

Vital

Healthcare
Property Trust

INTERIM RESULTS 31 DECEMBER 2016

BUILDING A HEALTHY FUTURE

23 February 2017

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

AGENDA

- ▶ Highlights
- ▶ Strategy
- ▶ Financials
- ▶ Portfolio
- ▶ Outlook



Highlights

HIGHLIGHTS

Financial and portfolio performance delivering on strategy

Financials

- ▶ Gross income of \$51.8m¹, +54.4%
- ▶ Operating profit before tax \$42.2m, +58.4%
- ▶ NDI of \$35.5m, +87%
- ▶ NTA of \$1.67, +11%
- ▶ LVR of 24.4%, down from 36.3% at 30 June
- ▶ 2nd quarter distribution of 2.125 cents

Strategy & drivers

- ▶ Quality, diversified healthcare real estate portfolio
- ▶ New & existing relationships
- ▶ Strong balance sheet following capital raise
- ▶ Focus on sustainable distributions & long-term value creation
- ▶ Attractive underlying sector fundamentals

Portfolio

- ▶ Portfolio in great shape
- ▶ 17.6 year WALE, 99% occupancy
- ▶ 2.0% p.a. avg. lease expiry in next 10 years
- ▶ A\$63m development pipeline
- ▶ Portfolio WACR firmed 30 bps to 6.90%
- ▶ Completed two MOB² acquisitions

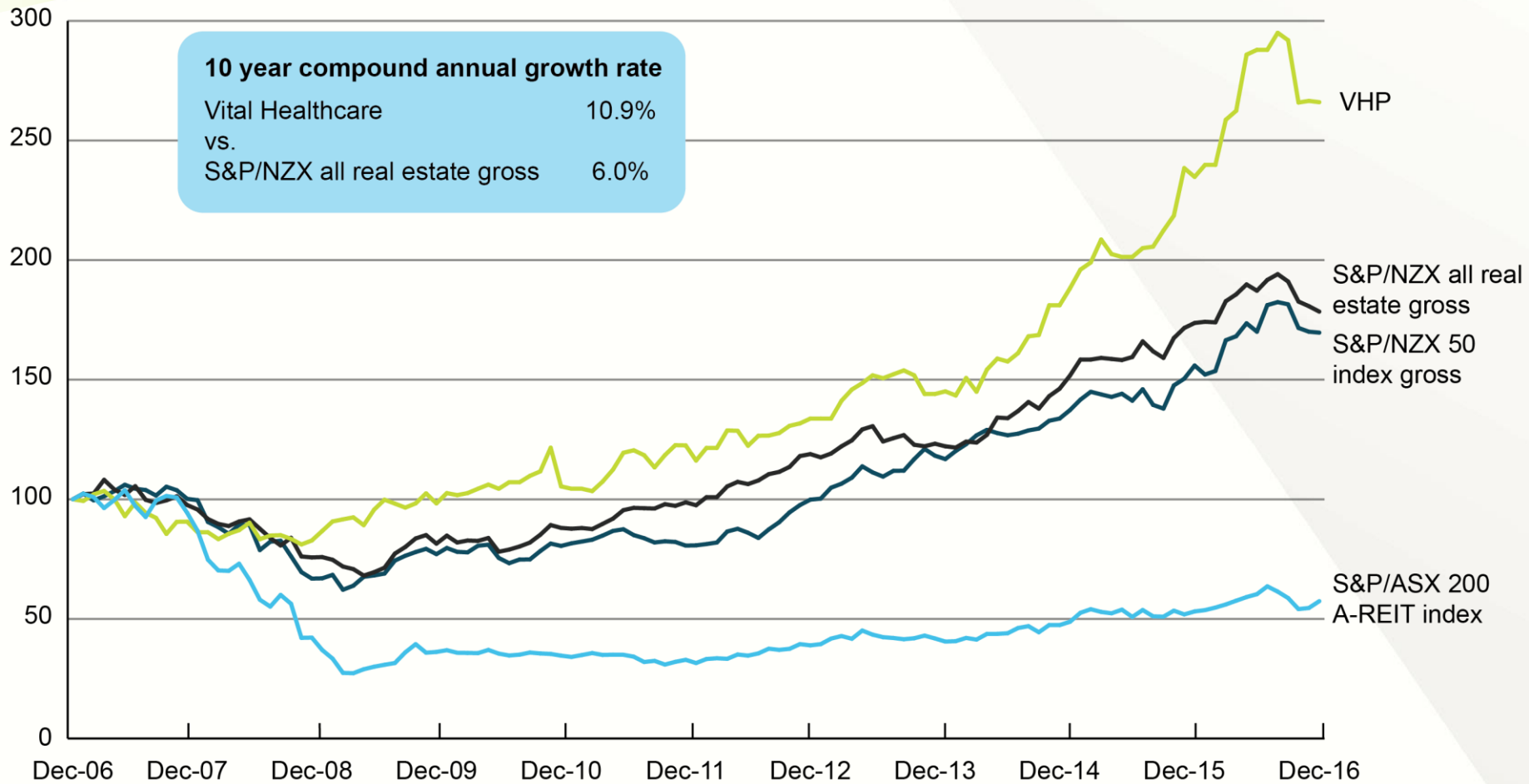
Outlook

- ▶ Improve portfolio quality to enhance value
- ▶ Incremental brownfield pipeline to continue
- ▶ Strong demand, elevated capital inflows
- ▶ Execute on scale and diversification strategy
- ▶ Confirmed FY17 guidance of 8.5 cpu

VITAL'S PERFORMANCE

Market validation of strategy

Index rebased to 100

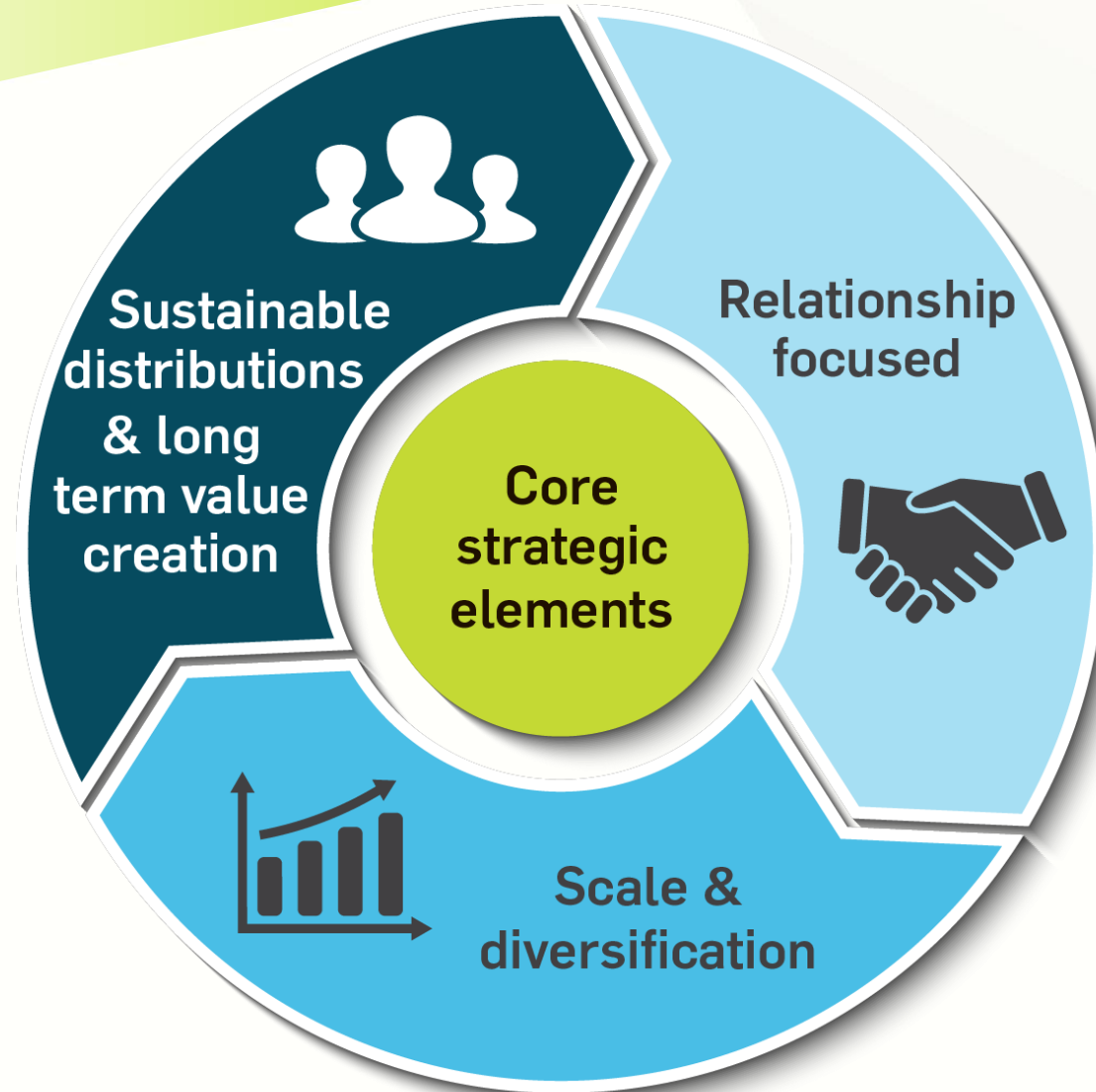




Strategy

BUILDING A HEALTHY FUTURE

Three core elements to strategy



FOCUS FOR 2017

Progress report on 2017 initiatives

Deliver strong operational, financial and portfolio results

- ✓ 1H17 results and portfolio position in great shape

Execute on development pipeline, continuation of incremental value-add opportunities

- ✓ Five projects underway with more expected, two recently completed

Deliver strategic acquisitions to support operator growth

- ✓ Further sites acquired

Widen and strengthen relationships that support scale & diversification

- ✓ New relationships engaged, recent acquisitions supportive

Prudently deploy balance sheet to appropriate opportunities

- ✓ Range of potential acquisition opportunities, continued organic growth

Focus on sustainable distributions to investors

- ✓ Confirmed FY17 distribution guidance of 8.5cpu

RECENT ACQUISITIONS & COMPLETED DEVELOPMENTS

*Sticking to strategy is a proven formula,
delivering consistent results*

Acquisition

Ekeru Medical Centre

Value: A\$24.4m

Settled: Nov-16



Completed development

Dubbo Private Hospital

Development cost: A\$3.7m

Completed: Oct-16



Acquisition

Mons Road Medical Centre

Value: A\$30.7m

Settled: Sep-16



Acquisition

Boulcott Private Hospital

Value: \$30.7m

Settled: Jul-16



Completed development

South Eastern Private Hospital

Development cost: A\$14.6m

Completed: Sep-16

RECENT ACQUISITION

Diversification with long-term strategic value

Ekera Medical Centre, Box Hill, Victoria








- ▶ Acquired majority interest for A\$24.4m
- ▶ Modern, multi-tenanted four-level medical office building in Melbourne's Box Hill medical precinct
- ▶ Major tenant Imaging Associates, representing approximately 40% of rental income. Other tenants include: Sonic Healthcare*; Monash IVF*; and Sportsmed Biologic
- ▶ Strong residential population growth forecast in the area will continue to drive demand for services
- ▶ Support Epworth Eastern campus and provides flexibility for strategic growth

* ASX listed

DEVELOPMENT UPDATE

*Underpins long-term earnings sustainability,
improving asset quality and portfolio value*

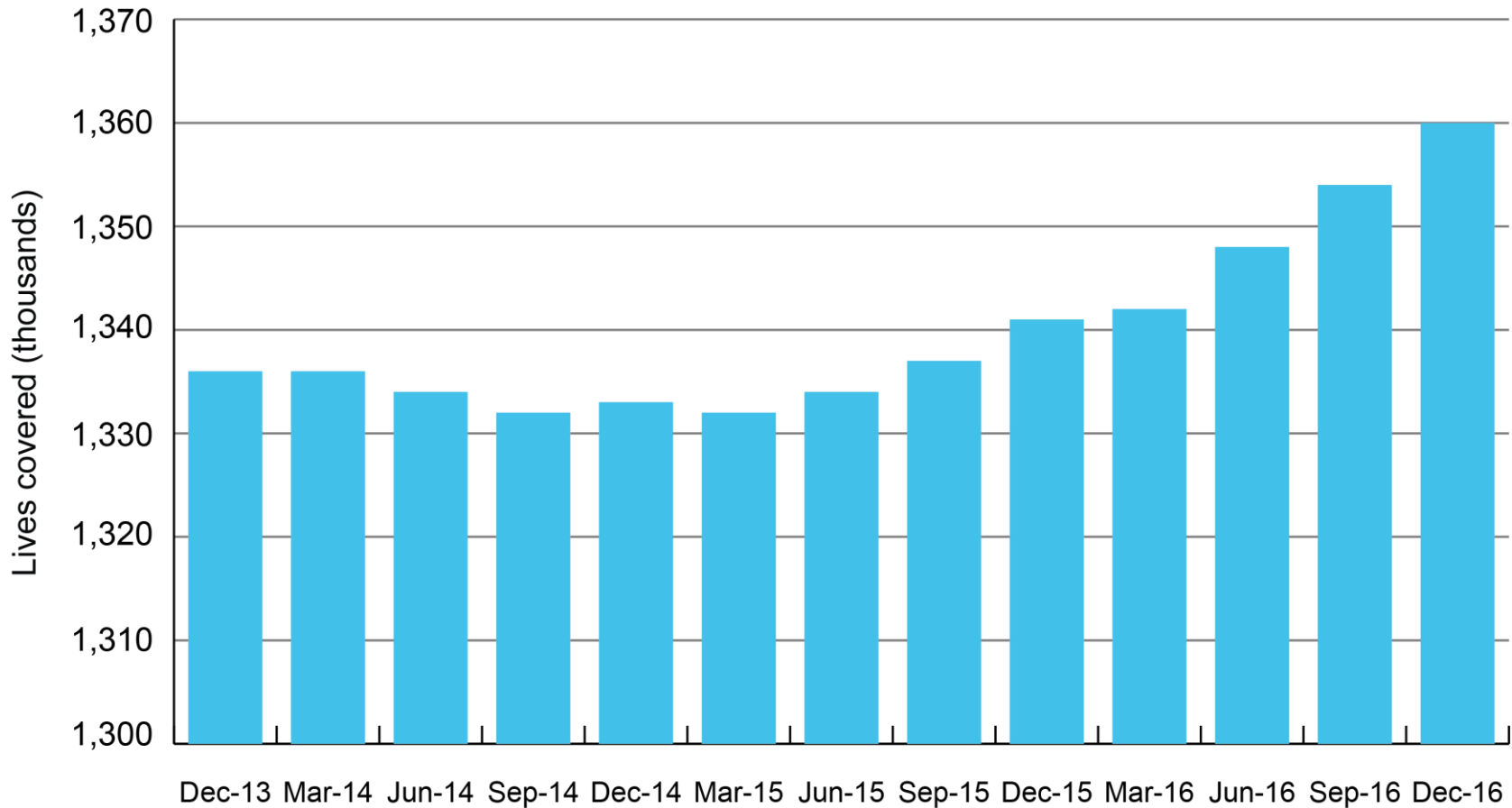
Development	Development work being undertaken	Development cost (A\$m)	Spend to date (A\$m)	Forecast completion date
 Palm Beach Currumbin (QLD)	Relocation of consulting to new suites above front carpark and conversion of all double rooms to singles.	6.3	0.9	Oct-17
 Sportsmed Consulting (SA)	Stand-alone medical consulting building adjacent to the main hospital.	9.5	2.4	Oct-17
 Toronto Private (NSW)	10 new mental health beds, 10 new rehabilitation beds, a new gym, group therapy rooms & 36 new car parks.	9.4	1.4	Oct-17
 Maitland Private (NSW) stage 1	2 new operating theatres and a new 7 chair day chemotherapy unit.	13.6	1.8	Oct-17
 Lingard Private (NSW)	3 additional operating theatres, 26 surgical beds, 22 rehabilitation beds & a hydrotherapy pool. 57 car parks will be developed on an adjacent site.	23.8	0.8	Dec-18
Total		62.6	7.3	

- ▶ Average development yields of ~8%, material spread to current WACR
- ▶ The development at Mayo Private Hospital is currently on-hold
- ▶ The remainder of the Maitland development work will take place in stage 2, start date to be determined

PRIVATE HEALTH INSURANCE (PHI) TRENDS

Strong PHI trends in NZ. Australian PHI growth sluggish but sector resilient.

NZ lives covered



MARIAN CENTRE

healthcare

187



FIRE

Financials

FINANCIAL PERFORMANCE

Core business activities drive strong first half performance

	Actual 1H17	Actual 1H16	change \$m	change %
Gross rental income (\$m)	38.0	33.5	4.4	13.2%
- Lease termination receipt	13.8			
Net rental income (\$m)	50.8	32.9	17.9	54.6%
Total expenses	8.6	6.2	2.4	38.2%
Operating profit before tax (\$m)	42.2	26.6	15.6	58.4%
Gross distributable income (\$m)	39.9	21.8	18.1	82.8%
Current Tax - NZ & Australia (\$m)	4.4	2.9	1.6	54.4%
Net distributable income (\$m)	35.5	19.0	16.5	87.0%
Net distributable income per unit (earned) (cpu)	8.56c	5.52c	3.0c	55.0%
AFFO (cpu)	8.61c	5.51c	3.1c	56.3%
Net distributable income payout ratio	50%	73%		
Units on issue (weighted average million)	414.9	344.0		

- ▶ Gross rent growth largely driven by acquisition and development activities
- ▶ Lease termination receipt in relation to rent, make good and other future obligations
- ▶ Total expenses higher due to management fees on increased assets under management. Incentive fee of \$3.5m accrued
- ▶ Adjusting for the lease termination receipt, Vital's payout ratio remains conservative at ~74%

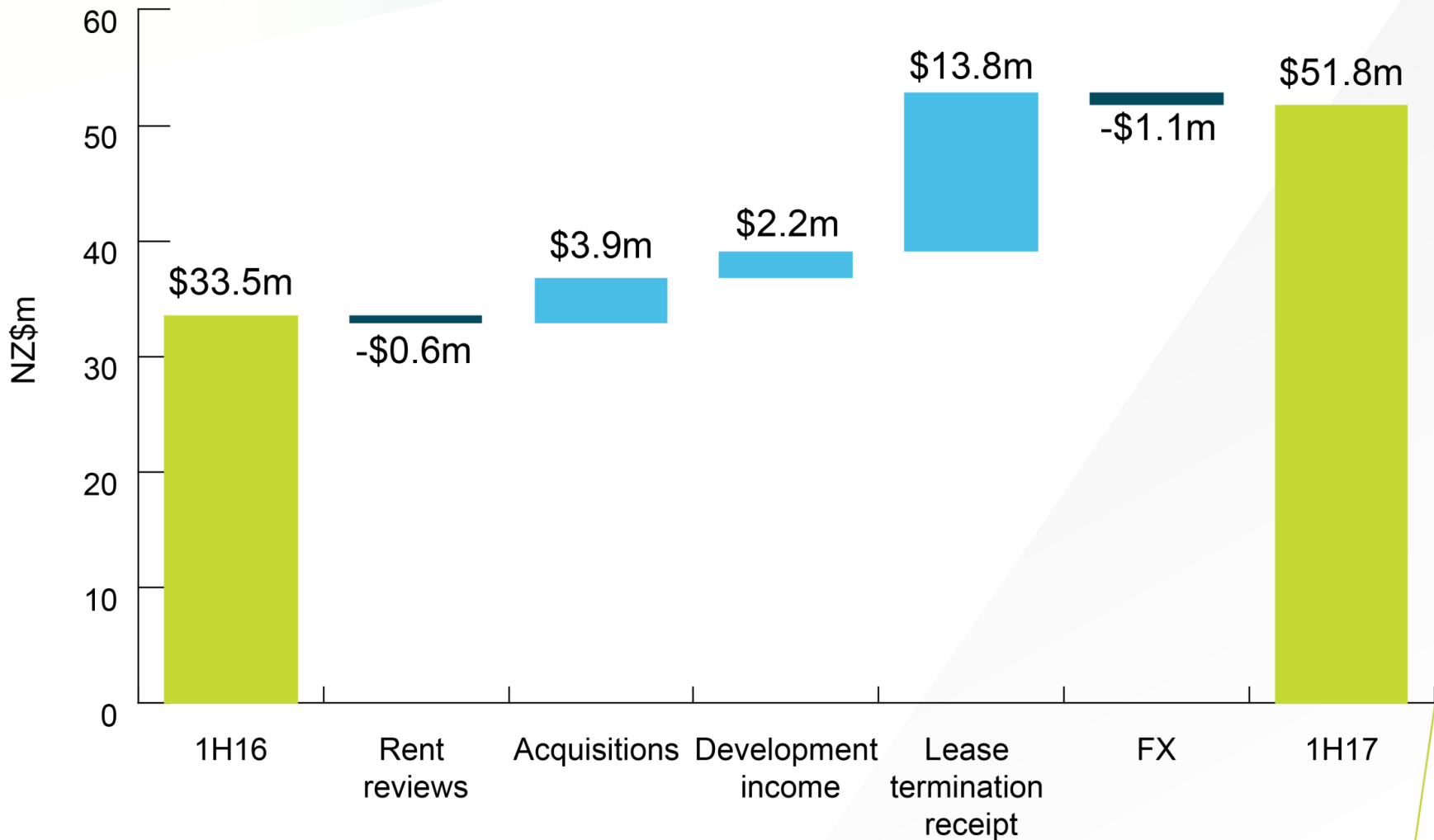
DISTRIBUTABLE INCOME

Conservative payout ratio at both NDI and AFFO level

	1H17	1H16	Payout 1H17	Payout 1H16
Profit before income tax (\$m)	55.0	67.0		
Revaluation (gains)/losses (\$m)	-13.1	-45.2		
Unrealised FX (gain)/loss (\$m)	1.9	-1.4		
Derivative Fair Value adjustment (gains)/losses (\$m)	-8.1	0.0		
Managers Incentive Fee (\$m)	3.5	2.3		
Unrealised FX (gain)/loss derivatives (\$m)	0.7	-0.9		
Gross distributable income (\$m)	39.9	21.8		
Current tax (\$m)	4.4	2.9		
Net distributable income (\$m)	35.5	19.0		
NDI (cpu)	8.56c	5.52c	50%	73%
AFFO				
Net distributable income (\$m)	35.5	19.0		
Amortisation of deferred financing charges (\$m)	0.2	0.1		
Amortisation of leasing costs & tenant inducements (0.3	0.2		
FFO	36.0	19.3		
<u>Add/(Deduct)</u>				
Actual capex & leasing from continuing operations (\$)	-0.3	-0.3		
AFFO	35.7	19.0		
AFFO (cpu)	8.61c	5.51c	49%	73%

GROSS RENTAL INCOME

Excluding one-off items, acquisitions and developments were key drivers of core rent growth



► Rent reviews includes the impact (-\$0.9m) of lower rents at Gold Coast Southport assets

BALANCE SHEET

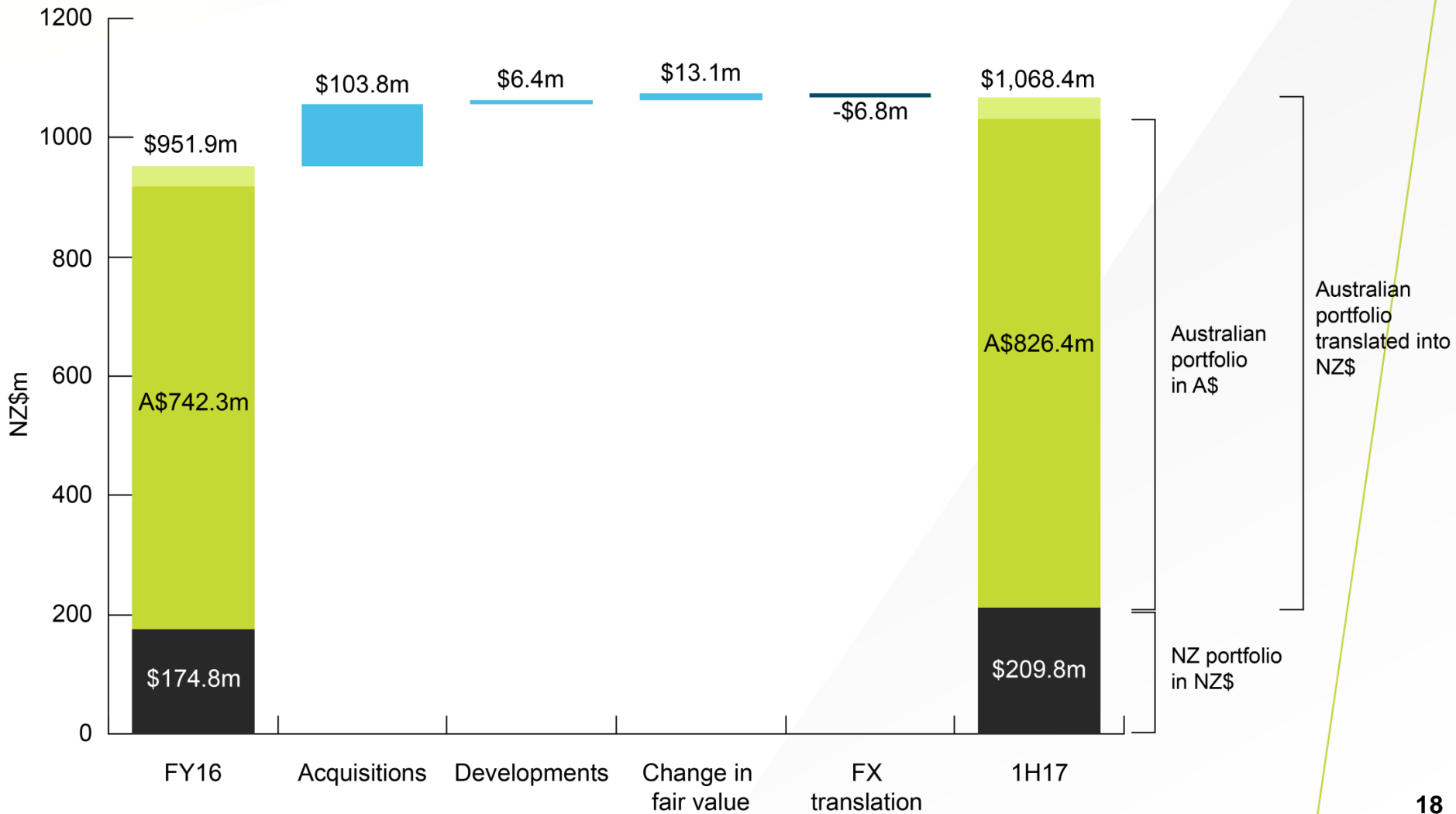
Strong balance sheet supports execution of strategy

	Actual 1H17	Actual FY16	change \$m	change %
Net Tangible Assets (\$)	1.67	1.51		10.6%
Investment properties (\$m)	1,068.4	951.9	116.5	12.2%
Total assets (\$m)	1,076.5	978.2	98.3	10.1%
Bank debt (\$m)	259.9	344.2	-84.3	-24.5%
Unitholder funds (\$m)	711.2	523.7	187.5	35.8%
Units on issue (m)	427.1	346.0	81.1	23.4%
Weighted average cost of debt ¹	4.66%	4.38%		
LVR	24.4%	36.3%		

- ▶ Portfolio value growth primarily reflects acquisition activity
- ▶ Gearing modest after \$160m capital raise
- ▶ Cost of debt reflective of interest rate hedging with 82% cover and term of 5.0 years
- ▶ NTA uplift largely reflective of capital raising at a premium

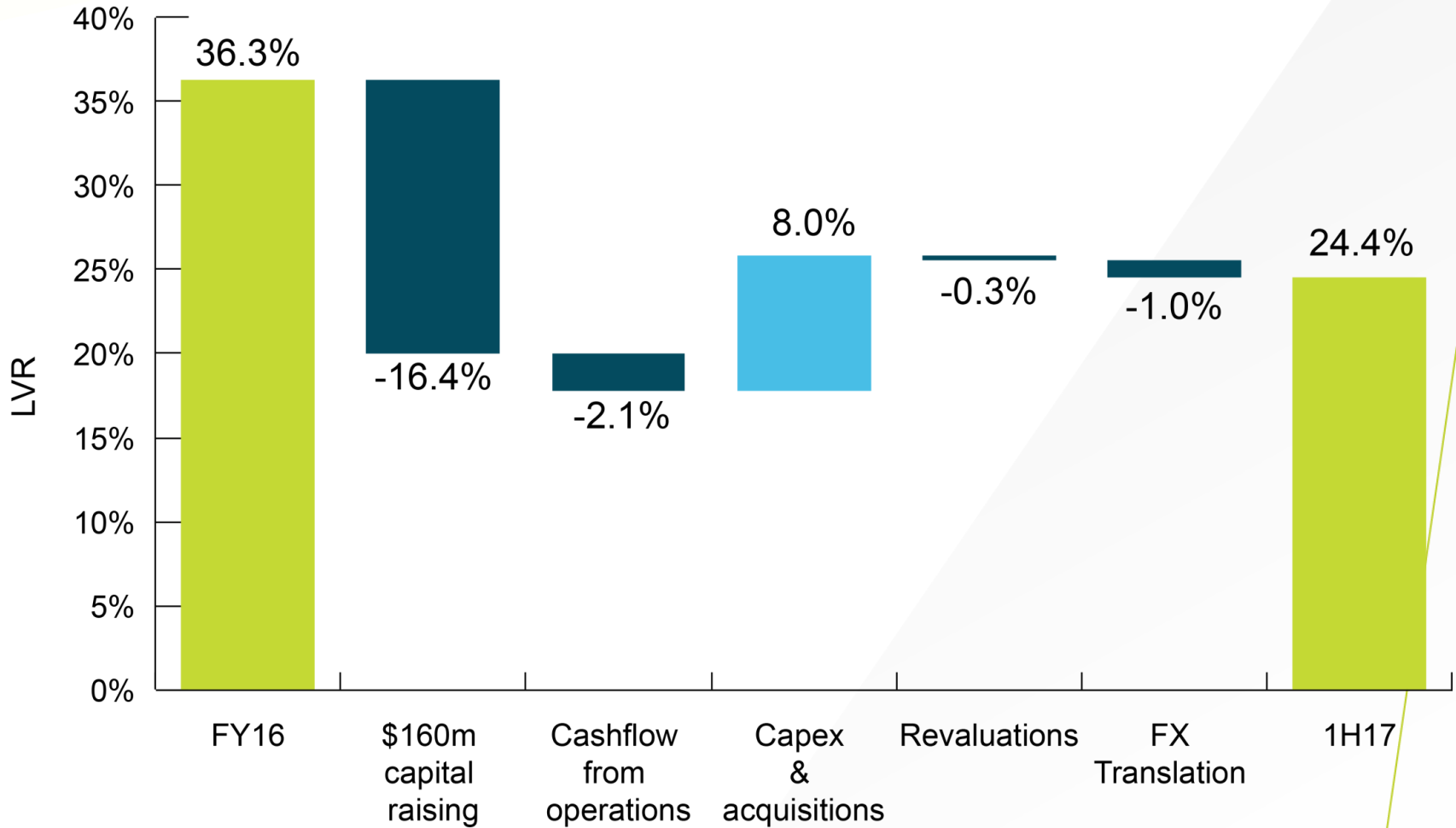
INVESTMENT PROPERTY

Acquisitions key driver of property uplift over the first six months



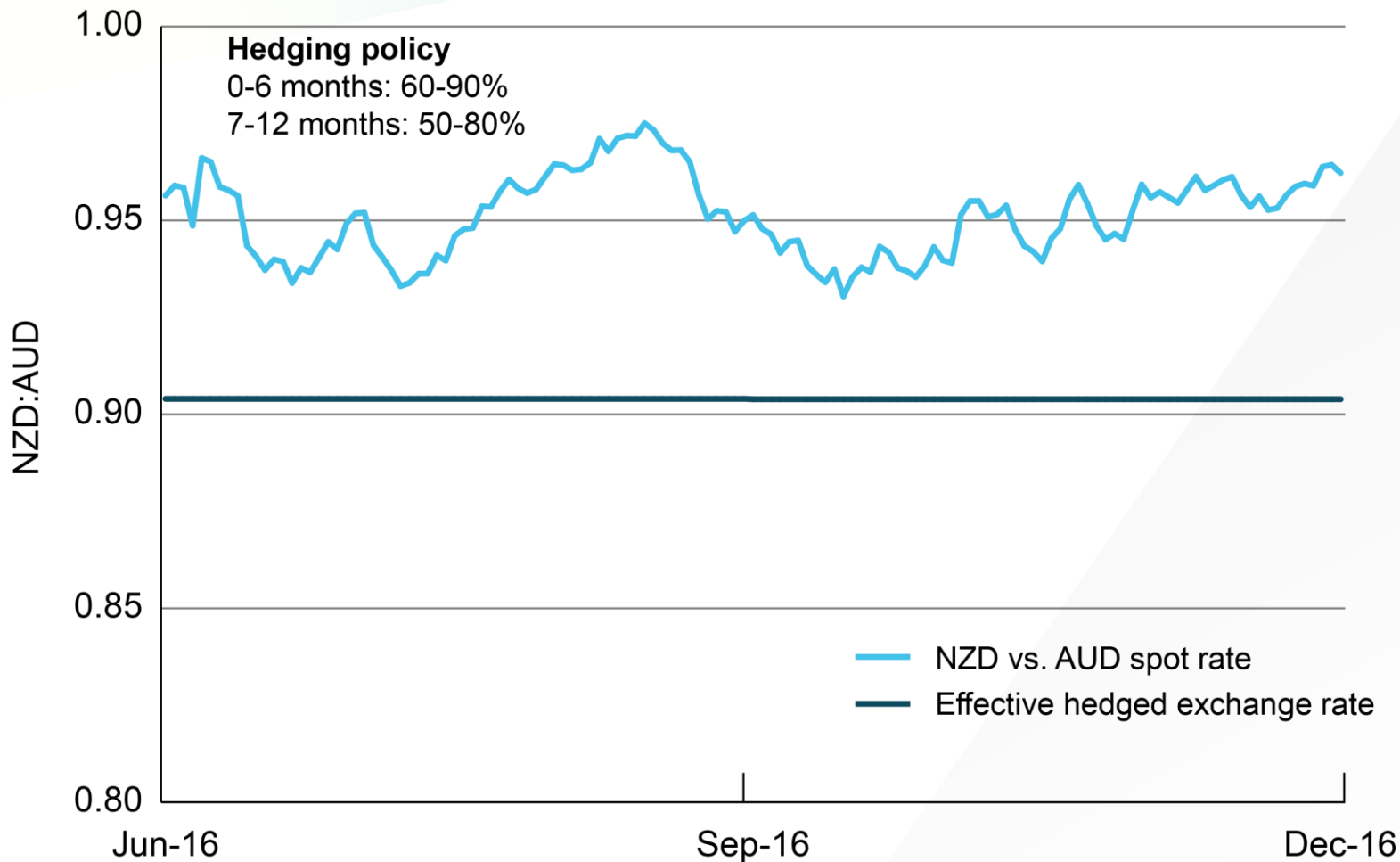
LVR MOVEMENT

Strong financial base. Flexibility to invest for the right opportunities.



FOREIGN EXCHANGE – WHAT'S HAPPENED

Hedging continues to help mitigate earnings volatility



Transaction hedging: Foreign exchange policy framework minimises earnings volatility



Portfolio

STRONG GEOGRAPHIC DIVERSIFICATION

32 investment properties comprising ~2,100 beds
and ~75 operating theatres

Geographic split (%)

80/20

Australia/New Zealand
by value



Marian Centre
Perth, WA
Mental health
69 beds



Belmont Private Hospital
Carina, QLD
Mental Health
150 beds

Hurstville Private Hospital
Sydney, NSW
Acute
96 beds



Epworth Eastern Hospital
Melbourne, VIC
Acute
208 beds

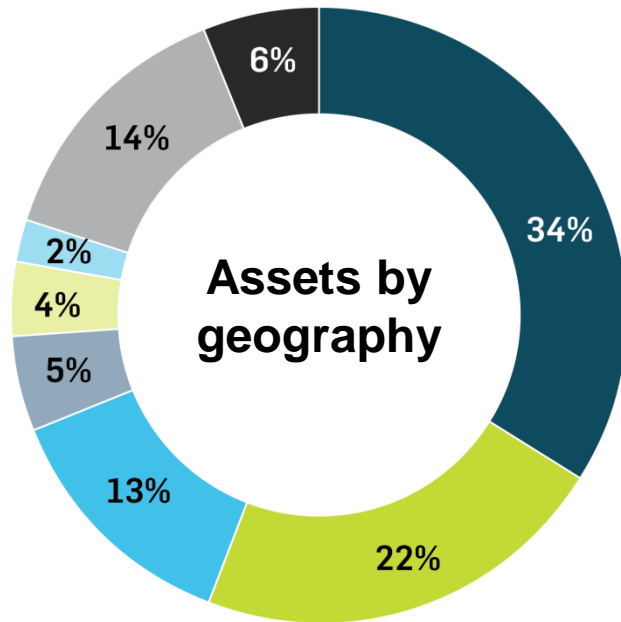


Ascot Hospital
Auckland, NZ
Acute
88 beds

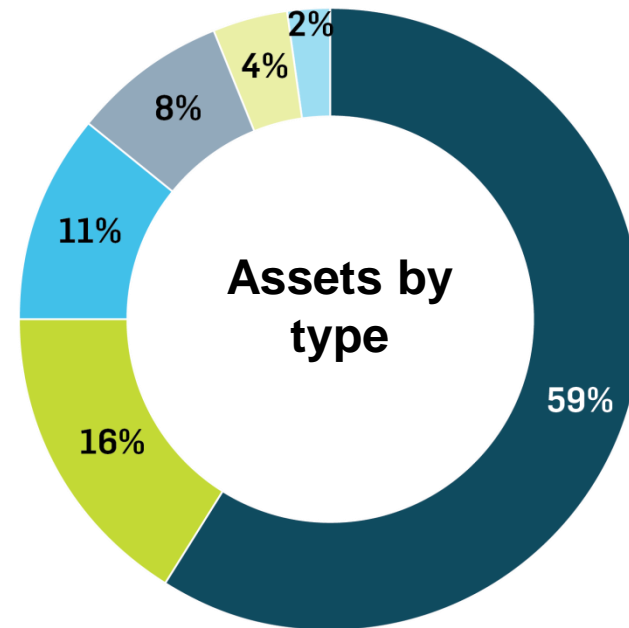
Indicates number of
assets in each state

PORTFOLIO COMPOSITION

Strong geographic spread. Increased weighting to MOB's diversifies tenant mix, with potential for new partnership opportunities.



- New South Wales
- Victoria
- Queensland
- Western Australia
- South Australia
- Tasmania
- Auckland
- NZ ex-Auckland

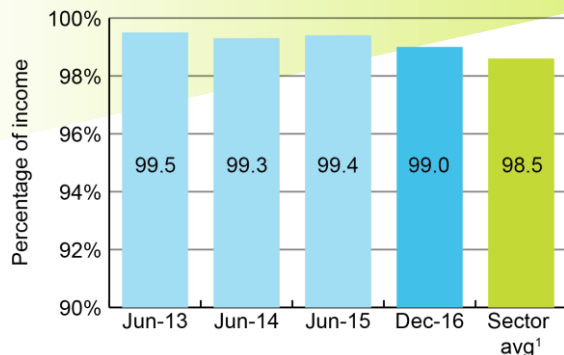


- Acute
- Medical office building (MOB)
- Mental health
- Rehabilitation
- Aged care
- Strategic

CORE PORTFOLIO METRICS

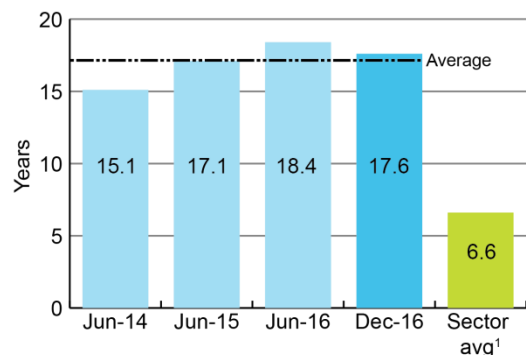
Resilient metrics underpin defensive qualities, driving financial performance

Occupancy



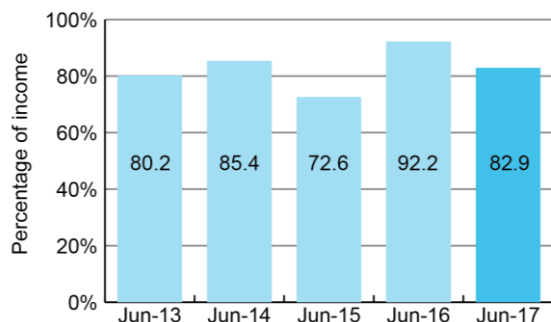
- ▶ Consistent occupancy levels at almost 100% capacity underpins sustainable portfolio performance

WALE



- ▶ Long WALE reflects a range of factors including proactive management, partners willing to commit to quality well-located facilities, new lease extensions and acquisitions

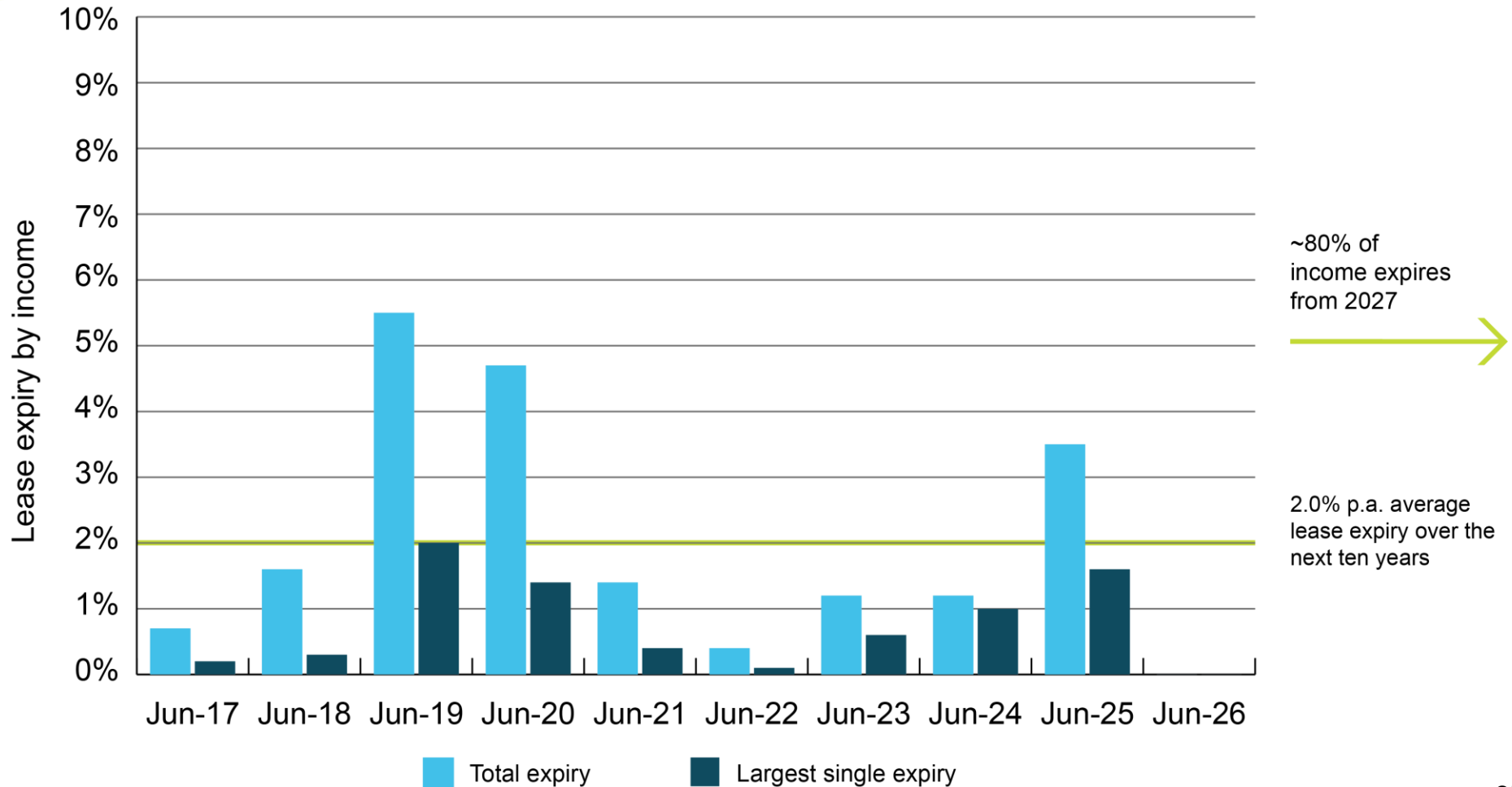
Total income subject to structured² rent reviews



- ▶ High level of structured reviews ensures steady income growth over the long term, regardless of economic cycles

LEASE EXPIRY PROFILE

Low risk expiry profile = sustainable, predictable and defensive cash flows



~80% of income expires from 2027

2.0% p.a. average lease expiry over the next ten years

INTERIM REVALUATION

Strong interim revaluations validate strategy

Revaluation summary

- ▶ Revaluation gain of \$13.1m, +1.2% above book value
- ▶ Values supported by external independent desktop reviews
- ▶ Majority of gain from Australian portfolio
- ▶ Australian WACR firmed ~30 bps to 6.9%, New Zealand ~10 bps to 6.8%
- ▶ Portfolio WACR firmed ~30 bps to 6.9%

Drivers

- ▶ Firming cap rates across broader market
- ▶ Strong performance from redeveloped assets
- ▶ Rising interest in healthcare real estate, new capital
- ▶ Increasing transactional evidence
- ▶ Low interest rate environment, unique and attractive lease terms



Lingard Imaging

Lingard Private Hospital

Main Entrance



Lingard Private Hospital

Outlook

OUTLOOK

More of the same... building a healthy future

Delivering strong financial and portfolio performance, driven by scale and diversification

Disciplined approach to acquisitions, development and portfolio management

Structural cap rate firming reflects demand, unique characteristics & track record of performance

Sector consolidation to continue, opportunity in the medium term

Work closely with existing and new operator partners to support our strategy

Maintain focus on sustainable distributions and long term-value creation

DISCLAIMER

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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.

23 February 2017

GLOSSARY

AFFO	Adjusted Funds From Operations is an alternate measure used for assessing distributable income. Essentially adjusts NPAT for all non-cash items (i.e. NDI) then makes adjustments for items such as maintenance capex and lease incentives paid
Cap rate	Capitalisation rate. Generally calculated as net operating income / current market value of investment property
CPI	Consumer Price Index. An index that measures the change in the cost of a 'basket' of basic goods and services, showing how the cost of living changes over time. The most widely accepted indicator of inflation
FEC	Foreign Exchange Contract. Generally considered as a contracted commitment to buy/sell a specified amount of a foreign currency on a fixed date at a fixed rate of exchange
FX	An abbreviation for 'foreign exchange' used where there is a transaction in a currency other than the local currency
LVR	Loan to Value Ratio. Is the ratio of a loan to the value of an asset purchased or total assets. The term is commonly applied by looking at the level of Borrowings (or debt) versus the Total Assets, or Borrowings versus the Investment Properties
NDI	Net Distributable Income. Calculated as Gross Distributable Income less Current tax charges
NTA	Net Tangible Assets. The total assets of the Trust less total liabilities. NTA is normally divided by the number of units on issue and expressed as an amount per unit
WACR	Weighted Average market Capitalisation Rate. The market cap rate for each property weighted by property value
WALE	Weighted Average Lease term to Expiry. The weighted average lease term remaining to expire across a portfolio, sometimes also referred to as WALT