# Impact Healthcare REIT plc

Interim results for the period to 30 June 2018

# Agenda and presentation team

**Agenda**

- Company overview
- Key financials
- Portfolio review
- Enhancing the portfolio
- New acquisitions
- Market update
- Investment opportunities
- 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

# Company overview

- Impact Healthcare REIT PLC listed on the London Stock Exchange (Specialist Fund Segment) on 7 March 2017. Total equity raised in 2017: £193 million
- Five quarterly dividends of 1.5p per share paid or declared in first five quarters
- Highly predictable, attractive income and growth from fixed and upwards only RPI-linked rental uplifts with long-term leases
- Exposure to a diversified portfolio of healthcare real estate opportunities
- Strong governance with very experienced non-executive directors: Rupert Barclay, Rosemary Boot, Paul Craig and Philip Hall
- 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

# Financial highlights

## 3.0p

**DIVIDENDS PER SHARE**

Two quarterly dividends of 1.5p each paid or declared for the first half of the year.

## £184.3 million

**PORTFOLIO VALUE**

Portfolio independently valued at £184.3 million as at 30 June 2018, representing an uplift on 31 December 2017 valuation of 2.56% on a like-for-like basis.

## £25.0 million

**DEBT**

The Group had £25.0 million of debt drawn as at 30 June 2018 representing a gross LTV of 11.2% of Gross Assets.

## 79.0%

**DIVIDEND COVER**

Paid and declared dividends 79.0% covered by adjusted earnings per share of 2.37p for the first half of the year. EPRA earnings per share were 3.23p.

## £14.49 million

**CONTRACTED ANNUAL RENT**

Contracted annual rent of £14.49 million as at 30 June 2018, an increase of £2.63 million or 22.1% since 31 December 2017.

## 8.84% (annualised)

**EPRA NAV TOTAL RETURN**

EPRA NAV total return annualised for the period to 30 June 2018 was 8.84% compared to 1.92% for the FTSE EPRA/NAREIT UK REITs Index.

## 102.03p per share

**NET ASSET VALUE**

Net asset value of 102.03p per share as at 30 June 2018, an increase of 1.38p per share or 1.4% since 31 December 2017.

## £8.48 million

**PROFIT BEFORE TAXATION**

Profit before taxation in the period to 30 June 2018 was £8.48 million, 4.41p per share.

## £198.0 million

**MARKET CAPITALISATION**

Market capitalisation as at 29 June 2018.

**This is the Group’s first full six month period to 30 June. Our period to 30 June 2017 related to trading from IPO on 7 March 2017. As a result we are not comparing trading performance in these highlights.**

# Operational and post balance sheet highlights

## 63

**ASSETS IN THE PORTFOLIO**

In the period ending 30 June 2018, we acquired six care homes, taking our portfolio to 63, adding two additional tenants. We have committed to buy a further home.

## +96 beds

**ASSET MANAGEMENT PIPELINE**

96 beds were approved for development in the period taking the total asset management activity to 188 beds since IPO or 7% of the seed portfolio. 63 of these beds are now operational with a further 21 beds due to be operational in Q3 2018.

## 7.57%

**CONTRACTED YIELD**

At 30 June 2018 the Group had a contracted rent roll of £14.49 million. The portfolio market value, together with committed capital expenditure at 30 June 2018 was £191.5 million, delivering an investor contracted yield of 7.57% (compared to an EPRA Net Initial Yield of 7.09%).

## +367 beds

**ASSET ACQUISITIONS**

367 beds have been added in the half year through acquisitions, a 14.5% increase on the 31 December 2017 year end beds, with a further 77 beds in one home exchanged but not yet completed.

## +218 beds post BS

**ASSET ACQUISITION**

On 3 August 2018 the Group exchanged contracts to acquire a portfolio of five care homes comprising 218 beds for a total consideration of £12.15 million (including costs). The homes will be managed by Careport Advisory Services, the Group’s fourth tenant group.

## 19.2 years

**WAULT**

We benefit from long leases, with a weighted average unexpired lease term (“WAULT”) of 19.2 years at 30 June 2018.

## £0.46 million

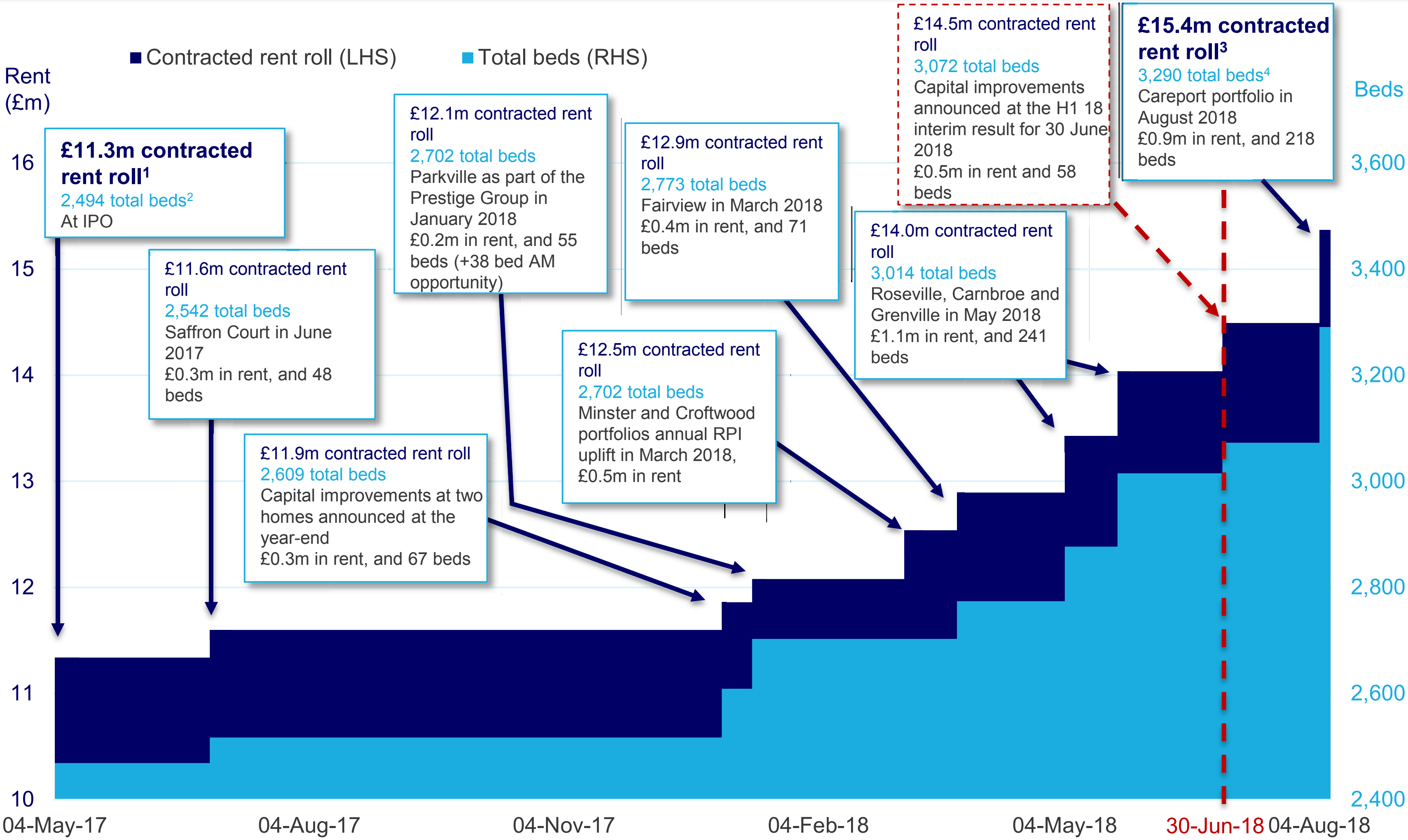
**RENT REVIEWS**

£0.46 million increase in rent arose from rent reviews in the period, a 3.95% increase on the associated portfolio.

**This is the Group’s first full six month period to 30 June. Our period to 30 June 2017 related to trading from IPO on 7 March 2017. As a result we are not comparing trading performance in these highlights.**

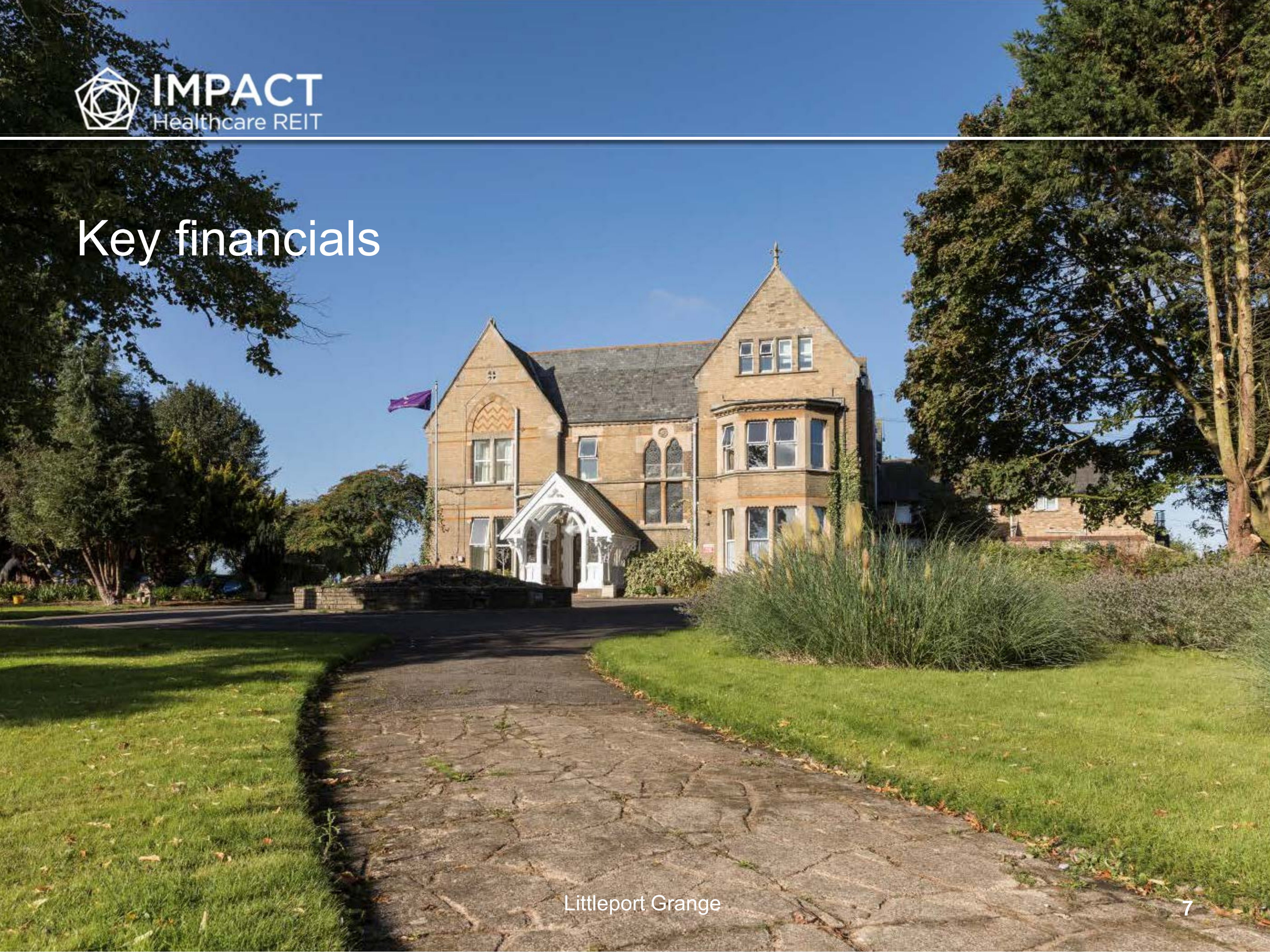
# Growth since IPO – contracted rent roll increased by 36%

IMPACT Healthcare REIT




[1] Contracted rent roll defined as passing rent plus contracted rent from capex (deeds of variation signed)
[2] Total beds defined as operational beds plus beds with approved capex funding
[3] Current contracted rent roll includes passing rent (currently £14.7m) and £0.7m of contracted rent from capex
[4] Current total beds includes 3,127 operational beds, and 163 beds with approved capex funding

# Key financials



Littleport Grange

# Income statement

| | Six months ended 30 June 2018 £'000 | 7 March (IPO) to 30 June 2017 £'000 |
|---|---|---|
| Net rental income | 7,864 | 2,247 |
| Administration expenses | (1,644) | (736) |
| **Operating Profit before changes in fair value** | **6,220** | **1,511** |
| Changes in fair value of interest rate derivatives | (76) | - |
| Changes in fair value of investment properties | 2,339 | 1,471 |
| **Operating profit** | **8,483** | **2,982** |
| Net finance costs | (7) | - |
| **Profit before tax** | **8,476** | **2,982** |
| Tax charge on profit for the period | (8) | - |
| **Total profit and comprehensive income** | **8,468** | **2,982** |
| ***Earning per share (pence)*** | **4.41** | **1.95** |

## Adjusted earnings

| | Six months ended 30 June 2018 | | 7 March (IPO) to 30 June 2017 | |
|---|---|---|---|---|
| | £'000 | (p) Per share | £'000 | (p) Per share |
| **Total comprehensive income** | **8,468** | **4.41** | **2,982** | **1.95** |
| Change in fair value (investment properties) | (2,339) | (1.22) | (1,471) | (0.96) |
| Change in fair value (derivatives) | 76 | 0.04 | - | |
| **EPRA Earnings** | **6,205** | **3.23** | **1,511** | **0.99** |
| Changes to rental income from lease adjustments | (1,652) | (0.86) | 1,358 | 0.89 |
| **Adjusted Earnings** | **4,553** | **2.37** | **2,869** | **1.88** |

## Net rental income

| | Six months ended 30 June 2018 £'000 | 7 March (IPO) to 30 June 2017 £'000 |
|---|---|---|
| **Net rental income from cash** | **6,212** | **3,605** |
| Adjusted for rent premiums | 44 | (1,756) |
| Adjusted for rent smoothing | 1,608 | 398 |
| **Lease adjustments** | **1,652** | **(1,358)** |
| Net rental income per accounts | 7,864 | 2,247 |

## Changes in fair value of investment properties

| | Six months ended 30 June 2018 £'000 | 7 March (IPO) to 30 June 2017 £'000 |
|---|---|---|
| Change in value (independent valuation) | 3,991 | 113 |
| Lease adjustments to rental payments | (1,652) | 1,358 |
| **Change in fair value** | **2,339** | **1,471** |

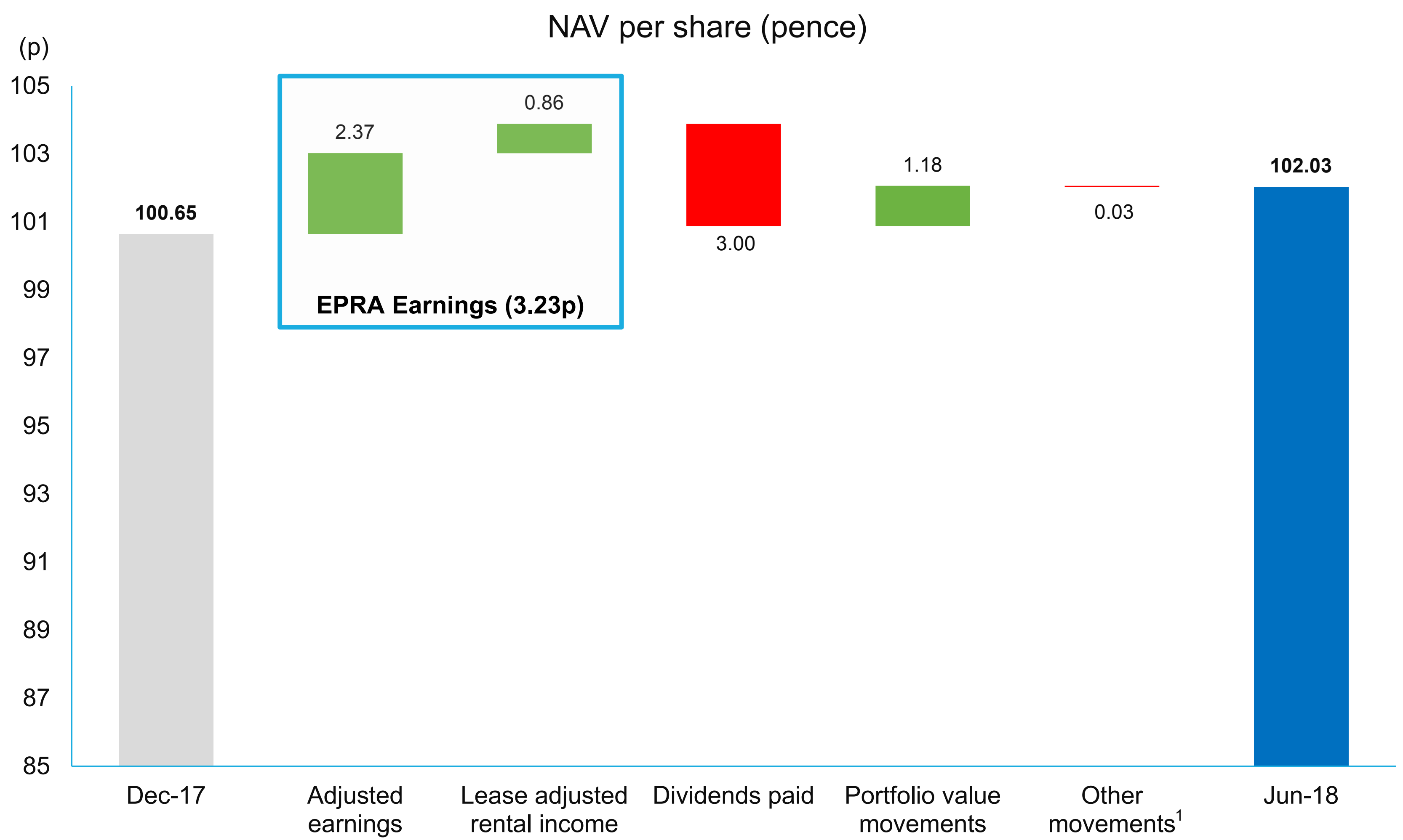
# Balance sheet

| | As at 30 June 2018 £'000 | As at 31 December 2017 £'000 |
|---|---|---|
| Investment property | 182,754 | 156,226 |
| Interest rate derivatives | 506 | - |
| Other receivables (Rent recognised in advance of receipts) | 3,259 | 1,651 |
| **Non current assets** | **186,519** | **157,877** |
| Trade receivables | 195 | 119 |
| Cash and cash equivalents | 36,160 | 38,387 |
| **Current assets** | **36,355** | **38,506** |
| **Total assets** | **222,874** | **196,383** |
| Trade payables | (1,044) | (1,221) |
| **Total current liabilities** | **(1,044)** | **(1,221)** |
| Bank borrowings | (24,063) | - |
| Other payables (Rent received in advance of recognition) | (1,668) | (1,712) |
| **Non current liabilities** | **(25,731)** | **(1,712)** |
| **Total liabilities** | **(26,775)** | **(2,933)** |
| **Total net assets** | **196,099** | **193,450** |
| ***Net assets per Ordinary Share (pence)*** | ***102.03*** | ***100.65*** |

**Investment property**

| | £'000 |
|---|---|
| **31 December 2017** (per independent valuation) | **156,165** |
| Property acquisitions | 23,414 |
| Capital improvements | 775 |
| Valuation movements | 3,991 |
| **30 June 2018** (per independent valuation) | **184,345** |
| Lease adjustments (net debtor) | (1,591) |
| **Investment property** (fair market value) | **182,754** |

# Balance sheet – NAV growth



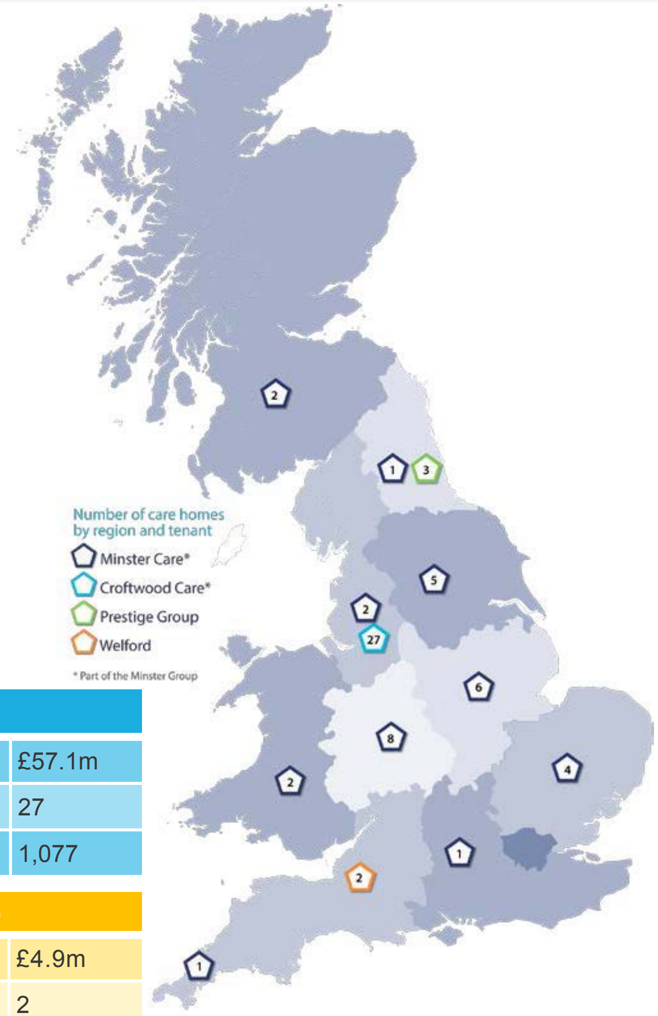

[1] Capitalised costs associated with November 2017 share issuance

# Portfolio review

Freeland

# Attractive and diversified portfolio

- Since listing on 7 March 2017 we have acquired or exchanged on 64 homes (excluding 5 Careport homes exchanged post 30 June 2018)
- Portfolio 100% let
- Cushman & Wakefield's independent valuation of these homes valued them at £184.3 million as at 30 June 2018, following which we have carried out further acquisitions
- Currently four tenant groups: Minster (Minster Care and Croftwood Care), Prestige Care Group, Welford Healthcare Limited and Careport Advisory Services (exchanged post 30 June 2018)
- No tenants currently have any bank debt




| Minster Care – portfolio | |
|---|---|
| Valuation at 30 June 2018 | £111.7m |
| Total homes | 32 |
| Total beds | 1,603 |

| Croftwood Care – portfolio | |
|---|---|
| Valuation at 30 June 2018 | £57.1m |
| Total homes | 27 |
| Total beds | 1,077 |

| Prestige Care Group – portfolio[1] | |
|---|---|
| Acquisition cost[2] | £17.0m |
| Total homes | 3 |
| Total beds[3] | 273 |

| Welford Healthcare Ltd – portfolio | |
|---|---|
| Valuation at 30 June 2018 | £4.9m |
| Total homes | 2 |
| Total beds | 71 |

[1] Completed on Parkville and Roseville, exchanged on Sand Banks
[2] Parkville and Roseville valued at £10.6m as at 30 June 2018
[3] Including 38 beds from Parkville asset management

# Tenants’ track record of providing quality care

- The quality of care provided by Impact’s tenants has consistently been rated by the Care Quality Commission (CQC) as being better than the national average
- The CQC in England publishes on its website its current rating for each facility it regulates and the latest inspection report. Activities in Wales and Scotland are regulated by the Care and Social Services Inspectorate Wales or the Care Inspectorate in Scotland respectively
- Under the CQC’s current rating system, homes are rated against the following standards: Person-centred care; dignity and respect; consent; safety; safeguarding from abuse; food and drink; premises and equipment; complaints; good governance; staffing; fit and proper staff; duty of candour; and display of ratings
- Four categories: “Outstanding”, “Good”, “Requires Improvement”, and “Inadequate”

| CQC rating | Outstanding | Good | Requires Improvement | Inadequate |
|---|---|---|---|---|
| Impact tenants[1] | 2.0% | 78.0% | 18.0% | 2.0% |
| National average[2] | 2.6% | 73.2% | 22.0% | 2.1% |

Source: CQC care directory with ratings - (1 August 2018)
[1] Based on CQC ratings for 50 homes in England managed by Minster and Croftwood, Prestige, and Welford as at 30 June 2018. The remaining 13 homes are either (i) regulated by the Welsh or Scottish counterparts of the CQC (which use a different ratings system) or (ii) have not yet been operated by Minster and Croftwood, Prestige, or Welford for long enough to have been assessed by the CQC
[2] National average for medium (10-49 beds) and large (>50 beds) nursing and residential homes

# Enhancing the portfolio

Roseville Care Centre

# Capex plans to expand current assets

**Freeland 2017**

- We have scope to add value to our existing portfolio through adding over 500 beds and other enhancements
- Selectively increasing the number of beds in the current portfolio by 17% will grow rent and net asset values
- The board has approved the first (92) and second (96) phases of this programme to deliver 188 beds at eight homes alongside some asset enhancement spend on a further four homes
- New beds at Turnpike (25) and Parkville (38) opened in June 2018

**Freeland extension CGI**

| Type of AM | Number of homes | Existing beds | New Beds | Combined beds | Current rent | Forecast rent increases | Combined rent | Capex |
|---|---|---|---|---|---|---|---|---|
| Capex[1] | 11 | 466 | 150 | 616 | £2,798,463 | £1,147,800 | £3,946,263 | £13,186,700 |
| Deferred payment[2] | 1 | 55 | 38 | 93 | £220,000 | n/a | n/a | n/a |

[1] Based on formula agreed in Framework Agreement (master lease) with tenants: capex invested by Impact accrues 8% per annum and, after completion, the invested amount plus accruals are rentalised at 8%

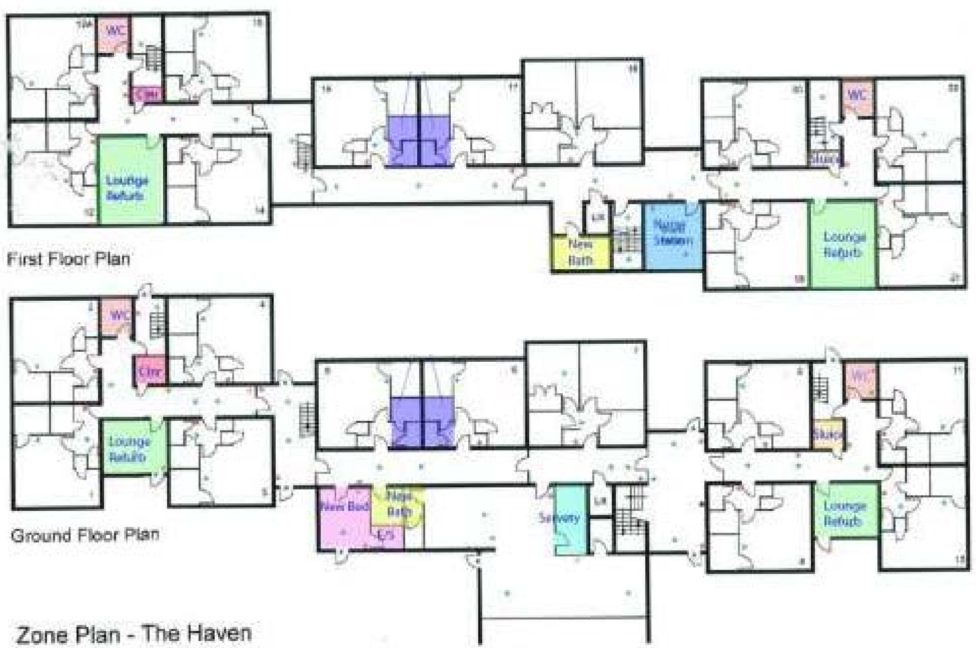
[2] Prestige/Parkville: tenant agreed to reinvest part of its sale proceeds in refurbishing Parkville 2. Impact will pay a deferred payment to Prestige linked to the new unit's trading performance once mature at a yield of 8%

# Asset Management: Turnpike Court

IMPACT Healthcare REIT

**Turnpike Court, Sandbach, Cheshire**

- The refurbishment of disused apartments within an existing closed area of the building, adding 25 beds with en suites, amongst other improvements
- Total capex of £0.9m, adding £77k of rent (an increase of 32% on Turnpike's current passing rent)
- New beds opened in June 2018




# Asset Management: Littleport Grange

## Littleport Grange, Ely, Cambridgeshire

- A new building adding 21 en suite beds
- Total capex of £2.2m, adding £185k of rent (an increase of 44% on Littleport's current passing rent)
- The development is scheduled to open to new residents in August 2018

The new building features a sedum roof, to provide an attractive, environmentally-friendly, low-maintenance alternative to a traditional roof

The development also features increased outdoor areas and pathways for the residents

# Asset Management: Parkville Care Centre

**Parkville Care Centre, Middlesbrough**

- Refurbishment of a closed building adding 38 en suite beds
- An agreed portion of the proceeds from Impact's acquisition of the Prestige assets was re-invested by the tenant into the refurbishment
- Works completed in June 2018


The refurbished building is situated off the courtyard for the existing Parkville Care Centre building for easy access

The development also features increased outdoor areas and pathways for the residents

IMPACT
Healthcare REIT

# New Acquisitions: Prestige, Welford and Careport

Prestige – Parkville


Careport – Briardene


Welford – Fairview Court

Careport – Sovereign Lodge

# New Acquisition: Prestige

- Contracts exchanged on 11 January 2018 to acquire three purpose-built care homes with 234 beds in the north-east of England for £17m (including acquisition costs to the Company)
- The net initial yield and level of rent cover are in line with the terms on which the Group acquired its seed portfolio
- 20 year leases, with option to extend to 30 years
- Upward only rent reviews at RPI with a floor of 2% and cap of 4% p.a.
- Day 1 asset management opportunity to add 38 beds in a unit at Parkville, which has now completed and opened to new residents in June 2018. An agreed portion of the proceeds from Impact's acquisition of the Prestige assets was re-invested by the tenant into the refurbishment
- The Prestige Care Group are a developer and operator of care homes with over 20 years' experience in the care industry

| Prestige – portfolio | |
|---|---|
| Acquisition Q1 2018 | £17.0m |
| Rent payable (FY18) | £1.2m |
| Total homes | 3 |
| Total beds | 273 (incl. 38 additional Parkville AM beds) |
| Average weekly fee (Jun 2018)[1] | £601 |
| Private/LA fee split (Jun 2018)[1] | Private fees: 24%<br>Local authority fees: 76% |
| EBITDARM margin (Jun 2018)[1] | 30% |


Source: Company information
[1] Parkville and Roseville only

# New Acquisition: Welford

- Acquired on 25 March 2018 a care home with 71 beds (56 en suite) on the outskirts of Bristol for £4.9m (including acquisition costs to the Company)
- The net initial yield and level of rent cover are in line with the terms on which the Group acquired its seed portfolio
- 25 year leases, with option to extend to 35 years
- Upward only rent reviews at RPI with a floor of 2% and cap of 4% p.a
- Planning permission in place to link the two buildings, which will make both units operationally more efficient and increase capacity to 79 beds, all with en suite bathrooms
- Welford Healthcare Limited is a high quality operator with an established track record of successfully managing and adding value to care homes

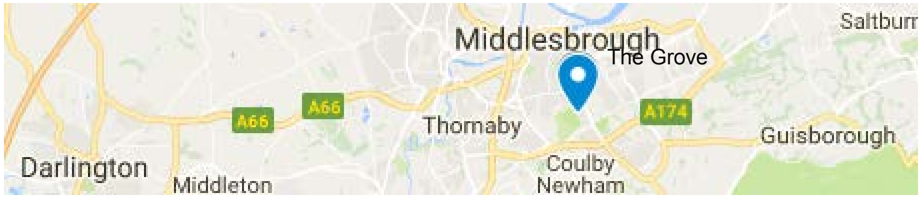
| Fairview Court and Fairview House | |
|---|---|
| Acquisition Q1 2018 | £4.9m |
| Rent payable (FY18) | £356,000 |
| Total homes | 2 – single site with two CQC registrations |
| Total beds | 71 |
| Average weekly fee (Jun 2018) | £884 |
| Private/LA fee split (Jun 2018) | Private fees: 37%<br>Local authority fees: 63% |
| EBITDARM margin (Jun 2018) | 31% |


Source: Company information

# New Acquisition: Careport post balance sheet

- Contracts exchanged on 3 August 2018 to acquire five care homes with 218 beds in the north-east of England for £12.2m (including acquisition costs to the Company)
- The net initial yield and level of rent cover are in line with the terms on which the Group acquired its seed portfolio
- 25 year leases, with option to extend to 35 years
- Upward only rent reviews at RPI with a floor of 2% and cap of 4% p.a
- Five new full repairing and insuring leases reinforced by a new Company framework agreement being put in place with Careport
- Careport was formed nine years ago by John Beastall and Christopher Briddon. Careport will become the long-term tenant of homes that they have improved and stabilised through new long-term leases

| Careport – portfolio | |
|---|---|
| Acquisition Q3 2018 | £12.2m |
| Rent payable (FY18) | £875,000 |
| Total homes | 5 |
| Total beds | 218 |
| Average weekly fee (Jun 2018) | £650 |
| Private/LA fee split (Jun 2018) | Private fees: 15%<br>Local authority fees: 85% |
| EBITDARM margin (Jun 2018) | 21% |


Source: Company information

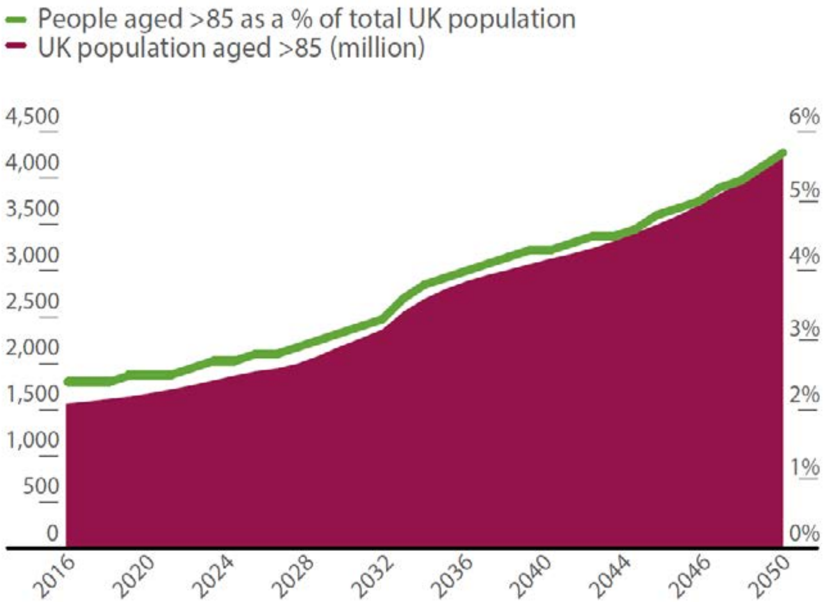
# Market update

Duncote The Lakes

# Growing demand and falling supply

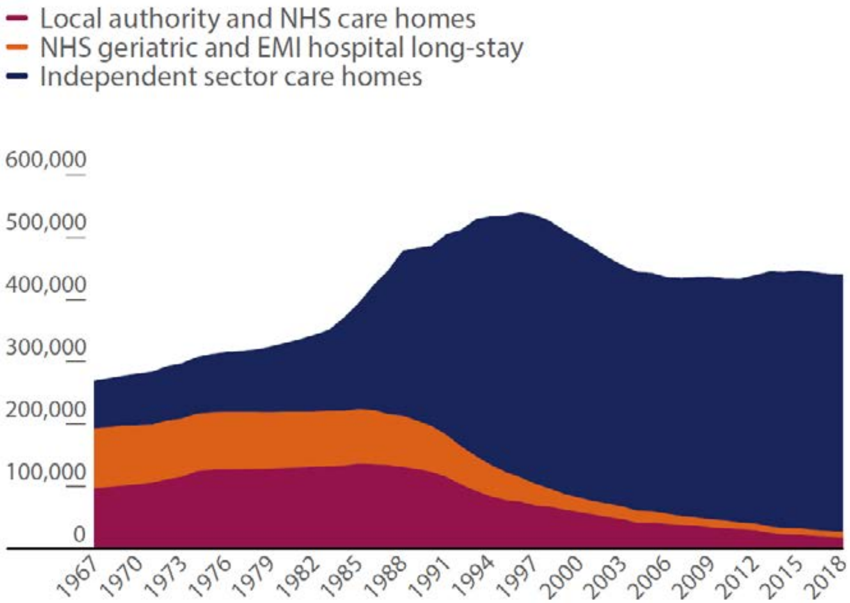
- The number of people aged over 85 in the UK is forecast to double, from 1.6 million in 2016 to 3.2 million in 2040
- In 2018, 14.7% of people aged over 85 required the kind of care which can only be provided in a residential care home or hospital
- The number of beds available rose rapidly in the 1970s and 1980s, reaching a peak of 563,000 in 1996. It has declined 17% from that level, to 466,000 beds in 2018
- Over that time period there has been a major shift from beds provided by government entities to beds provided by independent operators

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




Source: ONS

## Capacity has declined over 20 years

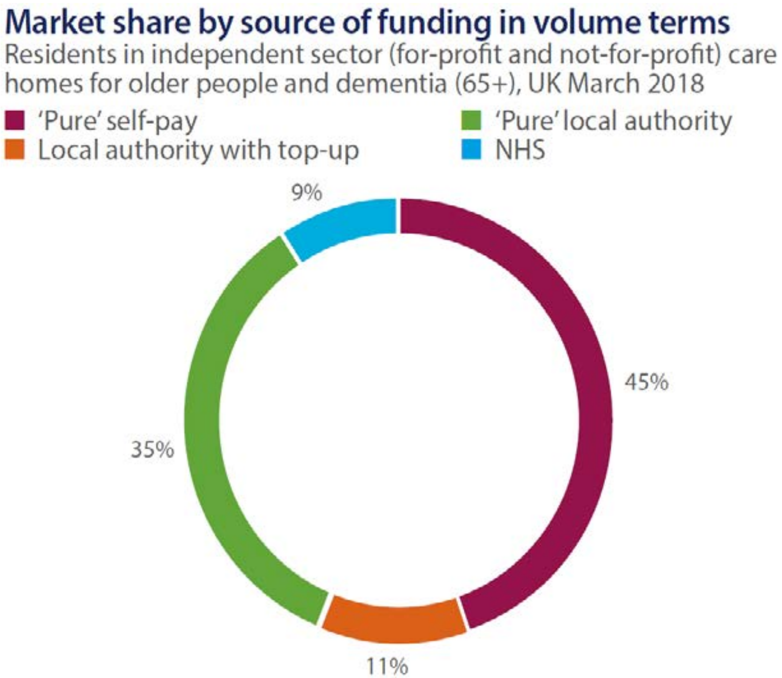



Source: LaingBuisson

# An attractive investment market

- As a result of rising demand, shrinking supply and a shift from government provision to independent providers, the independent sector has experienced sustained, above-inflation growth
- Between 2005 and 2018 revenues of for-profit providers have grown at 4.2% per annum, and of non-profit providers by 4.3% per annum. Total revenues of the independent sector grew from £8.9 billion to £15.2 billion between those years
- Approximately equal numbers of residents are funded purely by government or privately, with a growing minority funded through a combination of government funding with top-up payments by families


Source: LaingBuisson

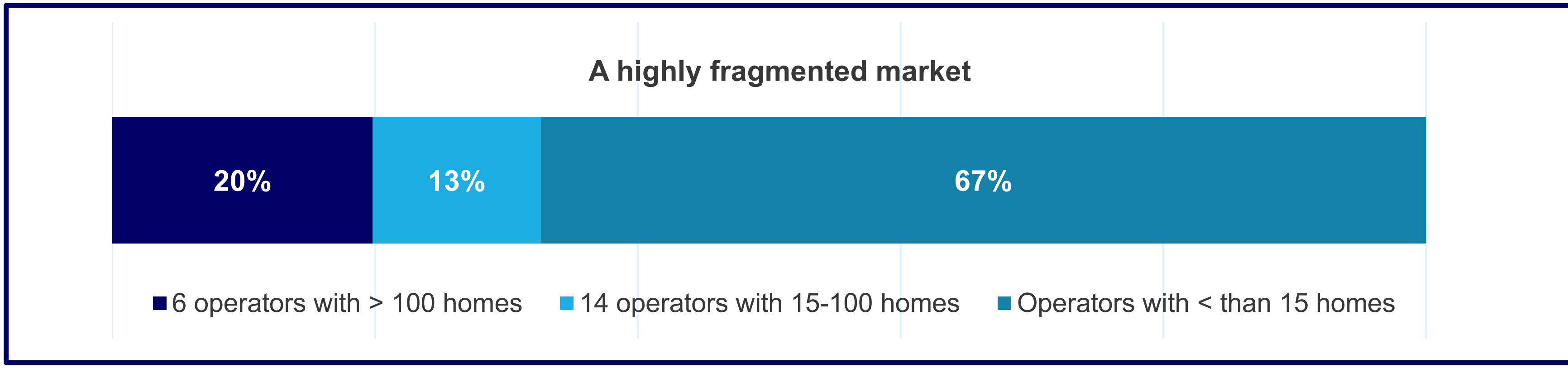



Source: LaingBuisson

# Investment opportunities

Freeland House

# The market opportunity




| Category | Yield range | Multiple range | Price per bed |
|---|---|---|---|
| **Super prime**<br>Best in class, high value location | 4.00% - 4.50% | > 12 | > £300k |
| **Prime**<br>Modern purpose built, fully compliant | 5.00% - 6.00% | > 9 | > £150k |
| **Tier 1**<br>Older purpose built, single rooms | 6.00% - 7.50% | > 7 | > £70k |
| **Tier 2**<br>Mixed converted/extended, part ensuite | 9.00% - 10.00% | > 6 | > £40k |
| **Obsolete**<br>Small low value conversions, compliance issues | No market | > 5 | Up to £40k |
| **Specialist care** | > 5.50% | > 8 | N/A |
| **Hospitals – prime** | 4.75% - 5.50% | > 10 | N/A |

Sources: CBRE United Kingdom healthcare: bucking the late cycle trend, May 2018; LaingBuisson

# Investment opportunities

- Impact Health Partners, the Company’s Investment Adviser, is reviewing potential acquisition opportunities which together comprise over 23,000 beds

- Seeking portfolios with new tenants who can demonstrate they:
  - Have a consistent track record of delivering high quality care, demonstrated by regulatory performance (CQC)
  - Are financially strong with good levels of EBITDARM margin and hence sustainable rent cover
  - Can identify opportunities to enhance and reposition homes through well-planned capex
  - Want to expand their businesses in partnership with a supportive landlord

- Preference for portfolios over single assets:
  - Potential to reduce NAV drag through reduced level of SDLT
  - Can negotiate lower entry valuations
  - Smaller subset of bidders with suitable experience and capabilities
  - Will consider single asset transactions in order to establish relationship with a new tenant

- The Investment Adviser is confident that, through taking a selective and disciplined approach to acquisitions, it will deliver growth which is accretive and will be announcing further acquisitions shortly

# Conclusion and outlook

Littleport Grange

# Outlook

- Market fundamentals remain supportive: growing and undersupplied market that is highly fragmented
- Current tenants have an established track record of successfully providing good quality care
- Attractive target returns: 6% p.a. target dividend with potential for further NAV growth from asset management initiatives
- Dividend cover of 79% during the period as additional equity raised in November 2017 was deployed. Equity now fully committed
- Strong and long-term lease structure: minimum 20 years with option to extend; no break clauses; annual, upwards only rent reviews at RPI with a floor of 2% and cap of 4% p.a
- Selective, low risk asset management potential to current portfolio
- Growth in the rent roll: annualised rent grew by 22% in the first half of the year, from £11.9 million to £14.5 million (30% to £15.4 million if Careport acquisition post 30 June 2018 is included)
- Gearing will remain within the conservative investment policy parameters (maximum 35% LTV)
- Good potential for accretive growth through selective and disciplined acquisitions
- The Company is well positioned to deliver further value to our shareholders in the second half of 2018 and over the longer term

# Q & A

IMPACT Healthcare REIT


Westhaven


Freeland


Littleport Grange


Littleport Grange


Duncote The Lakes


Duncote Hall

# Appendix

Turnpike Court

# Term sheet

| | |
|---|---|
| **Issuer** | • Impact Healthcare REIT PLC |
| **Market** | • Listed on Specialist Fund Segment of the Main Market of London Stock Exchange on 7th March 2017 |
| **Fund size** | • £160 million initial raise in March 2017 at 100p per share, £33 million placing in November 2017 |
| **Target dividend** | • Target dividend of 6p p.a. delivered on a quarterly basis (i.e. 1.5p per quarter) for first five quarters since IPO |
| **Gearing** | • The Company utilises prudent financing with a maximum LTV of 35% of gross assets to seek to enhance returns |
| **Valuation** | • Quarterly valuation by Cushman & Wakefield |
| **Discount control** | • Share buy-back authority for up to 14.99% of issued share capital. Repurchased shares can be held in treasury. The Board typically expects to return to Shareholders the proceeds from any disposal of properties within the Portfolio which have not been re-invested within twelve months |
| **Management & Board** | • External management with independent non-executive Board of Directors: Rupert Barclay (chairman), Rosemary Boot, Paul Craig and Philip Hall |
| **Investment Adviser** | • Impact Health Partners LLP – Principals: Mahesh Patel and Andrew Cowley |
| **Management commitment** | • Mahesh Patel £10m investment into shares of the Issuer. Other members of management and board invested £0.8m |
| **Fees** | • Management fees: 1% of NAV payable to Impact Health Partners LLP reducing to 0.70% on NAV above £500m |
| **Corporate broker and other advisers** | • Winterflood Securities, Travers Smith and BDO |