17 September 2024

Target Healthcare REIT plc

ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2024

Total return outperformance and NTA growth with portfolio management initiatives improving sector-leading real estate quality metrics

Target Healthcare REIT plc (the "Company" or the "Group"), the listed specialist investor in modern, purpose-built UK care homes, is pleased to announce its annual results for the year ended 30 June 2024.

Accounting total return of 11.8%; earnings growth; six consecutive quarters of EPRA NTA and valuation growth; fully covered dividend.

- NAV total return(1) of 11.8% (2023: -1.2%)
- EPRA NTA per share increased 5.9% to 110.7 pence (2023: 104.5 pence)
- Adjusted EPRA earnings per share increased 2.2% to 6.13 pence per share (2023: 6.00 pence)
- Return to a progressive dividend policy with quarterly dividends increased by 2% compared to rate as at 30 June 2023. Annual dividend of 5.712 pence, being 7.6% lower than 2023 (6.18 pence) following the reduction in Q1 2023.
- Intention to increase the quarterly dividend in respect of the year ending 30 June 2025 by 3.0% to 1.471 pence per share, representing an annual total dividend of 5.884 pence
- Dividends in respect of the period were 107% covered by adjusted EPRA earnings. Under the widely-used EPRA earnings metric the annual dividend was 133% covered
- Net loan-to-value ("LTV") of 22.5% as at 30 June 2024, with an average cost of drawn debt, inclusive of the amortisation of loan arrangement costs, of 3.91% and weighted average term to maturity of 5.2 years. £230 million of debt, being 95% of total drawn debt at 30 June 2024, fully hedged to maturity against further interest rate increases

Continued strong performance from prime modern portfolio underpinned by supportive demographic tailwinds, with no vacancy, record rent covers, and like-for-like rental growth of 3.8%.

- Portfolio of 94 properties, consisting of 92 modern operational care homes and two pre-let sites let to 34 tenants
- Portfolio value increased by £39.8 million, or 4.6%, to £908.5 million, including a like-for-like increase of 3.7% (2023: decrease of 4.1%)
- Continued improvement across all key metrics of underlying trading performance at the homes, with 99% of rent collected for the year (2023: 97%) and mature homes rent cover of 1.9x (2023: 1.75x). Mature homes spot occupancy has remained steady at 87%
- Contractual rent increased by 4.0% to £58.8 million per annum (2023: £56.6 million), including a like-for-like increase of 3.8% (2023: 3.8%) predominantly driven by rent reviews
- Disposals of £44.3 million (net of costs), ahead of carrying value, for four older assets with the shortest remaining lease terms in the portfolio at an implied net initial yield of 5.64%
- One of the longest weighted average unexpired lease terms in the listed UK real estate sector of 26.4 years (2023: 26.5 years)
- Two additional best-in-class homes (126 beds) under development at year end with three, including the Group's first operationally Net Zero Carbon care home, having reached practical completion during the year

Responsible investment strategy continues to provide a clear differentiator in improving the UK's care home real estate with a future-proofed portfolio with compelling sector tailwinds.

- Long-term demand from ageing population supporting both investor and operator activity in the sector
- Strong alignment of ESG principles, with continued social purpose and advocacy of minimum real estate standards across the sector, and portfolio improvements throughout the year
  - Modern, purpose-built care homes; full en suite wet-rooms account for 99% (2023: 98%) of the portfolio compared to just 33% for all UK care homes
  - 84% of the portfolio is purpose-built from 2010 onwards (2023: 80%)
  - 99% of the portfolio is A or B EPC rated (2023: 94%)
  - Sector-leading average 48m^2 of space per resident (2023: 47m^2)

(1) Based on EPRA NTA movement and dividends paid

Alison Fyfe, Chair of the Company, said:
"Target Healthcare REIT has provided another year of solid portfolio and financial performance. Accounting total return was 11.8%, reflecting the continued resilience of our business model and informed investment approach. Our predictable and robust rental stream provides annual growth with its inflation-linkage, and the valuations of our prime, modern care home assets remain stable given institutional investment demand.

"Our portfolio is comprised of high-quality care home real estate, which is highly desired by operators for its well-designed modern properties from which they can provide profitable care, and by institutional investors for its growing rental income and low volatility of returns. We have clear evidence that transactions in prime care home real estate such as ours are supportive of our valuations.

"Along with long-term returns for shareholders, we firmly believe our approach benefits our wider stakeholder group, most particularly our tenants and their residents, and this will remain critical to our approach."

Results presentation

A webcast presentation for analysts will take place at 8.15am BST this morning, for which registration can be accessed at:

https://stream.brrmedia.co.uk/broadcast/66d72d05a576c20bfece0a59

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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 30 June 2024 comprised 94 assets let to 34 tenants with a total value of £908.5 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.

Chair's Statement

I am pleased to report that Target Healthcare REIT has provided another year of solid portfolio and financial performance. Accounting total return was 11.8%, reflecting the continued resilience of our business model and informed investment approach. Our predictable and robust rental stream provides annual growth with its inflation-linkage, and the valuations of our prime, modern care home assets remain stable given institutional investment demand. Along with long-term returns for shareholders, we firmly believe our approach benefits our wider stakeholder group, most particularly our tenants and their residents, and this will remain critical to our approach.

1. Reflections

Listed property companies continue to largely trade at a discount to EPRA NTA as investors' capital allocations are directed elsewhere. However, a more positive outlook for property markets is perhaps being noticed as the trend to lower inflation and interest rates solidifies. In contrast to the share price discount, property portfolios invested in modern assets with strong environmental credentials and solid underlying user demand fundamentals have performed well. The main questions being posed by participants in the listed market to those running property companies right now are:

Earnings - where is growth coming from?

Our leases have contractual annual uplifts linked to inflation and our operators' improving rent cover is evidence of their ability to pay these growing rents on a sustainable basis. This helps underpin our confidence in the outlook for the Group's earnings growth, which should feed through to progressive growth in dividends as we control operating and finance costs.

Valuations - are they reliable?

The prevailing mismatch between market evidence of direct investment in our sector and stock market valuations has attracted comment. Whilst we can't answer for all property, we have clear evidence that transactions in prime care home real estate such as ours are supportive of our valuations. We have transacted on £71 million of asset disposals since late 2022, all at or above book value and with positive return metrics. Our disposal of four assets in June 2024 was at an implied net initial yield of 5.6% and comprised some of our older and less spacious properties. Reliability of our valuations is further supported by their lack of volatility. During the macro-driven sector-wide yield shift seen in late 2022 the initial reaction was an outward yield shift of 40-50bps in our assets which then stabilised relatively quickly at only 30-40 bps as evidence from transactional activity and the strong underlying trading performance across our portfolio provided reliable data points for valuers. We have seen valuation growth for six consecutive quarters since.

Debt - is it serviceable at higher rates?

Our debt levels are amongst the lowest in the REIT universe at 22.5% net LTV and a net debt to EBITDA ratio of 4.6x. We have greater than 60% of our drawn debt on long-term, low fixed rate facilities with remaining terms of 8-13 years and we have executed value-adding hedging strategies on our shorter-term bank debt. Our ability to generate capital from asset disposals has allowed us to finance our development commitments efficiently and manage debt levels.

Our forecasting has long anticipated higher interest rate levels on the refinancing of our shorter-term bank debt as our existing hedged facilities mature, with this having been reflected in all our material decision-making. We have obtained terms to refinance our shorter-term bank facilities (£170 million) which we are currently assessing. The structure of these revised facilities will be aligned with our current capital requirements and will provide the flexibility we need to respond proactively to investment opportunities as they are identified.

Assets and long-term fundamentals - are they suitable for the changed investment environment?

In short, we remain confident that our assets and investment approach have the necessary characteristics to support sustainable long-term returns. Our portfolio is comprised of high-quality care home real estate, which is highly desired by operators for its well-designed modern properties from which they can provide profitable care, and by institutional investors for its growing rental income and low volatility of returns.

Our approach benefits from, but does not rely upon, the widely understood demographic changes from an ageing population. We believe the future of care home provision is in modern real estate with en suite wet-rooms for all residents and adequate social and outdoor space, of which there is a chronic under-supply. Investing capital in such property now may well be lower-yielding given the high cost of land and construction, however, the longevity of our hold period and the compounding effect of rents growing annually will provide attractive returns. We further believe that our approach helps mitigate the risk from any issues that might arise with the public funding of care. There are clear trends to suggest that residents and their families choose to live in a higher quality physical environment where available, with significant net wealth in those aged over 65 to support this demand and the private fee bias of our model. Our environmental credentials are market leading within commercial real estate, at 99% A & B EPC ratings, and will not require the significant remedial capital expenditure that many other portfolios will.

Further detail on the care home sector is included in the Investment Manager's Report below.

2. Performance

Our accounting total return performance was 11.8% for the year, driven by an EPRA NTA increase of 5.9% (110.7 pence from 104.5 pence) and dividends paid in the year.

Adjusted EPRA earnings per share increased by 2.2% to 6.13 pence translating to 107% dividend cover for the year. Under the widely-used EPRA earnings metric the dividend was 133% covered. The quarterly dividend paid in respect of the year was 2.0% higher than that at June 2023, as we returned to a progressive dividend, though the total dividend per share for the year shows a reduction of 7.6% as the higher rate for the first two quarters of the prior year are still reflected in the annual change.

Our earnings outlook is robust, with rent collection near full and supported by record levels of rent cover for the portfolio. The Investment Manager's Report covers the portfolio in more detail below. We have minimised the impact of the higher interest rate environment on our finance costs through our existing long-term fixed rate facilities, our hedging programme and by using the proceeds from asset disposals to reduce drawn debt.

The positive portfolio valuation movement has been driven by market movements, our disposals programme, and then the impact of rental uplifts providing an overall increase of 4.6% and a like-for-like increase of 3.7%. Contracted rent has increased by 4.0% to £58.8 million, including 3.8% on a like-for-like basis.

3. ESG considerations

Target has a strong commitment to being a responsible business, and our business model is one which prioritises a positive social impact. Through the year, we have been focussed on finalising plans for our portfolio's transition to net zero carbon through our Net Zero Pathway (NZP) plan.

Our starting point, measured by the carbon intensity of our portfolio as calculated by external experts, shows us to be in a very strong position, one which is currently ahead of where we need to be in order to meet science-based target levels to restrict global temperature increases to 1.5°C. We are therefore in an excellent position relative to other property companies. There is more detail in our sustainability reporting and below.

4. Annual General Meeting ('AGM')

The AGM will be held in London on 9 December 2024. Shareholders that are unable to attend are encouraged to make use of the proxy form provided in order to lodge their votes, and to raise any questions or comments they may have in advance of the AGM through the Company Secretary.

5. Looking ahead

Our investment thesis is a simple one: we invest in high-quality care home assets. This approach has produced strong long-term returns with low volatility of performance as well as achieving our social purpose to improve the standard of care homes real estate. We encourage regular shareholder engagement, which has been positive and supportive of our patient and disciplined strategy to grow the portfolio and further our social purpose. We are open to, and regularly assess, alternative approaches and opportunities that fall outside our core strategy, and continue to consider where best to invest shareholder capital. We remain firmly committed to our investment approach and therefore set the following priorities:

- Manage our portfolio to ensure its performance is consistent with its inherent quality and trading advantages;
- Be opportunistic and nimble with respect to market conditions and all potential uses of capital, supported by a stable yet flexible funding platform; and
- Provide a growing dividend complemented by attractive total returns over the long-term.

In the absence of unforeseen circumstances, the Board intends to increase the quarterly dividend in respect of the year ending June 2025 by 3.0% to 1.471 pence per share, providing an annual total dividend of 5.884 pence. This increase represents a modest premium to RPI of 2.9% for the year ended 30 June 2024. The quality of our rental stream and its guaranteed growth allow us to grow our dividends to shareholders with confidence.

Our portfolio consists of premium quality assets in a defensive investment class with compelling demand tailwinds, representing a great foundation for our future.

Alison Fyfe
Chair
16 September 2024

Investment Manager's Report

Portfolio performance

Two key portfolio metrics are presented in this report which are reflective of the investment grade characteristics of our prime, modern UK care home portfolio. Firstly, rental growth was 3.8% on a like-for-like basis (2023: 3.8%) and has been supported by a quality rental stream from 34 tenants with robust rent covers of 1.9x (2023: 1.6x). Underlying demand for places in our homes remains high at 87% mature home occupancy (2023: 85%) with scope for further profitability growth as occupancy trends further towards the 90% long-term average.

Secondly, portfolio-level total returns continue to impress. We are delighted to have been the top performer in the MSCI UK Annual Healthcare Property Index for the calendar year 2023, coming first of 37 contributors at 9.7% total return. More importantly, this is sustained performance as we rank second over the 10-year period ending 2023. Investment demand in an active market supports valuations, with the like-for-like valuation growth for the year of 3.7% largely driven by the growth in rents as valuation yield volatility remains low for prime care homes.

Our portfolio metrics are strong. 90% of homes are mature in their trading, 84% are younger than 2010-build date, and the WAULT remains long at over 26 years. These characteristics and the bias towards private-fee payments of our tenants' revenue (74%) all support the quality of our rental stream and its annual and compounding long-term growth. We continue to be able to re-tenant assets to alternative operators where it benefits the overall portfolio. We transitioned a home in the North-East of Scotland to an operator with a core focus in that region, and consistent with previous tenant changes, this was achieved at no change to the prevailing, sustainable rent level and with no Group-funded incentives required. The portfolio metrics have also benefitted from our disposal programme. The £44.3 million transaction for four care homes prior to the year-end was (i) at an implied NIY of 5.6%, ahead of the portfolio average of 6.2%; (ii) for four of the oldest assets in the portfolio; and (iii) for four of the shortest remaining lease terms. The proceeds have been used to reduce drawn debt levels and to fund construction of the Group's development assets, providing brand new, purpose-built beds on 35-year leases to replace the older assets subject to disposal.

Care home trading

Our typical investment appraisal is based on a home's ability to achieve earnings at least 1.6x the home's rent, to provide headroom and financial resilience. The portfolio has achieved 1.9x rent cover this year, endorsing our investment case on the trading potential of prime care home real estate, particularly given resident occupancy is not at capacity. We continue to believe this is at least partly due to tenants' reluctance to fill beds 'at any cost', with many being resistant to accepting financially unviable fees from publicly-funded sources. Profitability follows growing revenue in a well-run business, and we believe this trend will continue for those who have chosen to follow a 'quality first' ethos with regard to building suitability. There is increasing evidence that post Covid the flight to quality is accelerating with families willing and prepared to pay for better facilities for their loved ones.

Average weekly fees for residents have increased by c.9%-10% as a result of the above approach and inflationary cost increases are largely being passed on. Staff costs are the largest and potentially most volatile expense item for a home and are therefore the bellwether for the sustainability of home profitability. Staff costs per resident per week have increased by a similar percentage as fees, whilst agency usage and costs have reduced as operators manage costs.

Investment market

Low volatility of valuation continues

The UK care home investment market remained muted relative to the pre-2022 average. Some of the major investors paused activity, with availability of capital and the yield available relative to the risk-free rate being constraining factors. Scarcity of quality product in the market has also been a key theme with sales activity in the main driven by investment holders requiring to re-balance their asset weightings and to generate liquidity. There has been competitive tension for prime assets, with lower demand for sub-prime where pricing has moved out towards net initial yields of 10%. Care homes with strong ESG credentials remain attractive targets for investment activity.

On pricing, the reaction to the 2022 mini budget was an initial outward yield movement of 40-50 bps which then softened marginally to 30-40 bps. This reflects what we observed in the transactional market for deals completing, and also in the portfolio EPRA topped-up NIY of 6.20% compared to that of two years ago at 30 June 2022 of 5.82%. Prime care homes have once again proven to be less volatile than All Property whilst still providing returns at an attractive spread to the risk-free rate.

Health and social care update

We note below a number of areas which are prominent in our minds and those of our tenants:

Change of Government and the future of social care

During the July 2024 General Election campaign, the Conservatives chose to promote their multi-year funding settlement to Local Authorities as well as their commitment to implement the previously postponed 'Dilnot' cap on social care costs from October 2025. Labour mirrored the same care cap proposal along with the creation of a National Care Service, and an intention to establish a fair pay agreement across the sector.

Subsequent to its win the new Labour government cancelled the proposed 'Dilnot' cap on care costs and proposed instead a much broader rethink of policy, likely including a Royal Commission on the matter. Private operators may be encouraged by pre-election comments of Wes Streeting, (now) Secretary of State for Health and Social Care, who said he was 'pragmatic' about the use of private health in support of the NHS going forward. Also, it is recognised by Government that care homes and the wider social care sector are an essential aide to the smooth running of the NHS. The Labour Government has set a priority on improving the flow through NHS hospitals - including by allowing earlier discharges and the likely consequence of this will be to increase demand for care home provision.

Staffing and inflationary pressures

Recruitment has eased considerably over the course of the year, and while concerns have been raised recently about the fall in health and social care worker visa applications, many operators are reporting stable staffing, with the use of expensive agency support reduced back to more historical low levels and used mainly for routine gaps in staffing, brought about by unplanned shortages such as sickness cover. Operators are however watching applications with some disquiet, as the previous Government's decision to restrict accompanying dependants from applicants (while not doing the same for NHS applicants) has created a nervousness that future applicants may choose other geographies over the UK and worry that come reapplication time for existing visa holders, unknown numbers may not choose to stay.

The minimum wage rise, while putting pressure on organisations who rely on lower publicly funded fee rates, is widely supported by the sector, who value the dedication of those who choose the sector as much from a vocational perspective as simply just routine employment. Most operators will however be watching with interest the new Government's intention to introduce collective and fair pay agreements across adult social care, which will push costs up going forward with a resultant pressure on fee inflation.

Demographics of those of working age may become more of a challenge for the sector. The 150,000 vacancy volume across the sector has recently been reduced to 130,000, according to the organisation 'Skills for care', but the same organisation notes if the workforce need grows in line with demographic changes an extra 440,000 roles will be required by 2035. There are currently 440,000 posts filled by people who will reach retirement age in the next 10 years.

Regulation
English operators who have suffered some frustration with the Care Quality Commission (CQC), since the introduction of the regulator's new 'single assessment framework' last autumn, feel slightly vindicated in the Government's 'Dash' report, which highlights some serious concerns in the methodology for inspections and ratings. Wes Streeting, the Secretary of State for Health and Social Care, went as far as to say it was clear to him that the CQC was 'not fit for purpose'. While this is a relief to many operators, in that they too found difficulty in understanding what was expected of them, it potentially causes further frustration in the delay of inspections for homes deemed 'Required Improvement', where operators are delayed in communicating a clean bill of health to potential clientele. It is too early to say whether the CQC will be subject to tinkering reform, or whether more sweeping change will take place.

Target Fund Managers Limited
16 September 2024

Our Strategy

We are a responsible investor in ESG-compliant, purpose-built care home real estate which is commensurate with modern living and care standards.

We are advocates of the benefits that intelligently designed, purpose-built care homes can bring and we want more residents, care professionals, families and local communities to benefit from their positive social impact.

Our Investment Manager is a specialist who understands the operational challenges our tenants face on a daily basis when providing quality care.

The key strengths of our approach are:
1. Our premium quality real estate is attractive to both operators and investors, in that:
   a. it is future-proofed against legislative change and societal trends influencing demand, and;
   b. it generates high quality earnings from financially sustainable rents
2. Specialist manager, highly engaged within sector and with our tenants
3. Prudent approach to financial risks with diversified income sources, low gearing and long-term, fixed rate debt

Strategic pillar #1
Build high-quality portfolio: Acquire high quality real estate via a mix of new developments, recently completed builds, and modern assets at mature trading.

We are creating a portfolio of scale through investment in a mix of development sites, recently completed builds and modern assets with a trading track record. Our clear focus on the quality of real estate and sustainable long-term trading provides a stable platform for consistent total returns.

Focus on enhancing modernity and quality metrics
Consistent with the prior year, the negative spread between our marginal cost of capital and available investment yields have seen us pause new investment and focus on enhancing the existing portfolio. We have continued to dispose of assets where their returns outlook is less favourable and/or where they sit at the lower end of our quality rankings. Disposal proceeds have been applied to fund the committed development of new-build assets rather than drawing debt with an expensive marginal cost.

Disposals of four assets this year follow last year's five disposals. All have been made at or above carrying value, and at attractive return metrics. We have been active on five development sites during the year, with three homes reaching practical completion, adding 203 beds and £2.5m of contractual rent to the portfolio, including our first operationally carbon zero home. We remain active on two sites at year-end, which will add a further 126 beds and £1.5m of contractual rent at practical completion, expected in Autumn 2024.

These initiatives further enhance the portfolio's modernity and longevity. The positive impact can be seen through the progression in key portfolio metrics relative to the start of the year:

	2024	2023
Purpose- built 2010 onwards	**84%**	80%
WAULT (years)	**26.4**	26.5
EPC A&B rated	**99%**	94%

Best-in-class care home real estate
Our investment thesis remains that modern, purpose-built care homes will outperform poorer real estate assets and provide compelling returns.

Wet-rooms (99%): These are essential for private and dignified personal hygiene, with a clear trend to this being the minimum expected standard for care home beds.

Carbon reduction (99% EPC A or B; 100% C or better): Energy efficiency of real estate is critical, with legislative change and public opinion demanding higher standards. Our portfolio is compliant with anticipated incoming legislation.

Purpose-built and modern (100%): All our properties are designed and built to be used as care homes and to best meet the needs of residents and staff.

Financials: Our metrics reflecting capital values and rental levels compare favourably with peers, despite significantly better real estate, demonstrating sustainability and longevity.

Premium, purpose-built portfolio: We are significantly ahead of our listed peers across a range of key quality metrics.

	Group	Listed Peers Average[1]
Purpose-built since 2000	97%	41%
En suite wet-rooms	99%	29%
Space per resident	48m^2	40m^2
Portfolio Topped-up NIY	6.2%	6.5%
Average rent per m^2	£195	£183
Average value per m^2	£3.0k	£2.6k

[1] Listed Peers Average is comprised of publicly available information available or disclosed by Impact Healthcare REIT and Aedifica (in relation to their UK portfolio).

Stable valuations growing with rental income
The portfolio value increased by 4.6% during the year, driven by an increase of £50.3 million from capital expenditure under the Group's development and asset improvement programmes, offset by disposals of £42.4 million. On a like-for-like basis, the valuation increased by 3.7% largely reflecting the positive impact of the Group's rental growth on valuations as well as yield stability.

Valuation Analysis	£millions
Valuation at 30 June 2023	**869**
Acquisitions and developments	50
Disposals	(42)
Market yield shift	1
Rent reviews	31
Valuation at 30 June 2024	**909**

Valuation certificates are received quarterly by the Group from CBRE (from March 2024, previously Colliers) with up-to-date values reflecting latest asset trading and comparable market transactions. The portfolio has a strong track record of valuation growth contributing to total returns.

Diversification
We continue to ensure the portfolio remains diversified, by leasing our homes to a range of high-quality regional operators. The Group has 34 tenants, up from 32 due to the completed developments and a re-tenanting, and offset by the disposals in the year. The largest tenant remains unchanged with Ideal Carehomes ("Ideal") operating 18 of the Group's homes and accounting for 16% of contracted rent as at 30 June 2024. Ideal's care provision is performed exclusively from modern, purpose-built homes, often brand-new builds, and is one we have supported for a number of years. During the year Ideal was acquired by the UK's largest care home operator, HC-One. Overall, our top five tenants account for 41% and top ten, 63% of our contracted rents.

Underlying resident fees are balanced between private and public sources, with a deliberate bias towards private. There is long-term evidence and strong current anecdotal evidence that these residents are more accepting of higher fees, particularly for the quality real estate and care services our properties and their operators provide. Census data from our tenants show that 74% of residents are privately-funded, with 52% being fully private and 22% from "top up" payments where residents pay over and above that which the Local Authority funds for them. 26% of residents are wholly publicly funded.

Geographically, following the disposals in the year, the South East is now the Group's largest region by asset value, at 20%, with Yorkshire and the Humber accounting for 19%.

Strategic pillar #2
Trusted Landlord: Manage assets and tenants commercially yet fairly, recognising the value of long-term relationships and our influence within a complex sector.

Manage portfolio as a trusted landlord in a fair and commercial manner
The Investment Manager has deep experience within the sector and uses its unique knowledge to manage the portfolio. Starting with informed assessment of home performance using profitability and operational metrics, through empathetic and sensitive engagement with our tenants and sector participants as a whole - we are trusted and respected and people want to partner with us. This enables fair treatment and commerciality to be balanced, essential in a complex sector.

Portfolio operational performance - Steady occupancy and strong profitability continues at home level
Our completed portfolio is fully let with long-term occupational leases to our tenants, the care providers. Their underlying resident occupancies have remained stable at 87%, consistent with the 86% we reported at this time last year. Operators continue to focus on accepting new residents at fee levels commensurate with the services provided, rather than filling to capacity at uneconomic fees. This approach efficiently manages demand, minimises the need for expensive agency staff, and facilitates a care-led approach when welcoming new residents to a home. Staffing shortages have eased, having been an operational challenge limiting occupancy growth in previous years.

Rent covers have responded to this approach. Having improved to a quarterly 1.9x for mature homes at the start of the year, they have remained at these levels, with the last 12 months returning cover of 1.9x. These profitability levels support rental payments and financial resilience, and incentivise care providers to invest in their businesses and people.

Clearly, should operators increase resident occupancy levels towards 90% there is potential for further growth in their underlying profitability.

Rent collection was near-full at 99% (2023: 97%) for the year, with no exclusions for non-performing or turnaround homes.

Growing and compounding rental income
The portfolio's contractual rent roll was £58.8 million at year-end (2023: £56.6 million). The 4.0% increase was driven by positive contribution from capex and our developments offset by our disposals programme. Like-for-like rental growth, which reflects the Group's annual rent reviews, is the Key Performance Indicator used by management in assessing recurring rental growth, with this being 3.8% for the year.

Movement in Contacted Rent	**£millions**
Contracted rent at 30 June 2023	**56.6**
Rent reviews	2.1
Acquisitions and developments	2.8
Disposals	(2.7)
Contracted rent at 30 June 2024	**58.8**

Rent from the Group's leases increase annually, linked to inflation. Collars on this (typically 1.5%) ensure the Group receives guaranteed growth, while caps (at a typical 4%) ensure assets do not become over-rented, risking rents becoming unaffordable, in periods of higher inflation as we have seen recently. This is an important aspect in providing long-term security to our tenants, and in achieving sustainable investment returns.

Tenant and resident satisfaction
We remain committed to our role as an effective, supportive and engaged landlord. We once again invited our tenants to provide formal feedback via a survey performed by an independent third party. We use this output, alongside learnings from the many informal points of contact we have, to inform our approach. The survey returned positive quantitative results, and more usefully some qualitative feedback on how we may consider altering our interactions with tenants to recognise that no two tenants are the same.

Resident satisfaction
Regulator (CQC in England) ratings are informative but limited. The Investment Manager also monitors reviews on "Carehome.co.uk", a "Tripadvisor" style website for care homes, as a useful source of real-time feedback which is more focussed on the resident experience, and that of their loved ones.

Strategic pillar #3
Deliver Returns: Convert portfolio income and capital returns into sustainable returns to shareholders through disciplined financial and risk management.

Regular dividends for shareholders.
The Group has achieved earnings growth; NTA growth; and a dividend fully covered by earnings from its disciplined financial and risk management.

	Pence per share
EPRA NTA per share as at 30 June 2023	**104.5**
Acquisition costs	(0.1)
Disposal	0.3
Property revaluations	5.8
Adjusted EPRA earnings	5.9
Dividends paid	(5.7)
EPRA NTA per share as at 30 June 2024	**110.7**

Earnings
Earnings increased by 2.2%, as measured by adjusted EPRA EPS; the Group's primary performance measure. Rental income has increased by 4.0%, with reduced income from prior year disposals countered by inflation-linked rental growth and new leases entered as the Group's development assets reach practical completion. Provisioning/ credit loss allowance (for doubtful debts) was significantly reduced from the prior year as the portfolio continues to perform well from a rent collection and rent cover perspective, though the reported movement has increased on a net basis given the prior year also benefitted from the recovery of a substantial arrears balance.

The impact of inflation on the Group's operating expenses was controlled, with a 1.1% increase for the year.

Net finance costs increased to £10.8 million from £9.4 million, driven by the increase in drawn debt through the year and the higher interest rate environment. The Group's interest costs are fixed/hedged on £230 million of drawn debt until November 2025.

	2024 £m	Movement	2023 £m
Rental income (excluding guaranteed uplifts)	**58.6**	+4%	56.4
Administrative expenses (including management fee and credit loss allowance)	**(11.6)**	+8%	(10.7)
Net financing costs	**(10.8)**	+15%	(9.4)
Interest from development funding	**1.8**	+100%	0.9
Adjusted EPRA earnings	**38.0**	+2%	37.2
Adjusted EPRA EPS (pence)	**6.13**	+2%	6.00
EPRA EPS (pence)	**7.61**	-1%	7.67
Adjusted EPRA cost ratio	**19.1%**	+40bps	18.7%
EPRA cost ratio	**16.6%**	+80bps	15.8%

Ongoing Charges Figure ('OCF')	**1.51%**	-2bps	1.53%

Expense ratio
The Group's expense ratios reflect these movements. The adjusted EPRA cost ratio, expressing costs as a percentage of the Group's rental income, increased slightly to 19.1% from 18.7% with the £698k net increase in the credit loss allowance and bad debts in the year having a proportionately larger numerator effect on the expenses than the £3.0 million growth in the gross rental income denominator. The Ongoing Charges Figure, which provides a measure of recurring operating expenses was fairly stable at 1.51% (2023: 1.53%), the marginal decrease being driven by reductions in the Group's recurring cost base such as the outcome of the valuation tender conducted during the year.

Total Returns
Accounting total return, using EPRA NTA movement and dividends paid, was a healthy 11.8% for the year ended June 2024 and an annualised 7.4% since launch. Our portfolio has returned like-for-like valuation growth for each of the six quarters since the December 2022 macro-driven response to the higher interest rate environment. Our valuations have been less volatile than the wider commercial property population, as reported within the MSCI Monthly Index (All Property), due to the strength of investment demand and the trading performance at the underlying home level.

This valuation performance, allied with our dividend payouts, fully covered by earnings for the same six-quarter period, has seen EPRA NTA grow by 5.9% over the year, and 7.5% since the market nadir, and contribute to total returns.

The consistency of Group level accounting total returns and those at portfolio level clearly demonstrate the stability of our business model, and the defensive, non-cyclical nature of prime care homes as a real estate asset class.

Debt
Debt facilities were unchanged in the year at £320 million. The weighted average term to expiry on the Group's total committed loan facilities was 5.2 years (30 June 2023: 6.2 years), with drawn debt of £243 million incurring a weighted average cost, inclusive of amortisation of loan arrangement costs, of 3.9% (3.7% on a cash only basis with costs excluded).

Net LTV was 22.5%, with the Group's revolving credit facilities allowing flexible drawdowns /repayments in line with capital requirements.

Ahead of the earliest refinancing point in November 2025, the Group has (i) obtained refinancing terms from its existing bank lenders and (ii) presented to a number of lenders in the private placement markets. Both avenues have yielded commercially attractive refinancing terms and options, and evidenced appetite/demand. These are being carefully assessed with respect to the Group's preferred financing structure and capital requirements.

Debt Provider	Facility Size	Debt Type	Drawn at 30 June 2024	Maturity
Phoenix Group	£150m	Term debt	£150m (fixed rate)	Jan 2037 - £63m Jan 2032 - £87m
RBS	£70m	£30m Term debt £40m Revolving credit facility	£30m (hedged) £13m (floating rate)	Nov 2025
HSBC	£100m	Revolving credit facility	£50m (hedged)	Nov 2025
Total	**£320m**		**£243m**	

Net debt to EBITDA ratio of 4.6x (2023: 4.8x)
This is a leverage ratio that compares the Group's long-term liabilities in the form of net debt to an estimate of its cash flow available to pay down this debt, in the form of EBITDA (which stands for earnings before interest, taxes, depreciation and amortisation).

The Group uses adjusted EPRA earnings as its EBITDA, and the gradual reduction illustrates the improvement in the Group's ability to repay the capital value of its debt from earnings over a period in which interest rates have risen.

Strategic pillar #4
To achieve our social purpose: To adhere to our responsible investment fundamentals, delivering positive social impact allied with a firm commitment to environmental sustainability and good governance.

We have a clear ESG Charter (Targeting Tomorrow) to ensure the social impact objective we launched with remains embedded in our business for years to come, working with shareholders, tenants and other stakeholders. We have made firm ESG commitments which we measure and report progress on annually.

ESG commitments	What this means for Target	Status
Responsible investment	Continue to provide better care home real estate which results in positive social impact for residents, their carers and local communities.	Met
	Support the sector's transition from poor real estate standards via long-term financial/ investment support for new developments.	Met
	Obtain reliable certification and insightful data on the energy efficiency of our real estate.	Met
	Increase data coverage of energy consumption by our tenants, aiding transparency and our ability to positively influence energy efficiency.	Met
	Ensure ESG factors embedded into acquisition process and portfolio management.	Met
	Net zero commitment.	Partially met
Responsible partnerships	Engage with tenants to ensure real estate is meeting their operational and staff needs, allowing effective care for residents.	Partially met

	Use energy data obtained from tenants to positively influence behaviours where possible.	Partially met
	Be a responsible landlord to our tenants and their communities through significant challenges, such as pandemics.	Met
Responsible business	To establish an ESG Committee to provide appropriate focus and impetus to ESG matters.	Met
	Ensure the benefits of Board diversity are achieved.	Partially met
	Participate in benchmarking and sector appropriate programmes to provide comparable information to stakeholders.	Partially met
	Other reporting: Align financial and non-financial reporting with widely used frameworks.	Partially met

ESG Commitments in focus: Net Zero Pathway (NZP)

Quality of input data

Achieving a zero-carbon portfolio is a crucial part of our suite of "targeting tomorrow" commitments as a responsible business. It is essential to adopt a strategy that is:

(i) based on comprehensive and reliable data;
(ii) achievable and measurable; and
(iii) suitably ambitious.

We have collaborated with our tenants and are now collecting their energy usage data to an extent (94% coverage) which our external technical experts inform us compares strongly to sector averages. This rich data allows a reliable analysis of our starting position and of the impacts of initiatives. Any such output would be significantly diminished without the quality of input data we have.

Output status

The output we currently have:

- Benchmark data on where we currently stand on carbon intensity, relative to the CRREM and SBTi joint 1.5°C decarbonisation pathway, required to achieve net zero in an appropriate timeframe
- Suggested energy efficiency and carbon reduction initiatives relevant to our properties
- Cost estimates and impact assessments on carbon intensity

Next steps

We are carefully considering this information with respect to:

- How likely is grid decarbonisation and how much reliance should we place on this versus prioritising on-site renewables?
- How effective are on-site electrification initiatives? (the most relevant question is the relationship between heat pumps and existing heat distribution systems within a property)
- What are our views on the value of offsetting initiatives, and the future outlook for that market?

Certainties

- Our portfolio's modernity provides an excellent starting point, benchmarking significantly ahead of the CRREM and SBTi current required minimum level of intensity)
- There are a number of interventions we can pursue to reduce carbon intensity, which appear to be effective from a cost perspective. We are currently focussed on increasing our understanding of these to rank our preferred initiatives.

We'll continue to perform diligence to ensure we are educated and informed. Our NZP will have meaningful and realistic targets, and will include stakeholder value as an objective when considering how best to deliver a zero-carbon portfolio.

Principal and emerging risks and risk management

Risk	Description of risk and factors affecting risk rating	Mitigation
Poor performance of investments/ investment assets *Risk rating & change: High (unchanged)*	There is a risk that a tenant's business could become unsustainable if its care homes trade poorly. This could lead to a loss of income for the Group and an adverse impact on the Group's results and shareholder returns. The strategy of investing in new purpose-built care homes could lead to additional fill-up risk and there may be a limited amount of time that operators can fund start-up losses.	The Investment Manager focuses on tenant diversification across the portfolio and, by considering the local market dynamics for each home, aims to ensure that rents are set at sustainable levels. Rent deposits or other guarantees are sought, where appropriate, to provide additional security for the Group. The Investment Manager has ongoing engagement with the Group's tenants to proactively assist and monitor performance.
High inflationary environment *Risk rating & change: Medium (decreased)*	An increase in the UK inflation rate to a level above the rent review caps in place across the portfolio's long-term leases may result in a real term decrease in the Group's income and be detrimental to its performance. In addition, cost increases for tenants, particularly in relation to staffing and utilities, may erode their profitability and rent cover unless their revenue increases accordingly.	The Group's portfolio includes inflation-linked leases, with primarily annual upwards-only rent reviews within a cap and collar. The gradual fall in the RPI inflation rate since October 2022 means that, at 30 June 2024, the rate of inflation was below the level of the Group's rent review caps. The Investment Manager is monitoring tenant

		performance, including rent covers and whether average weekly fees paid by the underlying diversified mix of publicly funded and private-fee paying residents are growing in line with inflation.
Adverse interest rate fluctuations / debt covenant compliance *Risk rating & change: Medium (unchanged)*	Adverse interest rate fluctuations will increase the cost of the Group's variable rate debt facilities; limit borrowing capacity; adversely impact property valuations; and be detrimental to the Group's overall returns.	The Group has a conservative gearing strategy and, although net gearing is anticipated to increase as the Group nears full investment, this reduced following the property disposals in June 2024. Loan covenants and liquidity levels are closely monitored for compliance and headroom. The Group has fixed interest costs on £230 million of its total borrowings of £243 million as at 30 June 2024.
Negative perception of the care home sector *Risk rating & change: Medium (unchanged)*	A negative perception of the care home sector, due to matters such as societal trends, pandemic or safeguarding failures, or difficulties in accessing social care, may result in a reduction in demand for care home beds, causing asset performance to fall below expectations despite the demographic shifts and the realities of needs-based demand in the sector. The resultant reputational damage could impact occupancy levels and rent covers across the portfolio.	The Group is committed to investing in high quality real estate with high quality operators. These assets are expected to experience demand ahead of the sector average while in the wider market a large number of care homes without fit-for-purpose facilities are expected to close. A trend of improving occupancy rates across the portfolio has been noted in recent times.
Availability of capital *Risk rating & change: Medium (unchanged)*	Without access to equity or debt capital, the Group may be unable to grow through acquisition of attractive investment opportunities. This is likely to be driven by both investor demand and lender appetite which will reflect Group performance, competitor performance, general market conditions and the relative attractiveness of investment in UK healthcare property.	The Group maintains regular communication with investors and existing debt providers, and, with the assistance of its broker and sponsor, regularly monitors the Group's capital requirements and investment pipeline alongside opportunities to raise both equity and debt. Whilst the Company's shares remain at a discount, potentially limiting access to equity capital for further growth, discussions with existing and potential lenders indicate sufficient appetite to enable a refinancing on acceptable terms of the Group's loan facilities due to expire in November 2025.
ESG and climate change *Risk rating & change: Medium (unchanged)*	A change in climate, such as an increased risk of local or coastal flooding, or a change in tenant/ investor demands or regulatory requirements for properties which meet certain environmental criteria, such as integral heat pumps, may result in a fall in demand for the Group's properties, reducing rental income and/or property valuations.	The Group is committed to investing in high quality real estate with high quality operators. The portfolio's EPC and BREEAM in-use ratings suggest the portfolio is well positioned to meet future requirements/expectations. The Investment Manager uses a house standard to ensure ESG factors are fully considered during the acquisition process.
Reduced availability of carers, nurses and other care home staff *Risk rating & change: Medium (unchanged)*	The combined impacts of the pandemic and increased employment and wage inflation in competing sectors has reduced the availability of key staff in the care sector which may result in a reduction in the quality of care for underlying residents, restrict tenants from being able to admit residents or result in wage inflation.	The Group is committed to investing in high quality real estate with high quality operators and these should be better placed to attract staff. The Investment Manager continues to engage with tenants in the portfolio and to share examples of best practice in recruitment and retention of staff.
Development costs *Risk rating & change: Medium (decreased)*	The high inflationary environment, particularly for building materials and staff, combined with supply chain difficulties, may result in an increased risk that the developers of contracted developments do not fulfil their obligations and/or may increase the cost of new development opportunities.	The Group is not significantly exposed to development risk, with forward funded acquisitions being developed under fixed price contracts, with the Investment Manager having considered both the financial strength of the developer and the ability of the developer's

		profit to absorb any cost overruns. As at 30 June 2024, the Group held only two remaining developments.
Breach of REIT regulations *Risk rating & change: Medium (unchanged)*	A breach of REIT regulations, primarily in relation to making the necessary level of distributions, may result in loss of tax advantages derived from the Group's REIT status. The Group remains fully compliant with the REIT regulations and is fully domiciled in the UK.	The Group's activities, including the level of distributions, are monitored to ensure all conditions are adhered to. The REIT rules are considered during investment appraisal and transactions structured to ensure conditions are met.
Changes in government policies *Risk rating & change: Medium (unchanged)*	Changes in government policies, including those affecting local authority funding of care, may render the Group's strategy inappropriate. Secure income and property valuations will be at risk if tenant finances suffer from policy changes.	Government policy is monitored by the Group to increase the ability to anticipate changes. The Group's tenants also typically have a multiplicity of income sources, with their business models not wholly dependent on government funding.
Reliance on third party service providers *Risk rating & change: Medium (unchanged)*	The Group is externally managed and, as such, relies on a number of service providers. Poor quality service from providers such as the Investment Manager, company secretary, broker, legal advisers or depositary could have potentially negative impacts on the Group's investment performance, legal obligations, compliance or shareholder relations.	The Investment Manager, along with all other service providers, is subject to regular performance appraisal by the Board. The Investment Manager has retained key personnel since the Group's IPO and has successfully hired further skilled individuals and invested in its systems.
Failure to differentiate qualities from competitors or poor investment performance *Risk rating & change: Medium (unchanged)*	Failing to differentiate strategy and qualities from competitors is a significant risk for the business, with increased competition in the healthcare real estate sector. The failure to communicate these effectively to stakeholders could have a negative impact on the Company's share price, future demand for equity raises and/or debt finance and wider reputational damage.	The stakeholder communications strategy of the Group has always been to highlight the quality of the real estate in which the Group invests. The regular production of investor relations materials (annual and interim reports, investor presentations and quarterly factsheets) along with direct engagement with investors helps to mitigate this risk.

The Company's risk matrix is reviewed regularly by the Board. Emerging risks are identified though regular discussion at Board meetings of matters relevant to the Company and the sectors in which it operates; including matters that may impact on the underlying tenant operators. In addition, the Board holds an annual two-day strategy meeting which includes presentations from relevant external parties to ensure that the Board is fully briefed on relevant matters. At the strategy meeting, as part of an overall SWOT analysis, principal and emerging risks are discussed and reviewed to ensure that they have all been appropriately identified and, where necessary, addressed. The detailed consideration of the Company's viability and its continuation as a going concern, including sensitivity analysis to address the appropriate risks, is set out below.

Section 172 Statement: Promoting the success of Target Healthcare REIT plc

The Board considers that it has made decisions during the year which will promote the success of the Group for the benefit of its members as a whole.

a) The likely consequences of any decision in the long term	Our investment approach is long-term with an average lease length of 26.4 years. We believe this is the most responsible approach to provide stability and sustainability to tenants and key stakeholders. Therefore, most decisions require consideration of long-term consequences, from determining a sustainable rent level and the right tenant partner for each investment, to considering the impact of debt and key contracts with service providers on the recurring earnings which support dividends to shareholders.
b) The interests of the Company's employees	The Company is externally managed and therefore has no employees.
c) The need to foster the Company's business relationships with suppliers, customers and others	As a REIT with no employees, the Board works in close partnership with the Manager, which runs the Group's operations and portfolio within parameters set by the Board and subject to appropriate oversight. The Manager has deep relationships with tenants, the wider care home sector, and many of the Group's other suppliers. These are set out in more detail in the following table.
d) The impact of the Company's operations on the community and the environment	The Board is confident the Group's approach to investing in a sensitive sector is responsible with regard to social and environmental impact. This is set out in more detail in the community and the environment section of the following table.
e) The desirability of the Company maintaining a	The Board requires high standards of itself, service providers and stakeholders. The Group's purpose and investment objectives dictate that

reputation for high standards of business conduct	these standards are met in order to retain credibility. The ethos and tone is set by the Board and the Manager.
f) The need to act fairly as between members of the Company	The Board encourages an active dialogue with shareholders to ensure effective communication, either directly or via its broker and/or Manager. The interests of all shareholders are considered when issuing new shares and/or considering the level of distributions or other return of capital.

The significant transactions where the interests of stakeholders were actively considered by the Board during the year were:

Dividends paid
The Board recognised the importance of dividends to its shareholders and, after careful analysis of the Group's forecast net revenue concluded that, having reduced the quarterly dividend in January 2023, it was in the interests of all stakeholders to increase the Company's dividends in relation to the year ended 30 June 2024 to reflect underlying rental growth whilst remaining at a level which is expected to be fully covered with the potential for further growth. As set out in more detail in the Chair's Statement, the Board intends to increase the quarterly dividends for 2024/25 by a further 3%.

Ongoing investment and asset management activity
The Group acquired a new development site in July 2023. The new, high-quality beds brought to the market by completion of this operationally net carbon zero home in June 2024, combined with the Group's other developments and its asset management activities to increase the percentage of wet rooms in the property portfolio to 99%, illustrate the Group's intent of improving the overall level of care home real estate in the UK. This approach targets attractive long-term returns to shareholders by focusing on a sustainable and 'future proofed' sector of the care home market.

The overall quality of the Group's portfolio was also improved by the disposal of four homes from the portfolio which were in the lower quartile of the portfolio with respect to age, lease length and overall building quality. The disposal at an implied net initial yield of 5.64%, demonstrated to the market the institutional grade quality and demand for both the Group's prime care home real estate portfolio and for the wider sector.

The Group has particularly considered the level of carbon emissions from its property portfolio, significantly improving the level of data collection and significantly advancing its determination of a plan to reach net zero carbon in line with the science-based target to limit warming to 1.5°C.

The Group completed the re-tenanting of a property with the rental level remaining unchanged and green provisions being included in the revised lease.

Capital financing
The Board continued to minimise the Group's exposure to rising interest rates on its borrowings by allocating the proceeds from the disposal above to reduce the Group's more expensive unhedged debt and fund the remaining development pipeline. The Board has encouraged the Investment Manager to progress the exploration of options available to refinance the Group's shortest dated debt facilities which expire in November 2025.

Director appointments
With the completion in the prior year of the Board's succession plan for the medium term, Dr Thompsell took on the role of chair of the Nomination Committee, in addition to her existing role as chair of the Remuneration Committee, to ensure the ongoing effectiveness of the Board and continue the process of planning for the longer term. In addition, subsequent to the year-end, Mr Cotton has been appointed as chair of the Management Engagement Committee.

Stakeholders
The Company is a REIT and has no executive directors or employees and is governed by the Board of Directors. Its main stakeholders are shareholders, tenants and their underlying residents, debt providers, the Investment Manager, other service providers and the community and the environment. The Board considers the long-term consequences of its decisions on its stakeholders to ensure the long-term sustainability of the Company.

Shareholders	Shareholders are key stakeholders and the Board proactively seeks the views of its shareholders and places great importance on communication with them. The Board reviews the detail of significant shareholders and recent movements at each Board Meeting and receives regular reports from the Investment Manager and Broker on the views of shareholders, and prospective shareholders, as well as updates on general market trends and expectations. The Chair and other Directors make themselves available to meet shareholders when required to discuss the Group's business and address shareholder queries. The Directors make themselves available at the AGM in person, with the Company also providing the ability for any questions to be raised with the Board by email in advance of the meeting. The Company and Investment Manager also provide regular updates to shareholders and the market through the Annual Report, Interim Report, Sustainability Report, regular RNS announcements, quarterly investor reports and the Company's website. The Investment Manager holds a results presentation on the day of publication of each of the Annual and Interim Reports, and meets with analysts and members of the financial press throughout the year.

Tenants and underlying residents	The Investment Manager liaises closely with tenants to understand their needs, and those of their underlying residents, through visits to properties and regular communication with both care home personnel and senior management of the tenant operators. The effectiveness of this engagement is assessed through a regular survey which, during 2024, was undertaken by an external third-party. The Investment Manager also receives, and analyses, management information provided by each tenant at least quarterly and regularly monitors the CQC, or equivalent, rating for each home and any online reviews, such as carehome.co.uk. Any significant matters are discussed with the tenant and included within the Board reporting.
Debt providers	The Group has term loan and revolving credit facilities with the Royal Bank of Scotland plc, HSBC Bank plc and Phoenix Group (see Note 7 to the extract from the Consolidated Financial Statements for more information). The Company maintains a positive working relationship with each of its lenders and provides regular updates, at least quarterly, on portfolio activity and compliance with its loan covenants in relation to each loan facility. The Company has commenced discussions with both existing and potential new lenders in relation to refinancing the proportion of its debt facilities which will expire in November 2025.
Investment Manager	The Investment Manager has responsibility for the day-to-day management of the Group pursuant to the Investment Management Agreement. The Board, and its committees, are in regular communication with the Investment Manager and receive formal presentations at every Board Meeting to aid its oversight of the Group's activities and the formulation of its ongoing strategy. The Board, through the Management Engagement Committee, formally reviews the performance of the Investment Manager, the terms of its appointment and the quality of the other services provided at least annually. Further details on this process and the conclusions reached in relation to the year ended 30 June 2024 are contained in the Annual Report. .
Other service providers	The Board, through the Management Engagement Committee, formally reviews the performance of each of its significant service providers at least annually. The reviews will include the Company's legal advisers, brokers, tax adviser, auditor, depositary, external valuer, company secretary, insurance broker, surveyors and registrar. The purpose of these reviews is to ensure that the quality of the services provided remains of the standard expected by the Board and that overall costs and other contractual arrangements remain in the interests of the Group and other significant stakeholders. The Investment Manager also reports regularly to the Board on these relationships. The significant other service providers, particularly the Group's legal advisers and brokers, are invited to attend Board Meetings, including the annual Strategy Meeting, and report directly to the Directors where appropriate.
Community and the environment	The Group's principal non-financial objective is to generate a positive social impact for the end-users of its real estate. Investment decisions are made based on the fundamental premise that the real estate is suitable for its residents, the staff who care for them, and their friends, families and local communities, both on original acquisition and for the long-term. Environmental considerations are an integral part of the acquisition and portfolio management process, given the strategy of only acquiring modern buildings which benchmark well from an energy efficiency aspect and which meet the requirements of the Investment Manager's ESG Charter 'Targeting Tomorrow'. Under the remit of the ESG Committee, the progression of the Group's ESG strategy has prioritised gathering useful energy/consumption data on its portfolio, whilst identifying and commencing work on a straightforward hierarchy of initiatives to maximise the Group's impact over both the short and longer term; and progressing the formation of a longer term portfolio strategy in relation to setting and meeting the Group's net zero carbon target.

Alison Fyfe
Chair
16 September 2024

Viability Statement

The AIC Code requires the Board to assess the Group's prospects, including a robust assessment of the emerging and principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. This assessment is undertaken with the aim of stating that the Directors have a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the period of their assessment.

The Board has conducted this review over a five-year time horizon, which is a period thought to be appropriate for a company investing in UK care homes with a long-term investment outlook. At each Board Meeting, the Directors consider the key outputs from a detailed financial model covering a similar five year rolling period, as this is considered the maximum timescale over which the performance of the Group can be forecast with a reasonable degree of accuracy. At 30 June 2024, the Group had a property portfolio which has long leases and a weighted average unexpired lease term of 26.4 years. The Group had drawn borrowings of £243.0 million on which the interest rate had been fixed, either directly or through the use of interest rate derivatives, on £230.0 million at a maximum weighted interest rate of 3.52 per cent per annum (excluding the amortisation of arrangement costs) and the remaining £13.0 million carries interest at SONIA plus a weighted average margin of 2.18 per cent per annum (excluding the amortisation of arrangement costs). The Group had access to a further £77.0 million of available debt under committed loan facilities which, if drawn, would carry interest at a variable rate equal to SONIA plus 2.21%. The Group's committed loan facilities have staggered expiry dates with £170.0 million being committed to 5 November 2025, £87.3 million to 12 January 2032 and £62.7 million to 12 January 2037. Discussions with existing and/or new potential lenders do not indicate any issues with re-financing these loans on acceptable terms in due course.

The Directors' assessment of the Group's principal risks are highlighted above. The most significant risks identified as relevant to the viability statement were those relating to:

- Poor performance of investments/ investment assets: The risk that a tenant is unable to sustain a sufficient rental cover, leading to a loss of rental income for the Group;
- High inflationary environment: The risk that the level of the UK inflation rate results in a real term decrease in the Group's income or erodes the profitability of tenants;
- Adverse interest rate fluctuations: The risk that an increase in interest rates may impact property valuations, increase the cost of the Group's variable rate debt facilities, and/or limit the Group's borrowing capacity;
- Negative perception of the care home sector: The risk that overall demand for care home beds is reduced resulting in a decline in the capital and/or income return from the property portfolio; and
- Reduced availability of care home staff: The risk that unavailability of staff restricts the ability of tenants to admit residents or results in significant wage cost inflation, impacting on the tenants' rental cover and leading to a loss of rental income for the Group.

In assessing the Group's viability, the Board has considered the key outputs from a detailed model of the Group's expected cashflows over the coming five years under both normal and stressed conditions. The stressed conditions, which were intended to represent severe but plausible scenarios, included modelling increases in interest rates of 200bps per annum compared to market forecasts at 30 June 2024 (which was applied to both the Group's current uncapped debt and to the assumed rate of refinancing of the Group's hedged loan facilities which expire in November 2025), a reduction in the capital value of the property portfolio of 20% and a significant default on rental receipts from the Group's tenants equating to an aggregate of c.12% of the Group's contracted rent roll. The stressed level of default from the Group's tenants assumed in the financial modelling was based on a detailed assessment of the financial position of each individual tenant or tenant group and the structure in place to secure rental income (such as the strength of tenants' balance sheets, rental guarantees in place or rental deposits held). The financial modelling assumed that the Group's dividend continued to be paid throughout the five year period of the assessment, and that the financial covenants on the Group's loan facilities remained substantially unchanged post refinancing. Under the stressed scenario, the Group's net LTV was forecast to reach a peak of 29% and no breaches were forecast in relation to the Group's compliance with the financial covenants on each of its loan facilities.

Based on the results of the scenario analysis outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.

Consolidated Statement of Comprehensive Income (audited)

For the year ended 30 June 2024

		Year ended 30 June 2024			Year ended 30 June 2023		
		Revenue	**Capital**	**Total**	Revenue	Capital	Total
	Notes	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000
Revenue							
Rental income		**58,615**	**10,927**	**69,542**	56,354	11,308	67,662
Other income		**9**	**-**	**9**	86	-	86
Total revenue		**58,624**	**10,927**	**69,551**	56,440	11,308	67,748
Gains/(losses) on revaluation of investment properties	5	**-**	**24,693**	**24,693**	-	(54,021)	(54,021)
Gains on investment properties realised	5	**-**	**1,934**	**1,934**	-	575	575
Total income		**58,624**	**37,554**	**96,178**	56,440	(42,138)	14,302
Expenditure							
Investment management fee	2	**(7,518)**	**-**	**(7,518)**	(7,428)	-	(7,428)
Credit loss allowance and bad debts	3	**(962)**	**-**	**(962)**	(264)	-	(264)
Other expenses	3	**(3,074)**	**-**	**(3,074)**	(3,046)	-	(3,046)
Total expenditure		**(11,554)**	**-**	**(11,554)**	(10,738)	-	(10,738)
Profit/(loss) before finance costs and taxation		**47,070**	**37,554**	**84,624**	45,702	(42,138)	3,564
Net finance costs							
Interest income		**66**		**66**	134		134

Interest income		**66**	**-**	**66**	134	-	134
Finance costs		**(10,866)**	**(800)**	**(11,666)**	(9,572)	(698)	(10,270)
Net finance costs		**(10,800)**	**(800)**	**(11,600)**	(9,438)	(698)	(10,136)
Profit/(loss) before taxation		**36,270**	**36,754**	**73,024**	36,264	(42,836)	(6,572)
Taxation		**-**	**-**	**-**	-	-	-
Profit/(loss) for the year		**36,270**	**36,754**	**73,024**	36,264	(42,836)	(6,572)
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate derivatives designated as cash flow hedges		**-**	**(3,285)**	**(3,285)**	-	2,742	2,742
Total comprehensive income for the year		**36,270**	**33,469**	**69,739**	36,264	(40,094)	(3,830)
Earnings per share (pence)	4	**5.85**	**5.92**	**11.77**	5.85	(6.91)	(1.06)

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement are derived from continuing operations.

No operations were discontinued in the year.

Consolidated Statement of Financial Position (audited)
As at 30 June 2024

	Notes	**As at 30 June 2024 £'000**	As at 30 June 2023 £'000
Non-current assets			
Investment properties	5	**831,573**	800,155
Trade and other receivables		**88,426**	76,373
Interest rate derivatives		**2,820**	6,905
		922,819	883,433
Current assets			
Trade and other receivables		**5,667**	9,459
Cash and cash equivalents		**38,884**	15,366
		44,551	24,825
Total assets		**967,370**	908,258
Non-current liabilities			
Loans	7	**(240,672)**	(227,051)
Trade and other payables		**(9,893)**	(8,093)
		(250,565)	(235,144)
Current liabilities			
Trade and other payables		**(27,512)**	(18,306)
Total liabilities		**(278,077)**	(253,450)
Net assets		**689,293**	654,808
Share capital and reserves			
Share capital	8	**6,202**	6,202
Share premium		**256,633**	256,633
Merger reserve		**47,751**	47,751
Distributable reserve		**170,347**	187,887
Hedging reserve		**1,741**	5,026
Capital reserve		**77,668**	40,914
Revenue reserve		**128,951**	110,395
Equity shareholders' funds		**689,293**	654,808
Net asset value per ordinary share (pence)	4	**111.1**	105.6

Consolidated Statement of Changes in Equity (audited)
For the year ended 30 June 2024

For the year ended 30 June 2024

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Distrib-utable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2023		**6,202**	**256,633**	**47,751**	**187,887**	**5,026**	**40,914**	**110,395**	**654,808**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**36,754**	**36,270**	**73,024**
Other comprehensive income		**-**	**-**	**-**	**-**	**(3,285)**	**-**	**-**	**(3,285)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(3,285)**	**36,754**	**36,270**	**69,739**
Transactions with owners recognised in equity:									
Dividends paid	**1**	**-**	**-**	**-**	**(17,540)**	**-**	**-**	**(17,714)**	**(35,254)**
At 30 June 2024		**6,202**	**256,633**	**47,751**	**170,347**	**1,741**	**77,668**	**128,951**	**689,293**

For the year ended 30 June 2023

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Distrib-utable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2022		**6,202**	**256,633**	**47,751**	**226,461**	**2,284**	**83,750**	**75,686**	**698,767**
(Loss)/profit for the year		**-**	**-**	**-**	**-**	**-**	**(42,836)**	**36,264**	**(6,572)**
Other comprehensive income		**-**	**-**	**-**	**-**	**2,742**	**-**	**-**	**2,742**
Total comprehensive income		**-**	**-**	**-**	**-**	**2,742**	**(42,836)**	**36,264**	**(3,830)**
Transactions with owners recognised in equity:									
Dividends paid	**1**	**-**	**-**	**-**	**(38,574)**	**-**	**-**	**(1,555)**	**(40,129)**
At 30 June 2023		**6,202**	**256,633**	**47,751**	**187,887**	**5,026**	**40,914**	**110,395**	**654,808**

Consolidated Statement of Cash Flows (audited)

For the year ended 30 June 2024

	Note	Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Cash flows from operating activities			
Profit/(loss) before tax		**73,024**	(6,572)
Adjustments for:			
Interest income		**(66)**	(134)
Finance costs		**11,666**	10,270
Revaluation (gains)/losses on investment properties and movements in lease incentives, net of acquisition costs written off	5	**(35,620)**	42,713
Gains on investment properties realised	5	**(1,934)**	(575)
Decrease/(increase) in trade and other receivables		**3,083**	(4,550)
Increase/(decrease) in trade and other payables		**2,088**	(325)
		52,241	40,827
Interest paid		**(9,962)**	(8,719)
Premium paid on interest rate cap		**-**	(2,577)
Interest received		**66**	134
		(9,896)	(11,162)
Net cash inflow from operating activities		**42,345**	29,665
Cash flows from investing activities			
Purchase of investment properties, including acquisition costs		**(40,927)**	(29,342)
Disposal of investment properties, net of lease incentives		**44,344**	25,789
Net cash inflow/(outflow) from investing activities		**3,417**	(3,553)
Cash flows from financing activities			
Drawdown of bank loan facilities		**52,500**	62,000
Repayment of bank loan facilities		**(39,500)**	(66,750)
Expenses of arrangement of bank loan facilities		**-**	(205)
Dividends paid		**(35,244)**	(40,274)
Net cash outflow from financing activities		**(22,244)**	(45,229)

Net increase/(decrease) in cash and cash equivalents	**23,518**	(19,117)
Opening cash and cash equivalents	**15,366**	34,483
Closing cash and cash equivalents	**38,884**	15,366
Transactions which do not require the use of cash		
Movement in fixed or guaranteed rent reviews and lease incentives	**11,766**	13,516
Fixed or guaranteed rent reviews derecognised on disposal or re-tenanting	**(1,449)**	(732)
Total	**10,317**	12,784

Statement of Directors' Responsibilities in Respect of the Annual Financial Report

In accordance with Chapter 4 of the Disclosure Guidelines and Transparency Rules, we confirm that to the best of our knowledge:

- The financial statements contained within the Annual Report for the year ended 30 June 2024, of which this statement of results is an extract, have been prepared in accordance with applicable UK-adopted International Financial Reporting Standards, on a going concern basis, and give a true and fair view of the assets, liabilities, financial position and return of the Company;
- The Chairman's Statement, Investment Manager's Report and Our Strategy include a fair review of the development and performance of the business and the position of the Company, including important events that have occurred during the financial year and their impact on the financial statements;
- 'Principal and emerging risks and risk management' includes a description of the Company's principal and emerging risks and uncertainties; and
- The Annual Report includes details of related party transactions that have taken place during the financial year.

On behalf of the Board

Alison Fyfe

Chair

16 September 2024

Extract from Notes to the Audited Consolidated Financial Statements

1. Dividends
Amounts paid as distributions to equity holders during the year to 30 June 2024.

	Dividend rate (pence per share)	**Year ended 30 June 2024 £'000**
Fourth interim dividend for the year ended 30 June 2023	**1.400**	**8,683**
First interim dividend for the year ended 30 June 2024	**1.428**	**8,857**
Second interim dividend for the year ended 30 June 2024	**1.428**	**8,857**
Third interim dividend for the year ended 30 June 2024	**1.428**	**8,857**
Total	**5.684**	**35,254**

Amounts paid as distributions to equity holders during the year to 30 June 2023.

	Dividend rate (pence per share)	Year ended 30 June 2023 £'000
Fourth interim dividend for the year ended 30 June 2022	1.69	10,482
First interim dividend for the year ended 30 June 2023	1.69	10,482
Second interim dividend for the year ended 30 June 2023	1.69	10,482
Third interim dividend for the year ended 30 June 2023	1.40	8,683
Total	6.47	40,129

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. The fourth interim dividend in respect of the year ended 30 June 2024, of 1.428 pence per share, was paid on 30 August 2024 to shareholders on the register on 16 August 2024 and amounted to £8,857,000. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

2. Fee paid to the Investment Manager

	Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Investment management fee	**7,518**	7,428
Total	**7,518**	7,428

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') is Target Fund Managers Limited (the 'Investment Manager' or 'Target'). The Investment Manager is entitled to an annual management fee calculated on a tiered basis based on the net assets of the Group as set out below. Where applicable, VAT is payable in addition.

Net assets of the Group	Management fee percentage
Up to and including £500 million	1.05
Above £500 million and up to and including £750 million	0.95
Above £750 million and up to and including £1 billion	0.85
Above £1 billion and up to and including £1.5 billion	0.75
Above £1.5 billion	0.65

The Investment Manager is entitled to an additional fee of £156,000 per annum (plus VAT), increasing annually in line with inflation, in relation to their appointment as Company Secretary and Administrator to the Group.

The Investment Management Agreement can be terminated by either party on 24 months' written notice. Should the Company terminate the Investment Management Agreement earlier then compensation in lieu of notice will be payable to the Investment Manager. The Investment Management Agreement may be terminated immediately without compensation if the Investment Manager: is in material breach of the agreement; is guilty of negligence, wilful default or fraud; is the subject of insolvency proceedings; or there occurs a change of Key Managers to which the Board has not given its prior consent.

3. Other expenses

	Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Total movement in credit loss allowance	**962**	(4,991)
Bad debts written off	**-**	5,255
Credit loss allowance charge	**962**	264

	Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Valuation and other professional fees	**1,107**	1,131
Auditor's remuneration for:		
- statutory audit of the Company	**181**	131
- statutory audit of the Company's subsidiaries	**277**	221
- review of interim financial information	**16**	16
Other taxation compliance and advisory*	**271**	258
Secretarial and administration fees	**229**	208
Directors' fees	**227**	218
Direct property costs	**199**	182
Public relations and marketing	**179**	229
Listing and Registrar fees	**115**	114
Printing, postage and website	**100**	95
Other	**173**	243
Total other expenses	**3,074**	3,046

* The other taxation compliance and advisory fees were all paid to parties other than the Company's Auditor.

4. Earnings per share and Net Asset Value per share

Earnings per share

	Year ended 30 June 2024		Year ended 30 June 2023	
	£'000	**Pence per share**	£'000	Pence per share
Revenue earnings	**36,270**	**5.85**	36,264	5.85
Capital earnings	**36,754**	**5.92**	(42,836)	(6.91)
Total earnings	**73,024**	**11.77**	(6,572)	(1.06)
Average number of shares in issue		**620,237,346**		620,237,346

There were no dilutive shares or potentially dilutive shares in issue.

EPRA is an industry body which issues best practice reporting guidelines for financial disclosures by public real estate companies and the Group reports an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below. Other EPRA measures are included in the section below entitled EPRA Performance Measures.

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties and other items of a capital nature and represents the revenue earned by the Group.

The Group's specific adjusted EPRA earnings adjusts the EPRA earnings for rental income arising from recognising guaranteed rental review uplifts and for development interest received from developers in relation to monies advanced under forward fund agreements which, in the Group's IFRS financial statements, is required to be offset against the book cost of the property under development. The Board believes that the Group's specific adjusted EPRA earnings represents the underlying performance measure appropriate for the Group's business model as it illustrates the underlying revenue stream and costs generated by the Group's property portfolio.

The reconciliations are provided in the table below:

	Year ended 30 June 2024	Year ended 30 June 2023

	£'000	£'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**73,024**	(6,572)
Adjusted for gains on investment properties realised	**(1,934)**	(575)
Adjusted for revaluations of investment properties	**(24,693)**	54,021
Adjusted for finance and transaction costs on the interest rate cap and other capital items	**800**	698
EPRA earnings	**47,197**	47,572
Adjusted for rental income arising from recognising guaranteed rent review uplifts	**(10,927)**	(11,308)
Adjusted for development interest under forward fund agreements	**1,767**	952
Group specific adjusted EPRA earnings	**38,037**	37,216
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**11.77**	(1.06)
EPRA EPS	**7.61**	7.67
Group specific adjusted EPRA EPS	**6.13**	6.00

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 111.1 pence (2023: 105.6 pence) is based on equity shareholders' funds of £689,293,000 (2023: £654,808,000) and on 620,237,346 (2023: 620,237,346) ordinary shares, being the number of shares in issue at the year-end.

The EPRA best practice recommendations include a set of EPRA NAV metrics that are arrived at by adjusting the net asset value calculated under International Financial Reporting Standards ('IFRS') to provide stakeholders with what EPRA believe to be the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios. The three EPRA NAV metrics are:

- **EPRA Net Reinstatement Value ('NRV'):** Assumes that entities never sell assets and aims to represent the value required to rebuild the entity. The objective is to highlight the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value movements on financial derivatives, are excluded and the costs of recreating the Group through investment markets, such as property acquisition costs and taxes, are included.
- **EPRA Net Tangible Assets ('NTA'):** Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. Given the Group's REIT status, it is not expected that significant deferred tax will be applicable to the Group.
- **EPRA Net Disposal Value ('NDV'):** Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. At 30 June 2024, the Group held all its material balance sheet items at fair value, or at a value considered to be a close approximation to fair value, in its financial statements apart from its fixed-rate debt facilities where the fair value is estimated to be lower than the nominal value. See note 7 for further details on the Group's loan facilities.

	2024 EPRA NRV £'000	**2024 EPRA NTA £'000**	**2024 EPRA NDV £'000**	2023 EPRA NRV £'000	2023 EPRA NTA £'000	2023 EPRA NDV £'000
IFRS NAV per financial statements	**689,293**	**689,293**	**689,293**	654,808	654,808	654,808
Fair value of interest rate derivatives	**(2,820)**	**(2,820)**	**-**	(6,905)	(6,905)	-
Fair value of loans	**-**	**-**	**29,780**	-	-	39,672
Estimated purchasers' costs	**60,026**	**-**	**-**	57,461	-	-
EPRA net assets	**746,499**	**686,473**	**719,073**	705,364	647,903	694,480
EPRA net assets (pence per share)	**120.4**	**110.7**	**115.9**	113.7	104.5	112.0

5. Investment properties

Freehold and leasehold properties

	As at 30 June 2024 £'000	As at 30 June 2023 £'000
Opening market value	**868,705**	911,596
Opening fixed or guaranteed rent reviews	**(59,378)**	(48,802)
Opening lease incentives	**(9,172)**	(7,903)
Opening performance payments	**-**	2,800
Opening carrying value	**800,155**	857,691
Disposals - proceeds	**(44,344)**	(26,728)
- gain on sale	**1,382**	6,088
Purchases and performance payments	**45,444**	23,494
Acquisition costs capitalised	**332**	273
Acquisition costs written off	**(332)**	(273)
Unrealised loss/(gain) realised during the year	**552**	(5,513)
Revaluation movement - gains	**45,496**	3,645
Revaluation movement - losses	**(8,705)**	(43,877)
Movement in market value	**39,825**	(42,891)
Fixed or guaranteed rent reviews derecognised on disposal or re-tenanting	**1,449**	732
Lease incentives derecognised on disposal or re-tenanting	**-**	939
Movement in fixed or guaranteed rent reviews	**(10,927)**	(11,308)

Movement in lease incentives	**(839)**	(2,208)
Movement in performance payments	**1,910**	(2,800)
Movement in carrying value	**31,418**	(57,536)
Closing market value	**908,530**	868,705
Closing fixed or guaranteed rent reviews	**(68,856)**	(59,378)
Closing lease incentives	**(10,011)**	(9,172)
Closing performance payments (see Note 10)	**1,910**	-
Closing carrying value	**831,573**	800,155

Changes in the valuation of investment properties	**Year ended 30 June 2024 £'000**	Year ended 30 June 2023 £'000
Gain on sale of investment properties	**1,382**	6,088
Unrealised loss/(gain) realised during the year	**552**	(5,513)
Gain on sale of investment properties realised	**1,934**	575
Revaluation movement	**36,791**	(40,232)
Acquisition costs written off	**(332)**	(273)
Movement in fixed or guaranteed rent reviews	**(10,927)**	(11,308)
Movement in lease incentives	**(839)**	(2,208)
Gains/(losses) on revaluation of investment properties	**26,627**	(53,446)

The investment properties can be analysed as follows:

	As at 30 June 2024 £'000	As at 30 June 2023 £'000
Standing assets	**889,255**	851,305
Developments under forward fund agreements	**19,275**	17,400
Closing market value	**908,530**	868,705

At 30 June 2024, the properties were valued at £908,530,000 by CBRE Limited ('CBRE'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation - Global Standards, incorporating the International Valuation Standards (the 'Red Book Global', 31 January 2022) issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. CBRE has recent experience in the location and category of the investment properties being valued. At 30 June 2023, the properties had been valued at £868,705,000 by Colliers International Healthcare Property Consultants Limited ('Colliers') on the same basis.

Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The quarterly property valuations are reviewed by the Board at each Board meeting. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews, lease incentives and performance payments was £831,573,000 (2023: £800,155,000). The adjustment consisted of £68,856,000 (2023: £59,378,000) relating to fixed or guaranteed rent reviews and £10,011,000 (2023: £9,172,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the accounts as non-current or current assets within 'trade and other receivables'. An adjustment is also made to reflect the amount by which the portfolio value is expected to increase if the performance payments recognised in 'trade and other payables' are paid and the passing rent at the relevant property increased accordingly (see Note 10). The total purchases in the year to 30 June 2024, inclusive of the performance payments recognised in the year, were £47,354,000 (2023: £20,694,000).

6. Investment in subsidiary undertakings

The Group included 49 subsidiary companies as at 30 June 2024 (30 June 2023: 49). All subsidiary companies were wholly owned, either directly or indirectly, by the Company and, from the date of acquisition onwards, the principal activity of each company within the Group was to act as an investment and property company. Other than one subsidiary incorporated in Jersey, two subsidiaries incorporated in Gibraltar and two subsidiaries incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

The Group did not incorporate, acquire or dispose of any subsidiaries during the year (2023: the Group dissolved eight companies which had been acquired as part of previous corporate acquisitions).

7. Loans

	As at 30 June 2024 £'000	As at 30 June 2023 £'000
Principal amount outstanding	**243,000**	230,000
Set-up costs	**(4,520)**	(4,520)
Amortisation of set-up costs	**2,192**	1,571
Total	**240,672**	227,051

In November 2020, the Group entered into a £70,000,000 committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.18 per cent per annum on £50,000,000 of the facility and 2.33 per cent per annum on the remaining £20,000,000 revolving credit facility, both for the duration of the loan. A non-utilisation fee of 1.13 per cent per annum is payable on the first £20,000,000 of any undrawn element of the facility, reducing to 1.05 per cent per annum thereafter. As at 30 June 2024, the Group had drawn £43,000,000 under this facility (2023: £30,000,000).

In November 2020, the Group entered into a £100,000,000 revolving credit facility with HSBC Bank plc ('HSBC') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.17 per cent per annum for the duration of the loan and a non-utilisation fee of 0.92 per cent per annum is payable on any undrawn element of the facility. As at 30 June 2024, the Group had drawn £50,000,000 under this facility (2023: £50,000,000).

In January 2020 and November 2021, the Group entered into committed term loan facilities with Phoenix Group of £50,000,000 and £37,250,000, respectively. Both these facilities are repayable on 12 January 2032. The Group has a further committed term loan facility with Phoenix Group of £62,750,000 which is repayable on 12 January 2037. Interest accrues on these three loans at aggregate annual fixed rates of interest of 3.28 per cent, 3.13 per cent and 3.14 per cent, respectively and is payable quarterly. As at 30 June 2024, the Group had drawn £150,000,000 under these facilities (2023: £150,000,000).

The following interest rate derivatives were in place during the year ended 30 June 2024:

Notional Value	Starting Date	Ending Date	Interest Paid	Interest Received	Counter-party
30,000,000	5 November 2020	5 November 2025	0.30%	Daily compounded SONIA (floor at -0.08%)	RBS
50,000,000	1 November 2022	5 November 2025	nil	Daily compounded SONIA above 3.0% cap	HSBC

The Group paid a premium of £2,577,000, inclusive of transaction costs of £169,000, on entry into the £50,000,000 interest rate cap in November 2022.

At 30 June 2024, inclusive of the interest rate derivatives, the interest rate on £230,000,000 of the Group's borrowings has been capped, including the amortisation of loan arrangement costs, at an all-in rate of 3.70 per cent per annum until at least 5 November 2025. The remaining £90,000,000 of debt, of which £13,000,000 was drawn at 30 June 2024, would, if fully drawn, carry interest at a variable rate equal to daily compounded SONIA plus a weighted average lending margin, including the amortisation of loan arrangement costs, of 2.46 per cent per annum.

The aggregate fair value of the interest rate derivatives held at 30 June 2024 was an asset of £2,820,000 (2023: £6,905,000). The Group categorises all interest rate derivatives as level 2 in the fair value hierarchy.

At 30 June 2024, the nominal value of the Group's loans equated to £243,000,000 (2023: £230,000,000). Excluding the interest rate derivatives referred to above, the fair value of these loans, based on a discounted cashflow using the market rate on the relevant treasury plus an estimated margin based on market conditions at 30 June 2024, totalled, in aggregate, £213,220,000 (2023: £190,328,000). The payment required to redeem the loans in full, incorporating the terms of the Spens clause in relation to the Phoenix Group facilities, would have been £226,721,000 (2023: £209,898,000). The loans are categorised as level 3 in the fair value hierarchy given the estimated margin is not observable market data.

The RBS loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number One plc Group ('THR1 Group') which consists of THR1 and its five subsidiaries. The Phoenix Group loans of £50,000,000 and £37,250,000 are secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consists of THR12 and its eight subsidiaries. The Phoenix Group loan of £62,750,000 is secured by way of a fixed and floating charge over the majority of the assets of THR Number 43 plc ('THR43'). The HSBC loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 15 plc Group ('THR15 Group') which consists of THR15 and its 18 subsidiaries. In aggregate, the Group has granted a fixed charge over properties with a market value of £743,265,000 as at 30 June 2024 (2023: £762,100,000).

Under the covenants related to the loans, the Group is to ensure that:

- the loan to value percentage for each of THR1 Group and THR15 Group does not exceed 50 per cent;
- the loan to value percentage for THR12 Group and THR43 does not exceed 60 per cent;
- the interest cover for THR1 Group is greater than 225 per cent on any calculation date;
- the interest cover for THR15 Group is greater than 200 per cent on any calculation date; and
- the debt yield for each of THR12 Group and THR43 is greater than 10 per cent on any calculation date.

The significant terms of the facilities remained unchanged and all loan covenants have been complied with during the year.

Analysis of net debt:

	Cash and cash equivalents 2024 £'000	**Borrowing 2024 £'000**	**Net debt 2024 £'000**	Cash and cash equivalents 2023 £'000	Borrowing 2023 £'000	Net debt 2023 £'000
Opening balance	**15,366**	**(227,051)**	**(211,685)**	34,483	(231,383)	(196,900)
Cash flows	**23,518**	**(13,000)**	**10,518**	(19,117)	4,955	(14,162)
Non-cash flows	**-**	**(621)**	**(621)**	-	(623)	(623)
Closing balance	**38,884**	**(240,672)**	**(201,788)**	15,366	(227,051)	(211,685)

8. Share capital

Allotted, called-up and fully paid ordinary shares of £0.01 each	**Number of shares**	**£'000**
Balance as at 30 June 2023 and 30 June 2024	**620,237,346**	**6,202**

Under the Company's Articles of Association, the Company may issue an unlimited number of ordinary shares.

Under the Company's Articles of Association, the Company may issue an unlimited number of ordinary shares. Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

During the year to 30 June 2024, the Company did not issue any ordinary shares (2023: nil). The Company did not repurchase any ordinary shares into treasury (2023: nil) or resell any ordinary shares from treasury (2023: nil). At 30 June 2024, the Company did not hold any shares in treasury (2023: nil).

Capital management
The Group's capital is represented by the share capital, share premium, merger reserve, distributable reserve, hedging reserve, capital reserve, revenue reserve and long-term borrowings. The Group is not subject to any externally-imposed capital requirements, other than the financial covenants on its loan facilities as detailed in note 7.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective.

Capital risk management
The objective of the Group is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified portfolio of freehold and long leasehold care homes that are let to care home operators; and other healthcare assets in the UK.

The Board has responsibility for ensuring the Group's ability to continue as a going concern. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the Board on a regular basis.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. The Company may also increase or decrease its level of long-term borrowings. The Group monitors capital using the net LTV ratio, which was 22.5% at 30 June 2024 (2023: 24.7%). The Board currently intends that, over the medium term, borrowings of the Group will represent approximately 25 per cent of the Group's gross assets at the time of drawdown.

Where ordinary shares are held in treasury these are available to be sold to meet on-going market demand. The ordinary shares will be sold only at a premium to the prevailing NAV per share. The net proceeds of any subsequent sales of shares out of treasury will provide the Company with additional capital to enable it to take advantage of investment opportunities in the market and make further investments in accordance with the Company's investment policy and within its appraisal criteria. Holding shares in treasury for this purpose assists the Company in matching its on-going capital requirements to its investment opportunities and therefore reduces the negative effect of holding excess cash on its balance sheet over the longer term.

No changes were made in the capital management objectives, policies or processes during the year.

9. Financial instruments

Consistent with its objective, the Group holds UK care home property investments. In addition, the Group's financial instruments comprise cash, loans and receivables and payables that arise directly from its operations. The Group's exposure to derivative instruments consists of interest rate swaps and interest rate caps used to fix the interest rate on the Group's variable rate borrowings.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There is no foreign currency risk as all assets and liabilities of the Group are maintained in pounds sterling.

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below and have remained unchanged for the year under review. These disclosures include, where appropriate, consideration of the Group's investment properties which, whilst not constituting financial instruments as defined by IFRS, are considered by the Board to be integral to the Group's overall risk exposure.

Credit risk
Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. At the reporting date, the Group's financial assets exposed to credit risk amounted to £41,536,000 (2023: £22,850,000), consisting of cash of £38,884,000 (2023: £15,366,000), accrued development interest of £1,076,000 (2023: £1,010,000) net rent receivable of £890,000 (2023: £1,088,000), other debtors of £686,000 (2023: £1,091,000) and cash held in escrow for property purchases of £nil (2023: £4,295,000).

In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Group will suffer a rental shortfall and incur additional expenses until the property is relet. These expenses could include legal and surveyor's costs in reletting, maintenance costs, insurances, rates and marketing costs and may have a material adverse impact on the financial condition and performance of the Group and/or the level of dividend cover. The Group may also require to provide rental incentives to the incoming tenant. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants. The expected credit risk in relation to tenants is an inherent element of the due diligence considered by the Investment Manager on all property transactions with an emphasis being placed on ensuring that the initial rent is set at a sustainable level. The risk is further mitigated by rental deposits or guarantees where considered appropriate. The majority of rental income is received in advance.

As at 30 June 2024, the Group had recognised a credit loss allowance totalling £2,935,000 (2023: £1,972,000) against a gross rent receivable balance of £3,267,000 (2023: £2,496,000) and gross loans to tenants totalling £952,000 (2023: £989,000). Of the gross receivable of £3,485,000 at 30 June 2023, £383,000 was subsequently recovered and £3,102,000 is still outstanding. There were no other financial assets which were either past due or considered impaired at 30 June 2024 (2023: nil).

All of the Group's cash is placed with financial institutions with a long-term credit rating of BBB or better. Bankruptcy or insolvency of such financial institutions may cause the Group's ability to access cash placed on deposit to be delayed, limited or lost. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

Should the Group hold significant cash balances for an extended period, then counterparty risk will be spread, by placing cash across different financial institutions. At 30 June 2024 the Group held £37.7 million (2023: £15.2 million) with The Royal Bank of Scotland plc and £1.2 million (2023: £0.2 million) with HSBC Bank plc. Given the credit quality of the counterparties used, no credit loss allowance is recognised against cash balances as it is considered to be immaterial.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The Group's investments comprise UK care homes. Property and property-related assets in which the Group invests are not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Group's liquidity risk is managed on an on-going basis by the Investment Manager and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Group aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

Interest rate risk

Some of the Company's financial instruments are interest-bearing. Interest-rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates.

The Group's policy is to hold cash in variable rate or short-term fixed rate bank accounts. At 30 June 2024, interest was being received on cash at a weighted average variable rate of 1.1% (2023: nil). Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

The Group has £170,000,000 (2023: £170,000,000) of committed term loans and revolving credit facilities which were charged interest at a rate of SONIA plus the relevant margin. At the year-end £93,000,000 of the variable rate facilities had been drawn down (2023: £80,000,000). The fair value of the variable rate borrowings is affected by changes in the market rate of the lending margin that would apply to similar loans. The variable rate borrowings are carried at amortised cost and the Group considers this to be a close approximation to fair value at 30 June 2024 and 30 June 2023.

At 30 June 2024, the Group had hedged its exposure on £80,000,000 of the £93,000,000 of the drawn variable rate borrowings (2023: £80,000,000 of the £80,000,000 of drawn variable rate facilities was hedged). On the unhedged variable rate borrowings, interest is payable at a variable rate equal to SONIA plus the weighted average lending margin, including the amortisation of costs, of 2.46 per cent per annum (2023: 2.46 per cent). The variable rate borrowings expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

The Group has fixed rate term loans totalling £150,000,000 (2023: £150,000,000) and has hedged its exposure to increases in interest rates on £80,000,000 (2023: £80,000,000) of the variable rate loans, as referred to above, through entering into a £30,000,000 fixed rate interest rate swap and a £50,000,000 interest rate cap at 3.0%. Fixing the interest rate exposes the Group to fair value interest rate risk as the fair value of the fixed rate borrowings, or the fair value of the interest rate derivative used to fix the interest rate on an otherwise variable rate loan, will be affected by movements in the market rate of interest. The £150,000,000 fixed rate term loans are carried at amortised cost on the Group's balance sheet, with the estimated fair value and cost of repayment being disclosed in Note 7, whereas the fair value of the interest rate derivatives are recognised directly on the Group's balance sheet.

At 30 June 2024 the Group's interest rate derivatives, which had a fair value of £2,820,000 (2023: £6,905,000) and hedged a notional value of £80,000,000 (2023: £80,000,000), and its fixed rate term loans of £150,000,000 (2023: £150,000,000) were exposed to fair value interest rate risk. At 30 June 2024, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate derivative assets and increased the other comprehensive income and reported total comprehensive income for the year by £235,000 (2023: £377,000). The same increase in interest rates would have decreased the fair value of the fixed rate term loans by an aggregate of £2,221,000 (2023: £2,169,000); however, as the fixed rate loan is held at amortised cost, the reported total comprehensive income for the year would have remained unchanged. A decrease in interest rates would have had an approximately equal and opposite effect.

Market price risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers.

The external valuers are mindful of the potential impacts ESG may have on capital and rental valuations. Currently in the UK, demands for more precise and rigorous valuation of sustainability features have grown in order to evidence a 'green premium' or 'brown discount'. This has driven up the collation of sustainability data, particularly energy usage and efficiency data, with the existence of such a premium/discount being more pronounced in secondary markets. However, pressures from investors, clients and customers are expected to continue to grow over sustainability issues. This will include social issues like the wellbeing of building users and providing benefits to local communities, and it is expected that debates over how to measure 'value' and how to price intangible benefits will also intensify. This, combined with tightening UK regulations as the Government aims to make progress towards net zero carbon emissions targets, will require landlords, especially those whose properties do not meet the Minimum Energy Efficiency Standards' regulations, to invest further in their properties. In addition, the UK's introduction of mandatory climate related disclosures and the European Union's Sustainable Finance Disclosure Regulations may impact on asset values, or how the market views risks and incorporates them into the sale or letting of assets. There is also the potential that future legislative change, such as an update to the Minimum Energy Efficiency Standards or the introduction of an operational rating, may impact future property valuations.

10. Contingent assets and liabilities

As at 30 June 2024, three (2023 six) properties within the Group's investment property portfolio contained performance payment clauses meaning that, subject to contracted performance conditions being met, further capital payments totalling £3,695,000 (2023: £5,720,000) may be payable by the Group to the vendors/tenants of these properties. The potential timings of these payments are also conditional on the date(s) at which the contracted performance conditions are met and are therefore uncertain.

It is highlighted that any performance payments subsequently paid will result in an increase in the rental income due from the tenant of the relevant property. As the net initial yield used to calculate the additional rental which would be payable is not significantly different from the investment yield used to arrive at the valuation of the properties, any performance payments made would be expected to result in a commensurate increase in the value of the Group's investment property portfolio.

Having assessed each clause on an individual basis, the Group has determined that the contracted performance conditions were highly likely to have been met in relation to two of these properties and therefore at 30 June 2024 an amount of £1,910,000 (2023: £nil) has been recognised as a liability. An equal but opposite amount has been recognised as an asset in 'investment properties' in Note 5 to reflect the increase in the investment property value that would be expected to arise from the payment of the performance payment(s) and the resulting increase in the contracted rental income.

11. Capital commitments

The Group had capital commitments as follows:

	30 June 2024	30 June 2023
	£'000	£'000
Amounts due to complete forward fund developments	**4,723**	31,066
Other capital expenditure commitments	**394**	2,160
Total	**5,117**	33,226

12. Related party transactions

The Board of Directors is considered to be a related party. No Director has an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Group. The Directors of the Group received fees for their services. Total fees for the year were £227,000 (2023: £218,000) of which £nil (2023: £nil) remained payable at the year-end.

The Investment Manager received £7,518,000 (inclusive of irrecoverable VAT) in management fees in relation to the year ended 30 June 2024 (2023: £7,428,000). Of this amount £1,927,000 (2023: £1,835,000) remained payable at the year-end. The Investment Manager received a further £187,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2024 (2023: £169,000) in relation to its appointment as Company Secretary and Administrator, of which £47,000 (2023: £42,000) remained payable at the year end. Certain employees of the Investment Manager are directors of some of the Group's subsidiaries. Neither they nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

There were related party transactions within the Group and its wholly-owned subsidiaries which are eliminated upon consolidation.

13. Operating segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the EPRA NTA. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NTA is detailed in note 4.

The view that the Group is engaged in a single segment of business is based on the following considerations:

- One of the key financial indicators received and reviewed by the Board is the total return from the property portfolio taken as a whole;
- There is no active allocation of resources to particular types or groups of properties in order to try to match the asset allocation of the benchmark; and
- The management of the portfolio is ultimately delegated to a single property manager, Target.

15. Financial statements

This statement was approved by the Board on 16 September 2024. It is not the Company's full statutory financial statements in terms of Section 434 of the Companies Act 2006. The statutory annual report and financial statements

statements in terms of Section 434 of the Companies Act 2006. The statutory annual report and financial statements for the year ended 30 June 2024 has been approved and audited and received an unqualified audit report which did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report. The statutory annual report and financial statements for the year to 30 June 2024 will be posted to shareholders in October 2024 and will be available for inspection at Level 4, Dashwood House, 69 Old Broad Street, London, EC2M 1QS, the registered office of the Company.

The statutory annual report and financial statements will be made available on the website www.targethealthcarereit.co.uk. Copies may also be obtained from Target Fund Managers Limited, Glendevon House, Castle Business Park, Stirling FK9 4TZ.

The audited financial statements for the year to 30 June 2024 will be lodged with the Registrar of Companies following the Annual General Meeting to be held on 9 December 2024.

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The definitions of all APMs used by the Company are highlighted in the glossary contained in the Annual Report, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below and within the EPRA Performance Measures which follow.

Discount or Premium - the amount by which the market price per share is lower or higher than the net asset value per share.

		2024 pence	2023 pence
EPRA Net Tangible Assets per share (see note 4)	(a)	**110.7**	104.5
Share price	(b)	**78.5**	71.8
(Discount)/premium	**= (b-a)/a**	**(29.1)%**	(31.3)%

Dividend Cover - the percentage by which Group specific adjusted EPRA earnings for the year cover the dividend paid.

		2024 £'000	2023 £'000
Group-specific EPRA earnings for the year (see note 4)	(a)	**38,037**	37,216
First interim dividend		**8,857**	10,482
Second interim dividend		**8,857**	10,482
Third interim dividend		**8,857**	8,683
Fourth interim dividend		**8,857**	8,683
Dividends paid in relation to the year	(b)	**35,428**	38,330
Dividend cover	**= (a/b)**	**107%**	97%

Net Debt to EBITDA ratio - a leverage ratio that measures the net earnings available to address debt obligations.

		2024 £'000	2023 £'000
Net debt (see below)	(a)	**224,385**	223,751
Group-specific EPRA earnings for the year (see note 4)		**38,037**	37,216
Net finance costs		**10,800**	9,438
EBITDA	(b)	**48,837**	46,654
Net debt to EBITDA ratio	**= (a/b)**	**4.6 times**	4.8 times

Ongoing Charges - a measure of all operating costs incurred, calculated as a percentage of average net assets in that year.

		2024 £'000	2023 £'000
Investment management fee		**7,518**	7,428
Other expenses		**3,074**	3,046
Less direct property costs and other non-recurring items		**(405)**	(292)
Adjustment to management fee arrangements and irrecoverable VAT*		**(8)**	(35)
Total	(a)	**10,179**	10,147

Average net assets	(b)	**673,625**	661,231
Ongoing charges	**= (a/b)**	**1.51%**	1.53%

* Based on the Group's net asset value at 30 June 2024, the management fee is expected to be paid at a weighted average rate of 1.02% (2023: 1.03%) of the Group's average net assets plus an effective irrecoverable VAT rate of approximately 9% (2023: 9%). The management fee has therefore been amended so that the Ongoing Charges figure includes the expected all-in management fee rate of 1.11% (2023: 1.12%).

The Group is also required to publish a cost figure in its Key Information Document which follows the methodology prescribed by UK law and regulations applicable to PRIIPs. Under this methodology the reported 'portfolio transaction costs' at 30 June 2024 would be 0.51% (2023: 0.65%). At the same date, 'other ongoing costs' would be 3.45% (2023: 3.18%), which includes finance costs of 1.73% (2023: 1.55%). The Company's Key Information Document is available on its website at: www.targethealthcarereit.co.uk.

Total Return - the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.

		2024			2023		
		EPRA NTA (pence)	**IFRS NAV (pence)**	**Share price (pence)**	EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)
Value at start of year	(a)	**104.5**	**105.6**	**71.8**	112.3	112.7	108.4
Value at end of year	(b)	**110.7**	**111.1**	**78.5**	104.5	105.6	71.8
Change in value during year **(b-a)**	(c)	**6.2**	**5.5**	**6.7**	(7.8)	(7.1)	(36.6)
Dividends paid	(d)	**5.7**	**5.7**	**5.7**	6.2	6.2	6.2
Additional impact of dividend reinvestment	(e)	**0.4**	**0.4**	**-**	0.3	0.4	-
Total gain/(loss) in year (c+d+e)	(f)	**12.3**	**11.6**	**12.4**	(1.3)	(0.5)	(30.4)
Total return for the year	**= (f/a)**	**11.8%**	**11.0%**	**17.2%**	(1.2)%	(0.5)%	(28.1)%

EPRA Performance Measures

The European Public Real Estate Association is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practice Recommendations ('BPR') to establish consistent reporting by European property companies. Further information on the EPRA BPR can be found at www.epra.com.

The figures below are calculated and presented in line with the BPR Guidelines published by EPRA in February 2022.

	2024	2023
EPRA Net Reinstatement Value (£'000)	**746,499**	705,364
EPRA Net Tangible Assets (£'000)	**686,473**	647,903
EPRA Net Disposal Value (£'000)	**719,073**	694,480
EPRA Net Reinstatement Value per share (pence)	**120.4**	113.7
EPRA Net Tangible Assets per share (pence)	**110.7**	104.5
EPRA Net Disposal Value per share (pence)	**115.9**	112.0
EPRA Earnings (£'000)	**47,197**	47,572
Group specific adjusted EPRA earnings (£'000)	**38,037**	37,216
EPRA Earnings per share (pence)	**7.61**	7.67
Group specific adjusted EPRA earnings per share (pence)	**6.13**	6.00
EPRA Net Initial Yield	**6.05%**	6.05%
EPRA Topped-up Net Initial Yield	**6.20%**	6.22%
EPRA Vacancy Rate	**-**	-
EPRA Cost Ratio - including direct vacancy costs	**16.6%**	15.8%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**19.1%**	18.7%
EPRA Cost Ratio - excluding direct vacancy costs	**16.6%**	15.8%
EPRA Group specific adjusted Cost Ratio (excluding direct vacancy costs)	**19.1%**	18.7%
EPRA Loan-to-Value	**24.7%**	25.8%
Capital Expenditure (£'000)	**45,776**	23,767
Like-for-like Rental Growth	**3.8%**	3.8%

EPRA NAV metrics and EPRA Earnings
Full details of these calculations, including reconciliations of each to the IFRS measures, are detailed in note 4 to the extract from the Consolidated Financial Statements.

EPRA Net Initial Yield and EPRA Topped-up Net Initial Yield
EPRA Net Initial Yield is calculated as annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. The EPRA Topped-up Net Initial Yield incorporates an adjustment in respect of the expiration of rent-free periods (or other unexpired lease incentives).

		30 June 2024 £'000	30 June 2023 £'000
Annualised passing rental income based on cash rents	(a)	**57,462**	55,003
Notional rent expiration of rent-free periods or other lease			

incentives		**1,363**	1,554
Topped-up net annualised rent	(b)	**58,825**	56,557
Standing assets (see note 5)		**889,255**	851,305
Allowance for estimated purchasers' costs		**60,026**	57,461
Grossed-up completed property portfolio valuation	(c)	**949,281**	908,766
EPRA Net Initial Yield	**= (a/c)**	**6.05%**	6.05%
EPRA Topped-up Net Initial Yield	**= (b/c)**	**6.20%**	6.22%

EPRA Vacancy Rate

EPRA Vacancy Rate is the estimated rental value (ERV) of vacant space (excluding forward fund developments) divided by the contractual rent of the investment property portfolio, expressed as a percentage.

		30 June 2024 £'000	30 June 2023 £'000
Annualised potential rental value of vacant premises*	(a)	**-**	-
Annualised potential rental value of the property portfolio (including vacant properties)	(b)	**58,825**	56,557
EPRA Vacancy Rate	**= (a/b)**	**-**	-

* There were no unoccupied properties at either 30 June 2023 or 30 June 2024.

EPRA Cost Ratio

The EPRA cost ratios are produced using EPRA methodology, which aims to provide a consistent base-line from which companies can provide additional information, and include all property expenses and management fees. Consistent with the Group specific adjusted EPRA earnings detailed in note 4 to the extract from the Consolidated Financial Statements, similar adjustments have been made to also present the adjusted Cost Ratio which is thought more appropriate for the Group's business model.

		Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Investment management fee		**7,518**	7,428
Credit loss allowance and bad debts		**962**	264
Other expenses		**3,074**	3,046
EPRA costs (including direct vacancy costs)	(a)	**11,554**	10,738
Specific cost adjustments, if applicable		**-**	-
Group specific adjusted EPRA costs (including direct vacancy costs)	(b)	**11,554**	10,738
Direct vacancy costs	(c)	**-**	-
Gross rental income per IFRS	(d)	**69,551**	67,748
Adjusted for rental income arising from recognising guaranteed rent review uplifts		**(10,927)**	(11,308)
Adjusted for development interest under forward fund arrangements		**1,767**	952
Group specific adjusted gross rental income	(e)	**60,391**	57,392
EPRA Cost Ratio (including direct vacancy costs)	**= (a/d)**	**16.6%**	15.8%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**= (b/e)**	**19.1%**	18.7%
EPRA Cost Ratio (excluding direct vacancy costs)	**= ((a-c)/d)**	**16.6%**	15.8%
EPRA Group specific adjusted Cost Ratio (excluding direct vacancy costs)	**= ((b-c)/e)**	**19.1%**	18.7%

EPRA Loan-to-Value

		As at 30 June 2024 £'000	As at 30 June 2023 £'000
Borrowings		**243,000**	230,000
Net payables		**20,269**	9,117
Cash and cash equivalent		**(38,884)**	(15,366)
Net debt	(a)	**224,385**	223,751
Investment properties at market value		**908,530**	868,705
Total property value	(b)	**908,530**	868,705
EPRA Loan-to-Value	**= (a/b)**	**24.7%**	25.8%

EPRA Capital Expenditure

	Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Acquisitions (including acquisition costs)	**332**	234
Forward fund developments	**40,368**	17,385
Like-for-like portfolio	**5,076**	6,148
Total capital expenditure	**45,776**	23,767
[illegible]	[illegible]	[illegible]

Conversion from accrual to cash basis	**(4,849)**	5,575
Total capital expenditure on a cash basis	**40,927**	29,342

Like-for-like Rental Growth

		Year ended 30 June 2024 £'000	Year ended 30 June 2023 £'000
Opening contractual rent	(a)	**56,557**	55,476
Rent reviews		**2,125**	2,080
Re-tenanting of properties		**-**	39
Like-for-like rental growth	(b)	**2,125**	2,119
Acquisitions and developments		**2,819**	1,019
Disposals		**(2,676)**	(2,057)
Total movement	**(c)**	**2,268**	1,081
Closing contractual rent	**= (a+c)**	**58,825**	56,557
Like-for-like rental growth	**= (b/a)**	**3.8%**	3.8%

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