Vital
Healthcare Property Trust

# 2014 Annual Result

*Creating capacity to meet demand*

**Hurstville Private Hospital extension, Hurstville, Sydney**

# Agenda

- Result summary
- Financial summary
- Healthcare sector
- Investment portfolio
- Development & acquisition
- Strategy and outlook

David Carr
Chief Executive Officer

Stuart Harrison
Chief Financial Officer

Note: This annual result presentation should be read in conjunction with the New Zealand stock exchange release and 2014 financial statements.

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# Result summary

# Result highlights

*Delivering a strong platform for growth*

## Earnings & capital management

- Gross rental income of $59.4m
- Net profit after tax of $37.4m, up $2.7m or 7.8%
- Net distributable income[1] of $34.7m, up $6.5m or 23.1%
- Delivered on FY14 guidance for cash distribution of 7.9 cpu
- LVR[2] of 31.4% at year end, down from 42.4% in 2013
- Bank facility renewal with ANZ, introduction of BNZ as new long term partner

## Portfolio metrics, healthcare sector

- New 30-year lease with MercyAscot
- WALT[3] 15.1 years, 99.3% occupancy, 2.6% average increase on rents reviewed
- Successful conclusion of multiple brownfield development
- Supportive long term healthcare trends and demographic drivers
- Private sector critical partner to the capacity constrained public system

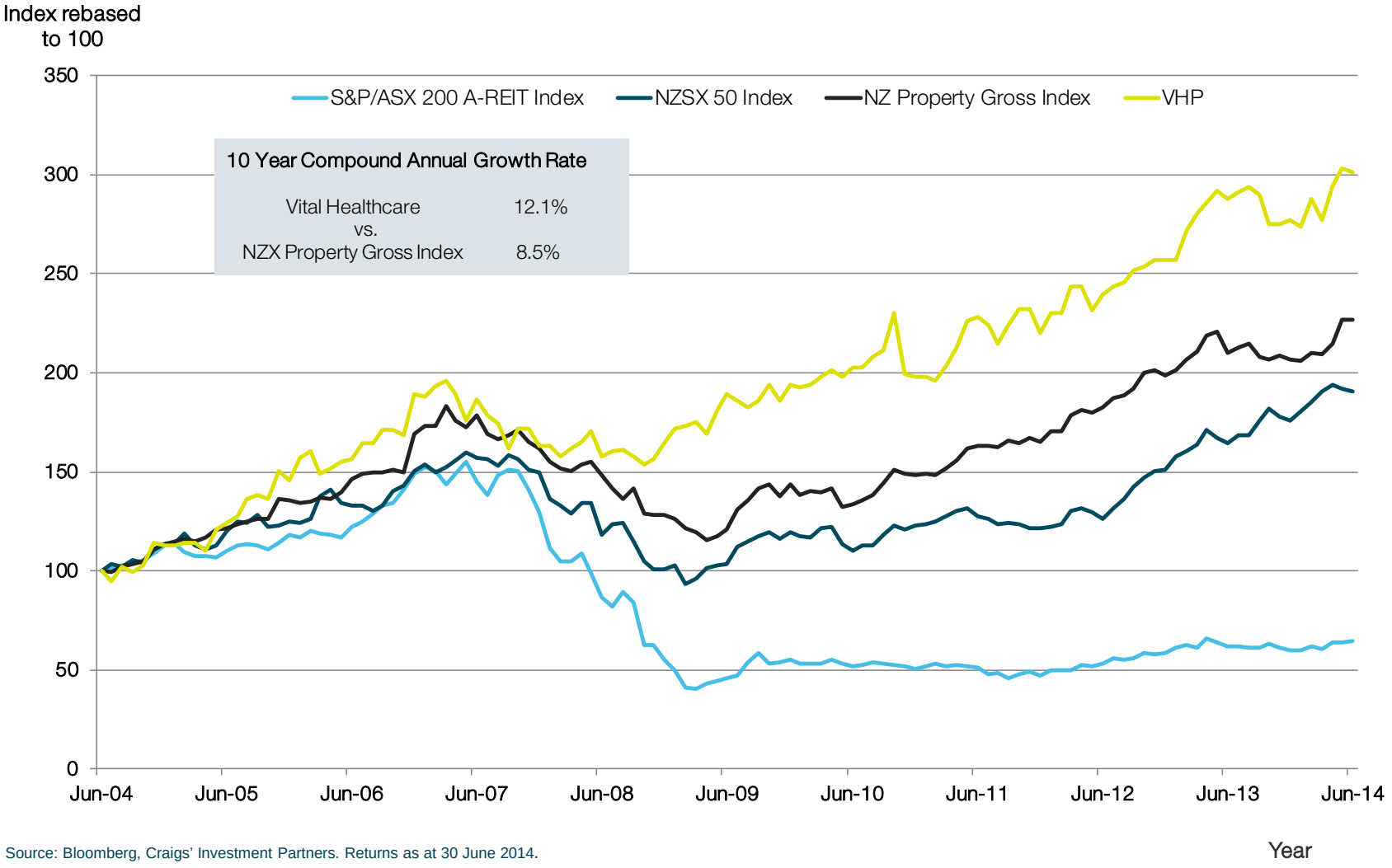
## Outlook

- Portfolio in great shape, continued focus on 2017 Allamanda expiry
- Accretive capital expansion pipeline forecast to continue
- Strong relationships and reputation for delivery driving acquisition opportunities
- FY15 cash distribution guidance of 8.0 cpu

Notes:
1: NDI is calculated as profit before tax, adjusted for non-cash items including revaluation gains/losses on investment properties and construction and foreign exchange and interest rate swaps. Other items include Manager's incentive fee and current tax.
2: LVR is Loan to Value ratio
3: WALT is Weighted Average Lease Term to expiry

# 10 year total return performance

*Well executed strategy delivering strong total returns*




Source: Bloomberg, Craigs' Investment Partners. Returns as at 30 June 2014.

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# Financial summary

# Financial performance

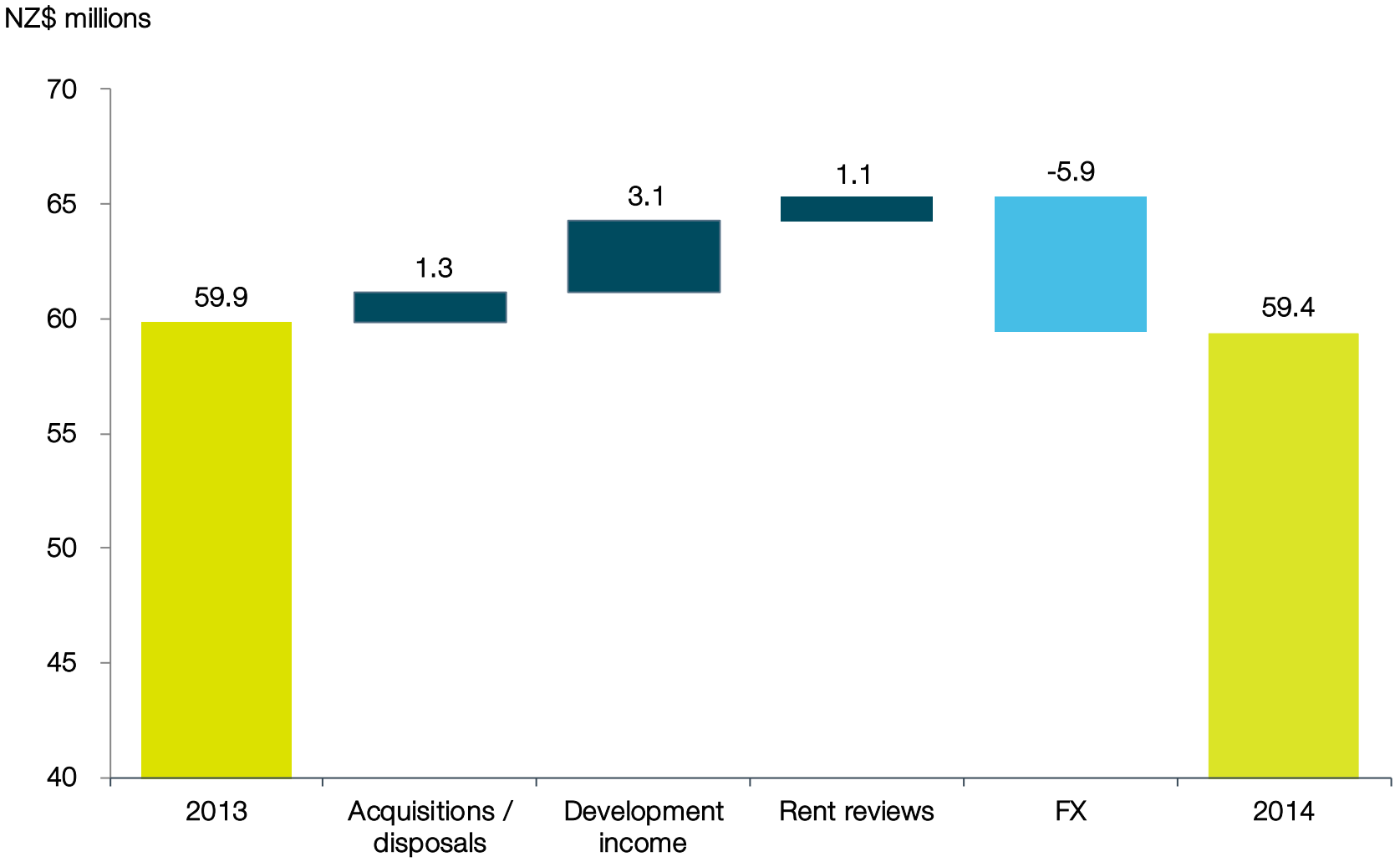
*Solid underlying gains from core Australian activities*

| All NZD$m | Actual FY14 | Actual FY13 | change $m | change % |
|---|---|---|---|---|
| Gross rental income | 59.4 | 59.9 | -0.4 | -0.7% |
| **Net rental income** | **58.0** | **57.9** | **0.1** | **0.2%** |
| **Operating profit before tax** | **50.0** | **50.6** | -0.6 | -1.3% |
| **Gross distributable income** | **34.9** | **33.6** | 1.3 | 3.9% |
| Current Tax - NZ & Australia | 0.2 | 5.4 | -5.2 | -95.8% |
| **Net distributable income** | **34.7** | **28.2** | **6.5** | **23.1%** |
| Gross distributable income (cpu) | 10.5c | 11.2c | -0.7c | -6.5% |
| Net distributable income per unit (earned) (cpu) | 10.4c | 9.4c | 1.0c | 10.8% |
| **Units on issue (weighted average million)** | **333.8** | **300.5** | | |

- Australian assets performing strongly in local currency growing year-on-year +14.8% however post currency rental income stable in NZD
- Excluding managers incentive fee, expenses largely unchanged year-on-year
- One-off tax rulings providing current year tax benefit
- Net distributable income per unit up +10.8%

# Gross rental income

*Underlying growth pre currency +9%*

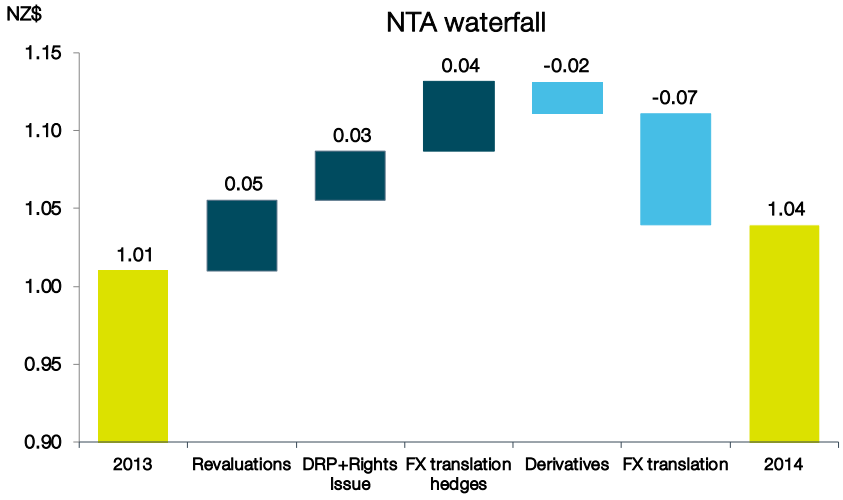


# Financial position

*Strong capital position provides financial flexibility*

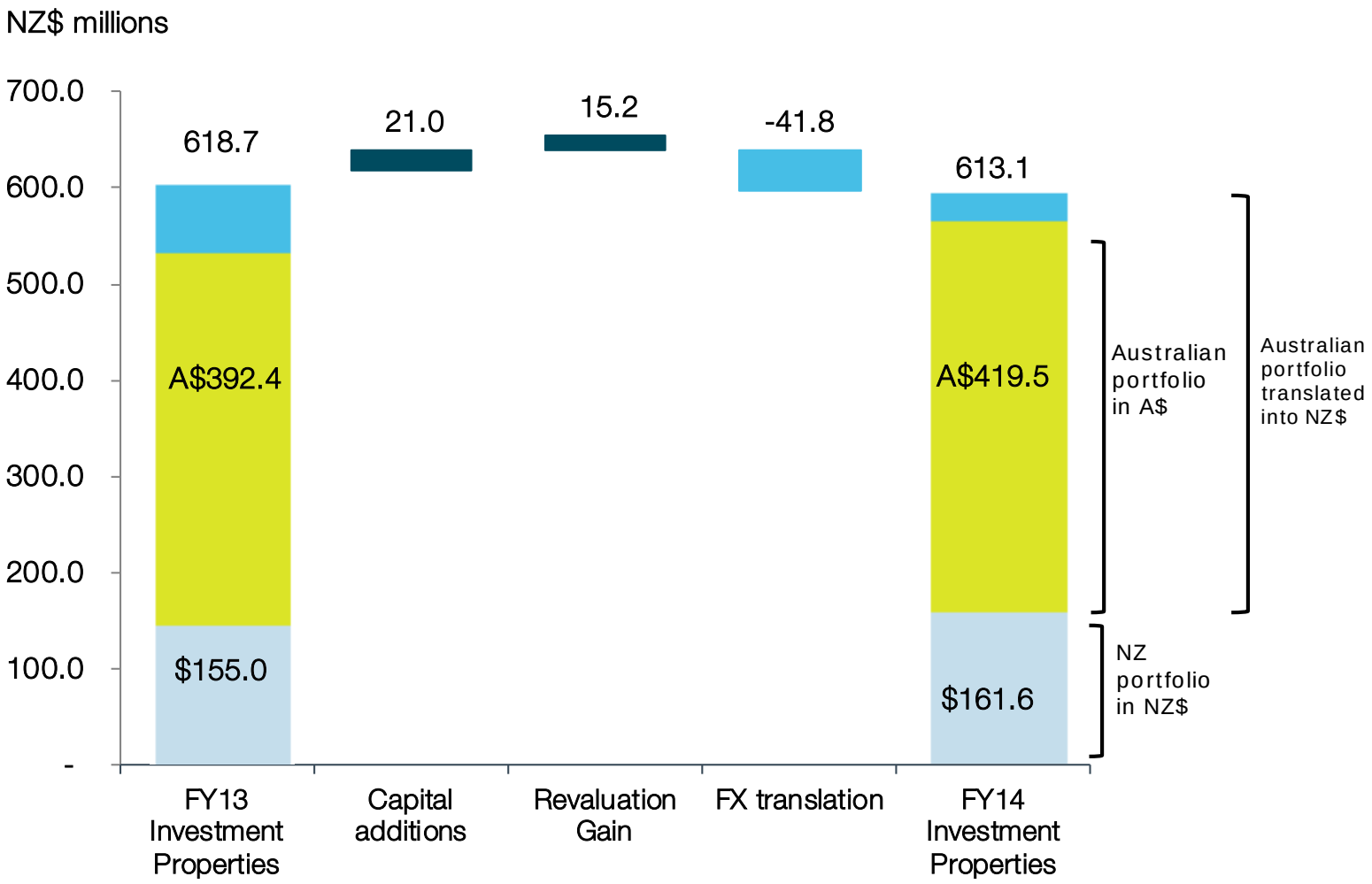
| All NZD$m | Actual FY14 | Actual FY13 | change $m | change % |
|---|---|---|---|---|
| **Net Tangible Assets** | **1.04** | **1.01** | | 3.4% |
| Investment properties | 613.1 | 618.7 | -5.6 | -0.9% |
| **Total assets** | **616.0** | **629.5** | -13.5 | -2.1% |
| Bank debt | 191.4 | 266.1 | -74.7 | -28.1% |
| **Unit holder funds** | **353.5** | **309.0** | 44.5 | 14.4% |
| Units on issue (weighted average, millions) | 333.8 | 300.5 | | |
| **LVR** | **31.4%** | **42.4%** | | |

- Equity raisings and revaluations support NTA uplift
- Investment properties slightly lower due to FX
- LVR reflects a combination of factors, principally equity raisings, revaluations and FEC receipts
- Vital well capitalised for further growth via brownfield and acquisition opportunities



# Investment property

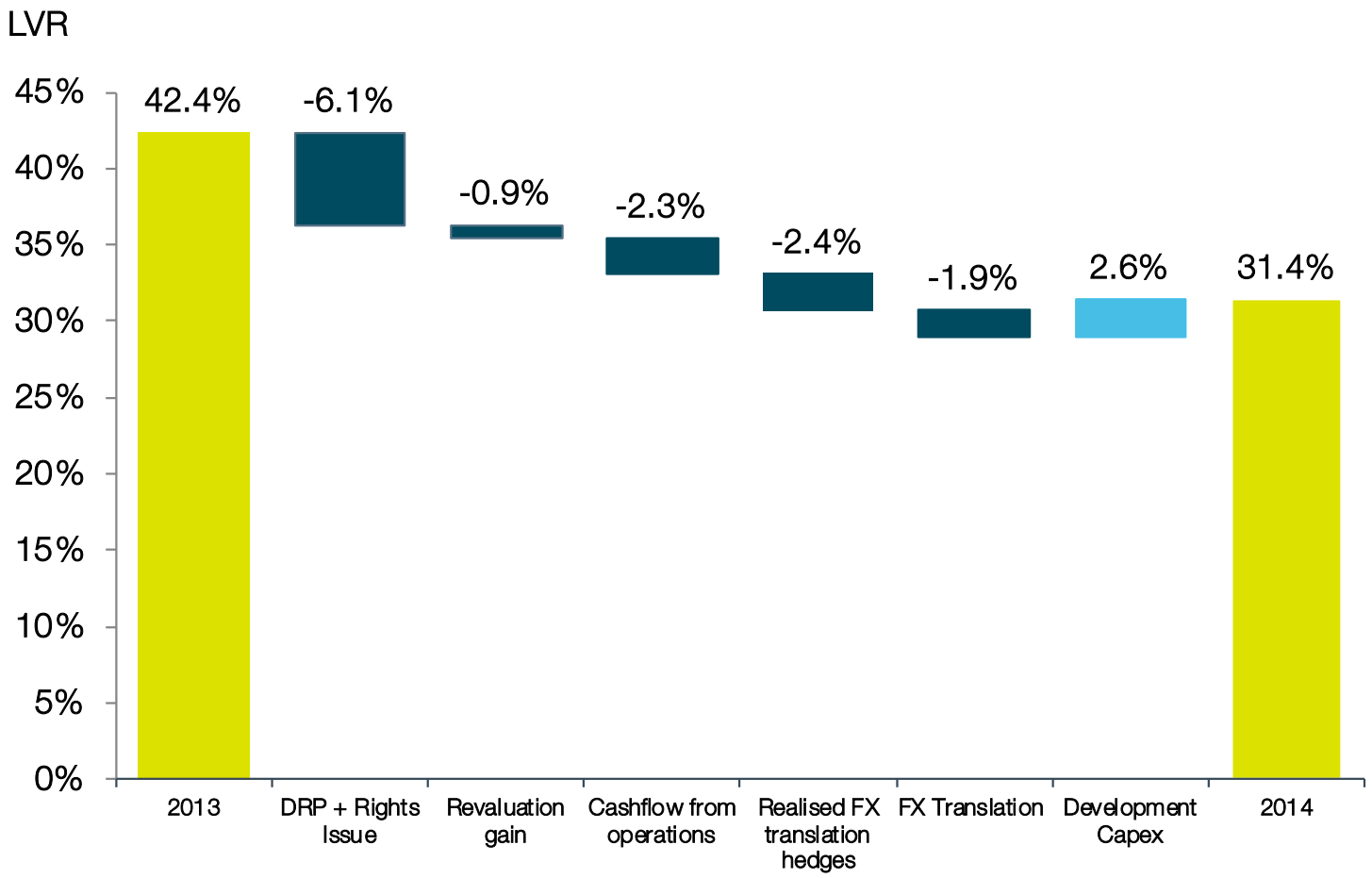
*Stable investment portfolio notwithstanding currency influence*




Note: Capital additions includes capitalised interest $0.2m

# LVR movement

*Strong balance sheet with capital ready to deploy*



# Foreign exchange – how it works

*Proactive currency management aims to reduce volatility, but can't eliminate it*

Vital's 'natural hedge' + FEC's reduces the overall influence of FX movements

| | Rising NZD:AUD | Falling NZD:AUD |
|---|---|---|
| **Financial Performance** | **[No hedging]** | |
| Rent | ↓ | ↑ |
| Operating Profit | ↓ | ↑ |
| EPU/DPU | ↓ | ↑ |
| **Financial Position** | | |
| Assets | ↓ | ↑ |
| Debt | ↓ | ↑ |
| LVR | ↓ | ↑ |

Transaction Hedge

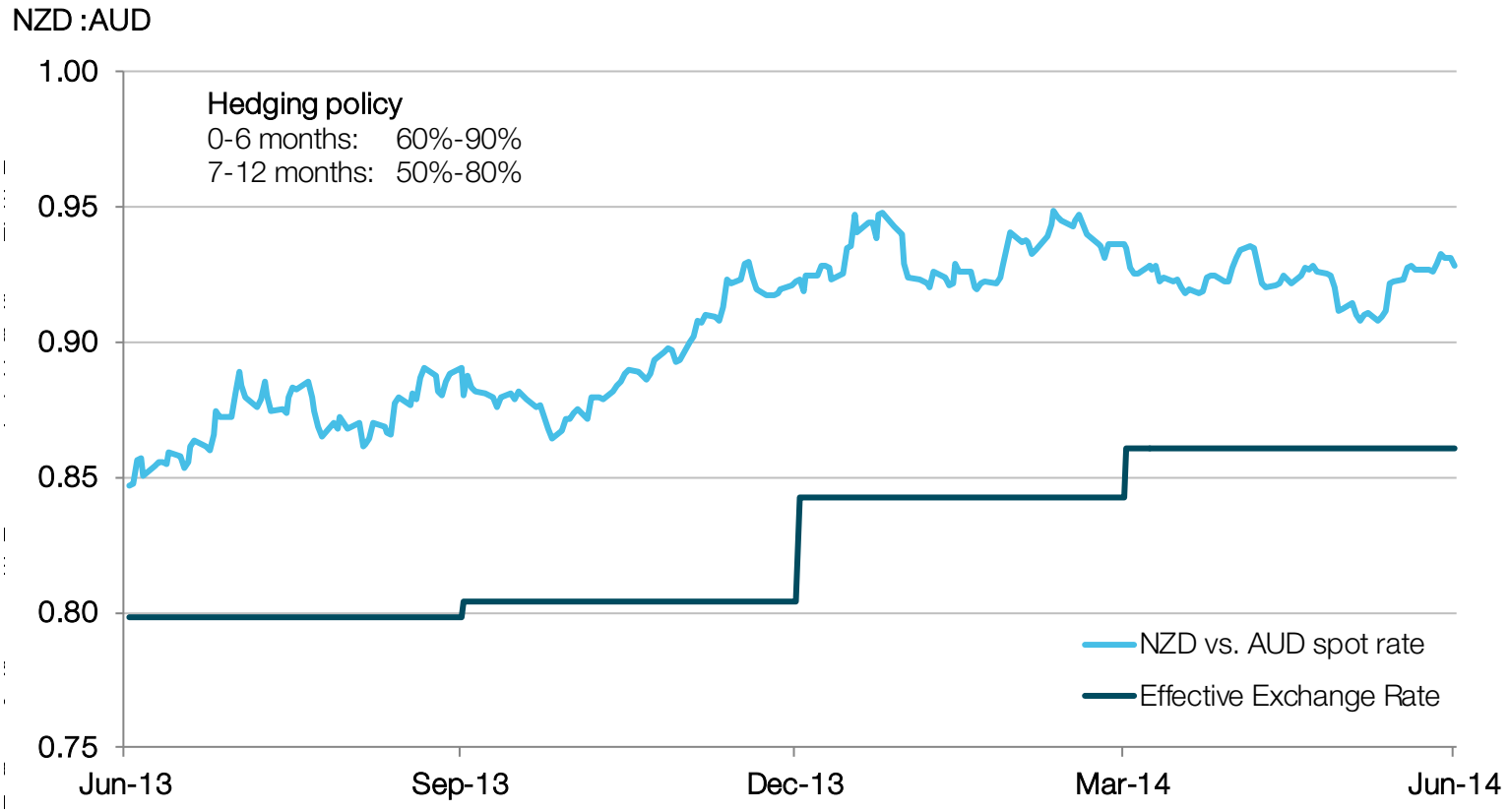
Translation Hedge

| Rising NZD:AUD | Falling NZD:AUD |
|---|---|
| **[Hedging]** | |
| ↓ | ↑ |
| ↓ | ↑ |
| ↓ | ↑ |
| ↓ | ↑ |
| ↓ | ↑ |
| ↓ | ↑ |

***Red arrow*** *= Negative impact,* ***Green arrow*** *= Positive impact. The size of the arrow indicates the level of influence*

# Foreign exchange – what's happened

*Hedging helps mitigate balance sheet and earnings volatility*



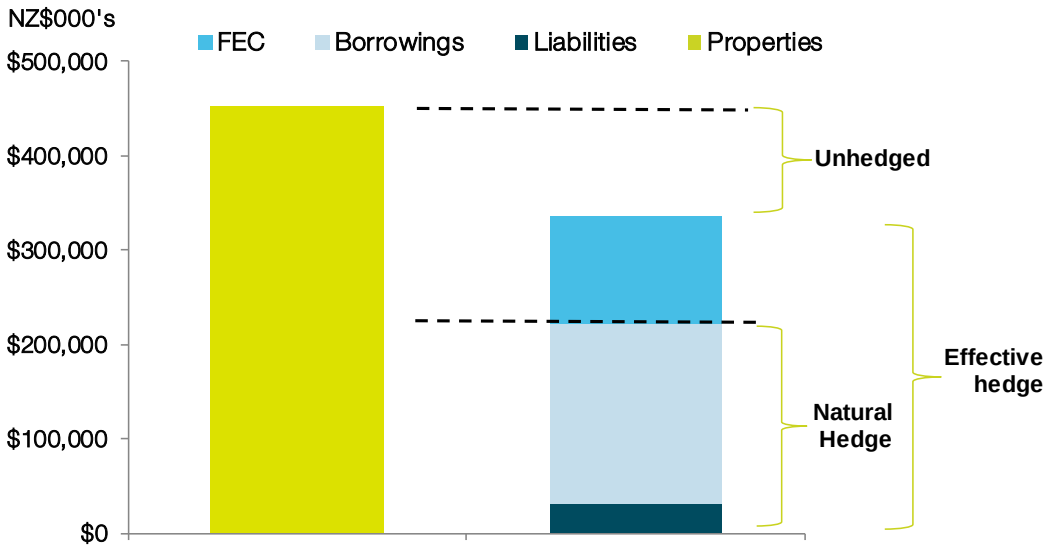

- **Transaction hedging:** Foreign exchange policy framework minimises earnings volatility

# Foreign exchange – what's happened

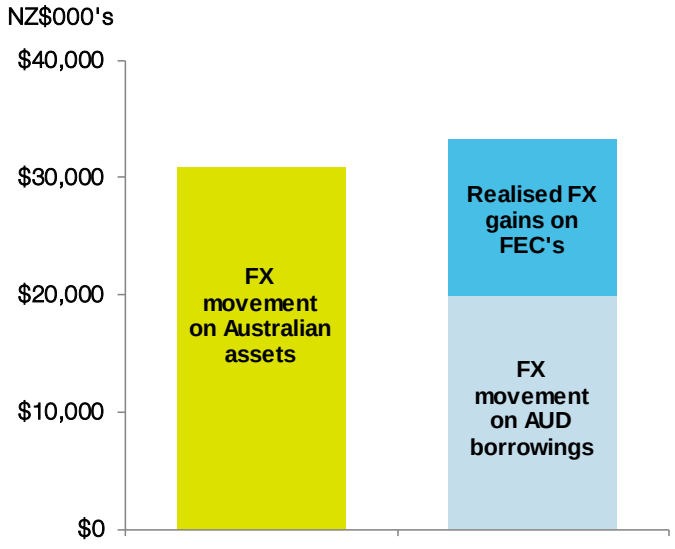
*Hedging helps mitigate balance sheet and earnings volatility*

## 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

# Treasury capital management

*Vital is well capitalised, with diversified long term capital partners*

| All NZD$ (unless otherwise stated) | Actual FY14 | Actual FY13 |
|---|---|---|
| Drawn debt at period end ($ million) | *192.6* | *266.7* |
| Facility size ($ million) | *369.8* | *285.9* |
| Weighted average cost of debt | *5.66%* | *6.52%* |
| Weighted average facility term (years) | *4.1* | *2.9* |
| | | |
| Hedged (interest) | *100%* | *86.4%* |
| Interest coverage ratio (ICR) (times) | *2.9x* | *2.8x* |
| **ICR covenant** | ***> 2.0x*** | ***> 2.0x*** |
| Loan to value ratio | *31.4%* | *42.4%* |
| **Bank & Trust Deed covenant** | ***< 50.0%*** | ***< 50.0%*** |

- ANZ (in NZ and Australia) remains a core long term funding partner
- Introduction of BNZ diversifies capital funding sources

- Lower drawn debt reflects equity raising and cash receipts under FEC's
- New A$100m facility provides flexibility for brownfield and acquisition opportunities
- Lower cost of funding demonstrates benefit of competitive pricing
- Extended facility term delivers greater funding certainty

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# Healthcare sector update

*Underlying trends positive*

# Fundamental sector drivers

*Underlying drivers create a compounding effect on demand for healthcare services*

Increasing and ageing population, rising life expectancy

Public system under pressure

Strong private health insurance trends

Supportive regulatory framework, relatively inelastic to change

Healthcare relatively insulated from adverse market conditions

Multiple barriers to entry, advantage with established operators

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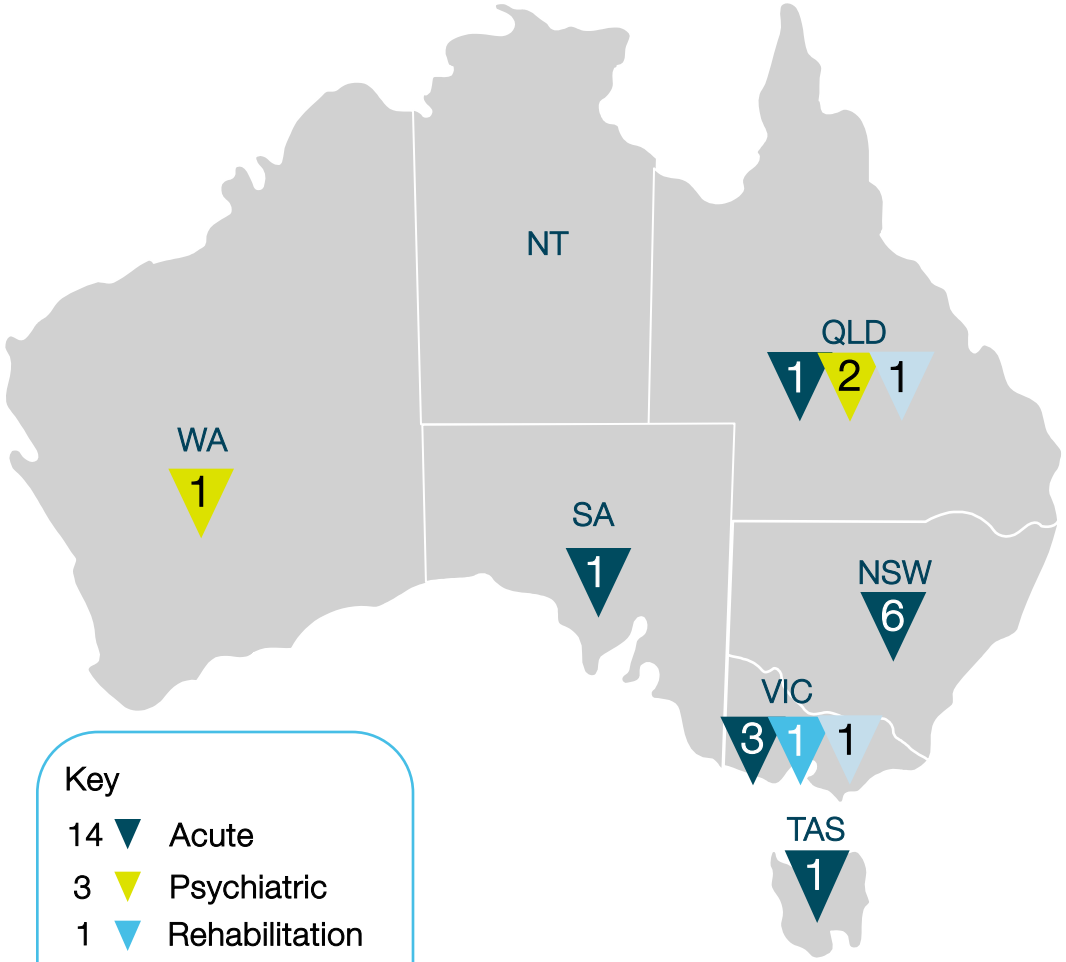
# Investment portfolio update

*Core portfolio in great shape*

# Portfolio diversification

*25 properties comprising over 1,500 hospital beds and 72 operating theatres*

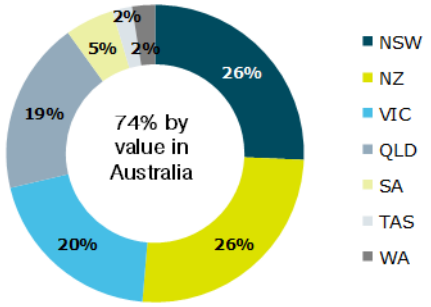



Key

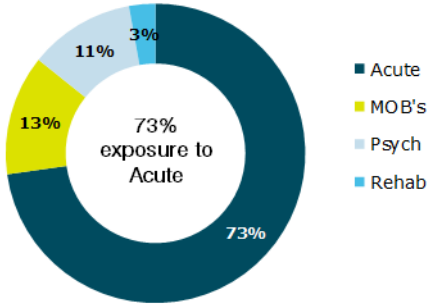
| | |
|---|---|
| 14 | Acute |
| 3 | Psychiatric |
| 1 | Rehabilitation |
| 7 | MOB's* |

** Medical Office Buildings*

Portfolio by location

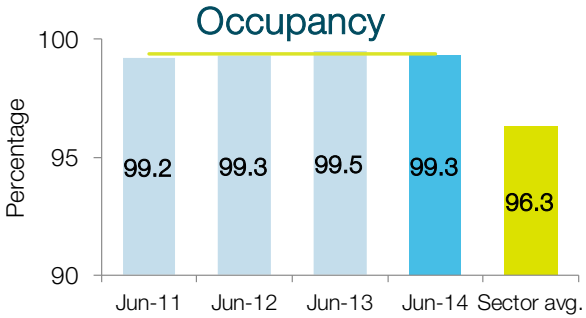



Portfolio by asset type

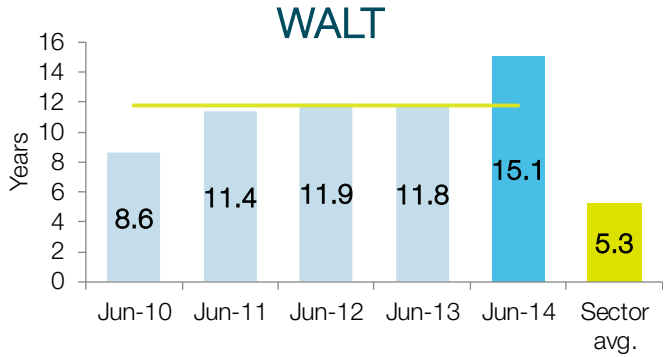


# Core portfolio metrics

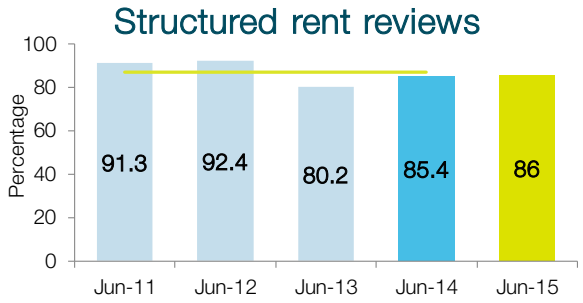
*Sector leading metrics underpin defensive characteristics*




Continued high occupancy reflects WALT profile and high lease renewal rates




WALT providing secure and defensive contracted rental income security

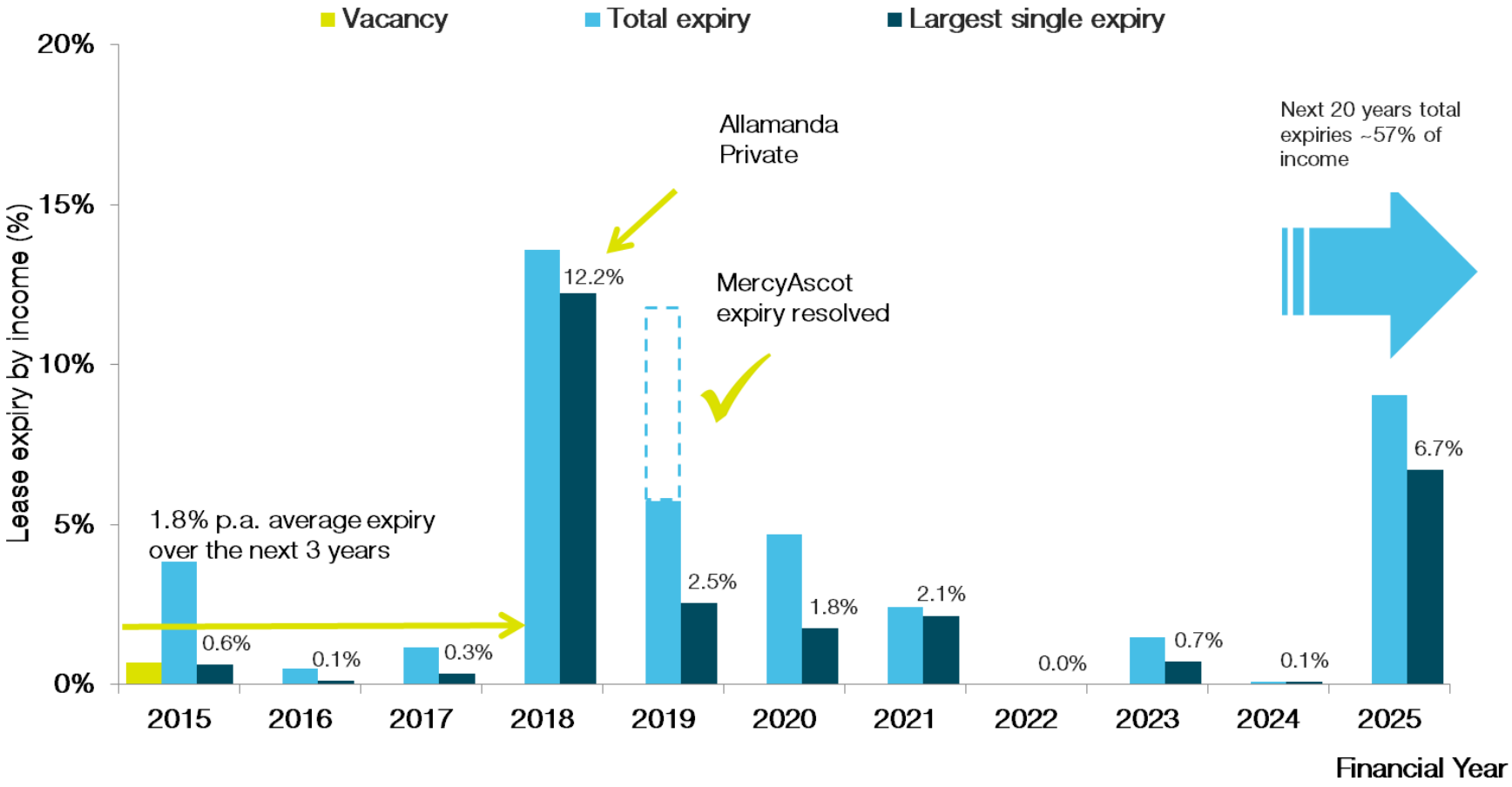



Highly structured review profile provides stability in core portfolio rental income

*Source: Sector average from Forsyth Barr Real Estate Reflections July 2014 (excludes Vital Healthcare)*

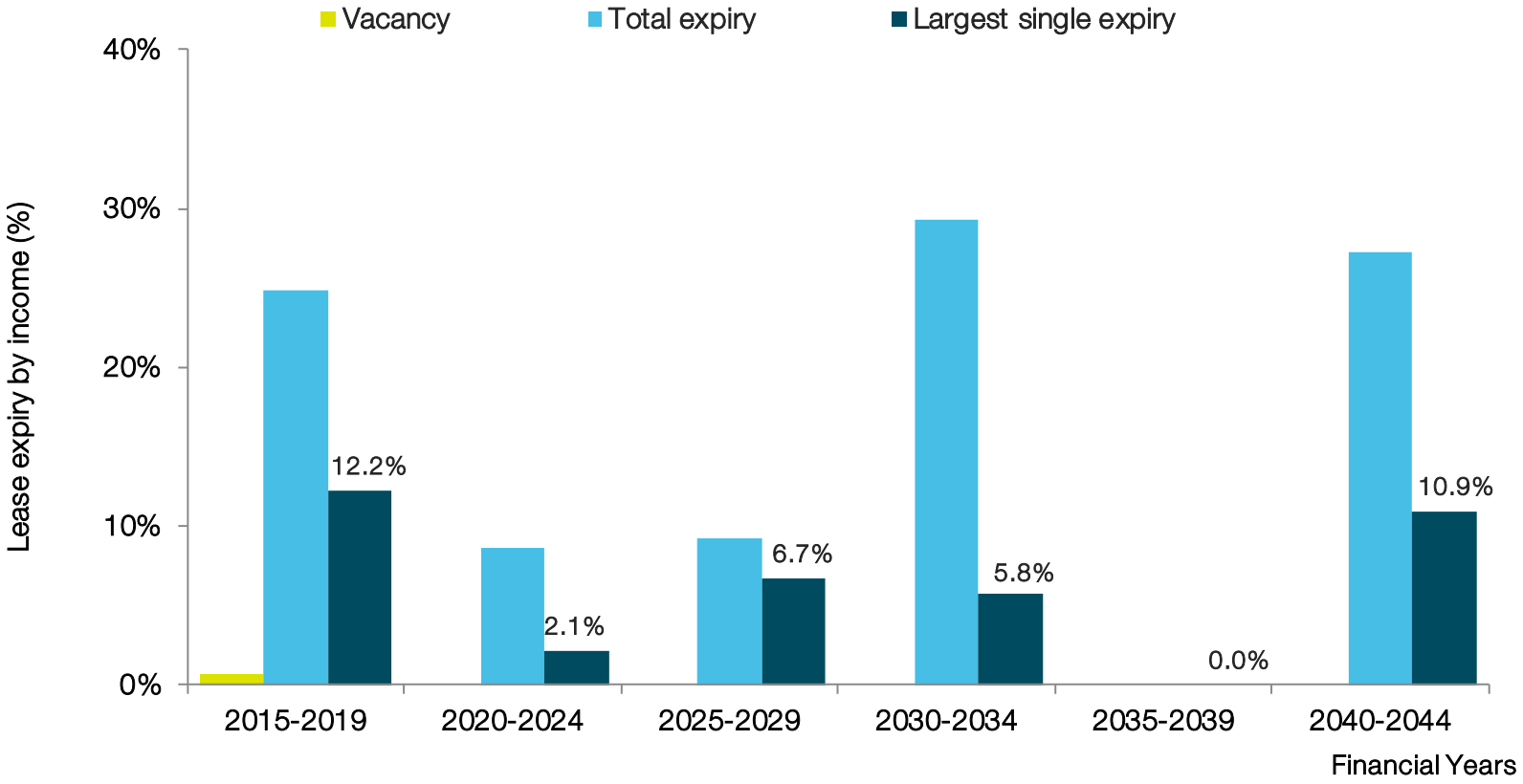
# Benign short term lease expiry profile

*Resolved MercyAscot expiry, focus squarely now on Allamanda*



# 30 year expiry profile (5 year intervals)

*Management will target lease expiries within 2035 – 2039, which recognises the long term asset management approach adopted for future opportunities.*



# Investment portfolio

*Multiple drivers of positive portfolio revaluations*

Core gains from structured rent growth, enhanced WALT

Improved post-development operational performance

Redevelopment success crystallising positive revaluations

Rising demand for healthcare real estate and wider market sentiment driving stronger cap rates

# Investment portfolio

*Strong portfolio revaluation result, WACR[1] firmed 31 bps*

| Metrics | Australia | New Zealand | Total |
|---|---|---|---|
| **Gain ($)** | **8.9** | **6.3** | **15.2** |
| **Increase (%)** | **2.0%** | **4.1%** | **2.5%** |
| Asset movements: | | | |
| **Increases** | **15** | **5** | **20** |
| **Declines** | **2** | **2** | **4** |

- Strong gains across portfolio underpinned by enhanced core portfolio metrics, brownfield contributions and sustained investor demand for healthcare assets
- Declines are specific:
  - Australia: Allamanda and Gold Coast Surgical due to combination of public hospital shift and lease expiry profile
  - New Zealand: Generally softer sentiment for some regional assets

*WACR: Weighted Average Market Capitalisation Rate*

# Value add development opportunities

*Brownfield pipeline creates capacity for operators, enhances future earnings*

## 24 month forecast ~A$85m

+200
(+14% growth)

Increased bed numbers delivers economies of scale for operators

+7
(+10% growth)

Additional operating theatres provides greater flexibility to meet rising demand

Consultant surgeon and doctor support key to initiating brownfield programme

+6

New wards and 2 new day oncology units provide specialist services

# Development & acquisition update

# Hurstville Private Hospital – Development update

*Investment thesis at time of acquisition supported future redevelopment*

## Acquisition details

- Acquired in April 2012 for A$12.3m on an initial yield of 10%
- Currently 73 bed hospital, with 3 theatres, specialising in surgical and obstetrics
- New 20 year net lease to Healthe Care, annual CPI reviews

## Development investment rationale

- Existing theatres operating at near maximum capacity
- Commitment from existing surgeons to support additional theatres
- Strong business case from operator
- A$28m capital expenditure, forecast return ~10% per annum
- 10 year lease extension to ~29 years

## Development overview

- Additional 4 new operating theatres (total 7) and extended day surgery
- Increase in private single room accommodation from 14 to 72
- New 33 bed surgical ward and 26 bed maternity unit
- Tenant will continue to operate from the facility during construction

# Hurstville Private Hospital

*Stage 1 design allows for opportunity to add further capacity as demand requires*

*Photograph taken December 2013*

# Hurstville Private Hospital

*Scheduled completion July 2015*

*Photograph taken May 2014*

# Hurstville Private Hospital

*Hurstville will be one of Sydney's leading private hospitals on completion*

*Photograph taken August 2014*

# The Marian Centre psychiatric hospital acquisition

*First Western Australia acquisition, diversified presence now in all 6 Australian states*

## Acquisition details

- Acquired for A$13.5m on an initial yield of 8.5%
- Currently a 31-bed stand-alone private psychiatric hospital
- Located in the established medical precinct of Subiaco
- New 20 year net lease to Healthe Care
- Annual CPI reviews, market reviews every 10 years

## Acquisition investment rationale

- Western Australia (WA) has the highest PHI levels of all Australian states
- Opportunity to partner with a proven and experienced operator
- Adds attractive geographic, asset and activity diversification
- Immediate commitment to A$10.8m brownfield project, attractive yield on completion

## Development overview

- Increase bed numbers from 31 to 66 and refurbish existing ward accommodation
- Design allows for a second stage development as demand requires
- New lift and lobby, extension of existing dining area and provision of additional consulting suites
- Forecast completion August 2015

# The Marian Centre psychiatric hospital

*Current facility*

# The Marian Centre psychiatric hospital

*Architects perspective of completed redevelopment[1]*

**NORTHEAST VIEW FROM CAMBRIDGE STREET**

meyer shircore and associates ARCHITECTS 50 YEARS 1963|2013

Note 1: Includes proposed Stage II works

# Strategy and outlook

# Vital's strategic value drivers

*Strong execution on 'sum of parts'*

## Management

**Aligned / Stable / Experienced / Credible / Capable**

- 30-year lease extension at Ascot Hospital
- Solid revaluation gains and improved core portfolio metrics

- A$28m Hurstville redevelopment
- Approximately $50m of opportunities over the next 12 months

- Capability & credibility recognised
- Opportunities across the healthcare real estate spectrum
- First WA acquisition adding diversification, creating opportunities

- Renewal of bank facilities on competitive terms
- Introduced BNZ
- Treasury and foreign exchange management continues to be effective

- Quality, diversified healthcare portfolio
- Maintain a defensive and diversified earnings profile
- Manage prudent growth within strategic framework

# Summary and outlook

**Earnings & capital management**

- Solid financial result, distributable earnings growth and strong capital position
- Partnership model approach delivering new opportunities across the healthcare spectrum, Vital strengthening its market position

**Portfolio metrics, healthcare sector**

- Strong portfolio metrics a platform for sustainable earnings over the long term
- Management focus on Allamanda
- Healthcare sector trends remain positive and supportive.

**Outlook**

- Continue to manage growth and diversification within low-risk, medium return profile
- Having successfully resolved one of Vital's two medium term lease expiry's, along with a generally positive outlook, the Board is comfortable guiding to a FY15 cash distribution of 8.0 cents per unit

# Disclaimer

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Past performance is no indication of future performance.

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14th August 2014