

Market Release

9 August 2018

Vital delivers solid result and increases unitholder distributions by 2.2%

Vital Healthcare Property Trust (Vital) today announced its audited 2018 full year results, with a reported net profit after tax of \$100.1m. Vital will increase its annualised cash distribution to unitholders to 8.75 cents per unit from the fourth quarter distribution of the 2018 financial year.

Highlights

- ▶ Gross rental income of \$93.7m, up 20.1%¹;
- ▶ Net distributable income of 10.6 cpu;
- ▶ Cash distribution of 8.5625 cpu, payout ratio of 81%;
- ▶ Cash earnings (or AFFO²) of \$49.5m, up 4.5%¹;
- ▶ Successful bank facility renewal and extension by A\$100m;
- ▶ LVR at 37.5%;
- ▶ Vital's portfolio valued at \$1.73bn;
- ▶ Portfolio WACR firmed 36bps to 5.76%, from 6.12%;
- ▶ NTA increase to \$2.26 from \$2.05, up 10.2%;
- ▶ 99.3% occupancy, maintained at over 99% for the ninth consecutive year;
- ▶ WALE of 18.2 years, up from 17.7 years;
- ▶ \$194.7m of acquisitions across Australasia, including 5 hospitals, all with brownfield potential;
- ▶ Invested \$27.7m on brownfield projects, \$112m to be completed at average yields of ~7%;
- ▶ Integration of the NorthWest Healthcare Australia management team, resulting in 30 professionals in Auckland and Melbourne;
- ▶ Jointly³ secured an interest in ASX-listed Healthscope, Australia's second largest private hospital operator, providing a tactical and generational opportunity to acquire a quality hospital real estate portfolio.

Claire Higgins, Chair of the Board of the Manager said "We continue to build on Vital's market leading position, which underpins our strategy to drive long term value-add opportunities and deliver sustainable returns to investors. With this backdrop and reflecting Vital's overall position and relatively stable outlook, the Board has prudently determined to increase the annualised cash distribution to unitholders to 8.75 cpu effective from the fourth quarter of the 2018 year".

David Carr, the Chief Executive of the Manager said "Vital's stable portfolio and financial position has again delivered solid overall results. The healthcare real estate sector continues to experience rising investor demand driven by its unique defensive qualities and strong investment characteristics. Notwithstanding some industry

¹ Adjusting for the 2017 one-off \$13.8m lease termination receipt

² Adjusted funds from operations

³ As announced on 8 May. Interest is with Vital's Manager and major unitholder, NorthWest Healthcare Properties REIT

About Vital Healthcare Property Trust

Vital Healthcare Property Trust (NZX: VHP) is Australasia's largest listed investor in healthcare real estate. Tenants include hospital operators and healthcare practitioners who deliver a wide range of medical and healthcare related services. The Manager of Vital Healthcare Property Trust is NorthWest Healthcare Properties Management Limited.

headwinds in Australia and moderate tailwinds in New Zealand, the undeniable trends of a growing and ageing population continue to support our positive long term outlook”.

Financial performance

Gross rental income exceeded the prior year by \$1.8m or 2.0% in which it needs to be noted that the 2017 comparative included a \$13.8m lease termination receipt. This revenue growth was a result of contributions from development income and acquisitions over the period. After property expenses, net income grew \$1.0m or 1.1% for the year.

Finance expenses increased from the prior year by \$8.5m reflecting the increase in the level of debt funding over the period and increasing interest costs on renewed bank facilities. Vital acquired investment properties during 2018 totalling \$194.7m, including five private hospitals.

Other expenses were up driven primarily by management fees of \$11.9m and incentive fees of \$13.1m as a result of revaluation gains. The incentive fee is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over book value for the last three years. The incentive fee is payable by Vital issuing units to the Manager. Vital's Manager has confirmed that the 2018 issuance of units pursuant to the incentive fee will be managed so as not to breach Vital's PIE status. Other expenses also includes \$3.6m of strategic transaction costs which represents the contribution Vital has made towards costs in acquiring an interest in ASX-listed Healthscope.

Net distributable income (NDI) for the year was \$46.1m (-25.4%) equating to 10.62 cpu and a 27.6% decrease on the prior year. The 2017 NDI included the benefit of a one-off lease termination receipt and associated tax expense which if adjusted would provide a more comparable 11.4 cpu. When determining Vital's cash earnings (or AFFO), adjustments are usually made for maintenance capital expenditure and lease incentives, and would have been broadly in line with net distributable income on a cents per unit basis. Under AFFO methodology there would also be an adjustment to add back the strategic transaction costs resulting in a higher AFFO position of 11.57 cpu.

The 2018 full year distribution of 8.5625 cpu reflects a prudent 81% NDI payout ratio on an adjusted basis.

NTA growth to \$2.26

Allowing for the 2018 revaluation gains of \$85.5m and the benefit of foreign exchange movements of \$45.5m, Vital's NTA increased to \$2.26, an increase of 10.2% on the prior year NTA of \$2.05. The current NTA reflects a large diversified portfolio of high quality healthcare real estate with attractive long term characteristics.

Revaluations summary

Capitalisation rate firming equated to approximately 90% of the overall revaluation increase, with the balance of the gains driven by market rent growth and development margins.

Albeit the rate of firming of capitalisation rates has moderated from previous years, they remained a core driver of the independent valuation outcome. Specifically, Vital's weighted average capitalisation rate firmed by 36bps to 5.76% and Vital's portfolio value increased to \$1.73bn at 30 June 2018.

The ongoing firming of capitalisation rates have also been driven by Vital's unique property characteristics, sustained portfolio performance, and continued strong demand from investors.

Treasury and capital management

On 6 June 2018 Vital announced that it had extended and expanded its existing bank facility adding A\$100m of additional capacity. Two existing tranches that were due to expire on 31 March 2019 were renewed, with Tranche A, representing A\$125m, extended to March 2021 and Tranche B expanded to A\$200m (from A\$100m previously) and extended to July 2022.

Following the refinancing activity Vital's weighted average debt maturity increased by 1.1 years to 3.1 years.

Vital's LVR as at 30 June 2018 as determined under the Trust Deed was 37.5% (2017: 28.9%) and remains well below the Trust Deed covenant of 50%. Under the terms of the bank facility the LVR as at 30 June 2018 was 38.7% which is below the facility covenant of 50%, with the higher level reflecting that a related party advance of A\$40.0m does not form part of the banks security.

Vital's weighted average cost of debt was 4.60% as at 30 June 2018 (2017: 4.34%) and includes bank line and margin fees.

At year end Vital had a hedged interest rate position of 79.8% (2017: 79.5%). Movement in market interest rates over the period saw the unrealised marked-to-market valuation on those interest rate swaps increase by \$3m.

Market leading portfolio metrics

The management team remain focused on ensuring that Vital's core portfolio metrics remain strong, with the ninth consecutive year of occupancy above 99% (99.3% at year-end). Additionally Vital's WALE of 18.2 years was up from 12 months prior (17.7 years), and remains by far the longest WALE of any Australian or New Zealand listed REIT.

A total of 107 rent reviews were completed (approximately 81% of passing rent at 1 July 2017) in the year resulting in rental growth of 2.3% (excluding the impact of foreign exchange) of which 93% were structured reviews. Similarly, approximately 86% of total rent is subject to review through the 2019 financial year, with 98% of this income subject to structured or CPI based reviews.

Of the 1.7% of income forecast to expire in 2018, 60% was renewed pre 30 June, with the majority of the balance renewed post balance date.

Looking out to the future, just 3.9% of leases (by income) expire in FY2019, in which we have confidence in our ability to renew these tenants on the same or better terms. Over the next 10 years Vital's average annual lease expiry sits at 1.8%, which provides long term earnings visibility.

Acquisitions and development

Acquisitions during the year totalled \$194.7m, including five private hospitals. Vital has diversified its portfolio investing further into the New Zealand market with the Acurity portfolio acquisition and the settlement of two private hospitals in Queensland and New South Wales. All these hospital acquisitions have short to medium term brownfield development projects planned or underway.

Recognising forecast ongoing healthcare demand, Vital has continued to invest in acquisitions adjacent to our existing facilities to protect and enhance long term value. Vital made four of these strategic acquisitions totalling A\$9.6m in 2018 and expects to continue with this investment philosophy to support the long term growth of our partners and the underlying assets.

Vital's value-add development programme in Australia continues with projects currently underway at two hospitals (North West and Lingard) with A\$8.6m to be spent prior to the end of calendar 2018.

We are currently in the final stages of design at Wakefield (Wellington) and Royston (Hastings) Hospitals which were acquired in December 2017. A small NZ\$4.0m development has commenced at Bowen Hospital (Wellington) which will establish Wellington's first Radiation Oncology Centre. The project is forecast to be completed by January 2019.

The brownfield development programme remains central to Vital's strategy. Currently contracted forecast rentalised development yields of approximately 7% provide an attractive spread to Vital's current WACR of 5.76%. Brownfield development continues to clearly underpin earnings sustainability, improve asset quality and enhance long-term value.

Cash distribution increased to 8.75 cpu from fourth quarter 2018

For the fourth quarter of the 2018 financial year, the Board has confirmed that investors will receive an increased distribution of 2.1875 cpu, up from the previous quarter of 2.125 cpu with no imputation credits attached. That increases the 2018 full year distribution to 8.5625 cpu, ahead of the 8.5 cpu guided. The record date for the distribution is 6 September 2018 and payment will be made on 20 September 2018.

Vital's Distribution Reinvestment Plan will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

The Board has also confirmed that the 2019 financial year cash distribution will be increased to 8.75 cpu.

This is a 2.2% increase on the prior year's distribution and reflects the Board's confidence in Vital's overall position and outlook. It is also consistent with its historically conservative payout ratio and sustainable distribution message to unitholders. Over the last 5 years Vital's cash distribution has prudently increased from 7.90 cpu to 8.75 cpu, equating to a compounded annual growth rate of 1.6% versus 1.4% for the New Zealand Listed Property Sector.

Governance update

As advised to the market on 4 April 2018, the interim governance arrangements following the retirement of Mr Graeme Horsley would be reviewed ahead of the 2018 Annual Meeting.

NorthWest Healthcare Properties Management Limited, the Manager of Vital Healthcare Property Trust has confirmed that a third Independent Director will be appointed to the Board of the Manager prior to the 2018 Annual Meeting.

The Board of the Manager has also completed a review of the Board Charter, Statement of Investment Policy and Objectives (SIPO) and Conflicts Policy. These changes do not require unitholder approval, but have the unanimous support of the Board of the Manager. The Conflicts of Interest Policy was also amended to include full Board representation and equal voting rights by independent and non-independent directors. Updated versions of the documents are available from 9 August on Vital's website, www.vhpt.co.nz.

Outlook

Mr Carr said "We start 2019 with Vital's portfolio and financial position ready to withstand short term headwinds, particularly in Australia for hospital operators, balanced by a relatively positive outlook in New Zealand.

Vital's investment thesis is backed by underlying long term trends. We continue to see, and believe, in the strong demographic and technological trends driving demand for healthcare services – especially those delivered from quality healthcare infrastructure and by market leading operators, like those in Vital's portfolio.

With the management platform consisting of approximately 30 professionals in Auckland and Melbourne, this enhanced team will drive the expansion of key industry relationships. We have further solidified our portfolio management capability, continuing to drive outcomes like those reflected over many years of strong portfolio performance.

The interest in ASX-listed Healthscope jointly positions Vital and NorthWest with a tactical advantage in a generational opportunity to jointly acquire a sizeable, quality portfolio of Australian private hospital real estate assets concentrated in large metropolitan centres. The Board sees this opportunity to further invest in long term healthcare infrastructure as aligning directly with Vital's stated scale and diversification strategy and core investment objectives of enhancing long term earnings and value growth for unitholders.

We continue to support the growth demands of our existing partners, which enables us to drive our operating, portfolio and financial results, delivering sustainable distributions and creating long term value for investors" said Mr Carr.

Vital's management team will present these results via a live webcast from 11:30 am NZ time today. Please refer to our market release dated 6 July 2018 for details or click [here](#).

- ENDS -

ENQUIRIES

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