IMPACT
Healthcare REIT

Interim report 2023

We invest in care homes, which are essential social infrastructure

9 August 2023

Impact Healthcare REIT plc

("**Impact**" or the "**Company**" or, together with its subsidiaries, the "**Group**")

Half year results for the six months ended 30 June 2023, and dividend declaration

The Board of Directors of Impact Healthcare REIT plc (ticker: IHR), the real estate investment trust which gives investors exposure to a diversified portfolio of UK healthcare real estate assets, in particular care homes, today announces the Company's half year results for the six months ended 30 June 2023 and declares the Company's second quarter interim dividend.

Simon Laffin, Chairman of Impact Healthcare REIT plc, commented:

"We are continuing to deliver a resilient performance in a challenging economic environment. In the first half of the year, rent increases and a stable rental yield drove a 2.4% increase in like-for-like investment property value. As a result, Net Asset Value grew by 5.6% to £470.9 million. Our total accounting return for the period was 6.2%.

We maintained a strong balance sheet, with £250 million of committed debt facilities and a weighted average term of 6.8 years[1]. Our drawn debt was £190.8 million, giving us a gross LTV of 28.5% and a net LTV of 27.6%.

The vast majority of our rent increases are capped at 4.0%. This has provided much needed respite to tenants, suffering general inflation of 9.3% and in many cases, even higher wage costs. Our tenant operators generally managed to increase fees, improved occupancy to 88.3%[2] and most benefited from low or zero leverage. As a result, our annual adjusted rent cover improved slightly to 1.8 times[3]. The affordability of our rent to tenants, and indeed the affordability of care home fees to residents, are crucial to the continued successful provision of residential care. This in turn enables us to provide quality premises to tenants and long-term sustainable returns to shareholders."

Financial Highlights

- Second quarter dividend declared of 1.6925p, in line with the 3.5% increase targeted for this year of 6.77 pence per share[4]. This dividend is 122% covered by our EPRA EPS and 109% by adjusted EPS.
- Our total accounting return for the period to 30 June 2023 was 6.17% (six months only).

Good financial performance since 31 December 2022

- 12.2% increase in property investments[5] independently valued at £638.2 million as at 30 June 2023.
- 2.4% increase in like-for-like portfolio value.
- 5.6% increase in total NAV to £470.9 million.
- 3.2% increase in NAV per share to 113.64 pence over the six-month period, reflecting shares issued to part fund the acquisition of six care homes.

Strong balance sheet at 30 June 2023

- £250.0 million committed bank facilities of which £190.8 million was drawn.
- 28.5% gross LTV (31 December 2022: 23.9%) and a net LTV of 27.6% (31 December 2022: 22.6%). Weighted average term of debt facilities (excluding options to extend) was 6.8 years[1].
- 66% of our drawn debt facilities are fixed or hedged against interest rate rises.
- 4.85% average cost of drawn debt at 30 June 2023.
- £59.2 million of undrawn debt facilities and £22.1 million cash.

Driving the growth of our annual contracted rental income

- Acquired six high quality care homes on attractive terms and sold one, so that the Group now owns 140 properties with 7,725 beds[5].
- 4.0% increase in rent for 90 homes following rent reviews in the first half 2023.
- 11.6% increase to £48.1 million in contracted rent roll[6], up from £43.1 million at 31 December 2022.

	Six months ended 30 June 2023 (unaudited)	Six months ended 30 June 2022 (unaudited)	Change to H1'22	Year ended 31 December 2022 (audited)	Change to FY22
Dividends declared per share	3.39p	3.27p	+3.5%	6.54	
Profit before tax	£27.59m	£27.30m	+1.1%	£16.89m	
Earnings per share ("EPS")	6.66p	7.26p	-8.2%	4.33p	
EPRA EPS	4.15p	4.22p	-1.7%	8.37p	
Adjusted earnings per share	3.69p	3.66p	+0.8%	7.11p	
Adjusted earnings dividend cover	109%	112%		109%	
Contracted annual rent roll[6]	£48.1m	£42.0m		£43.1m	+11.6%
Property Investments[5]	£638.2m	£568.9m		£568.8m	+12.2%
Net asset value ("NAV") per share	113.64p	116.18p		110.17p	+3.2%
Gross Loan to value ("LTV") ratio	28.5%	23.1%		23.9%	+467 bps
Net loan to value (EPRA LTV)	27.6%	21.9%		22.6%	+499 bps
Total accounting return	6.17%	6.21%	-4 bps	3.78%	
Cash	£22.1m	£22.0m		£22.5m	-2.1%

Operational highlights

- 1.8 times annual adjusted rent cover[3] to 30 June 2023, similar to recent years and to before the pandemic.
- 98% collected of the rent due in the period with no voids. Firm action taken this year to replace our one tenant who got into significant difficulties, with positive early signs of improvement in these homes.
- 88.3%[2] occupancy at the end of June 2023, up from 86.6% at the start of the period.
- £9.8 million of asset management projects underway in first half of 2023. 24 projects in the pipeline, with anticipated capital funding of £35 million over the next two to three years.

	At 30 June 2023	At 30 June 2022	At 31 December 2022	Change to FY 22
Topped-up net initial yield	6.95%	6.69%	6.98%	-3 bps
Average NIY on acquisitions to date	7.33%	7.39%	7.37%	-4 bps
Rents containing inflation-linked uplifts	100%	100%	100%	–
WAULT to first break	21.2 years	19.9 years	19.7 years	+1.5 years
Portfolio let	100%	100%	100%	–
Last 12 months' adjusted rent cover[3]	1.82	1.85	1.80	+1.1%
Rent Collection	98%	100%	100%	-2.0%
Properties[5]	140	131	135	+3.7%
Beds[5]	7,725	6,987	7,336	+5.3%
Tenants[7]	14	13	14	–

Developing plans to improve the social impact and environmental sustainability of our portfolio

- Target of net zero status by 2045 with an interim target to reduce like-for-like carbon emissions by 50% by 2030.
- Looking at refurbishing and recycling existing buildings to reduce carbon impact.

Dividend declaration

- The Company declares its second quarter dividend of 1.6925 pence per ordinary share. This dividend is for the period from 1 April 2023 to 30 June 2023 and is payable on 20 September 2023 to shareholders on the register on 18 August 2023. The ex-dividend date will be 17 August 2023. This dividend will be a property income distribution dividend ("PID"). This dividend is in line with the aggregate total dividend target of 6.77 pence per share[4] for the year ending 31 December 2023.

HALF YEAR RESULTS PRESENTATION

The Company presentation for investors and analysts will take place at 10.00am (UK) today via a live webcast and conference call.

To access the live webcast, please register in advance here:

https://brrmedia.news/IHR_HY23

The live conference call dial-in is available using the below details:

Dial in numbers	UK Toll Free:	0808 109 0700
	UK & International:	+44 (0) 33 0551 0200

Password to quote: Impact Healthcare Interim Results

Participants can type questions into the webcast question box or ask questions verbally via the conference call.

The recording of the results presentation will be available later in the day via the Company's website: https://www.impactreit.uk/investors/reporting-centre/presentations/

FOR FURTHER INFORMATION, PLEASE CONTACT:

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The Company's LEI is 213800AX3FHPMJL4IJ53.

Further information on Impact Healthcare REIT plc is available at www.impactreit.uk.

NOTES:

Impact Healthcare REIT plc is a specialist and responsible owner of care homes and other healthcare properties across the UK. Elderly care is an essential service and demand for it is high and continues to grow as the UK's population gets older. We work with our tenants so we can grow together and help them care for more people, while continuing to improve our homes for their residents.

We take a long-term view and look to generate secure and growing income. This has allowed us to provide our shareholders with attractive and rising dividends and the potential for capital growth.

The target total dividend for the year ending 31 December 2023 is 6.77 pence per share[4], a 3.5% increase over the 6.54 pence in dividends paid per ordinary share for the year ended 31 December 2022.

The Group's Ordinary Shares were admitted to trading on the main market of the London Stock Exchange, premium segment, on 8 February 2019. The Company is a constituent of the FTSE EPRA/NAREIT index.

Notes

1 This assumes the extensions of the NatWest facility have not been exercised, including these the weighted average term of debt facilities would be 7.2 years.

2 Excludes one new home in build-up and three turn-around assets which have not reached maturity.

3 Adjusted rent cover excludes seven turnaround homes which were re-tenanted in May 2023 and one new home in build-up. These were also excluded in the quoted comparative adjusted rent covers.

4 This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

5 This relates to the property portfolio along with property portfolios that have been invested in via loans to operators with an option for the Group to acquire. Bed numbers do not include those that are under construction.

6 Contracted rent includes all post-tax income from investment in properties, whether generated from rental income or post-tax interest income.

7 Including Croftwood and Minster, which are both part of the Minster Care Group, and Melrose Holdings Limited which is an affiliate of the Minister Care Group.

Our purpose

To deliver an attractive risk-adjusted return to shareholders by working with tenants to provide quality, affordable and sustainable care homes.

Our values

Our core values are to:

- focus on the long-term sustainability of our business;
- invest for lasting positive social impact;
- act openly and transparently with all our stakeholders;
- be a dependable partner who's trusted to deliver; and
- combine the strengths of a listed company and entrepreneurship.

Our business model

Our business model is to own and invest in a high-quality, resilient and diversified portfolio of care homes. We choose tenants who seek to provide high-quality care and work in long-term partnership with them to grow, create value and deliver lasting social impact. In return, we receive predictable, sustainable and inflation-linked rental income, which enables us to target a progressive and covered dividend.

CHAIRMAN'S STATEMENT

I am delighted to have taken over as Chairman, succeeding Rupert Barclay, who has so ably led the Company since its listing in 2017.

We are a real estate company, but one that is deeply immersed in the social infrastructure of this country. Care for vulnerable adults, especially older people, is a vital part of both the NHS and social care. Our business model works by ensuring that our rent levels are affordable to both care home operators and ultimately the residents. Around 70% of residents in our homes are funded by local authorities or the NHS, so rent must be affordable within their constraints as well.

Responsibility for the quality of care and maintenance of homes lies with the care home operators. However, we set standards and monitor both carefully as responsible landlords in the care sector.

Growth

The UK has a growing, ageing population. The demand for care home beds is therefore rising. There is also a growing realisation that a key way to take the strain off hospital beds would be to provide more care home facilities and step down care. However, the supply of care homes is fairly static. New build care homes are expensive, usually in excess of £200,000 per bed, compared to about £70,000 for older, early generation homes. Residents' fees therefore have to be much higher for new build homes than for existing homes. The number of residents prepared and able to pay those higher fees is limited and so this puts a severe constraint on new care homes being built. The state-funded sector, in particular, is reluctant to raise fees to these levels.

The second constraint on the sector is the current high interest rates. With 20-year gilt rates now around 4.5%, the gap has fallen significantly against typical sector rental yields of 6%. This is a key reason why healthcare REIT share prices have fallen below net asset value, although healthcare has suffered less than other REIT sectors.

This explains why Impact has been very careful in its investment plans and focusses on purchasing existing homes. In the first half of 2023, we completed the acquisition of six homes for £56 million on a net initial yield of 7%, 20% of the total cost was funded by new shares issued to the vendors at 116.62 pence per share (the 30 September 2022 NAV). Now managed by one of our existing tenants, Welford Healthcare, these homes are already proving successful.

At the beginning of the year, we also sold one non-core care home for £1.25 million, in line with its latest valuation.

We now own 140 buildings[1], independently valued at £638.2 million as at 30 June 2023, a 12.2% increase from £568.8 million at last year-end. On a like-for-like basis the portfolio value increased by 2.4% (£13.3 million) in the first half of this year, driven mainly by inflation-linked rental uplifts. Our 140 buildings offer 7,725 beds[1], with an average size of 55 beds per home. There are an estimated 465,000 beds for elderly care in the UK, so we now own 1.7% of a highly fragmented market.

Affordability

We endeavour to ensure our rents are affordable by:

- Careful selection of tenants who provide quality and efficient residential care; and
- Initially setting rents at sustainable levels and then increasing them only with inflation, generally with a minimum 2% pa and maximum 4% pa increase.

The majority of our tenants have emerged successfully from the pandemic and subsequent economic downturn, having shown great resilience. Our annual average adjusted rent cover to 30 June 2023 is a healthy 1.8 times[2], similar to recent years and to before the pandemic. We have taken action this year to replace our one tenant who got into significant difficulties. Despite this, we collected 98% of the rent due in the period and had zero voids.

Quality

The quality of care, provided by our tenants to their residents, is monitored by regulators including the Care Quality Commission ("CQC") in England and Care Inspectorate ("CI") in Scotland. We monitor these inspections closely and, where appropriate, discuss the outcomes with our tenants and their plans to respond to any recommendations.

We benchmark the rating provided by the inspectors against the industry average for care homes of a similar size and service and we are performing in line with the industry average with 80% of our homes good or outstanding against an industry average of 79%.

Sustainability

We published our first Impact Assessment prepared by The Good Economy to assess and measure the positive social impact that we have on both individual people and communities. The report is available on the Company's website.

We continue to develop plans to improve the social impact and environmental sustainability of our portfolio. Having reviewed the environmental performance of all our homes, we set ourselves a target of net zero status by 2045 with an interim target to reduce like-for-like carbon emissions by 50% by

2030. We are now working on our implementation plan to invest in sustainability measures to meet these goals and position us well to meet any further update to the Minimum Energy Efficiency Standards ("MEES").

Financial performance (unaudited to 30 June 2023)

Rent increases drove a 2.4% increase in like-for-like investment property value, which together with stable rental yields, profit and cash flow increased total NAV by 5.6% to £470.9 million. We issued shares to part fund the acquisition of six care homes, so the NAV per share rose more slowly, by 3.2% to 113.64 pence.

First half valuation growth was lower this year than last, which meant that earnings per share ("EPS") fell by 8% to 6.66 pence per share (basic and diluted). However, we think that it is more helpful to look at adjusted EPS, which excludes non-cash items, such as revaluations, and one-off costs. This was stable at 3.69 pence per share (H1 2022: 3.66 pence per share).

The Company has set a dividend target for this year of 6.77 pence per share[3], up 3.5% on 2022. We have already declared two dividends for the first two quarters of the year of 1.6925 pence each, in line with that target. We aim to deliver a covered dividend (i.e. not paying out more in dividends than the Company's adjusted earnings). In the first half of 2023, dividends declared were 122% covered by our EPRA EPS and 109% by adjusted EPS.

Our total accounting return for the six months to 30 June 2023 was 6.17% (not annualised).

Financial resources

The Group has £250 million of committed debt facilities with a weighted average term of 6.8 years[4], excluding extension options. Our drawn debt as at 30 June 2023 was £190.8 million, giving us a gross LTV of 28.5% and an EPRA LTV of 27.6%. As part of repaying the Metro facility, a hedge which capped the interest rate on £25 million expired, meaning that as at 30 June 2023 66% of the Group's drawn debt was fixed or hedged. We are considering various options to increase that level of hedging.

Governance

The Company has a strong and independent board, comprising the Chairman, and four other non-executive directors, all of whom are independent and 50% are female.

The Group is managed on behalf of the board by our Investment manager, Impact Health Partners LLP ("the IM"). The board believes that the IM delivers a high-quality service that benefits all stakeholders. It is particularly important to us that the IM works closely with tenants so that we understand their businesses and we are assured that our homes deliver a quality outcome for residents.

The UK care home sector is vital to the health and well-being of the country

There should be more recognition of the importance of the care home sector to the health and well-being of this country. There are nearly 0.5 million vulnerable people in care homes in the UK today. The government needs to review how elderly peoples' residential care is funded and how it can contribute to meet rising demand from an aging population, release hospital beds and provide post-operative care. This however will need also to address local authority fee rates, which are too low to provide incentives for the sector to build new homes and increase capacity. The private sector wants to play its role in providing more elderly care, both in making available buildings and capital (through REITs and other property investment company structures) and offering quality care and accommodation (through care home operators). We would like to work with government to deliver and expand this promise.

Outlook

We aim to deliver an attractive risk-adjusted return to shareholders by working with tenants to provide quality, affordable and sustainable care homes. We are a long-term business and the Group's resilient and defensive healthcare portfolio continues to provide vital care-based infrastructure supporting vulnerable elderly people across the UK.

Both the Board and the Investment Manager continue to believe that we are well positioned to continue to deliver long-term sustainable returns to shareholders. As the economy settles down post the current inflationary surge and interest rates stabilise, and as government sees the role that this sector can play in both health and the economy, we believe that we will see more opportunities for growth in the future. Indeed, we believe that this growth will become essential to meet the future demographic needs of our country.

Simon Laffin
Chairman
9 August 2023

1 This relates to the property portfolio along with property portfolios that have been invested in via loans to operators with an option for the Group to acquire. Bed numbers do not include those that are under construction.
2 Adjusted rent cover excludes seven turnaround homes which were re-tenanted in May 2023 and one new home in build-up. These were also excluded in the quoted comparative adjusted rent covers.
3 This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.
4 This assumes the extensions of the NatWest facility have not been exercised, including these the weighted average term of debt facilities would be 7.2 years.

INVESTMENT MANAGER'S REPORT

The robust performance in the first half of this year has been delivered against a challenging macroeconomic backdrop, which has been particularly testing for real estate as an asset class. In our business, it would be difficult to think of a downside scenario which was worse than a pandemic that was especially virulent for elderly people. That is what our tenants had to deal with for two years. The spike in inflation and consequent rapid rise in interest rates over the past 18 months, while less deadly, has presented its own challenges.

One of our principal aims as the Company's Investment Manager is to build and maintain effective partnerships with the Group's tenants. At the heart of these relationships are information flows. We receive detailed and timely information from all tenants about what is happening in the Group's buildings. From all this information, one of the most important KPIs to assess the underlying financial sustainability of the business is our tenants' level of adjusted rent cover – their home-level, pre-tax and pre-rent profitability divided by the amount of rent they owe the Group. In 2019, the last year before the pandemic and spike in inflation, the Group's average level of adjusted rent cover was 1.8 times[1]. During the stresses and strains of 2020-2022 it averaged 1.8 times. From the reporting received so far in 2023, it was 1.8 times[1].

This stability is not accidental. Since founding the business six years ago, we have always applied two principles. First, the Group's leases must be inflation-linked and today 100% of its leases are inflation-linked. Second, rent needs to be sustainable over the long-fixed term of the Group's leases. This requires careful tenant selection, setting the initial rent at a prudent level and putting in place floors and caps on rent increases in most of our leases to give our tenants some level of protection against a spike in inflation such as we are now experiencing, while in periods of low inflation providing the Group with progressive rental uplifts.

Beneath these averages, tenant performance does vary and one of our smaller tenants did stop paying rent at the beginning of 2023. This meant that, while we had collected 100% of the rent due from our inception in 2017 to the end of 2022, in the first half of 2023 we only collected 98% of the rent due. Our wider tenant performance and how the Investment Manager worked to replace this non-performing tenant is discussed in more detail below.

Resilient tenant performance

There are three key drivers of care providers' financial performance:

- their level of occupancy;
- the fees they charge for the care they provide; and
- the availability and cost of staff to provide care.

During 2022, the first two drivers were positive, while the third was negative. During the year average tenant occupancy rose from 83.1% in January, to 86.6% in December[2]. Fee growth was strong, with average weekly fees charged by our tenants for the care they provide rising by 12.6% in the 12 months to 31 December 2022. Staff costs rose by less, at 9.5%, which was positive as it meant care staff were being better paid, but the pay rises were affordable as they were lower than fee growth. However, the underlying problem most of our tenants were dealing with last year was finding and retaining permanent staff. As a result, their use of temporary staff increased. Our tenants' spending on agency staff averaged 9% of their revenues during 2022.

In the first six months of 2023, these trends rebalanced. Occupancy was broadly stable, rising from 86.6% at the start of the year, to 88.3% at the end of June[2]. This means it still has 2%-3% to go before reaching normal, pre-COVID levels.

Occupancy remaining broadly stable in part reflects the fact that tenants, rather than discounting fees to fill remaining empty beds, were passing inflationary pressures through in the fees they charge. Their fee growth accelerated in the first six months of 2023 with average weekly fees rising 14.8% in the 12 months to 30 June 2023.

Encouragingly, there were also clear signs that tenants were getting their staffing issues under control as well, with their spending on agency staff falling to an average of 6% of their revenues during the first half of 2023. With our largest tenants, we can track staff hours worked as well as staff cost, and can see that during the past 18 months, during a challenging period to attract and keep staff, tenants have not been cutting back on staffing. Staff hours worked per occupied bed were stable at 35 hours a week.

There have been other inflationary pressures on the Group's tenants. Food costs have risen, but have remained constant as a percentage of tenant revenues at 4%. Utility costs rose from an average of 2.5% of tenant revenues in 2021, to 3.7% in the fourth quarter of 2022, and then rose further to 4.1% in the first half of 2023. However, those costs are now falling, and tenants expect them to go back to more normal levels in the second half of 2023. The majority of the Group's tenants have no bank debt, so are not directly exposed to the rise in interest rates.

Against this generally resilient backdrop, one tenant, Silverline Group, did get into difficulties and did not pay the rent due in advance in January 2023. At the time, it rented seven homes from the Group (four in Scotland and three in Yorkshire) and owed £1.6 million of rent per annum. The Investment Manager did a detailed review of what had caused under-performance at these homes and came to the conclusion that to resolve the issues it would be in the best interests of all stakeholders to replace Silverline as their operator. We ran a competitive process to appoint a new operator, which culminated in replacing Silverline with Minster Care, an existing tenant of the Group, at the beginning of June 2023. Delivering a turnaround is rarely quick or easy. We will report back later in the year on progress made at these homes. The rental default from Silverline will temporarily reduce the level of rent received by the Group. Whilst this reduction will be partly mitigated by rental deposits, we anticipate the total reduction versus the Company's original budget for 2023 to amount to around £1 million.

Investing for accretive growth

Our acquisition of six high quality care homes on attractive terms and sale of one, meant that the Group owned 140 properties with 7,725 beds, up from 135 and 7,336 respectively at 31 December 2022[3].

These investments, combined with rent increases received during the period, helped to grow our contracted rent roll[4] by 11.6% from £43.1 million on 31 December 2022, to £48.1 million on 30 June 2023. The annual rent review of 90 homes fell during the period, with their contracted rent rising by £1.1 million, an increase of 4.0%, contributing to the overall 11.6% increase.

Value-enhancing asset management

Well-delivered asset management has the potential to create value for shareholders and tenants, while offering a higher quality environment for the homes' residents and staff. In the first half of the year, we made good progress towards completing significant works at Fairview House and Court in Bristol, where we have invested £3.2 million in linking the two buildings, adding new bedrooms and enhancing the building's environmental performance.

The expanded and modernised Fairview will offer a better environment for its residents and our tenant's staff. When we bought the home in 2018, the rent was £356,000. After five years of inflation-linked rent increases and rentalising our capex in the home, we have grown the annual rent to £690,000.

During the first half of 2023 we have committed £9.8 million to asset management projects at four homes in Wiltshire, North Yorkshire, Cornwall and Cheshire. At Mavern House in Wiltshire, we have committed £2.0 million which will add eight bedrooms to what is now a 47-bed home and will lift its EPC performance from C to B. At Elm House in Cheshire we have identified a £3.0 million extension for 21 high specification new bedrooms with en-suite wet rooms, upgrade the bathrooms of five bedrooms in the existing building and improve its EPC performance from C to B. We have committed to a similar project at Amberley in Cornwall, to invest £2.5 million to deliver 16 new bedrooms with wet room bathrooms, upgrade 10 existing bedrooms and bathrooms and improve the EPC rating from C to B. Finally, at Yew Tree in North Yorkshire we have committed £2.3 million to deliver a new 25-bed development in a standalone building on land we already own, which will take the total number of beds available at Yew Tree to 101.

The Group currently has 24 such projects at various stages in its pipeline with anticipated capital funding of up to £35 million over the next two to three years. The capital committed to them will be rentalised at an average yield of 8%. Despite the rise in the cost of capital, we are confident that asset management opportunities will deliver projects, which are accretive to earnings and also help us to deliver on our sustainability objectives by making our buildings more energy efficient and improving their social impact credentials. Looking forward, we are also actively considering how best to refurbish and recycle existing buildings, thus producing less embedded carbon than would be the case with new build development opportunities, as part of our net zero strategy.

In addition to these capital investment projects, under the terms of the leases, tenants are responsible for maintaining the Group's buildings in a good state of repair through regular repair and maintenance programmes. We monitor each tenant's expenditure on repair and maintenance and support our tenants in its implementation through regular physical inspections and on-site progress meetings.

Further increasing our portfolio valuation

The portfolio is independently valued by Cushman & Wakefield each quarter in accordance with the RICS Valuation – Professional Standard (the "Red Book").

As at 30 June 2023, the portfolio investments was valued at £638.2 million, a 12.2% increase of £69.4 million from the valuation of £568.8 million at 31 December 2022. Our investments by way of a loan were converted to direct investments in the period through the exercise of the call options. The components of this valuation increase were as follows:

- Acquisitions: £56.0 million (81% of valuation increase in the period);
- Acquisition costs capitalised: £1.1 million (2% of valuation increase in the period);
- Capital improvements: £0.9 million (1% of valuation increase in the period);
- Valuation uplift: £12.6 million (18% of valuation increase in the period); and
- Disposals: £(1.2) million (2% of valuation decrease in the period).

Responsible and sustainable business

The homes in our portfolio provide a vital service for some of the UK's most vulnerable people who are unable to live independently. As a long-term investor in the sector, we are committed to investing responsibly and in 2023 the Investment Manager obtained signatory status to the UN Principles of Responsible Investment and is preparing its initial transparency report.

Following a review of EPCs and energy consumption data, we have produced our strategy for reducing the carbon emissions from the homes in our portfolio and continue to work collaboratively with our tenants to achieve this. We have set ourselves a target of 2045 for net zero status and will review our progress against our interim milestones at 2025 and 2030. We will ensure our investment programme is delivered in a planned and controlled manner. An example of this programme in action is the asset management project at Mavern House in Wiltshire mentioned above. In addition to building a new eight-bedroom extension, we are installing air source heat pumps and LED lighting throughout the home. In addition to improving the environmental sustainability of the building, these measures will, over the long term, be economically beneficial to our tenants. We are also continuing work on improving the EPC ratings across the portfolio and preparing asset level plans to invest in sustainability measures.

Resilient financial results

Total net rental income recognised for the period increased 16% to £22.7 million (H1 2022: £19.6 million). Under IFRS, the Group must recognise some rent in advance of receipt, reflecting the minimum uplift in rents over the term of the leases, on a straight-line basis and the one-off write-off of rent in the period prior to the re-tenanting of the Silverline portfolio. Cash rental income received in the period increased 17% to £19.8 million (H1 2022: £16.9 million). This is expected to increase further in the second half of the year with the conversion of our loan investments, which currently generate interest income, to direct investments with new 30 or 35-year leases signed with the tenants.

Administrative and other expenses totalled £3.7 million (H1 2022: £3.2 million), contributing to a total expense ratio of 1.61% for the period (H1 2022: 1.51%), a decrease on the full year average for 2022 of 1.67%. The EPRA cost ratio for the period was 16.0%, down from 16.2% in H1 2022 and 16.6% for the full year 2022. Revenue used for this calculation, excludes the income received on loans to operators for the purchase of property portfolios where the Group has an option to acquire, including this additional income and excluding the one-off write-off of rent in the period, the adjusted cost ratio is 14.0% versus an adjusted cost ratio of 15.4% in 2022. Finance costs were £4.4 million (H1 2022: £2.2 million). Interest income was £3.7 million (H1 2022: £1.8 million), reflecting the property investments made via loans to two operators discussed above. The change in fair value of investment properties was £9.3 million (H1 2022: £10.6 million), contributing to profit before tax increasing 1.1% to £27.6 million (H1 2022: £27.3 million).

Earnings per share ("EPS") for the period was 6.66 pence per share (H1 2022: 7.26 pence per share) and EPRA EPS was 4.15 pence per share (H1 2022: 4.22 pence per share). Adjusted EPS, which strips out the non-cash items, was 3.69 pence per share (H1 2022: 3.66 pence per share).

All the EPS figures listed above are on both a basic and diluted basis. More information on the calculation of EPS can be found in note 7 to the financial statements.

Progressive dividend, fully covered

To ensure the Company benefits from the full exemption from tax on rental income afforded by the UK REIT regime, it must distribute at least 90% of the qualifying profits each year from the Group's qualifying rental business.

The Company has declared two quarterly dividends of 1.6925 pence each in respect of the period. Both dividends were Property Income Distributions. The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £'m
31 March 2023	25 April 2023	19 May 2023	7.0
30 June 2023	9 August 2023	20 September 2023	7.0
Total			**14.0**

Dividends declared for the period were 122% covered by EPRA EPS and 109% covered by Adjusted EPS.

Strong balance sheet

We continue to take a conservative approach to managing the Group's balance sheet. At 30 June 2023, the Group had four debt facilities totalling £250.0 million, of which £190.8 million was drawn (31 December 2022: £142.3 million), giving a gross LTV of 28.5% (31 December 2022: 23.9%) and an EPRA LTV of 27.6% (31 December 2022: 22.6%). As at 30 June 2023, the weighted average term of debt facilities (excluding options to extend) was 6.8 years[5]. 66% of our drawn debt is fixed or hedged against interest rate rises (50% of total debt facilities as at 30 June 2023); 39% as a result of putting in place long-term fixed-rate debt and 26% from an interest rate cap which expires in January 2025.

The average monthly interest cost of our drawn debt, after hedging, was £680,000 in the first half, when SONIA rose from 2.8% on 3 January, to 4.9% on 30 June 2023. It had risen further to 5.4% by early August. At that level, the interest cost of our drawn debt will rise to £820,000 a month. Our average cost of drawn debt at 30 June 2023 was 4.85% and it increases by 17 bps for every further 50 bps increase in SONIA with our current level of hedging.

As part of the acquisition of a portfolio in January 2023, the Group issued 9,603,841 new shares at a price of 116.62 pence per share. In June, it repaid the final £15 million of a loan provided by Metro Bank, which was the Group's most expensive debt with a margin of 265 basis points. That debt was replaced through increasing the NatWest Bank revolving credit facility by £24 million, making the total facility £50 million with a margin of 200 basis points above SONIA. We also extended the maturity of the NatWest facility by four years, from 2024 to 2028 and agreed a reduction in its interest rate covenant. At the same time, we agreed to extend the maturity of the £75 million revolving credit facility provided by HSBC by one year to 2026 and agreed a reduction of its interest rate covenant.

As at 30 June 2023, we had £59.2 million of undrawn debt facilities and £22.1 million cash, leaving headroom to finance all committed contingent liabilities for deferred payments and capital expenditure, as well as to pursue a selected number of acquisition opportunities.

Impact Health Partners LLP
Investment Manager
9 August 2023

1 Adjusted rent cover excludes seven turnaround homes which were re-tenanted in May 2023 and one new home in build-up. These were also excluded in the quoted comparative adjusted rent covers.

2 Excludes one new home in build-up and three turn-around assets which have not reached maturity.

3 This relates to the property portfolio along with property portfolios that have been invested in via loans to operators with an option for the Group to acquire. Bed numbers do not include those that are under construction.

4 Contracted rent includes all post-tax income from investment in properties, whether generated from rental income or post-tax interest income.

5 This assumes the extensions of the NatWest facility have not been exercised, including these the weighted average term of debt facilities would be 7.2 years.

KEY PERFORMANCE INDICATORS

The Group uses the following measures to assess its strategic progress.

1. Total Accounting Return ("TAR")
6.17% for the period to 30 June 2022 (-4 bps on H1 2022)
Definition: The change in the net asset value ("NAV") over the period, plus dividends paid in the period, as a percentage of NAV at the start of the period.

2. Dividends
3.39p per share for the period to 30 June 2023 (+3.5% on H1 2022)
Definition: Dividends declared in relation to the period.

3. EPRA earnings per share
4.15p per share for the period to 30 June 2023 (-1.7% on H1 2022)
Definition: Earnings from operational activities. The EPRA calculation removes revaluation movements in the investment portfolio and interest rate derivatives but includes rent smoothing.

4. EPRA 'topped-up' Net Initial Yield ("NIY")
6.95% at 30 June 2023 (-3 bps on 2022)
Definition: Annualised rental income based on the cash rents passing on the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property portfolio, increased by 6.3% to reflect a buyer's costs and adjusted for the expiration of rent-free periods or other unexpired lease incentives.

5. NAV per share
113.64p per share at 30 June 2023 (+3.2% on 2022)
Definition: Net asset value based on the properties and other investment interests at fair value.

6. Gross Loan to Value ("LTV")
28.5% as at 30 June 2023 (+467 bps on 2022)
Definition: The proportion of our gross asset value that is funded by borrowings.

7. Net Loan to Value ("EPRA LTV")
27.6% as at 30 June 2023 (+499 bps on 2022)
Definition: The proportion of our investment portfolio's value that is funded by net debt.

8. Weighted Average Unexpired Lease Term ("WAULT")
21.2 years as at 30 June 2023 (+1.5 years on 2022)
Definition: The average unexpired lease term of the property portfolio, weighted by annual passing rents.

9. Total Expense Ratio ("TER")
1.61% as at 30 June 2023 (-6 bps on 2022)
Definition: Total recurring administration costs as a percentage of average net asset value throughout the period. EPRA cost ratio was 16.0%, adjusted to include the income on loans to operators for the purchase of property portfolios where the Group has an option to acquire, including this additional income and excluding one-off write off of rent in the period, gives an adjusted cost ratio of 14.0%. (2022: 15.4%).

10. Last 12 months' adjusted rent cover
1.82 times as at 30 June 2023 (+1.1% on 2022
Definition: Rent cover is the measure of EBITDARM divided by rent for the year. EBITDARM is a measure of care home level EBITDA before rent and tenants' central management costs. Adjusted rent cover excludes seven turnaround homes which were re-tenanted in May 2023 and one new home in build-up stage.

PRINCIPAL RISKS AND UNCERTAINTIES

The board has been regularly evaluating the performance of and risks to the business arising from the current high inflation, and consequential economic uncertainty. The principal risks and uncertainties continue to be those outlined on pages 52-57 of our 2022 Annual report dated 27 March 2023 and the board considers that these will remain valid for the remainder of the year.

The principal risks are summarised below and include updates since the annual report from our evaluation in the period.

Changes to government social care policy – Our business provides premises in which our tenant operators provide care for vulnerable people. Government has a responsibility to ensure the delivery of affordable care for all that need it. Changes in government legislation and funding affect the market in which we operate, by changing requirements that may affect revenue or costs. This could reduce our tenants' ability to pay their rent and result in changes to valuations of our properties.

Infectious diseases – Significant outbreaks of infectious diseases, in particular pandemics such as COVID-19, can have long-lasting and far-reaching effects across all businesses.

General economic conditions – The economy is in a period of high inflation as a result of several factors including staffing shortages, supply chain issues and heightened gas and electricity prices. Interest rates have risen sharply and are not expected to return to the levels experienced for the past 15 years. This combination of factors is having a continued effect on global economies and supply chains. Higher interest rates have hit property valuations across all sectors in the UK including healthcare. If they continue to rise, they could put further pressure on valuations and bank funding financial covenants.

> ***Interim update*** – There remains continued uncertainty surrounding the level of inflation within the UK and further interest rate rises are expected to help bring this towards target levels. Our tenants' performance overall remains strong and the Group is looking to manage the rising interest rates predicted by the use of derivatives.

Weakening care market – Several factors may affect the market for care for older people, including: adverse conditions in the healthcare sector; local authority funders amending their payment terms, affecting our tenants' revenues; increased regulatory responsibility and associated costs for our tenants that are not offset by an increase in fees; and competition or alternative forms of care provision.

Significant tenant default – The default of tenants or failing to act quickly and decisively when confronted with a failing tenant, would affect the value of our homes and, if significant, our ability to pay dividends to our shareholders and to meet our financing obligations.

> ***Interim update*** – We disclosed in our year-end report, one tenant was in default with its rent payments from January 2023. We have subsequently re tenanted this portfolio and 98% of rent due was collected for the period. Rent cover across the Group remains strong and we will continue to closely monitor tenant performance.

Underinvestment in care homes – There is a risk that increased investment is required to ensure the homes are compliant with environmental regulations. This includes the expectation that regulation will be put in place for all leased properties to be English EPC C by 2027 and EPC B by 2030.

There is also a risk that insufficient investment is made and homes become unattractive to residents.

Environmental regulation and impact of climate change – Tightening environmental regulations increase the need for investment or redevelopment of our portfolio and could restrict our tenants' ability to provide care and earn revenue.

Failure to consider the effects of climate change could accelerate the obsolescence of our care homes (both physical and low carbon transition risks) with corresponding implications to value and long-term income generation.

Ability to meet our financing obligations – If we are unable to operate within our debt covenants (primarily interest cover and LTV covenants), this could lead to a default and our debt funding being recalled.

Interest on our variable rate debt facilities is payable based on a margin over SONIA and bank base rates. Any adverse movements in these rates could significantly impair our profitability and ability to pay dividends to shareholders.

> ***Interim update*** – The Group has successfully increased the size and term of its facility with NatWest and increased the term of its facility with HSBC. It has also reduced the ICR covenant on both facilities from 2.5x to 2.0x to ensure it can remain fully compliant if the facility were fully drawn. 66% of the Group's current drawn debt is hedged and the Group is exploring additional hedging opportunities to increase this level.

Reliance on the Investment Manager – Our performance depends on the Investment Manager's capabilities, the retention of its key staff and its ability to deliver business continuity.

There is a risk of potential conflict of interest with the Investment Manager and its initial tenant for the Seed Portfolio

The approach to risk taken by the board is rigorous and thorough. It ensures that the assessment of risk remains appropriate and relevant.

DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge, this condensed set of financial statements has been prepared in accordance with IAS 34 in conformity with the requirements of the Companies Act 2006 and that the operating and financial review contained within the Investment Manager's report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure Guidance and Transparency rules of the United Kingdom's Financial Conduct Authority, namely:

- an indication of important events that have occurred during the first period of the financial year and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first period of the financial year and any material changes in the related party transactions disclosed in the 2022 annual report as disclosed in note 22.

During the half-year, Rupert Barclay was succeeded by Simon Laffin as Chair of the board on 31 March 2023 and Paul Craig stepped down from the Board at the AGM on 17 May 2023. Biographies of each of the current directors are shown on page 75-77 in the 2022 annual report.

Shareholder information is as disclosed on the Impact Healthcare REIT plc website.

For and on behalf of the board
Simon Laffin
Chairman
9 August 2023

Condensed consolidated statement of comprehensive income

	Notes	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Gross rental income	5	23,063	19,648	42,242
Bad debts written off	5	(350)	–	–
Insurance/service charge income	5	421	387	704
Insurance/service charge expense	5	(421)	(387)	(704)
Net rental Income		**22,713**	**19,648**	**42,242**
Administrative and other expenses		(3,681)	(3,181)	(7,009)
Profit/ (Loss) on disposal of investment properties		(16)	–	130
Operating profit before changes in fair value		**19,016**	**16,467**	**35,363**
Changes in fair value of put/call option		–	527	(1,811)
Changes in fair value of investment properties	9	9,340	10,646	(14,456)
Operating profit		**28,356**	**27,640**	**19,096**
Finance income		3,656	1,831	3,200
Finance expense		(4,423)	(2,176)	(5,408)
Profit before tax		**27,589**	**27,295**	**16,888**
Tax charge on profit for the period/year	6	–	–	–
		27,589	**27,295**	**16,888**
Earnings per share – basic and diluted (pence)	7	**6.66p**	**7.26p**	**4.33p**

The results are derived from continuing operations during the period/year.

Condensed consolidated statement of financial position

	Notes	As at 30 June 2023 (unaudited) £'000	As at 30 June 2022 (unaudited) £'000	As at 31 December 2022 (audited) £'000
Non-current assets				
Investment property	9	606,719	505,667	504,318
Interest rate derivatives	11	2,304	–	–
Call option	12	–	527	–
Trade and other receivables	12	34,810	64,594	68,131
Total non-current assets		**643,833**	**570,788**	**572,449**
Current assets				
Trade and other receivables		2,350	1,817	1,181
Cash and cash equivalents		22,053	22,050	22,531
Interest rate derivatives	11	–	342	363
Total current assets		**24,403**	**24,209**	**24,075**
Total assets		**668,236**	**594,997**	**596,524**
Current liabilities				
Borrowings	10	–	(14,970)	(14,814)
Trade and other payables		(9,616)	(10,074)	(9,126)
Total current liabilities		**(9,616)**	**(25,044)**	**(23,940)**
Non-current liabilities				
Borrowings	10	(185,329)	(119,253)	(122,382)
Put option		–	–	(1,811)
Trade and other payables		(2,400)	(2,570)	(2,471)
Total non-current liabilities		**(187,729)**	**(121,823)**	**(126,664)**
Total liabilities		**(197,345)**	**(146,867)**	**(150,604)**
Total net assets		**470,891**	**448,130**	**445,920**
Equity				
Share capital	13	4,144	3,857	4,048
Share premium reserve	14	376,716	344,400	365,642
Capital reduction reserve		24,077	24,077	24,077
Retained earnings		65,954	75,796	52,153
Total equity		**470,891**	**448,130**	**445,920**
Net Asset Value per ordinary share (pence)	**16**	**113.64p**	**116.18p**	**110.17p**

Condensed consolidated statement of cash flows

	Notes	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Cash flows from operating activities				
Profit for the period/year (attributable to equity shareholders)		27,589	27,295	16,888
Finance income		(3,656)	(1,831)	(3,200)
Finance expense		4,423	2,176	5,408
Profit/ Loss on disposal of investment properties		16	–	(130)
Change in fair value of call option		–	(527)	1,811
Changes in fair value of investment properties	9	(9,340)	(10,646)	14,456
Net cash flow before working capital changes		19,032	16,467	35,233
Working capital changes				
Increase in trade and other receivables		(3,086)	(2,830)	(5,952)
(Decrease)/increase in trade and other payables		927	(948)	207
Net cash flow from operating activities		**16,873**	**12,689**	**29,488**
Investing activities				

Purchase of investment properties	9	(44,800)	(47,367)	(69,217)
Proceeds on sale of investment property	9	1,234	–	2,625
Acquisition costs paid in period		(1,555)	(431)	(2,661)
Capital improvements paid in period	9	(857)	(4,702)	(11,195)
Loan advanced to operator		(971)	–	-
Loan associated costs paid in period		–	(466)	(478)
Interest received		1,872	1,715	3,270
Net cash flow from investing activities		**(45,077)**	**(51,251)**	**(77,656)**
Financing activities				
Proceeds from issue of ordinary share capital	13,14	-	40,000	62,269
Issue costs of ordinary Share capital	14	(30)	(921)	(1,757)
Bank borrowings drawn	10	68,500	68,070	85,074
Bank borrowings repaid	10	(20,000)	(45,000)	(57,362)
Loan arrangement fees paid		(1,596)	(736)	(1,265)
Loan commitment fees paid		(220)	(290)	(628)
Interest paid on bank borrowings		(4,108)	(1,284)	(3,281)
Interest payments received on interest rate derivatives		449	–	112
Interest rate derivative purchased	11	(1,481)	–	–
Dividends paid to equity holders	8	(13,788)	(12,488)	(25,724)
Net cash flow from financing activities		**27,726**	**47,351**	**57,438**
Net increase/(decrease) in cash and cash equivalents for the period		(478)	8,789	9,270
Cash and cash equivalents at the start of the period		22,531	13,261	13,261
Cash and cash equivalents at the end of the period		**22,053**	**22,050**	**22,531**

Condensed consolidated statement of changes in equity

Six months ended 30 June 2023 (unaudited)

	Notes	Share capital (unaudited) £'000	Share premium (unaudited) £'000	Capital reduction reserve (unaudited) £'000	Retained earnings (unaudited) £'000	Total (unaudited) £'000
1 January 2023		**4,048**	**365,642**	**24,077**	**52,153**	**445,920**
Total comprehensive income		–	–	–	27,589	27,589
Transactions with owners						
Dividends paid	8	–	–	–	(13,788)	(13,788)
Share issues	13,14	96	11,104	–	–	11,200
Share issue costs	14	–	(30)	–	–	(30)
30 June 2023		**4,144**	**376,716**	**24,077**	**65,954**	**470,891**

Six months ended 30 June 2022 (unaudited)

	Notes	Share capital (unaudited) £'000	Share premium (unaudited) £'000	Capital reduction reserve (unaudited) £'000	Retained earnings (unaudited) £'000	Total (unaudited) £'000
1 January 2022		**3,506**	**305,672**	**24,077**	**60,989**	**394,244**
Total comprehensive income		–	–	–	27,295	27,295
Transactions with owners						
Dividends paid	8	–	–	–	(12,488)	(12,488)
Share issues	13,14	351	39,649	–	–	40,000

Share issue costs	14	–	(921)	–	–	(921)
30 June 2022		**3,857**	**344,400**	**24,077**	**75,796**	**448,130**

For the year ended 31 December 2022 (audited)

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2022		**3,506**	**305,672**	**24,077**	**60,989**	**394,244**
Total comprehensive income		–	–	–	16,888	16,888
Transactions with owners						
Dividends paid	8	–	–	–	(25,724)	(25,724)
Share issue	13,14	542	61,727	–	–	62,269
Share issue costs	14	–	(1,757)	–	–	(1,757)
31 December 2022		**4,048**	**365,642**	**24,077**	**52,153**	**445,920**

Notes to the condensed consolidated financial statements

1. Basis of preparation

General information

These unaudited condensed consolidated financial statements for the six-month period ended 30 June 2023, are prepared in accordance with UK adopted International accounting standards and IAS 34 "Interim Financial Reporting", including the comparative information for the six-month period ended 30 June 2022 and for the year ended 31 December 2022. They do not include all of the information required for full annual financial statements and should be read in conjunction with the 2022 annual report and accounts, which were prepared in accordance with UK adopted International accounting standards.

The condensed consolidated financial statements have been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value.

The Group has chosen to adopt EPRA best practice guidelines for calculating key metrics such as earnings per share.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's ordinary shares are listed on the Premium Listing Segment of the Official List and trade on the premium segment of the main market of the London Stock Exchange. The registered address of the Company is disclosed in the corporate information.

The condensed consolidated financial statements presented herein for the six months to 30 June 2023 do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group's annual report and accounts for the year to 31 December 2022 have been delivered to the Registrar of Companies. The Group's Independent Auditor's report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2016.

Convention

The condensed consolidated financial statements are presented in Sterling, which is also the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

After making enquiries and bearing in mind the nature of the Company's business and assets, the directors consider that the Company has adequate resources to continue in operational existence for the next 12 months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The ongoing effect of the high inflationary environment and rising interest rates have been considered by the directors. The directors have reviewed the forecasts for the Group taking into account the impact of increasing interest rates and rising costs, as a result of inflation, on trading over the 12 months from the date of signing this report. The forecasts have been assessed against a range of possible downside outcomes incorporating significantly lower levels of income and higher costs, the Group and the Company have adequate cash resources to continue to operate in all of these scenarios.

The directors believe that there are currently no material uncertainties in relation to the Company's and Group's ability to continue for a period of at least 12 months from the date of approval of the Company and Group interim statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the interim report is appropriate.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below:

2.1 Judgements

Operating lease contracts – the Group as lessor
The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases, when signed, are for between 20 and 35 years with a tenant-only option to extend for one or two periods of ten years. At the inception of the lease, the directors do not judge any extension of the leases to be reasonably certain and, as such, do not factor any lease extensions into their considerations of lease incentives and their treatment.

2.2 Estimates

Fair valuation of investment property
The valuations have been prepared in accordance with the RICS Valuation – current edition of the global and UK standards as at the valuation date or the RICS 'Red Book' as it has become widely known.

The basis of value adopted is that of fair value being "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value.

The significant methods and assumptions used by the valuers in estimating the fair value of the investment properties are set out in note 9.

Gains or losses arising from changes in the fair values are included in the Condensed consolidated statement of comprehensive income in the period in which they arise. In order to avoid double counting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or guaranteed minimum rent uplifts at the inception of the lease.

Put and call options
The fair value of the assets underlying the put and call options, being the property portfolio to which they relate, are measured in line with investment property, the fair value movement is shown on the Consolidated statement of comprehensive income as Changes in fair value of put/call option. During June 2023 the put/call option was exercised and thus derecognised.

3. Summary of significant accounting policies

The accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the year ended 31 December 2022 and are expected to be consistently applied during the year ending 31 December 2023.

4. New standards issued

4.1 New standards issued with effect from 1 January 2023

No new standards have been applied that have had a material effect on the financial position or performance of the Group.

4.2 New standards issued but not yet effective

There are no new standards issued but not yet effective that are expected to have a material effect on the Group.

5. Property income

	Six months ended 30 June 2023 (unaudited)	Six months ended 30 June 2022 (unaudited)	Year ended 31 December 2022 (audited)
	£'000	£'000	£'000
Rental income cash received in the period/year	**19,785**	**16,931**	**35,889**
Rent received in advance of recognition[1]	70	71	170
Rent recognised in advance of receipt[2]	3,278	2,716	6,324
Rental lease incentive amortisation[3]	(70)	(70)	(141)
Gross rental income	**23,063**	**19,648**	**42,242**
Bad debts written off[4]	(350)	–	–
Insurance/service charge income	421	387	704
Insurance/service charge expense	(421)	(387)	(704)
Net rental income	**22,713**	**19,648**	**42,242**

1 This relates to movement in rent premiums received in prior periods as well as any rent premiums received during the period/year, deemed to be a premium over the term of the leases.
2 Relates to both rent-free periods being recognised on a straight-line basis over the term of the lease and rent recognised in the period to reflect the minimum uplifts in rents over the term of the lease on a straight-line basis.
3 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.
4 Bad debts written off relates to rental arrears due from one tenant who leased seven of the Group's properties, in the period these properties were re-tenanted, see note 15 for further detail.

6. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the period ended 30 June 2023 and year ended 31 December 2022, the Group did not have any non-qualifying profits except interest income.

7. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the time-weighted average number of ordinary shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Six months ended 30 June 2023 (unaudited)	Six months ended 30 June 2022 (unaudited)	Year ended 31 December 2022 (audited)
	£'000	£'000	£'000
Total comprehensive income (attributable to shareholders)	**27,589**	**27,295**	**16,888**
Adjusted for:			
- Revaluation movement	(12,618)	(13,363)	8,103
- Movement in lease incentive debtor	(70)	(70)	(141)

- Rental income arising from recognising rental premiums and future guaranteed rent uplifts	3,348	2,787	6,494
Change in fair value of investment properties	(9,340)	(10,646)	14,456
Change in fair value of put option	–	–	1,811
(Profit) / Loss on disposal of investment property	16	–	(130)
Change in fair value of interest rate derivative	(1,088)	(248)	(381)
Change in fair value of call option	–	(527)	–
EPRA earnings	**17,177**	**15,874**	**32,644**
Adjusted for:			
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(3,348)	(2,787)	(6,494)
Profit / (Loss) on disposal of investment property	(16)	–	130
Interest received on interest rate cap	628	–	112
Amortisation of lease incentive[1]	70	70	141
Amortisation of loan arrangement fees	757	593	1,205
Adjusted earnings	**15,268**	**13,750**	**27,738**
Average number of ordinary shares	413,943,690	375,845,314	390,058,661
Earnings per share (pence)[2]	**6.66p**	**7.26p**	**4.33p**
EPRA basic and diluted earnings per share (pence)[2]	**4.15p**	**4.22p**	**8.37p**
Adjusted basic and diluted earnings per share (pence)[2]	**3.69p**	**3.66p**	**7.11p**

1 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.
2 There is no difference between basic and diluted earnings per share.

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the changes in fair value of on investment properties, options to acquire investment properties and interest rate derivatives, and removal of profit or loss on disposal of investment properties.

Adjusted Earnings:
Adjusted earnings is used by the board to help assess the Group's ability to deliver a cash covered dividend from net income. The metric reduces EPRA earnings by other non-cash items credited or charged to the Group statement of comprehensive income including the effect of straight-lining of rental income from fixed rental uplift adjustments and amortisation of lease incentives and loan arrangement fees. The metric also adjusts for any one-off items that are not expected to be recurring.

Fixed rental uplift adjustments relate to adjustments to net rental income on leases with minimum uplifts embedded within their review profiles. The total minimum income recognised over the lease term is recognised on a straight-line basis and therefore not supported by cash flows during the early term of the lease, but this reverses towards the end of the lease.

The board uses the adjusted earnings alongside the available distributable reserves in its consideration and approval of dividends.

8. Dividends

	Dividend rate per share pence	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	31 December 2022 (audited) £'000
Fourth interim dividend for the period ended 31 December 2021 (ex-dividend – 24 February 2022)	1.6025p	–	6,181	6,181

First interim dividend for the period ended 31 December 2022 (ex-dividend – 5 May 2022)	1.6350p	–	6,307	6,307
Second interim dividend for the period ended 31 December 2022 (ex-dividend – 25 August 2022)	1.6350p	–	–	6,618
Third interim dividend for the period ended 31 December 2022 (ex-dividend – 3 November 2022)	1.6350p	–	–	6,618
Fourth interim dividend for the period ended 31 December 2022 (ex-dividend – 24 February 2023)	1.6350p	6,775	–	–
First interim dividend for the period ended 31 December 2023 (ex-dividend – 4 May 2023)	1.6925p	7,013	–	–
Total dividends paid		**13,788**	**12,488**	**25,724**
Total dividends paid in respect of the period/year		1.6925p	1.6350p	4.9050p
Total dividends unpaid but declared in respect of the period/year		1.6925p	1.6350p	1.6350p
Total dividends declared in respect of the period/year – per share		3.385p	3.270p	6.54p

On 31 January 2023 the Company declared an interim dividend of 1.6350 pence per share for the period from 1 October 2022 to 31 December 2022 and was paid in February 2023.

On 25 April 2023 the Company declared an interim dividend of 1.6925 pence per ordinary share for the period from 1 January 2023 to 31 March 2023 and was paid in May 2023.

On 9 August 2023, the Company declared an interim dividend of 1.6925 pence per share for the period from 1 April 2023 to 30 June 2023 payable in September 2023.

9. Investment property

In accordance with the RICS 'Red Book' the properties have been independently valued on the basis of fair value by Cushman & Wakefield, an accredited independent valuer with a recognised professional qualification. They have recent and relevant experience in the locations and categories of investment property being valued and skills and understanding to undertake the valuations competently. The properties have been valued on an individual basis and their values aggregated rather than the portfolio valued as a single entity. The valuers have used recognised valuation techniques in accordance with those recommended by the International Valuation Standards Committee and are compliant with IFRS 13. Factors reflected include current market conditions, annual rentals, lease lengths, property condition including improvements affected during the period, rent coverage, location and comparable evidence.

The valuations are the ultimate responsibility of the directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the board.

All corporate acquisitions during the year/period have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	As at 30 June 2023 (unaudited)	As at 30 June 2022 (unaudited)	As at 31 December 2022 (audited)
	£'000	£'000	£'000
Opening value	532,479	459,442	459,442
Property additions[2]	91,688	47,367	69,217
Property disposals[1]	(1,250)	–	(2,495)
Acquisition costs capitalised	1,765	1,177	2,591
Capital improvements	857	8,842	11,826
Revaluation movement	12,618	13,363	(8,102)
Closing value per independent valuation report	**638,157**	**530,191**	**532,479**
Lease incentive debtor	(2,449)	(2,590)	(2,519)
Guaranteed rent reviews debtor	(31,390)	(24,504)	(28,112)

Rent premium creditor	2,401	2,570	2,470
Closing fair value per Condensed consolidation statement of financial position	**606,719**	**505,667**	**504,318**

1 In period 30 June 2023 the carrying value of disposals was £1,250,000 (2022: £2,495,000), this combined with the loss (2022: profit) on disposal of £16,000 (2022: £130,000) makes up the total net proceeds shown in the Condensed consolidated statement of cash flows.
2 Includes carrying value of the loan receivable of £37.5 million and associated put option, which was valued at £1.8 million and exercised in June 2023 when the properties were acquired and hence the put option and loan were derecognised. Along with £56.0 million for an acquisition made in January 2023 of which £11.2 million was paid via the issuance of shares and the remaining £44.8 million funded in cash.

Change in fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the condensed consolidated statements:

	Six months ended 30 June 2023 (unaudited)	Six months ended 30 June 2022 (unaudited)	31 December 2022 (audited)
	£’000	£’000	£’000
Revaluation movement	12,618	13,363	(8,102)
Movement in lease incentive debtor[1]	70	70	141
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(3,348)	(2,787)	(6,495)
Change in fair value of investment properties	**9,340**	**10,646**	**(14,456)**

1 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

10. Borrowings

A summary of the borrowings drawn in the period are shown below:

	As at 30 June 2023 (unaudited)	As at 30 June 2022 (unaudited)	As at 31 December 2022 (audited)
	£’000	£’000	£’000
At the beginning of the period/year	142,260	114,548	114,548
Borrowings drawn in the period/year	68,500	68,070	85,074
Borrowings repaid in the period/year	(20,000)	(45,000)	(57,362)
Total borrowings drawn[1]	**190,760**	**137,618**	**142,260**
Total borrowings undrawn	**59,240**	**68,382**	**98,740**
Total borrowings available	**250,000**	**206,000**	**241,000**

1 Total borrowings drawn are equal to its fair value

The Group drew down £69 million and repaid £20 million under its existing loan facilities with Metro Bank PLC (“Metro”), HSBC UK Bank Plc, Clydesdale Bank Plc and National Westminster Bank Plc (“NatWest”).

On 28 June 2023, the Group extended and restated its revolving credit facility with NatWest, increasing the facility size to £50 million and maturity to June 2028, replacing the £26 million facility which was due to expire in June 2024.

On 15 June 2023, the Group repaid the term loan with Metro in full and this facility is now expired.

Any fees associated with arranging the borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	As at 30 June 2023 (unaudited)	As at 30 June 2022 (unaudited)	As at 31 December 2022 (audited)

	£'000	£'000	£'000
Borrowings drawn:	**190,760**	**137,618**	**142,260**
Arrangements fees – brought forward	(5,064)	(3,641)	(3,641)
Arrangement fees incurred during the period/year	(1,124)	(347)	(2,628)
Amortisation of loan arrangement fees	757	593	1,205
Borrowings at amortised cost	**185,329**	**134,223**	**137,196**
Borrowings at amortised cost due within one year	*–*	*14,970*	*14,814*
Borrowings at amortised cost due after one year	*185,329*	*119,253*	*122,382*

11. Interest rate derivatives

	As at 30 June 2023 (unaudited)	As at 30 June 2022 (unaudited)	As at 31 December 2022 (audited)
	£'000	£'000	£'000
At the beginning of the year/period	**363**	**94**	**94**
Change in fair value of interest rate derivative	1,088	248	381
Payments received on interest rate derivative	(628)	–	(112)
Purchase of derivatives	1,481	–	–
	2,304	**342**	**363**

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans in June 2018, the Group entered into a five-year interest rate cap with a notional value of £25 million which caps SONIA at 1%, this expired during the period to 30 June 2023.

In January 2023, the Group purchased a two-year interest rate cap for £1.5 million, which caps SONIA at 3% for a notional amount of £50 million.

12. Other non-current assets

	As at 30 June 2023 (unaudited)	As at 30 June 2022 (unaudited)	As at 31 December 2022 (audited)
	£'000	£'000	£'000
Rent recognised in advance of receipt	31,390	24,504	28,112
Rental lease incentive[1]	2,449	2,590	2,519
Loan receivable	971	37,500	37,500
Trade and other receivables	**34,810**	**64,594**	**68,131**
Call option	–	527	–
Interest rate derivative	2,304	–	–
	37,114	**65,121**	**68,131**

1 Lease incentives relate to the amortisation of payments made to tenants that are not part of any acquisition contractual obligations. These payments are made in return for an increase in rent.

Loan receivable in the comparative periods, relates to term loan facilities which have been provided to operators to acquire a portfolio of properties. These loan facilities accrue interest at a rate such that the post tax interest income is equivalent to the rent the Group would otherwise earn if it had purchased the properties directly. On the same date the Group will enter put and call options over the portfolio of properties which, upon certain conditions being met, allow the Group to purchase the properties for consideration of £1. During the period to June 2023 a portfolio of properties was acquired and the receivable was derecognised.

The remaining loan receivable relates to a £1.6 million loan facility that the Group agreed to provide to Melrose Holdings Limited, of which £971k was drawn at June 2023. The facility is for up to three years with an interest rate of 8.0% per annum on drawn funds, see note 15 for further detail.

No impairment losses have been recognised during the period/year.

13. Share capital

	Six months ended 30 June 2023 Number of shares	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
At the beginning of the period/year	404,764,328	4,048	3,506	3,506
Shares issued	9,603,841	96	351	542
	414,368,169	**4,144**	**3,857**	**4,048**

On 13 January 2023, the Company issued 9,603,841 ordinary shares priced at 116.62 pence per share as part consideration for an acquisition, see note 9 for further detail. The Company had 414,368,169 shares of nominal value of 1 pence each in issue at the end of the period.

14. Share premium

Share premium comprises share capital subscribed for in excess of nominal value less costs directly attributed to share issuances.

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
At the beginning of the year/period	365,642	305,672	305,672
Surplus of net proceeds on shares issued above their par value	11,104	39,649	61,727
Share issue costs	(30)	(921)	(1,757)
	376,716	**344,400**	**365,642**

15. Transactions with related parties

Investment Manager

The fees calculated and paid for the period to the Investment Manager were as follows:

	Six months ended 30 June 2023 (unaudited) £'000	Six months ended 30 June 2022 (unaudited) £'000	Year ended 31 December 2022 (audited) £'000
Impact Health Partners LLP	**2,381**	**2,233**	**4,581**

For the six-month period ended 30 June 2023 the principals and finance director of Impact Health Partners LLP, the Investment Manager, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the finance director of Impact Health Partners LLP and they own 3.14%, 0.35% and 0.02% respectively (either directly or through a wholly-owned company) of the total issued ordinary share capital of Impact Healthcare REIT plc. In addition, Mr Patel also (directly and/or indirectly) holds a majority 72.5% stake in Minster Care Group Limited "MCGL". Mr Cowley also holds a 20% interest in MCGL. 38% of the Group's rental income was received from MCGL or its subsidiaries during the period. There were no trade receivables or payables outstanding at the period end.

During the period the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £350,995; Andrew Cowley £35,096 and David Yaldron £3,504.

Directors' interests

Paul Craig was a director of the Company, who resigned on 17 May 2023, was also the portfolio manager at Quilter Investors, which has an interest in 66,923,191 ordinary shares of the Company through funds under management. The remaining directors who are shareholders in the Company do not hold significant interest in the ordinary share capital of the Company.

During the period the directors, who are considered key management personnel, received the following dividends from the Company: Rupert Barclay £5,934; Rosemary Boot £971; Philip Hall

£971; and Christopher Santer £227. In addition, funds which were managed by Paul Craig received dividends from the Company of £2,068,712.

These transactions were fully compliant with the Company's related party policy.

Minster Care Group Limited ("MCGL")

MCGL, a tenant of the Group, is considered a related party as it is majority owned by the principals of the Investment Manager. As at 30 June 2023, the Group leased 58 properties to MCGL, all properties owned for over one year underwent an inflation-linked rent review in line with their lease provisions. In the period to 30 June 2023, the Group entered into no new leases with MGCL and disposed of one property let to MCGL to a third party in line with latest valuation.

In June 2023, the Group negotiated the solvent transfer of the operations of all seven of the Group's homes operated by Silverline Group on to an affiliate of MCGL. Silverline Group had not paid its contractual rent (£1.6 million p.a. or 3.4% of the Group's total annual contracted income) for the first two quarters of 2023, although the Group has received £0.4 million from Silverline's rent deposits. A new company, Melrose Holdings Limited ("MHL"), an entity wholly owned by connected parties of Mahesh Patel, agreed to a solvent purchase of Silverline Group's tenant companies and to take over their responsibilities for operating these homes immediately, benefiting from a service agreement with MCGL.

To assist in funding Silverline's overdue liabilities to third parties, other than the Group, along with remedial capital expenditure the Group has agreed to provide a £1.6 million loan facility to MHL for up to three years with an interest rate of 8.0% per annum on drawn funds. This loan will be repaid in advance of any rent from surplus funds in MHL. As at 30 June 2023 £971,000 of this loan facility was drawn (see note 12).

These transactions were fully compliant with the Company's related party policy.

16. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the consolidated statement of financial position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

The Group has chosen to adopt EPRA net tangible assets ("EPRA NTA") as its primary EPRA NAV measure as it most closely aligns with the business practices of the Group. The adjustments between NAV and EPRA NTA are reflected in the following table:

	As at 30 June 2023 (unaudited) £'000	As at 30 June 2022 (unaudited) £'000	As at 31 December 2022 (audited) £'000
Net assets per Condensed consolidated statement of financial position	470,891	448,130	445,920
Fair value of derivatives	(2,304)	(342)	(363)
EPRA NTA	468,587	447,788	445,557
Issued share capital (number)	414,368,169	385,731,908	404,764,328
Basic NAV per share	**113.64p**	**116.18p**	**110.17p**
EPRA NTA per share	**113.08p**	**116.09p**	**110.08p**

17. Capital commitments

At 30 June 2023 the Group had committed capital expenditure on one forward-funded development of a new property and on capital improvements to existing properties, this amounted to £18.0 million. The Group has committed to deferred payment agreements on two acquisitions in return for increased rent based on trading performance. As at 30 June 2023 the total capital commitment for these deferred payments is estimated at £4.6 million.

18. Controlling parties

The Company is not aware of any person who, directly or indirectly owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

19. Subsequent events

No other significant events have occurred between the statement of financial position date and the date at which these financial statements were authorised by the directors, which require adjustments to, or disclosure in the financial statements.

Corporate information

Directors	Amanda Aldridge – Non-executive Director Rupert Barclay – Non-executive Chairman (resigned 31 March 2023) Rosemary Boot – Senior Independent Non-executive Director Paul Craig – Non-executive Director (resigned 17 May 2023) Philip Hall – Non-executive Director Simon Laffin – Non-executive Chairman (Appointed 1 January 2023) Christopher Santer – Non-executive Director
Registered office	The Scalpel 18th Floor 52 Lime Street London EC3M 7AF Telephone: +44 (0)207 409 0181
Investment Manager	Impact Health Partners LLP 149-151 Regent Street London W1B 4JD
Independent Auditor	BDO LLP 55 Baker Street London W1U 7EU
Administrator & Secretary	JTC (UK) Limited The Scalpel 18th Floor 52 Lime Street London EC3M 7AF
Depositary	Indos Financial Limited 54 Fenchurch Street London EC3M 3JY
Registrar	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ
Legal Advisers	Travers Smith LLP 10 Snow Hill London EC1A 2AL
Joint Financial Adviser and Corporate Broker	Jefferies International Limited 100 Bishopsgate London EC2N 4JL
Joint Financial Adviser and Corporate Broker	Winterflood Securities Limited The Atrium Building Cannon Bridge 25 Dowgate Hill London EC4R 2GA

Communications Adviser	H/Advisors Maitland 3 Pancras Square London N1C 4AG
Company Registration Number	10464966