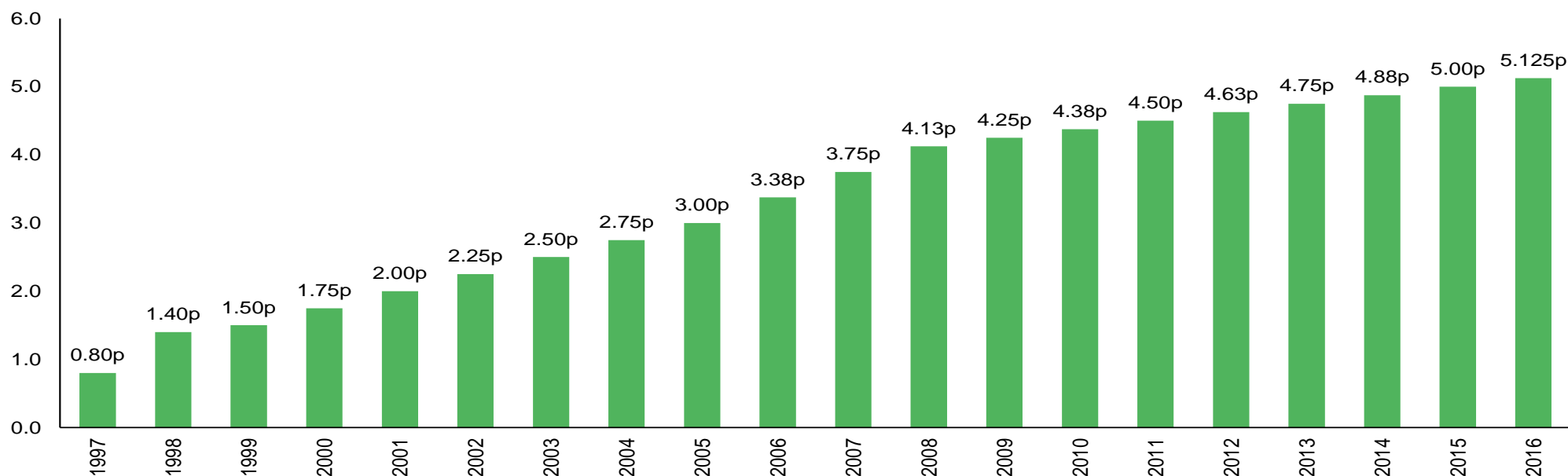
Primary Health Properties

Delivering
progressive
returns

Income Statement

	2016 £m	2015 £m
Net rental income	66.6	62.3
Administrative expenses	(7.3)	(6.8)
Operating profit before revaluation gain and financing	59.3	55.5
Net financing costs	(32.2)	(33.8)
EPRA earnings	26.8	21.7
Net result on property portfolio	20.7	39.8
Fair value (loss)/gain on interest rate derivatives	(2.2)	1.0
Fair value (loss)/gain on convertible bond	(1.6)	(6.5)
Profit before tax	43.7	56.0
 EPRA earnings per share	 4.8p	 4.9p

Progressive dividend policy – fully covered



2016 DIVIDEND FULLY COVERED

	2016 £m	2015 £m
EPRA Earnings	26.8	21.7
Total dividends paid	26.8	22.2
Dividend cover for the year	100%	98%

Shareholder returns outperform benchmarks

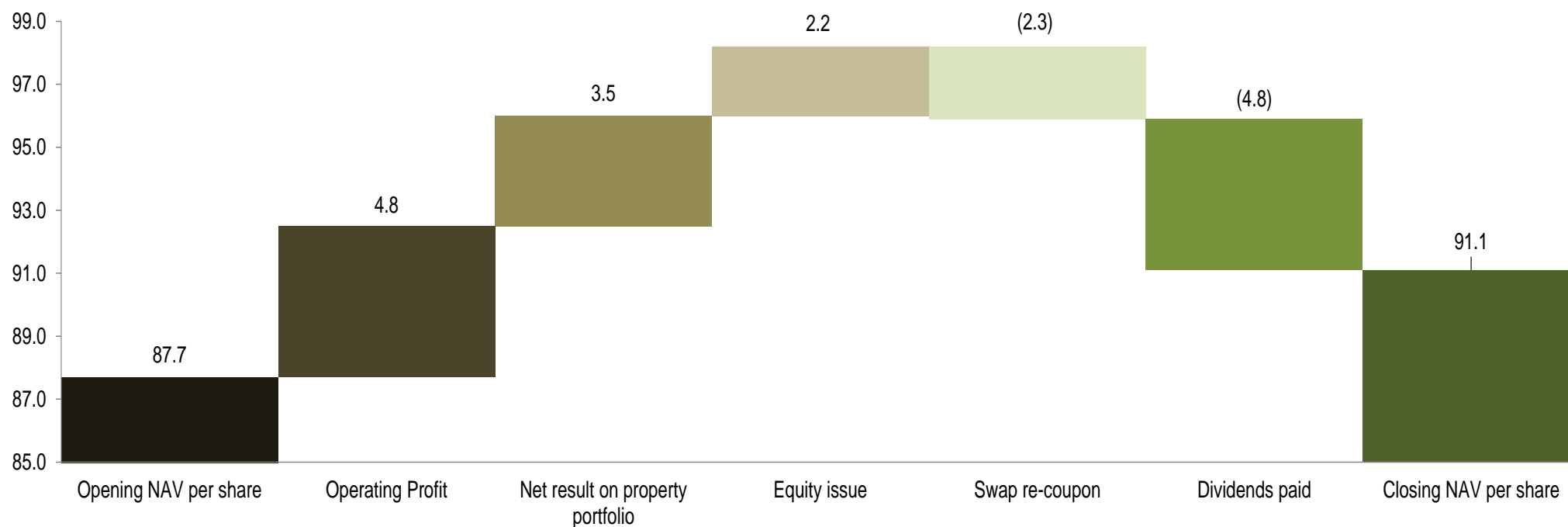
2016 returns	PHP	Benchmark	Outperformance
Total property return	7.9%	3.6%	+4.3%
Total shareholder return	8.2%	-7.0%	+15.2%

- PHP achieved a total property return of 7.9%, outperforming IPD All Property total returns by 4.3% (IPD Quarterly Property Index)
 - Portfolio average valuation net initial yield 5.17% (2015: 5.32%)
 - Surplus on revaluation of £20.7 million (2015: £39.8 million)
 - Underlying like-for-like valuation growth of 2.3%
- Total shareholder return of 8.2%, outperforming the FTSE All Share REIT index by 15.2%
 - Dividends paid to shareholders increased by 2.5%
 - Total NAV return (balance sheet based): 9.7%

Balance sheet strengthened

	31 Dec 2016	31 Dec 2015	Change
EPRA Net Assets	£545.0m	£391.6m	+39.2%
EPRA Net Asset Value per share	91.1p	87.7p	+3.9%

EPRA NAV per share (pence)





Primary Health Properties

Growing property portfolio

Property Portfolio

- 24 properties acquired in 2016 for a total consideration of £74.2 million (excl. purchase costs)
- Portfolio of 296 healthcare centres – 295 completed, 1 under development
- Portfolio value (incl. development): £1.22bn – average net initial yield 5.17%
- Average lot size: £4.1m; average age of buildings – 10 years
- Annual contracted rent roll: £68.0m⁽¹⁾; 99.7% occupancy rate
- Average unexpired lease term – 13.7 years

Capital value	Number	Value	%
£10m +	18	269.1	22.0%
£5 - £10m	45	304.9	24.9%
£3 - £5m	90	344.7	28.2%
£1 - £3m	141	303.0	24.8%
£0 - £1m	2	1.8	0.1%
Total	296	1,223.5	100.0%

Investment Acquisition

New Alderley House, Macclesfield

- Tenants: East Cheshire NHS Trust & NHS Property Services
- Date acquired: December 2016
- WAULT: 15.8 years
- Size: 3,187 m² (NIA)
- Acquisition Cost: £10.7m
- Patient list size: n/a



Development delivery

Two Rivers Medical Centre, Ipswich

- Tenants: 16 GP practice and pharmacy
- Date completed: July 2016
- WAULT: 25 years
- Size: 1,990 m² (NIA)
- Acquisition Cost: £6.6m
- Patient list size: 25,000



Investment Acquisition

Tipperary Primary Care Centre, Tipperary, Republic of Ireland

- Tenants: Health Services Executive (HSE), 3 GPs, pharmacy
- Date built: August 2016
- WAULT: 25 years
- Size: 2,800m² (NIA)
- Acquisition Cost: €6.6m





Primary Health Properties

Effective and
efficient
management

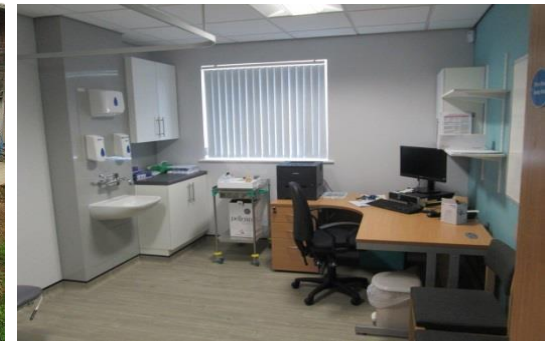
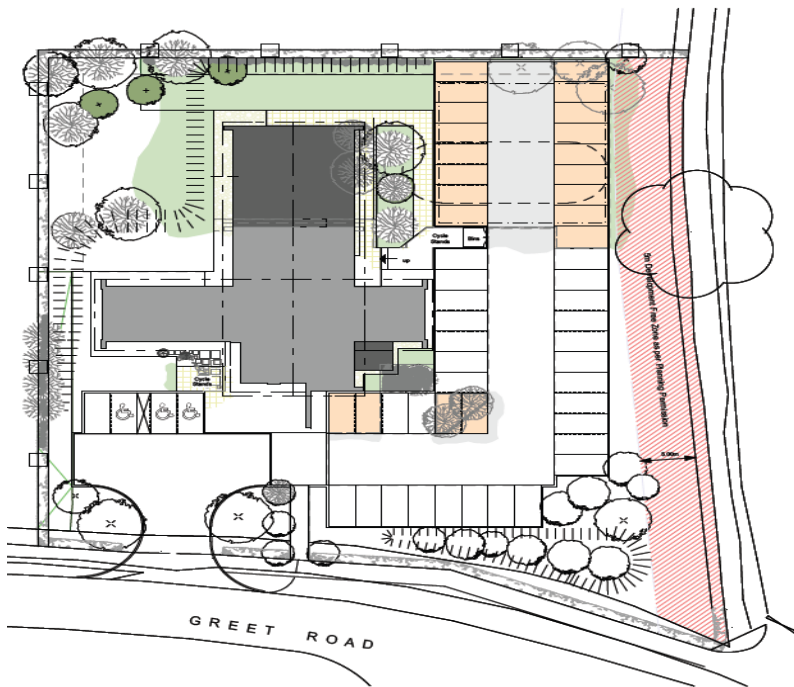
Strong management contributes to income growth

- Seven asset management projects completed in 2016
 - Invested £1.8m, generated £0.2m of additional rent, added average 12 years WAULT
- Eight projects receive ETTF funding
 - Investment to total £5.3m, securing £0.3m additional rent and average 13 years WAULT
- Ten further projects with NHS approvals
 - Investment to total £4.6m, securing £0.2m additional rent and average 11 years WAULT
- Rental growth on reviews expected to increase
 - Average of 0.9% per annum achieved on reviews completed in 2016
 - 20% of PHP portfolio rent linked to RPI, upwards only reviews
- Portfolio 99.7% occupied

Asset Management Project

Winchcombe, Gloucestershire – Completed June 2016

Extension and refurbishment of a purpose built rural medical centre for a 6 GP practice. Providing a new 235 square metre 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. Capital invested £0.83m, WAULT added – 14 years.



Asset Management Project

Llandaff North, Cardiff – Completed December 2016

Internal refurbishment of an existing medical centre, creating an additional 2 consulting rooms and clinical storage, allowing the GPs to provide expanded services for the local community. New 20 year lease entered into upon completion. Capital invested £0.20m, WAULT added 15 years.



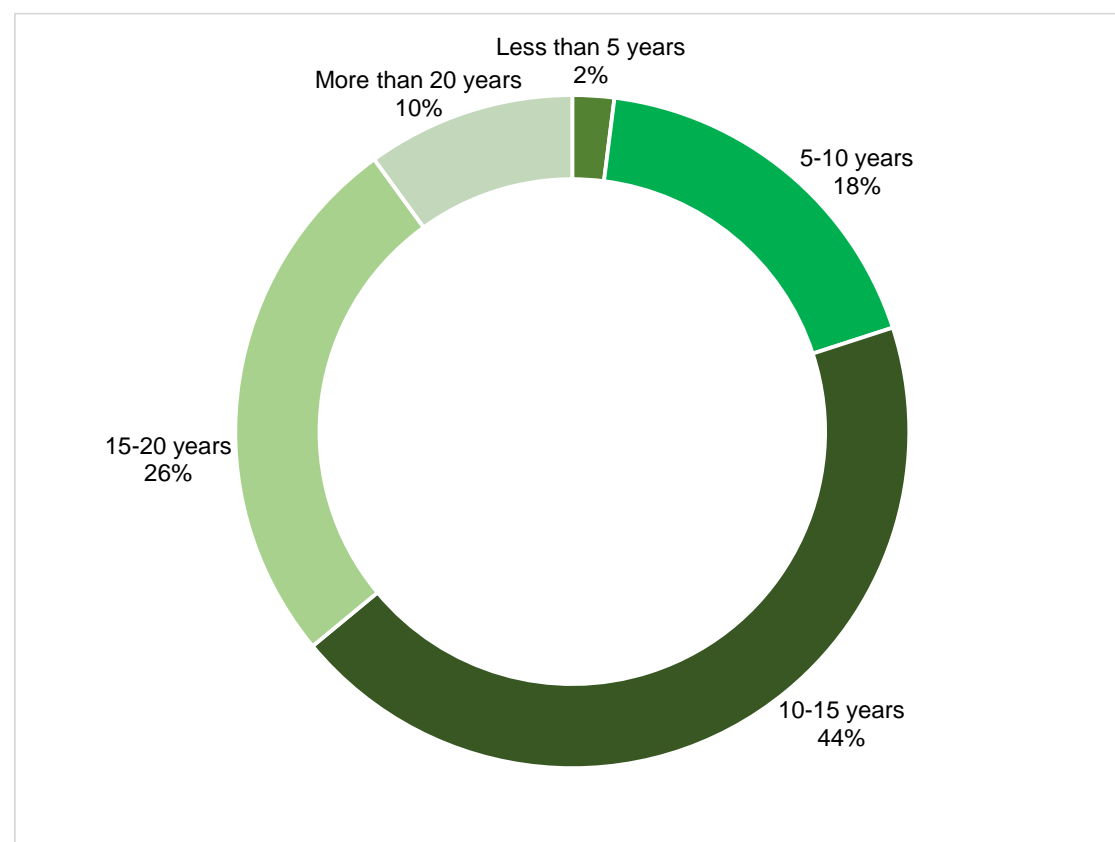
Long leases with growth potential¹

- Effectively upward only rent roll²
 - 6% on fixed uplift (ave. 2.65% p.a.)
 - 20% index linked (ave. 1.6% p.a.)
 - 74% reviewed to open market

Drivers of Rental Growth

- Increased development activity
- Building cost inflation
- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost

Analysis of leases unexpired by rent roll



Transparent, efficient administration structure

- Nexus provide all advisory and administration services
- Enhances service quality and information management
 - Average fee rate for services of advisers reduced to 50 bps (2015: 50 bps)
 - Notwithstanding portfolio growth in excess of 10%, EPRA Cost Ratio unchanged at 11.5% (2015: 12.0%)
- Scope for further reductions
 - Admin fees on fixed basis upwards/downwards RPI adjustment (cap at +/- 5%)
- Reducing advisory fee increments as property portfolio grows

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%



Primary Health Properties

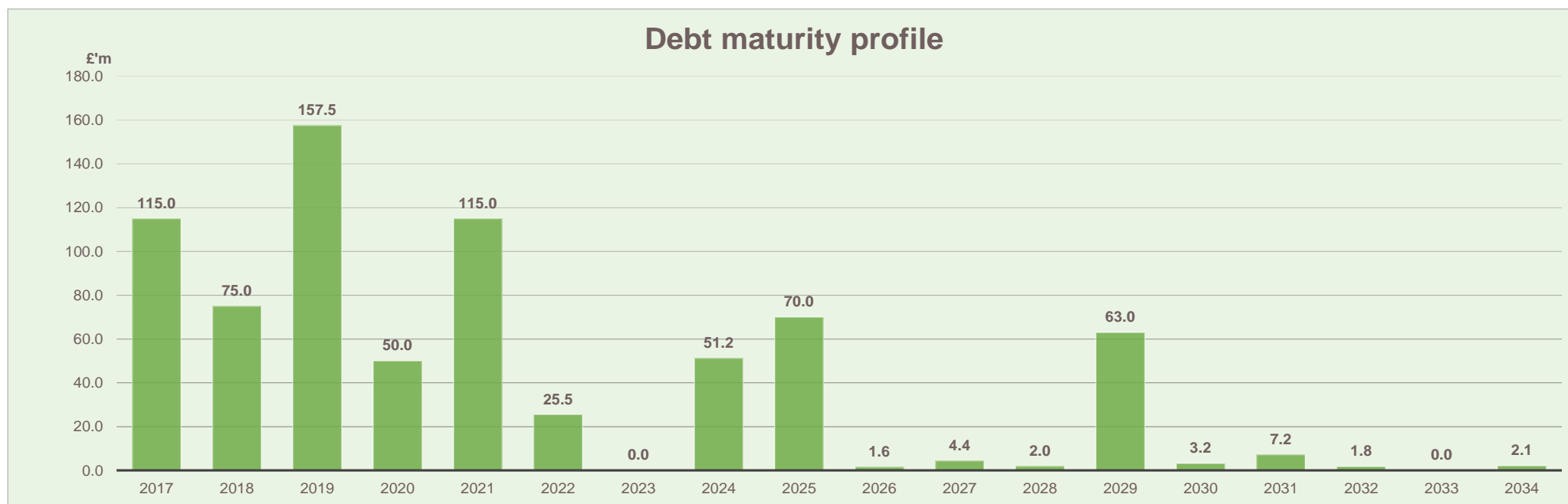
Funding diversity and longevity

Secure Long Term Funding

	2016	2015
Total debt facilities		
Secured	£592.0m	£645.2m
Unsecured	£157.5m	£157.5m
	£749.5m	£802.7m
Average maturity of debt facilities	5.1 years	5.8 years
Net debt		
Drawn debt	£660.8m	£692.7m
Cash on deposit	(£5.1m)	(£2.9m)
	£655.7m	£689.8m
Total collateral	£1.22bn	£1.10bn
Group Loan to Value ratio	53.7%	62.7%
Development commitments – cost to complete	£3.3m	£21.8m

Maturity of debt to be extended

- Weighted maturity period at 31 December 2016: 5.1 years (2015: 5.9 years)
- Barclays facility extended to £115m in January 2016 for a new five year term
- Credit terms agreed and approved with RBS to refinance facility that matures in August 2017 for up to £100m for a term of up to 5 years; margins reduced by 15bps
- Positive discussions with institutional lenders to secure additional, longer term secured debt facilities



Prudent debt management to benefit 2017 onwards

- Debt facility management
 - Balance of proceeds used to pay down revolving credit facilities
 - Group Loan to Value initially reduced LTV to 49%
 - Group LTV at 31 December 2016 stood at 53.7% (2015: 62.7%)
- Interest rate management
 - Interest rate swap contracts for a nominal of £88m re-couponed
 - Interest rate lowered to 0.87% from 4.79%
 - One off cost of £14.5 million, discount to MtM
 - Total interest to be saved of £16.4 million (Nov '16 to Aug '21)

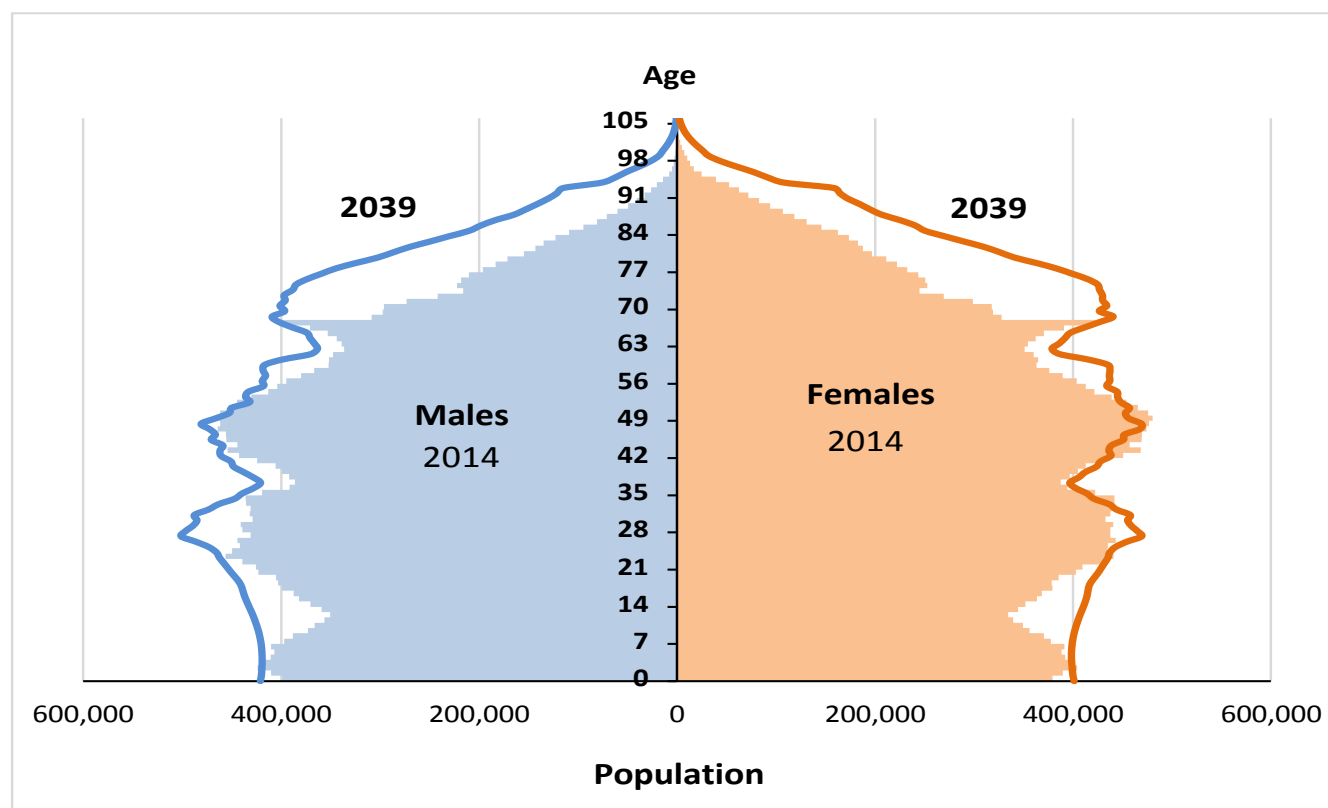


Primary Health Properties

Supportive market

Market fundamentals remain strong

- Growing and ageing population, declining health
- Demands on health service increase and budgets come under severe pressure
- Kings Fund study shows that GP appointments in England grow by 10% in 2 years



Further initiatives to support primary care

NHS focuses on primary care

- NHS England publishes GP Forward View and reaffirms commitment to GP services
 - GP budget to increase by 25% in five years to 2021
 - Targets set for recruitment and urgent care reform
- Environment and Technology Transformation Fund (“ETTF”) makes first wave of awards
 - More than 600 projects receive backing from £900m fund
 - 200 new build primary care schemes sanctioned by ETTF
- Strategic Transformation Plans (“STP”) developed for 44 areas in England
 - Emphasise importance of primary care and the GP to future care models

Irish government commitment

- Irish healthcare services face similar pressures to that in the UK
- Department of Health published its three year strategy in December 2016
 - Stressed that foundations for effective integrated, effective care services will be comprehensive primary care system
 - Objective to offer a single tier health service to Irish population
 - HSE budget increased to €14.6m for 2017 (2016: €12.9m)



Primary Health Properties

Outlook

Positive yield gap

Market conditions provide attractive yield spread

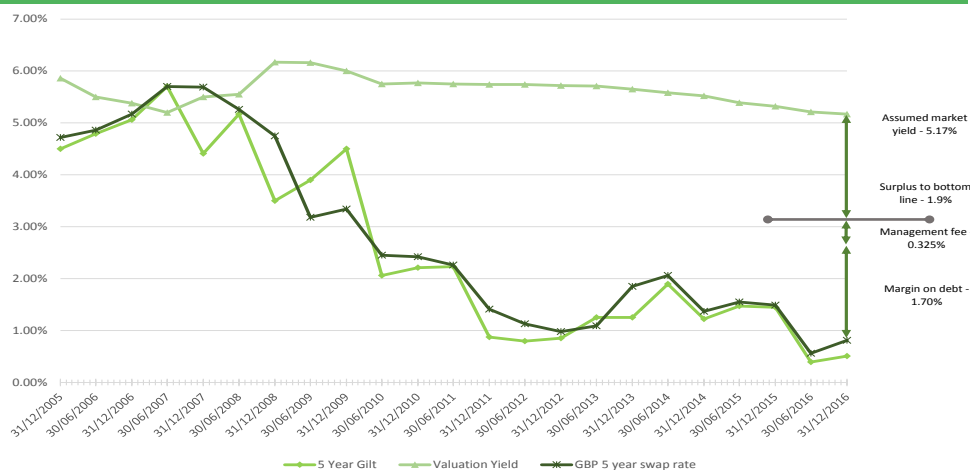
1 Earnings growth from operational actions

- Positive yield gap on acquisitions in UK and ROI
- Asset management contribution
- Rental growth from reviews
- Management fee reductions – EPRA cost ratio 11.5%

2 Active management of funding

- Refinancing debt on improved terms driving down cost of debt
- Widening sources of debt and providers
- Maintaining appropriate leverage given portfolio characteristics

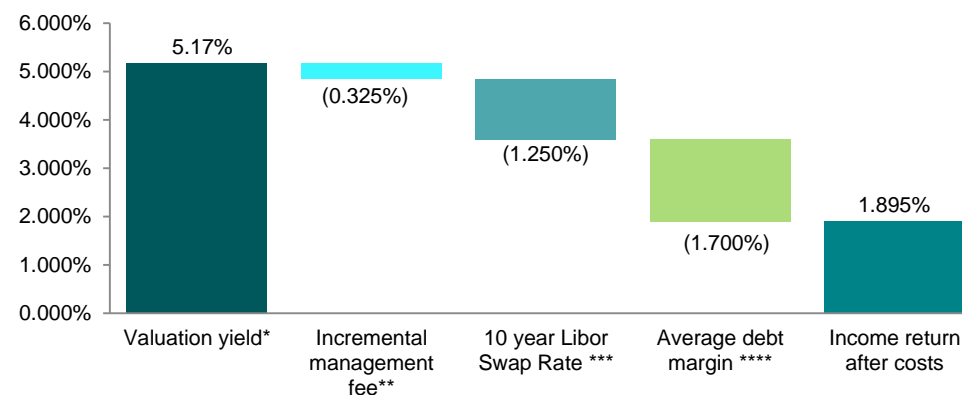
Attractive market conditions for PHP



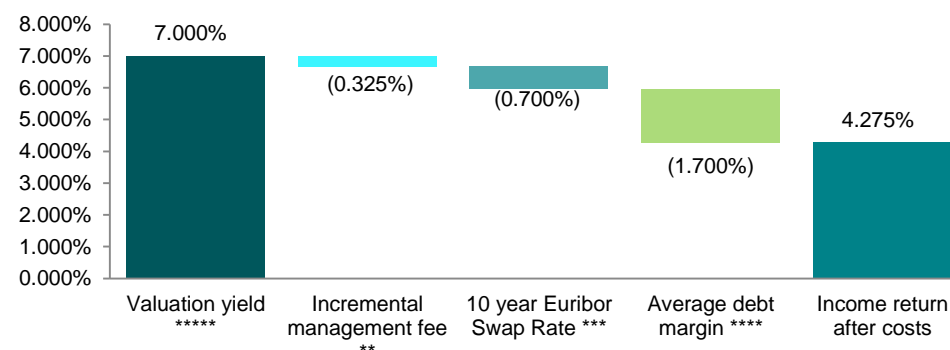
Source: Company data, JC Rathbone, Debt Management Office

Illustrative yield gap on property investment

1. Net margin over funding cost – UK Acquisitions



2. Net margin over funding cost – Republic of Ireland



* PHP portfolio valuation yield 31 Dec 2016 (used as proxy for market purchases)

** Per management contract

*** Sourced from JC Rathbone – 15 February 2017

**** Company incremental margin on debt facilities

***** Based on pipeline transactions

Strong pipeline of opportunities

- UK market
 - Two properties acquired in January 2017 for a total of £7.2 million
 - ETTF sanctions 200 new build schemes as development activity increases slowly
 - Well established links to GP owner occupiers leading to opportunities
 - Pipeline agreements with developers delivering forward funding transactions
 - Transactions totalling £72 million agreed and being progressed
- Republic of Ireland
 - Strong relationships developed with owners and developers to access pool of transaction potential
 - Partnering with local operators to identify opportunities and secure transactions
 - Transactions totalling €53 million agreed and being progressed

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 remained at the same level as 2015
- Average cost of debt reduced and interest rate swaps re-couponed to benefit 2017
- 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
- Dividend fully covered by earnings
- Strong yield characteristics, low volatility





Primary Health Properties

Appendix

Spread of Funding Sources

	Secured Facilities								Unsecured facilities ¹	
Provider	RBS/ Santander	HSBC	Barclays/ AIB	Aviva	Aviva	Secured Bond	Aviva	Aviva	Retail Bond	Convertible Bond
Tenor	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Amortising	Amortising	Bullet	Bullet
Expiry	Aug-17	Jul-20	Jan-21	Nov-18	Dec-22	Dec-25	Oct-29	Jan-32	Jul-19	May-19
Facility	£115m	£50m	£110m	£75m	£25m	£70m	£113m	£25m	£75m	£83m
Drawn	£115m	£6m	£75m	£75m	£25m	£70m	£113m	£24m	£75m	£83m
Collateral ²	£304m	£434m	£202m	£125m	£39m	£120m	£183m	£44m	-	-
Passing Rent	£17m	£3m	£11m	£7m	£2m	£7m	£10m	£2m	-	-
LTV Max	55%	55%	60%	60%	70%	74%	75%	n/a	-	-
LTV actual	38%	12%	37%	60%	63%	58%	62%	55%	-	-
ICR Min	1.4x	1.4x	1.5x	1.4x	1.1x	1.4x	1.0x	1.0x	-	-
ICR actual	5.6x	8.3x	3.1x	2.3x	2.4x	3.7x	1.8x	1.7x	-	-



Contact Details

Harry Hyman

Managing Director

harry.hyman@nexusgroup.co.uk

Phil Holland

Finance Director

phil.holland@nexusgroup.co.uk

Disclaimer

IMPORTANT NOTICE

This presentation and the information contained within it is strictly private and confidential and may not be distributed in any way to any other person without the consent of Primary Health Properties Plc (“PHP”). The information contained in this presentation has been extracted largely from the Financial Statements for periods ended 31 December 2016 and earlier. The information in this presentation is being supplied to you by PHP solely for your information and may not be reproduced or redistributed in whole or in part to any other person.

This presentation contains certain “forward-looking” statements and past performance information. Past performance is not a reliable indicator of future performance. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements. Any forward-looking statements made by or on behalf of PHP speak only as of the date they are made and no representation or warranty is given in relation to them, or any other information in this presentation, including as to their completeness or accuracy or the basis on which they were prepared. PHP does not undertake to update forward-looking statements to reflect any changes in PHP’s expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

The distribution of this presentation in jurisdictions other than the UK may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the UK should inform themselves about, and observe, any applicable requirements. This presentation has been prepared for the purpose of complying with English law and the information disclosed may not be the same as that which would have been disclosed if this presentation had been prepared in accordance with the laws of jurisdictions outside the UK.

All opinions expressed in this presentation are subject to change without notice and may differ from opinions expressed elsewhere.

February 2017