

# ANNUAL RESULTS 30 JUNE 2017

*BUILDING A HEALTHY FUTURE.*

10 August 2017

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

# AGENDA

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



# Highlights

# HIGHLIGHTS

*Strategy delivering excellent portfolio and financial results*

## Strategy delivering great outcomes

- ▶ New & established partners
- ▶ High quality diversified portfolio
- ▶ Attractive sector fundamentals
- ▶ Strong capital position
- ▶ Sustainable distribution
- ▶ Successful \$160m capital raising

## Portfolio in great shape

- ▶ 17.7 year WALE
- ▶ +99% occupancy for 8 years
- ▶ Revaluation gain of \$168.5m
- ▶ WACR firmed 113 bps to 6.04%
- ▶ A\$62.6m development works continue

## Financials are strong

- ▶ Net income \$89.7m<sup>1</sup>, +31.3%
- ▶ NPAT \$217.6m, +85.6%
- ▶ NDI \$61.8m, +53.6%
- ▶ NTA \$2.05, +36.0%
- ▶ LVR 29.3% (FY16: 36.3%)

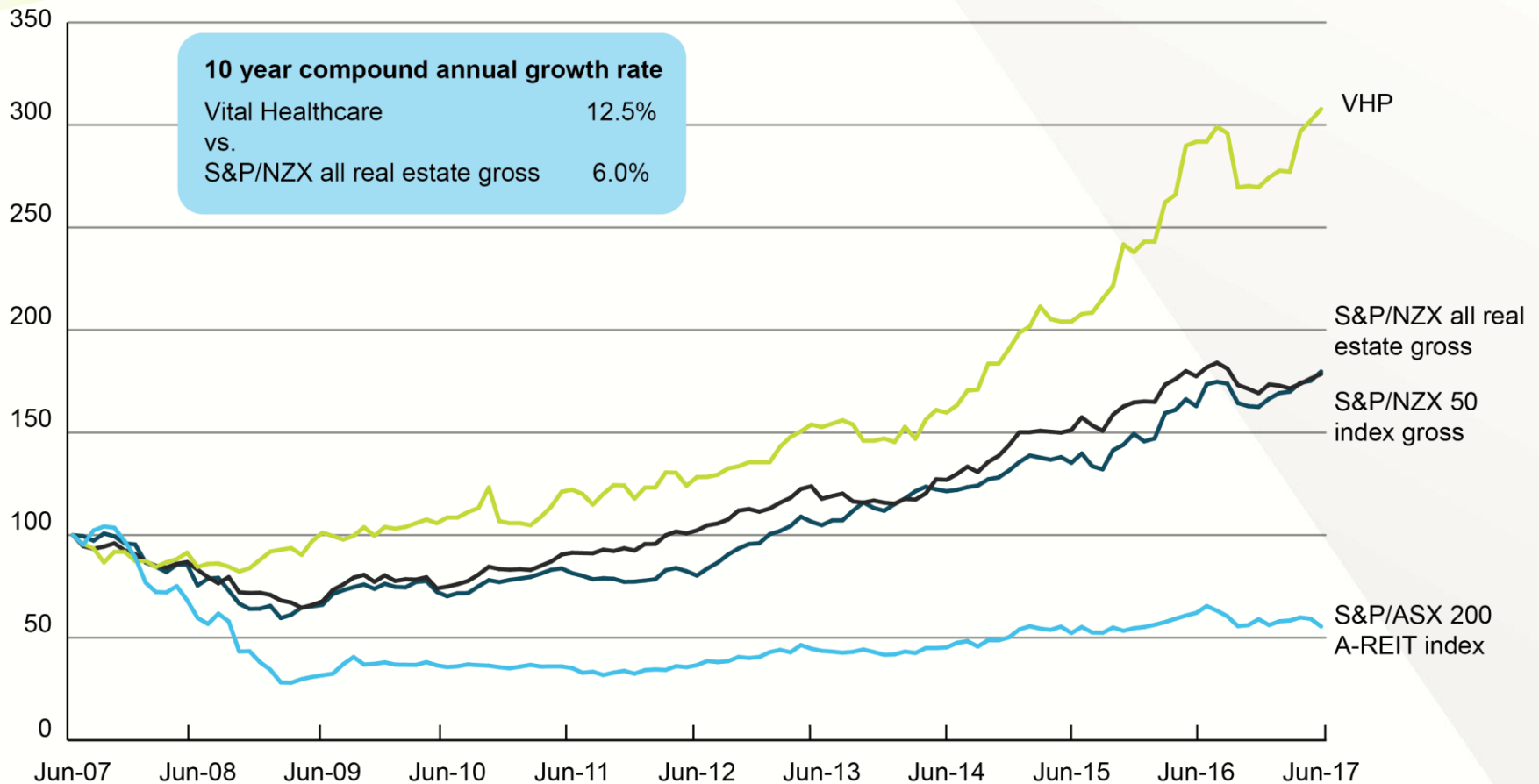
## 2018 focus: repeating success

- ▶ Proactive portfolio management
- ▶ Execute & grow development pipeline
- ▶ Sector consolidation opportunities
- ▶ Partnership focus
- ▶ Prudent capital management
- ▶ FY18 cash DPU guidance of 8.5 cpu

# TOTAL RETURNS

*Execution on strategy supported by market*

Index rebased  
to 100



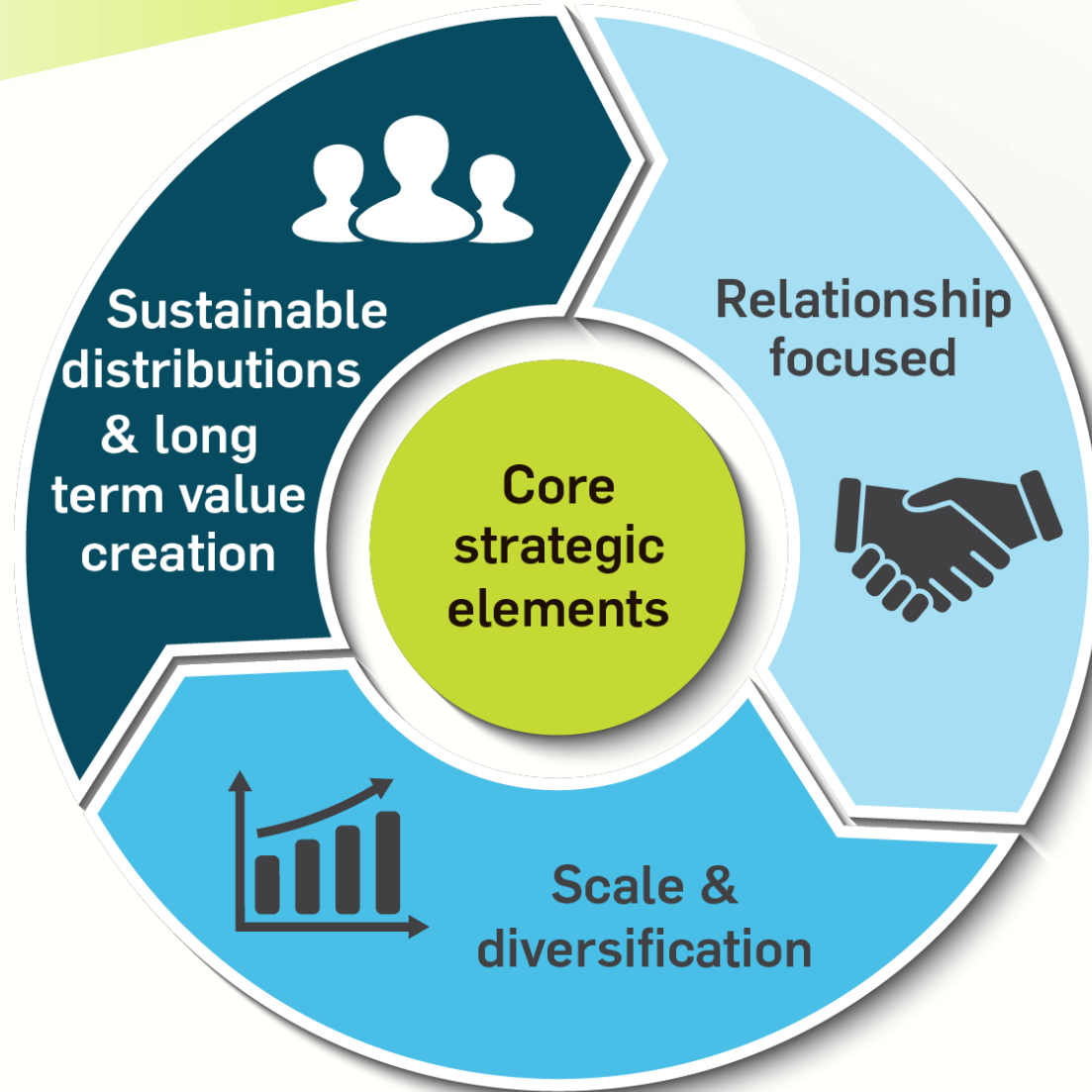




# Strategy

# BUILDING A HEALTHY FUTURE

*Sticking to strategy*



# 2017 REPORT CARD

*Focused approach delivering results*

Deliver strong operational, financial and portfolio results

- ✓ Operational performance delivering financial results, portfolio in great shape

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

- ✓ Five projects underway with more expected, enhancing portfolio quality

Widen and strengthen relationships that support scale & diversification

- ✓ Seven major acquisitions adding diversification, new relationships & opportunities

Deliver strategic acquisitions to support operator growth

- ✓ Eight acquisitions, providing future value-add opportunities to support market demand

Prudently deploy balance sheet to appropriate opportunities

- ✓ Capital management and allocation in line with strategy, driving long term value

Focus on sustainable distributions to investors

- ✓ Consistent execution to strategy supports DPU sustainability at 8.5 cents for FY18



# PORTFOLIO OVERVIEW & ACQUISITIONS

~\$1.38b portfolio of healthcare real estate  
comprising 37 properties, ~2,300 beds and 80  
operating theatres



**Abbotsford Private Hospital**  
**Perth, WA**  
Mental health  
30 beds



**The Hills Clinic\***  
**Kellyville, NSW**  
Mental Health  
59 beds



**Hironnelle Private Hospital**  
**Chatswood, NSW**  
Rehabilitation  
53 beds



**Eker Medical Centre**  
**Melbourne, VIC**  
Medical Office Building



**Grafton Aged Care**  
**South Grafton, NSW**  
Aged Care  
83 beds



\*The Hills Clinic settled 31 July 2017 which would take total properties to 38. This slide excludes properties held for development (9).

# ACQUISITION - MONS ROAD MEDICAL CENTRE

*Asset and tenant diversification with long-term strategic value*

*Mons Road Medical Centre, Westmead, NSW*



- ▶ Acquired for A\$30.7m
- ▶ 30 June 2017 cap rate 6.0%
- ▶ Located approximately 26km west of the Sydney CBD within the Westmead medical precinct, which is considered Australia's largest health services precinct
- ▶ Modern, multi-tenanted, four-level medical office building.
- ▶ Quality healthcare tenant mix including Castlereagh Imaging, IVF Australia & Ramsay Healthcare
- ▶ Precinct set to grow further, with significant healthcare spending, including A\$900m Westmead Public Hospital redevelopment

# ACQUISITION - ORMISTON HOSPITAL

*Increased presence in New Zealand, strategic partnership*

*Ormiston Hospital, Auckland*



- ▶ Acquired for \$33.0m, 31 beds, 6 theatres
- ▶ 30 June 2017 cap rate 6.3%
- ▶ 25km south of the Auckland CBD, Ormiston was purpose built in 2008
- ▶ Approximately 5km east of Auckland's largest public hospital – Middlemore, a significant catchment in one of Auckland's strongest population growth corridors
- ▶ Anchored by Ormiston Surgical and Endoscopy, whose cornerstone shareholder is Southern Cross Hospitals Limited, New Zealand's largest private hospital operator
- ▶ Vital also acquired 1,000 sqm of adjacent land to provide for future growth



# DEVELOPMENT PIPELINE

*Healthcare demand and strong partnerships  
delivering organic value-add growth*

## **Sportsmed consulting**

Development cost: A\$9.5m

Completion due: Aug-17



## **Palm Beach Currumbin Clinic**

Development cost: A\$6.3m

Completion due: Oct-17



## **Maitland Private Hospital Stage 1**

Development cost: A\$13.6m

Completion due: Sep-17



## **Toronto Private Hospital**

Development cost: A\$9.4m

Completion due: Feb-18








## **Lingard Private Hospital**

Development cost: A\$23.8m

Completion due: Jun-18

# DEVELOPMENT UPDATE

*Brownfields driving value-add outcomes, underpins earnings sustainability, improves asset quality and operator performance*

Development	Development work being undertaken	Forecast 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	5.0	Oct-17
 Sportsmed Consulting (SA)	Stand-alone medical consulting building adjacent to the main hospital.	9.5	7.1	Aug-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	5.2	Feb-18
 Maitland Private (NSW) stage 1	2 new operating theatres and a new 7 chair day chemotherapy unit.	13.6	7.5	Sep-17
 Lingard Private (NSW)	3 additional operating theatres, 26 surgical beds & a hydrotherapy pool. 57 car parks will be developed on an adjacent site.	23.8	3.2	Jun-18
<b>Total</b>		<b>62.6</b>	<b>28.0</b>	

- ▶ Average development yields of ~8%, material spread to current WACR
- ▶ Expectation value-add brownfield development programme will continue



# DEVELOPMENT CASE STUDY

*A great example of supporting the growth of our partners and creating long term value*

## *South Eastern Private Hospital*



- ▶ Acquired in 2011 for A\$9.6m, 20.4 year WALE, cap rate of 11%, 116 beds
- ▶ ~A\$18.8m of capex since 2012 across two development projects based on rising demand for healthcare services
- ▶ 2017 valuation A\$50.8m, 23.7 year WALE, cap rate of 6.00%, 167 beds
- ▶ A\$22.4m of value creation from repositioning the asset, supporting a wider healthcare service offering to deliver improved operational and financial performance



# Financials

# FINANCIAL PERFORMANCE

*Core business and strategic focus delivering results*

	Actual FY17	Actual FY16	change	change
Gross rental income (\$m)	78.0	70.4	7.7	10.9%
- Lease termination receipt	13.8			
<b>Net rental income (\$m)</b>	<b>89.7</b>	<b>68.3</b>	<b>21.4</b>	<b>31.3%</b>
Other expenses	22.1	14.5	-7.6	-52.1%
<b>Operating profit before interest &amp; tax (\$m)</b>	<b>67.6</b>	<b>53.8</b>	<b>13.8</b>	<b>25.7%</b>
Finance expenses	14.6	15.0	0.5	3.3%
<b>Operating profit before tax (\$m)</b>	<b>53.0</b>	<b>38.7</b>	<b>14.3</b>	<b>37.0%</b>
<b>Net distributable income NDI (\$m)</b>	<b>61.8</b>	<b>40.2</b>	<b>21.6</b>	<b>53.6%</b>
NDI per unit (earned) (cpu)	14.7c	11.7c	3.0c	25.8%
Cash earnings / AFFO (cpu)	14.5c	11.7c	2.8c	24.3%
Adjusted* NDI per unit (earned) (cpu)	11.7c	11.7c	0.1c	0.6%
Adjusted* NDI payout ratio (%)	72%	71%		
<b>Units on issue (weighted average million)</b>	<b>421.1</b>	<b>344.7</b>	<b>76.4</b>	<b>22%</b>

- Gross rent growth largely driven by acquisitions and development
- Lease termination receipt (LTR) in relation to rent, make good and other future obligations
- Other expenses higher primarily on management and incentive fees. Incentive fee of \$12.3m.

\* Adjusted for the lease termination receipt of \$13.8m

# DISTRIBUTABLE INCOME / AFFO

*Conservative payout ratios*

<b>Net distributable income (NDI)</b>	<b>FY17</b>	<b>FY16</b>
<b>Profit before income tax (\$m)</b>	<b>231.1</b>	<b>138.3</b>
Revaluation (gains)/losses (\$m)	-168.5	-101.9
Unrealised (gains)/losses	-9.6	2.3
Managers incentive fee	12.3	6.3
Current tax (\$m)	-3.5	-4.8
<b>Net distributable income (\$m)</b>	<b>61.8</b>	<b>40.2</b>
NDI (cpu)	14.7c	11.7c
DPU (cpu)	8.5c	8.3c
NDI payout ratio (%)	58%	71%
Adjusted NDI payout ratio (%)	72%	71%

## AFFO

<b>Net distributable income (\$m)</b>	<b>61.8</b>	<b>40.2</b>
Amortised deferred financing charges (\$m)	0.4	0.3
Amortised leasing costs & tenant inducements (\$m)	0.9	0.3
<b>FFO</b>	<b>63.1</b>	<b>40.9</b>
<u>Add/(Deduct)</u>		
Capex & leasing from continuing operations (\$m)	-2.0	-0.6
<b>AFFO</b>	<b>61.2</b>	<b>40.3</b>
AFFO (cpu)	14.5c	11.7c
AFFO payout ratio (%)	59%	71%

► Adjustment made for non-cash items..

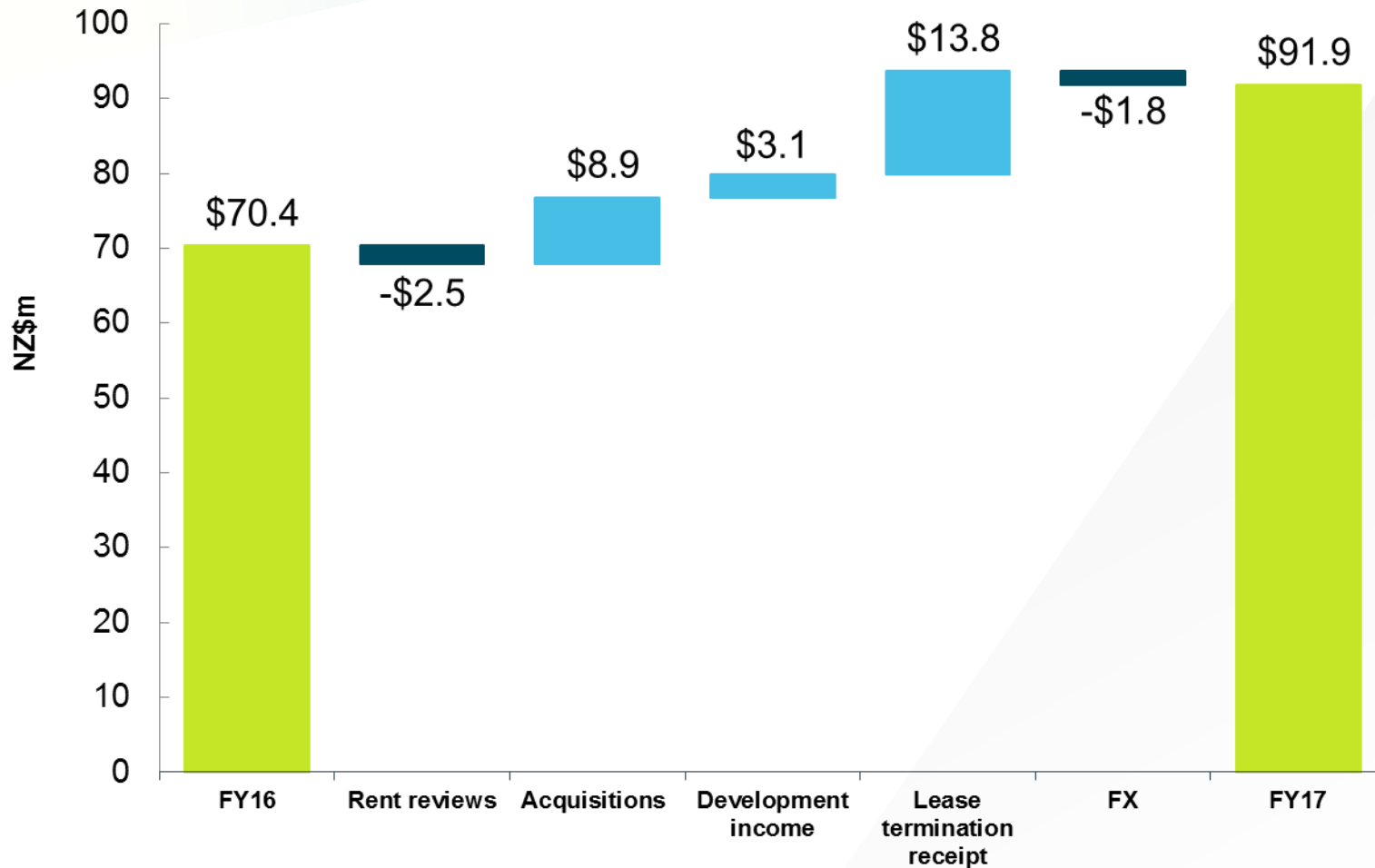
..including incentive fees

72% FY17 payout adjusting for lease termination receipt

► FFO adjustments for inducements remain low..  
.. as are maintenance capex adjustments..

# GROSS RENTAL INCOME

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

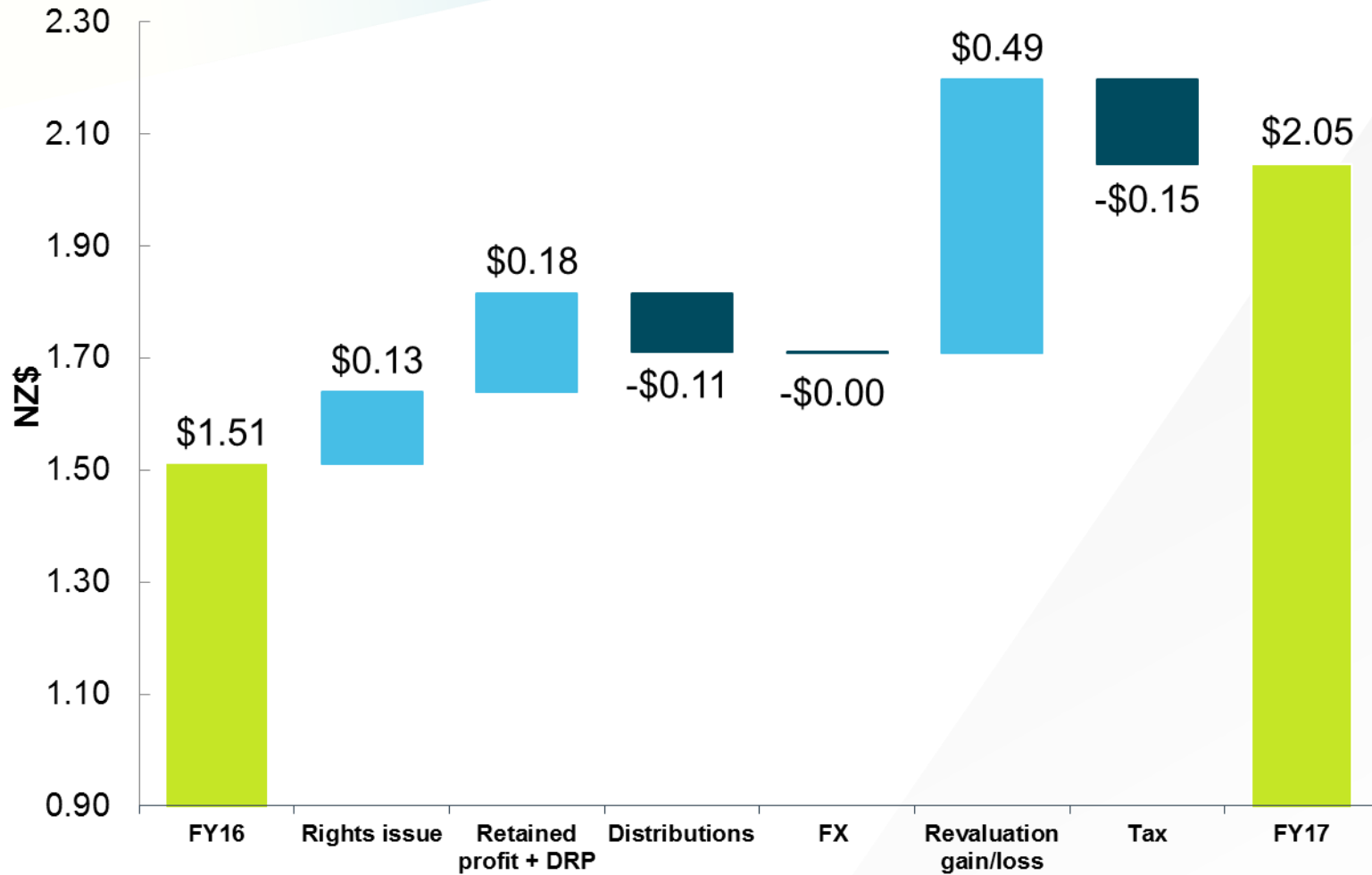


► Rent reviews includes the impact (-\$3.5m) of lower rents at Gold Coast Southport assets



# NET TANGIBLE ASSETS

*Growth driven by equity raise, retained profit and strong revaluation gains*



# BALANCE SHEET

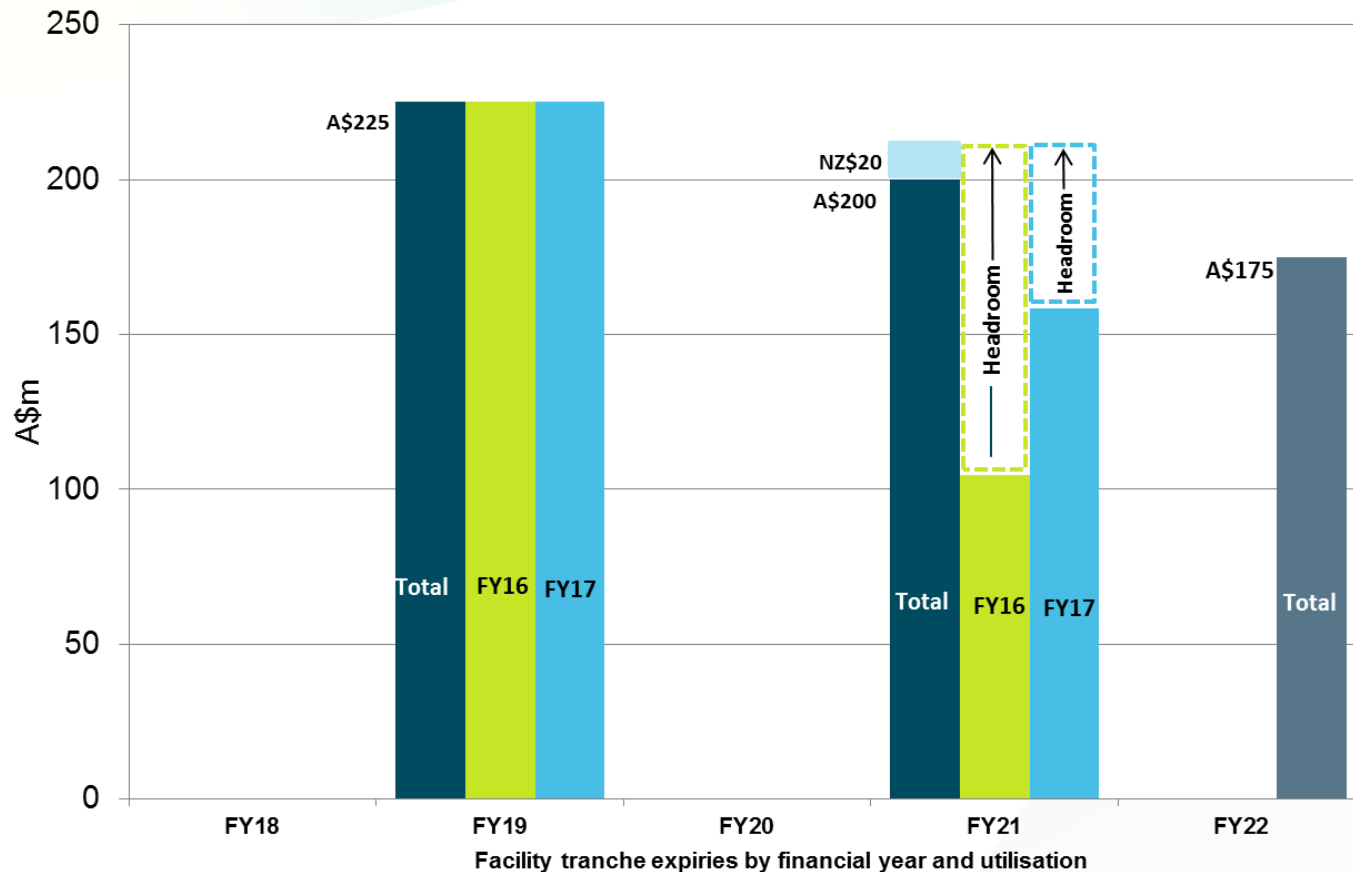
*Prudent capital position, well placed for 2018*

	Actual FY17	Actual FY16	change	change
<b>Net Tangible Assets (\$)</b>	<b>2.05</b>	<b>1.51</b>		36.0%
Investment properties (\$m)	1,376.2	951.9	424.3	44.6%
<b>Total assets (\$m)</b>	<b>1,392.2</b>	<b>978.2</b>	414.0	42.3%
Bank debt (\$m)	401.9	344.2	57.7	16.8%
<b>Unitholder funds (\$m)</b>	<b>879.8</b>	<b>523.7</b>	<b>356.1</b>	68.0%
Units on issue (m)	428.6	346.0	82.6	23.9%
<b>Weighted average cost of debt <sup>1</sup></b>	<b>4.34%</b>	<b>4.38%</b>		
<b>LVR</b>	<b>29.3%</b>	<b>36.3%</b>		

- ▶ Portfolio value growth reflects acquisition activity and revaluation gains
- ▶ Gearing modest after \$160m capital raise and \$168.5m revaluation uplift
- ▶ Cost of debt reflective of interest rate hedging with 79.5% cover and term of 6.0 years

# DEBT FACILITY TRANCHES

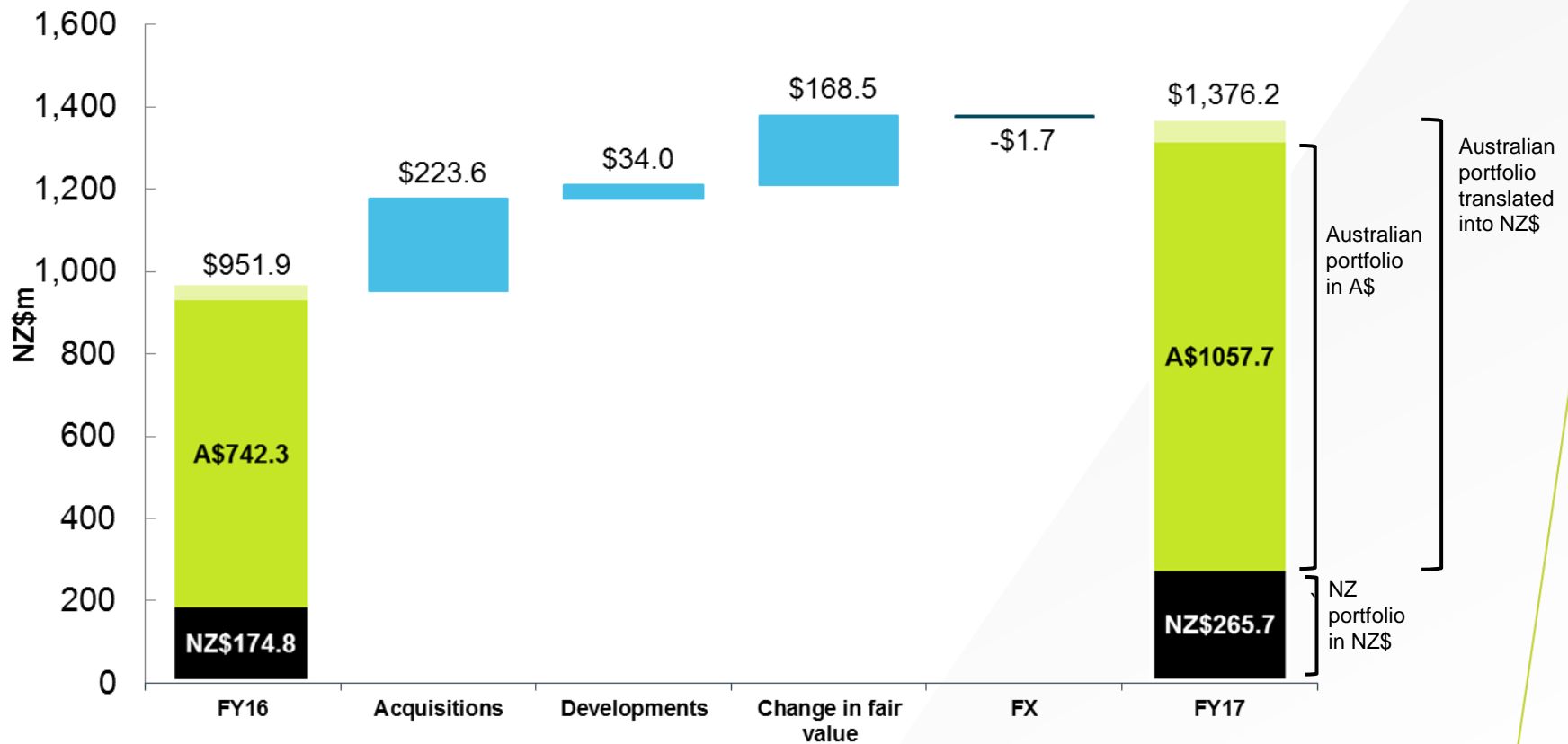
*Utilising the available headroom and adding capacity*



- ▶ Weighted average cost of debt 4.34% is the lowest in the sector
- ▶ New Facility Tranche of A\$175m being added with a Nov '21 expiry
- ▶ Weighted average facility term of ~3.0 years

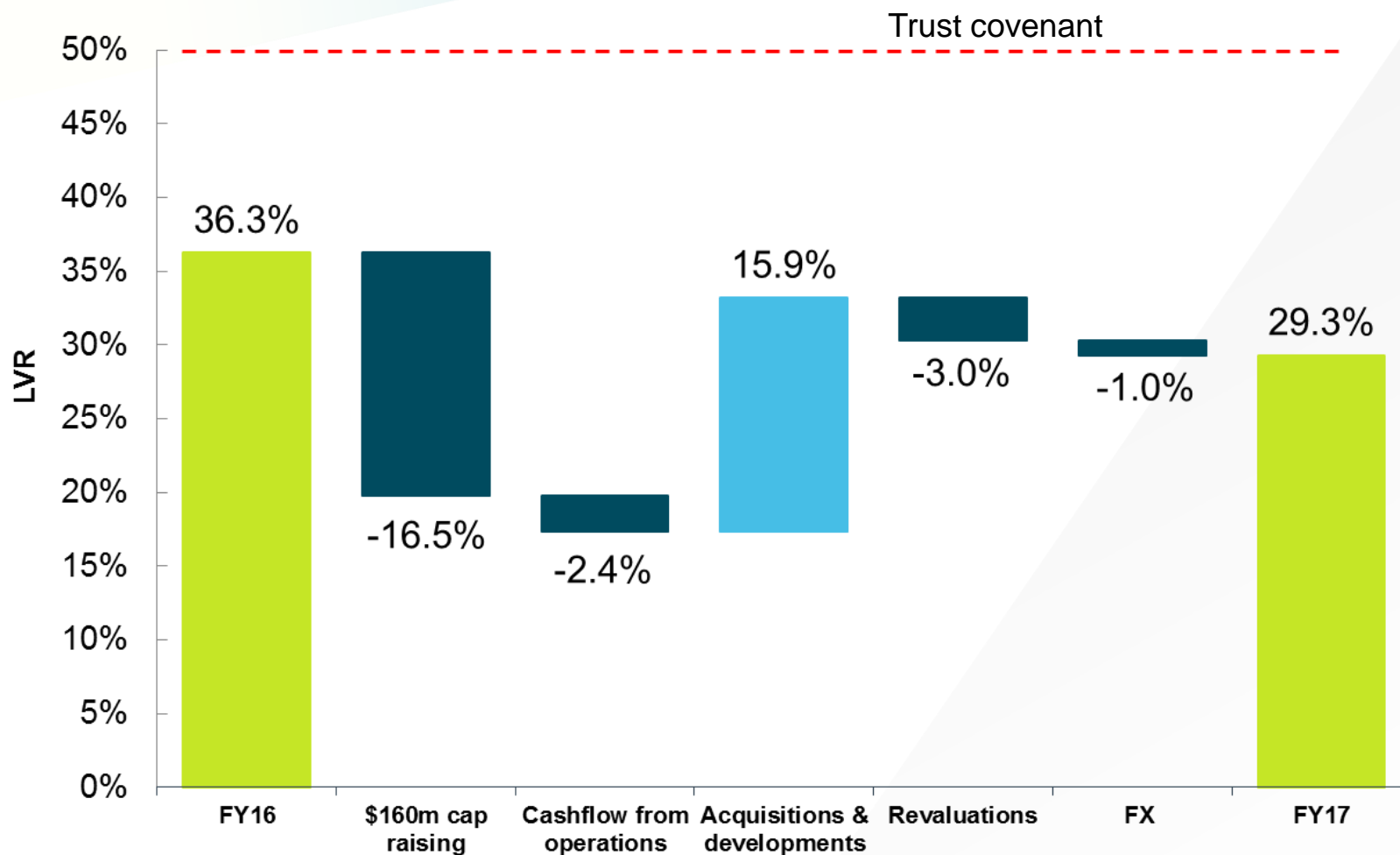
# INVESTMENT PROPERTY

*Acquisitions and revaluations key drivers of growth*



# LVR MOVEMENT

*Strong financial position. Flexibility for the right acquisition and development opportunities.*



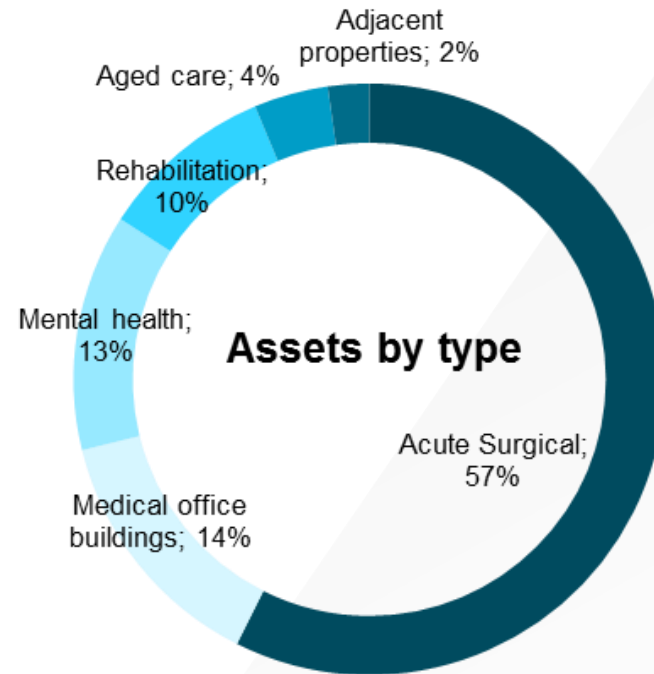
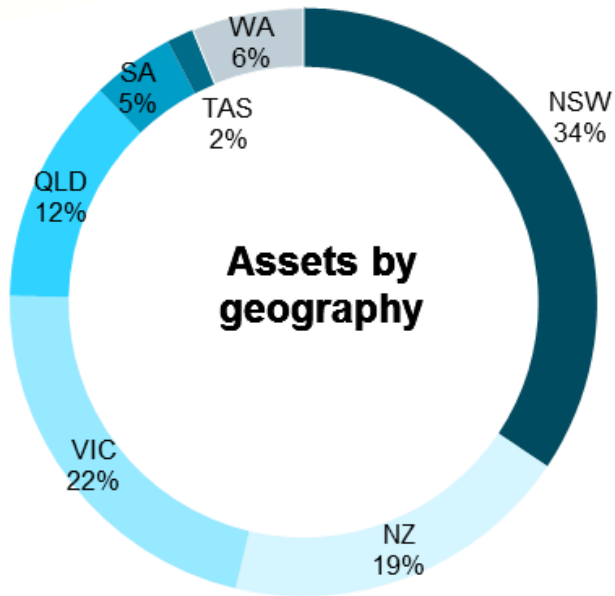




# Portfolio

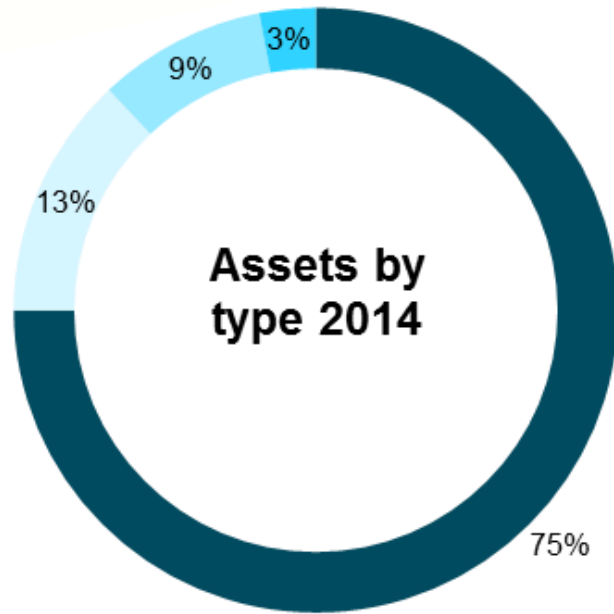
# PORTFOLIO COMPOSITION

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

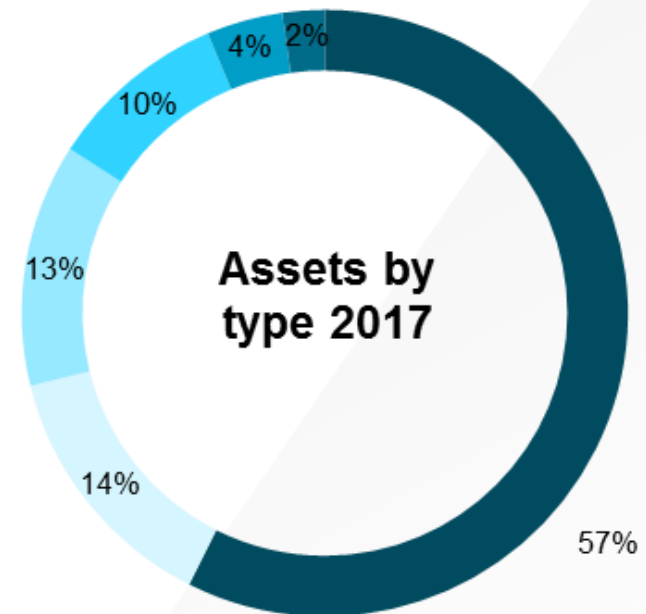


# PORTFOLIO EVOLUTION

*Greater diversification by type. Takes time to evolve.*

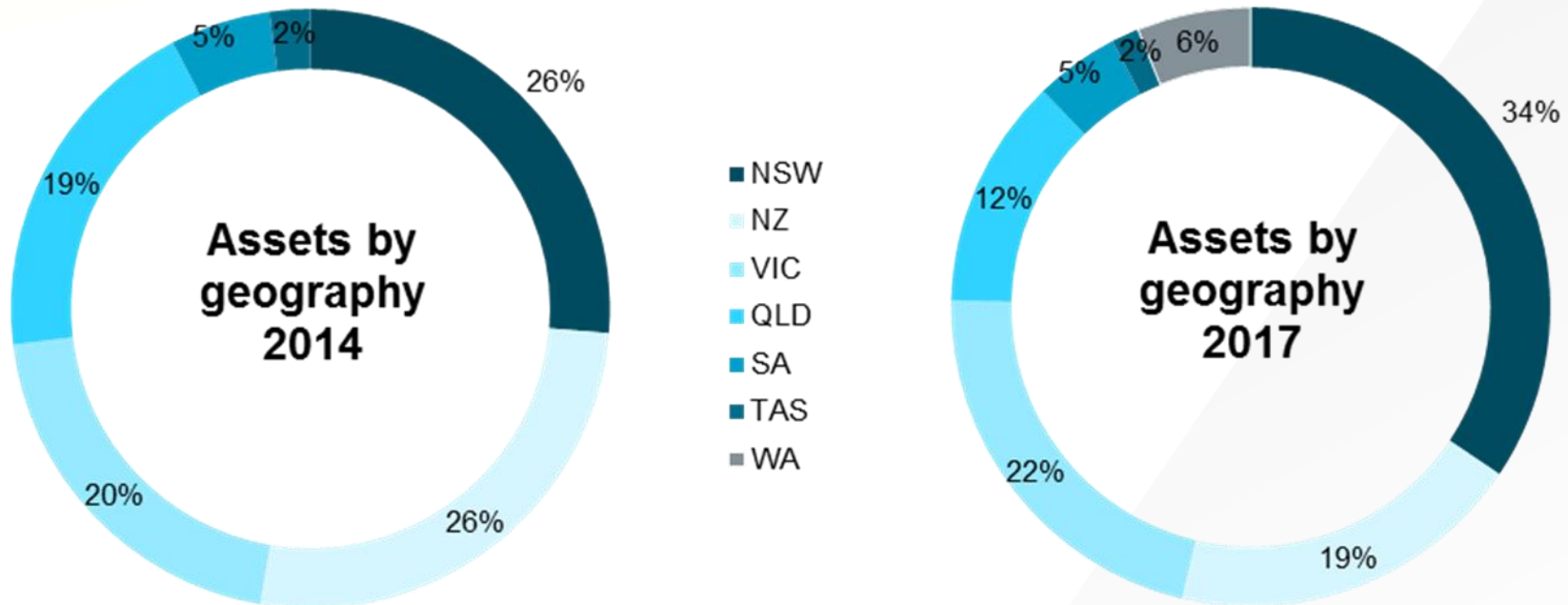


- Acute Surgical
- Medical office buildings
- Mental health
- Rehabilitation
- Aged care
- Adjacent properties



# PORTFOLIO EVOLUTION

*Diversifying across geographies, driven and supported by core partnerships.*

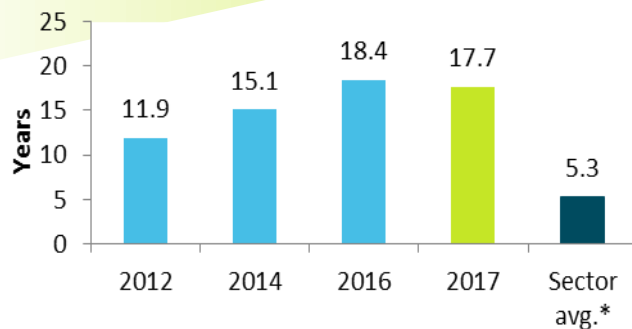


- ▶ Acquisition of Wakefield and Bowen Hospitals, Wellington for \$68m
- ▶ Acquisitions conditional on Overseas Investment Office and development approvals

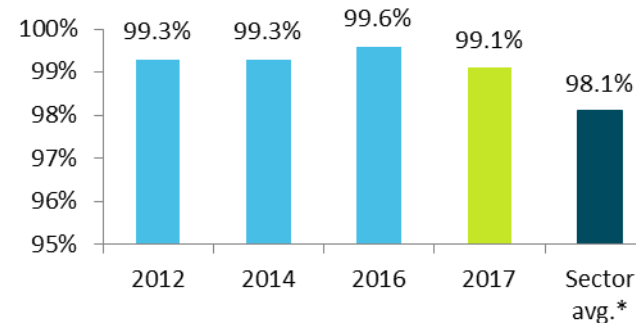
# CORE PORTFOLIO METRICS

1,3 & 5 year trends show portfolio in great shape  
and will continue to drive strong performance

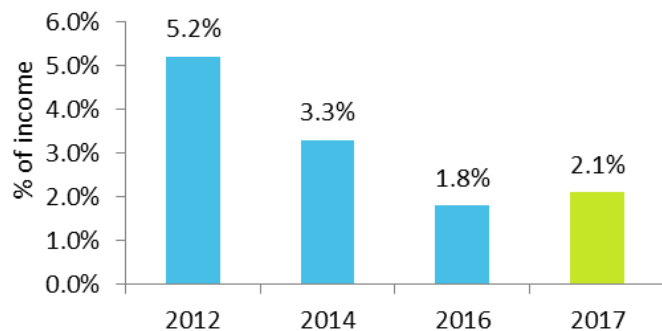
## WALE



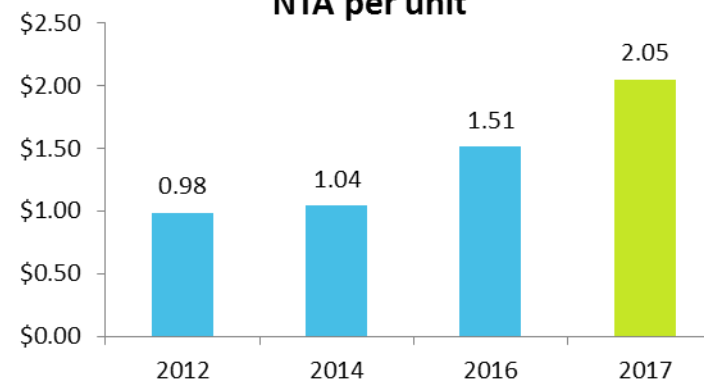
## Occupancy



## 10yr p.a average lease expiry



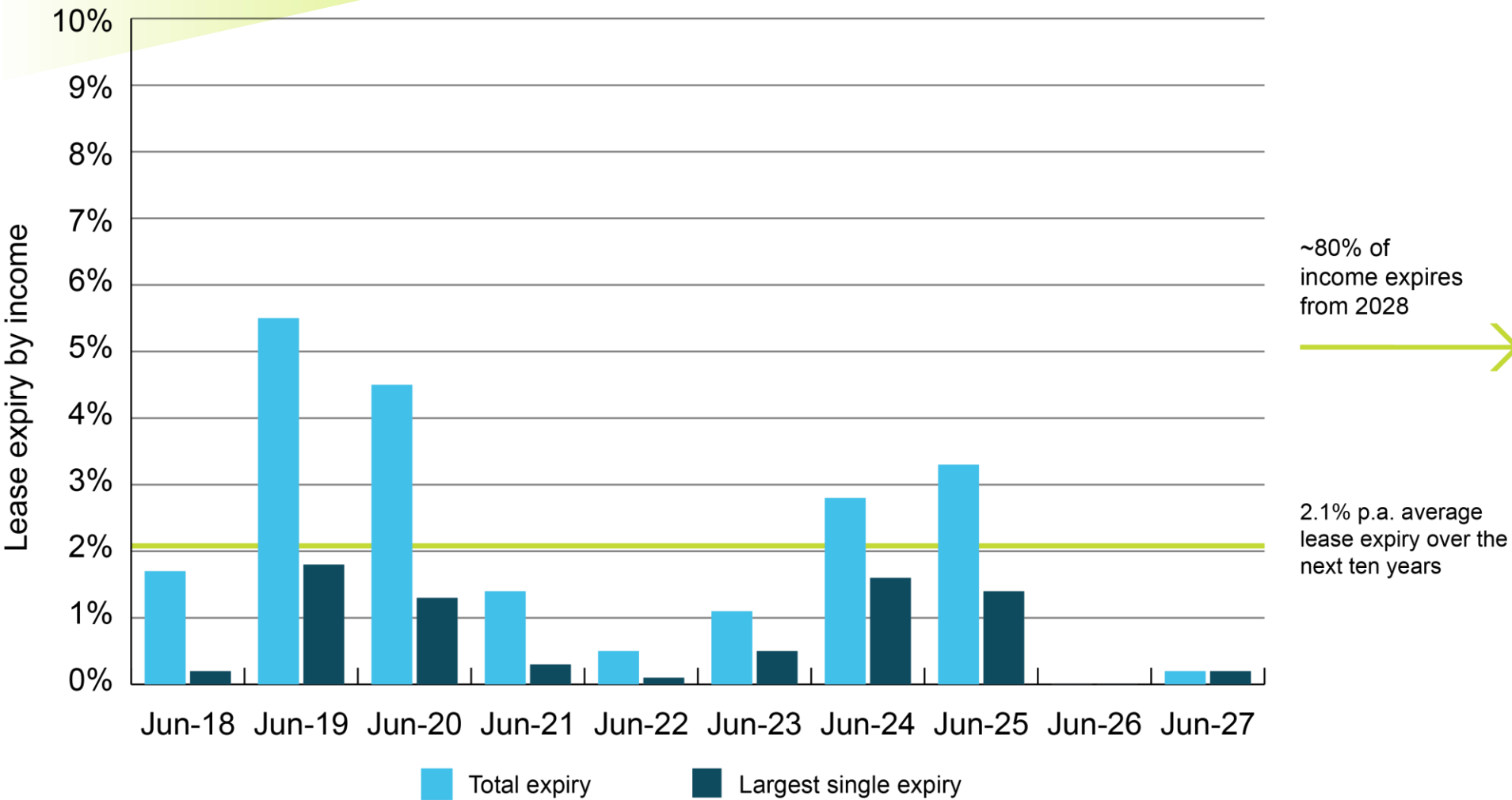
## NTA per unit





# LEASE EXPIRY PROFILE

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



# ANNUAL REVALUATION

*Unique investment qualities driving demand for healthcare real estate. Vital portfolio has market leading characteristics with embedded value-add potential*

## Revaluation summary

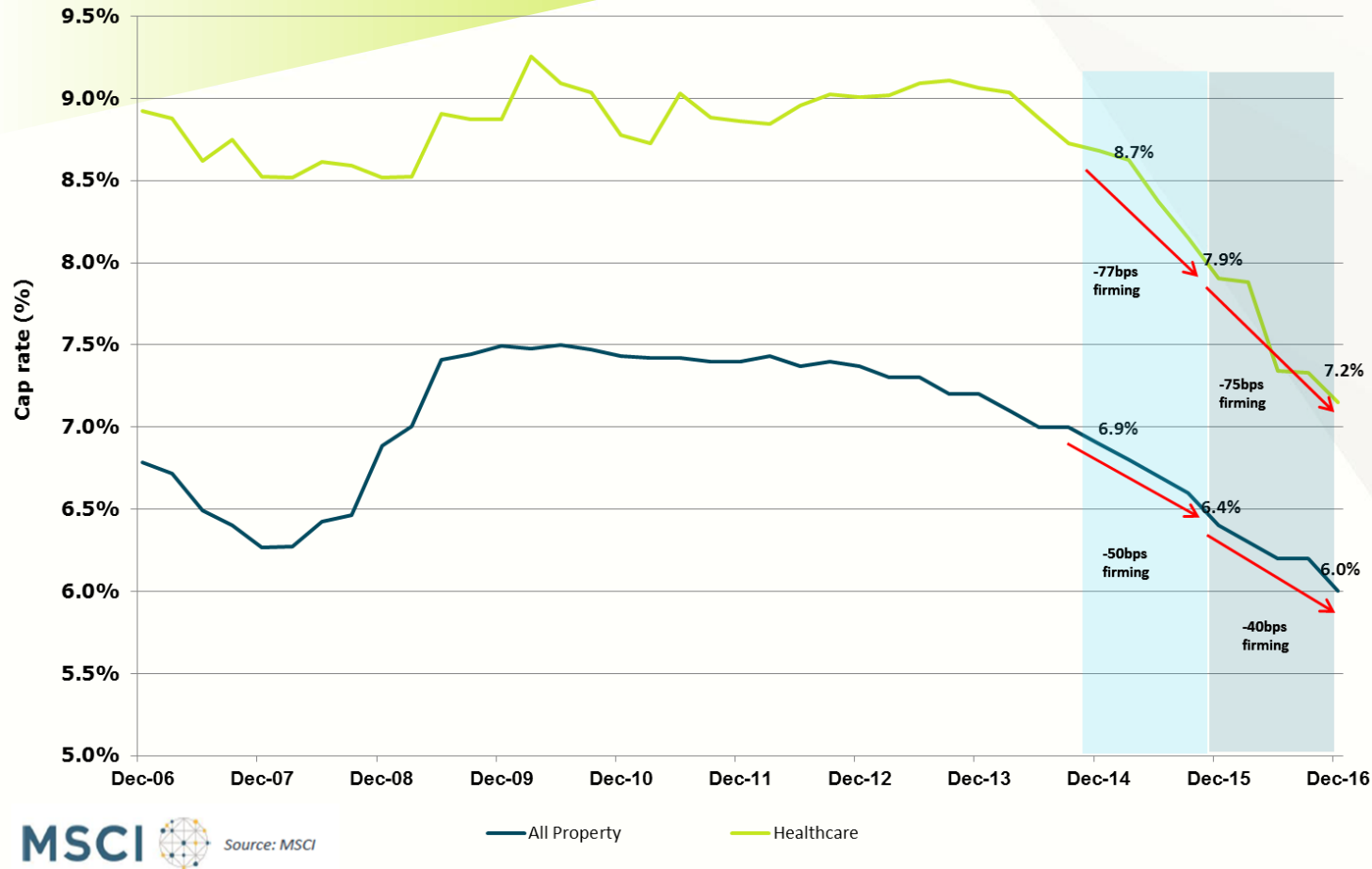
- ▶ Revaluation gain of \$168.5m
- ▶ 90% of gain from Australian portfolio, 10% from New Zealand
- ▶ Australian WACR firmed 120 bps to 6.03%, New Zealand firmed 84 bps to 6.09%
- ▶ Portfolio WACR firmed 113 bps to 6.04%

## Drivers

- ▶ Cyclical firming of cap rates across broader market, partly structural for healthcare real estate
- ▶ Rising interest in healthcare real estate, as evidence by new entrants & capital
- ▶ Increased transactional evidence
- ▶ Low interest rate environment
- ▶ Consistent rent growth and ongoing rental affordability a supporting factor
- ▶ Strong performance from redeveloped assets
- ▶ Unique and attractive lease terms

# AUSTRALIAN SECTOR CAP RATES

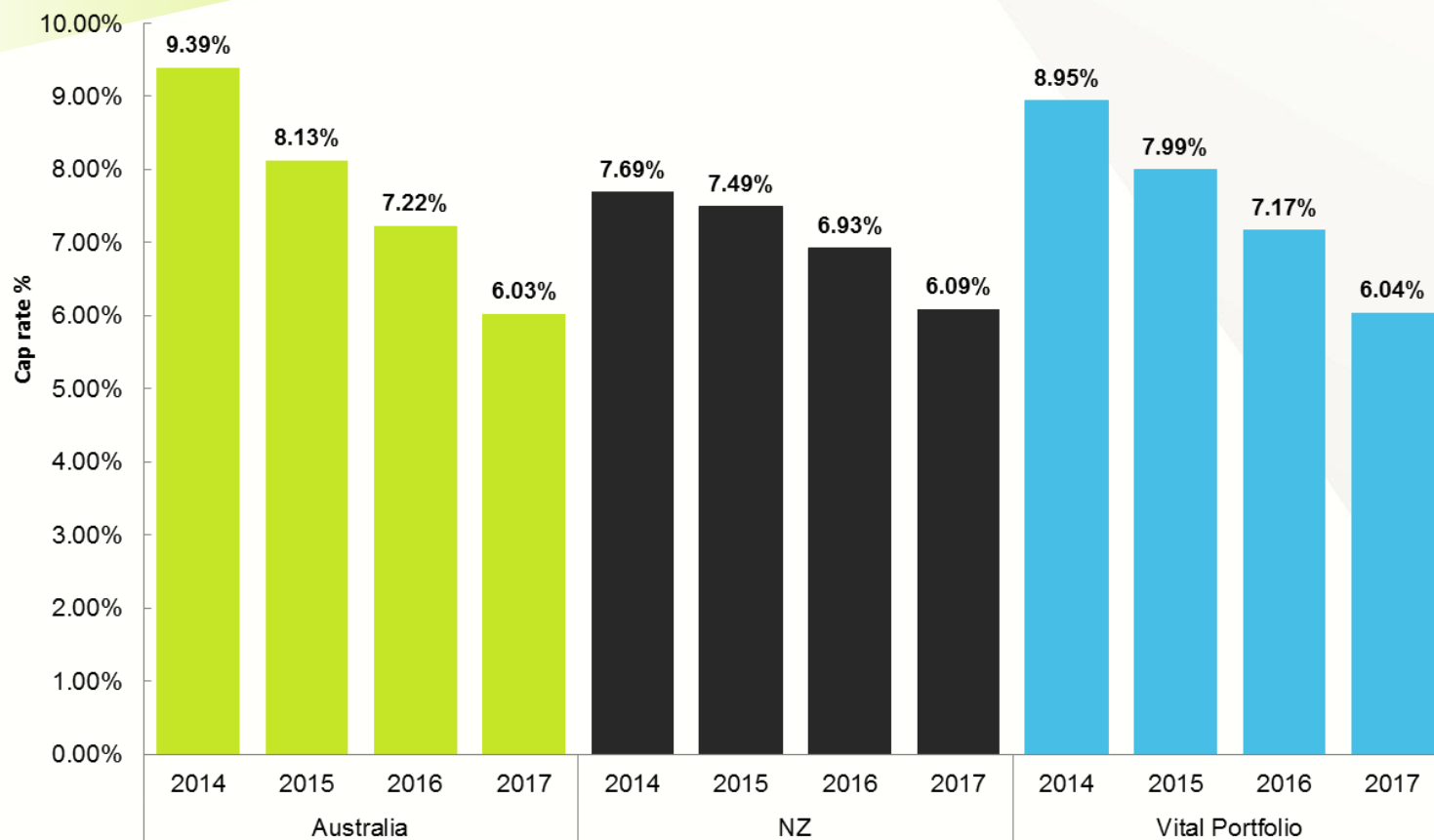
MSCI data to 31 December 2016



- Structural cap rate shift over last 2 years highlighted by ~150 bps firming in Healthcare vs 90 bps for All Property;
- 31 December 2016 ~120 bps spread between Healthcare and All Property

# INDEPENDENT PORTFOLIO REVALUATIONS

*Cap rates in both countries closely aligned recognising  
Vital's Australasian portfolio quality*





## 2018 Focus

# 2018 FOCUS

*Building a healthy future. Repeat our success.*

Continued proactive asset management to support operating and financial results

Execute brownfield pipeline, assess and generate additional value-add opportunities

Take a strategic long term approach to opportunities, leverage track record and global expertise

Enhance existing relationships, foster and expand on new strategic partnerships

Prudent capital management, assess and utilise all the 'tools in the toolkit' as required

Deliver sustainable distributions, create long term value....ie... more of the same



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10 August 2017

# GLOSSARY

<b>AFFO</b>	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
<b>Cap rate</b>	Capitalisation rate. Generally calculated as net operating income / current market value of investment property
<b>CPI</b>	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
<b>FX</b>	An abbreviation for 'foreign exchange' used where there is a transaction in a currency other than the local currency
<b>LVR</b>	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
<b>NDI</b>	Net Distributable Income. Calculated as Gross Distributable Income less Current tax charges
<b>NTA</b>	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
<b>WACR</b>	Weighted Average market Capitalisation Rate. The market cap rate for each property weighted by property value
<b>WALE</b>	Weighted Average Lease term to Expiry. The weighted average lease term remaining to expire across a portfolio, sometimes also referred to as WALT