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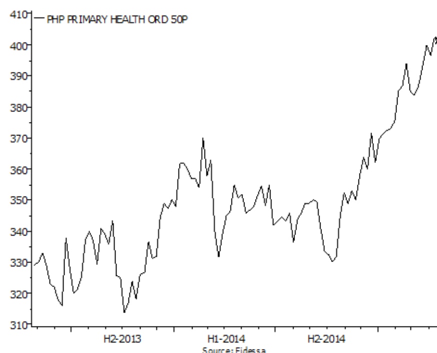
20th April 2015



Price (p)	400.0
12m High	406p
12m Low	325p
Mkt cap (£m)	450.0
Shares (m)	111.3
Sector	Real Estate
Market	London Full List
Broker	Numis Securities/Peel Hunt
Website	www.phpgroup.co.uk

Description: PHP lets out GP surgeries to GP partnerships on long term leases. Th rent GPs pay is reimbursed by the public sector.

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Primary Health Properties (PHP.L)

Building scope for accelerating dividend rises

We believe the achievements in growth and efficiency gains, demonstrated in the 2014 results, facilitate the path to an acceleration of annual dividend growth above recent 2.6%pa levels. PHP achieves a useful arbitrage between net income on assets acquired and cost of debt, thereby growing EPS.

Growth proposition: PHP targets growing the portfolio 50% by 2018, as a realisable aspiration. PHP has delivered substantial growth. Gross assets more than doubled from the end of 2008 (£306m) to end 2012 (£622m) and at end 2014 stood at £1.026bn. This supports future dividend growth.

Dividend growth acceleration opportunity for 2016: We estimate 2015 dividend cover of 95%, with 2016 cover over 100%. PHP's raison d'être is providing secure and growing dividend distribution. 1H16 is set to be fully covered, and with the visible portfolio growth, investors can see scope for acceleration in growth rates in the near future. Whenever the Board's decision on acceleration is taken, we would consider it is now firmly on the cards.

Consistent and continual improvement: 2014 operating margins rose to 87.5% from 84.7%, with operating expenses falling because of consolidating the property advisory and administrative services, and also as the marginal management cost of property reduces with portfolio size. Fees start at 0.5%, reducing in increments beyond £250m gross assets. With the portfolio now over £1bn, the incremental rate falls to 0.325%. The cost of debt fell and indeed £500m was refinanced or restructured in 2014 (to lower rate margins). Some acquired debt had been expensive and the raising of unsecured debt helped cut the cost of secured debt lines. Visible, continual improvement.

Into 2015: These abovementioned cost-cuts progressed through the year 2014, so 2015 will bear the full benefit vs partial benefit in the prior year.

Longer term dividend and asset growth: Acquisition of assets – where good momentum continues – typically generates 5.2% cash yield (i.e. after management costs) and cost of debt (based on 5 year rates plus PHP's average margin of 185bps) currently is 3.1%. With acquisitions continuing, EPS growth comes through this 'positive carry' as much as through rent rises.

December Year End	FY11	FY12	FY13	FY14	FY15E	FY16E
Total Income (£m)	30.7	33.2	42.0	60.0	65.3	71.7
Net Finance Costs (£m)	-15.4	-21.8	-26.9	-35.5	-36.2	-38.7
Reported Pre-tax Profit (£m)	11.4	1.1	20.2	36.9	31.1	34.4
Adjusted Pre-tax Profit (£m)	11.0	7.3	9.5	18.2	21.9	25.2
Adjusted EPS (p) excludes all reval'n	16.5	10.0	10.8	16.4	19.0	20.7
Dividend Per Share (p)	18.0	18.5	19.0	19.5	20.0	20.5
Property acquisitions (£m)	45.7	86.0	58.6	55.5	60.0	80.0
Net debt (£m)	-301.2	-377.9	-587.2	-655.2	-696.9	-751.9
Dividend yield (%)	4.6	4.7	4.8	4.9	5.1	5.2
NAV (p)	246.0	234.4	274.1	278.4	283.9	293.6
EPRA NAV (p)	318.5	302.8	299.9	318.9	322.0	326.1

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Why invest

PHP invests in primary care medical property (surgeries, multi-use clinics), acquiring or funding development of pre-let purpose-built assets and/or portfolios of standing stock. 91% of lease income is effectively Government paid, with the rest being very well underpinned income from pharmacies. There have been 18 years' unbroken dividend increases paid since founding.

In the real estate recovery, PHP's asset value growth has 'kept up' well with UK average….

By latest figures, the PHP portfolio marginally outperformed the five-year IPD 'All-property UK' market, with a total property return of 8.3% pa over the five years ended 31st December 2014, compared to an 8.0% return for the IPD All Property Index over the five years. For an asset class with lower volatility than the whole market, this is a very creditable performance over a phase of recovery in the real estate markets. PHP's total shareholder return compound annual growth rate was 14.0% for the period.

…the assets really come into their own in two ways….

… as investors seek more to protect their growing assets…….

More importantly, over the past 5 years (2010 to 2014 inclusive) PHPs total property return has never been below 7.0% (which was achieved in 2012). In weaker markets the IPD All Property Index struggled to provide a positive return. In 2008 for example, this market-wide metric recorded a negative 22.1% return. PHP's comparable ungeared total property return fell to a low point of -0.5% in 2008, recovering to 2.9% in 2009 then 7.0% or more in each of the subsequent years.

This illustrates that PHP's assets are resilient. As they generate consistent secure cash and as borrowing rates are well below the net net yields achieved by PHP, this is a robust platform for ongoing dividend rises. This has given a strong platform for progressive investment by PHP into really solid assets and progressive shareholder dividends for each of the 18 years since formation (10% CAGR). It might be noted that even in the very difficult 2008, PHP's -0.5% compared to -4.6% for the IPD Healthcare Property Index total annual return.

PHP provides a dynamic combination of good asset performance in the upswing (almost keeping pace with UK real estate capital appreciation averages) and hardly any years of negative return in the downswing. This means that holders of PHP equity (and providers of debt) can take advantage of the benefits of income and capital leverage without inordinate risk. We analyse below the LTV ratios which stand at 64% and conclude this leaves leeway for any realistic 'bumps in the road'. No 'bumps' appear currently.

……..and also to participate in a safe yield abitrage

Property is acquired at 5.2% cash yield (i.e. after management costs) and cost of debt (based on 5 year rates plus PHP's average margin of 185bps) sits at 3.1%. See page 7 for headline analysis on the implications of the growth plan. Leases are all effectively upwards only so not only is rent supporting a solid and growing dividend as rents rise, but also the geared portfolio growth enhances that cover. PHP took a deliberate strategic decision to accelerate growth in the portfolio. Gross assets more than doubled from the end 2008 (£306m) to the end 2012 (£622m) and at end 2014 stood at £1.026bn. That led deliberately to a temporary period of (modestly) uncovered dividends. At all times the dividend has grown year-on-year and the cover has now been rebuilt. The strategy in both the downturn and the upturn has plainly delivered. That is a positive in itself but with the UK real estate cycle no longer near its low point, the PHP combination of growth, income and security is all the more attractive.

Consistent and continual improvement

Operating margins rising – with more to come

The founding CEO is still in charge and the property adviser (Nexus) has also been in place since the beginning. In 2014, the total expense ratio again fell, to 69bps (from 88bps in 2013). Operating margins rose to 87.5% from 84.7%. Weighted average cost of debt in 2014 was 5.0% (down from 5.5% for the 2013 financial year). There is an established rising trend. Indeed £500m debt was refinanced or restructured in 2014 (to lower rate margins). There were steady revaluation increases in both halves, indicating value creation by PHP and a trend developing for modest but noticeable yield compression, i.e. reductions in capitalisation rates.

Cost of debt falling - again

Revaluations in both halves of 2014 indicate a nascent rise in values of the asset class

The market is seeing as yet modest but accelerating price rises. A property revaluation surplus of £16.1m was achieved in H1 2014 with a full year figure amounting to £29.2m, well above 2013 levels. Nonetheless, this rise is principally due to rent increases, so investment yields available are not falling significantly. Rent reviews were showing small rises.

Key messages on PHP's current positioning

Dividend growth; asset enhancement; efficiency rises and acquisition pipeline

A continuation of dividend rises is clearly visible and we note the confidence management has that EPS will grow to return the dividend to full cover shortly, as we do. This opens the path for dividends rising (slightly) faster.

In addition to good 'housekeeping' on management costs and Treasury, there are continual opportunities for incremental asset enhancement: in particular developing extensions and lengthening leases. Six such are on site currently and this trend is set to stay or get stronger.

PHP has good contacts with developers and a strong track record of acquiring standing stock. The pace is steady (and of course opportunity driven) but it is noteworthy that PHP has secured large portfolio acquisitions in recent years. The sector as a whole is slow given the NHS reorganisation – a well documented situation which will only improve – question is when? PHP has however despite this doubled its assets since very late 2011.

Rents are upwards only but the pace of increases in recent years has been slow and falling. 2014 was 1.8%: 2015 is likely to be a slightly lesser increase. There are lags in the system but rises will come, following and driven by a return of new development and construction cost raises. This is a sector which needs to be (and is being) renewed with modern stock, so rents need to be high enough to encourage developers.

The scope for upgrades and business opportunities in 2015

Cost reductions contribute to a full year 2015 vs part 2014

For 2015, we anticipate our estimates will prove conservative. Half our profit rise is 'baked in' resulting from beneficial contractual changes during 2014, namely management costs and funding costs. The rest stems from our anticipated rise in the quantum of assets held. We take no material allowance of rising rental levels (which we anticipate rising c1.5% in the year) or benefits from ongoing downwards trends in interest rates versus historic rates achieved.

See also page 9 for further background ratios driving Hardman estimates.

Our calculations are that from overhead cost reductions and debt margin reductions there should be an incremental benefit for 2015 vs 2014 of towards £2m. We anticipate a £3.7m rise in PBT (pre revaluations) in 2015E, so ex the benefits outlined above, the PBT rise is 9%. This rise is very similar to the rise in the size of the portfolio (estimated 9.1% pre-revaluations), and thus should prove conservative as there are both size-related operational benefits as well as the ongoing medium term tide of falling interest rates. New debt is costing as low as potentially near 3%, vs near 5% on older debt coming towards maturity.

PHP acquires standing stock at over 5.6% (pre overheads) yields pre 0.325% incremental management fee. This is well ahead of cost of debt at 1.2% (five year swaps) plus 1.85% typical margin.

Debt facilities in place

20% of total facilities in place (and 24% of debt drawn at year end) are unsecured. This is of help for the flexibility of PHP's acquisition of new stock and demonstrates lenders' willingness to support the growth model. Group LTV (loan to value) at year end was 64.1% and there is modest scope to raise this - slightly.

Summary of 2014 results

265 healthcare centres were held at year end, including five under development.

Dividend strength

Dividend rose again, as expected and as it had at the interim stage.

Total EPRA shareholder return calendar 2014 12.8% (4.6% 2013). [1]

A year of growth:

- Net rental income +42.5%
- Dividend cover 84% (up from 57%)
- Gross assets +9.0%
- Valuation uplift £29.2m
- EPRA NAV +6.3%
- £55m cash spend on property growth
- £43m total of acquisitions plus forward funding of future acquisitions

Efficiency gains

Cost savings through the year:

- 100bps fall in cost of £178m debt acquired with the PPP (Prime) portfolio
- Unsecured Convertible Bond issue May 2014: £82.5m, 4.25% convertible at 390p. This rise in unsecured debt can lead to benefits on the secured debt front. 24% of debt is now unsecured
- £235m bank facilities were restructured in August: margins (costs) reduced 55bps in part because the unsecured debt allowed a reduction in secured debt and concomitant fall in LTV. The average maturity of debt facilities is 6.2 years vs 5.8.
- 87.5% operating margins achieved vs 84.7% 2013
- Total expense ratio fell to 69bps (88bps) – see below

Accounting and company secretarial services consolidated and the fee base changed, saving an annualised £1m of costs. Debt was renegotiated again cutting the average interest cost. £0.8m cost saving FY14; £1.5m FY15. Expense ratio thus falls to 69bps (88bps).

Weighted cost of debt 5.0% (5.5% 2013). Significant new facilities including a revolver for development finance and refinance of the PPP acquired assets on overall 100bps cheaper money.

Loan to value on debt (LTV) stood at 64.1% end 2014 (vs 61.6% end 2013). NB the net debt is stated post fair value and unamortised borrowing cost adjustments.

[1] EPRA shareholder return is the rise in EPRA NAV plus dividends paid.

2011 - 2013 compared to 2014 - 2016: dividends

Growth policy underpins full dividend cover 2016 and the fuel for this was asset expansion which reduced cover 2012, 2013

In order to enhance growth into the upturn in the real estate cycle, PHP expanded in recent years. As the economy and the banking sector started to emerge from the credit crisis of 2008, PHP therefore sought to grow the portfolio. In the two years to end 2011 it added £184m to its investment property assets but 2011 to 2013 assets grew £416m or by 79% over two years. This was achieved through share issuance and raising debt secured on the new assets, plus the unsecured debt via a retail bond. In the short term, the equity issuance diluted EPS (and thus dividend cover). This was the reason for the modest fall in 2012 EPS. The dividend became uncovered.

This was a portfolio investment acceleration to fuel future cash generation rebuilding the EPS to levels which exceeded those which would have been achieved without the faster pace of investment.

PHP expansion enhances the profit and cash generation line due to

1) lower incremental costs on a larger portfolio

2) dilution in finance-cost of the more expensive debt swap costs put in place prior to the global financial crisis

3) yield pick-up between cost of debt and net asset yields.

2014 EPS rose 52%; 2015E 16%. These rises are set up through the strong portfolio expansion of the 2011 – 2013 period.

PHP has thus deliberately generated a period (2010 to 2015E) when dividends were uncovered in order to expand and provide both cover and upside to NAV for the future.

Background summary: Growth in cash flow

Greater size leads to greater efficiencies and thus progressively ratcheted up surpluses

1. PHP has highly secure effectively upward-only rental contracts.
2. From overhead cost reductions and debt margin reductions, there should be an incremental near £2m benefit for 2015 vs 2014. We anticipate a £3.7m rise in PBT (pre revaluations) in 2015E, so ex the benefits outlined above, the PBT rise is 9%. This rise is in line with the rise in the size of the portfolio and thus should prove conservative as there are both size-related operational benefits as well as the ongoing medium term tide of falling interest rates. New debt is costing near 3% vs near 5% on older debt coming towards maturity.
3. There is increased efficiency regarding operating costs. Growth per-se makes the portfolio's cash generation increasingly efficient, as management costs taper with increasing portfolio size – for example 0.5% initially; 0.375% for gross assets between £0.75bn and £1.0bn and 0.3% over £1.25bn. Operating profit margins are rising with time through this growth.
4. In addition to this taper with portfolio size, the administrative service charges are no longer linked to asset sizes. This, which was agreed last year as part of streamlining the bought-in services, saves initially up to £1.2m in a full year and caps these costs. 2014 saw a part (c.half) year benefit. It is a saving that will continue to increase as the portfolio grows.

Watch for the build costs which indirectly impact on rents and PHP asset values

5. The annual run rate of margin reduction negotiated by PHP on debt is just over £3m, with this achieved for just under half of 2014.
6. Rental income net of all costs is greater than cost of money – even were property to be 100% geared, which it is not. Thus, cash flow is robustly positive when real estate is acquired.
7. Rent rises are, to a notable degree, eventually impacted by build costs. This is because there is a specific need for this type of new property (replacing the majority which is non-purpose built), thus developers need to be encouraged to build. That encouragement comes directly from the financial returns which derive from the interplay of development costs and rents. The greater the former, the greater the latter need to be. Build costs are now rising and this will drive rents within short time lag.
8. The circumstances in which rents in the property market as a whole rise (e.g. inflation in build and land costs) are likely to lead to rising rents for medical properties as well, although this sub sector has much lower volatility.

Forward looking key ratios

Below, we outline certain key ratios which drive our forward estimates. We seek to underpin the rationale for Hardman considering estimates to be conservative and growth achievable and fundable.

Category / ratio	FY15E	FY16E
A: Purchases of property £m	60.00	80.00
B: New long term debt £m	40.00	55.00
B/A %	66.67	68.75
Rent growth %	8.83	9.80
Property bv growth %	6.82	8.21
New shares proceeds as % Property acquisiton	36.67	31.25
% Property acquisiton funded by new gross debt	66.67	68.75
Growth EPRA EPS %	16.25	8.47
Operating margin rise vs prior year (basis points)	24.89	25.67
Finance charge rise (excl fees excluded from EPRA)	3.21	7.06
EPRA EPS (p)	19.04	20.66
DPS (p)	20.00	20.50
Cover %	95.22	100.76

Source: Hardman & Co estimates

Background details on funding activity

PHP has successfully sourced debt from a useful variety of lenders. 40% bank debt; 30% insurance companies

In this section, we outline a summary of notable funding developments in the past two years. In summary, PHP has successfully sourced debt from a useful variety of lenders. 40% of total funding (end 2014) was bank debt. 30% was derived from insurance companies (notably Aviva), the remainder bonds. PHP was able successfully to secure debt throughout the banking crisis and is negotiating efficient terms since.

In March 2013, the Group completed the refinancing of the debt that was assumed with the acquisition of the Apollo portfolio in December 2012. A new £70m, four year revolving debt facility was entered into with Barclays Bank, establishing a new lending relationship for the Group with a major lender to the property sector. 50% of the sums drawn under this facility were locked into historically low interest rates for the duration of the facility through an interest rate swap that generated an all-in cost of funding at below 3.5%.

PHP was able successfully to secure debt throughout the banking crisis and is negotiating efficient terms since

In November 2013, a wholly owned subsidiary of PHP issued a twelve year secured, corporate bond to a single institutional bond investor. The issue was for a total of £70m with a maturity of 30 December 2025. An initial tranche of the proceeds, totalling £59,999,800 was received on issue and the remaining £10,000,200 on 30 June 2014 as a number of development commitments completed. The underlying bonds incur interest at an annualised rate of 220 basis points above six month LIBOR, payable semi-annually. This transaction demonstrates PHP’s ability to access a wide range of debt capital markets, underlining the attraction of the long term, high covenant quality income characteristics of the property portfolio.

The PPP (Prime) acquisition of December 2013 saw the Group assume debt facilities totalling £178.4m secured upon the PPP assets. The debt was provided by Aviva in their traditional, longer term amortising form. A provision of £13.7m

was agreed with the vendors as a reduction to the net asset value of PPP to allow for the estimated costs of repaying the debt taken on. The average term of these facilities was 17 years at acquisition and the debt carried a weighted average coupon of 5.9%. Detailed discussions had been ongoing with Aviva since completion of the PPP acquisition to agree terms for the refinance and re-setting of the revised terms of Aviva loans partly with Aviva and partly with other lenders to the Group. This refinancing took place in 2014.

Substantial, £116.7m, debt headroom

Debt facilities available to the Group at 31 December 2014, including the secured and retail bonds, totalled £786.4m. Deducting net debt and allowing for funding the cost to complete development commitments of £11.2m as at the balance sheet date, resulted in net headroom of £116.7m. For 2013 the figures stood at £677.6m; £17.1m; £67.2m.

In total over 2014, at various dates in both Q1 and Q2, the entire £178m of debt acquired with the PPP portfolio was refinanced. This benefited PHP by a 100bps reduction on the rate of interest charged.

The element of un-secured debt rose as a result of the issue of the £82.5m unsecured convertible bond. This aided negotiations with various secured lenders regarding interest rates and 55bps interest rate margin cuts were achieved on £235m secured debt in August 2014 (as a result of the lower LTV on the associated secured debt).

Background: New UK primary health assets' commissioning

The reconfiguration (disruption) of the NHS changes to the process of renewing the significantly out-dated estate of general practitioners is difficult to overstate. There are no sector-wide statistics but the limited number of operators (the majority is comprised by the three stock market quoted operators of which PHP is the longest established and largest) all confirm the extended new primary (surgeries) real estate commissioning slowdown.

Apart from the necessity of renewing a diversely located estate, the sector's development slowdown will reverse for three main reasons (and a host of smaller ones). Rent is circa 5% of GPs total costs and the drugs bill is typically eight to ten times' premise costs, so any efficiencies gained by modern property are relatively all the easier to justify. And modern properties indeed are more efficient, suit the moving demographic of both patients and GPs. More elderly patients prompt a rise in demand for the more simple procedure specialism or testing work, which is much more expensive to undertake in hospitals than primary health properties. A greater proportion of female GPs leads to a lower willingness of GP partnerships to own their premises and furthers the trend of a younger GP demographic and one more flexible in terms of taking on or co-locating with the providers of testing and simple procedures. In any case, there will be a continual push – or more or less urgency – from the Government to raise the environmental specification of its estate. These combined 'supply push' and 'demand pull' factors will come through.

The second issue concerning the speed of deployment of funds into acquired assets is the 'bump stop' of the Commissioning process working through the system. Pre Primary Care Trust (PCT) abolition (April 2013). PCTs spent 80% of total NHS expenditure. Commissioning is now split between local government,

NHS Commissioning Boards and particularly Clinical Commissioning Groups. Public Health England is also involved, tasked with 'improving public health' (source NHS England). As NHS England states: "local authorities will take on a bigger role, assuming responsibility for budgets for public health. Health and wellbeing boards will have duties to encourage integrated working between commissioners of services." Laudable doubtless, but new bodies have to find their feet and then work together. PHP and indeed other quoted funds point to a likelihood of this logjam starting to alleviate itself as next year progresses. Uncertainty remains, politically, so we are not so sure as yet as to the timing but it is clear that the current delays will come to an end at some stage. All Parties are at consensus in pursuing this line of efficiency gain within the NHS. Reorganisation has led to the hiatus. This will end in due course.

The development slowdown will also reduce over time as a function of the financing inputs. Aviva is an example of a provider of debt finance in the sector.

Revenue account

Year end December £m	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Rental income total received	21.0	26.6	30.3	32.9	41.9	60.0	65.3	71.7
Finance Lease Income	0.3	0.3	0.3	0.3	0.1	0.0	0.0	0.0
Total Income	**21.3**	**26.9**	**30.7**	**33.2**	**42.0**	**60.0**	**65.3**	**71.7**
Direct Property Expenses	0.2	0.4	0.4	0.4	0.4	0.7	0.7	0.8
Administrative Expenses	3.5	4.6	5.1	5.2	6.1	6.8	7.3	7.8
Total Expenses	3.7	5.0	5.5	5.6	6.5	7.5	8.0	8.6
Operating Profit	**17.6**	**21.9**	**25.1**	**27.6**	**35.5**	**52.5**	**57.3**	**63.1**
Operating margin %	*84.0*	*82.3*	*82.9*	*83.9*	*84.7*	*87.5*	*87.7*	*88.0*
Devt loan interest, other income	0.1	0.2	0.4	0.5	0.2	1.0	0.5	0.5
Swap interest paid	-6.5	-8.5	-8.8	-6.7	-7.7	-7.6	-7.7	-7.7
Bank, bond loan interest, fees	-3.2	-3.8	-5.8	-14.1	-18.5	-27.7	-28.2	-30.7
Bank fees (excluded from Adj EPS fig.)	-0.5	-0.5	-1.3	-1.5	-0.9	-1.2	-0.8	-0.8
Other (including notional, non-cash)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Finance Costs	**-10.2**	**-12.7**	**-15.4**	**-21.8**	**-26.9**	**-35.5**	**-36.2**	**-38.7**
Adjusted Pre-tax Profit	**7.9**	**9.7**	**11.0**	**7.3**	**9.5**	**18.2**	**21.9**	**25.2**
Net revaluation on portfolio	1.6	22.8	10.6	-1.8	2.9	29.2	10.0	10.0
Fair value gain on derivatives	1.3	-4.7	-8.0	-2.9	11.4	-2.5	0.0	0.0
Fair value on Convertible						-4.5		
Non recurring expenses	0.4	-1.6	0.3	0.0	-2.7	-2.4	0.0	0.0
Reported Pre-tax Profit	10.3	25.2	11.4	1.1	20.2	36.9	31.1	34.4
Tax Charge	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EPS (p) excludes all reval'n	**19.5**	**15.4**	**16.5**	**10.0**	**10.8**	**16.4**	**19.0**	**20.7**
Reported EPS (p)	26.6	41.3	19.0	1.6	22.7	33.2	27.0	28.2
Dividend Per Share (p)	**17.0**	**17.5**	**18.0**	**18.5**	**19.0**	**19.5**	**20.0**	**20.5**
Shares in Issue, No., Avge	40.6	62.6	66.7	72.7	89.1	111.1	115.0	122.0

Source PHP accounts and Hardman & Co estimates

Finance costs in prior years include profit on sale of finance leases and early repayment fees.

Adjusted profit excludes early repayment bank fees, fair value movement (on finance swaps), property revaluations and non-recurring fees (e.g. costs of Convertible issue).

Note that we make assumptions on growth being partly funded by modest share issuance. PHP has a number of options for funding growth and it is quite possible that there will be no share issuance. PHP at year end had £116.7m of available bank headroom (similar currently): on this basis, equity issuance in 2015E could well be nil.

Cash flow

Year end December £m	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Operating activities								
Profit before taxation (excl derivatives)	9.5	31.9	20.6	5.6	6.0	36.9	31.1	34.4
Adjustments for:								
Net valuation changes on investment property	-1.6	-22.8	-10.6	1.8	-2.9	-29.2	-10.0	-10.0
Profit on disposal of investment property	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Financial income receivable	-0.1	-0.2	-0.4	-0.5	0.0	0.0	0.0	0.0
Finance costs payable	10.3	12.9	15.8	20.8	23.3	35.5	36.2	38.7
Sub-total	**18.1**	**21.8**	**25.1**	**27.7**	**26.4**	**43.2**	**57.3**	**63.1**
Increase in trade and other receivables	-0.1	-1.0	-0.2	-0.1	4.4	-0.5	-0.5	-0.5
Increase in trade and other payables	-0.4	4.0	1.1	7.9	0.4	-2.0	-0.5	0.5
Interest paid	-10.0	-11.8	-19.0	-20.7	-26.9	-35.5	-36.2	-38.7
Interest received	0.1	0.1	0.3	0.4	0.0	0.5	0.0	0.0
Taxation (& REIT) paid	-1.6	-2.1	-2.0	0.0	0.0	0.0	0.0	0.0
Net cash inflow from operating activities	**6.0**	**11.1**	**5.4**	**15.2**	**4.3**	**5.7**	**20.1**	**24.4**
Investing activities								
Acquisitions net of cash acquired, other	0.0	-30.4	0.0	-55.5	-232.5	0.0	0.0	0.0
Proceeds from sale of investment properties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions to investment properties	-23.4	-70.9	-45.0	-45.3	-58.6	-55.5	-60.0	-80.0
Net cash flow operating and investing	**-17.4**	**-90.2**	**-39.6**	**-85.6**	**-286.8**	**-49.8**	**-39.9**	**-55.6**
Financing activities								
Net proceeds from issue of share capital	60.8	0.0	15.6	21.0	93.6	2.5	22.0	25.0
Dividends paid	-5.5	-9.8	-11.2	-12.2	-16.1	-20.7	-24.1	-24.9
Net cash flow (change in debt)	**37.8**	**-100.0**	**-35.2**	**-76.8**	**-209.3**	**-68.0**	**-42.0**	**-55.5**
Net proceeds of long-term borrowings	-38.3	69.8	35.0	49.3	-16.3	72.0	40.0	55.0
Net cash inflow from financing activities	**16.9**	**60.0**	**39.4**	**58.1**	**61.2**	**53.8**	**37.9**	**55.1**
Net debt	**166.0**	**266.0**	**301.2**	**377.9**	**587.2**	**655.2**	**696.9**	**751.9**
Increase in cash and cash equivalents	-0.5	0.2	-0.3	25.0	-15.8	2.8	-2.2	-0.5
Opening cash and cash equivalents	0.7	0.2	0.4	0.1	25.1	9.3	12.1	9.9
Closing cash and cash equivalents	**0.2**	**0.4**	**0.1**	**25.1**	**9.3**	**12.1**	**9.9**	**9.4**

Source PHP accounts and Hardman & Co estimates

Balance sheet

Year end December £m	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Investment Properties - Start of Period	306.1	341.9	469.3	525.6	622.4	941.5	1026.2	1096.2
Additions to Portfolio	26.2	104.6	45.7	98.6	316.2	55.5	60.0	80.0
Revaluations	9.6	22.8	10.6	-1.8	2.9	29.2	10.0	10.0
Non current assets								
Investment Properties - End of Period	341.9	469.3	525.6	622.4	941.5	1026.2	1096.2	1186.2
Finance Leases	3.0	3.0	3.0	3.1	0.5	0.0	0.0	0.0
Interest rate swaps	1.4	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Sub total: Non-Current Assets	346.3	472.7	528.7	625.5	942.0	1026.2	1096.2	1186.2
Current assets								
Receivables	1.9	2.6	2.6	2.9	4.8	5.7	2.6	2.6
Finance Leases etc	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash + Short Term Investments	0.2	0.9	0.1	25.1	9.3	12.1	5.2	5.2
Sub total: Current Assets	2.3	3.6	2.7	28.0	14.1	17.8	7.8	7.8
Total Assets	348.6	476.3	531.4	653.5	956.1	1044.0	1104.0	1194.0
Current liabilities								
Tax & REIT Conversion Charges Payable	1.5	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Rental Income	4.7	5.9	6.6	7.8	11.9	12.3	10.0	10.0
Trade and Other Payables	2.0	4.9	5.8	12.3	16.3	14.2	16.0	16.0
Term loans		3.0	0.6	79.9	1.9	0.7	2.4	2.4
Interest Rate Swaps	12.2	16.9	24.0	7.5	7.6	5.8	5.8	5.8
Sub total: Current Liabilities	20.3	32.7	37.0	107.5	37.7	33.0	34.2	34.2
Non current liabilities								
Term Loan over 1 year, bond	166.1	264.4	300.7	323.1	594.6	666.6	699.7	754.7
Interest Rate Swaps	9.3	14.4	25.6	45.3	21.5	35.2	35.2	35.2
REIT Charge	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sub total: Non-Current Liabilities	176.3	278.8	326.3	368.4	616.1	701.8	734.9	789.9
Total Liabilities	196.6	311.5	363.3	475.9	653.8	734.8	769.1	824.1
Shareholders' Funds	151.9	164.7	168.0	177.6	302.3	309.2	334.9	369.9
EPRA Shareholders' Funds	172.0	195.7	217.5	230.4	330.9	354.2	379.9	410.9
Shares in Issue at Period End, No, m.	61.5	62.8	68.3	76.1	111.1	111.1	118.0	126.0
NAV per Share p.	247	262	246	234	274	278	284	294
EPRA NAV per Share p.	280	312	319	303	300	319	322	326
Net Debt	165.9	266.0	301.2	377.9	587.2	655.2	696.9	751.9
Debt % NAV	109.2	161.5	179.2	212.7	194.2	211.9	208.1	203.2
Change in Term Loan	-41.1	7.6	31.8	53.1	271.5	72.0	33.1	55.0
Gross Loan To Value Ratio	47.6%	56.1%	56.7%	61.7%	62.4%	63.9%	63.6%	63.4%
Net debt incl fair value, carrying value and unamortised borrowing costs					579.7	658.0		
Ditto as % book value (ie pre future development commitments) of property					61.6%	64.1%	62.7%	62.5%

Source PHP accounts and Hardman & Co estimates

EPRA NAV: Balance sheet net assets excluding the mark-to-market on effective cash flow hedges and related debt adjustments, deferred taxation on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes.

Note, ‘Shareholders’ funds’ are stated net of fair value assessment of derivative and interest rate swaps. These swaps are there because PHP has a policy of maintaining the proportion of floating interest rate exposure at between 20-40% of total interest rate cost. EPRA NAV adds these adjustments back. In addition, it reverses back a fair value adjustment to the convertible bond. This adjustment, made to Shareholders’ funds, reflects the market value of the convertible at balance sheet date. The bond has been trading at a premium.

Note, by the nature of the PHP structure, there is no deferred tax payable on the uplift of property values.

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