

2 February 2023

Target Healthcare REIT plc and its subsidiaries

("Target Healthcare" or "the Group")

Net Asset Value, update on corporate activity and dividend declaration

Target Healthcare (LSE: THRL), the UK listed specialist investor in modern, purpose-built care homes, announces its unaudited quarterly Net Asset Value ('NAV') as at 31 December 2022, together with an update on corporate activity, and declares its second interim dividend for the year ending 30 June 2023.

Corporate activity highlights

Stable financial position and portfolio valuation movement:

- EPRA Net Tangible Assets ('NTA') per share decreased to 103.0 pence (30 September 2022: 112.1 pence), largely driven by a like-for-like portfolio valuation decrease on standing assets of 5.0% primarily reflecting sector-wide outward yield movement following recent interest rate rises
- Portfolio EPRA "topped-up" net initial yield of 6.22% (30 September 2022: 5.84%)
- NAV total return of -6.6% for the quarter (based on EPRA NTA and including dividend)
- Net Loan to Value of 25.1% (30 September 2022: 22.3%)
- Weighted average term to expiry on the Group's total committed loan facilities of 6.7 years (30 September 2022: 6.7 years) with an earliest maturity of November 2025. Interest costs hedged to the relevant facility maturity date on 96% of the drawn debt
- Overall capital available for investment currently £35 million, net of the Group's development commitments on four assets

Strong portfolio and operational progress: 1.1% like-for-like rental growth; active portfolio management initiatives providing visibility on rent collection improvement:

- Diversified portfolio of 100 assets let to 33 tenants and valued at £867.7 million (30 September 2022: £913.7 million)
- 2.6% net increase in contracted rent roll reflecting:
 - a 1.5% increase from the completion of a development site
 - a 1.1% increase from 24 inflation-linked upwards-only rent reviews, at an average uplift of 4.2%
- Weighted average unexpired lease term of 26.8 years remains one of the longest in the listed real estate sector (30 September 2022: 26.9 years)
- High quality, modern and sustainable real estate portfolio:
 - 93% of the portfolio is A or B EPC rated, and currently compliant with the minimum energy efficiency standards anticipated to apply from 2030
 - Positive social impact from sector-leading real estate standards: 97% wet-rooms; 47 sqm space per resident; rent per sqm £180
- Rent collection of 96% (30 September 2022: 96%; 30 June 2022: 94%). Active portfolio management has resulted in meaningful progress with two tenants subsequent to the quarter end. The re-tenancing of a home with the first tenant is now imminent, with improved trading performance increasing rent collection from the other.
- Subsequent to an exchange of contracts on a subject-to-planning basis in the summer of 2022, on 27 January 2023 the Group completed the acquisition of a development site near Malvern, Worcestershire, following the receipt of the required planning consent for the construction of a 60-bed care home.

Kenneth MacKenzie, CEO of Target Fund Managers, commented:

"Following the interest rate rises witnessed in late 2022, real estate values across almost all sectors have been falling. While the Group has not been completely immune to this trend, our portfolio has demonstrated its resilience versus the CBRE UK monthly index (all property) capital decline of 14.6% for the same quarter. This is largely due to our strategy of investing in prime, modern real estate with strong overall ESG credentials, inclusive of notably positive EPC ratings, and underpinned by long term inflation-linked indexation, in a sector where demographic tailwinds continue to support demand.

"Against a challenging market backdrop, we have again delivered like-for-like rental growth and remain focussed on the long-term sustainability of our rental income which is inflation linked (subject to caps and collars). Our portfolio performance is improving, with rent cover responding positively to the increases in occupancy we've seen through recent quarters. We have closely managed specific assets and tenants where occupancy has been slower to recover and have progressed initiatives where required.

"Our capital base remains conservatively structured with adequate headroom and, whilst we are not aggressively pursuing an acquisitions strategy at present, we remain alert to opportunities that may be presented as a result of changing market conditions."

Net Total Assets

The Group's unaudited EPRA¹ per share as at 31 December 2022 was 103.0 pence. The total return for the quarter based on EPRA¹ was -6.6%.

A balance sheet summary and an analysis of the movement in the EPRA¹ over the quarter is presented at the end of this announcement in the Appendix.

Corporate Update

Portfolio performance

As at 31 December 2022, the Group's portfolio was valued at £867.7 million and comprised 100 properties, consisting of 97 operational care homes and three pre-let sites, which are being developed through capped forward funding commitments with established development partners.

The portfolio value decreased by 5.0% over the quarter which matched the movement in the like-for-like value of the operational portfolio. The like-for-like movement reflects a 6.2% decrease due to outward yield shifts applied by the valuers to reflect the higher interest rate environment and overall economic conditions, offset by a 1.2% increase from inflation-linked rent reviews. The spend on the development assets, including the site which completed in the quarter, increased the portfolio value by 0.5%; however, this was fully offset by similar outward yield shifts on the developments as described above.

Contractual rental income increased by 2.6% over the period, comprising:

- a 1.5% increase from the lease entered into on a new-build home following practical completion of a development site; and
- a 1.1% increase from 24 inflation-linked upwards-only rent reviews, with an average uplift of 4.2%

The portfolio's weighted average unexpired lease term was 26.8 years (30 September 2022: 26.9 years).

The portfolio had an EPRA¹ "topped-up" net initial yield of 6.22% based on an annualised contractual rent of £57.1 million. The portfolio's EPRA¹ net initial yield was 6.06% with three assets in rent-free periods.

Acquisitions and other asset management

During the quarter, the following transactions and asset management initiatives were completed:

- Practical completion of the Group's development site in Weymouth, Dorset was reached in November 2022, contributing 66 new beds to the portfolio. A new tenant to the Group has entered into a 35 year lease which incorporates green provisions and annual rent reviews (subject to caps and collars).
- Completion of a retrofit programme on 31 rooms to bring one of the Group's small number of homes without full en suite wet-room provision to acceptable modern standards.

Subsequent to the quarter end the following transactions and asset management initiatives were completed/progressed:

- The acquisition of a development site near Malvern, Worcestershire, following the receipt of the required planning consent for the construction of a 60-bed care home. Consistent with the Group's standard approach, the home is pre-let to an existing tenant and has in place a capped development agreement which is itself underpinned by a fixed price construction contract. The lease includes green provisions such as energy-related data collection, per the Group's standard lease.
- Substantial completion of the process to re-tenant one home, which will alleviate cashflow pressures for a tenant, allowing a return to a fully rent-paying position on its three remaining homes. The contractual rent for the incoming tenant will remain the same.
- Improved trading performance at a second tenant has seen a further increase in the proportion of rent received for both of its homes. The tenant has been able to grow towards full occupancy having been (as an immature business) behind in occupancy growth at the start of the pandemic.

Debt facilities and swap arrangements

As at 31 December 2022, the Group's total borrowings were £240 million, representing a net LTV of 25.1% (total gross debt less cash, as a proportion of gross property value). The Group's weighted average cost on its drawn debt, inclusive of amortisation of loan arrangement costs, was 3.79% (30 September 2022: 3.49%). This excludes the amortisation of the cost of the interest rate cap, the upfront cost of which has already been deducted in full from the EPRANTA as shown in the table in the appendix. The increase over the quarter was due to the increase in market interest rates impacting the variable rate applied to the Group's revolving credit facilities.

Going forward, 96% of the £240 million of drawn debt is fully hedged to further increases in interest rates. £180 million of the drawn debt was fixed prior to the rise in interest rates seen during 2022. Of this, £150 million has been fixed for a weighted average term of 11.1 years with a weighted average interest rate excluding the amortisation of arrangement fees of 3.18%. £30 million of the Group's bank facilities have been fixed at 2.48% for 2.9 years through an interest rate swap entered into in November 2020. As previously announced, a further £50 million of the Group's revolving credit facilities have interest rates capped via a 3% SONIA cap entered into in November 2022.

During the quarter, the Group extended by one year the maturity date on the Group's £100 million revolving credit facility with HSBC Bank plc. The weighted average term to expiry on the Group's total committed loan facilities remained unchanged at 6.7 years (30 September 2022: 6.7 years).

Dividends in the period

The Group paid its first interim dividend for the year ending 30 June 2023, in respect of the period from 1 July 2022 to 30 September 2022, of 1.69 pence per share, on 25 November 2022 to shareholders on the register on 11 November 2022. This distribution was comprised wholly of a property income distribution (PID).

Announcement of second interim dividend

The Company today declares its second interim dividend for the year ending 30 June 2023, in respect of the period from 1 October 2022 to 31 December 2022, of 1.69 pence per share as detailed in the schedule below:

Interim Property Income Distribution (PID): 1.69 pence per share

Interim ordinary dividend: nil

Ex-Dividend Date: 9 February 2023

Record Date: 10 February 2023

Payment Date: 24 February 2023

The dividend reflects an annualised payment of 6.76 pence per share and a dividend yield of 8.4% based on the 1 February 2023 closing share price of 80.1 pence.

The Company had 620,237,346 ordinary shares in issue at 31 December 2022 and has not issued or bought back any shares since that date.

Shareholders entitled to elect to receive distributions without deduction for withholding tax may complete the declaration form which is available on request from the Company through the contact details provided on its website www.targethealthcarereit.co.uk, or from the Company's registrar. Shareholders who qualify for gross payments are, principally, UK resident companies, certain UK public bodies, UK charities, UK pension schemes and the managers of ISAs, PEPs and Child Trust Funds, in each case subject to certain conditions. Individuals and non-UK residents do not qualify for gross payments of distributions and should not complete the declaration form.

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Enquiries:

Target Fund Managers Limited

Tel: 01786 845 912

Kenneth MacKenzie

Gordon Bland

Stifel Nicolaus Europe Limited

Tel: 020 7710 7600

Mark Young

Rajpal Padam

Catriona Neville

FTI Consulting

Tel: 020 7710 7600

Dido Laurimore

TargetHealthcare@fticonsulting.com

Richard Gotla

Notes to editors:

UK listed Target Healthcare REIT plc (THRL) is an externally managed Real Estate Investment Trust which provides shareholders with an attractive level of income, together with the potential for capital and income growth, from investing in a diversified portfolio of modern, purpose-built care homes.

The Group's portfolio at 31 December 2022 comprised 100 assets let to 33 tenants with a total value of £867.7 million.

The Group invests in modern, purpose-built care homes that are let to high quality tenants who demonstrate strong operational capabilities and a strong care ethos. The Group builds collaborative, supportive relationships with each of its tenants as it believes working in this way helps raise standards of care and helps its tenants build sustainable businesses. In turn, that helps the Group deliver stable returns to its investors.

Important information

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the UK version of the Market Abuse Regulations (EU) No. 596/2014, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended. Upon the publication of this announcement via Regulatory Information Service, this inside information is now considered to be in the public domain.

APPENDIX

1. Analysis of movement in EPRA NTA

The following table provides an analysis of the movement in the unaudited EPRA NTA per share for the period from 1 October 2022 to 31 December 2022:

	Pence per share
EPRA NTA per share as at 30 September 2022	112.1
Revaluation gains / (losses) on investment properties	(7.6)
Net Revaluation gains / (losses) on assets under construction ^A	(0.8)
Premium paid for interest rate cap	(0.4)
Movement in revenue reserve	1.4
First interim dividend payment for the year ending 30 June 2023	(1.7)

12 month interim dividend payment for the year ending 30 June 2023	(1.1)
EPRANTA per share as at 31 December 2022	103.0
Percentage change in the quarter	(8.1%)

The EPRA Best Practices Recommendations Guidelines state that companies should publish a set of three NAV metrics. The full set of EPRA NAV metrics are published in the Group's Annual Report. The Company intends to continue to announce the EPRANTA on a quarterly basis.

At 31 December 2022, due to the valuation ascribed to the Group's interest rate derivative contracts used to hedge its exposure to variable interest rates, which are excluded from the calculation of the EPRANTA, the unaudited NAV calculated under International Financial Reporting Standards was 103.9 pence per share.

^Consistent with standard valuation practice for assets under construction, the carrying value of these assets is calculated by the valuer through application of a discount to accumulated costs to date. This discount varies depending on factors such as the remaining development time. As the asset progresses towards completion, the discount that has been applied is unwound.

2. Summary balance sheet (unaudited)

	Dec-22	Sep-22	Jun-22	Mar-22
	£m	£m	£m	£m
Property portfolio*	867.7	913.7	911.6	886.8
Cash	21.8	19.6	34.5	42.8
Net current assets / (liabilities)*	(10.4)	(15.2)	(14.8)	(13.4)
Bank loans	(240.0)	(223.0)	(234.8)	(222.8)
Net assets	639.1	695.1	696.5	693.4
 EPRANTA per share (pence)	 103.0	 112.1	 112.3	 111.8

*Properties within the portfolio are stated at the market value provided by the external valuer and the IFRS effects of fixed/guaranteed minimum rent reviews are not reflected.

The next quarterly valuation of the property portfolio will be conducted by Colliers International Healthcare Property Consultants Limited during April 2023 and the unaudited EPRANTA per share as at 31 March 2023 is expected to be announced in April 2023.

3. EPRA NIY profiles and unwind of rent-free periods

The Group currently has three assets with rent-free periods. As these unwind, assuming no other changes including inter alia the portfolio valuation or rental profile, the EPRA yield profiles for the portfolio will be as follows:

	31 December 2022	31 March 2023	30 June 2023	30 September 2023	31 December 2023
EPRA topped-up NIY	6.22%	6.22%	6.22%	6.22%	6.22%
EPRA NIY	6.06%	6.13%	6.13%	6.13%	6.22%
Contractual rent (£m)	57.1	57.1	57.1	57.1	57.1
Passing rent (£m)	55.5	56.3	56.3	56.3	57.1

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