

Target Healthcare REIT Limited (THRL:LN)

Quarterly Investor Report: February 2018 (figures as at and for quarter ended 31 December 2017)

Quick facts

Overview

| | |
|-----------------------------|--------------------------------|
| Launch Date | March 2013 |
| ISIN | JE00B95CGW71 |
| Registered number | 112287 |
| Expected quarterly dividend | Feb/May/Aug/Nov |
| Financial year end | 30 June |
| Currency | Sterling |
| Website | www.targethealthcarereit.co.uk |

Ordinary Share Class

(07/02/18)

| | |
|---------------------------------|----------------|
| Shares in issue | 252,180,851 |
| Share price | 108.00 pence |
| Market cap | £272.4 million |
| Share price premium to EPRA NAV | 3.4% |

Key ratios and financials

(31/12/17)

| | |
|--|--|
| Investment properties | £334.9 million |
| Drawn debt | £81.0 million |
| EPRA NAV | £263.3 million |
| EPRA NAV per share | 104.4 pence |
| EPRA NAV growth | 1.1% |
| Quarterly EPRA earnings per share ¹ | 1.55 pence |
| Quarterly dividend per share | 1.61 pence |
| Dividend yield (07/02/18) | 6.0% |
| LTV* | 24.4% |
| Management fee rate | 0.9% of NAV |
| Performance fee | 10% of portfolio outperformance of Index; capped at 0.35% of average NAV; rolling, cumulative 3-year period; subject to claw-back. |
| WAULT | 28.9 years |

*calculated as total gross debt as a proportion of gross property value

Summary Balance Sheet

| | Dec-17 | Sep-17 |
|------------------------------------|--------------|--------------|
| | £m | £m |
| Investment properties | 334.9 | 296.6 |
| Cash | 14.9 | 16.8 |
| Net current assets / (liabilities) | (5.5) | (3.8) |
| Bank loan | (81.0) | (49.0) |
| Net assets | 263.3 | 260.6 |
| EPRA NAV per share (pence) | 104.4 | 103.3 |

Ignores the effect of fixed/guaranteed rent reviews.

Group at a glance

Overview

THRL aims to provide shareholders with an attractive level of income with the potential for moderate capital and income growth through investing in best-in-class care home assets with robust financial characteristics. The Group acquires modern, purpose-built properties fully equipped with en-suite wet rooms, operated by a diverse group of tenants leased at sustainable rental levels and rental covers over the long-term. The Group focuses on locations underpinned by favourable dynamics (population demographics and social grade, supply / demand) and seeks to support high quality tenants who demonstrate excellent operational capabilities and a strong care ethos.

Recent news

The group acquired three care homes in the 3 months to December 2017, in each of Hertfordshire, York and the Wirral, for a combined value of approximately £31 million including costs.

Pipeline

The Investment Manager is considering a number of near-term investment opportunities.

Performance

The portfolio value has increased 12.9% over the quarter, with the like-for-like value up 1.5%. The increase in like-for-like reflects value generated from our embedded rental uplifts and yield compression across the portfolio.

Healthcare investment market

Continued investor demand in the sector has led to a further contraction of yields across the market.

Aviva acquired a portfolio of care homes from Frontier Estates for c.£71m in November. The portfolio included 4 assets on a forward funding basis.

H/2 Capital Partners, the majority bond holder of Four Seasons Health Care, agreed a "standstill", to allow time for a restructuring to be agreed.

Legal & General acquired Renaissance Villages, comprising 4 retirement villages, for £51m from Helical plc.

Healthcare sector

The issue of social care funding remains a recurring theme in the media, politics and public conversation, whilst the Government Green Paper on social care for older people has been delayed until the summer. However, in January 2018, responsibility for the paper passed from the Cabinet Office to the recently renamed Department of Health and Social Care, which could point to a more joined up approach for elderly care in the future.

The anticipated paper follows the Competition and Markets Authority (CMA) report on the care home market, published at the end of November 2017. It noted that "urgent action" was needed as "the current model of service provision cannot be sustained without additional public funding". It pointed to a need for further investment to increase capacity and significant reforms to enable the sector to meet the expected substantial increases in elderly care demand. This has been reported in the media as a £1bn p.a. funding gap.

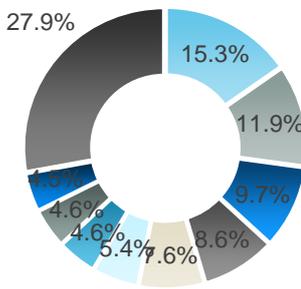
It is clear the funding of social care remains an issue, whilst demand for elderly care home places is forecast to grow and many smaller homes are closing. Against that backdrop, and in line with the CMA's findings, Target continues to believe there is a need for substantial investment in suitable elderly care homes, built to modern standards, to meet both current and future demands.

Performance – NAV and share price total return



Portfolio summary

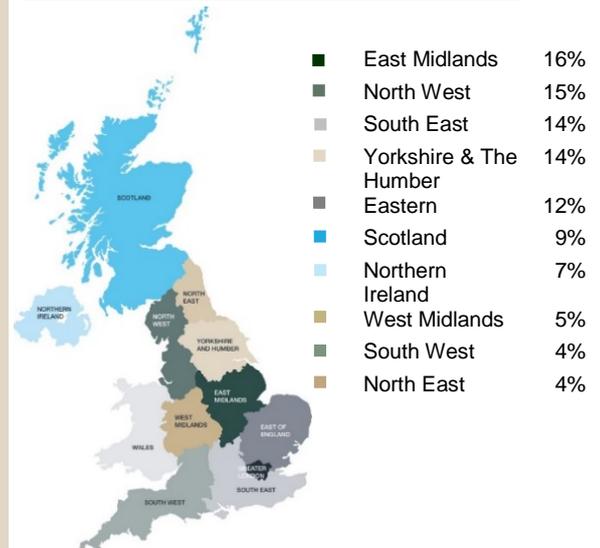
Income by operator



- Ideal Carehomes (10 homes)
- Care Concern Group (6 homes)
- Orchard Care Homes (5 homes)
- Priory Group (5 homes)
- Bondcare (3 homes)
- Balhousie Care (3 homes)
- Hertfordshire operator (1 home)
- Hudson Healthcare (2 homes)
- Oxfordshire operator (1 home)
- Other tenants (13 homes)

Note: income % calculated by reference to passing rents as at 31 December 2017 of the 49 operational assets

Geographical spread of portfolio by capital value



Note: value across 51 assets, including Earl Shilton acquired in January; all valuations as at 31 December 2017, except Earl Shilton as of 22nd January 2018

Ten largest investments by income

| Asset | Acquired | Location | Operator |
|----------------------------|---------------|---------------|---------------------------------------|
| Hertfordshire Home | November 2017 | Eastern | Hertfordshire Operator |
| Oxfordshire Home | February 2016 | South East | Oxfordshire Operator |
| Bromford Lane Care Centre | June 2014 | West Midlands | Bondcare Group |
| Barnes Lodge Care Home | October 2016 | South East | Rapport Housing and Care ² |
| Sandiacre Court Care Home | August 2016 | East Midlands | Hudson Healthcare |
| Hastings Court | December 2014 | South East | Oakland Primecare |
| The Amwell Care Home | July 2017 | East Midlands | Magnum Care |
| Beaumont Manor | March 2017 | Eastern | Care Concern Group |
| St. Helen's Hall and Lodge | October 2013 | North West | Orchard Care Homes Group |
| Whittington House | June 2016 | South West | Caring Homes Group |

Directors

Malcom Naish (Chairman)
 Professor June Andrews
 Gordon Coull
 Thomas J Hutchison III
 Hilary Jones
 Craig Stewart (appointed 22 January 2018, replacing Ian Webster)

Investment Manager

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 UK Legal: Dickson Minto W.S.
 Auditors: Ernst & Young LLP

¹ Excluding the effects of accrual for potential performance fee for the year to 31 December 2017.

² Rapport Housing and Care was formerly called The Abbeyfield Kent Society.

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