Market Release

10 August 2017

Vital has another strong financial year, executing to plan

Vital Healthcare Property Trust (Vital) today announced its audited 2017 full year results with a reported net profit after tax of $217.6m, up 85.6%. Vital will pay investors a final quarter cash distribution of 2.125 cpu and the Board will prudently maintain its 2018 cash distribution guidance at 8.5 cpu.

Chief Executive of Vital's Manager, David Carr said "The 2017 financial year has been a positive and productive one for Vital. We have enhanced almost every aspect of the business with solid portfolio performance underpinning the financial position. Execution to plan was validated with the successful $160m rights issue last July and again at year end with the strong revaluation results. Population and ageing demographic drivers continue to support demand for healthcare services, and with a stable platform we look ahead to 2018 with confidence as we continue to execute on our long term strategy".

Highlights

- Operating profit before tax of $53.0m up 37.0%;
- Net distributable income of $61.8m, up 53.6%;
- Distribution of 8.5 cpu, up 2.4% on FY16, adjusted[1] payout ratio of 72%;
- Cash earnings (or AFFO[2]) of 14.5 cpu, up 24.3%;
- Successful $160m capital raising with 87% take up;
- LVR at 29.3%;
- Revaluation gain of $168.5m for the year, like for like increase of 17%;
- Portfolio WACR firmed 113 basis points (bps) to 6.04%;
- NTA of $2.05, up 36.0%;
- Occupancy maintained at over 99% for the eighth consecutive year, WALE of 17.7 years;
- Seven major acquisitions across Australasia totalling $190m, five have future brownfield potential;
- Spent $31.9m on brownfield developments, A$34.6m still to be completed.

Mr Carr said "We continued to widen and strengthen our core partnerships across Australasia irrespective of a number of new entrants looking to build healthcare real estate portfolios. Having secured a number of off-market opportunities in 2017, we expect to see sector consolidation continue, which remains a core focus of our established scale and diversification strategy".

Chairman of the Manager, Mr Graeme Horsley said "Vital has had another outstanding year. The successful $160m rights issue allowed us to consider and execute on a range of opportunities in 2017, with many of these acquisitions also offering future brownfields potential, an area of expertise Vital has excelled in over the last decade, delivering great results for investors. The portfolio and balance sheet are in good shape heading into 2018".

"With a relatively optimistic outlook as it relates to our scale and diversification strategy we continue to adopt a conservative and prudent capital management plan. Recognising market support for distribution sustainability, or a conservative payout ratio, and the prudent application of retained earnings to ongoing growth initiatives, the Board has determined to maintain cash distribution guidance at 8.5 cpu for the 2018 financial year" said Mr Horsley.

1 Adjusting for the one-off $13.8m lease termination receipt
2 Adjusted funds from operations

Financial performance

Gross rental income grew 10.9% during 2017 after adjusting for a one-off lease termination receipt of $13.8m. This receipt along with a combination of development income and acquisitions over the period contributed to gross rents of $91.8m, which was 30.6% ahead of the prior period. After property expenses, net income grew 31.3% for the year.

Finance expenses of $14.6m were down slightly from the prior year despite slightly higher overall debt levels at year end. This reflects the $160m capital raised in July 2016 which initially reduced borrowings before the gradual drawdown on facilities during the year for acquisitions and developments. Vital acquired seven investment properties during 2017 totalling $190m.

Other expenses of $22.1m were up 52.1% driven primarily by management and incentive fees on the back of strong revaluations. The incentive fee of $12.3m is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over book value for the last three years, and is payable by Vital issuing units to the Manager. Vital's Manager has confirmed that it will (as part of the issuance of units pursuant to the 2017 incentive fee) manage its unit holdings accordingly so as not to breach Vital's PIE status.

As a result of Australian tax legislation changes Vital now has access to the Managed Investment Trust tax status across all of its Australian based income, giving rise to a tax rate of 15% and having a favourable impact on the deferred tax expense.

Net distributable income for the year was $61.8m (up 53.6%) equating to 14.7 cpu and a 25.8% increase on the prior year. This includes the benefit of the one-off lease termination receipt and associated tax expense. Adjusting for this, net distributable income per unit was approximately 11.7 cpu and allows for the increase in units issued following the capital raise. Vital's cash earnings (or AFFO), which adjusts for maintenance capital expenditure and lease incentives, was broadly in line with net distributable income on a cents per unit basis.

The 2017 full year distribution of 8.5 cpu reflects a prudent and sustainable 72% payout ratio on an adjusted basis.

NTA growth to $2.05

Following the strong revaluation gains achieved in 2017, Vital's NTA increased to $2.05, an increase of 36% on the prior year NTA of $1.51. At $2.05, the current NTA is the highest in Vital's history and is underpinned by a large diversified portfolio of high quality healthcare real estate with attractive long term characteristics.

Strong revaluations gains

Mr Carr said "Vital's sustained portfolio and financial performance over many years has resulted in a new wave of investors being attracted to the sector's unique characteristics. This increased demand has driven a structural shift in healthcare real estate capitalisation rates.

Whilst this structural shift has coincided with a cyclical firming of market capitalisation rates, our conviction to Vital's strategy remains focused on creating long term value. The best example of this has been following acquisitions, where value-add brownfield development has enhanced returns and created high quality healthcare infrastructure. Supporting this investment thesis are the undeniable trends of a growing and ageing population adding greater pressure on an already stretched public and private healthcare system" said Mr Carr.

With this context, Vital's independent annual portfolio revaluations resulted in a $168.5m increase over book value. Vital's investment portfolio is now valued at $1.38bn. For the twelve months to 30 June 2017 Vital's portfolio WACR firmed 113 bps to 6.04%, with the Australian portfolio firming 120 bps to 6.03% and the New Zealand portfolio firming 84 bps to 6.09%. Approximately 90% of the overall revaluation increase was driven by capitalisation rate firming with rental growth the other key contributor.

Treasury and capital

Vital's LVR at 30 June of 29.3% (2016: 36.3%) remains well below bank and Trust Deed covenants of 50%. Today the Vital Board executed documentation for an additional A$175.0m tranche from its existing Banks (ANZ and BNZ), further evidence of market support of Vital's strategy. The tranche expires in November 2021.

Vital's weighted average cost of debt was 4.34% as at 30 June (2016: 4.38%) and includes bank line and margin fees. Vital's overall cost of funding remains amongst the lowest in the sector.

At year end Vital had a hedged interest rate position of 79.5% (2016: 62.2%). An increase in market interest rates over the period saw the unrealised marked-to-market valuation on those interest rate swaps improve by $9.0m.

Portfolio position remains in great shape

Along with an active acquisition programme in 2017, the management team has continued to ensure Vital's portfolio metrics remain strong. Vital has had its eighth consecutive year with occupancy above 99% (99.1% at year end) and a year end WALE of 17.7 years. Vital's long WALE was supported by the early resolution of a 30 year lease extension at Kensington Hospital and a six year extension to the existing lease at Epworth Eastern Hospital.

With 83% of total income subject to review in 2017, average rent growth of 1.5% was achieved. Approximately 90% of total income is subject to review through the 2018 financial year, with 88% subject to structured or CPI based reviews.

Of the 2.5% of income forecast to expire in 2017, 2.1% of this was renewed. As a percentage of total income, Vital's 10 year average annual lease expiry sits at 2.1%, which provides long term earnings visibility.

Acquisition and development

With seven acquisitions totalling $190m in 2017, Vital has further diversified its portfolio investing across medical office buildings, aged care facilities and private hospitals. Most importantly, it has strengthened relationships across both existing and new operators.

Recognising ongoing healthcare demand forecasts, Vital has continued to invest in acquisitions adjacent to our existing facilities to protect their long term value. Vital made eight of these strategic acquisitions totalling A$17m in 2017 and expects to continue with this investment philosophy to support the long term growth of our partners.

The brownfield pipeline continues with five projects totalling A$62.6m currently underway. Three developments, totalling A$29.4m are expected to be completed prior to the 2017 calendar year end. The largest current development is the A$23.6m expansion at Lingard Private in Newcastle and once completed will result in an aggregate total investment of A$55m since 2013.

One of the highlights in 2017, was the announcement that Vital had become Acurity Health Group's exclusive real estate partner in New Zealand with the conditional acquisition of its Wellington Hospitals for $68m on 30 year initial lease terms. The acquisition of Wakefield and Bowen Private Hospitals remains subject to pre-settlement conditions including Overseas Investment Office and development approvals. With a potential development pipeline in the order of $100m over the next 3-5 years, this is a significant opportunity for Vital in the New Zealand market.

Distributions

For the fourth quarter of the 2017 financial year, the Board has confirmed that investors will receive a distribution of 2.125 cpu with no imputation credits attached. The record date for the distribution is 7 September 2017 and payment will be made on 21 September 2017. This final quarter payment means that the full year cash distribution of 8.5 cpu has been achieved.

Vital's Distribution Reinvestment Plan will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

The Board has also confirmed that the 2018 financial year cash distribution will be maintained at 8.5 cpu.

Positive outlook for 2018

Mr Carr said "Vital starts the 2018 financial year in a great position, with 2017 one of our busiest ever. Backed by undeniable healthcare trends we retain a positive outlook.

Our scale and diversification strategy remains a core focus as we continue to execute on acquisition opportunities, complete the balance of the current brownfield development pipeline and aim to announce further projects through the year.

We continue to strengthen established partnerships and look to develop new ones. Supporting the growth aspirations of our existing partners remains extremely important and enables us to drive strong operating, portfolio and financial results, delivering sustainable distributions and creating long term value for investors. I look forward to updating investors over coming months" said Mr Carr.

Vital's management team will present these results via a live webcast from 2pm NZ time today. Please refer to our market release dated 1 August 2017 for details or click here.

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About Vital Healthcare Property Trust

Vital Healthcare Property Trust (NZX: VHP) is Australasia's largest listed investor in healthcare real estate. Tenants include hospital operators and healthcare practitioners who deliver a wide range of medical and healthcare related services. The Manager of Vital Healthcare Property Trust is Vital Healthcare Management Limited.

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