Vital
Healthcare Property Trust

# ANNUAL RESULTS
# 30 JUNE 2015

***SECURING TODAY, WITH A FOCUS ON TOMORROW***

**12 August 2015**

**David Carr, Chief Executive Officer**
**Stuart Harrison, Chief Financial Officer**

# AGENDA

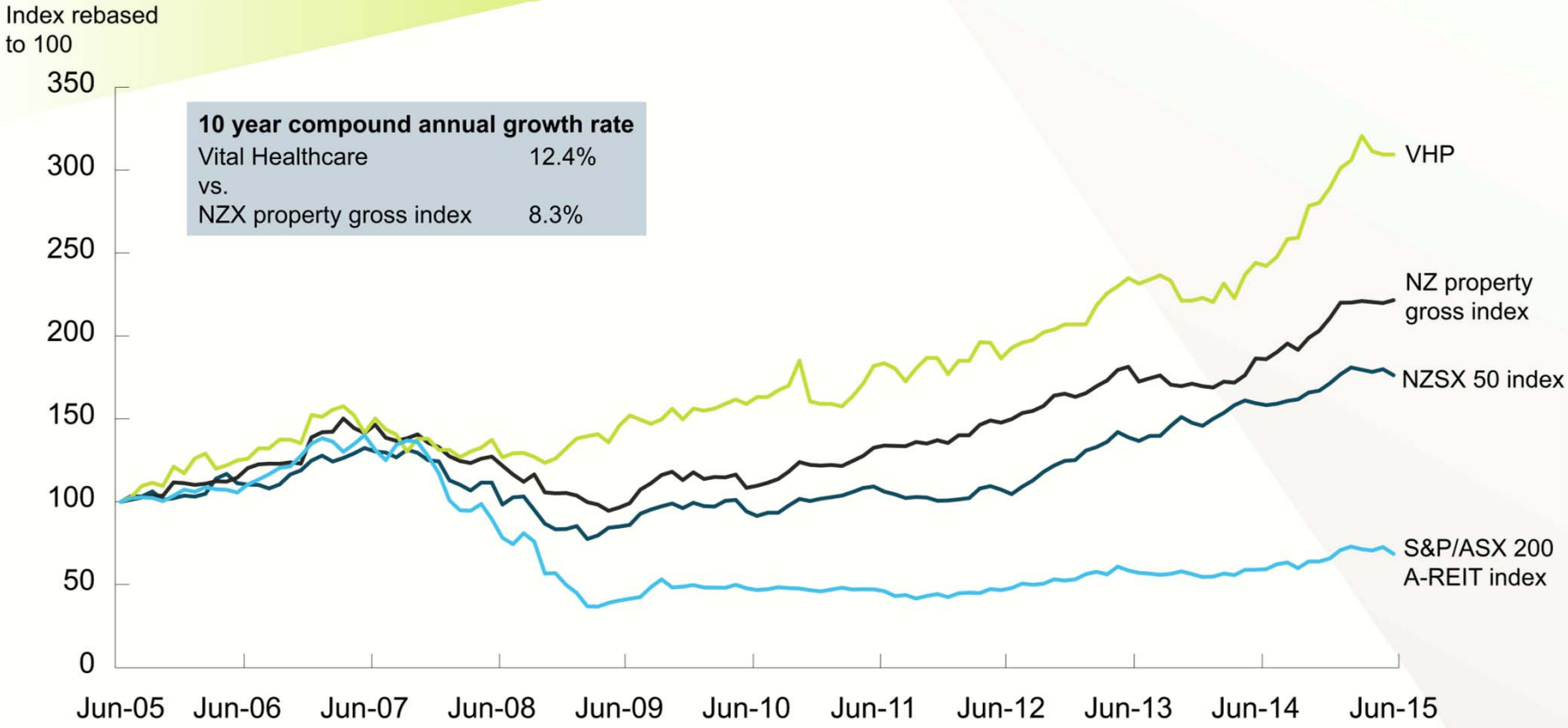
- Result summary
- Financial summary
- Healthcare sector
- Portfolio update
- Strategy & outlook
- Appendix – Portfolio revaluation schedule

**Note: This annual result presentation should be read in conjunction with the NZX stock exchange release and 2015 financial statements.**

# Result summary

# VITAL'S PERFORMANCE

*Market strongly supportive of VHP strategy… stable and dependable*




| Compound annual return | 1yr | 3yr | 5yr | 7yr | 10yr |
|---|---|---|---|---|---|
| VHP | 27.7% | 10.1% | 14.6% | 14.3% | 12.4% |
| NZX Property Gross | 19.1% | 8.7% | 15.1% | 8.9% | 8.3% |
| NZX 50 Index Gross | 11.4% | 8.9% | 14.0% | 8.7% | 5.8% |
| S&P/ASX 200 AREIT | 15.5% | 6.3% | 7.9% | -1.9% | -3.7% |

**Note:** 1. Source: Bloomberg, Craigs Investment Partners. Total returns (capital gain plus income) as at 30 June 2015.

# RESULT HIGHLIGHTS

*Delivery of market leading portfolio metrics & strong financial results, supported by strong underlying trends*

## Earnings & capital management

- Gross rental income $60.8m (+2.3%)
- NPAT $96.5m (+158%)
- NDI[1] $36.3m (+4.6%)
- Delivered on FY15 DPU guidance of 8.0 cpu
- LVR[2] of 32.9% (-1.5%) capacity to execute on opportunities

## Portfolio metrics

- Allamanda expiry resolved, 21.3 year lease to Ramsay Health Care (ASX: RHC)
- WALT[3] of 17.6 years (+2.5 years)
- Occupancy 99.4% (+0.1%)
- Brownfield development execution main driver of revaluation gains (+$84m, +12.1%)
- Portfolio value $781.9m

## Healthcare sector

- Ageing, more demanding generation
- Public system constraints
- Strong health insurance coverage continues
- Operator consolidation across healthcare sectors presents opportunity
- Continue to create capacity to meet demand

## Strategy & outlook

- Scale important in managing diversification and improving metrics
- Cap rates firming due to weight of capital, but 'track record' essential for partnerships
- Portfolio in great shape, keep doing the basics well…proactively
- Sustainable and prudent FY16 cash DPU guidance of 8.1 cpu

*Notes:*

*1. NDI: Calculated as Gross Distributable Income less Current Tax charges*
*2. LVR: the ratio of a loan to the value of an asset purchased or total assets*
*3. WALT: Weighted Average Lease Term as at 1 July 2015*

# Financial summary

# FINANCIAL PERFORMANCE

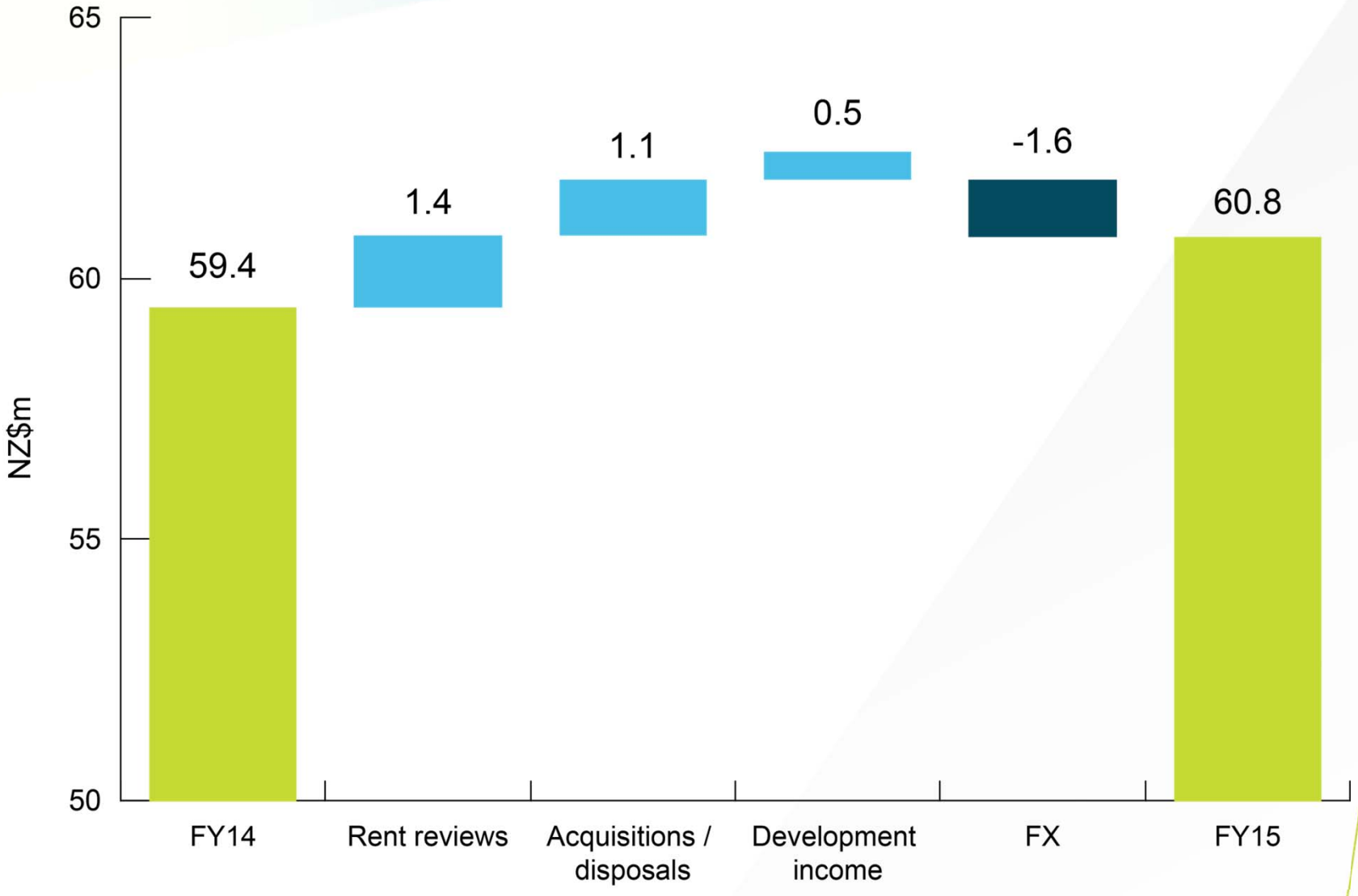
*Portfolio and operating performance driving financial outcomes*

| | Actual FY15 | Actual FY14 | change $m | change % |
|---|---|---|---|---|
| Gross rental income ($m) | 60.8 | 59.4 | 1.4 | 2.3% |
| **Net rental income ($m)** | **59.4** | **58.0** | **1.4** | **2.5%** |
| **Operating profit before tax ($m)** | **48.5** | **50.0** | -1.5 | -3.0% |
| **Gross distributable income ($m)** | **40.9** | **34.9** | 6.0 | 17.3% |
| Current Tax - NZ & Australia ($m) | 4.7 | 0.2 | 4.5 | n/a |
| **Net distributable income ($m)** | **36.3** | **34.7** | **1.6** | **4.6%** |
| Gross distributable income (cpu) | 12.0c | 10.5c | 1.5c | 14.4% |
| Net distributable income per unit (earned) (cpu) | 10.6c | 10.4c | 0.2c | 2.3% |
| *AFFO (cpu)* | *10.7c* | *10.2c* | *0.5c* | *4.5%* |
| **Units on issue (weighted average million)** | **340.9** | **333.8** | | |

- Income growth driven by rent growth, asset recycling activity and development income
- Australian portfolio underpins performance, +7% growth in local currency
- Operating expenses well contained
- Incentive fee of $3.8m payable via 2.3m in VHP units
- NDI growth per unit partially influenced by tax

# GROSS RENTAL INCOME

*Delivery across all fundamental real estate elements driving rent growth*



# BALANCE SHEET

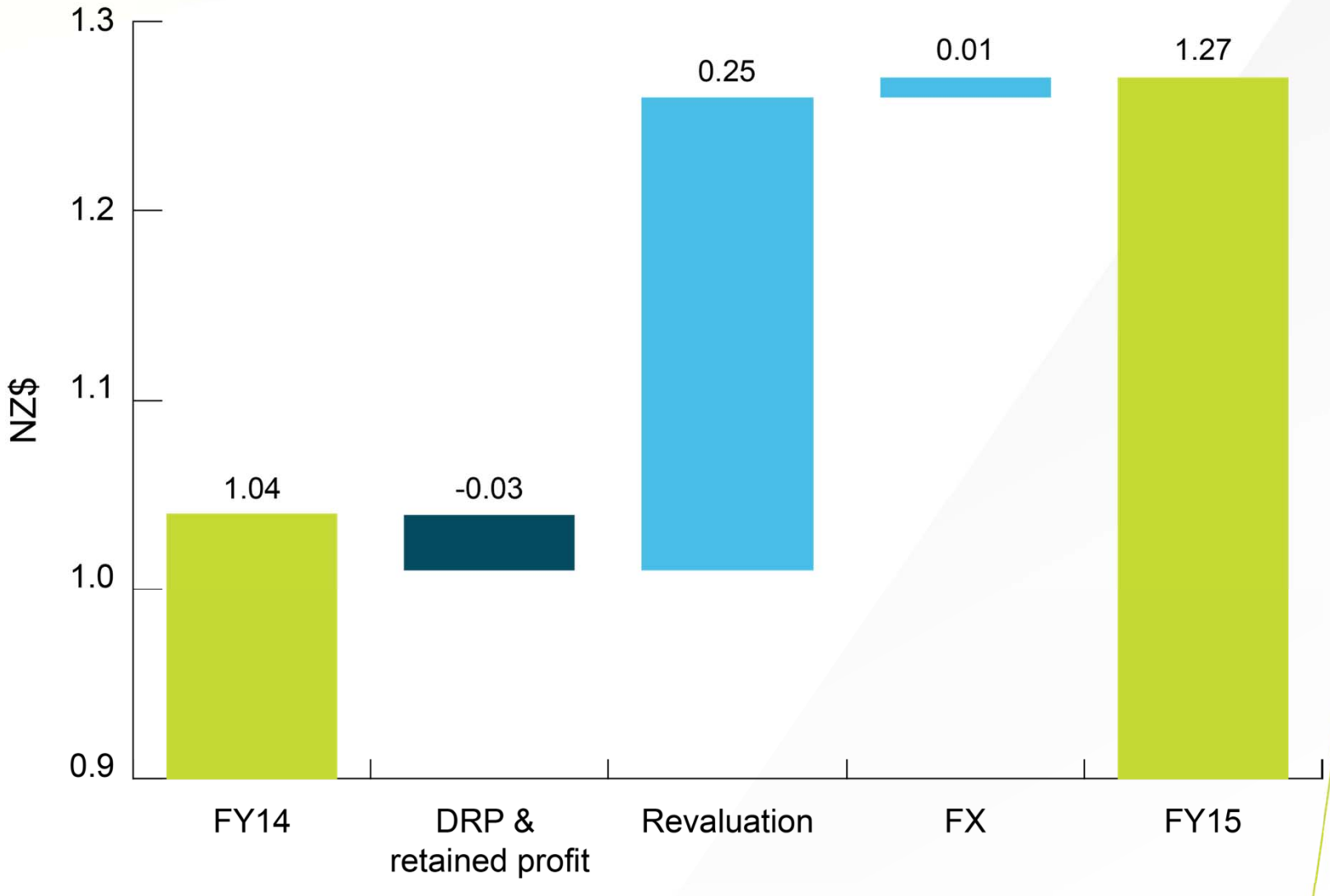
*Low gearing providing financial flexibility*

| | Actual FY15 | Actual FY14 | change $m | change % |
|---|---|---|---|---|
| **Net Tangible Assets ($)** | **1.27** | **1.04** | | 22.5% |
| Investment properties ($m) | 781.9 | 613.1 | 168.7 | 27.5% |
| **Total assets ($m)** | **784.6** | **616.0** | | 27.4% |
| Bank debt ($m) | 256.4 | 191.4 | 65.0 | 34.0% |
| **Unit holder funds ($m)** | **436.0** | **353.5** | 82.5 | 23.3% |
| Units on issue (m) | 342.1 | 339.9 | | |
| **Weighted average cost of debt** | **5.32%** | **5.66%** | | |
| **LVR** | **32.9%** | **31.4%** | | |

- Investment portfolio value now more reflective of our high quality, strong performing assets
- Gearing modest, Vital well capitalised to secure opportunities as they arise
- Bank debt hedged to ~84%, weighted average rate of 4.24% and term of 4.9 years
- NTA uplift largely reflective of revaluation gains

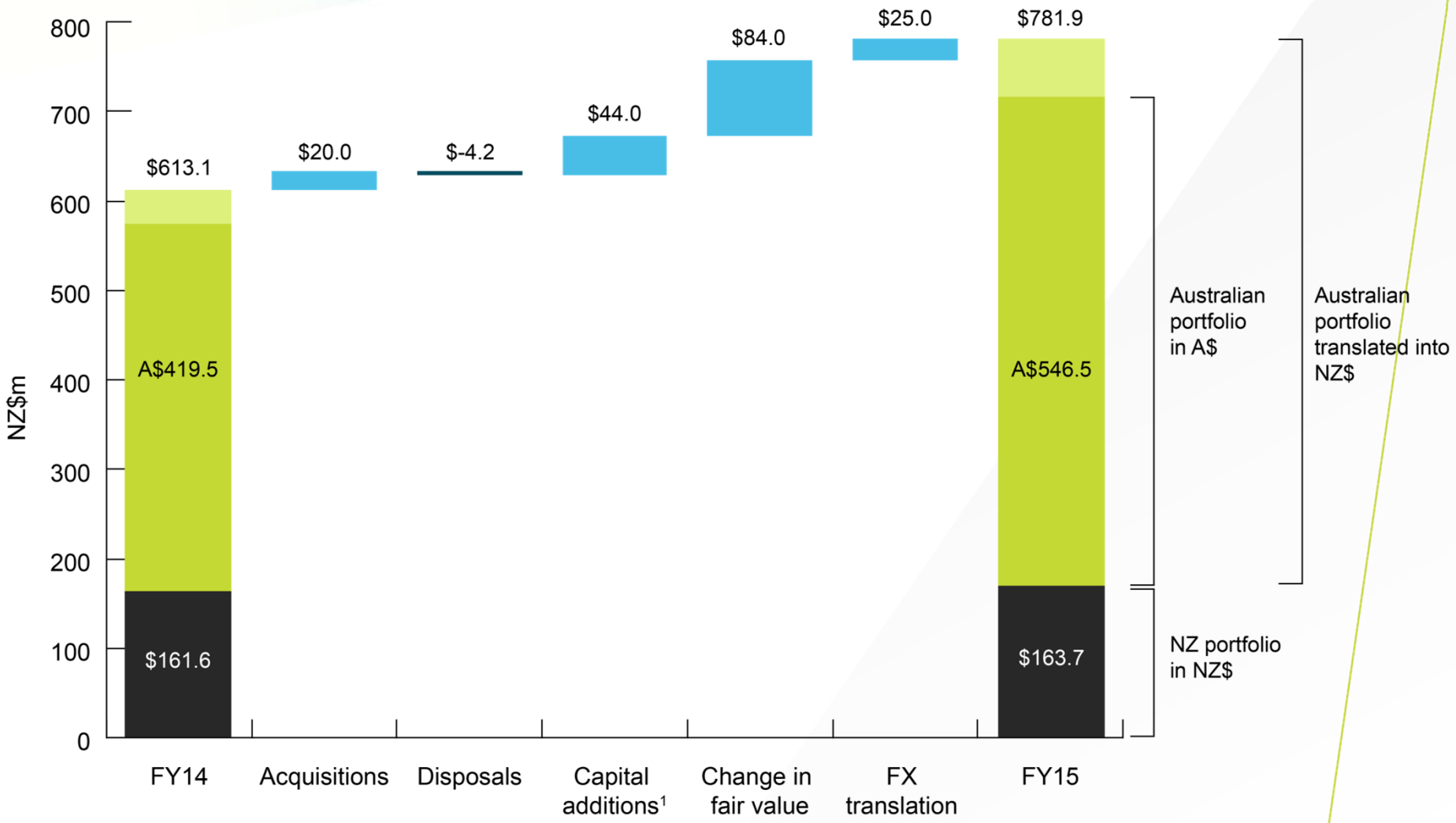
# NET TANGIBLE ASSETS

*Revaluation gains delivering material NTA growth*



# INVESTMENT PROPERTY

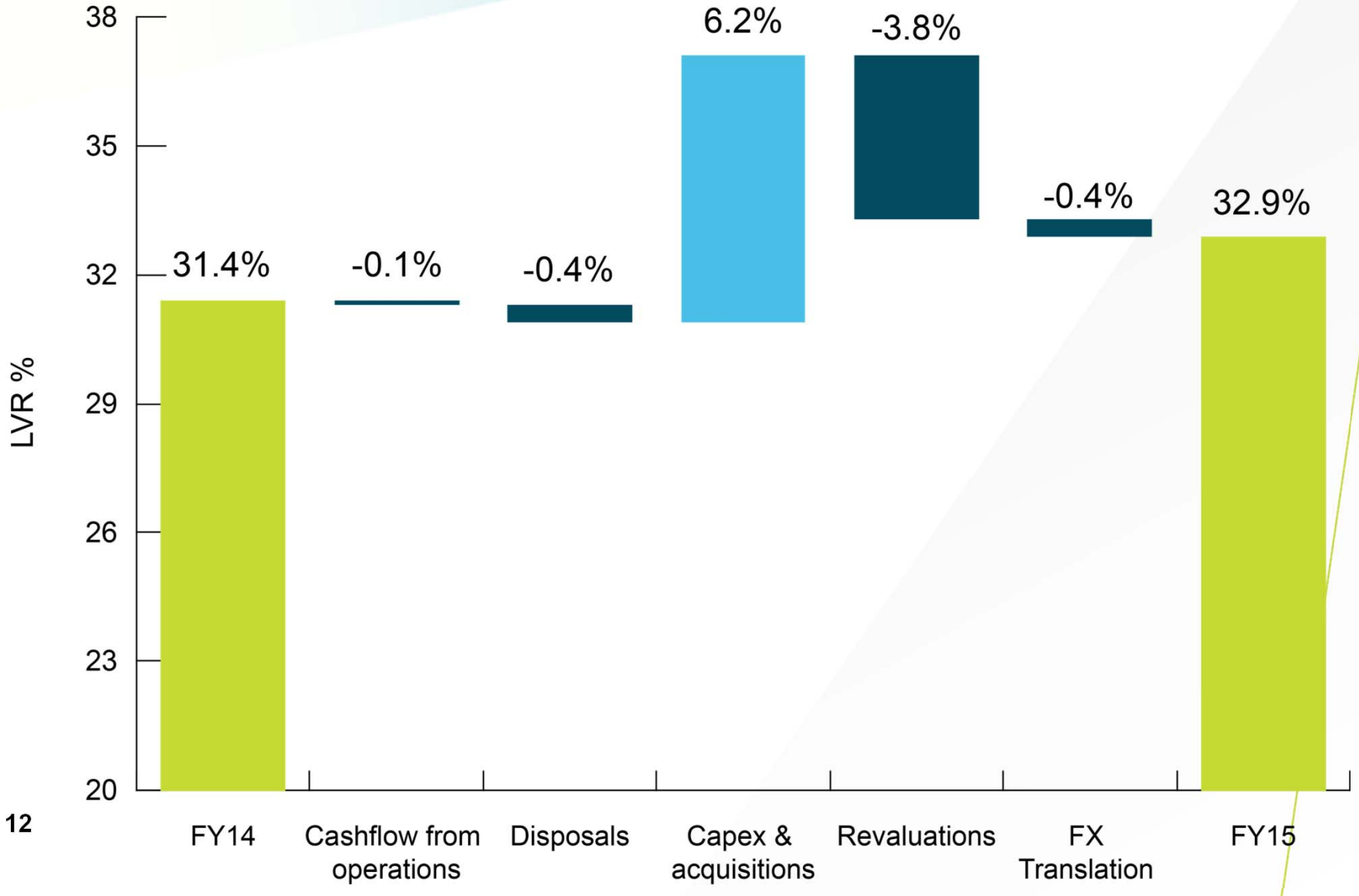
*Australian redevelopment strategy driving material portfolio value upside*




*Note 1: Capital additions includes capitalised interest*

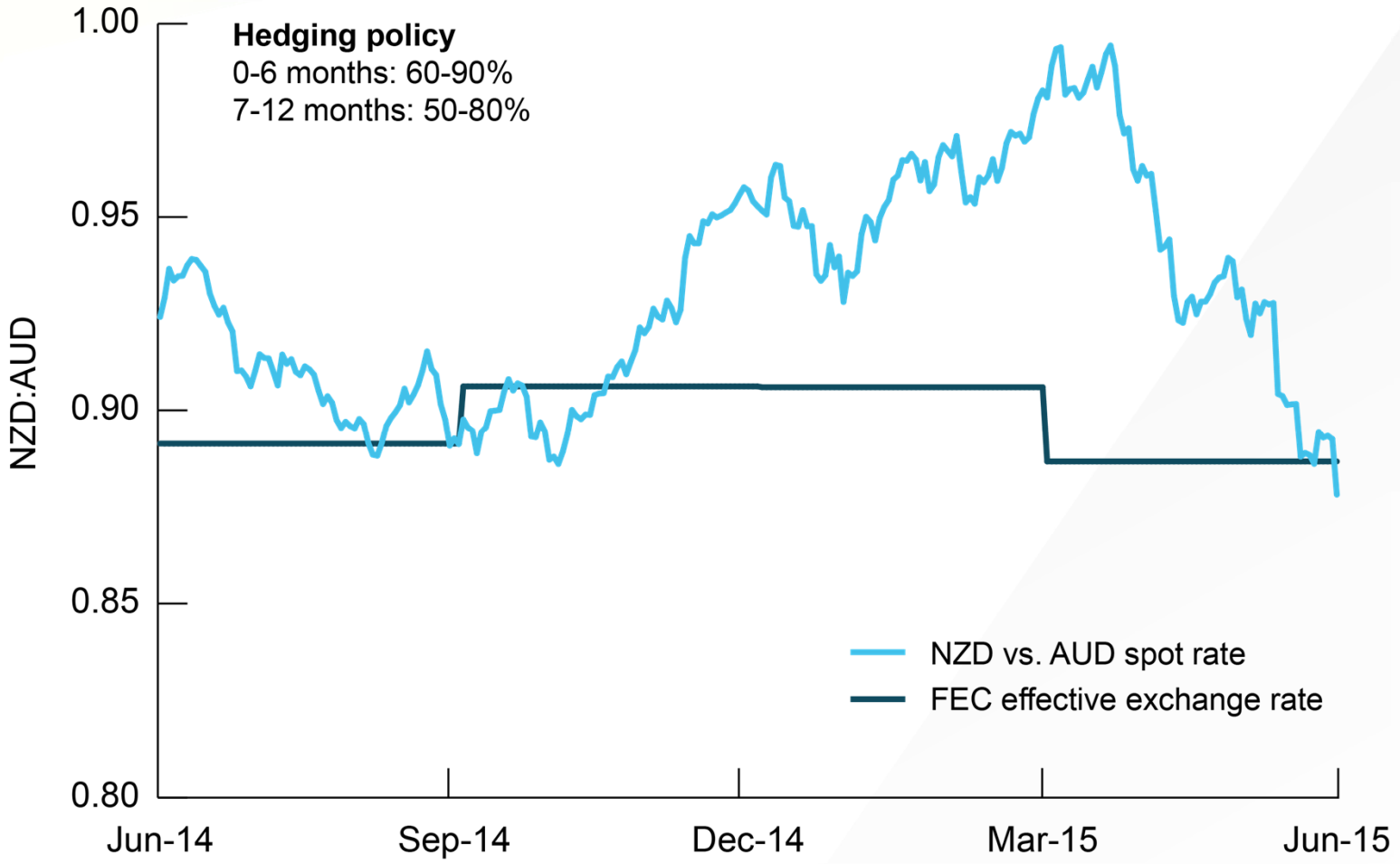
# LVR MOVEMENT

*Strong balance sheet position*



# FOREIGN EXCHANGE – WHAT'S HAPPENED

*Hedging helps mitigate balance sheet and earnings volatility*

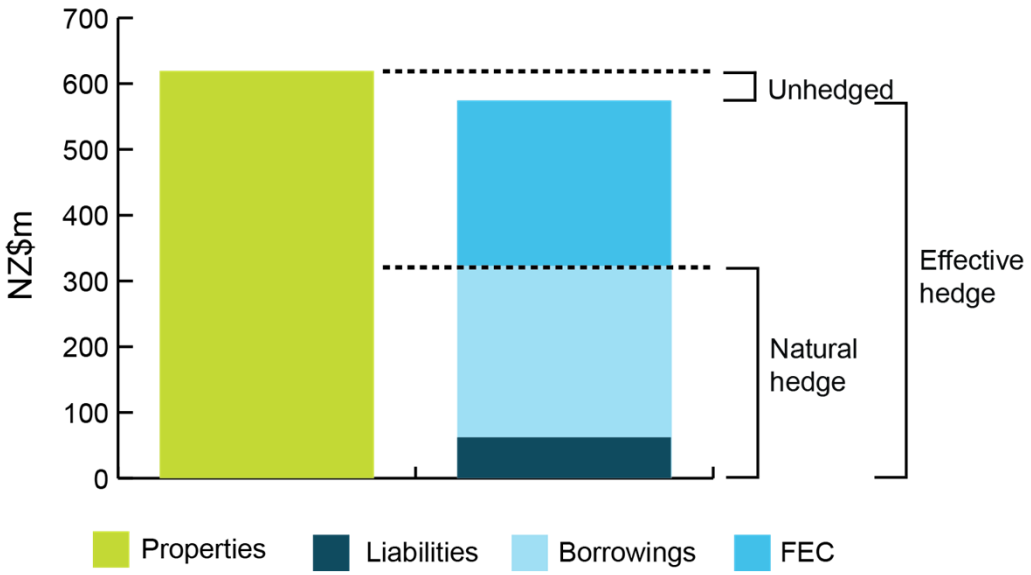



**Transaction hedging:** Foreign exchange policy framework minimises earnings volatility

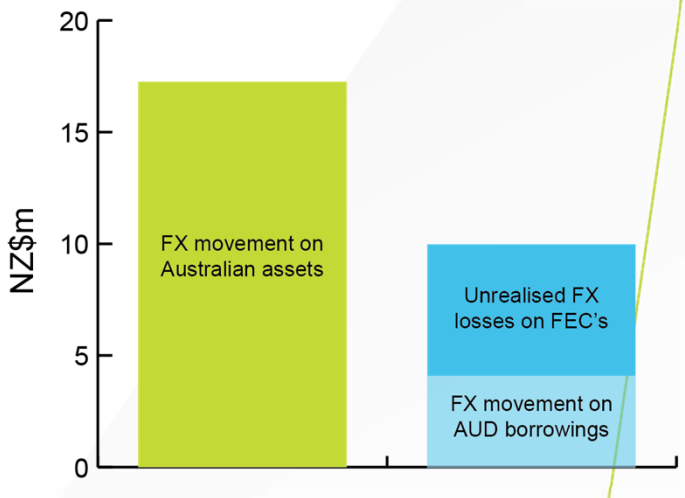
# FOREIGN EXCHANGE – WHAT'S HAPPENED

*Hedging helps mitigate balance sheet and earnings volatility*

## Year End Financial Position
### (Australian operations in NZD)




## Financial Performance - Exchange Impact




**Translation hedging:** Additional hedging is put in place through FEC's, lifting Vital's effective hedge position reducing the foreign exchange influence on its balance sheet

# Healthcare sector

# DRIVERS OF PRIVATE HEALTH SECTOR

*Sector fundamentals continue to drive operator growth, and support a long term positive outlook*

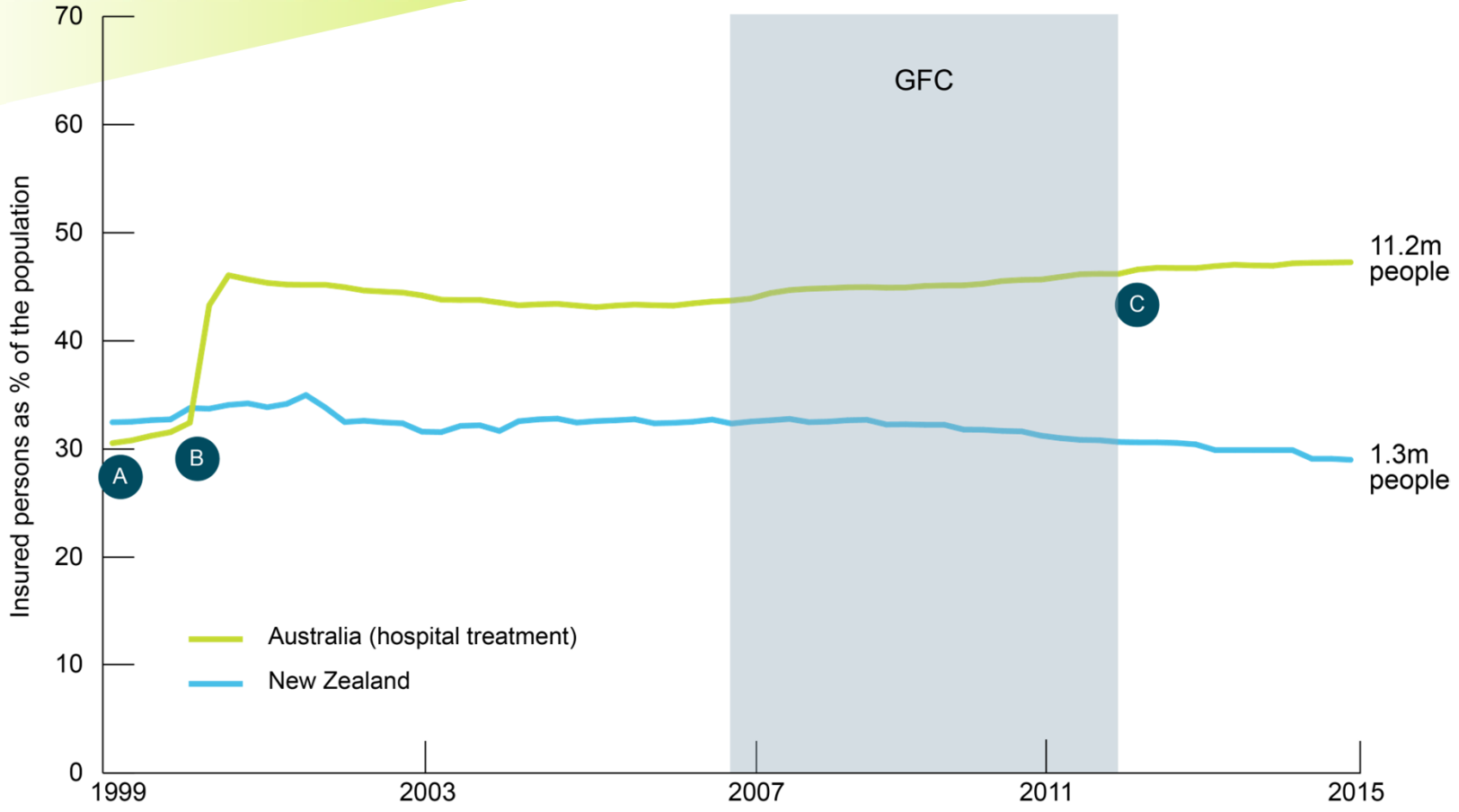
| | Drivers | Australia | New Zealand | Comment |
|---|---|---|---|---|
| | >65 year demographic % of population | 14% | 16% | Forecast doubling of this demographic over the next 40 years plus general population growth |
| | >65's utilisation of services | 4x | | High utilisation for the >65 demographic adding demand pressure |
| | Multiple barriers to entry | ✓ | | Advantage with established operators |
| | Supportive regulatory framework | ✓ | | Relatively inelastic to change |
| | Market conditions | ✓ | | Healthcare relatively insulated from adverse market conditions |
| | Private health insurance[1] | 47% | 29% | More attractive model in Australia. Natural tension between insurers and operators |
| | Increasing chronic illness | ✓ | | And a more demanding generation |



Note: 1. Percentage of population with private health insurance. Quarterly PHIAC data to 31 March 2015 and HFANZ to 31 March 2015

# PRIVATE HEALTH INSURANCE

*Resilient PHI levels in Australia underpin long term growth opportunities*




A Introduction of 30% Rebate from 1 January 1999

B Introduction of Life Time Health Cover from 1 July 2000

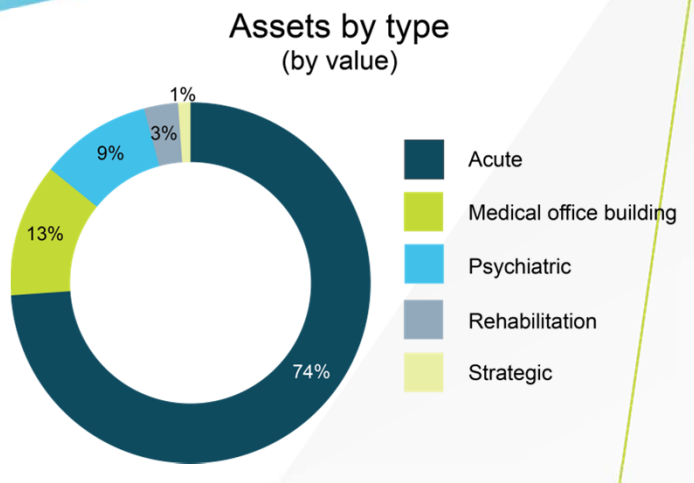
C Introduction of 30% Rebate means testing from 1 July 2012

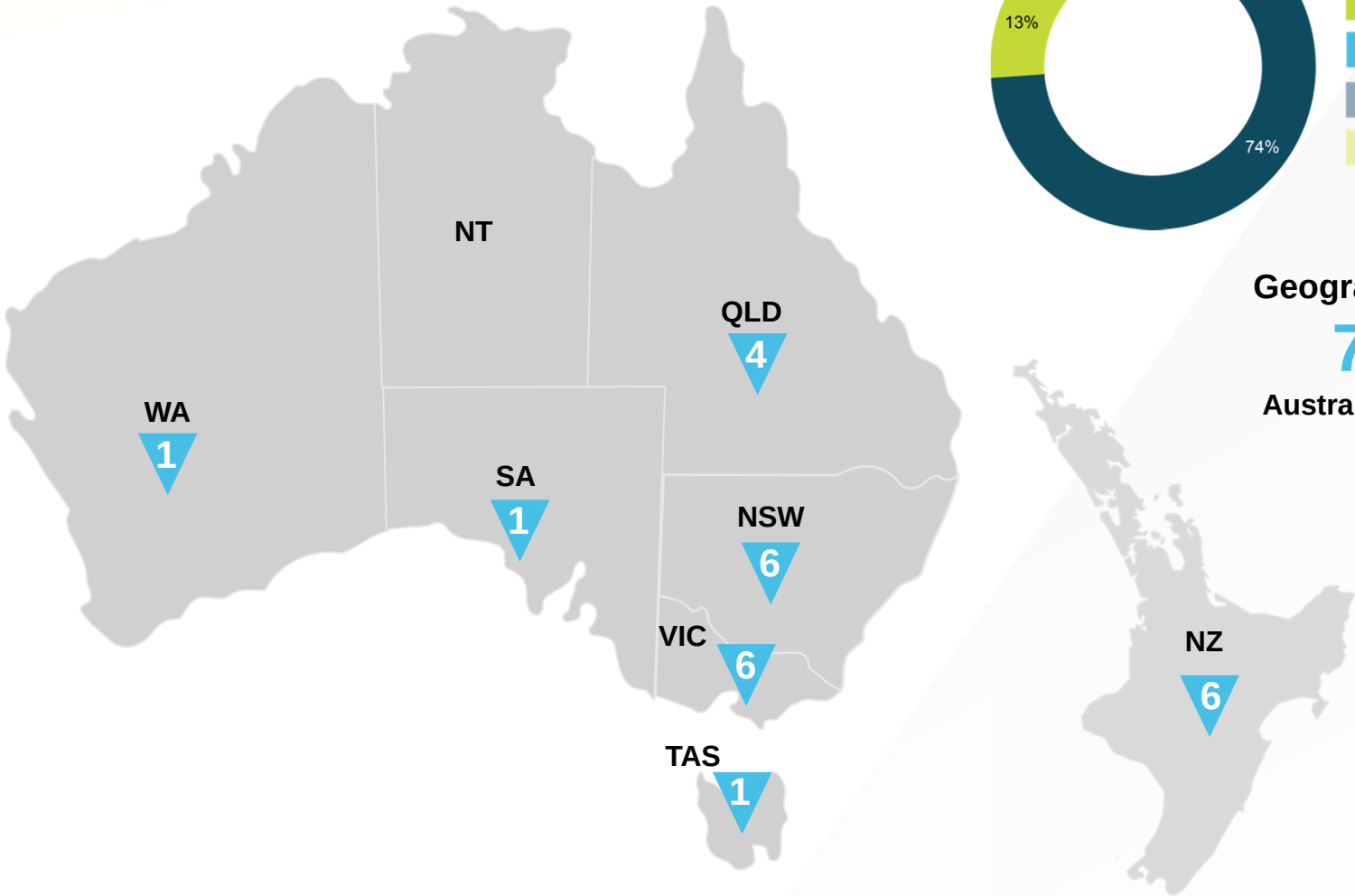
Source: Quarterly PHIAC data to 31 March 2015 and HFANZ to 31 March 2015

# Portfolio update

# DIVERSIFIED PORTFOLIO

*25 properties comprising approximately 1,600 hospital beds and over 70 operating theatres*




**Geographic split (%)**

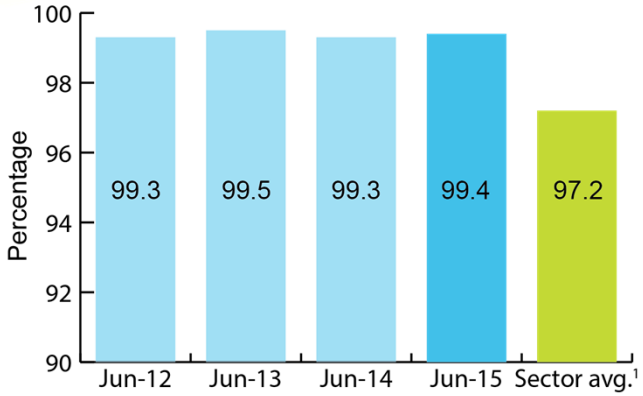
**79/21**

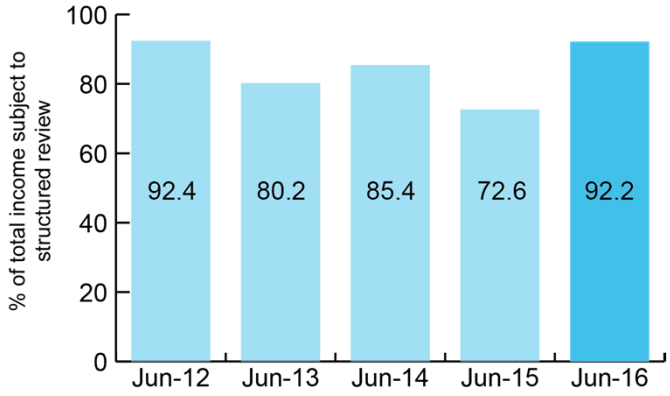
**Australia/New Zealand by value**

As at 30 June 2015

# CORE PORTFOLIO METRICS

*Sector leading metrics underpin defensive characteristics*



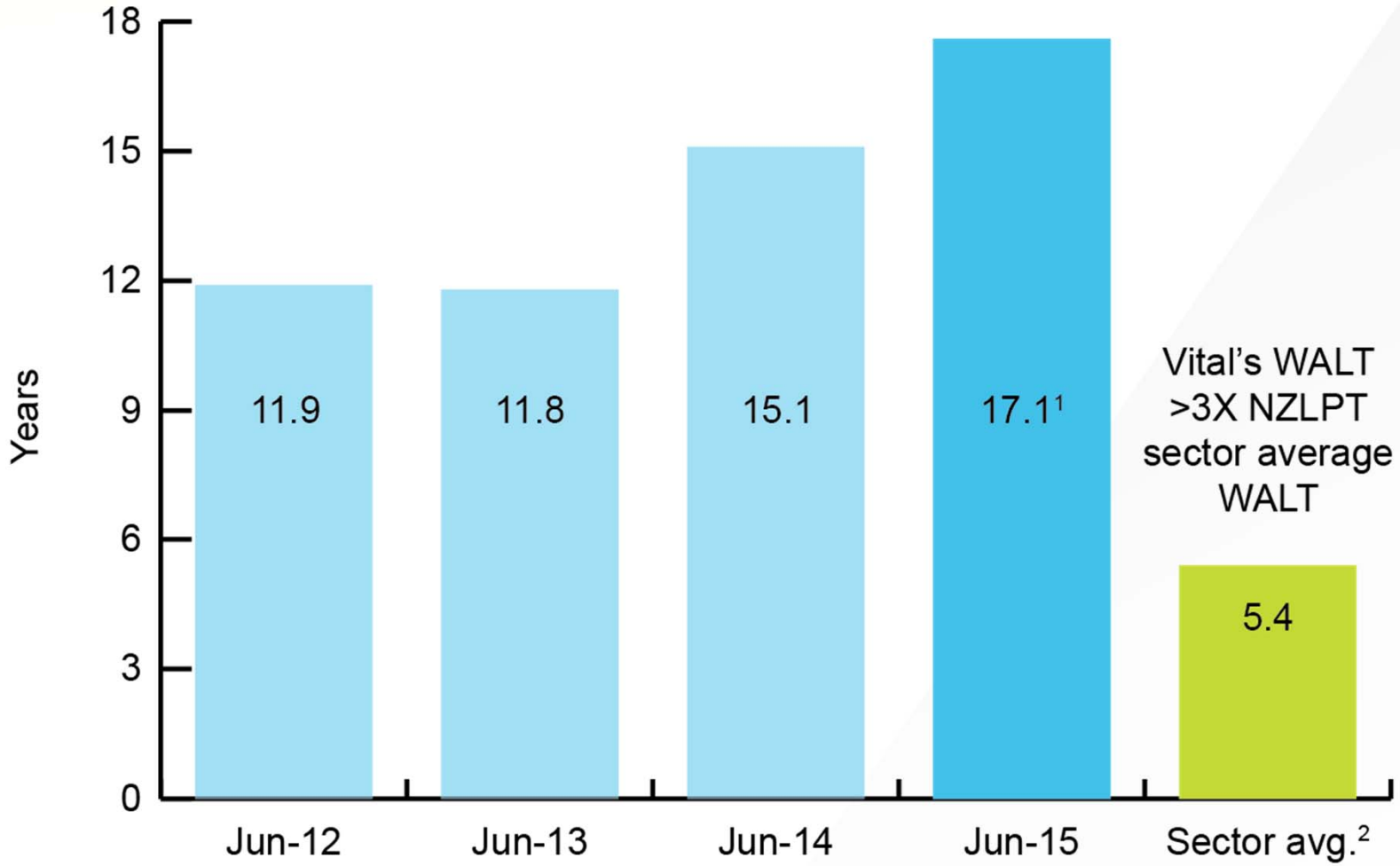

**Strong occupancy:** Consistently high due to lease renewal rates and leasing up of vacant space. Circa 1,000 sqm vacant across 4 properties

**Rent review profile:** High percentage of FY16 total income subject to structured[2] rent reviews

*Note 1: Source: 'Sector average' from Forsyth Barr Real Estate Reflections July 2015 (excludes VHP).*
*Note 2: Includes CPI and fixed type reviews.*

# CORE PORTFOLIO METRICS - WALT

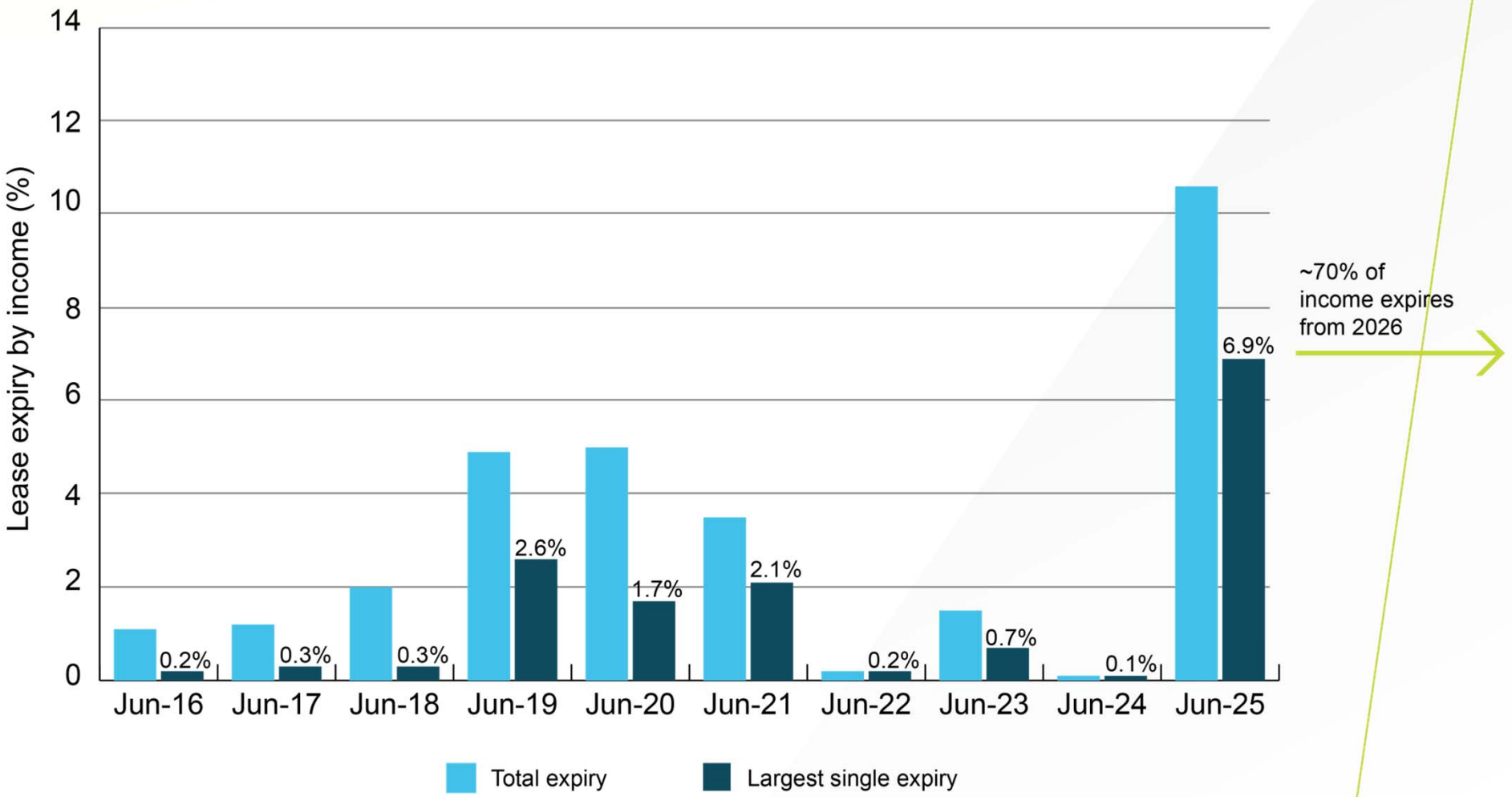
*WALT provides long term income stability for investors*




*Note 1: As at 1 July 2015 Walt increases to 17.6 years*
*Note 2: Source: 'Sector average' from Forsyth Barr Real Estate Reflections July 2015 (excludes VHP).*

# LEASE EXPIRY PROFILE

*Substantially improved risk profile following Allamanda resolution, ~3% p.a. average income forecast to expire over next 10 years*




As at 30 June 2015

# DEVELOPMENT UPDATE

*Completed developments since July 2012*

| Hospital | | Capital works undertaken | Number of stages | Project cost (A$m) | Completion date |
|---|---|---|---|---|---|
| | Maitland (NSW) | 24 new rehab bed unit, 30 new car parks, hydrotherapy pool, 4th theatre | 2 | 17.8 | Jul-12 |
| | Belmont (QLD) | Major redevelopment & modernisation, 30 beds, new car-parks, consultancy suites | 1 | 12.6 | Nov-12 |
| | South Eastern (VIC) | Development of rehabilitation centre, including hydrotherapy pool, gymnasium and consulting suites | 1 | 4.3 | Dec-12 |
| | Palm Beach (QLD) | Two-storey ward extension with 34 new beds and additional consulting suites and car parks | 1 | 9.4 | Dec-12 |
| | Mayo (NSW) | New 24 bed ward and one theatre (to three), stand alone medical centre, additional car parking | 1 | 6.1 | Feb-13 |
| | Toronto (NSW) | Eight new beds to existing rehabilitation ward and establishment of 26 bed mental health unit | 2 | 5.0 | Nov-13 |
| | Lingard (NSW) | New 40 bed ward and diagnostic imaging areas, three additional theatres (to seven), upgrade of patient recovery areas | 3 | 31.0 | Feb-15 |
| | **Total** | | **11** | **86.2** | |

# DEVELOPMENT UPDATE

*Current developments*

| | Hospital | Capital works being undertaken | Number of stages | Project cost (A$m) | Forecast completion date |
|---|---|---|---|---|---|
| | Hurstville (NSW) | New operating theatres, extended surgery facility, inpatient wards, oncology day patient service. | 1 | 28.0 | Jul-15 |
| | Hurstville (NSW) | Coronary care and intensive care units | 1 | 6.0 | Sep-15 |
| | Belmont (QLD) | New 30-bed extension, additional consulting suites and carparks | 1 | 9.5 | Sep-15 |
| | Marian (WA) | Additional beds, consulting rooms and carparks | 1 | 10.5 | Oct-15 |
| | Maitland (NSW) | New psychiatric ward and extended rehabilitation services | 1 | 13.0 | Nov-15 |
| | South Eastern (VIC) | 30 new rehabilitation beds, 30 mental health beds and 79 car parks. | 1 | 14.5 | Jun-16 |
| | **Total** | | **6** | **81.5** | |
| | Balance of committed capital expenditure to 30 June 2016 | | | 38.2 | |
| | Forecast (not committed) development projects over the next 24 months | | | 25.0 | |

# HURSTVILLE PRIVATE HOSPITAL, SYDNEY

*Stage 1 completed July 2015. Hospital continued to function throughout development*

Photograph taken December 2013

- **Acquired in May 2012**
- **Purchase price A$12.6m**
- **3 theatres, 73 beds**
- **20 year lease**
- **Cap rate 10.00%**

Photograph taken July 2015

- **Redevelopment spend of A$34.0m**
- **30 June 2015 valuation A$58.2m**
- **7 theatres, ~105 beds**
- **27 year lease**
- **Cap rate 8.25%**

# HURSTVILLE PRIVATE HOSPITAL, SYDNEY

*Stage 2 coronary care unit will be completed in September 2015.*

# INVESTMENT PORTFOLIO REVALUATION

*Strong independent validation of execution on strategy*

## Revaluation summary

- Revaluation gain of $84m, +12.1% above year end book value
- $78m gain from Australian portfolio, $6m from New Zealand
- WACR firmed 95 basis points to 8.0%
- Total investment portfolio value now $781.9m
- Revaluation core driver of NTA increase from $1.04 to $1.27
- Contributed to LVR of 32.9%
- Incentive fee of $3.8m payable to the Manager in units



*Definitions: WACR: Weighted Average (market) Capitalisation Rate.*

# INVESTMENT PORTFOLIO REVALUATION

*Healthcare real estate investment profile and transactional activity increasing*

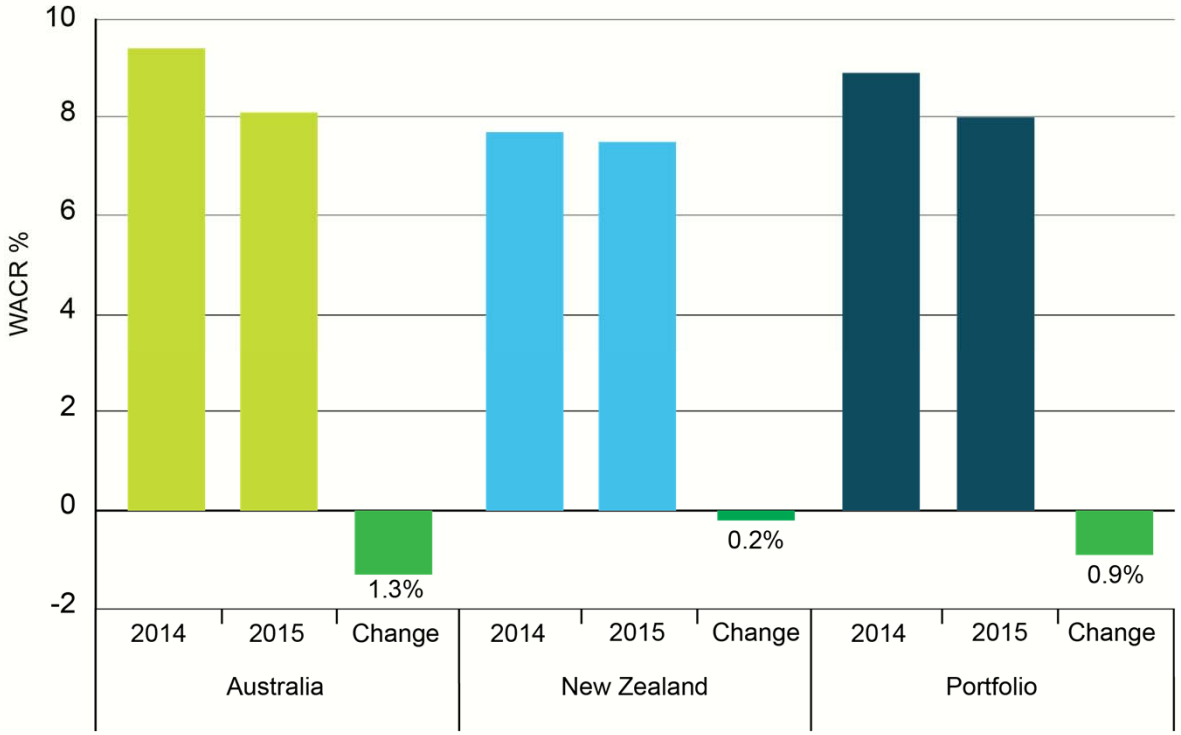
## Asset management drivers

- Significant value add development pipeline improving asset quality & functionality, driving excellent operational performance
- No material single tenant lease expiry for 10 years
- Maintained close to full occupancy
- Majority of income inflation adjusted
- Quality, market leading operators, excellent covenants
- Proven capability to reposition assets ahead of lease expiry

## Market drivers

- Sector specific transactional evidence in the ~7% cap rate range
- Healthcare as an asset class maturing, viewed as relatively defensive
- Supply / Demand imbalance on back of strong capital inflows
- Underlying demand (ageing population, private insurance support, Gen Y demands)

# WEIGHTED AVERAGE MARKET CAPITALISATION RATE ANALYSIS

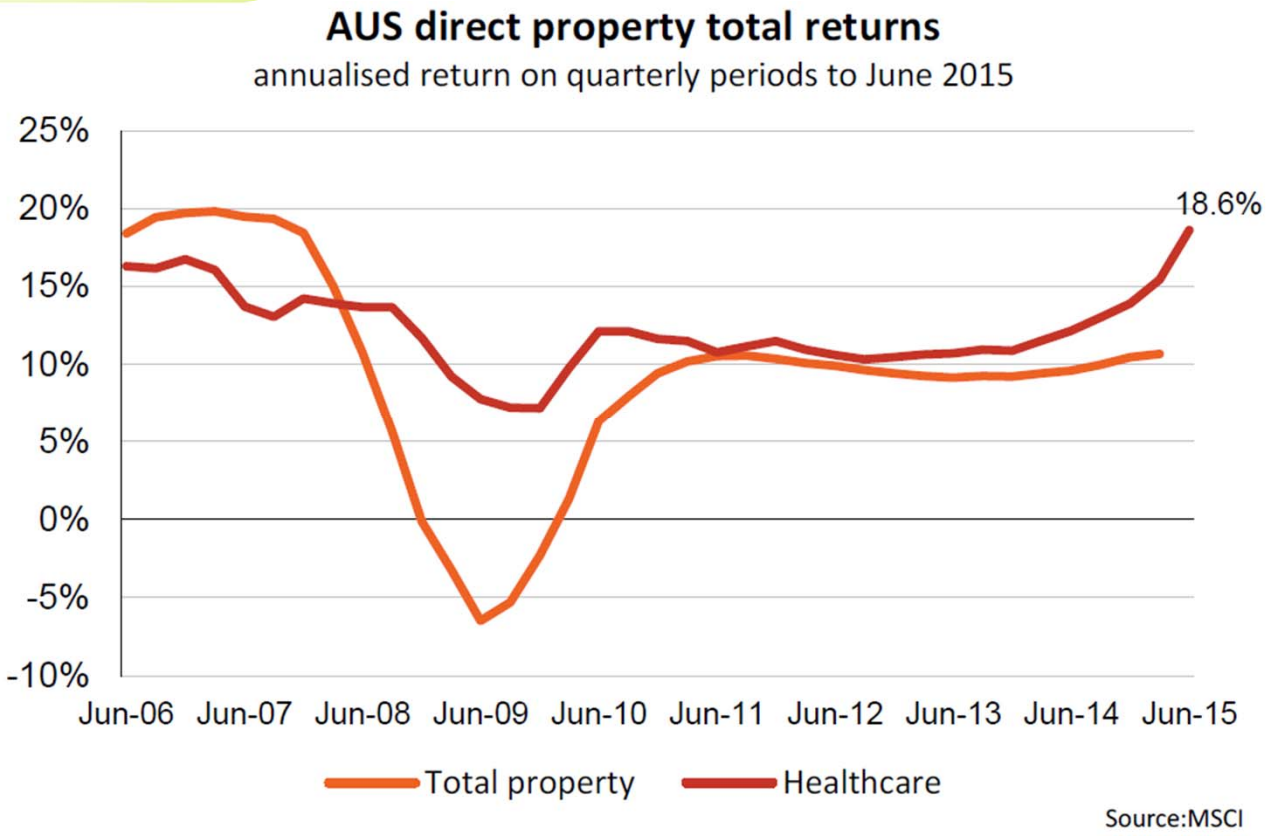



## Context…

- ~70% of the total revaluation gain came from development properties
- Validation on the execution of the brownfields strategy over recent years, more to come…
- Resolution of Allamanda, leased to Ramsay (ASX: RHC) for 21.3 years
- New Zealand portfolio remained firm, MercyAscot lease renewal in December 2013 ensured stability
- Value declines at five properties, largest at Allamanda (-A$2.8m) reflecting expiry and lower reversionary market rent

# MSCI AUSTRALIAN HEALTHCARE INDEX

*Healthcare real estate continues to deliver higher relative total returns with lower volatility*

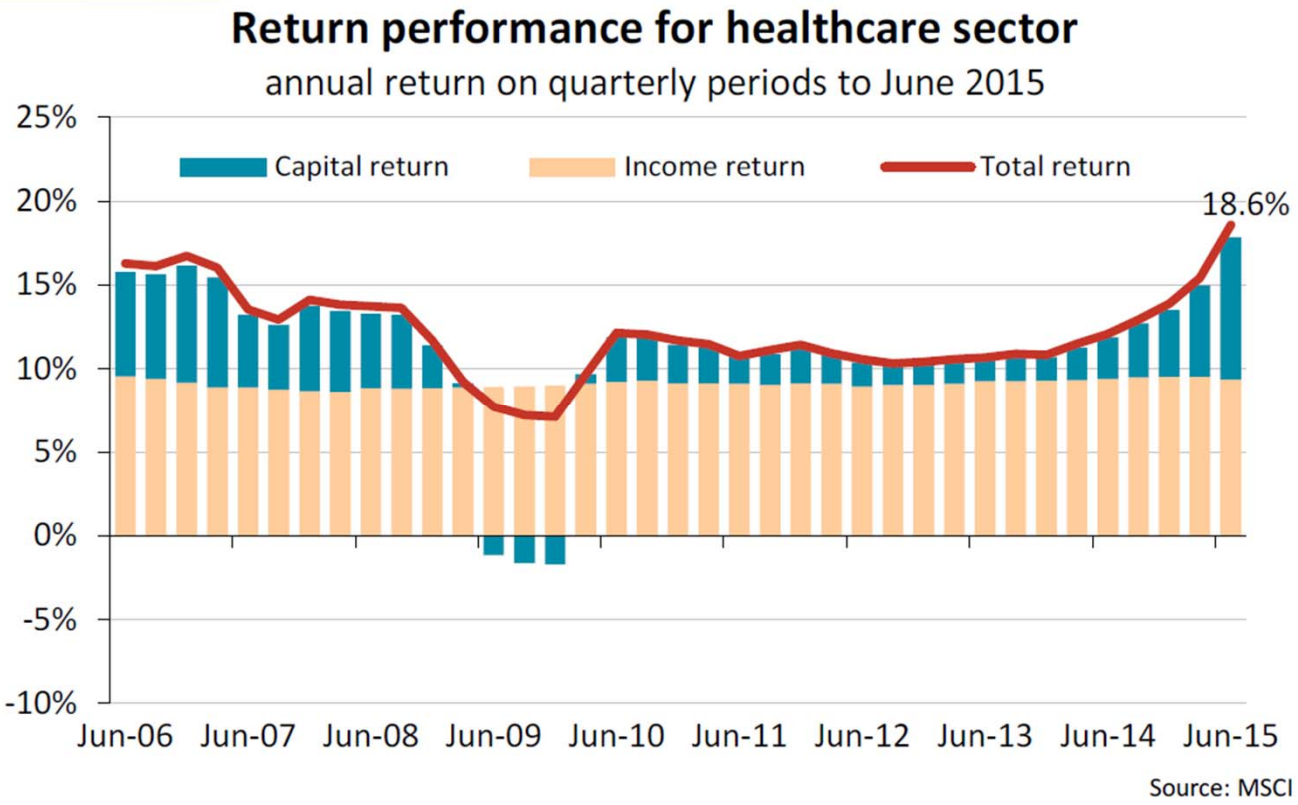



- Healthcare Index comprises 61 assets, value of ~A$1.5bn
- VHP one of five Index participants

MSCI

# MSCI AUSTRALIAN HEALTHCARE INDEX

*Index performance thematically similar to VHP total return performance*




- Capital return component of Index is driver of total return performance
- Valuations 'coming into line' with equity market view
- Recognition of defensive income returns and firmer wider market yields

# Strategy & outlook

# STRATEGIC VALUE EQUATION

*Successful execution on 'sum of parts'*

**Management**

Aligned / Stable / Experienced / Credible / Capable

- 21.3 year lease to Ramsay Health Care at Allamanda
- Independent revaluations validate strategy
- All core portfolio metrics strong and stable

- A$14.5m South Eastern redevelopment
- Forecast pipeline of ~A$25m in next 24 months

- Capability and credibility
- Strategic acquisitions to secure future growth
- Opportunities across the healthcare real estate spectrum

- Treasury and foreign exchange management continues to be effective
- Balance sheet provides capacity to deploy capital

- Quality, diversified healthcare portfolio
- Maintain a defensive and diversified earnings profile
- Deliver appropriate scale and diversification

# SUMMARY AND OUTLOOK

*Solid platform and thematic tailwinds provide opportunity for scale and diversification*

## Financial

- Revenue stable and growing
- Immediate capacity to secure opportunities
- Established foreign exchange policy framework working well
- Strong EPU, sustainable DPU
- Prudent capital management

## Portfolio metrics

- Market leading WALT & occupancy metrics – continued focus on doing basics well
- Proven ability to reposition and/or re-lease significant healthcare infrastructure
- Value-add development materially enhancing portfolio quality and performance
- Brownfield development execution main driver of revaluation gains

## Opportunities

- Strong underlying healthcare trends remain core to real estate investment decisions
- Brownfield programme remains a core focus for accretive, value-add incremental growth.
- Appropriate greenfield or joint venture healthcare real estate market opportunities
- Leverage position for appropriate scale & diversification opportunities

## Outlook

- Robust outlook on healthcare sector, market and industry
- Cap rates firming for quality assets, backed by low interest rates & weight of capital
- Relationships remain key and is where the Vital team differentiates
- DPU guidance FY16 of 8.1 cpu

# APPENDIX - PORTFOLIO REVALUATION SCHEDULE

| | | Fair value | | Market capitalisation rate | | Occupancy | | WALT | |
|---|---|---|---|---|---|---|---|---|---|
| Properties | Location | $000s 2015 | $000s 2014 | % 2015 | % 2014 | % 2015 | % 2014 | Years 2015 | Years 2014 |
| Ascot Hospital & Clinics | Greenlane, Auckland | 81,505 | 85,000 | 7.0 | 7.4 | 99.5 | 99.7 | 20.3 | 20.9 |
| Ascot Hospital Carpark, Auckland (ground lease) | Greenlane, Auckland | 1,700 | 1,520 | 9.8 | 10.1 | 100.0 | 100.0 | 28.0 | 29.0 |
| Epworth Rehabilitation | Brighton, Victoria | 19,344 | 17,867 | 8.0 | 8.0 | 100.0 | 100.0 | 3.6 | 4.6 |
| Epworth Eastern Medical Centre | Box Hill, Victoria | 16,176 | 19,804 | 8.3 | 8.0 | 98.6 | 100.0 | 6.1 | 2.7 |
| Epworth Eastern Hospital | Box Hill, Victoria | 91,288 | 68,238 | 7.5 | 8.3 | 100.0 | 100.0 | 9.8 | 10.1 |
| Kensington Hospital | Whangarei, Northland | 13,550 | 14,000 | 8.5 | 8.5 | 100.0 | 100.0 | 5.7 | 6.7 |
| Hibiscus Coast Community Health Centre | Whangaparaoa, Rodney | – | 4,200 | – | 8.8 | – | 100.0 | – | 5.0 |
| Napier Health Centre | Napier, Hawkes Bay | 10,400 | 10,100 | 10.3 | 9.3 | 100.0 | 100.0 | 4.5 | 5.5 |
| Apollo Health and Wellness Centre | Albany, Auckland | 21,403 | 21,375 | 7.9 | 7.8 | 90.6 | 79.9 | 4.6 | 5.2 |
| Ascot Central, Auckland | Greenlane, Auckland | 25,600 | 23,900 | 6.9 | 7.1 | 100.0 | 97.0 | 4.6 | 5.4 |
| Ascot Central Carpark, Auckland (ground lease) | Greenlane, Auckland | 1,550 | 1,500 | 10.8 | 10.5 | 100.0 | 100.0 | 4.1 | 4.7 |
| Allamanda Private Hospital | Southport, Queensland | 46,605 | 47,358 | 7.0 | 10.8 | 100.0 | 100.0 | 22.7 | 3.3 |
| Gold Coast Surgery Centre | Southport, Queensland | 15,837 | 14,530 | 10.0 | 9.3 | 92.2 | 93.3 | 9.3 | 8.0 |
| South Eastern Private Hospital | Noble Park, Victoria | 23,820 | 18,566 | 8.3 | 9.8 | 100.0 | 100.0 | 25.7 | 26.7 |
| Belmont Private Hospital | Carina Heights, Queensland | 45,057 | 30,675 | 8.0 | 9.3 | 100.0 | 100.0 | 20.6 | 16.6 |
| Dubbo Private Hospital | Dubbo, New South Wales | 8,484 | 7,534 | 9.3 | 9.8 | 100.0 | 100.0 | 16.6 | 17.6 |
| North West Private Hospital | Burnie, Tasmania | 15,271 | 13,508 | 9.3 | 9.8 | 100.0 | 100.0 | 16.6 | 17.6 |
| Palm Beach Currumbin Clinic | Currumbin, Queensland | 31,617 | 25,509 | 8.0 | 9.3 | 100.0 | 100.0 | 16.6 | 17.6 |
| Melbourne Pathology Building | Noble Park, Victoria | 792 | 753 | 8.3 | 8.5 | 100.0 | 100.0 | 25.7 | 26.7 |
| Lingard Private Hospital | Merewether, New South Wales | 79,750 | 54,246 | 8.0 | 10.5 | 100.0 | 100.0 | 25.7 | 26.7 |
| Toronto Private Hospital | Toronto, New South Wales | 18,325 | 15,499 | 9.0 | 9.8 | 100.0 | 100.0 | 27.5 | 28.5 |
| Maitland Private Hospital | East Maitland, New South Wales | 50,027 | 35,249 | 8.0 | 9.5 | 100.0 | 100.0 | 17.5 | 18.5 |
| Mayo Private Hospital | Taree, New South Wales | 29,128 | 23,679 | 8.5 | 9.8 | 100.0 | 100.0 | 16.5 | 17.5 |
| Hurstville Private Hospital | Sydney, New South Wales | 65,881 | 25,160 | 8.3 | 9.5 | 100.0 | 100.0 | 26.8 | 27.8 |
| Sportsmed Hospital & Clinic | Adelaide, South Australia | 36,821 | 33,366 | 8.7 | 8.9 | 100.0 | 100.0 | 17.4 | 18.4 |
| Marian Centre | Perth, Western Australia | 19,840 | – | 9.0 | – | 100.0 | – | 19.1 | – |
| Development Property | | | | | | | | | |
| 25 Nelson Road | Box Hill, Victoria | 4,110 | | | | | | | |
| TOTAL FAIR VALUE OF INVESTMENT PROPERTIES | | 773,881 | 613,136 | 8.0 | 8.9 | 99.4 | 99.3 | 17.1 | 15.1 |
| Income in advance | | 7,981 | – | | | | | | |
| TOTAL CARRYING VALUE | | 781,862 | | | | | | | |

# DISCLAIMER

This presentation has been prepared by Vital Healthcare Management Limited (the "Manager") as manager of the Vital Healthcare Property Trust (the "Trust"). The details in this presentation provide general information only. It is not intended as investment or financial advice and must not be relied on as such. You should obtain independent professional advice prior to making any decision relating to your investment or financial needs.

The provision of this presentation does not constitute an offer, invitation or recommendation to subscribe for or purchase units in the Trust.

Past performance is no indication of future performance.

No money is currently being sought, and no applications for units will be accepted, or money received, unless the unitholders have received an investment statement and a registered prospectus from the Trust.

12th August 2015