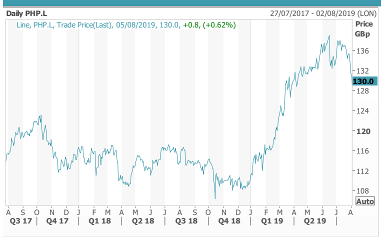
5 August 2019

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PHP**
Price (p)	130
12m High (p)	139
12m Low (p)	106
Shares (m)	1,136
Mkt Cap (£m)	1,480
EV (£m)	2,630
Market	Premium, LSE

Description

Primary Health Properties (PHP) is a REIT acquiring and owning modern primary medical properties in the UK, and is expanding into the Republic of Ireland (RoI).

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

+44 20 7451 7050
www.phpgroup.co.uk

Key shareholders

Directors	1.0%
Blackrock	6.7%
CCLA	5.3%
Investec Wealth	5.0%
Vanguard Group	2.7%
Troy Asset	2.3%

Diary

Feb'20	Final results
Apr'20	AGM

Analyst

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PRIMARY HEALTH PROPERTIES

High security and accelerating dividend growth

90% of PHP's income is backed by the UK or Republic of Ireland (RoI) governments. Occupancy consistently exceeds 99%. We are confident investors will continue to seek out REITs with strong asset-class focus, particularly categories that provide security of rising income. PHP achieves all this and its dividend per share growth rate is accelerating as a result. In a total contrast to the wider real estate market, rent reviews on PHP assets are accelerating upwards. PHP's growth avenues are expanding. The March 2019 merger with MedicX Fund – as well as a £4m p.a. synergy efficiency and additional investment assets of more than £800m – has added complementary routes to purchase new assets.

- **What PHP invests in:** PHP purchases modern standing stock, and forward-funds repeat development partners. These assets are localised hubs, providing community-based GP surgeries and other closely related medical services. The gross value is £2.3bn and the contracted rent roll now stands at £125.6m.
- **Growth in 2019 sees step jump expansion**: PHP's 14 March 2019 merger with complementary MedicX Fund effectively adds well over £800m of investment assets of as high a quality as PHP's, at nil stamp duty cost, bringing synergy efficiencies and taking PHP's investor offering to a new level.
- **Valuation:** The shares trade at a premium to EPRA NAV. At the latest balance sheet, assets were valued at a 4.85% (unchanged) net initial yield (NIY), but portfolios of this asset class consistently change hands at lower yields (higher prices). Investors in quoted real estate consistently favour focused investment strategies.
- **Risks:** No development risk is taken on the forward funding, and the strategy focuses tightly on this one sector. 2018 DPS cash cover was over 100%, and grew that year. Undrawn facilities exceed £200m. PHP states a 2.7% marginal interest cost, vs. a 3.9% average cost in 2018, so yield pick-up continues to trend upwards.
- **Investment summary:** In addition to 23 years of unbroken dividend growth, expansion into higher cash-generating RoI assets and a falling debt cost enhance EPRA EPS. Incremental management fees are below portfolio averages. Given these items, the enlargement through the merger, and the asset yield, recent acquisitions have been EPS-accretive. The merger led to strong upgrades.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	118.0	135.5
Finance costs	-32.5	-31.6	-29.7	-44.9	-50.3
Declared profit	43.6	91.9	74.3	-52.2	112.2
EPRA PBT (operating)	26.7	31.0	36.8	60.5	72.2
EPS reported (p)	7.8	15.3	10.5	-5.1	9.8
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.9	6.3
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,212.3	-1,333.5
Dividend yield	3.9%	4.1%	4.1%	4.3%	4.5%
Price/EPRA NAV (x)	1.43	1.29	1.27	1.24	1.19
NAV per share (p)	83.5	94.7	102.5	105.0	108.8
EPRA NAV per share (p)	91.1	100.7	105.1	106.8	110.6

Source: Hardman & Co Research

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Investment objective and prospects

Investment objective

It is important that PHP has access to two acquisition streams: standing assets and newly developed stock

The company undertakes zero development

The REIT's objective is to generate progressive dividends through investing in primary healthcare real estate, let on long-term leases. These are backed by a strong underlying covenant, where the majority of rental income is funded directly or indirectly by a government body. The group leases medical centres to GPs, NHS organisations, the HSE in RoI and other healthcare users (e.g. pharmacies and family agencies). By definition, therefore, Primary Health Properties (PHP) undertakes no investment in hospitals; nor does it undertake developments. It acquires via forward funding of developments with repeat, trusted partners (taking zero development risk). It also acquires modern standing stock, but the market for such assets is strongly bid; so, typically, such acquisitions are of individual large assets (large in the context of this sector equates to ca.£10m or more consideration) or smaller portfolios of modern assets. PHP's portfolio is in the UK and RoI, with a current ceiling of 10% in RoI. The company's investment objective is stated on its website: www.phpgroup.co.uk/investors/investment-case.

Investment case

These are the right assets to attract and keep investor support

Financial ratios all point in the right direction

- The REIT is entirely dedicated to a specific asset class, namely primary medical properties. Investor appetite for such a degree of focus is high. These are attractive, modern assets with over 99% occupancy, on long upward-only leases.
- The rise in pre-tax profit margins is set to continue (as a REIT, no tax is payable). Marginal costs of management fees and the cost of debt are on long-established falling trends, with more to go.
- This all supports a dividend, which is progressive and increasingly well covered by cash-backed earnings.

1H'19 results

Transformational for PHP – enhancing dividend growth prospects

It is quite true to say that the successful first six months of 2019 have been transformational for PHP. The completion of the all-share merger with MedicX took place in March 2019, bringing together two highly complementary portfolios in the UK and Ireland.

The merger crystallised a number of operating and finance cost-saving synergies and PHP has already delivered a £4.0m p.a. reduction in the enlarged group's operating costs. It is important to note that this – of course – only is in place for a part of 1H'19.

PHP is performing well both prior to, and now with, MedicX

Results announced on 25 July

- Adjusted EPRA earnings per share (as stated by PHP) increased 12.0% to 2.8p for the half-year. Adjusted EPRA earnings increased by £3.2m, or 18.7% to £20.3m in the six months to 30 June 2019, excluding the impact of the MedicX merger. The merger with MedicX contributed a further £7.6m taking adjusted EPRA earnings for the enlarged group to £27.9m, which is a 63.2% increase.

- The (fully covered) interim dividend increase was 3.7%. We note, last year's 1H interim was 3.1% and full-year 2.9%. We estimate 3.7% growth for full-year 2019.

- 1H'19 net rental income stood at £53.8m, taking 3.5 months for the enlarged group. The rent roll stands at £125.6m.

- The average annualised uplift on rent reviews agreed in the period was 1.9% (1.7% 1H'18). Within this, open market rents, again, grew at a lower rate, namely 0.9%. The pace of growth in open market rents is set to accelerate as per management comments. The rises are initially modest, but management confirmed a likely ongoing acceleration, which ties in with other commentary in the sector. This promotes future EPS and DPS growth acceleration.

- Average cost of debt stood at 3.75% at half year end, having been 4.0% immediately post the merger with MedicX. The average maturity length of debt stood at 7.6 (5.4) years, against an average, weighted, unexpired lease length of 13.0 (13.1) years.

- Adjusted EPRA NAV per share was 105.2p (end-2018: 105.1p per share). During the period, a revaluation surplus of £17.7m equated to 1.6p per share, offsetting the impact of the MedicX merger, which decreased NAV by 1.4p per share. Full details are of course available in the company's results statement.

- Loan-to-value (LTV) increased to 47.9% (44.8% prior year-end). Note that the end-December 2017 figure was 52.9%. While we do not expect a rise to that level – at least not for the foreseeable future – the recent ratio is probably just below likely ongoing levels. Acquisitions are immediately EPS-positive, so the balance sheet gearing potential enables further EPS-enhancing acquisitions. At end-June 2019, undrawn debt facilities totalled £209.9m (post capital commitments).

- Investment expenditure remains on track for £100m in the full-year 2019 (and a higher figure for 2020E). In the UK, the forward pipeline for asset acquisitions is stated at £150m, a useful increase. The RoI pipeline stands at more than €80m, and the government has expressed strong public commitment for short-to-medium term development of €1bn stock. PHP's position in this market is strong.

The table below provides further quantification of the results and the contribution of PHP pre merger and of MedicX post merger.

The table below adopts the calculation by PHP of adjusted EPRA EPS. The adjustment excludes a £10.2m cost arising from the contract termination fee (of MedicX's manager) and a £1.0m accounting positive from the amortisation of MtM (mark to market) of the loss on debt acquired.

Summarised results

(£m)	PHP 6 months to June 2019	MedicX 3.5 months to June 2019	Six months ended 30 June 2019	Six months ended 30 June 2018	Year ended 31 December 2018
Net rental income	40.3	13.5	53.8	37.4	76.4
Administrative expenses	(4.5)	(0.5)	(5.0)	(4.2)	(8.6)
Performance incentive fee ("PIF")	(0.9)	-	(0.9)	(0.6)	(1.3)
Operating profit before revaluation gain and net financing costs	34.9	13.0	47.9	32.6	66.5
Net financing costs	(14.6)	(5.4)	(20.0)	(15.5)	(29.7)
Adjusted EPRA earnings	20.3	7.6	27.9	17.1	36.8
Revaluation surplus and profit on sales	14.5	3.2	17.7	21.3	36.1
Fair value (loss)/gain on interest rate derivatives and convertible bond	(4.1)	-	(4.1)	0.3	1.4
Adjusted IFRS Profit excluding MedicX merger adjustments	30.7	10.8	41.5	38.7	74.3
Exceptional revaluation loss arising on merger with MedicX	-	(138.4)	(138.4)	-	-
Exceptional item - contract termination fee arising on MedicX merger	-	(10.2)	(10.2)	-	-
Amortisation of MedicX debt MtM at acquisition	-	1.0	1.0	-	-
IFRS (loss)/profit before tax	30.7	(136.8)	(106.1)	38.7	74.3
Deferred tax provision	(0.4)	-	(0.4)	-	-
IFRS (loss)/profit before tax	30.7	(136.8)	(106.1)	38.7	74.3
EPRA EPS (p) (diluted),	-	-	1.9	2.5	5.2
EPRA EPS (p) (adjusted)	-	-	2.8	2.5	5.2
Reported IFRS EPS (p)	-	-	(10.7)	5.7	10.5

Source: PHP results announcement

EPRA profit drivers

Rental growth

Rental growth has been modest across the sector but is beginning to rise – with more to come

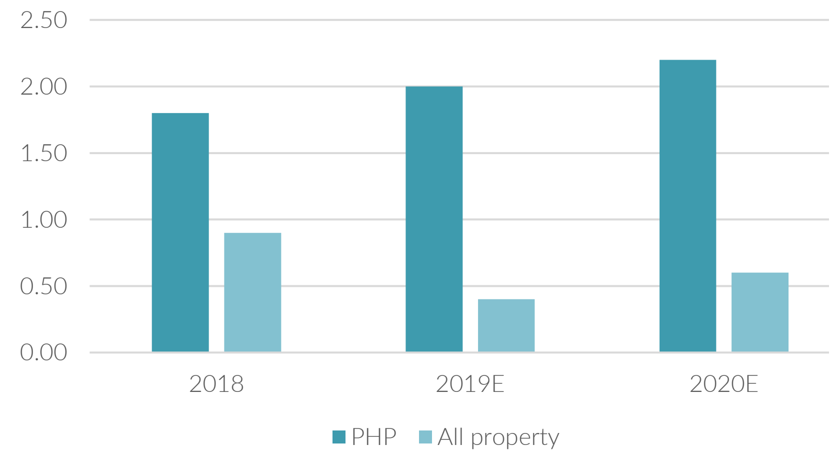
This sector has seen relatively modest rental growth, but this is accelerating. This is in marked contrast to the broader UK property market.

Rents grew 1.8% in 2018 for PHP pre-merger, including 2.7% on the 31% leases that are index-linked or fixed uplifts. For 1H'19, the average total figure was 1.9%. Open market rents increased slowly. Note that rents are contractually upwards only. The primary medical sector's rent growth history and prospects are diametrically opposed to the broader market. Growth has been held down in recent years and is starting to accelerate.

We estimate, confidently, that this 1.8% figure will rise in 2019 and that the increase will accelerate in 2020. This is in marked contrast to the prospects for broader UK real estate where several sectors are seeing negative numbers and the average has been progressively downgraded. The broader market currently is anticipated to grow by less than 1% this year and next.

PHP's rising trend contrasts sharply with the All-property average

Rental growth (%) for PHP portfolio and for UK All property (IPF consensus)



Sources: Historical PHP data provided by PHP
2019, 2020 Hardman & Co Research estimates
All-property data source IPF

Republic of Ireland

The Republic of Ireland has been and remains a strong driver to expansion in the PHP balance sheet and has a positively geared beneficial effect on profitability.

Further high-quality acquisitions in Republic of Ireland

On 22 July, PHP completed its latest acquisition in this jurisdiction. We outline below how the financial returns are enhanced both by a higher net initial yield than acquisitions in the UK and a lower cost of borrowing in € compared with sterling. The Irish market is smaller than the UK market and was instigated more recently. We consider this to be the rationale for the higher yields on offer. The assets are – if anything – of higher or equal quality, as they tend to be for larger lot size. Larger lot sizes in this market – all things being equal – tend to be of greater appeal to investors, reflected in slightly tighter net initial yields. The average lot size in the

PHP portfolio is £4.9m. Republic of Ireland purchases have all been of a greater value.

Ongoing acquisitions in UK, but RoI continues to be a meaningful proportion

The latest purchase is a case in point. On 12 March 2019, PHP announced it had agreed the acquisition of The Meath Primary Healthcare Centre, Dublin 8, a standing let primary care centre in the Republic of Ireland. The deal completed on 22 July at a total cost of €11.0m. It is the company's fifteenth asset in Ireland, which now comprises 7% of PHP's total assets held. Currently, there is a self-imposed cap of 10%. Most are in or near Dublin or other cities. Since the first RoI acquisition, in 2016, ca.30% of PHP's total asset purchases have been in RoI, and this proportion is currently being maintained.

With market interest rates having fallen even further, the Irish cash yield pick-up has become even wider than stated in our latest report.

In RoI, the cash-on-cash returns are approximately twice as high as in the UK

PHP's expansion into RoI in recent years has been accretive to EPS. UK assets are bought on yields of just under 5% and if one deducts the interest cost of borrowing and the management fees, the free cash yield on the asset is 1.7%, or thereabouts (see table below). The RoI assets are high quality but trade off higher yields. € borrowing costs are low, so the 1.7% UK figure is ca.3.5% for Ireland.

The table below sets out returns on incremental £100 and €100m UK and RoI assets. This is based on current NIYs and 10-year local debt costs.

NIY for PHP portfolio and for MSCI All-property

£m (UK), €m (RoI)	UK-based assets	RoI-based assets
Capital deployed on investment assets	100.0	100.0
Rent	4.8	5.8
Management fee (0.2% at marginal rate)	-0.2	-0.2
Other admin overheads (excludes performance fee)	-0.1	-0.1
Financing cost in local currency (assuming 100% debt funded)	-2.8	-2.0
Net return on total capital deployed	1.7	3.5

Source Hardman & Co estimates, PHP

- In RoI, the cash-on-cash returns are approximately twice as high and the risk is similar or the same.
- We also point to the respective UK and RoI debt funded yield gap standing at 1.5% and 3.0%, respectively, at end-2018. Market interest rates have been falling.

Efficient fee structure

Incremental assets bear a low, 0.2% p.a., management fee

PHP's assets bear an incremental fee cost of 0.275% on current acquisitions. We calculate that the average fees paid on the historical portfolio stand at 0.4% p.a., indicating a significant benefit for the incremental purchases.

Cost savings kicked in for 3.5 months and fully in place for whole of 2H'19

As a separate but related point, the merger crystallised a number of operating and finance cost-saving synergies and PHP has already delivered a £4.0m p.a. reduction in the enlarged group's operating costs. It is important to note that this – of course – is only partially in place for a part of 1H'19.

EPRA cost ratio is 12.2% for 1H'19, among the lowest in the sector. This compares with 14.3% for 1H'18. Prospectively, this ratio is set to fall further because the run rate reduced post the merger with MedicX.

Cost of debt

In June, PHP issued £150m new convertible loan stock for a coupon of 2.875%. This illustrates PHP's debt management strategy in action – securing significant ongoing cost of finance reductions. As stated by PHP, this will reduce the enlarged group's average cost of finance to 3.75% following repayment of the 5.375% senior unsecured bond, which has just taken place, on 23 July 2019. We estimate an average cost of 3.5% in 2020. This is the result of several refinancing opportunities (principally but not exclusively as old debt matures) and the lower cost of new debt.

- The reduction in cost of debt, which we estimate at 0.4% in 2020 vs. 2019, enhances 2020E EPS by just over 7%.

A 0.4% reduction in cost of debt enhances 2020E EPS by 7.1%.

We estimate the 2020 average cost of debt will stand at 3.5%, which compares with 3.9% in 2018 (and 3.75% currently). This estimated saving of 0.4% (40bps) equates to £4.4m interest saving for current drawn debt. Turning to 2020E the 0.4% average saving should generate some £5.1m p.a. interest savings on our estimated average £1.28bn debt. A £5.1m illustrative saving equates to 0.45p per share, or 7.1% of our 2020E EPRA EPS.

We maintain our estimates of PHP's prospective cost of debt, struck at the time of the MedicX merger. At the time of the merger, we stated our estimate regarding cost of debt, that "2019 will be below the 2018 average, before resuming a more rapid downward trajectory post the MedicX Fund effect."

3.9% average debt cost 2018; 3.9% 2019E; 3.5% 2020E

- The 2018 cost of debt averaged 3.9%. The former MedicX Fund's average interest cost was above PHP's; therefore, PHP's 1H'19 average interest cost increased slightly to 4.0%.
- As to new debt, UK 10-year swap rates stand at 1.1%; so, adding a lenders' margin, the cost of UK debt to PHP is anticipated at ca.2.8%. Recent debt has been secured at slightly below this level. PHP has a wide range of debt-funding options, not simply bank lending. € debt rates are below £ rates, and PHP acquires €-based, as well as £-based, assets. Note that undrawn debt exceeds £200m.

Convertible share fund raise

The £150m unsecured convertible bonds (announced on 17 June) mature in 2025 and have been issued at par. The coupon is 2.875%. The initial conversion exchange price is set at 153.25p. PHP has the right to elect to settle the exercise of any conversion rights entirely in new ordinary shares or cash. If not previously converted, redeemed or purchased and cancelled, the bonds will be redeemed at par on maturity in July 2025. PHP, in addition, reserves the right to various options to redeem all outstanding Bonds on or after July 2022.

This is simply one of many refinancing events, past and future, all of which point to incremental reductions on cost of debt.

Growth prospects

The March 2019 MedicX merger was a game changer

PHP growth in 2019 has seen a step function jump as a result of the merger with MedicX Fund, which completed on 15 March. It added well over £800m of assets of as high quality as PHP's, at nil stamp duty cost. We refer to the synergies above, which are both in cost saving and on the larger platform to grow the investment asset portfolio. Investment continues apace.

Importantly, for future further expansion, MedicX Fund brought complementary routes to purchase assets, given its close relationship with developers, including its formerly in-house development team. Contacts with specialist developers and commissioners (HM Government) are strong, enhancing the market position further.

PHP continues to work closely with its tenants and has a strong pipeline of more than 60 potential asset enhancement projects in place.

Risks and mitigation

Tenants may default; however, 90% of PHP income is state-backed and the remainder derives from health services, which are of extremely high covenant.

Rental contracts in the leases are upwards only. Just under 70% are open market rent reviews (upwards only), the remainder fixed or index linked.

Open market rent review assessments are based on local comparables. However, underlying, is that new development which is taking place (as the NHS steadily modernises its estate) needs to be remunerative and build (and land) costs are rising and are well ahead of pre-2008 levels.

There is a risk at lease expiry, but weighted average lease term to expiry (or break) stood at 13.0 years at end-June. PHP invests in assets that are modern, substantial local hubs and lease expiry usually brings upside (from small physical extensions and the like).

Debt: 93% is fixed or hedged.

Loan-to-value (LTV) is slightly above many other UK REITs (many of which will be seen in the 30%-40% bracket); however, it is difficult to overstate the importance of the upwards only rental clauses. PHP's LTV ratio stood at 52.9% 2017 and 56.7% in 2016. We see some scope for ratios to increase slightly over the coming years but unlikely to exceed these recent ratios. Thus, interest cover, standing at 2.7 times, is a robust ratio. It is also robust due to: 1) the deployment of capital into RoI where the cashflow ("yield gap") is higher than in the UK; 2) contractually rising rents; and 3) the current scope to pay down relatively expensive (4%-plus interest rates) debt and secure new debt at usefully lower rates.

Weighted average debt maturity is 7.6 years. PHP is refinancing debt at lower levels and planning well for the relatively high levels of facility maturity in 2021 and 2022. Maturities to end-2022 now total £368m. Refinancing should be straightforward and at lower rates.

Conversely, another risk is that of possible lack of opportunities to deploy capital. Were PHP, for example, to complete zero investments between now and end-2020, the rental annual run rate would exit 2020 some £10m lower than we estimate (we estimate an annual run rate ca.£130m, with ca.20% in RoI). Interest costs (based on funding £200m acquisitions in that 18 months at an average of 2.6%) and administrative costs would be at £5.8m lower annual run rate, thereby cutting end 2020 run rate EPRA EPS by 0.37p. On that (unrealistically conservative) basis, the 2020 dividends would still be more than 100% covered. This shows how robust the scope is for accelerating dividend growth, we suggest.

Another risk is that asset prices rise too far to make future acquisitions economically viable. PHP has strong connections and repeat business from a number of large developers and so sourcing of assets does not rely on the second-hand market.

Financial analysis

Revenue account							
Year-end Dec (£m)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Rental income total received	60.0	63.1	67.4	72.5	79.6	120.5	138.5
Direct property expenses	0.7	0.9	0.9	1.2	3.2	2.5	3.0
Total income	59.3	62.2	66.5	71.3	76.4	118.0	135.5
Administrative expenses	6.8	6.8	7.3	8.2	8.6	10.8	11.1
PIF	0.0	0.0	0.0	0.5	1.3	1.8	1.9
Total expenses	6.8	6.8	7.3	8.7	9.9	12.6	13.0
Operating profit	52.5	55.4	59.2	62.6	66.5	105.4	122.5
Operating margin	87.5%	87.8%	87.8%	86.3%	83.5%	87.5%	88.4%
Developer loan interest, other income	1.0	0.7	0.5	0.3	0.1	0.1	0.1
Swap interest paid	-7.6	-6.0	-5.1	-3.4	-1.9	-0.7	-1.2
Bank, bond loan interest, fees	-27.7	-28.4	-27.9	-28.5	-27.9	-44.3	-49.2
Break fees (excluded from adjusted EPS figure)	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Net finance costs	-35.5	-33.7	-32.5	-31.6	-29.7	-44.9	-50.3
EPRA PBT*	18.2	21.7	26.7	31.0	36.8	60.5	72.2
Net revaluation on portfolio	29.2	39.8	20.7	64.5	36.0	40.0	40.0
Gain on disposal	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Fair value gain on derivatives	-2.5	1.0	-2.2	-0.3	-1.8	-2.3	0.0
Fair value on convertible	-4.5	-6.5	-1.6	-3.3	3.2	-1.8	0.0
MedicX-related exceptionals**	-2.4	0.0	0.0	0.0	0.0	-148.6	0.0
Reported PBT	36.9	56.0	43.6	91.9	74.3	-52.2	112.2
Tax charge	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPRA EPS (as above, excluding 2019 convertible, p)	4.10	4.87	4.77	5.17	5.19	5.87	6.31
EPRA EPS (diluted, p)*	4.10	4.77	4.69	5.07	5.16	5.85	6.31
EPRA EPS (diluted and pre-performance fee, p)	4.10	4.77	4.69	5.15	5.34	6.03	6.44
Reported basic EPS (p)	8.30	12.57	7.78	15.30	10.48	-5.06	9.80
DPS (p)	4.875	5.000	5.125	5.250	5.400	5.600	5.850
DPS cash cover	86%	97%	97%	97%	101%	106%	109%
Shares in issue (m), average	444.4	445.6	560.1	600.7	708.6	1031.0	1145.0

**pre exceptional items; ** 2014 is non-recurring expenses*

Source: PHP report and accounts; estimates: Hardman & Co Research

All equity is now ordinary shares. There was an outstanding convertible bond, which matured in May 2019. PHP has recently issued a new convertible. This is not dilutive to equity at this point.

2019 exceptionals include £10.2m cost for contract termination fee; £138.4m exceptional revaluation loss arising on merger.

Our table states EPRA profits adjusted to exclude the £10.2m cost for contract termination fee and de minimis other adjustments. True EPRA would be post this fee. Thus, the 2019E 5.85p is adjusted EPRA EPS. The EPRA EPS equivalent would be 5.00p. This affects 2019 only.

Balance sheet							
@ 31 Dec (£m)	2014	2015	2016	2017	2018	2019E	2020E
Investment properties, start of period	941.5	1,026.2	1,100.6	1,220.1	1,361.9	1,503.5	2,470.0
Currency translation effect	0.0	0.0	0.0	1.8	3.7	0.0	0.0
Additions to portfolio	55.5	34.6	98.8	75.5	101.9	926.5*	130.0
Revaluations	29.2	39.8	20.7	64.5	36.0	40.0	40.0
Non-current assets							
Investment properties, end of period	1,026.2	1,100.6	1,220.1	1,361.9	1,503.5	2,470.0	2,640.0
Finance leases	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Sub-total: non-current assets	1,026.2	1,100.6	1,220.1	1,361.9	1,503.8	2,470.0	2,640.0
Current assets							
Receivables	5.7	4.1	3.3	6.4	4.6	4.4	4.4
Other	0.0	0.0	0.0	0.3	0.0	0.0	0.0
Net cash + short-term investments	12.1	2.9	5.0	3.8	5.9	13.9	20.0
Sub-total: current assets	17.8	7.0	8.3	10.5	10.4	18.3	24.4
Total assets	1,044.0	1,107.6	1,228.4	1,372.4	1,514.2	2,488.3	2,664.4
Current liabilities							
Deferred rental income	12.3	13.2	14.1	15.0	16.0	15.0	15.0
Trade and other payables	14.2	16.1	13.6	15.4	16.1	20.0	20.0
Term loans	0.7	0.9	0.8	0.8	0.9	1.0	1.0
Interest rate swaps	5.8	4.7	3.8	2.7	0.0	0.0	0.0
Bond	0.0	0.0	0.0	0.0	101.5	0.0	0.0
Sub-total: current liabilities	33.0	34.9	32.3	33.9	134.5	36.0	36.0
Non-current liabilities							
Term loan over 1 year, bond	666.6	696.7	667.4	729.6	573.7	1,225.2	1,352.3
Interest rate swaps	35.2	30.6	29.5	22.1	18.2	20.5	20.5
Other (head lease and deferred tax)	0.0	0.0	0.0	0.0	0.0	6.8	6.8
Sub-total: non-current liabilities	701.8	727.3	696.9	751.7	591.9	1,252.5	1,379.8
Total liabilities	734.8	762.2	729.2	785.6	726.4	1,288.5	1,415.8
Shareholders' funds	309.2	345.4	499.2	586.8	787.8	1,199.8	1,248.6
EPRA shareholders' funds	354.2	391.6	545.0	623.6	808.8	1,220.3	1,269.1
No. of shares in issue at period-end, (m)	445.1	446.3	598.2	619.4	769.1	1,142.5	1,147.5
NAV per share (p)	69.5	77.4	83.5	94.7	102.5	105.0	108.8
EPRA NAV per share (p)	79.6	87.5	91.1	100.7	105.1	106.8	110.6
Net debt	655.2	694.7	663.2	726.6	670.2	1,212.3	1,333.5
LTV ratio	62.8%	62.7%	53.7%	52.9%	44.8%	48.7%	50.0%

**includes MedicX Fund and other acquisitions of assets*

Source: PHP report and accounts; estimates: Hardman & Co Research

The mark to market of the enlarged group's fixed rate debt as at 30 June 2019 was £98.9m (31 December 2018: £28.1m). This is equivalent to 8.7p per share (31 December 2018: 3.7p). The large increase in this sum is due primarily to the merger with MedicX Fund.

The figures stated as EPRA NAV per share (pence) is the "true" EPRA amount. The EPREA adjusted to exclude the mark to market of the acquired fixed rate debt would be 4.0p greater in 2019E and 2020E. Note, EPRA NAV excludes interest rate swap adjustments, which are shown on the balance sheet.

Cashflow

Year-end Dec (£m)	2014	2015	2016	2017	2018	2019E	2020E
Operating activities							
Profit before taxation (adjusted for fair value)	38.2	49.9	43.0	91.9	74.3	100.5	112.2
Adjustments for:							
Net valuation changes on investment property	-29.2	-39.8	-20.7	-64.5	-36.0	-40.0	-40.0
Early repayment fees and bond issue	3.6	0.0	0.0	0.0	0.0	0.0	0.0
Finance costs payable	34.3	33.7	32.5	32.2	29.7	44.9	50.3
Sub-total	46.9	43.8	54.8	59.6	68.0	105.4	122.5
Net (post-finance) cash inflow from operating activities	9.0	11.2	8.3	22.6	36.4	60.4	73.6
Investing activities							
Additions to investment assets	-54.5	-29.5	-97.4	-75.4	-102.0	-100.0	-130.0
Debt acquired	0.0	0.0	0.0	0.0	0.0	-450.0	0.0
Corporate transaction costs	0.0	0.0	0.0	0.0	0.0	-24.0	0.0
Net cashflow, operating and investing	-45.5	-18.3	-89.1	-52.8	-65.6	-513.6	-56.4
Financing activities							
Net proceeds from issue of share capital/conversion	0.0	-0.1	145.2	0.0	108.1	0.0	0.0
Dividends paid	-20.7	-21.1	-24.7	-29.8	-34.7	-55.0	-65.0
Net cashflow (change in debt)	-66.2	-39.5	31.4	-82.6	7.8	-568.6	-121.4
Net proceeds of long-term borrowings	69.0	30.3	-29.3	62.1	-55.3	100.0	129.2
Convertible redemption for shares	0.0	0.0	0.0	19.3	48.9	26.6	0.0
Net cash inflow from financing activities	48.3	9.1	91.2	52.1	67.7	521.4	64.2
Net debt	655.2	694.7	663.3	726.6	670.2	1,212.2	1,333.6
Increase in cash and cash equivalents	1.6	-9.4	2.1	-1.2	2.1	8.0	7.8
Opening cash and cash equivalents	9.3	12.1	2.9	5.0	3.8	5.9	13.9
Closing cash and cash equivalents	12.1	2.9	5.0	3.8	5.9	13.9	21.7

Source: PHP report and accounts; estimates: Hardman & Co Research

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