



**IMPACT**  
Healthcare REIT

# Impact Healthcare REIT plc

Annual results for the period to  
31 December 2018



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# Agenda and presentation team

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## Agenda

- Company overview
- Key financials
- Market update
- Portfolio review
- Enhancing the portfolio
- Conclusion and outlook
- Q&A

## Presentation team – Investment Adviser

- **Andrew Cowley, Managing Partner**

20 years' experience managing listed and unlisted funds investing in infrastructure, real assets and private equity for Macquarie and Allianz

- **Mahesh Patel, Managing Partner**

30 years' successful experience investing in, owning and operating care homes. Qualified chartered accountant

- **David Yaldron, Finance Director**

Qualified at KPMG as a chartered accountant. Real estate investment experience gained at Grosvenor and Europa Capital



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# Company overview

# Company overview

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- UK only healthcare REIT
- 2018 a year of sustained and accretive growth
- Delivery on targets set at IPO – seven quarterly dividends of 1.5p paid
- New progressive dividend policy and total return target
- Premium listing on Main Market from February 2019
- Strong governance with very experienced non-executive directors
- Managed by the Impact Health Partners team:
  - Closely aligned with shareholders via their shareholding in the Company
  - 30 years' track record of investing in care homes and infrastructure

# 2018 financial highlights

## Delivering growth

- Number of beds increased by 43% since IPO<sup>1</sup>
- Rent roll increased by 57% in same period

**£16.5m**

Profit before tax

**£17.8m**

Contracted rent roll at year end

## Progressive dividend policy

- Dividends paid in 2018 108% covered by EPRA earnings / 85% by adjusted earnings
- 2019 dividend target of 6.17p per share

**6.0p**

Dividends paid

**6.5p**

EPRA earnings per share

## Attractive risk-adjusted returns

- £223.8m portfolio valuation
- 2.5p per share growth in NAV

**103.2p**

NAV per share

**+8.5%**

Net asset total return

## Robust balance sheet

- Maximum LTV: 35%
- Undrawn debt: £49m<sup>2</sup>

**£26.0m**

Debt drawn at year end

**11.6%**

LTV at year end

<sup>1</sup> 7 March 2017

<sup>2</sup> Includes £25m revolving credit facility signed post balance sheet

# 2018 operational highlights

## Greater diversification

- Added more tenants during the year
- Continued geographic diversification

**+4**

New tenants

**+15**

Homes acquired

## Asset management initiatives

- Since IPO committed capital to add 188 beds through extensions
- 96 beds completed in 2018

**£15.4m**

Capital committed

**8.4%**

Yield on committed capital

## Strong lease structures

- Leases' minimum fixed term 20 years
- No break clauses
- Annual inflation uplift in 100% of leases

**WAULT**

19.5 years

**+£0.5m**

Rent reviews during the year

## Solid tenant performance

- Detailed monitoring of tenant performance
- None of current tenants has any bank debt

**1.8x**

Portfolio rent cover in Q4

# Key financials



Littleport Grange



# Statement of financial position



	As at		Variance
	31 Dec 2018	31 Dec 2017	
	£'000	£'000	
Investment property (independent market value)	223,845	156,165	↑ 43.3%
Cash and cash equivalents	1,470	38,387	
Rent smoothing net assets	-	-	
Other assets (excl. rent smoothing)	587	119	
Bank borrowings	(24,709)	-	
Other liabilities (excl. rent smoothing)	(3,333)	(1,221)	
<b>Net assets</b>	<b>198,337</b>	<b>193,450</b>	<b>↑ 2.5%</b>
<b>Net asset value per share</b>	<b>103.18p</b>	<b>100.65p</b>	<b>↑ 2.5%</b>
<b>EPRA net asset value per share</b>	<b>102.94p</b>	<b>100.65p</b>	<b>↑ 2.3%</b>
<b>Net asset value Total Return <sup>1</sup></b>	<b>8.47%</b>	<b>7.19%</b>	
<b>Loan to Value</b>	<b>11.6%</b>	<b>-</b>	

## Investment property:

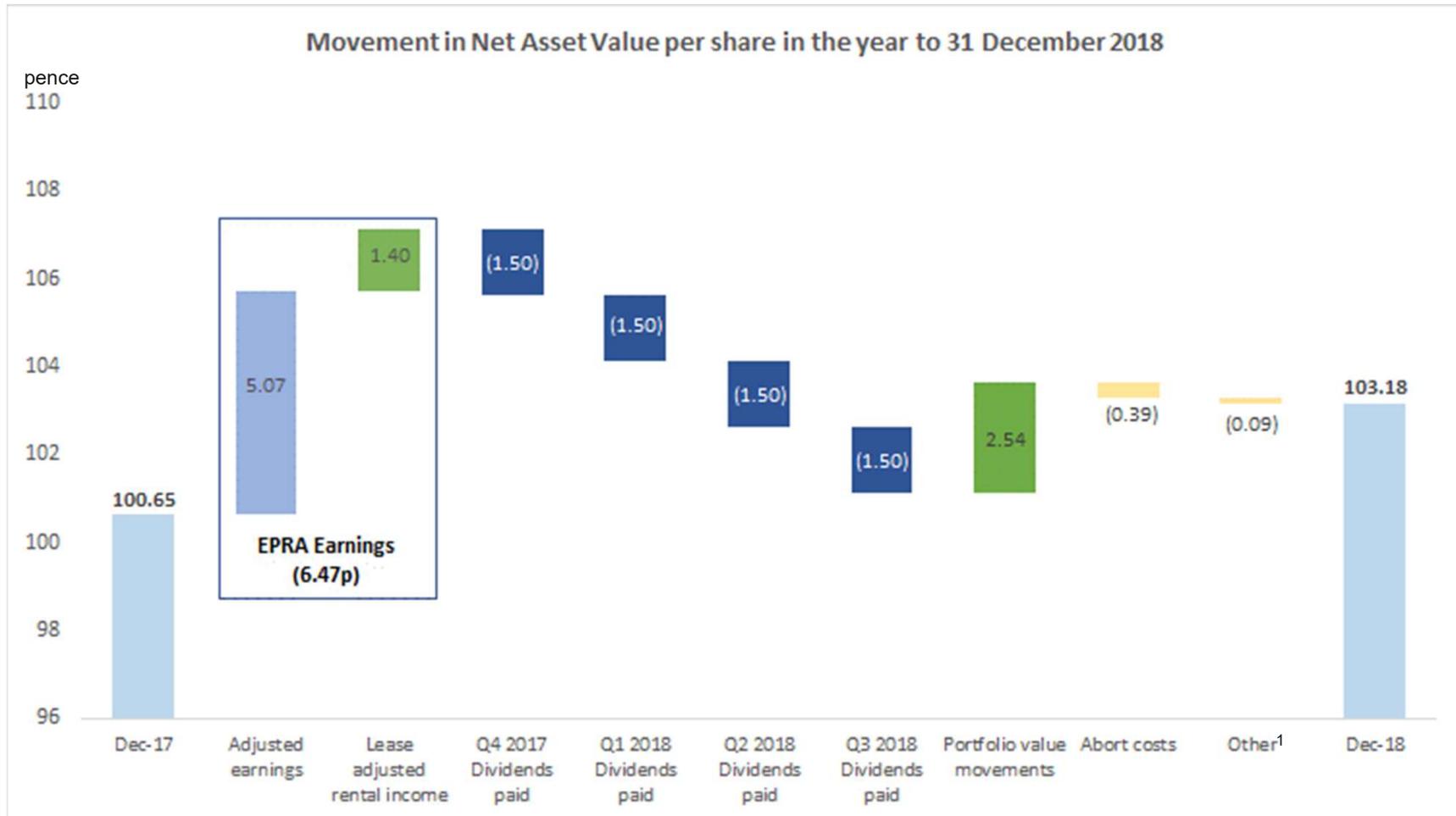
	£'000	Movement	Properties
<b>31 December 2017</b>	<b>156,165</b>		<b>57</b>
Acquisitions	55,436	35.4%	15
Capital improvements	4,667	3.0%	-
Revaluation movement	7,577	4.9%	-
<b>31 December 2018</b>	<b>223,845</b>	<b>43.3%</b>	<b>72</b>

## Rent smoothing:

	Dec-18	Dec-17
	£'000	£'000
Adjustment in fair value	(3,382)	61
Rent in advance of receipts	5,248	1,651
Receipts in advance of rent	(1,866)	(1,712)
<b>Rent smoothing net assets</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Calculated as sum of growth in NAV plus dividends paid in the 12 month period to 31 December 2018 and the annualised equivalent for the period to 31 December 2017

# NAV bridge



<sup>1</sup> Includes movement in fair value of interest rate derivatives and capitalised costs associated with November 2017 share issuance incurred in 2018

## Our market



Freeland House

# Compelling demographic drivers

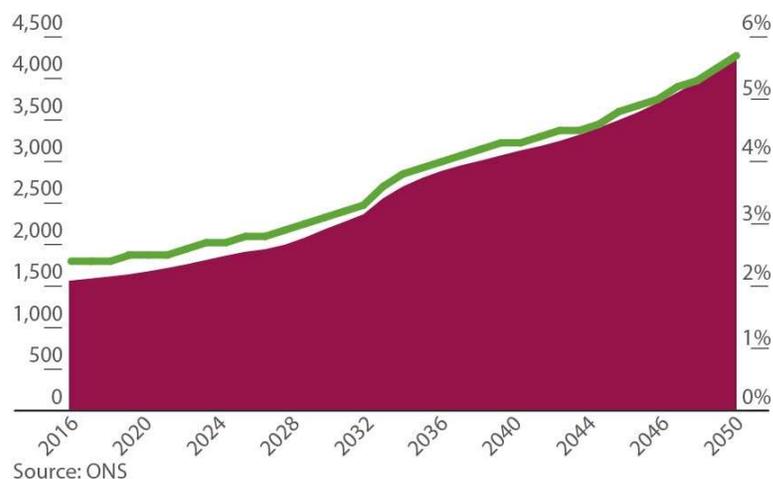
Demand is expected to grow substantially as the population ages

## Demand

- Number of people in UK over 85 forecast to double by 2040
- Today 15% of people aged over 85 require a level of care which can only be provided in a care home or hospital
- Research commissioned by Department of Health and Social Care forecast a 78% increase in demand for beds by 2035 in England

### Population over 85 forecast to double in next 20 years

- People aged >85 as a % of total UK population
- UK population aged >85 (million)

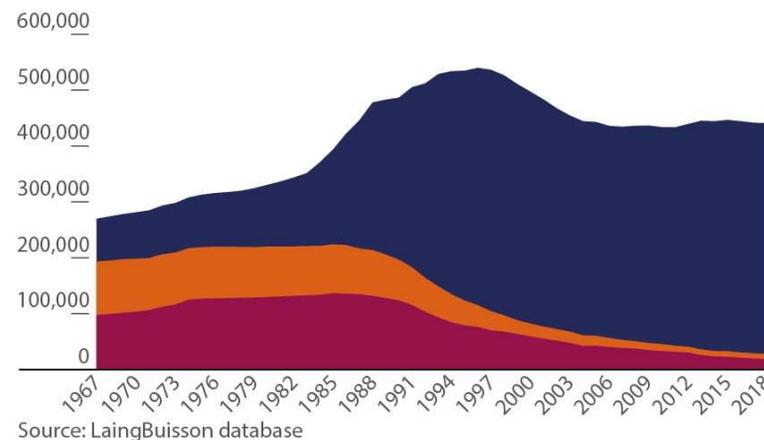


## Supply

- The number of available beds for elderly care has declined by 17% from its peak of 563,100 in 1996, to 464,800 in 2018
- The public sector has largely withdrawn from providing care beds
- Pressure on the NHS from bedblocking is leading to numerous initiatives to move elderly patients from hospitals to care homes

### Capacity has declined over 20 years

- Local authority and NHS care homes
- NHS geriatric and EMI hospital long-stay
- Independent sector care homes



# UK care home market key statistics

**465,000 beds available for residential elderly care**

**£16.9 billion spent on residential elderly care in year to April 2018**

**90% of available beds provided by private sector**

## Care Home Segments

Super Prime

High value, premium location



Prime

Modern purpose built



Tier 1

Older purpose built



Tier 2

Mixed converted/extended



Net initial yield

4.0 - 4.5%

5.0 - 6.0%

6.0 - 7.5%

9.0 - 10.0%

Value per bed

>£300k

>£150k

>£70k

>£40k



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## Portfolio review



Freeland

# Portfolio overview

Long-dated and inflation-linked income and capital growth from UK healthcare real estate

**£224 million**  
Portfolio value

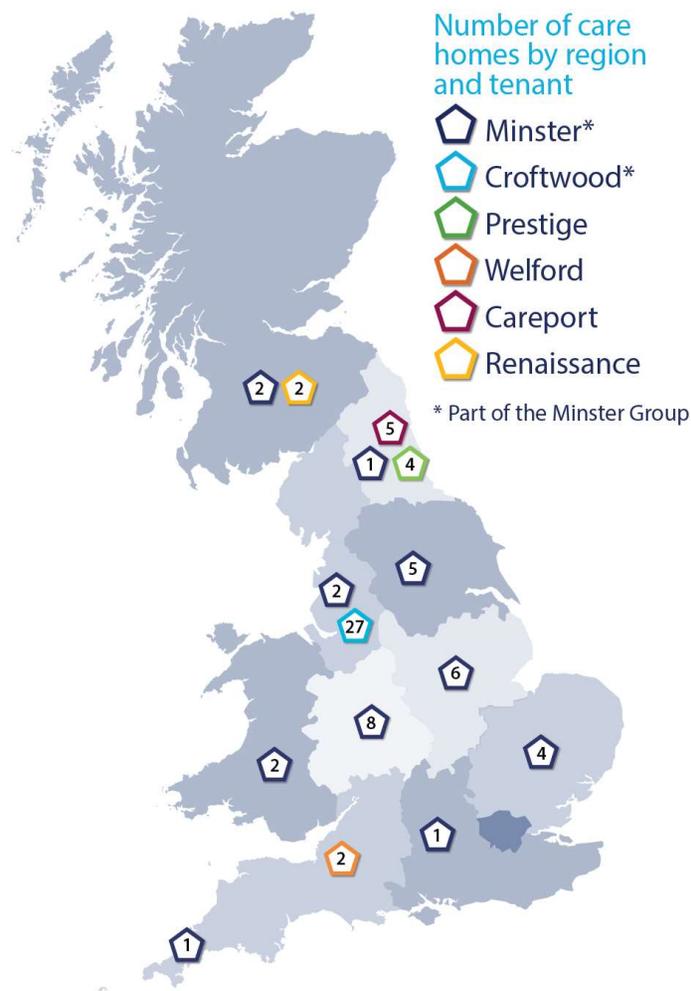
**72**  
Care homes

**3,433**  
Beds across the UK

**£17.8m**  
Contracted rent<sup>1</sup>

**19.5 years**  
Weighted average unexpired lease term

**6 tenants**  
National and strong local operators



<sup>1</sup> As at 31<sup>st</sup> December 2018

# Strong lease structures

Strong lease structures generate attractive, predictable and long term income:

- Long fixed term: Minster, Croftwood, and Welford 20 years; all other tenants 25 years
- Options to extend
- No break clauses
- Upwards only annual rent reviews at RPI, with a floor of 2% and cap of 4%
- Full repairing and insuring leases
- Tenants responsible for maintaining homes and have committed to a minimum level of expenditure per bed on maintenance annually, rising with RPI
- Individual leases at home level to ensure all lease terms are enforceable, reinforced by a master lease (“framework agreement”) with each tenant<sup>1</sup>
- Penalties if rent cover falls below agreed levels and ability to change the tenant for under-performance even if rent has been paid in full

<sup>1</sup> No framework agreement in place with Welford at present as only 2 homes (on one site) are currently operated by this tenant

# Robust operating performance from existing tenants



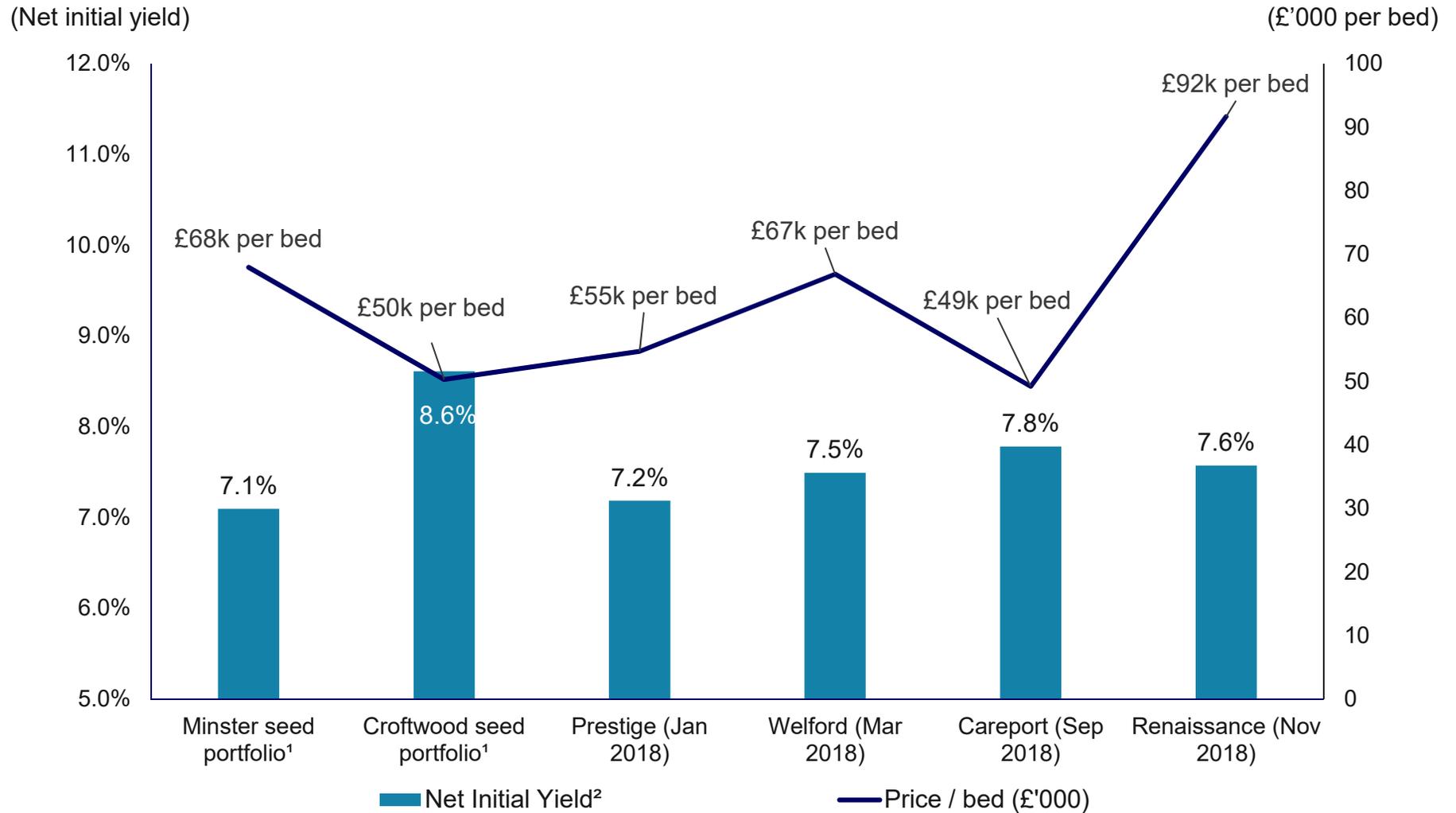
Metric		Impact <sup>1</sup>	National average <sup>2</sup>
<b>Number of homes</b>		72	
<b>Rent cover (EBITDARM/rent)</b>	3M to Dec-18	1.80x	
<b>CQC ratings<sup>3</sup></b>	Outstanding	1.5%	3.7%
	Good	69.7%	70.8%
	Requires Improvement	28.8%	23.6%
	Inadequate	0.0%	1.9%
<b>Net initial yield</b>	2019	7.4%	
<b>Public / private fee split</b>	Public	69%	
	Private	31%	

<sup>1</sup> Data as at 31 December 2018 unless otherwise stated

<sup>2</sup> Source: CQC register of homes in England with more than 30 beds

<sup>3</sup> As at 1 March 2019

# Active asset acquisition programme



Source: Company information

<sup>1</sup> Minster and Croftwood are both part of the Minster Group

<sup>2</sup> Net Initial Yield defined as rental income at acquisition divided by purchase price net of acquisition costs

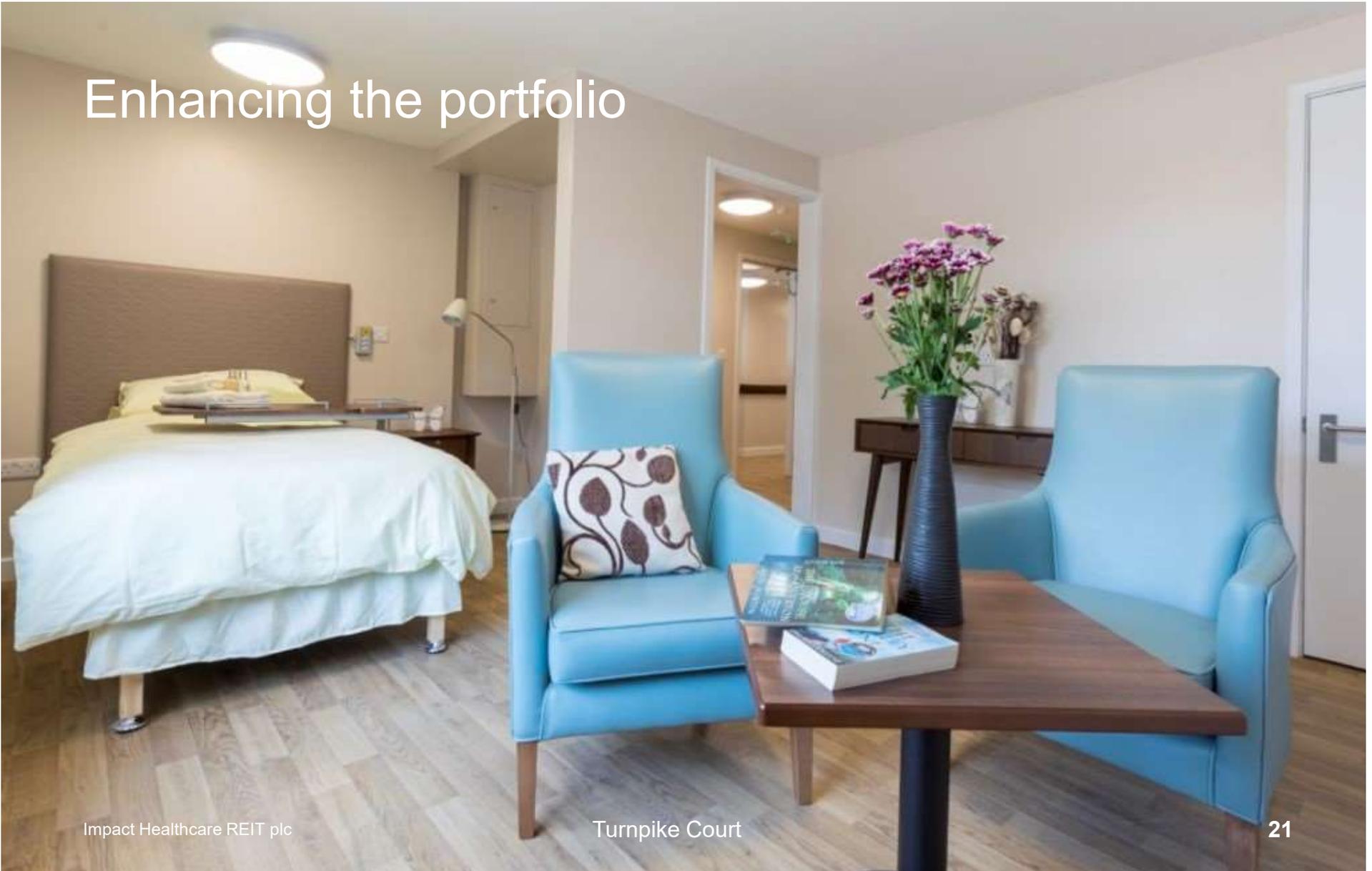
# Attractive investment pipeline



	Transaction	Number of homes	Location	New tenant
<ul style="list-style-type: none"> <li>Disciplined approach to new acquisitions</li> </ul>	A	1	South-West	No (Welford)
<ul style="list-style-type: none"> <li>Strong focus on quality of new tenants, looking for:                             <ul style="list-style-type: none"> <li>Track record of providing good quality care</li> <li>Consistent operating margins</li> <li>Strong balance sheet</li> <li>Experience of improving homes</li> <li>Ambitious to expand in partnership with us</li> </ul> </li> </ul>	B	3 <sup>1</sup>	North-West	Careport + new tenant
	C	4	North-East	Yes
	D	2	South-East	Yes
	E	9	North	Yes
	F	3	National	Yes
<ul style="list-style-type: none"> <li>Reviewed potential transactions under NDA with &gt; 27,500 beds, of which have acquired so far &lt; 4%</li> </ul>	G	7	National	Yes
	H	10	National	Yes
<ul style="list-style-type: none"> <li>Currently working on opportunities worth in excess of £400 million</li> </ul>	I	13	South-East	Yes
	J	8	South-East	Yes
<ul style="list-style-type: none"> <li>Lawyers instructed on four transactions</li> </ul>	K	1	North-East	No (Welford)
	L	61	National	Yes

<sup>1</sup> One unit is a care home currently operated by Careport. Two units are leased to the NHS

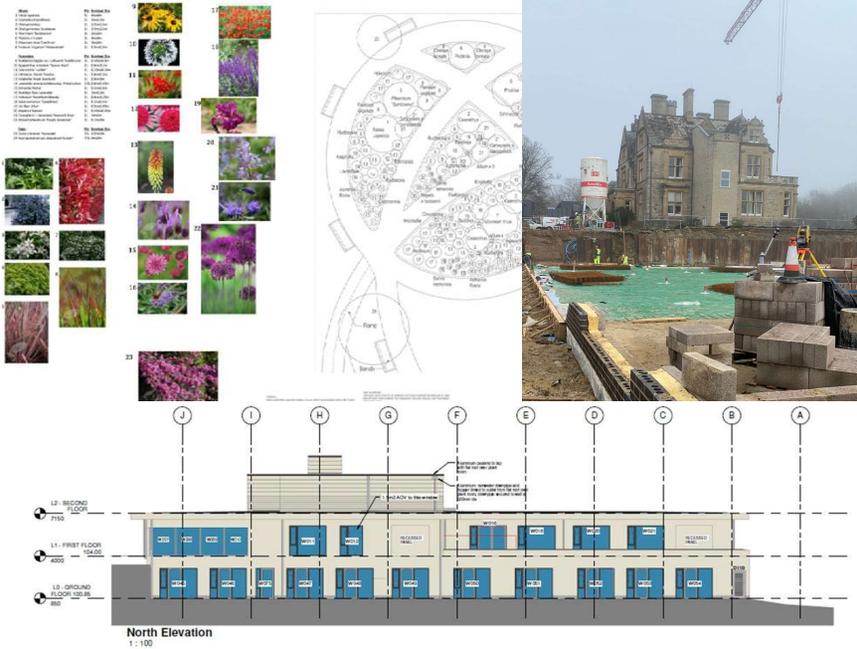
## Enhancing the portfolio



# Adding value through active asset management

## Freeland House

- New 46 bedroom extension with link to existing home on site
- All bedrooms are single en suite wet rooms
- Mix of internal and external day spaces, as well as a new landscaped garden
- Due to complete in December 2019



## Littleport Croft

- An extension to an existing home (Littleport) built in 2018
- Self-contained 21 bed unit for residents with dementia
- Received its first residents in November 2018



# Active asset management pipeline

- Since IPO £15.4million committed to deliver **188 new beds** through extending existing homes
- Committed capex expected to deliver attractive risk-adjusted returns: **8.4% yield on invested capital**
- Potential to add > **300 additional beds** to existing portfolio
- No greenfield development

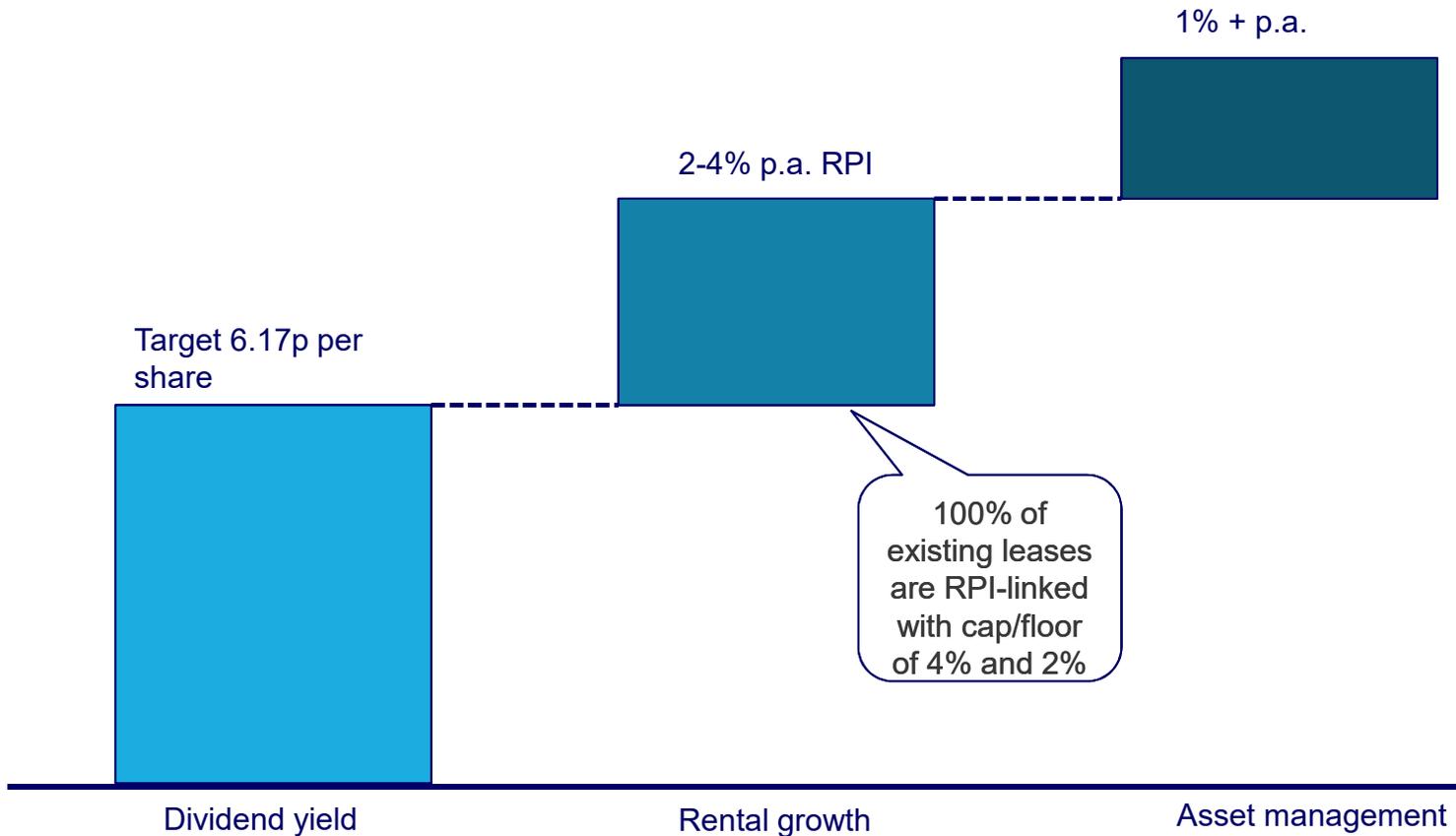
Home	Tenant	Capex (£m)	Beds added	Rent increase (£k)	Status	Description
Turnpike	Croftwood	0.92	25	78	<b>Completed</b>	Conversion of closed supported living unit to care beds
Littleport	Minster	2.17	21	185	<b>Completed</b>	Development of a new dementia unit
Ingersley	Croftwood	0.20	12	16	<b>Completed</b>	Conversion of closed supported living unit to care beds
Parkville II	Prestige	2.17	38	188	<b>Completed</b>	Conversion of a closed building to a new dementia unit
Garswood	Croftwood	1.10	11	106	Underway	Reconfiguration and extension of home
Freeland	Minster	4.85	46	403	Underway	Development of a new dementia unit
Diamond House	Minster	2.65	30	228	Underway	Development of a new dementia unit
Loxley	Croftwood	0.60	5	48	Ready to start	Reconfiguration and extension of home
Amberley, Craigend, Duncote Hall and Falcon	Minster	0.69	N/A	55	Underway	Enhancement of day spaces and bathrooms
<b>Total</b>		<b>15.4</b>		<b>1,307</b>		

<sup>1</sup> Estimated deferred payment

# Conclusion and outlook

# Building Blocks of Total Return<sup>1</sup>

Target 9% per annum from progressive dividend policy and asset management strategy



<sup>1</sup>All figures in this analysis are based on management assumptions and do not represent a profit forecast

# Summary

**Positive fundamentals:**  
market has positive demographics

**Portfolio:**  
diversified with potential for further accretive growth

**Strong tenants:**  
experienced care providers, financially sound

**Long leases:**  
long fixed terms, 100% inflation linked

**Experienced management team:** closely aligned with shareholders

**Attractive returns:**  
progressive dividends, NAV growth and conservative B/S



- Prospectus for placing programme of up to 200m new ordinary shares published in February 2019
- Company well positioned for next phase of its growth

# Q & A



# Term sheet



<b>Issuer</b>	<ul style="list-style-type: none"><li>• Impact Healthcare REIT PLC</li></ul>
<b>Market</b>	<ul style="list-style-type: none"><li>• Listed on the specialised fund segment of the Main Market of London Stock Exchange on 7 March 2017, transferred to the premium segment of the Official List on 8<sup>th</sup> February 2019</li></ul>
<b>Current fund size</b>	<ul style="list-style-type: none"><li>• 192 million shares</li></ul>
<b>Target dividend</b>	<ul style="list-style-type: none"><li>• Target dividend of 6.17 pence per share for 2019.</li></ul>
<b>Gearing</b>	<ul style="list-style-type: none"><li>• The Company utilises prudent financing with a maximum LTV of 35% of gross assets</li></ul>
<b>Valuation</b>	<ul style="list-style-type: none"><li>• Quarterly valuation by Cushman &amp; Wakefield</li></ul>
<b>Independent Board</b>	<ul style="list-style-type: none"><li>• Board comprised of 5 experienced Non-Executive Directors and is independent of the AIFM</li></ul>
<b>Placing programme</b>	<ul style="list-style-type: none"><li>• Prospectus for a placing programme of up to 200 million new ordinary share published on 11 February 2019</li></ul>
<b>Discount control</b>	<ul style="list-style-type: none"><li>• Share buy-back authority for up to 14.99% of issued share capital.</li></ul>
<b>AIFM</b>	<ul style="list-style-type: none"><li>• Impact Health Partners LLP – Principals: Mahesh Patel and Andrew Cowley</li></ul>
<b>Management commitment</b>	<ul style="list-style-type: none"><li>• Mahesh Patel £10m share holding in the Company. Other members of management and board hold £0.8m</li></ul>
<b>Fees</b>	<ul style="list-style-type: none"><li>• Management fees: 1% of NAV payable to Impact Health Partners LLP reducing to 0.70% on NAV above £500m</li></ul>
<b>Corporate brokers and other advisers</b>	<ul style="list-style-type: none"><li>• Winterflood Securities, RBC, Travers Smith and BDO</li></ul>

# Impact board and company structure



The five experienced Non-Executive directors comprising the board provide strong corporate governance and close alignment to shareholders via a significant shareholding



- **Chairman: Rupert Barclay (independent non-executive)**
- Chairman of Sanditon Investment Trust and ex-chairman of audit committee of Lowland Investment Co. Ex-member of the Remco and audit committees of Instinet Group Inc.
- Qualified accountant, INSEAD MBA and Cambridge MA



- **Director: Amanda Aldridge (independent non-executive)**
- Former audit and advisory partner at KPMG LLP
- Extensive audit and advisory work including clients with significant property portfolios.
- Chartered accountant



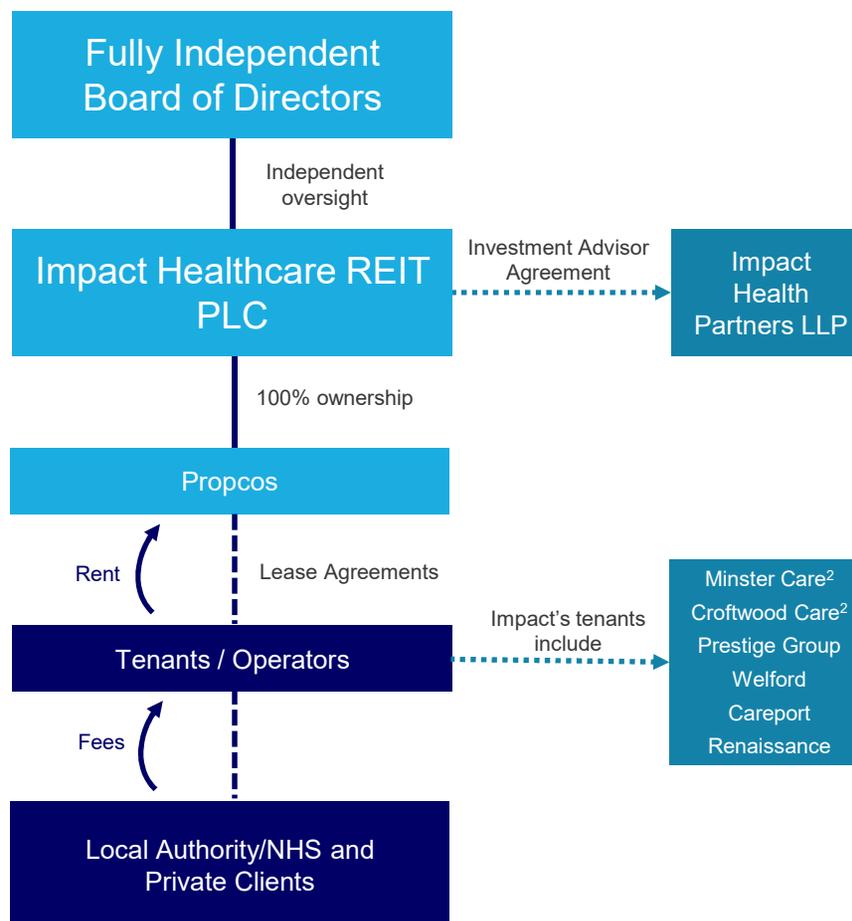
- **SID: Rosemary Boot (independent non-executive)**
- Former Executive Director of Circle Housing Group and Finance Director of the Carbon Trust. 16 years corporate finance experience at UBS Warburg. Currently non-executive director of Southern Water
- Cambridge MA



- **Director: Paul Craig (non-executive)**
- Portfolio manager at Old Mutual Global Investors. Over 20 years of investment experience
- Old Mutual Global Investors has a 20.6% interest in the Company through funds managed by Paul<sup>1</sup>



- **Director: Philip Hall (independent non-executive)**
- Chairman of Jones Lang LaSalle's healthcare team in the UK. 20+ years' experience in the healthcare sector internationally. In 2011 acted for landlords in the restructuring of Southern Cross
- Chartered Surveyor with further qualifications in environmental sciences and town planning



Source: Company information

<sup>1</sup> As at 25 October 2018

<sup>2</sup> Minster and Croftwood are both part of the Minster Group