Vital
Healthcare Property Trust

INTERIM RESULTS 31 DECEMBER 2014

DEVELOPING OUR PORTFOLIO DELIVERING ON STRATEGY

26 February 2015

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

AGENDA

- Result summary
- Financial summary
- Healthcare sector
- Portfolio update
- Development & acquisition
- Strategy and outlook

Result summary

RESULT HIGHLIGHTS

Strong organic growth from established portfolio

Earnings & capital management

- Gross rental income $30.8m
- Net profit before tax $15.6m
- Net distributable income of $16.3m
- LVR of 34.4%

Portfolio, operational and sector performance

- WALT at 15.2 years, 99.5% occupancy (5 year average +99%)
- Commenced A$40.8m brownfield projects, forecast average yield ~9%
- Delivered a total return of 19.1% for the six months to 31 December[1]
- Key asset management priority is Allamanda expiry (November 2017)

Outlook

- Favourable health sector trends continue to drive organic growth
- Focus on opportunities aligning with our strategy
- Board maintains FY15 cash distribution guidance at 8.0 cpu

Note: 1. Source: IRESS. Outperformed NZX Property Index by 6.5% over the same period.

Financial summary

FINANCIAL PERFORMANCE

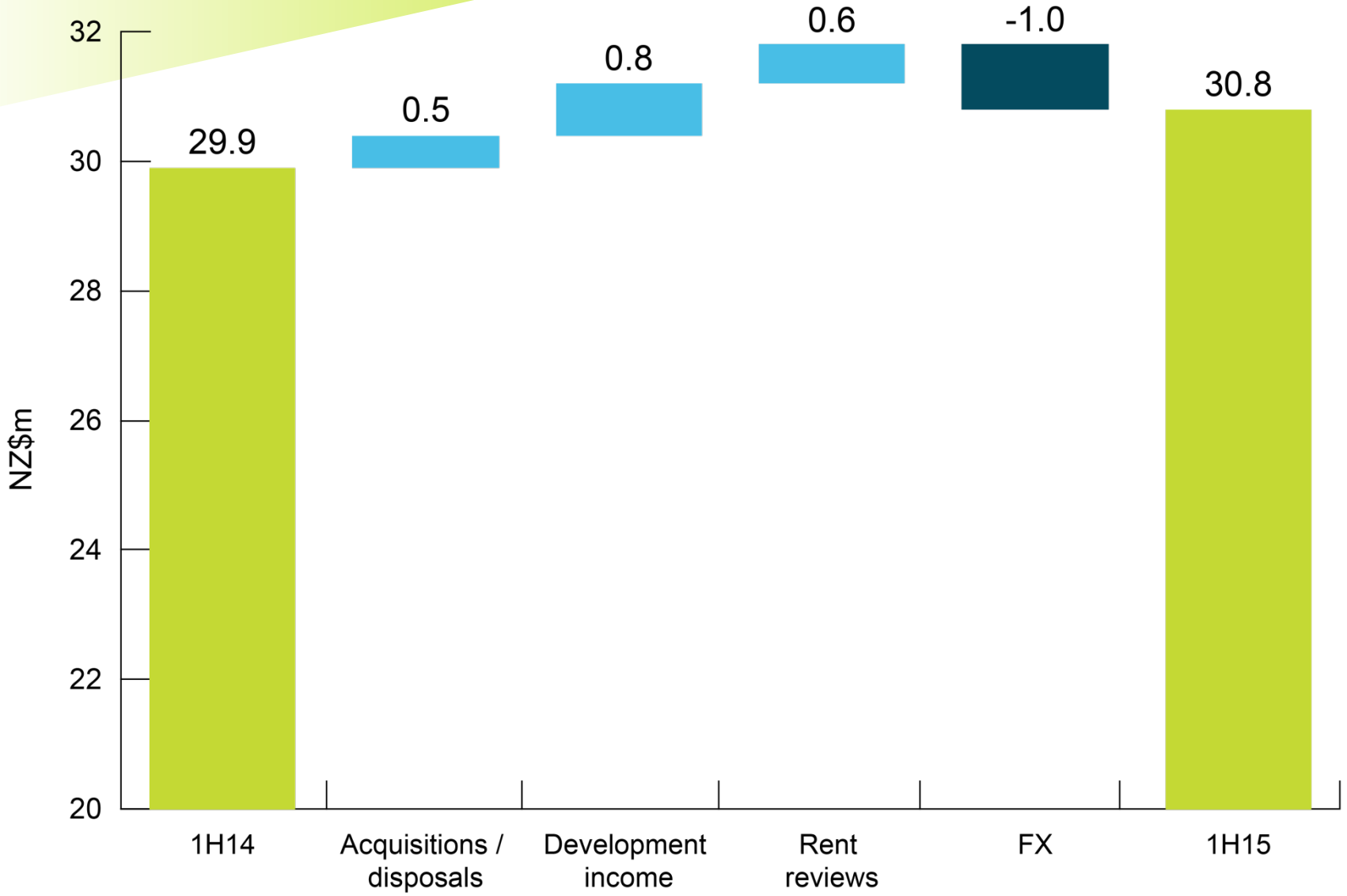
Portfolio and operating performance driving financial outcomes

All NZ$m	Actual 1H15	Actual 1H14	change $m	change %
Gross rental income	30.8	29.9	0.9	3.0%
Net rental income	**30.1**	**28.9**	**1.3**	**4.3%**
Operating profit before tax	**26.7**	**25.7**	1.0	4.0%
Gross distributable income	**21.1**	**19.0**	2.1	10.9%
Current Tax - NZ & Australia	4.7	-1.6	6.3	-398.0%
Net distributable income	**16.3**	**20.6**	**-4.3**	**-20.7%**
Gross distributable income (cpu)	6.2c	5.8c	0.4c	7.0%
Net distributable income per unit (earned) (cpu)	4.8c	6.3c	-1.5c	-23.5%
Units on issue (weighted average million)	**340.4**	**328.5**		

- Net rental income growth of 4.3%
- Australian portfolio performing strongly in local currency with growth of 8.8%
- Operating expenses stable
- Net distributable income down 20.7% due to one off tax influences

GROSS RENTAL INCOME

Incremental gains across portfolio driving rent growth

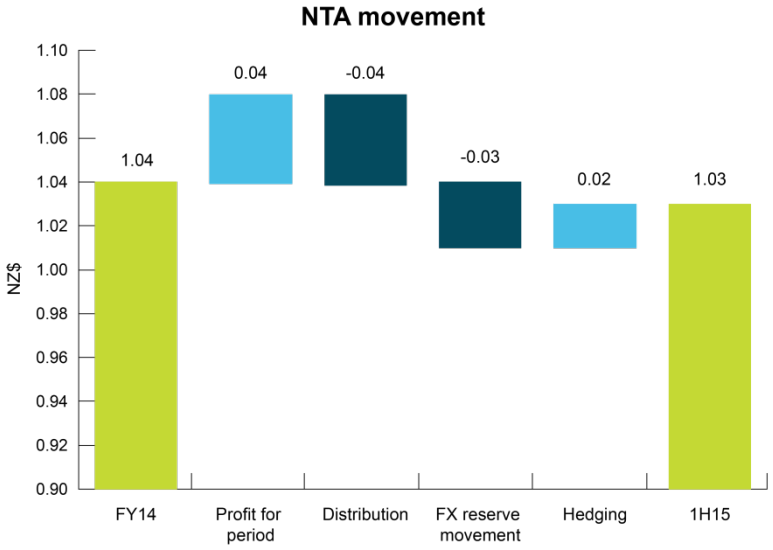


BALANCE SHEET

Low gearing providing financial flexibility

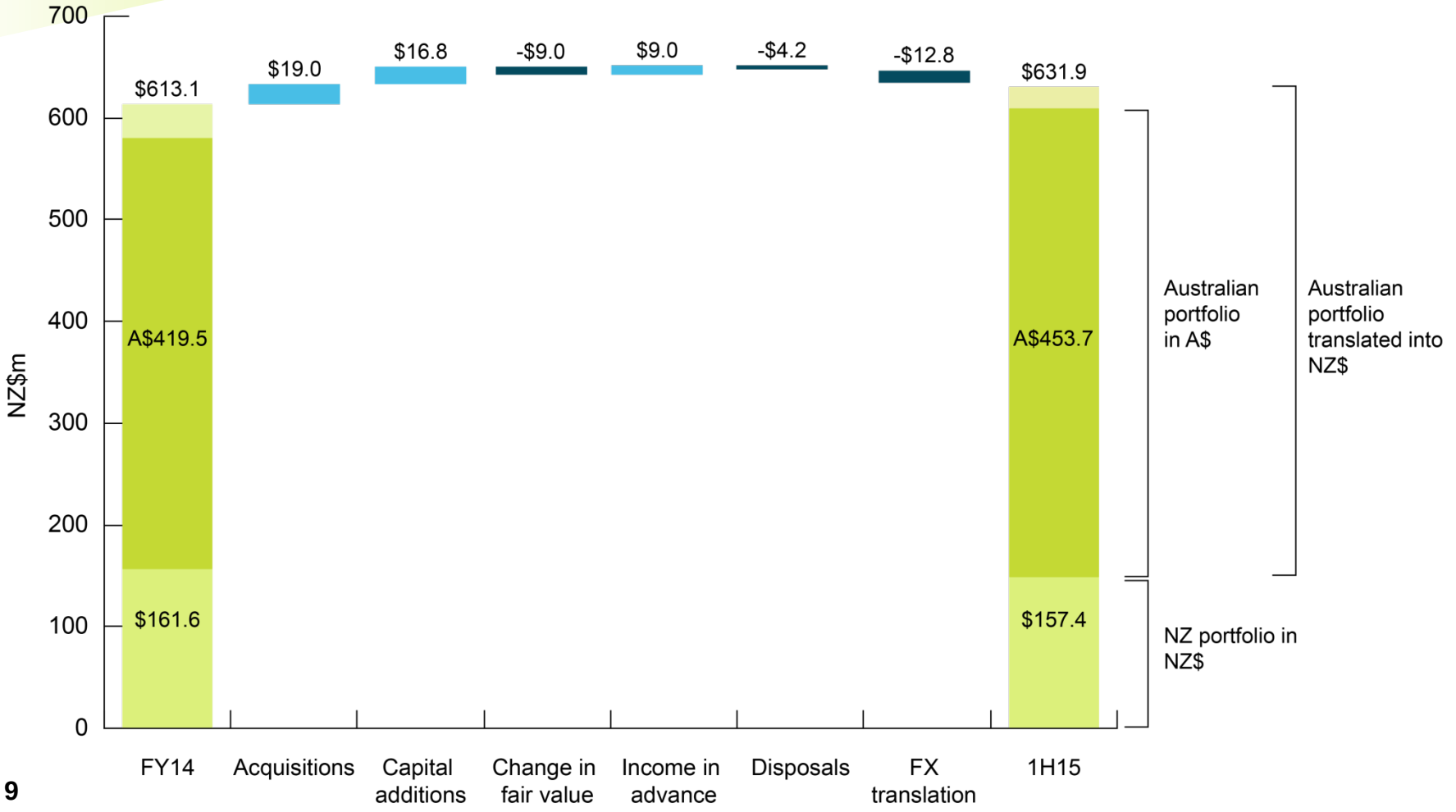
All NZ$m	Actual 1H15	Actual FY14	change $m	change %
Net Tangible Assets	**1.03**	**1.04**		-0.7%
Investment properties	631.9	613.1	18.8	3.1%
Total assets	**641.0**	**616.0**		4.1%
Bank debt	216.6	191.4	25.2	13.2%
Unit holder funds	**352.2**	**353.5**	-1.3	-0.4%
Units on issue (weighted average, millions)	340.4	333.8		
LVR	**34.4%**	**31.4%**		

- LVR at mid range of sector
- Vital well capitalised for further growth via brownfield and acquisition opportunities
- Treasury policy continues to protect NTA



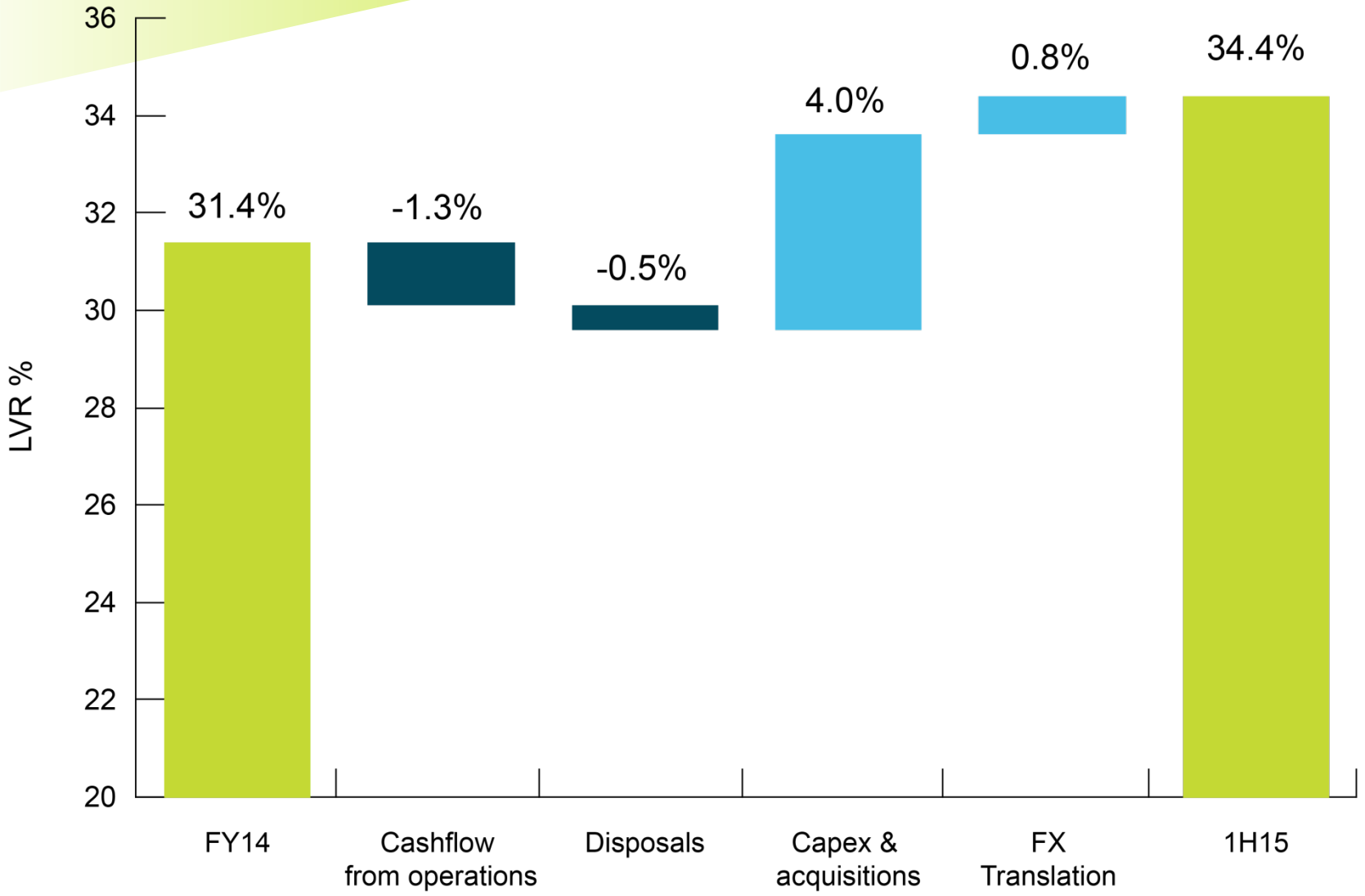
INVESTMENT PROPERTY

Australian portfolio remains the engine room for growth and diversification



LVR MOVEMENT

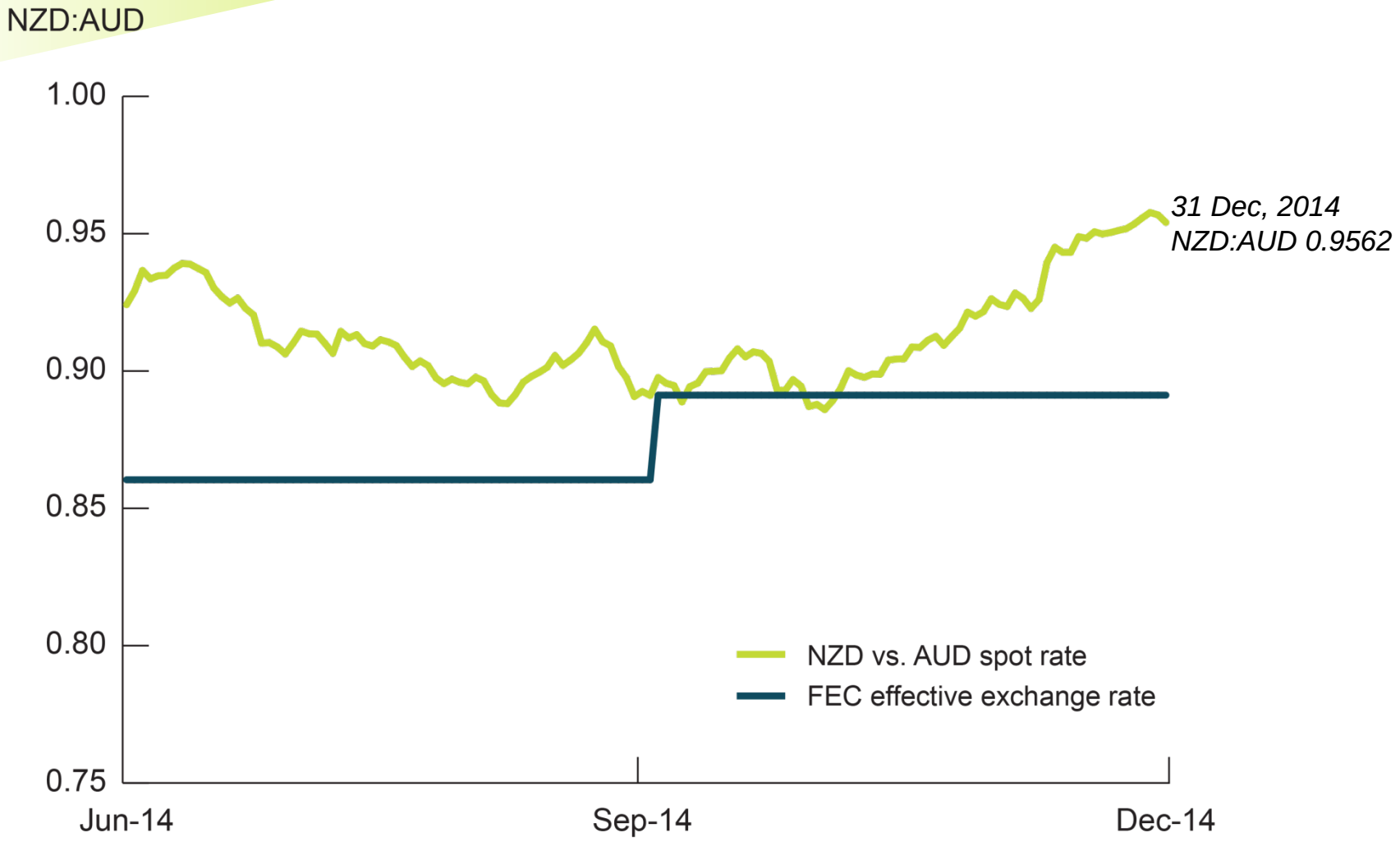
Strong balance sheet position



FOREIGN EXCHANGE – WHAT'S HAPPENED

Hedging helps mitigate earnings volatility

Transaction Hedging policy
0-6 months: 60-90%
7-12 months: 50-80%



TREASURY CAPITAL MANAGEMENT

Capital partners supportive of growth and diversification

All NZ$m (unless otherwise stated)	Actual 1H15	Actual FY14
Drawn debt at period end ($ million)	*217.7*	*192.6*
Facility size ($ million)	*359.9*	*369.8*
Weighted average cost of debt	*5.52%*	*5.66%*
Weighted average facility term (years)	*3.6*	*4.1*
Hedged (interest)	*91%*	*100%*
Interest coverage ratio (ICR) (times)	*3.2x*	*2.9x*
ICR covenant	***> 2.0x***	***> 2.0x***
Loan to value ratio	*34.4%*	*31.4%*
Bank & Trust Deed covenant	***< 50.0%***	***< 50.0%***

- Higher drawn debt reflects portfolio activity over the period
- Funding environment of low (Australian) interest rates and strong NZD:AUD
- Financial flexibility for when opportunities arise

Healthcare sector

DRIVERS OF PRIVATE HEALTH SECTOR

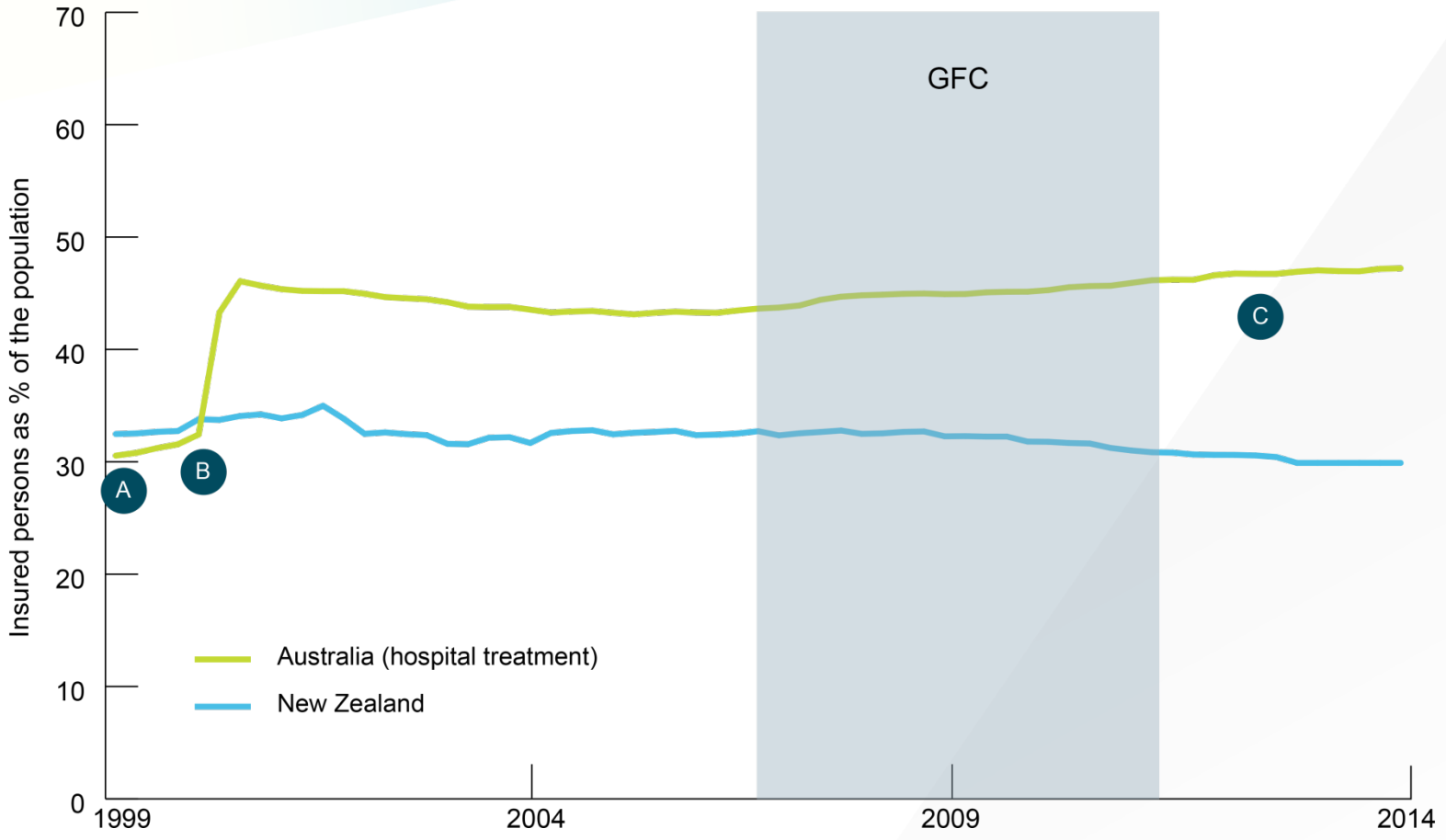
Macro demands driving supply

	Drivers	Australia	New Zealand	Comment
	>65 year demographic % of population	14%	16%	Forecast doubling of this demographic over the next 40 years
	>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%	30%	More attractive model in Australia vs. New Zealand.

Note: 1. Quarterly PHIAC data to 30 September 2014 and HFANZ to 30 September 2014

PRIVATE HEALTH INSURANCE

PHI a core component of private hospital revenue



A Introduction of 30% Rebate from 1 January 1999

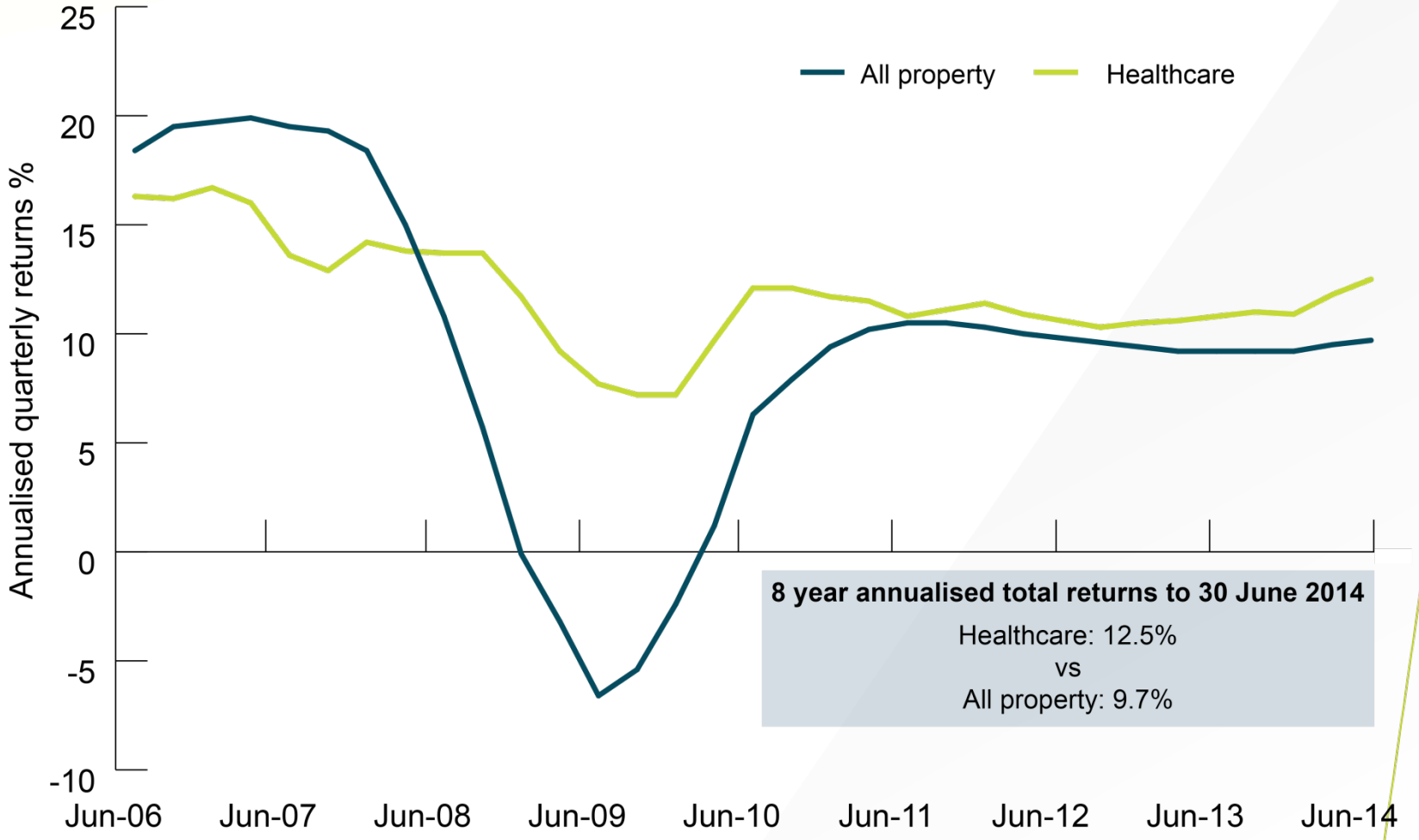
B Introduction of Life Time Health Cover from 1 July 2000

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

Source: Quarterly PHIAC data to 30 September 2014 and HFANZ to 30 September 2014

IPD AUSTRALIAN HEALTHCARE INDEX

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

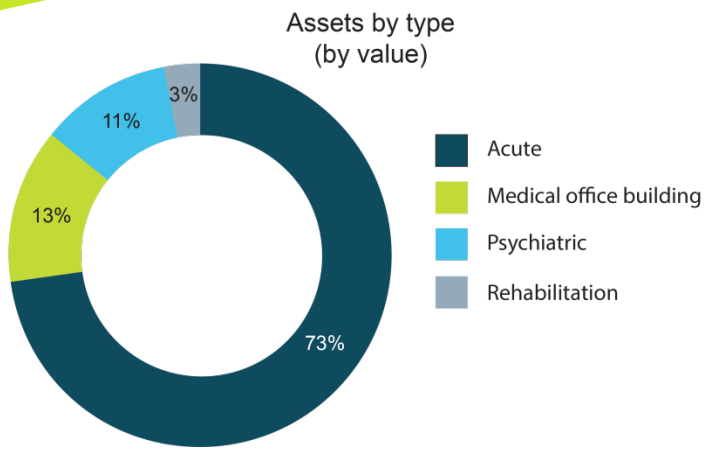


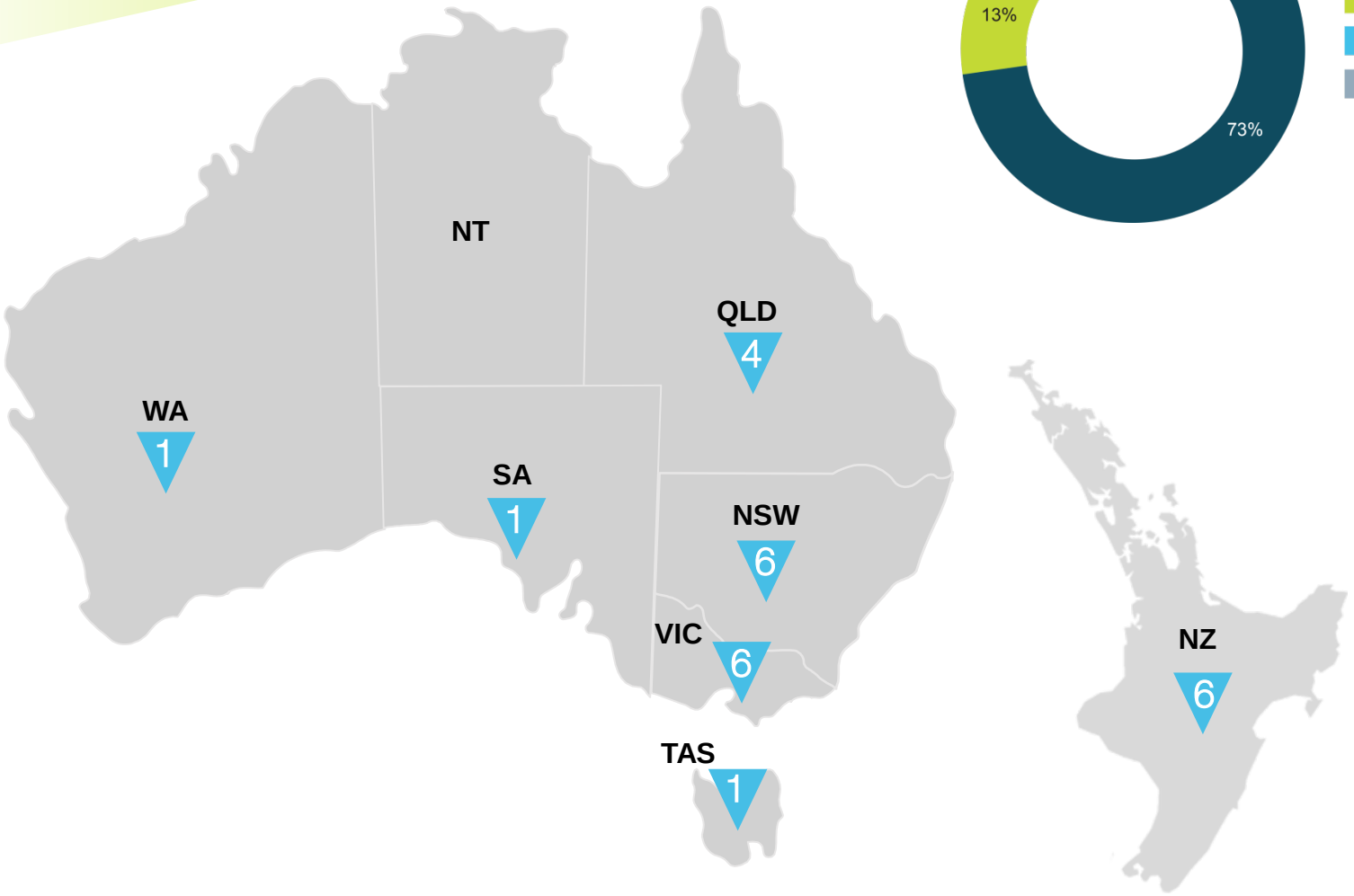
Source: IPD (A MSCI Brand) ipd.com

Portfolio update

DIVERSIFIED PORTFOLIO

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

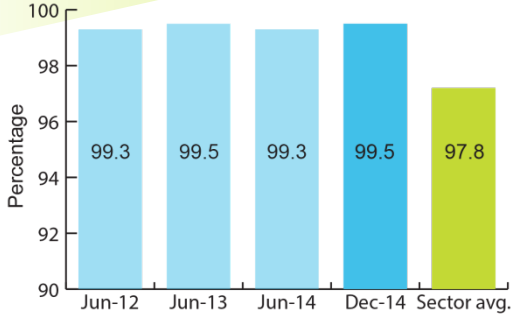


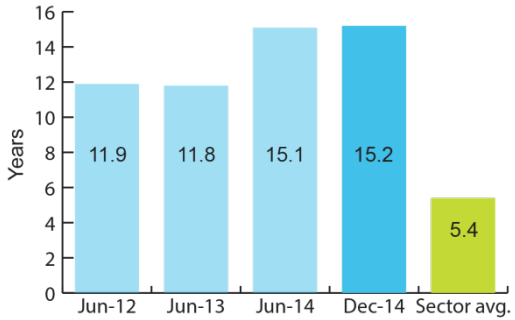


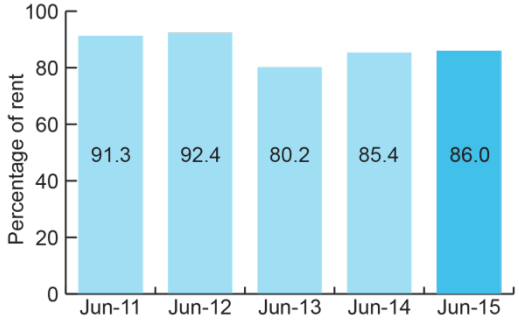
As at 31 December 2014

CORE PORTFOLIO METRICS

Sector leading metrics underpins defensive characteristics







Occupancy: Occupancy high due to high lease renewal rates and leasing up of vacant space. Approximately 900 sqm vacant across 4 properties

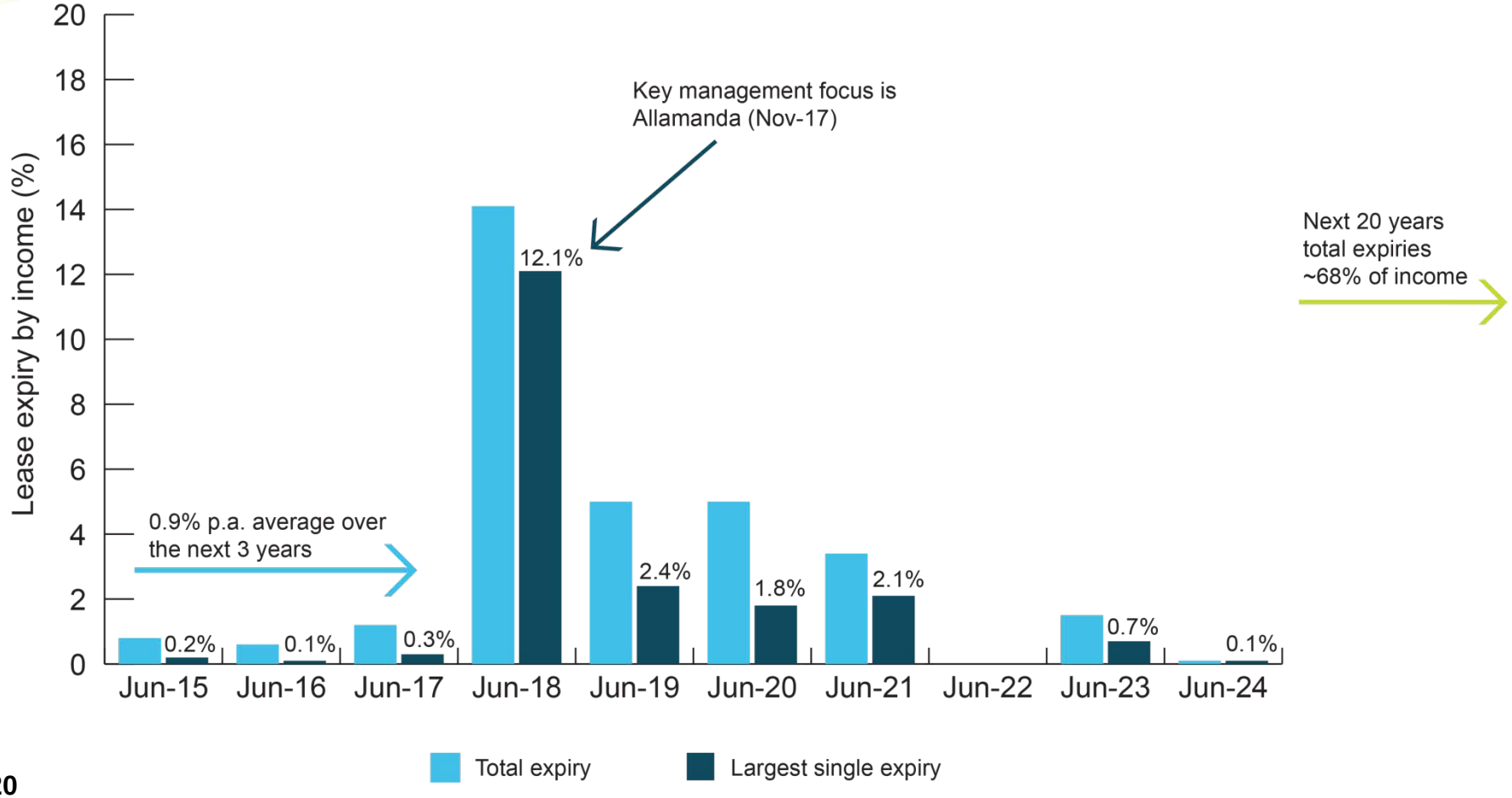
WALT: Long WALT supports a secure and defensive income profile

Structured[1] rent reviews: Provides the foundation for enhanced income profile, 2.1% increase on rents reviewed YTD

Source: Sector average from Forsyth Barr Real Estate Reflections February 2015 (excludes Vital Healthcare). Note 1: Includes CPI and fixed type reviews.

LEASE EXPIRY PROFILE

Near term expiry risk very low



Development and acquisition

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	1	8.0	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 3), stand alone medical centre, additional car parking	1	6.1	Feb-13
	Lingard (NSW)	New 40 bed ward and diagnostic imaging areas, 2 additional theatres (to 6), upgrade of patient recovery areas	4	29.5	Sep-13
	Toronto (NSW)	Eight new beds to the existing rehabilitation unit and theatre plant upgrade	2	5.0	Nov-13
22	**Total**		**11**	**74.9**	

DEVELOPMENT UPDATE

Current developments

Hospital		Capital works being undertaken	Number of stages	Project cost (A$m)	Forecast Completion date
	Lingard (NSW)	New theatre and refurbishment	1	1.5	Feb-15
	Hurstville (NSW)	New operating theatres, extended surgery facility, inpatient wards, oncology day patient service, coronary care and intensive care units	2	34.0	Jun-15
	Marian (WA)	Additional beds, consulting rooms and carparks	1	10.8	Aug-15
	Belmont (QLD)	New 30-bed extension, additional consulting suites and carparks	1	9.5	Sep-15
	Maitland (NSW)	New psychiatric ward and extended rehabilitation services	1	13.0	Nov-15
	Total		**6**	**68.8**	
	Forecast additional development projects over the next 24 months			25.0	

Note: Vital has commenced A$40.8m of developments in the first half of FY15. Stage 1 at Hurstville of A$28m was announced on 27 Sept, 2013.

HURSTVILLE PRIVATE HOSPITAL, SYDNEY

Forecast completion mid 2015. Hospital continued functioning throughout development

December 2013

January 2015

STRATEGIC ACQUISITIONS

Acquisition of strategic sites to secure and deliver growth with key partners

Acquisition framework and rationale

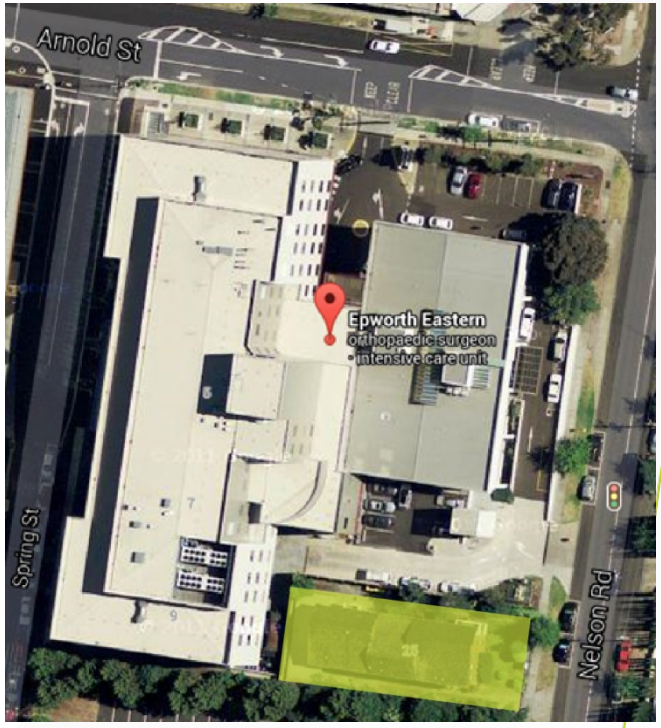
- Strong growth within existing site envelope has necessitated a review of long term asset management plans
- Historic relatively low site coverage ratios (undervalued)
- Organic brownfield growth is a low risk strategy, Vital has proven ability to execute
- Delivers incremental hospital operational and performance benefits
- Protects asset values, entrenches relationship with operators
- Identification and execution programme continues
- Completed developments are a core driver of enhanced portfolio and financial position….*'more of the same please'……*

STRATEGIC ACQUISITIONS

Securing the future…….

Case study – Epworth Hospital and Medical Centre, Box Hill, Melbourne

- Epworth Hospital (A$81.8m) is in its 10th year of operation and has 223 beds and 9 theatres and is approaching capacity
- Landlocked on 3 sides by public roads and part of rear boundary (growth side) by multiple residential units
- Executed on strategy to acquire adjacent site ~700 sqm
- Vital and Epworth jointly working on the development of a Master-plan
- Property acquisition now settled providing potential for substantial development over the medium term.



The green overlay shows the location of the newly acquired site

Strategy & outlook

STRATEGIC VALUE DRIVERS

Successful execution on 'sum of parts'

Management

Aligned / Stable / Experienced / Credible / Capable

Stabilised portfolio + **Brownfield developments (capacity expansion)** + **Acquisitions** + **Capital & Treasury** = **Sustainable long term earnings & value**

- 99.5% occupancy
- 15.2 year WALT
- Low near term expiry risk

- A$40.8m commitment to 5 new brownfield projects
- Initial yield on brownfields over last 3 years ~10%
- Forecast pipeline of A$25m in next 24 months

- Entered Western Australian market
- Strategic acquisitions to secure future growth
- Opportunities across the healthcare real estate spectrum

- FX and interest rates favourably aligned for growth initiatives
- Proactive asset recycling – with sale of Whangaparaoa

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

SUMMARY & OUTLOOK

Financial	▸ Solid financial result and strong capital base ▸ Foreign exchange policy mitigating volatility in earnings and capital position
Portfolio	▸ Sound portfolio metrics a platform for sustainable earnings over the long term ▸ Management focus on Allamanda expiry in November 2017
Healthcare sector	▸ Health sector trends remain positive and supportive ▸ Healthcare real estate a recognised, defensive and sought after asset class ▸ Cap rates firming due to positive sector fundamentals and interest rate environment
Outlook	▸ Opportunities on both sides of the Tasman typically have a long gestation period ▸ Growth and diversification through disciplined acquisition and brownfield development ▸ Board remains comfortable guiding to a FY15 cash distribution of 8.0 cents per unit

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26th February 2015