

# Interim Results

## Six months ended 30 June 2018

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Financial results  
Property Portfolio  
Asset Management  
Funding  
Positive outlook  
Appendices

# Agenda





# Primary Health Properties PLC at a glance

- FTSE 250, UK Real Estate Investment Trust (“REIT”)
- Leading investor in flexible, modern primary healthcare accommodation across UK and Ireland
- Portfolio of over 310 properties valued at over £1.4 billion
- 90% of income funded by government bodies (NHS or HSE)
- Strong capital base with a prudent balance of shareholder equity and debt finance
- Now in the 22<sup>nd</sup> year of dividend growth; dividend covered by earnings
- Strong, disciplined and selective pipeline of acquisition opportunities in both territories investing the proceeds from the successful, over-subscribed equity issue for £115m



# Key Financial Highlights

| Performance                | 30 June 2018 | 30 June 2017 | Change    |
|----------------------------|--------------|--------------|-----------|
| Net rental income (£m)     | 37.4         | 34.8         | +7.5%     |
| EPRA earnings (£m)         | 17.1         | 15.4         | +11.0%    |
| Dividends paid (£m)        | 16.8         | 15.7         | +7.0%     |
| Dividend cover             | 102%         | 98%          | +4.0%     |
| Dividend per share (pence) | 2.7          | 2.62         | +3.1%     |
| Position                   | 30 June 2018 | 31 Dec 2017  | Change    |
| Investment property (£bn)  | 1.42         | 1.36         | +4.4%     |
| EPRA NAV (pence per share) | 104.2        | 100.7        | +3.5%     |
| Loan to value              | 44.6%        | 52.9%        | -8.3%     |
| Management                 | 30 June 2018 | 31 Dec 2017  | Change    |
| Average cost of debt       | 3.86%        | 4.09%        | -23bps    |
| Growth on rent review      | 1.7% p.a.    | 1.1% p.a.    | +0.6%     |
| WAULT                      | 12.9 years   | 13.2 years   | -0.3 year |



Strong performance  
delivering earnings, net  
asset value and dividend  
growth





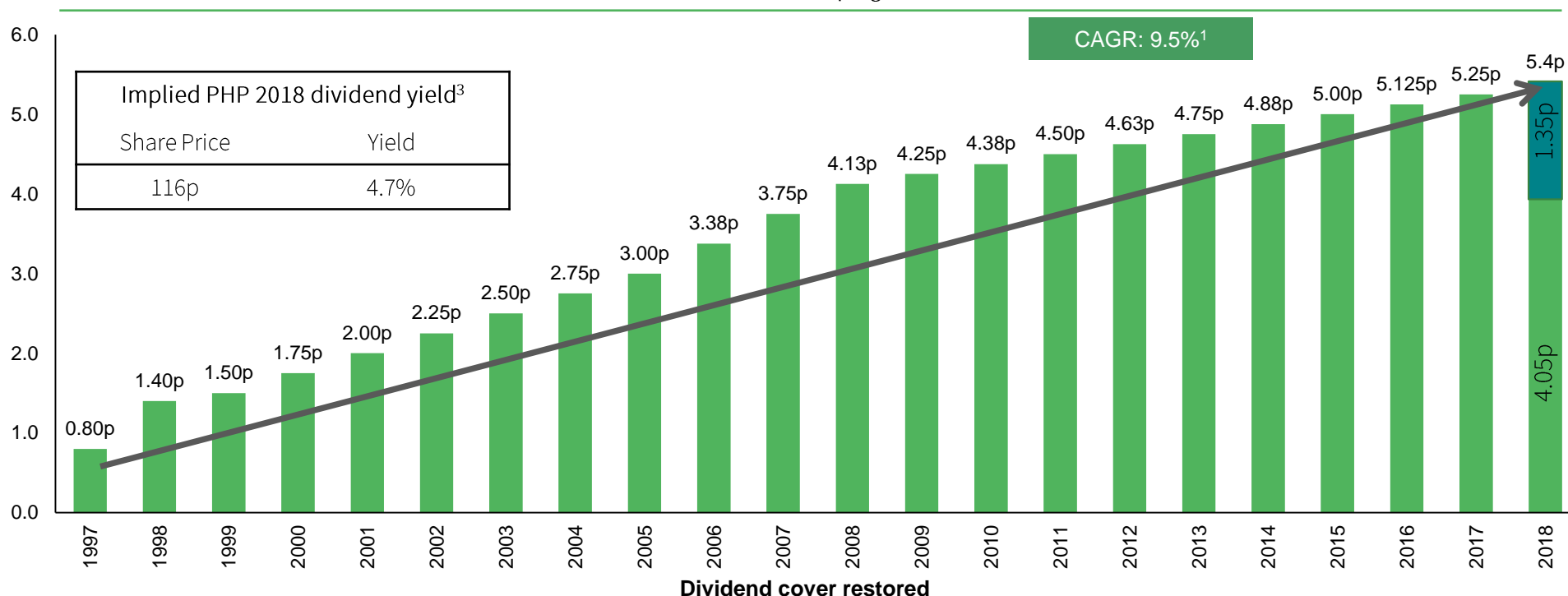
# Income Statement

|  | 30 June 2018<br>£m | 30 June 2017<br>£m | Change<br>% |
|--|--------------------|--------------------|-------------|
| Net rental income  | 37.4               | 34.8               | +7.5%       |
| Administrative expenses                                    | (4.2)              | (3.9)              |             |
| Performance incentive fee                                  | (0.6)              | -                  |             |
| Operating profit before revaluation gain and financing     | 32.6               | 30.9               | +5.5%       |
| Net financing costs  | (15.5)             | (15.5)             |             |
| EPRA earnings  | 17.1               | 15.4               | +11.0%      |
| Revaluation of property portfolio                          | 21.2               | 29.9               | -29.1%      |
| Profit on sale of land                                     | 0.1                | -                  |             |
| Fair value gain/(loss) on derivatives and convertible bond | 0.3                | (1.0)              |             |
| Profit before Tax  | 38.7               | 44.3               | -12.6%      |
| EPRA earnings per share                                    | 2.5p               | 2.6p               | -3.8%       |
| IFRS earnings per share                                    | 5.7p               | 7.4p               | -23.0%      |

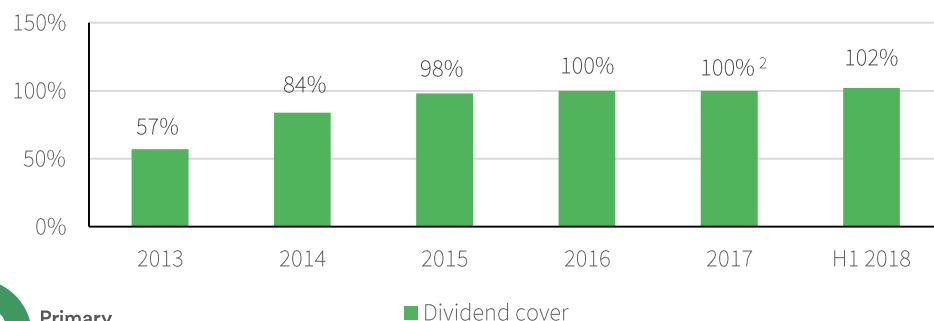


# Strong track record of dividend growth

Historic dividend progression



Historic dividend cover



- 22nd successive year of dividend growth
- 4.05p paid or declared to date, equivalent to 5.4p
- Dividend per share increased by 3.1% in H1 2018
- Dividend cover at 102% (105% excl. PIF)
- Total dividends paid increased by 7% in H1 2018

<sup>1</sup> CAGR: 1997 to 2018

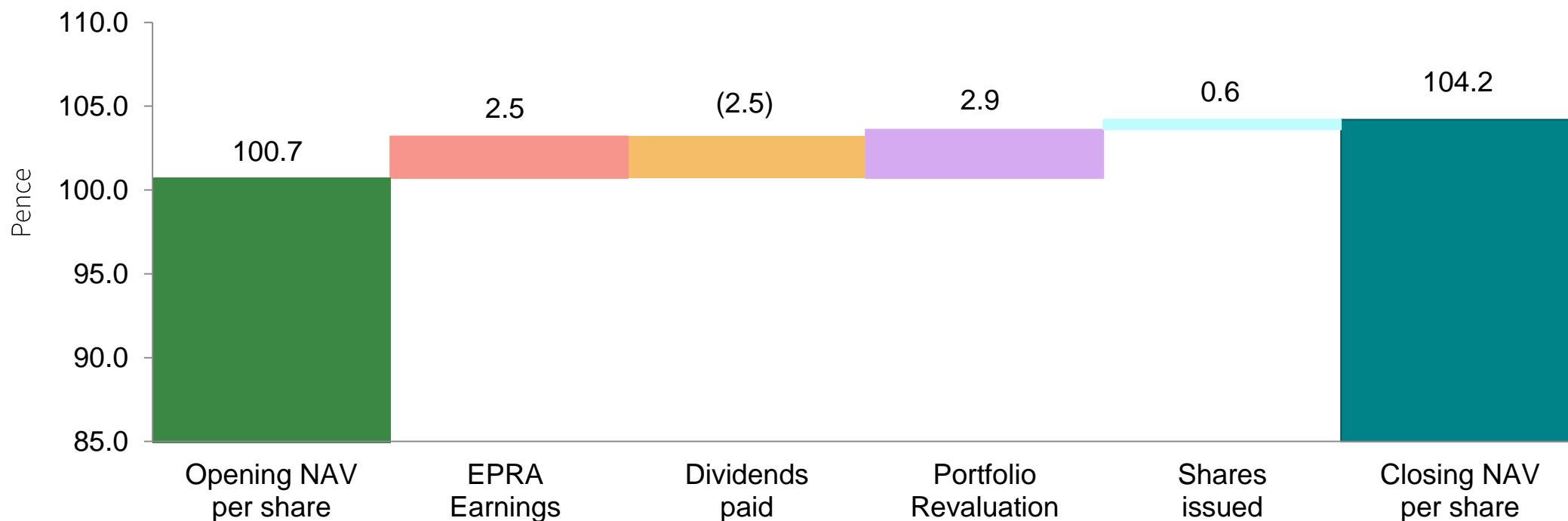
<sup>2</sup> 2017 dividend cover falls to 99% including the performance incentive fee (PIF) of £0.5m

<sup>3</sup> Based on Q1 – Q3 2018 dividend of 4.05p paid or declared per share and is illustrative only



# Balance Sheet Strengthened

EPRA NAV per share (pence)

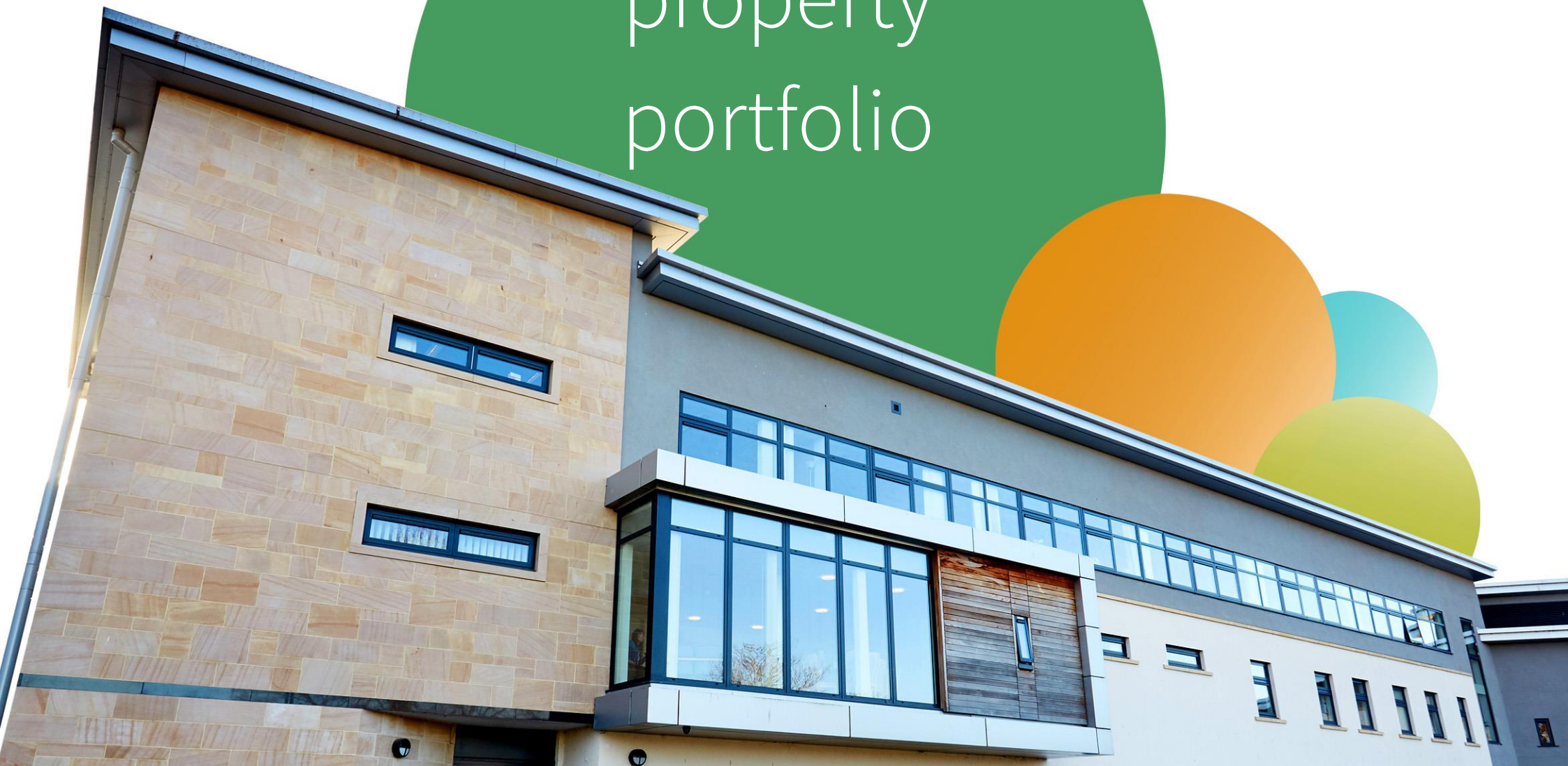


|                                | 2018   | 2017   | Change |
|--------------------------------|--------|--------|--------|
| EPRA net assets                | £763m  | £624m  | +22.3% |
| EPRA net asset value per share | 104.2p | 100.7p | +3.5%  |





# Growing property portfolio





# Investing the proceeds from the equity raise

Strong pipeline of opportunities with £37m in legals and over £175m in negotiation

## UK

- £2m in legals
- Pipeline in negotiation £155m
- Strong asset management project pipeline avoiding obsolescence and arresting WAULT decline
- Pipeline agreements with developers delivering forward funding transactions
- Well established links to GP owner occupiers leading to opportunities

## Ireland

- Contracts exchanged on one asset £5.1m (€5.8m) due to complete imminently
- £35m (€39m) in legals
- Pipeline in negotiation over £20m (€24m)
- Strong relationships developed with owners and developers to access pool of transaction potential



# Property Portfolio

- Portfolio of 308 healthcare centres –valued at £1.4bn
- Post period end two assets in Ireland acquired for £24.8m (€28m)
- Average net initial yield 4.85% (2017: 4.91%)
- Average lot size increased to £4.6m (2017: £4.5m)
- 80% of portfolio valued at more than £3m

| Capital Value            | Number | Value   | %      |
|--------------------------|--------|---------|--------|
| > £10m                   | 22     | 356.6   | 25.2%  |
| £5 - £10m                | 56     | 387.4   | 27.4%  |
| £3 - £5m                 | 99     | 386.9   | 27.3%  |
| £1 - £3m                 | 129    | 281.1   | 19.9%  |
| < £1m (incl. land £1.6m) | 2      | 3.2     | 0.2%   |
| Total                    | 308    | 1,415.2 | 100.0% |



# Investment Acquisition

## Mallow Primary Health Centre, Ireland

### Tenants

Health Service Executive (HSE),  
4 GP practices (21 doctors),  
dentist, optician, pharmacy  
and café.

### Size

6,500 sqm

### Date purchased

February 2018

### Acquisition cost

£17.7m (€20.0m)

### WAULT

21.9 years

### Patient list size

c.30,000

### Rent review

Irish CPI





# Investment Acquisition

## Moredon Medical Centre, Swindon

### Tenants

GP practice (5 doctors) and a pharmacy

### Size

1,450 sqm

### Date purchased

June 2018

### Acquisition cost

£6.1m

### WAULT

27.5 years

### Patient list size

c.11,500

### Rent review

OMV and RPI





# Development

## Bray Primary Care Centre, Ireland

### Tenants

Health Service Executive (HSE),  
GP practice (5 doctors),  
pharmacy and coffee shop

### Size

4,800 sqm

### Completion

Autumn 2019

### Development cost

£19.7m (€22.3m)

### WAULT

25 years

### Patient list size

c.30,000

### Rent review

Irish CPI





# Management activities adding value





# High quality recurring income...

## Key characteristics of the portfolio

Average lease length of 12.9 years

99.7% Occupancy

Strong tenant covenant – 90% of rent roll paid directly/indirectly by the Government

The majority of leases have effectively upward only rent reviews

27% of portfolio on fixed or indexed uplifts. 73% OMV review, typically every three years

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

- Contracted rent roll of £74.4m p.a.
- Rental growth averaged 1.7% p.a. on reviews completed in H1 2018 (1.1% p.a. in 2017)
- Rate of rental growth expected to improve in future years
- Rental growth driven by development activity, inflation and specification creep
- Asset management projects arrest WAULT decline
- £0.7m p.a. of additional income from rent reviews and asset management projects completed

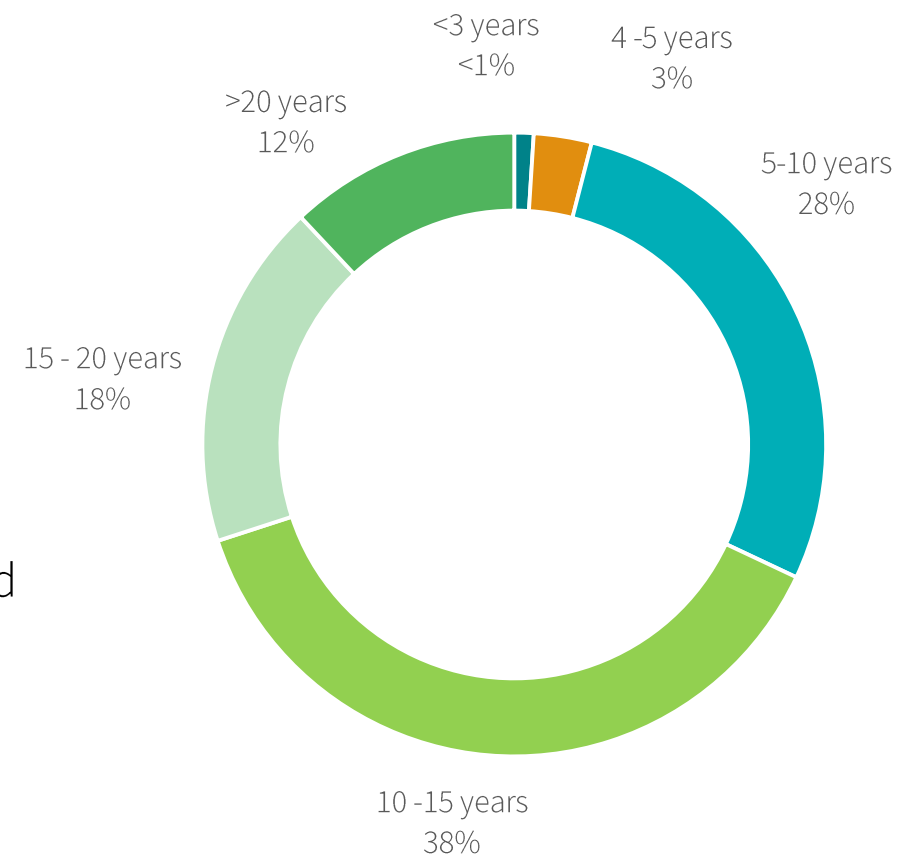


# Asset management projects arresting WAULT decline

Asset management projects committed in 2018

- Investment £4.8m, re-gearing leases back to 20 years
- Nine projects completed
- Three projects on-site
- Seven projects due to commence shortly
- Strong pipeline of 17 further projects being progressed

Analysis of leases unexpired

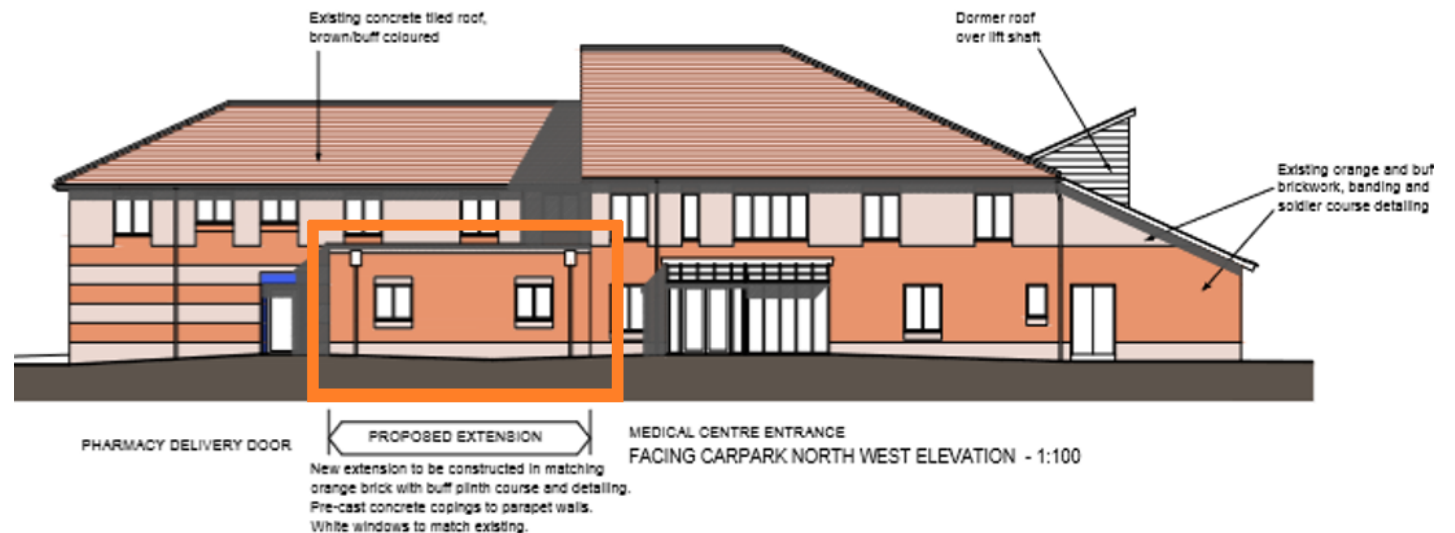




## Asset Management Project

### St Georges Medical Centre, Sheerness

A small extension (2 Consulting Rooms) and minor refurbishment package. Total Capex £0.4m. New 20 year lease on the whole property. The works are scheduled for completion end of July 2018.





# Asset Management Project

## Fell Tower Medical Centre, Gateshead

Refurbishment of the large multi-purpose room on the lower ground floor to create 5 consulting rooms and new patient waiting area. Total capex. £0.2m. New 25 year lease on the whole property. 5 week programme due to complete in August 2018.



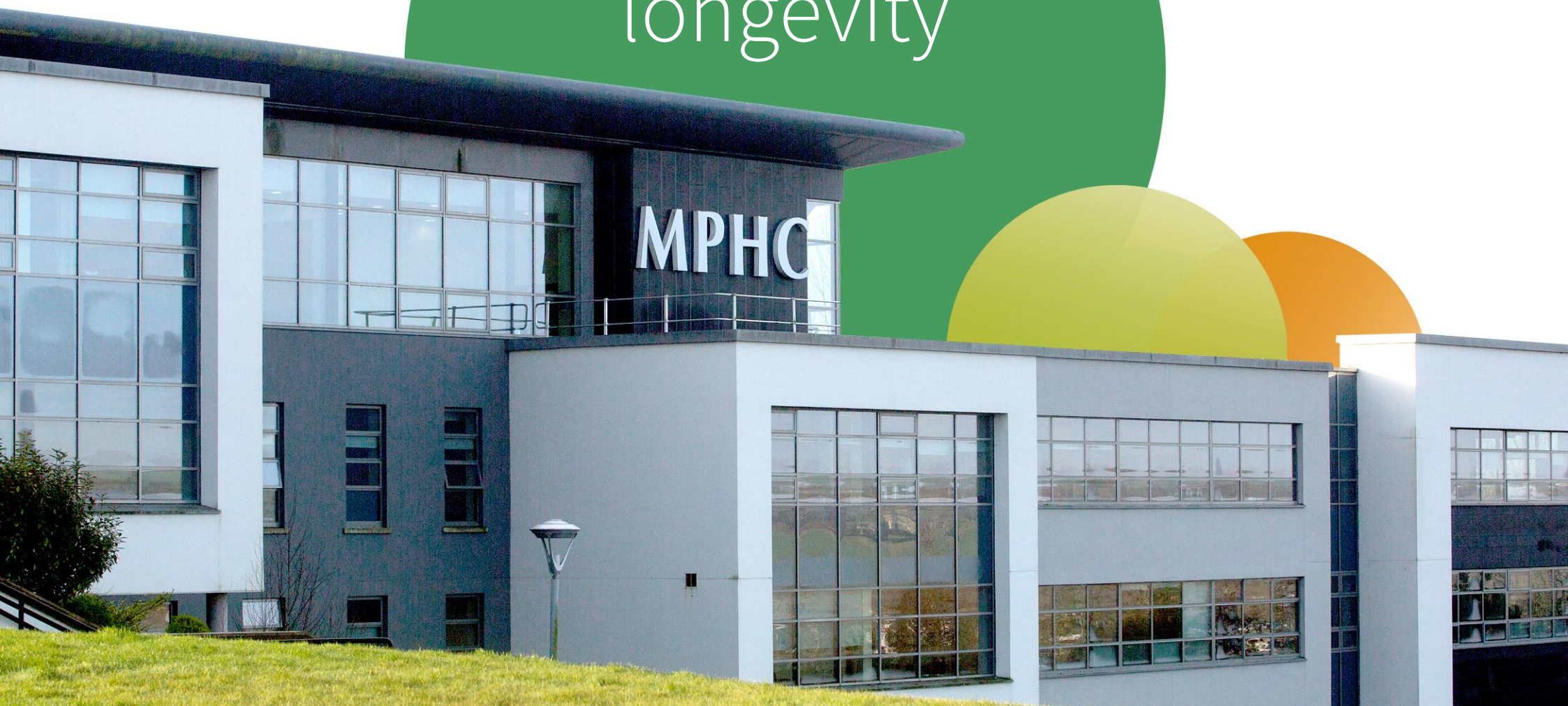
*Fell Tower Medical Centre*



*Proposed Alterations*



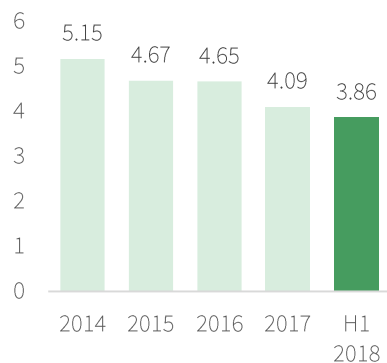
# Funding, diversity and longevity



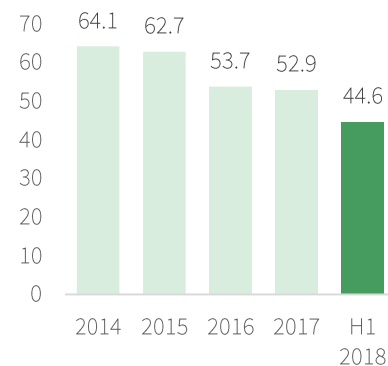


# Delivering Financial Management

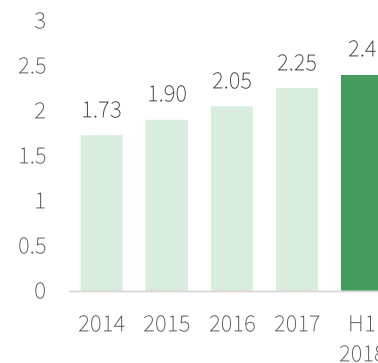
Cost of debt (%)



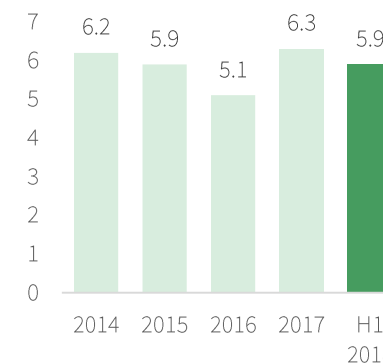
Loan to value ratio (%)



Interest cover ratio (X)



Debt maturity (years)



- LTV 40.5% excluding the convertible bond
- Low marginal cost of debt 2.4%
- Average cost of debt expected to fall further on conversion and/or repayment of convertible and retail bonds in 2019
- £70m 4.52% SWAP cancelled for 2 years for £5.0m (equivalent to 0.7p per share), saving £2.5m p.a.
- £5.4m (2017: £19.3m) convertible bonds converted saving £0.2m p.a. (2017: £0.8m p.a.)



# Debt Maturity

- Positive discussions with lenders to secure additional, long term, secured euro denominated debt facilities





# Outlook





## Positive Outlook

Low risk, long-term, non-cyclical market

- Disciplined approach to acquisitions avoiding asset obsolescence
- Increased opportunities in Ireland, still priced attractively but yields compressing
- 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 with improving outlook
- Simple cost structure enhancing earnings

Adding value and reducing cost of funds

- Organic rental growth from rent reviews and asset management projects
- Average cost of debt reduced
- 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 covered by earnings
- Strong yield characteristics, low volatility



# Appendix

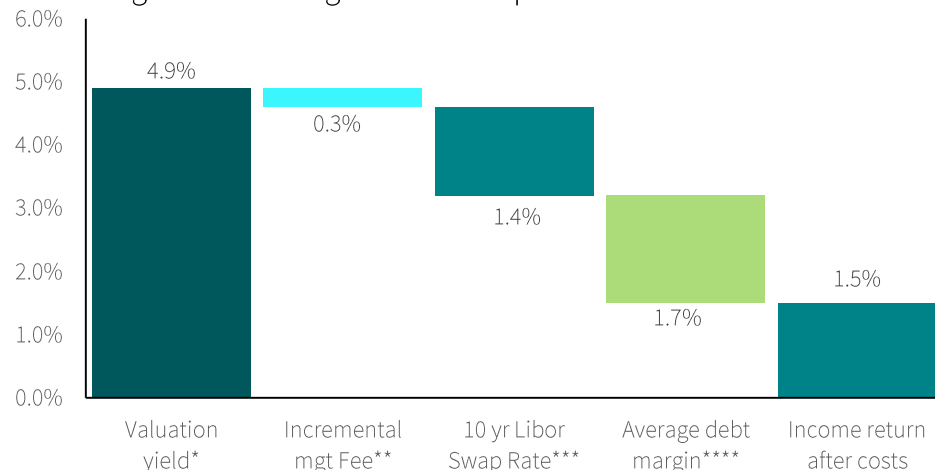




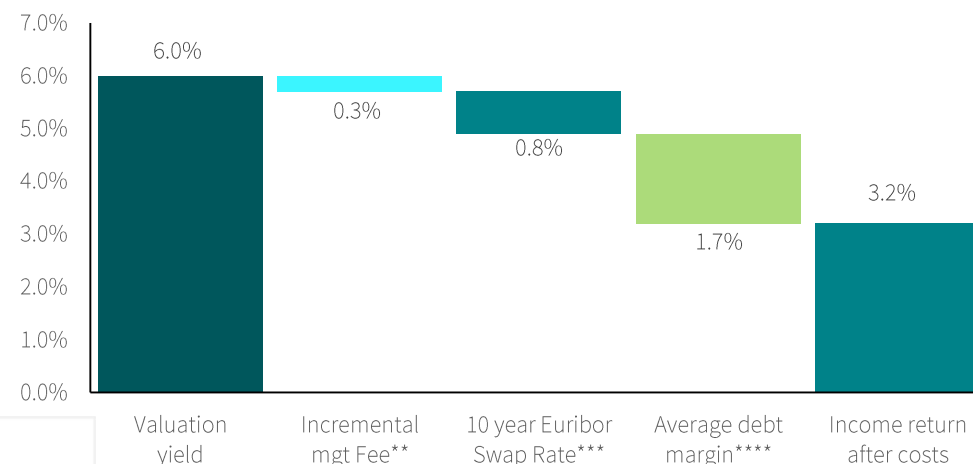
# Positive Yield Gap

## Illustrative yield gap on property investment

### 1. Net margin over funding cost – UK Acquisitions



### 2. Net margin over funding cost – Ireland



## Market conditions provide attractive yield spread

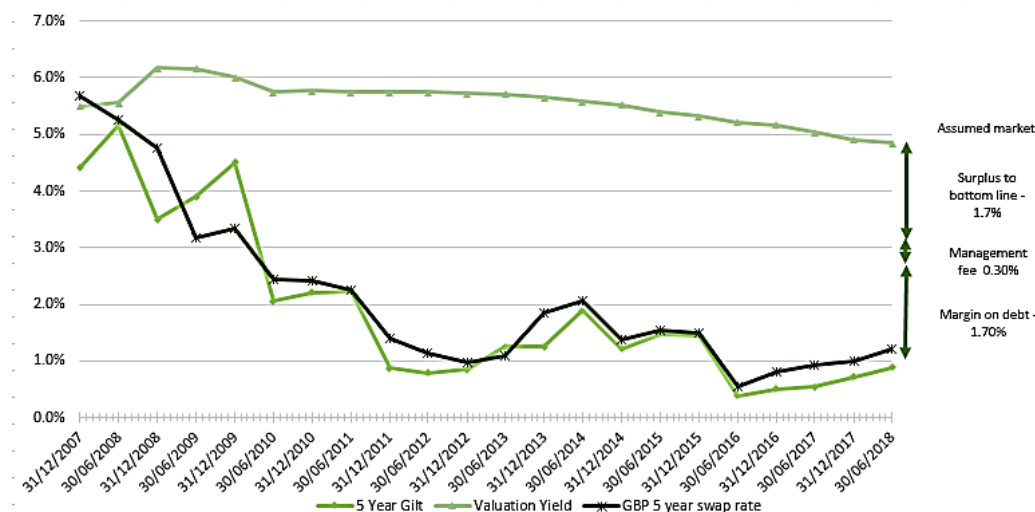
1 Earnings growth from operational actions

- Positive yield gap on acquisitions in UK and Ireland
- Asset management contribution
- Rental growth from reviews
- Management fee reductions

2 Active management of funding

- Driving down the cost of debt
- Widening sources of debt and providers
- Maintaining appropriate leverage given portfolio characteristics

## Attractive market conditions for PHP





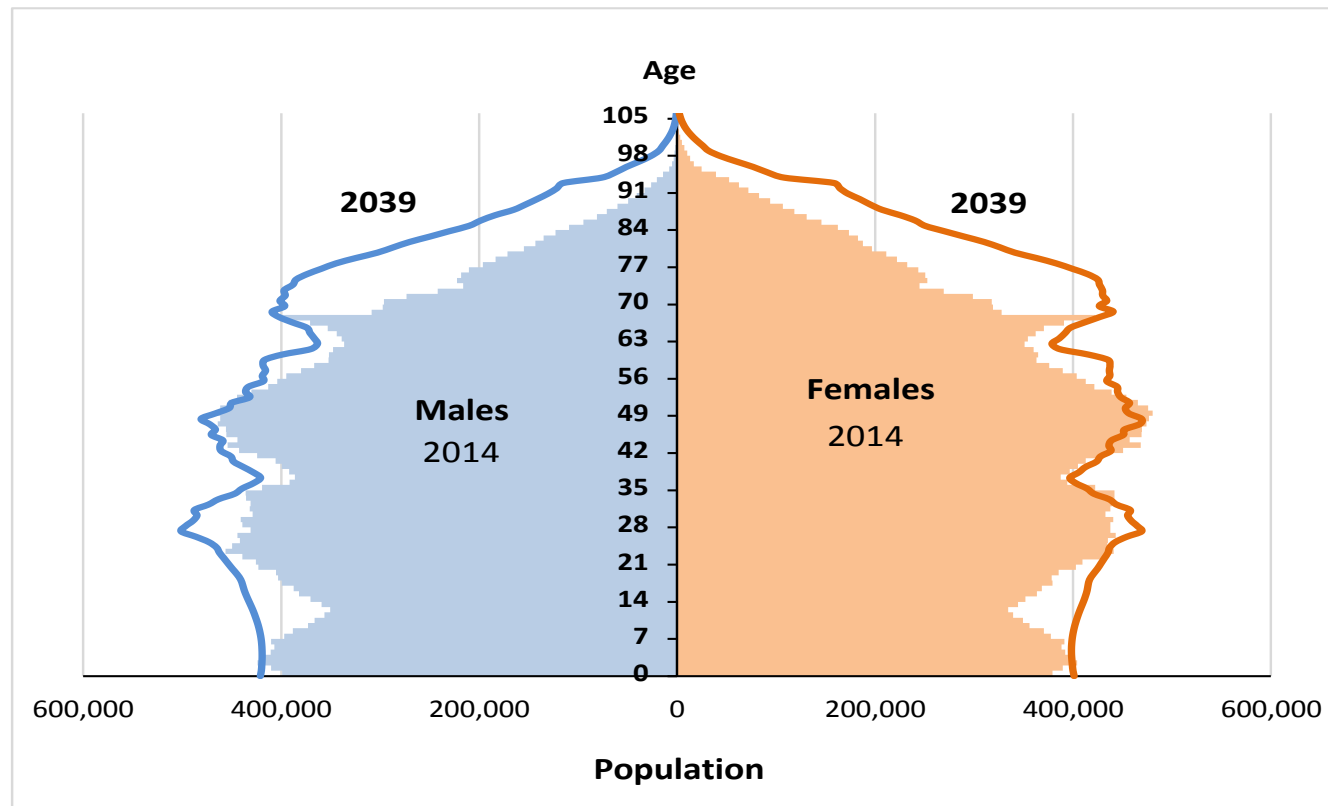
# Spread of Funding Sources

|                         | Secured Facilities |        |                  |        |        |                 |                 |        |            |            | Unsecured facilities <sup>1</sup> |                |
|-------------------------|--------------------|--------|------------------|--------|--------|-----------------|-----------------|--------|------------|------------|-----------------------------------|----------------|
| Provider                | HSBC               | Lloyds | Barclays/<br>AIB | RBS    | Aviva  | Secured<br>Bond | Secured<br>Bond | Aviva  | Aviva      | Aviva      | Convertible<br>Bond               | Retail<br>Bond |
| Tenor                   | Bullet             | Bullet | Bullet           | Bullet | Bullet | Bullet          | Bullet          | Bullet | Amortising | Amortising | Bullet                            | Bullet         |
| Expiry                  | Jul-20             | Dec-20 | Jan-21           | Mar-22 | Dec-22 | Dec-25          | Mar-27          | Nov-28 | Aug-29     | Jan-32     | May-19                            | Jul-19         |
| Facility                | £50m               | £30m   | £115m            | £100m  | £25m   | £70m            | £100m           | £75m   | £113m      | £23m       | £58m                              | £75m           |
| Drawn                   | £nil               | £nil   | £55m             | £50m   | £25m   | £70m            | £100m           | £75m   | £113m      | £23m       | £58m                              | £75m           |
| Collateral <sup>2</sup> | £56m               | £58m   | £218m            | £221m  | £43m   | £129m           | £181m           | £135m  | £196m      | £45m       | -                                 | -              |
| Passing Rent            | £3m                | £3m    | £11m             | £11m   | £3m    | £7m             | £9m             | £7m    | £10m       | £2m        | -                                 | -              |
| LTV Max                 | 55%                | 65%    | 60%              | 55%    | 70%    | 74%             | 65%             | 70%    | 70%        | 70%        | -                                 | -              |
| LTV actual              | n/a                | n/a    | 25%              | 23%    | 58%    | 54%             | 55%             | 56%    | 57%        | 50%        | -                                 | -              |
| ICR Min                 | 1.4x               | 1.75x  | 1.5x             | 1.5x   | 1.6x   | 1.4x            | 1.5x            | 1.4x   | 1.0x       | 1.6x       | -                                 | -              |
| ICR actual              | n/a                | n/a    | 8.0x             | 9.9x   | 2.5x   | 3.4x            | 3.3x            | 3.1x   | 1.9x       | 1.8x       | -                                 | -              |



## Market Fundamentals Remain Strong

- Growing and ageing population with declining health in both the UK and Ireland
- Demands on health services increasing and budgets under severe pressure



Source: Office for National Statistics



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July 2018