

Impact Healthcare REIT

Trading update

Positive Q421 returns

Impact Healthcare REIT's unaudited NAV data for the three months to 31 December 2021 (Q421) show the consistent trend of positive quarterly NAV total returns since IPO continuing. The FY21 DPS target has been met and FY22 DPS is targeted to increase further, supported by long-term inflation-linked leases. With a significant pipeline of identified investment opportunities, Impact is seeking additional equity funding. Our forecasts are as published prior to the equity issue announcement and NAV update.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	EPRA NAV**/ share (p)	DPS (p)	P/NAV/ share*** (x)	Yield*** (%)
12/19	24.0	17.6	6.9	106.8	6.17	1.08	5.4
12/20	30.8	23.1	7.3	109.6	6.29	1.05	5.5
12/21e****	36.4	27.5	8.5	112.3	6.41	1.02	5.6
12/22e****	41.4	33.5	9.6	116.9	6.57	1.02	5.7

Note: *EPRA earnings exclude fair value movements on properties and interest rate derivatives. **Based on EPRA net tangible assets. ***P/NAV and yield are based on the current share price. ****As previously published, based on 350.6m shares in issue.

2.0% Q421 NAV total return

Unaudited net asset value (NAV) as at 31 December 2021 (Q421) increased to £394.2m or 112.43p per share (Q321: 111.8p) and, including the DPS paid, the quarterly unaudited NAV total return was 2.0%. Including the 1.6025p Q421 DPS declared, Impact has met the aggregate 6.41p target that was set for FY21. The group has recently set a target of 6.54p for FY22 (+2.0%) in line with its progressive dividend policy whereby targeted DPS growth is driven by inflation-linked rent increases achieved in the prior financial year. Supported by full rent collection (with no lease variations), FY21 DPS was well covered by EPRA earnings (126%) and fully covered by adjusted earnings (104%), with Q421 cover at 127% and 107% respectively. All of the group's rental income is linked to inflation, primarily RPI, with floors and caps, and this has continued to support income and capital growth.

Seeking equity capital for growth

With the UK care home real estate market supported by robust long-term structural drivers and demographic fundamentals, Impact is seeking to raise gross proceeds of not less than £50m through an initial issue of new ordinary shares at 114.0p per share by way of an open offer, initial placing, offer for subscription and intermediaries offer. The proceeds will initially be used to repay existing flexible debt facilities but will support further portfolio growth. The group has £69m of acquisitions in advanced legal discussions and a medium- to longer term-investment pipeline of over £290m. Impact says these potential investment opportunities are managed by high-quality operators, are well maintained, offer attractive levels of rent cover and a blended net initial yield in line with previous acquisitions.

Valuation: Robust, indexed, long-term income

Impact's targeted FY22 DPS of 6.54p represents a 5.9% yield on the 114p issue price for the new shares. The issue price is at a c 1% premium to FY21 unaudited NAV.

Real estate

9 February 2022

Price 115p
Market cap £403m

Gross debt (£m) at 31 December 2021	114.5
Gross LTV at 31 December 2021	22.3%
Shares in issue	350.6m
Free float	90.6%
Code	IHR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.9)	(2.7)	0.7
Rel (local)	(1.5)	(4.1)	(11.4)
52-week high/low		122p	108p

Business description

Impact Healthcare REIT, traded on the Main Market of the London Stock Exchange, invests in a diversified portfolio of UK healthcare assets, primarily residential and nursing care homes, let on long leases to high-quality operators. It aims to provide shareholders with attractive and sustainable returns, primarily in the form of dividends, underpinned by structural growth in demand for care.

Next events

Q421 DPS paid	11 March 2022
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Q421 NAV update and capital raise

Further details on Q421 performance

The 0.55% increase in Q421 NAV per share¹ was driven by revaluation gains on the investment properties, with a further contribution from recurring earnings in excess of dividends paid. Adding back the 1.6025p dividend paid in respect of Q321, the NAV total return was 2.0%.

Exhibit 1: Movement in Q421 NAV per share

Pence per share	
Unaudited NAV per share at 30 September 2021 (Q321)	111.82
Revaluation gains/(losses) on investment property	0.56
Net remaining contribution to reserves	1.65
Quarterly DPS paid in respect of Q321	(1.60)
Unaudited NAV per share at 31 December 2021	112.43
Change in quarter	0.55%

Source: Impact Healthcare REIT

Impact aims to provide shareholders with attractive and sustainable returns, primarily in the form of quarterly dividends. DPS has increased each year since IPO, with a clear and progressive dividend policy, targeting growth in line with the inflation-linked rental uplifts received in the preceding financial year. Dividends paid have driven the consistently positive quarterly total returns since IPO in 2017, with an aggregate NAV total return (adjusted for dividends paid, but not reinvested) from IPO to end FY21 (unaudited) of 43.2%, a compound annual return of 7.7%. Dividends paid have represented c two-thirds of the total return.

Exhibit 2: NAV total return history*

	2017	2018	2019	2020	2021**	2017–21
Opening NAV per share (p)	97.9	100.6	103.2	106.8	109.6	97.9
Closing NAV per share (p)	100.6	103.2	106.8	109.6	112.4	112.4
Dividends paid (p)	3.0	6.0	6.1	6.3	6.4	27.8
NAV total return*	7.2%	8.5%	9.5%	8.5%	8.4%	43.2%
						7.7%

Source: Impact Healthcare REIT data. Edison Investment Research. Note: *Change in NAV plus dividends paid. **2021 is unaudited data.

The group's property portfolio was independently valued at £459.4m as at 31 December 2021 (valuation as at 30 September 2021: £447.7m), a 2.6% increase overall including like-for-like gains of 0.4%. This represents a 0.4% increase in value on a like-for-like basis, primarily driven by inflation-linked rent reviews. Acquisitions added £9.5m to the valuation and capital improvements £0.2m. Yield movements made a positive contribution to valuation, although the portfolio EPRA 'topped up' net initial yield of 6.70% at 31 December 2021 was slightly above 30 September 2021 (6.67%) due to mix effects.

The £9.5m in acquisitions comprised two care homes in the quarter with 149 beds. A further investment of £37.5m in 12 homes with 480 beds was made initially by way of a loan to Holmes Care Group. Those homes will be included in the portfolio value on Holmes Care exercising its option to repay the loan by delivering ownership of the 12 homes to Impact.

At 31 December 2021, the portfolio comprised 126 healthcare properties,² of which 124 are care homes let to 12 tenants on fixed-term leases of 20–35 years (no break clauses).

¹ Unaudited. There is no difference between IFRS NAV per share and EPRA net tangible assets per share.

² This includes the investment in 12 homes let to Holmes Care.

Contracted rent increased to £38.0m at the quarter end (30 September 2021: £33.9m), an increase of 12.1%. In addition to acquisitions, this included the impact of 13 rent reviews during the period at an average uplift of 4% per year in line with the rental increase cap on these leases. 100% of the group's rental income is linked to inflation, with 90.0% of leases linked to RPI with a floor and cap at 2% pa and 4% pa, 8.0% linked to RPI with a floor and cap at 1% pa and 5% pa and 2.0% with an annual CPI uplift.

The group continues to receive 100% of rent payments as they fall due with no lease variations. Supporting the strong rent collection, rent cover in Q421 was 2.0x across the portfolio. This reflects the strong underlying growth of the average weekly fees, which tenants charge for the care they provide, along with a range of support measures introduced by the government to mitigate the pandemic including grant funding.

Equity raise to support further portfolio growth

Gross LTV was 22.3% as at 31 December 2021 (30 September 2021: 14.5%). Debt of £114.5m included the draw down of the first phase (£37m) of the group's new £75m long-term debt facility³ and cash reserves stood at £13.3m.

The open offer, initial placing, offer for subscription and intermediaries offer (the 'initial issue'), targeting equity proceeds of not less than £50m (gross) is part of a placing programme under which Impact seeks authorisation to issue up to 300m new ordinary shares⁴ during the period 22 February 2022 to 26 January 2023. The placing programme is intended to provide flexibility, enabling the company to better tailor equity issuance with the availability of investment opportunities. The proceeds of the initial issue will first be used to pay down the drawn revolving credit facilities, (currently £67.5m). In addition, Impact's investment manager, Impact Health Partners LLP, has £69m of acquisitions in advanced legal discussions and a medium- to longer-term investment pipeline of over £290m. The potential investment opportunities in the pipeline are managed by high-quality operators, are well maintained and offer attractive levels of rent cover with a blended net initial yield in line with previous acquisitions. In addition, Impact has committed to £26m of forward funding and asset management capex, of which £16m is yet to be deployed. The investment manager has identified a longer-term asset management pipeline of a further 11 projects that would require a further £26m of investment, which Impact expects to be accretive to both earnings and net asset value.

Full details of the equity offering, including the timetable, can be found in the [prospectus](#).

For the initial issue, applications under the open offer, offer for subscription and intermediaries offer will close on 15 February 2021. This will be followed by a general meeting of shareholders on 16 February, which will seek shareholder approval for the placing programme and initial issue. The latest date for receipt of commitments under the initial placing is 17 February.

³ Impact's first transaction in the institutional debt market. It comprises two tranches at a blended average rate of 2.97% and a weighted average maturity of 14 years.

⁴ The current number of shares outstanding is 350.6m; there is no certainty that all of the placing programme shares will be issued.

Exhibit 3: Financial summary*

Year to 31 December (£m)	2017	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT							
Cash rental income	9.5	13.9	19.1	25.9	30.1	35.1	40.3
Rental income arising from recognising rental premiums, fixed rent uplifts & lease incentives	(0.1)	3.4	4.9	4.9	6.4	6.3	7.0
Net rental income	9.4	17.3	24.0	30.8	36.4	41.4	47.2
Administrative & other expenses	(2.3)	(4.3)	(4.6)	(5.3)	(5.7)	(6.0)	(6.2)
Operating profit before change in fair value of investment properties	7.1	13.0	19.4	25.6	30.7	35.4	41.0
Change in fair value of investment properties	2.4	4.1	9.1	5.6	4.0	5.2	5.1
Gain on disposal	0.0	0.0	0.0	0.2	0.2	0.0	0.0
Operating profit	9.5	17.2	28.5	31.3	34.8	40.6	46.1
Net finance cost	0.0	(0.7)	(2.1)	(2.5)	(3.2)	(1.2)	(5.6)
Profit before taxation	9.5	16.5	26.3	28.8	31.6	39.4	40.5
Tax	(0.0)	0.0	0.0	0.0	0.0	(0.6)	0.0
Profit for the year (IFRS)	9.5	16.5	26.3	28.8	31.6	38.8	40.5
Adjust for:							
Change in fair value of investment properties	(2.4)	(4.1)	(9.1)	(5.6)	(4.0)	(5.2)	(5.1)
Gain on disposal	0.0	0.0	0.0	(0.2)	(0.2)	0.0	0.0
Change in fair value of interest rate derivatives	0.0	0.1	0.4	0.1	(0.0)	0.0	0.0
EPRA earnings	7.1	12.4	17.6	23.1	27.5	33.5	35.4
Rental income arising from recognising rental premiums & fixed rent uplifts	0.1	(3.4)	(4.9)	(4.9)	(6.4)	(6.3)	(7.0)
Amortisation of loan arrangement fees	0.0	0.2	0.4	0.7	0.9	0.9	0.9
Non-recurring costs	0.0	0.7	0.2	0.0	0.0	0.0	0.0
Adjusted earnings	7.1	9.9	13.4	18.9	22.0	28.1	29.3
Average number of shares in issue (m)	162.6	192.2	254.0	319.0	323.9	350.6	350.6
Basic & diluted IFRS EPS (p)	5.82	8.57	10.37	9.02	9.77	11.06	11.56
Basic & diluted EPRA EPS (p)	4.35	6.47	6.95	7.25	8.50	9.56	10.10
Basic & diluted adjusted EPS (p)	4.39	5.17	5.26	5.93	6.78	8.02	8.36
Dividend per share (declared)	4.50	6.00	6.17	6.29	6.41	6.57	6.76
EPRA earnings dividend cover	97%	108%	113%	115%	133%	146%	149%
Adjusted earnings dividend cover	98%	86%	85%	94%	106%	122%	124%
BALANCE SHEET							
Investment properties	156.2	220.5	310.5	405.7	443.7	541.3	550.4
Other non-current assets	1.7	5.7	10.1	15.9	23.0	29.2	36.2
Non-current assets	157.9	226.2	320.7	421.6	466.7	570.5	586.6
Cash and equivalents	38.4	1.5	47.8	8.0	8.1	4.0	6.3
Other current assets	0.1	0.6	0.6	0.1	38.0	0.5	0.5
Current assets	38.5	2.1	48.3	8.1	46.1	4.5	6.8
Borrowings	0.0	(24.7)	(23.5)	(74.2)	(112.4)	(158.3)	(159.1)
Other non-current liabilities	(1.7)	(1.9)	(1.8)	(2.8)	(2.7)	(2.7)	(2.7)
Non-current liabilities	(1.7)	(26.6)	(25.2)	(77.0)	(115.2)	(161.0)	(161.9)
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	(1.2)	(3.3)	(3.1)	(3.1)	(3.7)	(4.2)	(4.8)
Current Liabilities	(1.2)	(3.3)	(3.1)	(3.1)	(3.7)	(4.2)	(4.8)
Net assets	193.5	198.3	340.7	349.5	393.9	409.8	426.8
Adjust for derivative financial liability/(asset)	0.0	(0.5)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
EPRA net assets	193.5	197.9	340.6	349.5	393.9	409.8	426.8
Period end shares (m)	192.2	192.2	319.0	319.0	350.6	350.6	350.6
IFRS NAV per ordinary share	100.6	103.2	106.8	109.6	112.3	116.9	121.7
EPRA NAV per share	100.6	102.9	106.8	109.6	112.3	116.9	121.7
CASH FLOW							
Net cash flow from operating activities	8.2	10.0	14.9	21.0	23.8	29.0	34.6
Purchase of investment properties (including acquisition costs)	(153.3)	(55.1)	(73.4)	(88.5)	(33.1)	(88.3)	0.0
Capital improvements	(0.5)	(3.9)	(8.2)	(1.7)	(2.5)	(4.0)	(4.0)
Other cash flow from investing activities	0.0	0.0	0.1	0.9	(35.8)	40.7	0.0
Net cash flow from investing activities	(153.8)	(58.9)	(81.5)	(89.3)	(71.5)	(51.6)	(4.0)
Issue of ordinary share capital (net of expenses)	189.3	(0.1)	132.2	0.0	34.6	0.0	0.0
(Repayment)/drawdown of loans	0.0	26.0	(0.9)	51.2	38.1	45.0	0.0
Dividends paid	(5.3)	(11.6)	(16.1)	(20.0)	(21.9)	(22.9)	(23.5)
Other cash flow from financing activities	0.0	(2.3)	(2.2)	(2.8)	(3.2)	(3.6)	(4.7)
Net cash flow from financing activities	184.0	12.0	112.9	28.5	47.7	18.5	(28.3)
Net change in cash and equivalents	38.4	(36.9)	46.3	(39.8)	0.1	(4.1)	2.3
Opening cash and equivalents	0.0	38.4	1.5	47.8	8.0	8.1	4.0
Closing cash and equivalents	38.4	1.5	47.8	8.0	8.1	4.0	6.3
Balance sheet debt	0.0	(24.7)	(23.5)	(74.2)	(112.4)	(158.3)	(159.1)
Unamortised loan arrangement costs	0.0	(1.3)	(1.7)	(2.2)	(2.1)	(1.2)	(0.4)
Net cash/(debt)	38.4	(24.5)	22.7	(68.4)	(106.4)	(155.5)	(153.2)
Gross LTV (net debt as % gross assets)	0.0%	11.4%	6.8%	17.8%	22.3%	27.7%	26.9%

Source: Impact healthcare REIT historical data, *Edison Investment Research forecasts as previously published on 12 January 2022 prior to the launch of the equity issue and not updated for the Q421 data.

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