Market Release

Vital Healthcare Property Trust

19 February 2020

Vital delivers a HY20 Normalised Net Distributable Income of $22.1m; a 14.6% increase

Highlights

- Normalised Net Distributable Income ('Normalised NDI') of $22.1m (HY19 $19.3m) an increase of 14.6%
- Adjusted Funds from Operations ('AFFO') of $22.0m (HY19 $19.7m) an increase of 11.8%
- Distribution of 4.375cpu announced for the first half of FY20, for a Normalised NDI (and AFFO) payout ratio of 89%
- Revaluation gains of $42.6m, a 2.3% increase in the portfolio's value from 30 June 2019
- Portfolio value increased to $1.93bn with occupancy of 99.5% and a weighted average lease term of 17.9 years
- Unitholders overwhelmingly approved (99.9% in favour) amendments to the Trust Deed including a change to the fees NorthWest charges to manage Vital's portfolio and enhanced fee and governance arrangements
- Proposed restructuring to facilitate a foreign exempt listing on the ASX, with the primary listing to remain on the NZX. A Notice of Meeting for unitholders to vote on this restructure is expected to be released in the coming weeks
- Delivered a 12 month total return to investors of 39.9%

Aaron Hockly, Fund Manager of Vital Healthcare Property Trust said,

> "Vital has the enviable position of being Australasia's only listed specialist healthcare property owner. The Trust has grown substantially, particularly over the last four years, and we will seek to continue this growth in both Australia and New Zealand as a means of providing a stable and growing income stream for unitholders. Our key activities during the half year, including the proposed foreign exempt listing on the ASX, are all designed to support future growth in earnings and distributions."

Key metrics

Movements in Vital's key metrics over the 6 and 12 months ended 31 December 2019:

			Change		
(All figures in NZD)	**31 Dec 2019**	**31 Dec 2018**	**$**	**%**	
Normalised NDI per unit (cpu)	4.918	4.376	0.542	12.4%	⬆
AFFO per unit (cpu)	4.896	4.464	0.432	9.7%	⬆
Distributions per unit (cpu)	4.375	4.375	-	0.0%	⬌
Debt to total assets	35.1%	39.5%	n.a.	(4.40%)	⬇
Properties ($m / no.)	$1,927 / 42	$1,766 / 42	$161 / 0	9.1% / 0%	⬆
Occupancy	99.5%	99.4%	n.a.	0.1%	⬆
Weighted average lease expiry ('WALE') in years	17.9	18.0	(0.1)	n.a.	⬇
Net tangible assets per unit	$2.36	$2.24	$0.12	5.4%	⬆
Unit price	$2.82	$2.09	$0.73	34.9%	⬆

Portfolio Overview

Vital owns a high quality portfolio of private hospitals in New Zealand and Australia; complemented by a growing portfolio of mental health, rehabilitation, medical office buildings and aged care facilities. The portfolio also includes strategic and development assets allowing us to respond to the evolving property needs of our tenants and the communities in which we operate.

There were no significant acquisitions or disposals of investment properties during the half year; $11.2m was contracted for strategic property acquisitions[1]. Today, we announced the conditional acquisition of three Australian aged care assets. These acquisitions total approximately NZ$60.1 million (A$57.5 million) and are expected to settle before the end of the financial year. We are also considering divesting a number of assets but no settlements are expected this financial year.

Like-for-like property income increased 2.5% on a same currency basis.

Vital's weighted average lease expiry ("WALE") was 17.9 years at 31 December 2019; the longest of any ASX or NZX-listed property entity.

The value of the portfolio increased by $91m over the half year as follows:

(All figures in millions of NZD)	
Opening valuation (30 Jun 2019)	**1,836**
Cap rate compression (from revaluations)	25
Rental increases (from revaluations)	18
Capital expenditure	39
Acquisitions	11
Right of use asset [2]	4
Foreign exchange	(7)
Closing balance (31 Dec 2019) *	**1,927**

** may not sum due to rounding*

The weighted average capitalisation rate ("WACR") across Vital's portfolio firmed by 9 basis points over the half year (5.61% to 5.52%) as shown in the table below:

	WACR	**WACR**	**Change**
	31 Dec 2019	**30 Jun 2019**	**Basis points**
Australia	5.47%	5.57%	(10)
New Zealand	5.66%	5.72%	(6)
Total	**5.52%**	**5.61%**	**(9)**

Developments and expansions

Developments and expansions are a favourable driver of Vital's earnings growth as they typically:

1. Provide an accretive return on cost for Vital
2. Respond to our tenants' business and operating requirements (reducing their costs and / or increasing their revenues)
3. Ensure Vital's assets are modern, fit-for-purpose and accord with community / patient expectations

[1] Includes the settlement of 10 Buttercup Street, QLD (A$0.4m) and the deferred settlement of 120 Thames Street, VIC (A$10.1m).
[2] Represents the fair value adjustment to Vital's leasehold interest in the Ascot Hospital and Ascot Central car parks in accordance with NZ IFRS 16.

Significant capital expenditure continues to be invested across the portfolio at the following projects:

Property	Overview	Spend to date	Cost to complete
Australia			
Lingard Day Surgery, NSW	New day surgery unit, consulting building & car park	NZ$21.9m (A$21.0m)	NZ$5.2m (A$5.0m)
The Hills, NSW	Expansion including 26 private rooms	NZ$4.1m (A$3.9m)	NZ$4.9m (A$4.7m)
Epworth Eastern, VIC	New 14 storey tower incorporating 60 beds & emergency department	NZ$21.3m (A$20.5m)	NZ$110.1m (A$105.7m)
New Zealand			
Wakefield Hospital, NZ	Staged demolition and redevelopment of entire hospital	NZ$19.4m	NZ$78.6m
Royston Hospital, NZ	Expansion including two new operating theatres	NZ$5.0m	TBD[3]
Total		**NZ$71.7m**	**NZ$198.8m**

Financial results

Normalised NDI for the half year increased by 14.6% to $22.1m (HY19: $19.3m) equating to 4.918 cents per unit ("cpu"). Cash from operations available to unitholders, measured by AFFO, increased 11.8% to $22.0m.

Total expenses were $26.3m, 13.4% lower than the prior corresponding period ('pcp'). Key expenses were:

1. Net finance expenses of $14.6m, an 8.9% decrease on pcp due to lower floating interest rates and repayment of the related party loan.
2. Management fees of $9.5m, a 21.0% decrease on pcp partly due to the new fee structure (base fees of $6.3m, a 9% pcp decrease, and incentive fees of $3.2m, a 37% pcp decrease).
3. Corporate costs of $2.4m, a 33% increase on pcp due to recently introduced Australian foreign ownership land taxes and costs related to the unitholder vote on fee and governance changes.

Vital's NTA increased to $2.36 per unit at 31 December 2019 a 5.4% increase from 31 December 2018. This change was primarily due to property revaluation gains.

Capital management

Vital's all-in weighted average cost of debt as at 31 December 2019 was 4.03% (31 December 2018 - 4.50%) with this decrease being primarily a result of a decline in floating rates.

The debt to total assets ratio was 35.1% at 31 December 2019 (31 December 2018 – 39.5%). Given the nature of Vital's portfolio (17.9 year WALE, high quality tenant base and limited property expenses which are not recoverable from tenants) the Board and Management are comfortable with both the current and projected levels of debt. Vital currently has approximately $225m of headroom under its current debt facilities.

At the end of December 2019, Vital received credit approval for an expansion and extensions to Tranche C (A$125M up from A$100m) and the NZ dollar facility (NZ$20m, unchanged) to October 2023 and an expansion and extension to Tranche D (A$115m up from A$100m) to October 2021. Pro forma these extensions, Vital's average debt maturity would be 2.3 years.

Following the proposed restructuring and foreign exempt listing on the ASX, Vital's debt will be extended and diversified.

[3] Work is underway to reassess the scope of the Royston expansion.

Corporate governance and management changes

During the half year, an additional independent director, Dr Michael Stanford, was appointed to Vital's board in accordance with the Manager's previous commitments. Dr Stanford has significant experience in both public and private healthcare including 16 years as CEO of St John of God Healthcare, Australia's third largest private healthcare operator and a former Board member of Healthscope, Australia second largest private hospital operator. His skills and experience complement the property, financial, legal and other skills and experience of Vital's existing directors. An independent chair will be appointed by the 2020 AGM consistent with the commitment made.

In addition, Aaron Hockly was appointed Fund Manager of Vital and Michael Groth was appointed Chief Financial Officer. Both Aaron and Michael have extensive experience in property and funds management.

Management fees

Vital's new management fee structure was approved by unitholders at the Annual General Meeting in October 2019. The key change was to reduce the base management fees from a fixed 0.75% of gross assets to a tiered fee structure:

Gross value of Vital's portfolio	Base management fee
Less than or equal to $1bn	0.65%
Greater than $1bn and less than or equal to $2bn	0.55%
Greater than $2bn and less than or equal to $3bn	0.45%
Greater than $3bn	0.40%

There were also changes to activity-based fees. Full details are available on Vital's website.

Total management fees for HY20 were $9.5m ($12.0m for pcp).[4]

Foreign exempt listing

At Vital's Annual General Meeting in October 2019 it was announced that Vital was exploring a foreign exempt listing on the ASX. In December 2019, we released further details to the NZX of this proposal which involves separating Vital's New Zealand and Australian properties into separate but stapled trusts primarily removing inefficiencies for investors outside of New Zealand. Removing these inefficiencies is required to facilitate a foreign exempt listing on the ASX.

Key benefits are expected to include:

1. Increased distributions and payout ratio for all unitholders
2. Providing Vital with access to broader and deeper sources of capital, ensuring an efficient cost of capital
3. A more competitive position for acquisitions and development projects for future earnings growth
4. Expected increase in the value and liquidity of Vital's units over time

Importantly, there will be no change to Vital's:

a. Primary listing on the NZX
b. PIE status in respect of its New Zealand assets
c. Core strategy of owning quality, well tenanted healthcare real estate in New Zealand and Australia as a means of providing a stable and growing income stream for investors

Grant Samuel has been appointed as an independent adviser to consider the transaction for unitholders. Their report will be included in the Notice of Meeting.

A foreign exempt listing on the ASX will bring Vital in line with over 50% of other NZX50 listed entities and support Vital to continue to grow its earnings.

The proposal does not change the fees and governance approved by unitholders in 2019 and NorthWest will not receive any additional fees for services provided in connection with the proposal.

Vital is currently in advanced discussions with regulators in New Zealand and Australia on this proposal and anticipates releasing a notice of meeting in the coming weeks.

[4] These figures exclude development fees which are capitalised to projects.

Outlook

Healthcare property is a defensive asset class underpinned by growing demand, high levels of government support (in both New Zealand and Australia) and continued growth of institutional acceptance as an asset class. As Australasia's only listed owner of healthcare real estate, Vital is well positioned to take advantage of opportunities in this sector.

Vital also benefits from being managed by NorthWest Healthcare Properties one of the world's leading specialist healthcare property owners and managers, a relationship Vital will continue to leverage more in the future. Opportunities include:

1. Access to a team of 40+ healthcare property professionals with deep experience and relationships in the region
2. Utilising NorthWest's brand and scale to support capital raising initiatives (debt and equity)
3. Leverage strategic insights and operating experience of 200+ professionals in countries where NorthWest has interests including Canada, Germany, Brazil and the UK

Our plan for the short to medium term is as follows:

1. Seek unitholder approval to restructure Vital to facilitate a foreign exempt listing on the ASX (unitholder vote expected to be scheduled before 31 March 2020)
2. Subject to unitholder approval of the proposed restructure, reset Vitals' interest rates swaps, increase distributions and increase the payout ratio
3. Complete the acquisitions announced today and continue to consider further investments across New Zealand and Australia, including existing and future developments and expansions, as a means of growing earnings
4. Extend the debt maturity profile and diversify sources of debt

Vital's management team will present these results via a live webcast from 11.30 am NZ time on 20 February 2020. Please refer to our market release dated 22 January 2020 for details of the live webcast or click here.

– ENDS -

ENQUIRIES

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About Vital Healthcare Property:

Vital Healthcare Property Trust is an NZX-listed fund that invests in high-quality health and medical-related properties in New Zealand and Australia. Our tenants are hospital and healthcare operators who provide a wide range of medical and health services.

With a core focus on healthcare real estate, we understand and accommodate the needs of our healthcare tenants. We operate in a niche segment of the property market, characterised by long weighted average lease terms and high occupancy rates and with an ageing population across both countries, it's also one that's growing.

For more information, visit our website: www.vitalhealthcareproperty.co.nz