EDISON

Primary Health Properties

H120 results

Robust and resilient growth

Real estate

11 August 2020

With 90% of contracted rental income paid directly or indirectly by the UK or Irish governments and the balance primarily coming from co-located pharmacies, rent collection remained robust through H120, contributing to a strong H120 financial performance. Primary Health Properties (PHP) is well on track to meet its fully covered 5.9p (+5.4%) FY20e DPS target, which will mark the 24th year of uninterrupted growth.

Year end	Net rental income (£m)	Adj. EPRA earnings* (£m)	Adj. EPRA EPS** (p)	Adj. EPRA*** NTA/share (p)	DPS (p)	P/NTA (x)	Yield (%)
12/18	76.4	36.8	5.2	105.1	5.40	1.46	3.5
12/19	115.7	59.7	5.4	107.9	5.60	1.43	3.6
12/20e	131.7	73.2	5.7	113.2	5.90	1.36	3.8
12/21e	138.6	77.5	5.8	116.5	6.10	1.32	4.0

Note: *Excludes valuation movements, amortisation of fair value adjustment to acquired debt, and other exceptional items. **Fully diluted. ***Net tangible assets; adjusts for fair value of derivative interest rate contracts and convertible bond, deferred tax, and fair value adjustment on acquired debt.

Business as usual in H120

As may be expected with 90% of rental income funded by government bodies, PHP delivered a strong and robust operational and financial performance in H120 despite the COVID-19 pandemic. Compared with H119, adjusted EPRA earnings increased by £8.1m or 29% to £36.0m, driven by accelerating rental growth, a lower average cost of debt, and a full period contribution from MedicX. With a positive property valuation result, EPRA net tangible assets (NTA) per share increased to 109.1p and including DPS paid the NTA total return in the period was 3.1%. Despite the pandemic, we have made no material changes to our forecasts struck earlier in the year other than to adjust for the recent £140m (gross) oversubscribed share placing at 145p, the proceeds of which will be used to support further accretive portfolio investment.

Well placed to support health service investment

The COVID-19 pandemic has highlighted the pressures on health systems around the world and will likely lead to increased healthcare spending. It also reinforces the existing consensus that exists in the UK and Ireland to place more emphasis on primary care and away from expensive and inflexible hospitals in an effort to meet the increasing healthcare needs of growing and ageing populations. This requires larger, more flexible, higher-quality premises, providing PHP with significant investment opportunities in the coming years. PHP has more than £400m of available funding headroom and a strong pipeline of targeted acquisitions and asset management projects with a value of c £128m.

Valuation: Secure income with growth

Income visibility is strong, with long leases and substantially upwards-only rents, 90% backed directly or indirectly by government bodies, with little exposure to the economic cycle, or fluctuations in occupancy. The increased FY20 DPS, fully covered by earnings, represents a yield of 3.8%, with good prospects for further growth, and supports the continuing premium to NAV.

Price	**154p**
Market cap	**£2,024m**
Net debt (£m) at 30 June 2020	1,150.3
Net LTV at 30 June 2020	45.8%
Shares in issue	1,314.2m
Free float	97%
Code	PHP
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.1	(1.8)	16.6
Rel (local)	2.2	(4.9)	36.9
52-week high/low		165.6p	126.2p

Business description

Primary Health Properties is a long-term investor in primary healthcare property in the UK and the Republic of Ireland. Assets are mainly long-let to GPs and the NHS or HSE, organisations backed by the UK and Irish governments, respectively. The tenant profile and long average lease duration provide an exceptionally secure rental income stream.

Next events

Payment of Q3 DPS	21 August 2020
FY19 year end	31 December 2020

Analyst

Martyn King +44 (0)20 3077 5745

financials@edisongroup.com

Edison profile page

Primary Health Properties is a research client of Edison Investment Research Limited

Summary of H120 financial performance

As may be expected with 90% of rental income funded by government bodies, PHP delivered a strong and robust operational and financial performance in H120 despite the COVID-19 pandemic. With more than 99% of Q220 rents collected and 96% in Q320, to the date of the interim report, with the balance expected shortly, DPS payments have been unaffected and PHP is now in its 24th year of uninterrupted DPS growth. PHP has been actively working with the health services and general practitioner (GP) tenants to help them better utilise group properties for deployment in the front line of the current health crisis and has meanwhile continued to actively deploy capital, in many cases bringing additional new-build, high-quality facilities to the sector. The highlights of the interim results were:

- Adjusted EPRA earnings (EPRA earnings further adjusted to exclude the non-cash positive amortisation on the fair value adjustment on the MedicX fixed rate debt at acquisition) increased by £8.1m or 29% to £36.0m. The inclusion of MedicX for a full six-month period contributed £4.1m of the increase, with the balance driven by rental growth and a reduction in the cost of borrowing.
- The £11.0m (c 20%) increase in net rental income compared with H119 included the impact of acquisitions, forward-funded development completions, asset management projects and underlying rental growth.
- The period-end annualised contracted rent roll had reached £133.3m compared with £127.7m at end FY19, with completed rent reviews and asset management projects adding c £0.9m.
- Operational costs have continued to be tightly controlled, increasing with the size of the group but at a slower rate than rental income. The EPRA cost ratio reduced further to 11.6% (H119: 12.2% and FY19: 12.0%) and remains among the lowest in the sector. The accrual for the performance incentive fee (PIF) payable to the investment manager, based on NAV total return in excess of a hurdle rate of 8%, reduced slightly.
- Included in IFRS earnings, the net valuation surplus of £10.5m was driven by rent reviews and asset management projects in the UK with some yield compression in Ireland. The overall portfolio net initial yield was unchanged at 4.86%. IFRS earnings also included a mark to market loss on the fair value of interest rate derivatives and convertible bonds, reflecting the decline in market interest rates and partly offset by the MedicX fixed rate debt amortisation, £6.9m in all.
- IFRS net asset value of £1.239m (101.8p per share) was 0.8% higher than at end-FY19. Adjusted EPRA net tangible assets, or NTA, (EPRA NTA adjusted for the negative fair value adjustment on the MedicX fixed rate debt at acquisition) was similarly slightly up on end-FY19 at £1.329m or 109.1p per share (end-FY19: 107.9p). Including DPS paid, the EPRA NTA total return in the period was 3.1%.
- The two quarterly distributions in the period amounted to 2.95p per share, a 5.4% increase compared with H119, and a third quarterly DPS of 1.475p has been declared for Q3 for payment on 21 August 2020. Adjusting for £2.2m of dividends satisfied by scrip share issuance, dividends paid of £35.9m were fully covered by adjusted EPRA earnings.

Post the H120 period end, in July, PHP completed the oversubscribed placing of 96.6m new shares (c 8% of the outstanding) at 145p to raise additional equity of £140m (or £136.9m net of issue expenses). With the new shares placed at a c 33% premium to adjusted EPRA NTA per share, the issue is accretive to NTA but slightly dilutes EPS until fully deployed.

Exhibit 1: Summary of H120 financial performance

£m unless stated otherwise	H120	H219	H119	H120/H119
Net rental income	64.8	61.9	53.8	20.4%
Administrative expenses	(5.7)	(5.7)	(5.0)	14.0%
Performance incentive fee accrual (PIF)	(0.8)	(0.9)	(0.9)	
Net finance expense	(22.3)	(23.7)	(20.0)	11.5%
Basic adjusted EPRA earnings*	**36.0**	**31.8**	**27.9**	**29.0%**
Property revaluation	10.5	30.7	17.7	
Profit on sale of properties	0.0	1.4	0.0	
Fair value loss on derivatives	(8.1)	(3.1)	(2.3)	
Fair value gain/(loss) on convertible bond	(0.3)	(26.4)	(1.8)	
Exceptional items related to MedicX merger				
- contract termination fee	0.0		(10.2)	
- exceptional revaluation loss	0.0		(138.4)	
Amortisation of fair value adjustment on acquired debt	1.5	1.5	1.0	
Tax charge	(0.1)	(0.7)	(0.4)	
Basic IFRS earnings	**39.5**	**35.2**	**(106.5)**	
Basic IFRS EPS (p)	3.2	3.0	(10.7)	
Diluted EPRA EPS (p)	3.0	2.8	1.9	
Diluted adjusted EPRA EPS (p)	**3.0**	**2.7**	**2.8**	**5.3%**
DPS (p)	**2.95**	**2.80**	**2.80**	**5.4%**
Dividend cover**	**1.00**	**0.97**	**1.04**	
Adjusted EPRA NAV per share (p)***	**109.1**	**107.9**	**105.2**	
EPRA NAV total return	3.8%	5.3%	2.7%	
Investment portfolio (bn)	2.51	2.41	2.35	
Net LTV	45.8%	44.2%	47.9%	
EPRA cost ratio	11.6%	11.8%	12.2%	

Source: PHP data. Note: *Adjusted EPRA earnings excludes valuation movements, amortisation of acquired fixed rate debt revaluation and other exceptional items. **Dividend cover is adjusted EPRA earnings as a percentage of dividends declared. ***Adjusted EPRA NAV excludes fair value movements in derivative interest rate contracts and convertible bonds, acquired fixed rate debt revaluation and deferred tax.

Portfolio update

At 30 June 2020, PHP's 510 assets were externally valued at £2.51bn with a contracted rent roll of £133.3m reflecting a net initial yield of 4.86%. The £5.6m (or 4.4%) increase in contracted rent roll during the period predominantly reflected the acquisition of a portfolio of 22 UK assets for £54m, adding £2.9m, as well as three forward funding developments acquired (one in Ireland and two in the UK) with a total development commitment of £29.3m, which added a further £1.2m. Rental growth and asset management projects added £0.9m.

The 17 assets in Ireland now account for more than 8% of the total by valuation, and enhance the overall portfolio average lot size of £4.9m, which reflects a focus on purpose-built, larger, multi-disciplinary medical centres.

With 90% of contracted rental income paid directly or indirectly by the UK and Irish governments, and the balance primarily by co-located pharmacies, covenant strength is exceptionally strong. Given the nature of the assets, vacancy is de minimis, and the weighted average unexpired lease term (WAULT) is 12.5 years, subject to upwards rent increases. Only £3.0m (2.3%) of annualised rent roll expires in the next three years. Of this, £2.6m is subject to a planned asset management initiative or terms have been agreed to renew the lease.

Exhibit 2: Portfolio summary as at 30 June 2020		
	H120	FY19
Total number of properties	510	488
Of which properties in Ireland	17	16
Of which under development	6	6
Investment portfolio value	£2.51 billion	£2.41 billion
Contracted rent roll	£133.3 million	£127.7 million
Net initial yield	4.86%	4.86%
Average lot size	£4.9m	£4.9 million
Average WAULT	12.5 years	12.8 years
Occupancy	99.5%	99.5%

Source: PHP

The portfolio provides a stream of high-quality recurring income with good potential for further growth through acquisitions of standing assets and pre-let developments, development completions, asset management and rental growth.

Acquisition pipeline

PHP continues to have a strong pipeline of potential acquisitions both in the UK and Ireland totalling £92m, including £44m that is under offer, with an additional pipeline of asset management opportunities totalling £36m (see below). The key drivers of medium-term demand for investment in primary healthcare properties are demographic, including a growing population of elderly with increasingly complex medical needs, combined with the drive to shift healthcare delivery out of expensive and inflexible hospitals. The COVID-19 pandemic has increased the numbers of delayed and deferred hospital appointments, accelerating the migration out of hospitals, and increasing the demand for primary healthcare services despite the use by GPs of internet and telephone for initial consultations.

Development portfolio

PHP is not a developer and does not engage in speculative development, but it does forward fund the development of new, pre-let healthcare facilities, acquiring the assets on completion. Three developments in Ireland (Athy in County Kildare, Bray, in County Wicklow and Rialto in Dublin) completed during H120, on time and with a net development cost of £43.8m (€48.3m). Including the three new commitments made during H120 (Arklow in County Wicklow, Ireland, Eastbourne and Epsom) there continue to be six developments on site with a net development cost of £41.5m (of which £30.9m remaining).

Exhibit 3: Current forward-funded development projects			
	Expected completion	Net development cost	Costs to complete
Ireland			
Banagher, County Offaly	Q420	£4.5m (€5.1m)	£2.7m (€3.0m)
Arklow, County Wicklow	Q122	£16.9m (€18.7m)	£14.5m (€16.0m)
UK			
Mountain Ash, Wales	Q121	£4.9m	£3.2m
Llanbradach, Wales	Q121	£2.8m	£2.1m
Eastbourne, East Sussex	Q221	£8.4m	£5.2m
Epsom, Surrey	Q221	£4.0m	£3.2m
Total		**£41.5m**	**£30.9m**

Source: PHP

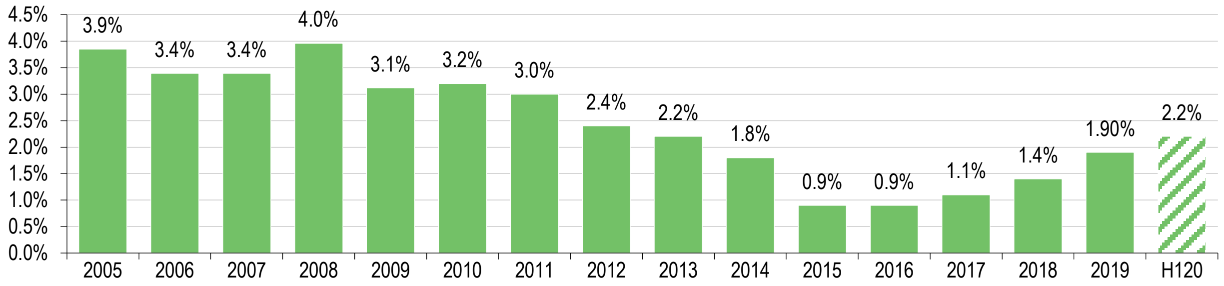
Asset management and accelerating rental growth

PHP continues to have an active programme of incremental asset management projects such as property extensions, refurbishments and lease extensions/re-gears. Extensions and refurbishments enhance the quality of the portfolio, support the tenants in improving their healthcare delivery, generate additional rents and support lease extensions. Lease extensions extend both the WAULT and income visibility while enhancing valuation. During H120, 12 projects were either completed or continue on-site with an aggregate investment of requirement of £4.1m that will see £0.12m added to rental income and extend WAULT back to an average 21 years. A further 80 projects have either been agreed or are in advanced negotiations, requiring an investment of c £36m, generating an additional £1.1m of rental income and similarly extending WAULT on those premises back to an average 21 years.

Accelerating rental growth

Low rates of inflation (in contrast to land and building cost inflation) and low open market rent review increases in recent years have resulted in low overall levels of rent growth. However, the trend of the past three years has moved positively upwards, with an average uplift on review of 2.2% achieved by PHP in H120 (FY19: 1.9% and FY18: 1.4%). While the current economic weakness is being reflected in lower rates of inflation, the catch-up in open market rents (69% of the total for PHP) should have further to go.

Exhibit 4: Rental growth history (average annualised uplift on completed reviews in year)



Source: PHP data, Edison Investment Research

Across the market there is evidence that open market rent reviews have failed to sufficiently capture the strong rise in land and build costs in recent years, in part the result of financial pressures and reorganisation within the NHS that slowed decision making on commissioning the development of new primary healthcare facilities. The dearth of new developments that this created restricted the opportunities for increased land and building costs to be adequately reflected in the rent reviews for existing assets. As the NHS reforms have bedded down and plans take shape, development activity has begun to pick up and the rents required to encourage the flow of much-needed private investment that will support modernisation of the primary healthcare estate should increasingly be reflected in market rent levels across the estate.

During H120, uplifts of 2.7% and 2.9% were achieved on RPI-based and fixed uplift reviews. For open market reviews (69% of the total), an average of 1.1% was achieved on 44 reviews including 20 where there was no uplift. In addition, a further 134 open market rent reviews were agreed in principle, which will add £0.8m to the contracted rent roll when concluded, representing an uplift of 1.4% pa.

Financials

Following the H120 results, other than to update for the recent share placing, we have made only minor changes to our FY20 and FY21 forecasts that were first published in our March 2020 outlook note, before the extent of the COVID-19 pandemic had become apparent.

The key underlying assumptions we make relate to asset growth and funding:

- New investment commitments of £62.5m in H220 and £125m in FY21, a mix of fully let completed assets and forward funding commitments in both the UK and Ireland. This represents a slight increase in FY20 investment for the year as a whole with c £83m committed in H120 against our £62.5m assumption.
- For the UK we assume a blended cash yield on investment of 4.50% for standing assets and 4.75% for development assets, and in the RoI we assume 5.00% for standing assets and 5.25% for development assets. The blended yield on our assumed new commitments is 4.80%.
- We assume a blended average 2.0% pa rental growth.
- Given that cash is deployed to forward funding agreements, the cash investment reflected in our estimates slightly lags the pace of investment commitments. We expect PHP to fund our assumed level of asset growth with existing cash resources, buoyed by the proceeds of the July equity issue.
- Our cost estimates are substantially driven by the agreed investment management fee schedule, whereby the current marginal management fee rate is 0.275% pa. We have additionally allowed for £1.6m pa PIF payments to the investment adviser, in line with the H120 accrual.
- We make no assumption of changes in market valuation yields (either up or down) and reflect the assumed rental growth in gross revaluation gains, partly offset by assumed acquisition costs. We estimate that a 0.1% decrease in the portfolio net initial yield would increase FY20e EPRA NAV per share by c 4p, with a 0.1% increase in net initial yield having a similar negative impact.

Our forecasts are shown in detail in Exhibit 10 at the back of this report and are summarised in Exhibit 5 below. As a result of the capital increase, we forecast slightly lower debt and borrowing costs in FY21 with a corresponding slight increase in adjusted EPRA earnings. However, because of the increased average number of shares in issue there is a slight reduction in adjusted EPRA EPS and dividend cover. We still expect dividends to be fully covered in FY20 and very substantially covered in FY21 and meanwhile our adjusted EPRA net tangible assets per share is slightly increased. Given its substantial capital resources, faster investment than we have assumed is possible and we would expect this to have a positive impact on EPS and dividend cover.

Exhibit 5: Summary of forecast changes

	Net rental income (£m)			Adj. EPRA earnings (£m)			Diluted adj. EPRA EPS (p)			DPS (p)			Dividend cover (x)			Adjusted EPRA NTA/share (p)		
	Old	New	% diff	Old	New	% diff	Old	New	% diff	Old	New	% diff	Old	New	% diff	Old	New	% diff
12/20e	131.3	131.7	0.3	72.8	73.2	0.6	5.9	5.7	-3.0	5.9	5.9	0.0	101%	100%	-1.4	109.7	113.2	3.5
12/21e	138.6	138.6	0.0	77.2	77.5	0.4	6.2	5.8	-6.5	6.1	6.1	0.0	104%	97%	-7.0	113.7	116.5	2.8

Source: Edison Investment Research

Funding strategy

With a progressive dividend policy that sees recurring earnings more or less fully distributed, portfolio growth is funded by a balance of new equity and debt, locking in a positive spread between investment yields and funding costs and generating operational and financial economies of scale.

By the end of H120, the £100m (gross) proceeds of the September 2019 equity raise had been deployed and although £266.7m of headroom (undrawn debt facilities and cash) remained, to have deployed this in full would have taken the loan to value (LTV) to c 51%. With a continuing strong pipeline of investment opportunities, and against an uncertain economic and financial market background, PHP decided in July to raise an additional £140m (£136.9m net of issue expenses) of equity capital. On a pro-forma basis the H120 LTV was reduced from 45.8% to 40.3% and would fall further to 34.3% assuming conversion of the £150m nominal value of convertible bonds outstanding (conversion price 149.3p). On the pro-forma basis the funding headroom (cash plus undrawn debt) increased to £403.6m. Looking ahead, PHP has also lowered its target gearing range with the maximum targeted LTV reduced from 55% to 50%. We estimate that full deployment of the increased headroom would result in a c 49% LTV. Compared with the more cyclical mainstream commercial property sector LTVs for primary healthcare investment are typically higher, recognising the highly secure, long-term nature of the cash flows, and reflected in the H120 interest cover ratio of 2.9 times.

Exhibit 6: Key debt metrics

	H120	FY19
Average cost of debt	3.5%	3.5%
Loan to value (LTV)	45.8%	44.20%
Pro-forma loan to value post equity raise (LTV)	40.3%	N/A
Interest cover	2.9 times	2.7 times
Weighted average debt maturity	6.7 years	7.2 years
Total drawn secured debt	£1,064.2m	£1,060.4m
Total drawn unsecured debt	£150.0m	£150.0m
Total undrawn facilities and cash available	£403.6m	£356.6m
Unfettered assets	£89.0m	£32.3m

Source: PHP

The average cost of debt was unchanged during H120, with a significant reduction from 4.0% having been achieved in FY19 following completion of the MedicX merger. The marginal cost of debt funding is 2.2%.

There are no significant near-term debt maturities but a little more than £400m of revolving debt facilities will mature during FY21 and FY22, providing an opportunity to realise further funding cost efficiencies. PHP says that it is already engaged in positive discussions with lenders and that it hopes to be able to make positive announcements later in the year.

Valuation

Historical returns on primary healthcare assets have been higher than other sectors of the UK commercial property market, with a lower level of volatility. This has been a function of strong healthcare fundamentals, secure and more resilient income, and more muted yield shifts through the property cycle.

Over the past five and a half years (from end-FY14 to end-H120) PHP generated an EPRA NAV total return of 73.8% or a compound 10.6% pa (dividends added back but not reinvested). Dividends paid have accounted for around half of the return, with capital returns contributing the balance including the impact of asset management, rental growth and yield tightening.

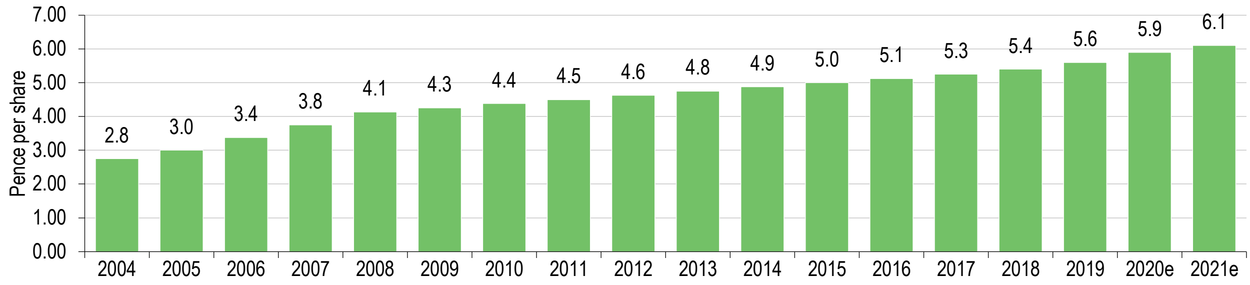
Exhibit 7: NAV total return history

	2015	2016	2017	2018	2019	H120	2015–H120
Opening EPRA NAV (p)	79.7	87.7	91.1	100.7	105.1	107.9	79.7
Closing EPRA NAV (p)	87.7	91.1	100.7	105.1	107.9	109.1	109.1
Dividends paid in period (p)	5.00	5.13	5.25	5.40	5.60	3.0	29.3
Income return	**6.3%**	**5.8%**	**5.8%**	**5.4%**	**5.3%**	**2.7%**	**36.8%**
Capital return	**10.1%**	**3.8%**	**10.5%**	**4.4%**	**2.7%**	**1.1%**	**37.0%**
NAV total return	**16.4%**	**9.7%**	**16.3%**	**9.8%**	**8.0%**	**3.8%**	**73.8%**
Compound annual average return							10.6%

Source: PHP data, Edison Investment Research

The targeted FY20 DPS of 5.90p (for which the first three quarterly payments have been made or declared) represents a prospective 3.8% dividend yield and we forecast dividends to be fully covered by adjusted EPRA earnings, with good potential for further growth.

Exhibit 8: PHP is in its 24th year of unbroken DPS growth



Source: PHP data

Importantly, PHP's income and dividend paying capacity is backed by a secure, upwards only rent profile, c 90% funded directly or indirectly by the NHS in the UK or HSE in Ireland. Given the nature of this income stream it is tempting to draw comparison with the generic yield on 10-year gilts at little less than 0.2%, and it is this secure and growing income profile that provides support for a continuing valuation premium to EPRA NAV (currently 1.5x)

In Exhibit 9 we show the key valuation and performance metrics for PHP, and a group of its closest peers including Assura, another investor in primary healthcare assets, care home investors (Impact and Target) and supported housing investors (Civitas and Triple Point).

Exhibit 9: Peer comparison

	Price (p)	Market cap (£m)	P/NAV* (x)	Yield** (%)	Share price performance			
					1 month	3 months	12 months	From 12M high
Assura	81	2156	1.50	3.5	5%	6%	23%	-8%
Civitas Social Housing	112	694	1.03	4.7	2%	9%	38%	-3%
Impact Healthcare	103	327	0.96	6.0	7%	6%	-8%	-10%
Target Healthcare	112	512	1.04	5.9	5%	9%	-3%	-10%
Triple Point Social Housing	104	365	0.98	4.9	2%	9%	33%	-4%
Average			**1.10**	**5.0**	**4%**	**8%**	**17%**	**-7%**
Primary Health Properties	**154**	**2027**	**1.41**	**3.8**	**2%**	**-3%**	**17%**	**-8%**
UK property index	1,510			8.5	2%	6%	-5%	-23%
FTSE All-Share Index	3,378			3.5	0%	3%	-15%	-21%

Source: Company data, Edison Investment Research, Refinitiv. Note: *Based on last reported EPRA NAV. **Based on 12-month trailing dividends declared. Prices at 11 August 2020.

Exhibit 10: Financial summary

£m	2017	2018	2019	2020e	2021e
Year end 31 December					
PROFIT & LOSS					
Net rental income	71.3	76.4	115.7	131.7	138.6
Administrative expenses	(8.7)	(9.9)	(12.3)	(13.1)	(13.7)
EBITDA	**62.6**	**66.5**	**103.4**	**118.6**	**124.8**
Net result on property portfolio	64.5	36.1	49.8	32.5	46.5
Other acquisition related value adjustment	0.0	0.0	(148.6)	0.0	0.0
Operating profit before financing costs	127.1	102.6	4.6	151.1	171.3
Finance income	0.3	0.1	1.4	1.0	1.0
Finance expense	(31.9)	(29.8)	(42.6)	(43.5)	(45.3)
Net finance expense	(31.6)	(29.7)	(41.2)	(42.4)	(44.3)
Net other income/expense	(3.6)	1.4	(33.6)	(8.4)	0.0
Profit Before Tax	**91.9**	**74.3**	**(70.2)**	**100.3**	**127.0**
Tax	0.0	0.0	(1.1)	(0.1)	0.0
Profit After Tax (FRS 3)	91.9	74.3	(71.3)	100.2	127.0
Adjusted for the following:					
Net gain/(loss) on revaluation	(64.5)	(36.0)	(48.4)	(32.5)	(46.5)
Profit on disposal	0.0	(0.1)	(1.4)	0.0	0.0
Fair value gain/(loss) on derivatives & convertible bond	3.6	(1.4)	33.6	8.4	0.0
Exceptional revaluation related to MedicX acquisition	0.0	0.0	138.4	0.0	0.0
Deferred tax	0.0	0.0	1.1	0.1	0.0
EPRA earnings	31.0	36.8	52.0	76.2	80.5
Exceptional item			10.2	0.0	0.0
Amortisation of fair value adjustment to acquired debt			(2.5)	(3.0)	(3.0)
Adjusted EPRA earnings	**31.0**	**36.8**	**59.7**	**73.2**	**77.5**
Period end number of shares (m)	619.4	769.1	1,216.3	1,314.2	1,314.2
Average Number of Shares Outstanding (m)	600.7	708.6	1,092.0	1,263.3	1,314.2
Fully diluted average number of shares outstanding (m)	665.5	732.7	1,138.5	1,363.7	1,414.6
Basic IFRS EPS (p)	**15.3**	**10.5**	**(6.53)**	**7.9**	**9.7**
Basic adjusted EPRA EPS (p)	**5.2**	**5.2**	**5.5**	**5.8**	**5.9**
Diluted adjusted EPRA EPS (p)	**5.1**	**5.2**	**5.4**	**5.7**	**5.8**
Dividend per share (p)	**5.250**	**5.400**	**5.600**	**5.900**	**6.100**
Dividend cover (Adj. EPRA earnings/dividends paid)	100%	101%	101%	100%	97%
EPRA cost ratio	13.2%	14.3%	12.0%	11.6%	11.6%
BALANCE SHEET					
Non-current assets	1,361.9	1,503.5	2,413.6	2,593.7	2,764.0
Investment properties	1,361.9	1,502.9	2,413.1	2,593.7	2,764.0
Other non-current assets	0.0	0.6	0.5	0.0	0.0
Current Assets	10.5	10.5	159.8	158.5	34.1
Cash & equivalents	3.8	5.9	143.1	144.1	19.7
Other current assets	6.7	4.6	16.7	14.4	14.4
Current Liabilities	(33.9)	(134.5)	(66.0)	(58.9)	(58.9)
Current borrowing	(0.8)	(102.4)	(6.1)	0.0	0.0
Other current liabilities	(33.1)	(32.1)	(59.9)	(58.9)	(58.9)
Non-current liabilities	(751.7)	(591.5)	(1,278.9)	(1,294.3)	(1,293.3)
Non-current borrowings	(729.6)	(573.7)	(1,257.8)	(1,267.2)	(1,266.2)
Other non-current liabilities	(22.1)	(17.8)	(21.1)	(27.1)	(27.1)
Net Assets	**586.8**	**788.0**	**1,228.5**	**1,399.1**	**1,445.9**
Derivative interest rate swaps	24.5	17.2	13.0	19.3	19.3
Change in fair value of convertible bond	12.3	3.4	22.7	23.0	23.0
Other EPRA adjustments	0.0	0.0	48.6	45.7	42.7
Adjusted EPRA net tangible assets (NTA)	623.6	808.6	1,312.8	1,487.1	1,530.9
IFRS NAV per share (p)	94.7	102.5	101.0	106.5	110.0
Adjusted EPRA NTA per share (p)	100.7	105.1	107.9	113.2	116.5
CASH FLOW					
Operating Cash Flow	60.1	68.5	94.0	118.9	123.2
Net Interest & other financing charges	(37.8)	(35.1)	(52.9)	(42.4)	(45.3)
Tax	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	(75.4)	(101.9)	(47.4)	(136.2)	(122.2)
Net proceeds from issue of shares	(0.1)	111.0	97.6	136.4	0.0
Debt drawn/(repaid)	82.3	(5.6)	110.5	(5.3)	0.0
Equity dividends paid (net of scrip)	(29.8)	(34.7)	(54.4)	(71.0)	(80.2)
Other cash movements and FX	(0.1)	0.6	(11.9)	0.8	0.0
Net change in cash	(1.3)	2.1	137.2	0.7	(124.5)
Opening cash & equivalents	5.1	3.8	5.9	143.1	143.8
Closing net cash & equivalents	3.8	5.9	143.1	143.8	19.4
Debt as per balance sheet	(730.4)	(676.1)	(1,263.9)	(1,267.2)	(1,266.2)
Convertible bond fair value adjustment	12.3	3.4	22.7	23.0	23.0
Unamortised borrowing costs	(6.1)	(6.4)	(14.6)	(12.5)	(10.5)
Acquired debt fair value a	0.0	0.0	45.4	42.4	39.4
Net debt	(720.4)	(673.2)	(1,067.3)	(1,070.5)	(1,194.9)
Net LTV	52.9%	44.8%	44.2%	41.5%	43.4%

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by Primary Health Properties and prepared and issued by Edison, in consideration of a fee payable by Primary Health Properties. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.