

Full Year Results

Year ended 31 December 2017

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Strong sector
fundamentals
Funding
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Primary Health Properties PLC at a glance

- UK Real Estate Investment Trust (“REIT”)
- Leading investor in flexible, modern primary healthcare accommodation
- Portfolio of over 306 properties valued at £1.4 billion
- Properties located across the UK and Ireland
- 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 22nd year of dividend growth; dividend covered by earnings
- Strong pipeline of acquisition opportunities in both territories

Key Financial Highlights

Performance	2017	2016	Change
Net rental income (£m)	71.3	66.6	+7.1%
EPRA earnings (£m)	31.0	26.8	+15.7%
EPRA earnings per share (pence)	5.2	4.8	+8.3%
Dividend per share (pence)	5.25	5.125	+2.4%
Position	2017	2016	Change
Investment property (£bn)	1.36	1.22	+11.5%
EPRA NAV (pence per share)	100.7	91.1	+10.5%
Loan to value	52.9%	53.7%	-0.8%
Management	2017	2016	Change
Average cost of debt	4.09%	4.65%	-56bps
Growth on rent review	1.1% p.a.	0.9% p.a.	+0.2%
WAULT	13.2 years	13.7 years	-0.5 year

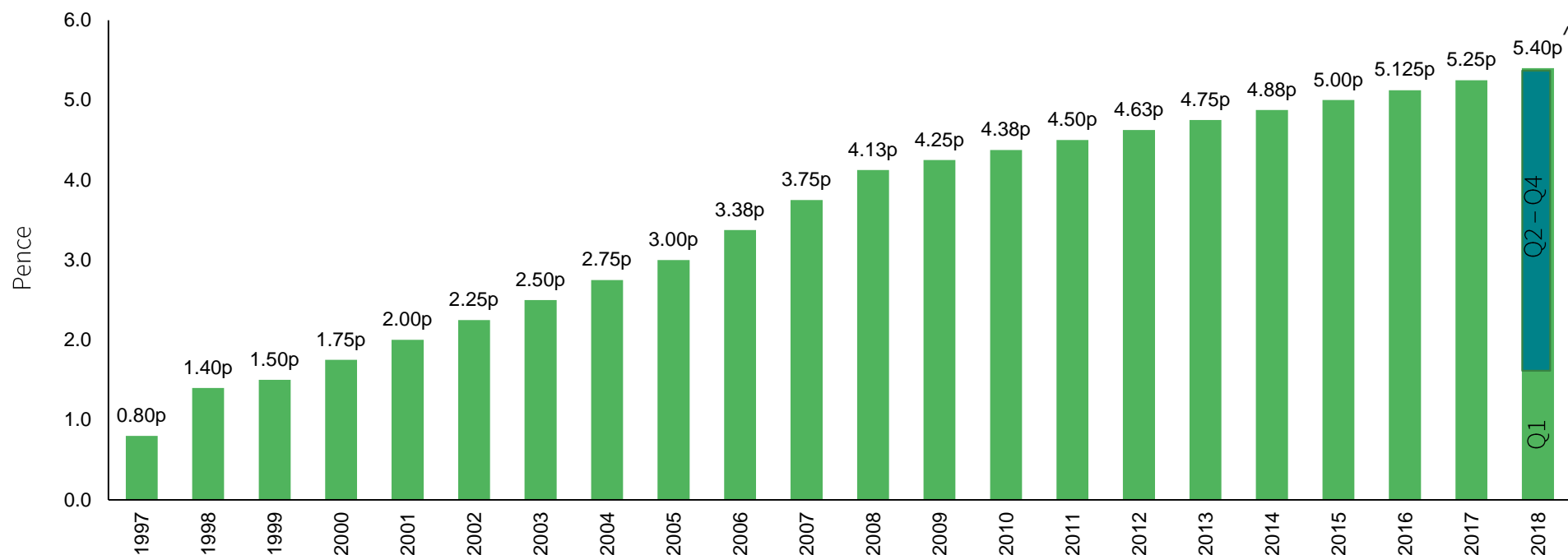
Strong performance
delivering earnings, net
asset value and dividend
growth



Income Statement

	2017 £m	2016 £m
Net rental income	71.3	66.6
Administrative expenses	(8.2)	(7.3)
Performance incentive fee	(0.5)	-
Operating profit before revaluation gain and financing	62.6	59.3
Net financing costs	(31.6)	(32.5)
EPRA earnings	31.0	26.8
Net results on property portfolio	64.5	20.7
Fair value loss on derivatives and convertible bond	(3.6)	(3.8)
Profit before Tax	91.9	43.7
EPRA earnings per share	5.2p	4.8p
IFRS earnings per share	15.3p	7.8p

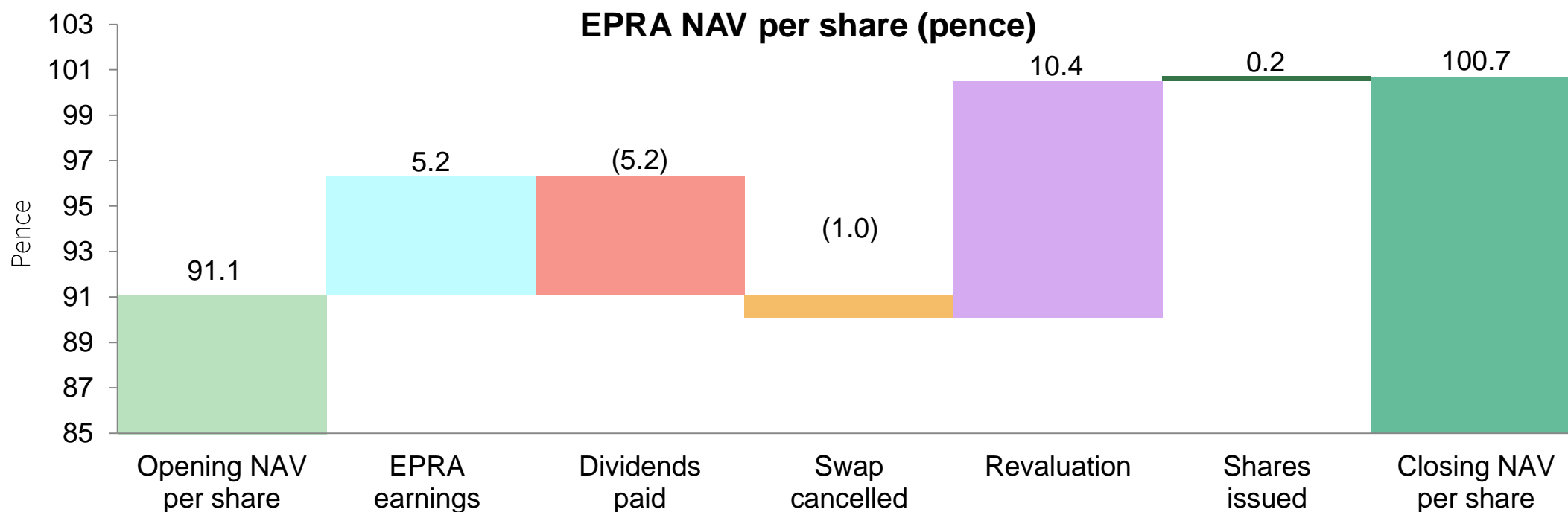
Progressive dividend policy – 2018 22nd successive year of growth



Returns

	2017	2016
Total property return	10.8%	7.9%
Total NAV return (increase in NAV plus dividends paid)	16.4%	9.7%
Total shareholder return (increase in share price plus dividends paid)	9.6%	7.3%
FTSE UK REIT Index – total return	5.6%	-0.6%

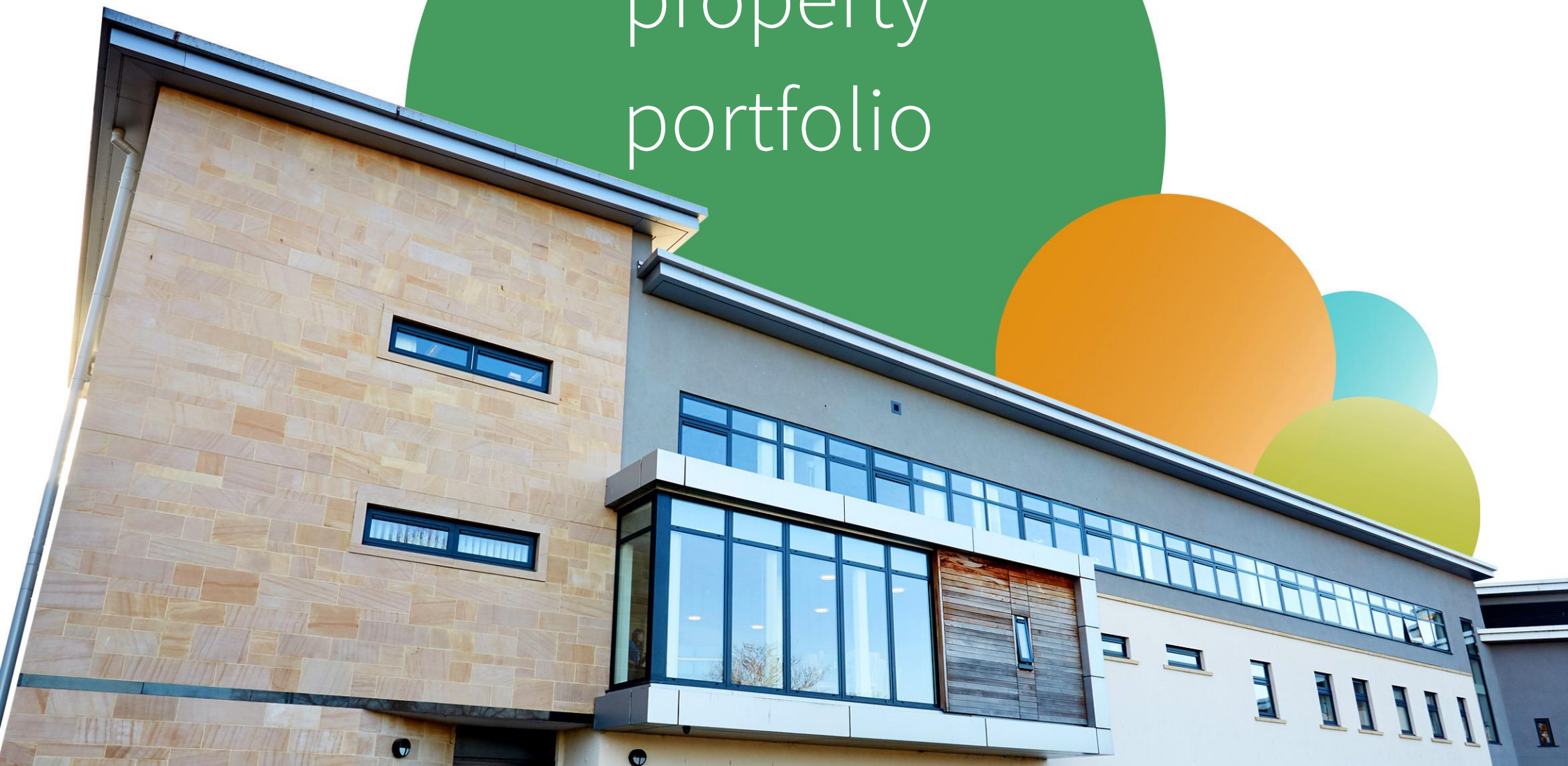
Balance Sheet Strengthened



	2017	2016	Change
EPRA net assets	£624m	£545m	+14.5%
EPRA net asset value per share	100.7p	91.1p	+10.5%



Growing property portfolio



Property Portfolio

- Portfolio of 306 healthcare centres – 305 completed, 1 under development
- Disciplined approach to acquisitions
- 10 properties acquired in 2017 for £71.9m
- Annual contracted rent roll: £72.3m; 99.7% occupancy rate
- Contracts exchanged for Mallow Primary Health Centre: £17.7m (€20.0m), due to complete at the end of Feb. 2018
- Portfolio: £1.36bn – average net initial yield 4.91% (2016: 5.17%)
- Average lot size; increased to £4.5m (2016: £4.1m) – largest in the sector
- Long average unexpired lease term – 13.2 years

Capital Value	Number	Value	%
£10m +	20	316.9	23.3%
£5 - £10m	55	380.6	28.0%
£3 - £5m	98	376.3	27.6%
£1 - £3m	131	285.2	20.9%
£0 - £1m (incl. land £1.3m)	2	2.9	0.2%
Total	306	1,361.9	100.0%

Investment Acquisition

Low Grange Health Village

Tenants

4 GP practices (12 doctors), NHS PS, pharmacy, optician and council

Size

5,800 sqm

Date purchased

July 2017

Acquisition cost

£25.4m

WAULT

17.3 years

Patient list size

c.22,000

Rent review

Fixed 3% p.a.



Investment Acquisition

Mallow Primary Health Centre, Ireland

- A substantial development of 6,500 sqm occupied by Health Service Executive (HSE), 4 GP practices (21 doctors with a 30,000 patient list), dentist, optician, pharmacy and café
- £17.7m (€20.0m) contracts exchanged, due to complete at the end of Feb. 2018
- WAULT 21.9 years
- Rent review – Irish CPI



Development Delivery

Carrigaline Primary Care Centre, Ireland

Tenants

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

Size

2,985 sqm

Date completed

August 2017

Development cost

£6.4m (€7.3m)

WAULT

25 years

Patient list size

c.20,000

Rent review

Irish CPI



Management activities adding value



Strong management contributes to income growth

- Portfolio 99.7% occupied
- Rental growth on reviews expected to increase
- Average of 1.1% p.a. achieved on reviews completed in 2017 (0.9% p.a. in FY16)
- 26% of PHP portfolio benefits from RPI or fixed, upwards only reviews
- Nine asset management projects committed in 2017
 - Investment £4.4m, re-gearing leases back to 20 years
 - Seven further projects approved by NHS, investing £0.6m and re-gearing leases back to 15 years to start in 2018
 - Strong pipeline of 16 further projects being progressed

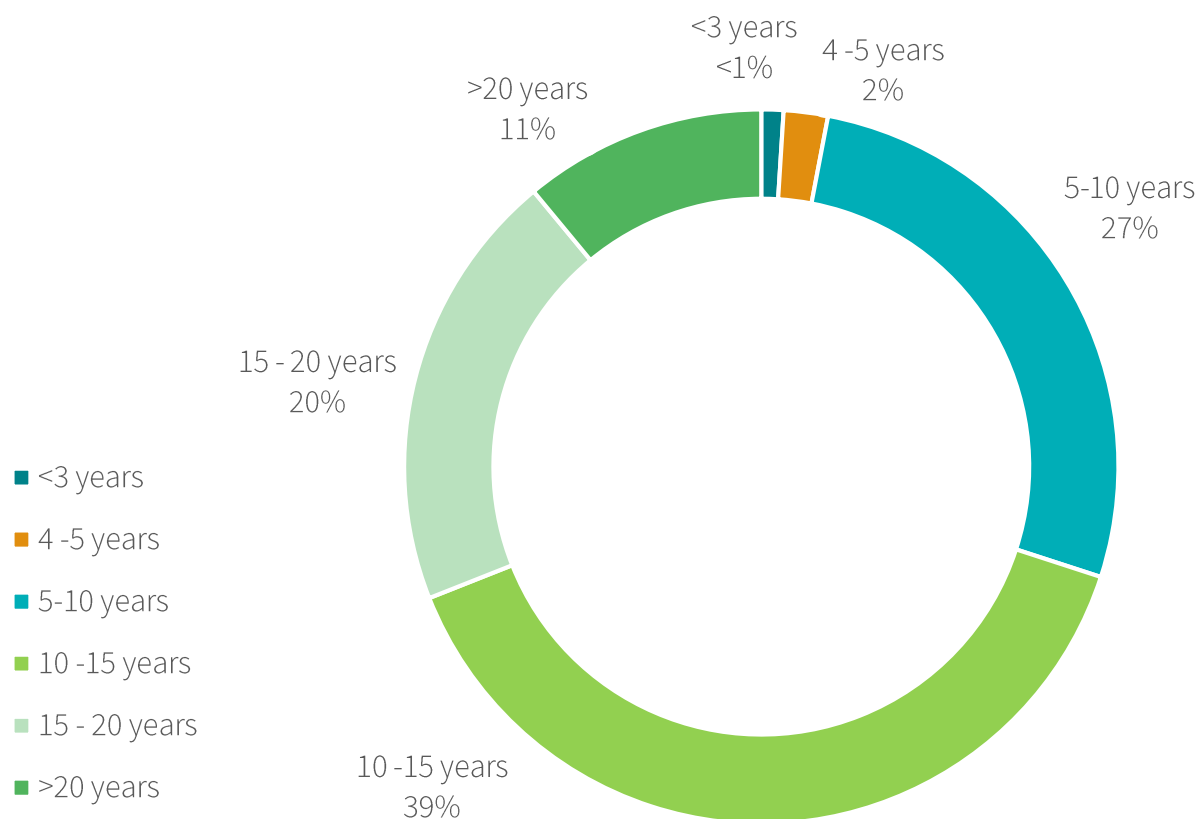
Long Leases with Potential

- Effectively upward only rent roll
- Total weighted average rental growth 1.1% p.a.
 - 74% reviewed to open market (ave. 0.3% p.a. or 1.3% p.a. excluding nil uplifts)
 - 19% RPI linked (ave. 2.3% p.a.)
 - 7.0% on fixed uplift (ave. 5.0% p.a.)

Drivers of rental growth

- Increased development activity
- Building cost inflation
- Reducing the NHS carbon footprint
- Specification creep
- Building regulations
- Replacement cost
- Ireland 100% CPI

Analysis of leases unexpired by rent roll



Asset Management Project

Milton Keynes Village

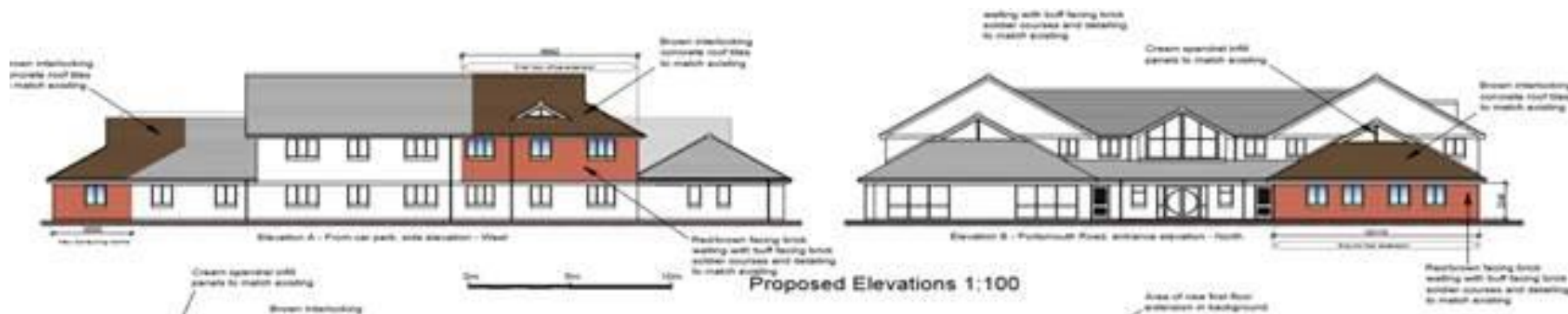
A 330 sqm extension to the existing premises, part funded by PHP (Capex: £0.8m) and part funded by EITF Infrastructure capital. The GP practice will enter into a new 21 year lease with a net additional rent of £33k p.a. The works are on site and scheduled for completion in September 2018.



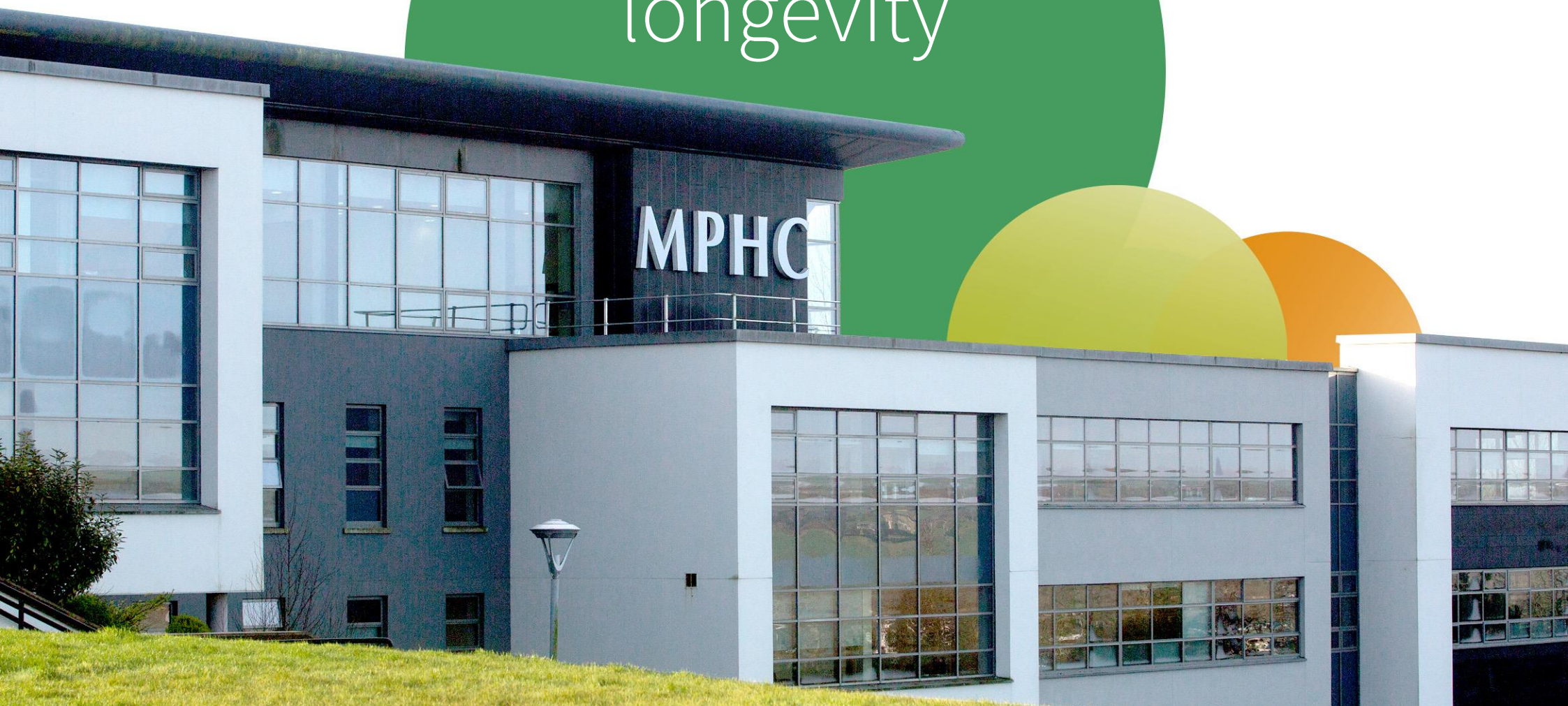
Asset Management Project

Woolston Lodge Surgery, Southampton

A building and lease extension project providing an 84 sqm extension for the surgery and 20 sqm extension for the pharmacy (Capex: £0.6m). GP and pharmacy leases re-gearred back to 24 years from practical completion in Jan. 2018 with additional rent of £21k p.a.

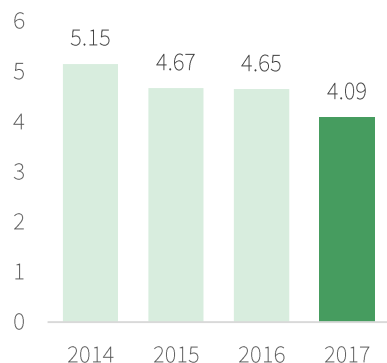


Funding, diversity and longevity

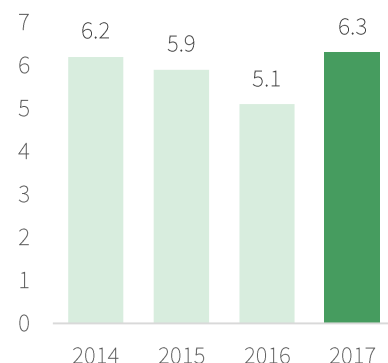


Delivering Financial Management

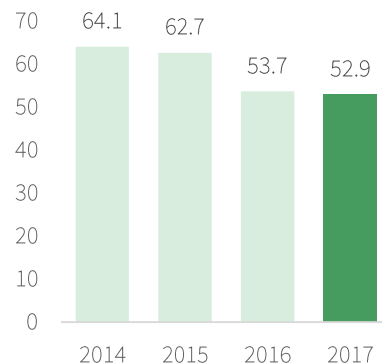
Cost of debt (%)



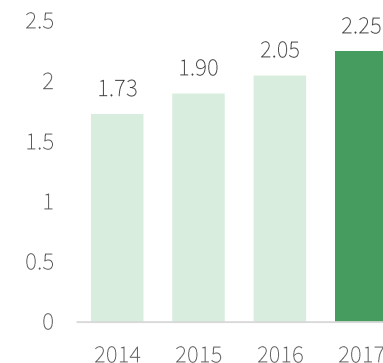
Debt maturity (years)



Loan to value ratio (%)



Interest cover ratio (X)



- £100m 10-year private placement bond at 2.83%
- £75m Aviva facility, refinanced for 11 years at 3.1%, saving £0.7m p.a.
- £130m of new loan facilities with RBS and Lloyds, ability to draw in euros up to €50m
- £19.3m (£20.4m incl. PPE) convertible bonds converted saving £0.9m p.a.
- £20m 4.76% SWAP cancelled for £6.2m (equivalent to 1p per share), saving £0.8m p.a.
- Low marginal cost of debt 2.3%

Debt Maturity

- Weighted maturity period increased to: 6.3 years (2016: 5.1 years)
- 2019: £75m retail bond @ 5.38%, £63.2m convertible bond @ 4.25%
- 2020: £50m HSBC, £30m Lloyds (1+1 year extension option)
- Terms agreed with Santander for a new £30m term loan further diversifying the number of lending banks
- Positive discussions with institutional lenders to secure additional, longer term secured debt facilities



Outlook



Strong Pipeline of Opportunities

- UK market
 - Strong pipeline of targeted acquisitions of approximately £150m, including £23m currently in legals
 - Well established links to GP owner occupiers leading to opportunities
 - Pipeline agreements with developers delivering forward funding transactions
- 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

Positive Outlook

Low risk, long-term, non-cyclical market

- Disciplined approach to acquisitions
- 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
- 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

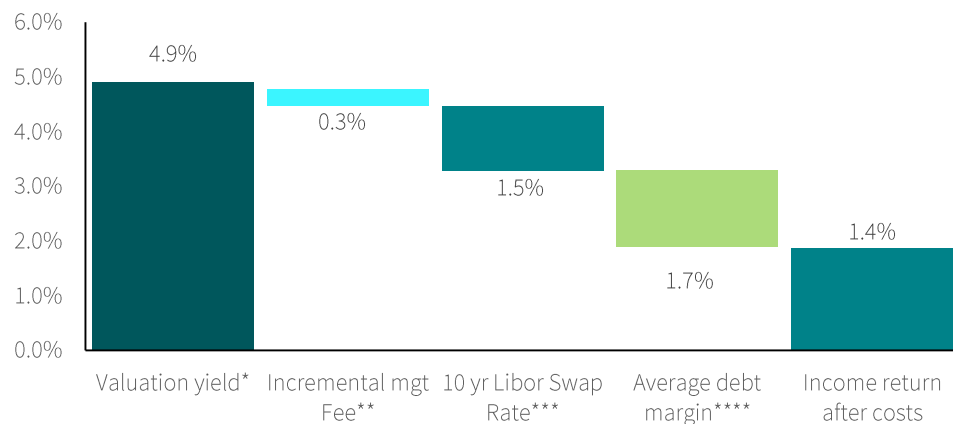
Appendix



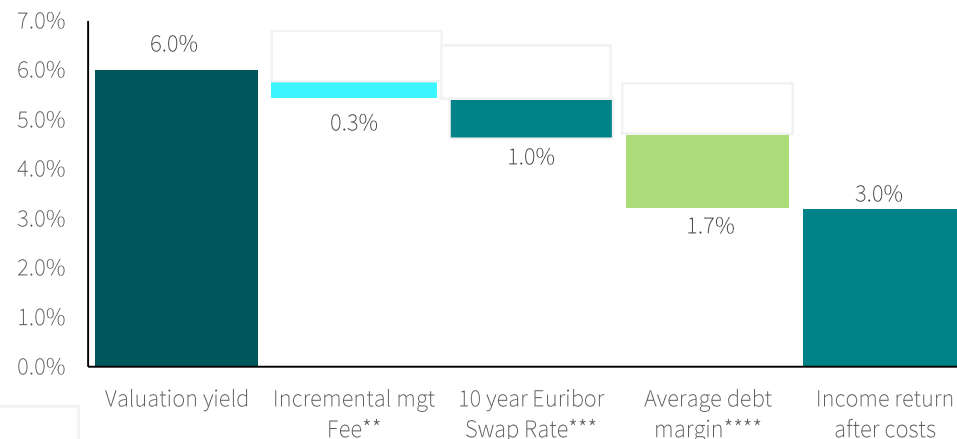
Positive Yield Gap

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

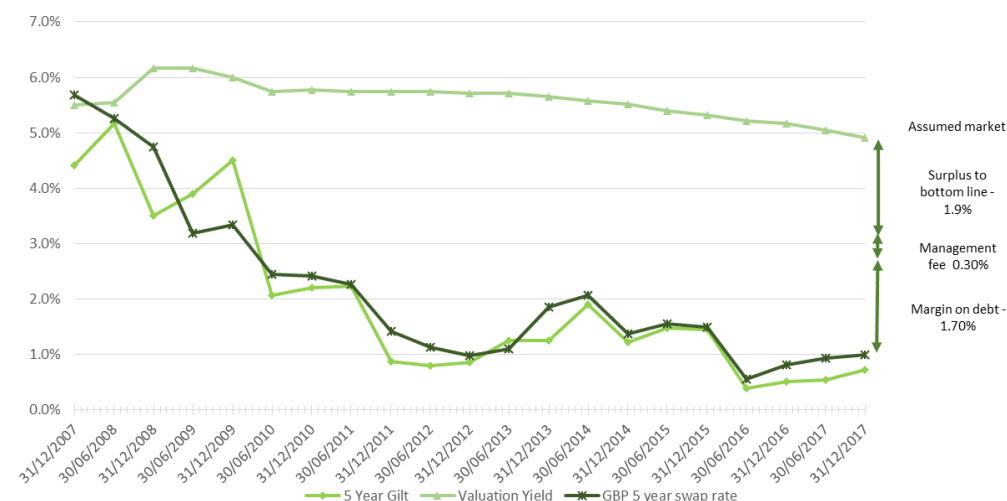
1 Earnings growth from operational actions

- 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



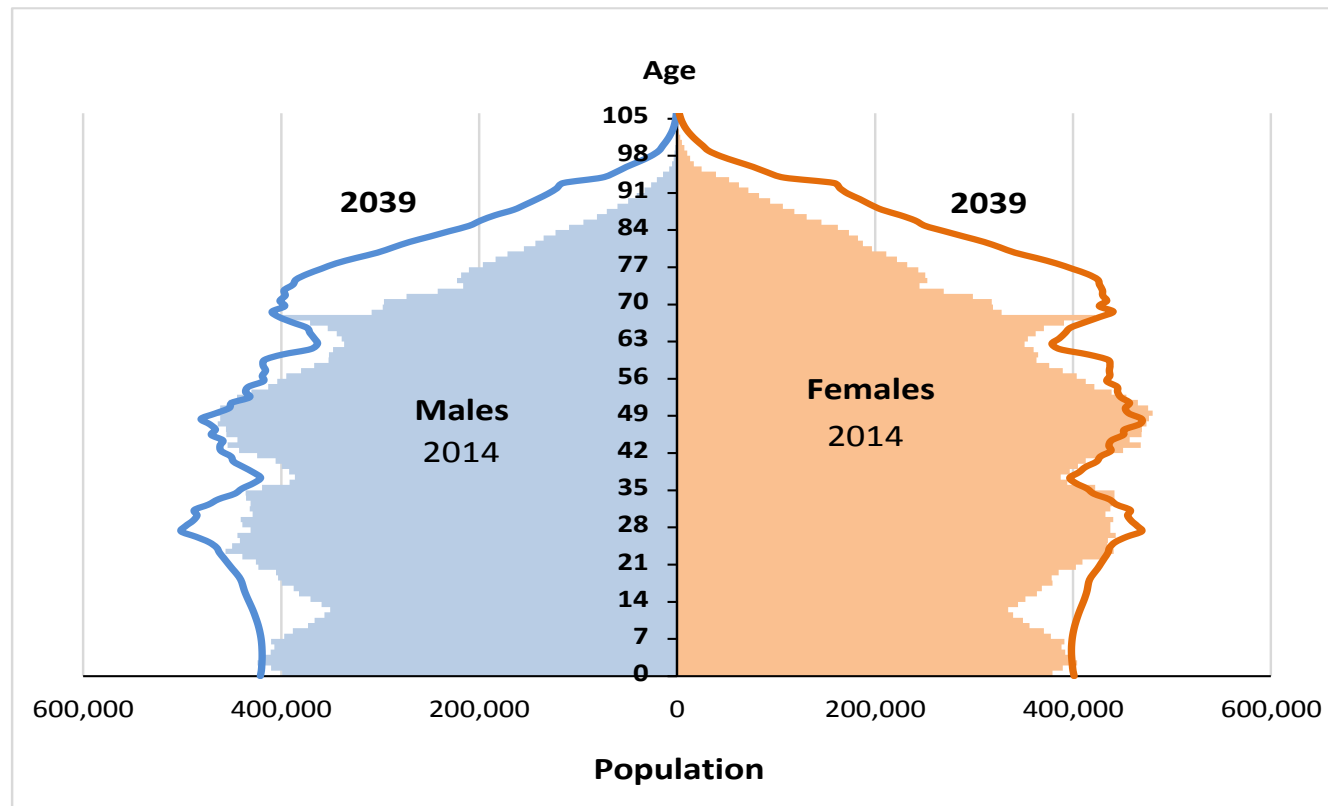
Source: Company data, JC Rathbone, Tradeweb.com

Spread of Funding Sources

	Secured Facilities										Unsecured facilities ¹	
Provider	HSBC	Lloyds	Barclays/ AIB	RBS	Aviva	Secured Bond	Secured Bond	Aviva	Aviva	Aviva	Convertible Bond	Retail 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	£63m	£75m
Drawn	£22m	£nil	£106m	£52m	£25m	£70m	£100m	£75m	£113m	£23m	£63m	£75m
Collateral ²	£55m	£56m	£215m	£217m	£42m	£127m	£177m	£134m	£191m	£46m	-	-
Passing Rent	£3m	£3m	£11m	£11m	£3m	£7m	£9m	£7m	£10m	£2m	-	-
LTV Max	55%	65%	60%	55%	70%	74%	65%	70%	75%	70%	-	-
LTV actual	39%	n/a	49%	24%	60%	55%	57%	56%	59%	51%	-	-
ICR Min	1.4x	1.75x	1.5x	1.5x	1.6x	1.4x	1.5x	1.4x	1.0x	1.6x	-	-
ICR actual	5.4x	n/a	4.3x	9.7x	2.4x	3.5x	3.3x	3.1x	1.7x	1.8x	-	-

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



Source: Office for National Statistics

Positive Long Term Demand Drivers in the UK

Government commitment

- Government targets 24/7 access to GP services by 2020
 - Over 1.3 million GP visits per day¹
 - Additional funding of £10bn per annum²
 - Primary care spend to rise 4% to 5% per annum
 - Conservative party pledged an extra £10bn p.a. to NHS and support of Naylor Report
 - 2017 budget pledges additional £6.3bn, including £3.5bn for capital investment, for NHS by 2022/23

NHS England GP Forward View

- Published April 2016, to increase GP budget by 25%
- To recruit 5,000 more GPs over 5 years
- Commitment to out of hours care, developing clinical hubs and urgent care services

Environment & Technology Transformation Fund

- £900m pool for investment in primary care premises
- Opportunity for PHP to deploy capital into existing and newly procured assets

Demographic drivers of demand

- UK population to grow by 12% to 71 million by 2035
 - 11.4 million currently aged over 65
 - To rise by 10% over next 15 years
- Increasing incidence of chronic disease
 - Projected to affect 2.9 million by 2018

Inadequate Supply

- 50% of primary care premises more than 30 years old³
- Naylor Report highlights importance of primary care premises, creating affordable and efficient estates.
- NHS FYFV next steps (March 2017) highlights the efficiency of primary care
- Government response to Naylor Report acknowledges importance of property to the transformation of the NHS and effectiveness of the private sector as a source of investment and innovation
- In recent survey of GPs⁴:
 - 67% of GPs stated their premises too small to deliver extra/additional services
 - 62% of GPs stated their premises too small to provide vital training and education
 - 53% said current premises had seen no investment or refurbishment in the last 10 years

¹ NHS Analytical Service

² November 2015 Spending Review

³ Savills/EC Harris

⁴ British Medical Association

Opportunities in the Republic of Ireland

Government support

- DoHI aim to implement “single-tier health service”
- Health Service Executive, executive agency of DoHI, majority occupier in new centres
- Healthcare budget saw further increase in 2016, up 7% (€880m) on the 2015 budget

Opportunity for PHP

- 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 and associated healthcare users
- 5-yearly rent reviews linked to CPI
- Two acquisitions completed
- Strong pipeline of rent producing and development assets

¹ Source: Central Statistics Office Ireland

² Health Service Executive Corporate Plan 2015-2017

Demographic drivers of demand

- Population of 4.6 million, projected to rise to 5.2 million by 2031¹
- Population ageing and increasing incidence of chronic disease²
- DoHI further widened access to primary care; now free for over 70s and under 12s

Risk	Mitigating factor
Underlying rental covenant	HSE/Irish Government typically represents 60%-75% of rent roll
Leases linked to CPI – upwards/downwards	Irish economy fastest growth rate in Europe (7.3% in 2017)
Tax structure outside of REIT	Use of tax structure removes potential tax leakage as for REIT
Investment and cash flows denominated in Euro	Asset and liability matched using Euro denominated debt
Availability of finance following financial crisis	Appetite to lend is good; discussions ongoing with lenders
Pricing of investments to reflect risk	Attractive yields; lower cost of funding; yield spread greater compared to UK

Further Initiatives to Support Primary Care

NHS focuses on primary care

- NHS England publishes GP Forward View and reaffirms commitment to GP services, NHS FYFV Next Steps.
 - GP budget to increase by 25% in five years to 2021
 - Targets set for recruitment and urgent care reform
- Naylor Report
 - £10bn required to update NHS estate
 - Use of private sector capital to help meet funding gap
- Estates 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 €14.6bn for 2017 (2016: €12.9bn)

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