EDISON

Impact Healthcare REIT

FY20 results

Resilient growth strategy

Real estate

Impact Healthcare REIT has published its FY20 annual results. Although many of the headline numbers in respect of FY20 have been previously released, the detailed results provide an opportunity to assess the strong progress made during the year, and the resilience of tenant operators and the group's strategy, against the challenging backdrop of the pandemic. Portfolio growth with continuing full rent collection underpins the recently announced increase in targeted DPS for FY21.

Year end	Net rental income (£m)	EPRA earnings* (£m)	EPRA EPS* (p)	EPRA NTA/** share (p)	DPS (p)	P/NTA (x)***	Yield (%)***
12/19	24.0	17.6	6.9	106.8	6.17	1.06	5.4
12/20	30.8	23.1	7.3	109.6	6.29	1.04	5.5
12/21e	36.0	27.0	8.5	113.2	6.41	1.00	5.6
12/22e	37.7	28.4	8.9	117.2	6.54	0.97	5.8

Note: *EPRA earnings exclude fair value movements on properties and interest rate derivatives. **EPRA Net tangible assets per share ***P/NTA and yield are based on the current share price.

FY20 growth and DPS uninterrupted by pandemic

Acquisitions were the main driver of FY20 growth, but inflation-linked rent uplifts also contributed to like for like income and capital growth. The portfolio increased by 31% to £419m and contracted rent roll by 34% to £30.9m (since increased to £31.7m). EPRA earnings increased 31% to £23.1m or 7.25p per share (1.15x DPS). Adjusted 'cash' earnings increased by 42% and covered DPS by 94%. Our forecasts are little changed and with a strong balance sheet supporting continuing acquisitions we expect the increased FY21 DPS (+1.9% to 6.41p) to be fully covered on a cash basis. EPRA NTA per share increased 2.6% to 109.6p and including DPS paid the total return was 8.5%. A robust performance by tenant operators is evidenced by a broadly stable, c 1.8x, average rent cover and 100% collection of rents due, without changes to lease terms or payment schedules, continuing into the current year.

Core income with asset management potential

Impact's business model is built around long-term partnerships with a growing list of selected tenant operators, investing alongside them in suitable properties that they can operate efficiently, providing a good quality of care, to sustain a growing stream of long-term rental income. The portfolio has been built mainly through portfolio acquisitions, often less competitive, with attractive acquisition yields consistently in the range of 7.5%. The diverse portfolio mainly comprises a majority core of good-quality, upper middle-market homes alongside value-add assets where there is potential, working in partnership with tenants, to upgrade/extend facilities and reposition homes in their local markets. Asset management benefits residents and operators and offers enhanced returns on a pure 'buy-and-hold' strategy.

Valuation: Attractive indexed income

With its growing income stream proving robust despite the pandemic, Impact's target FY21 DPS of 6.41p represents an attractive yield of 5.6%, which we expect to be well covered by EPRA earnings and fully covered on an adjusted ('cash') basis. The 4% premium to FY20 NTA compares with a peak of 11%.

1 April 2021

Price	**113.5p**
Market cap	**£362m**

Net debt (£m) as at 31 December 2020	68.4
Gross LTV as at 31 December 2020	17.8%
Shares in issue	319.0m
Free float	94%
Code	IHR
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	86.8	4.1	4.1
Rel (local)	24.0	0.6	(0.2)
52-week high/low		117p	86.8p

Business description

Impact Healthcare REIT, traded on the Main Market of the London Stock Exchange, invests in a diversified portfolio of UK healthcare assets, particularly residential and nursing care homes, let on long leases to high-quality operators. It aims to provide shareholders with attractive and sustainable returns, primarily in the form of dividends, underpinned by structural growth in demand for care.

Next events

Half-year end	30 June 2021

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Impact Healthcare REIT is a research client of Edison Investment Research Limited

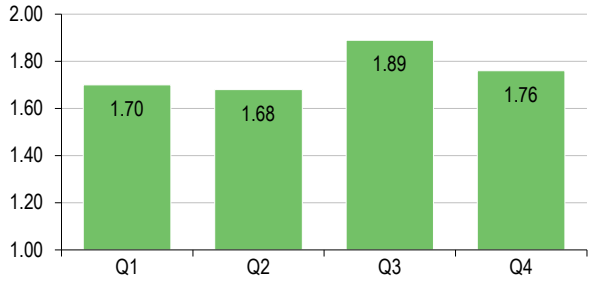
Resilient operational and financial performance

Although many of the key headline numbers in respect of FY20 have been previously released, publication of the detailed FY20 results provides an opportunity to assess the strong progress made during the year, and the resilience of the group's strategy, against the challenging backdrop of the pandemic.

Impact received 100% of its contracted rent for 2020, with no changes to lease terms or payment schedules, and this has continued into the current year. This strong performance can primarily be attributed to:

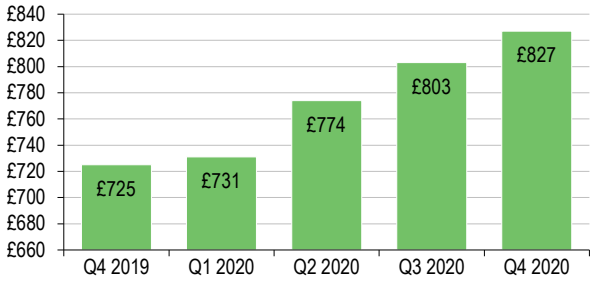
- The essential service that the care home operators provide, out of the properties leased from Impact, with demand having little direct connection to wider economic conditions and instead primarily driven by long-term demographic trends. The symbiotic relationship between the care and health sectors came into sharper focus as a result of the pandemic, with government and local authorities providing ongoing support to the sector.
- Tenant operator selection and an affordable level of rents in the homes and a good level of rent cover going into the pandemic, combined with a resilient operational and financial performance by tenants subsequently. Discussed in more detail below, during the year to 31 December 2020 (FY20), average rent cover (home level profits before rent compared with contractual rent) across all of Impact's portfolio was just under 1.8x, compared with just over 1.8x in FY19, which we believe represents a good performance by industry standards.

Exhibit 1: Average tenant rent cover of Impact tenants through 2020



Source: Impact Healthcare REIT

Exhibit 2: Average weekly fees charged by Impact's tenants



Source: Impact Healthcare REIT

- Tenant rent cover dipped in the first half of the year as occupancy reduced by c 9% (from a little under 90% to a little more than 80%), mirroring the industry trend. Occupancy stabilised in H2 with rent cover benefiting from strong growth in weekly average fees and government support measures for industry providers. Completed acquisitions also enhanced the average (the initial rent cover on the Holmes Care acquisition, which completed in August, was more than 2.0x). Support for operators included support for personal protective equipment (PPE) expenses and other infection control measures. Local authorities generally agreed to prompt and supportive annual fee increments and in some cases have been willing to meet additional pandemic related costs through additional fee payments. Impact has worked with operators to isolate the impact of central and local government support on the fee data and estimates that the year-on-year increase in average weekly fees reduced from 14% to 7% on an underlying like-for-like basis.
- Providing additional comfort at the group level, Impact entered the pandemic with a strong and liquid balance sheet (net cash of £23m in March 2020); existing investment commitments were met and as the level of uncertainty as to the effects of the pandemic receded during the summer months, it was able to return to cautious, selective acquisition-led portfolio growth.

Impact acquired 22 properties during the year, adding 1,513 beds, for a total consideration of £84.7m (before acquisition costs) and further spreading risk by continuing to diversify its tenant base (adding three new tenants, taking the total to 12). The gross loan to value ratio (LTV) ended FY20 at a conservative 17.8% (borrowings of £76.4m).

With no material change in the underlying demographic drivers of care home need/demand, care home managers report a high level of tenant enquiries. Meanwhile, the fast roll-out of the vaccination programme within care homes and the gradual easing of visiting restrictions are positive steps for the home operators in rebuilding occupancy. Residents at all of the group's homes had been offered their first dose of a COVID-19 vaccine by mid-February 2021, and by 25 March, 80% had received a second dose. Impact is cautiously optimistic about the speed with which the operators will be able to rebuild their occupancy, but notes that the pandemic is not yet over and remains unpredictable. At one of its homes (at Holmesley, operated by Welford) a severe and as yet unexplained COVID-19 outbreak occurred in late February/early March despite what appear to be effective infection-control measures being in place, and following initial vaccinations. Welford is a strong tenant with a good level of overall rent cover and Impact does not expect the problems at this one home to have affect rent recovery.

FY20 results summary

Exhibit 3 provides a summary of the FY20 financial performance. Accretive acquisition-led asset growth drove the strong increase in earnings and cash flow, enhanced by scale efficiencies, to support increasing dividends and dividend cover. We note the following key highlights:

- The investment portfolio grew by c 31% to £418.8m including acquisitions and underlying portfolio valuation increases. Adjusted for £2.7m of capitalised acquisition costs written off, the underlying portfolio valuation uplift was £13.2m or 4.1% of the opening value. This included gains on the existing assets driven by rent-indexation as well as uplifts on acquisitions made. The income statement gain is adjusted for acquisition costs and IFRS rent smoothing adjustments.
- Cash rental income increased by 36% and total net rental income by 29%, including unchanged non-cash IFRS smoothing adjustments.
- Expense growth was much lower than income growth and was driven primarily by the impact of higher average net assets on investment manager fees. The EPRA cost ratio reduced by 2.1 percentage points to 17.1%.
- EPRA earnings increased 31% to £23.1m or 7.25p per share, while adjusted 'cash' earnings increased at a faster 42% rate to £18.9m or 5.93p per share. Adjusted earnings is aimed at tracking underlying cash earnings and in addition to the normal EPRA adjustments excludes non-cash IFRS smoothing and also now amortisation of loan arrangement fees.
- Earnings cover of the increased dividend (+1.9% to 6.29p) rose on both an EPRA earnings basis (from 113% to 115%) and adjusted earnings basis (from 85% to 94%). As we explain below, we expect a further increase in the cover of Impact's targeted DPS of 6.41p (+1.9%) in the current year.
- EPRA net tangible assets (NTA) per share increased 2.6% to 109.6p and including dividends paid the EPRA NTA total return was 8.5%.

Exhibit 3: Summary of FY20 financial performance

£m unless stated otherwise	FY20	FY19	FY20/FY19	Edison FY20 forecast*
Cash rental income	25.9	19.1	36%	25.6
IFRS rent smoothing adjustments	4.9	4.9	0%	5.0
Gross & net rental income	**30.8**	**24.0**	**29%**	**30.6**
Administrative and other expenses	(5.3)	(4.6)	15%	(5.4)
Operating profit before change in fair value of investment properties	**25.6**	**19.4**	**32%**	**25.2**
Change in fair value of investment properties	5.6	9.1		5.8
Profit on disposal of investment property	0.2			0.1
Operating profit	**31.3**	**28.5**	10%	**31.1**
Net finance expense	(2.5)	(2.1)	18%	(2.3)
Profit before and after tax	**28.8**	**26.3**	**9%**	**28.8**
EPRA adjustments				
Realised & unrealised gains on investment property	(5.7)	(9.1)		(5.9)
Change in fair value of interest rate derivative	0.1	0.4		0.1
EPRA earnings	**23.1**	**17.6**	**31%**	**23.0**
Company specific earnings adjustments:				
IFRS rent smoothing adjustments	(4.9)	(4.9)		(5.0)
Amortisation of loan arrangement fees	0.7	0.4		0.6
Non-recurring expenses	0.0	0.2		0.0
Adjusted earnings	**18.9**	**13.4**	**42%**	**18.6**
Other data:				
IFRS EPS (p)	9.02	10.37		9.02
EPRA EPS (p)	7.25	6.95	4%	7.21
Adjusted EPS (p)	**5.93**	**5.26**	**13%**	**5.64**
DPS declared (p)	**6.29**	**6.17**	**2%**	**6.29**
DPS cover (EPRA earnings)	115%	113%		115%
DPS cover (adjusted earnings)	**94%**	**85%**		**90%**
Investment properties	418.8	318.8		418.8
Gross debt	76.4	25.1		(76.1)
Gross LTV	17.8%	6.8%		17.8%
Net assets	349.5	340.7		349.5
EPRA NTA per share (p)	109.6	106.8		109.6

Source: Impact Healthcare REIT data, Edison Investment Research forecast. Note: *FY20e adjusted earnings re-stated to include amortisation of loan arrangement fee adjustment.

Portfolio continuing to grow and diversify

In this section we provide a brief updated overview of Impact's portfolio, which continued to grow and diversify (by asset, location and tenant) during FY20. The annualised contracted rent roll of £30.9m at end-FY20 has since increased to £31.7m, including the acquisition of Mavern House for £5.1m (before costs) at an acquisition yield of 7.6%, and rent reviews. Included in rent roll is one forward funded new development at Hartlepool that is expected to complete by mid-year 2021 (we estimated rent of c £0.5m).

Exhibit 4: Portfolio summary

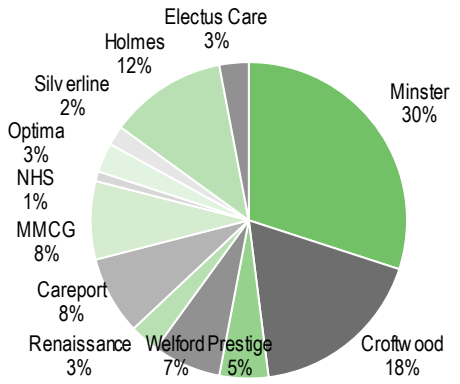
	2020	2019
Properties	108	86
o/w care/nursing homes*	106	84
Beds	5,924	4,274
Annualised contracted rent (£m)	30.9	23.1
Number of tenants	12	10
o/w care home tenants	11	9
WAULT (years)	20	19.7
Portfolio valuation (£m)	418.8	318.8
EPRA topped-up net initial yield (NIY)	6.71%	6.66%

Source: Impact Healthcare REIT data. Note: *includes one forward funding agreement under construction

The total number of tenants has now selectively increased to 12 (from two at IPO) and while this increasing diversity is welcome, management continually stresses that the target is not simply to

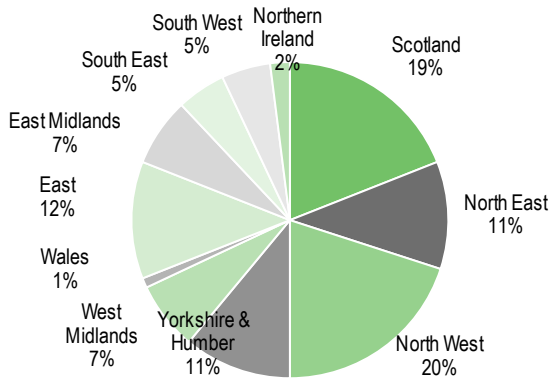
add more tenants, but to add selected quality tenants with which to partner over the long term. The portfolio is well diversified geographically, although the investment manager highlights opportunities to grow in the Midlands area.

Exhibit 5: Tenant split by portfolio income



Source: Impact Healthcare REIT as at 31 December 2020

Exhibit 6: Regional split by portfolio value

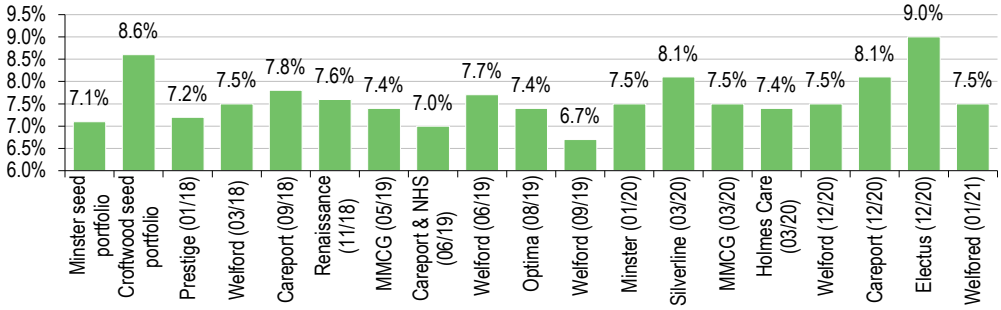


Source: Impact Healthcare REIT as at 31 December 2020

Of the 108 properties owned at end-FY20, 106 are care/nursing homes let 11 tenants on leases of 20–25 years, with no break clauses. Rents are subject to annual upward-only reviews linked to RPI, with floors and caps of 1% and 5% or 2% and 4%. The remaining two homes are healthcare facilities leased to the NHS (the 12th tenant of the group).

Portfolio growth has been achieved primarily through portfolio acquisitions, often less competitive and off-market, at attractive yields, consistently in the range of 7.5% before costs. Portfolio acquisitions have been a source of asset management opportunities, a core part of Impact's strategy.

Exhibit 7: Consistent acquisition yields*



Source: Impact healthcare REIT data. Note: *Net yield, defined as rental income at acquisition dividend by purchase price (before acquisition costs).

Impact considers asset management to be one of the most attractive strategies available to it for the deployment of capital and for enhancing returns beyond a pure 'buy and hold' strategy. Unlike 'physical' asset management in the mainstream commercial property sector, which often involves the landlord taking advantage of or agreeing a void period in which to reposition the property with the aim of increasing its attractiveness, income potential and valuation when subsequently re-let, for Impact it is led by the tenants, identifying and agreeing with Impact projects that can create value for both parties. Tenants benefit from the potential to enhance or extend facilities, broaden their appeal to residents, and increase earnings. Impact benefits from higher rents and improved rental cover, with the potential for capital appreciation. We consider the risks to be low compared with speculative or greenfield development.

Most assets within Impact's portfolio are defined as '**core assets**' (68% by value). These are good quality buildings, requiring little or no investment, with a stable trading performance underpinning a sustainable level of rent cover, and an expected useful life that is greater than the duration of the leases. A further c 30% (by value) of the portfolio are defined as '**value-add assets**'. These present opportunities to deploy additional capital to enhance the asset and its performance in a way that creates value for both the tenant and Impact. Typical candidates may be smaller homes and/or those with a low level of en-suite bathrooms or other elements of functional obsolescence. Larger homes may benefit from investment that would enable them to offer a new service such as dementia care or other facilities that may increase their appeal to the private fee-payer market. During FY20 Impact completed two significant projects, at Diamond House, Leicester, and Freeland House, Oxfordshire, both involving the development of new specialist dementia care facilities at the existing homes. **Non-core assets** represented less than 2% of the portfolio value at end-FY20. They are most likely to have been acquired as part of larger portfolio acquisitions and may have a limited lifespan because of a high degree of functional obsolescence or they may be geographically isolated and are likely to have a higher alternative use value. During FY20, one of these was sold for £0.9m, a 24% premium to the carried value.

Little change to forecasts

So far in FY21 Impact has acquired one home (Mavern House) for £5.1m (before costs), completing in January. In our forecasts we include Mavern House and assume an additional £25m in acquisitions by the end of H121, at a 7.5% yield on consideration. We believe this yield assumption is consistent with the historical trend (shown in Exhibit 7). Our acquisition assumption is consistent with the strong pipeline of investment opportunities identified by the company and reiterated with the results, and strikes a balance between the company's aim of further deploying available capital while maintaining a good level of liquidity. We estimate an end-FY21 gross LTV ratio of c 24%, well below the company's 35% upper limit, with net LTV at c 22%.

We have assumed rent indexation at 1.5% pa in FY21 (was 2.0%) and 2.0% in FY22, with rents continuing to be received in full without deferral or waiver.

We expect revaluation movements will continue to be driven by rental growth and asset management initiatives in combination with 'buying well'. We allow for existing asset valuations to increase in line with our rental growth assumption, for an uplift on asset management investment and for the yields on acquired assets to migrate towards the portfolio average over time. In FY21 this is partly offset by our estimate of acquisition costs written off.

Exhibit 8: Income statement revaluation movement

£m unless stated otherwise	FY20	FY21e	FY22e
Gross revaluation movement	13.1	11.6	10.1
Acquisition costs written off	(2.7)	(1.5)	0.0
Net revaluation movement	10.5	10.1	10.1
IFRS rental smoothing adjustment	(4.9)	(5.3)	(5.0)
Gains/(losses) on revaluation of investment properties as per income statement	**5.6**	**4.8**	**5.1**
Acquisition costs as % purchase value	3.1%	4.3%	N/A
Gross revaluation as % opening portfolio value	4.1%	2.8%	2.2%
Gross revaluation gain per share (p)	4.1	3.6	3.2

Source: Impact Healthcare REIT historical data, Edison Investment Research forecasts

Exhibit 9 shows a summary of our key forecasts, which in underlying terms are little changed. We have slightly reduced our forecast for the non-cash IFRS rent smoothing adjustment (in respect of the straight-line recognition of fixed rent increases over the long contractual lease period) to rental income, affecting EPRA earnings but not adjusted 'cash' earnings. We forecast aggregate FY21 DPS in line with the company's 6.41p target with further growth of 2% to 6.54p in FY22, in line with

our rent indexation assumption. Forecast earnings continue to benefit from accretive acquisitions, with EPRA dividend cover increasing further and full cover on an adjusted earnings basis from FY21.

Exhibit 9: Forecast changes

	Net rental income (£m)			EPRA earnings (£m)			EPRA EPS (p)			EPRA NTA*/share (p)			DPS (p)		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
12/21e	36.0	36.4	-1.2	27.0	27.5	-1.7	8.5	8.6	-1.7	113.2	113.1	0.0	6.41	6.41	0.0
12/22e	37.7	37.7	0.1	28.4	28.3	0.4	8.9	8.9	0.4	117.2	117.0	0.2	6.54	6.54	0.0

Source: Edison Investment Research. Note: *EPRA net tangible assets

Based on the current equity capital base, our forecasts imply cash dividend cover of 1.10x in FY21 and 1.16x in FY22. Increasing dividend cover demonstrates the strong cash flow emerging from the growing portfolio. The coverage ratio is relatively high compared with the REIT distribution requirement (minimum 90%/1.11x pay-out of tax-exempt property rental income within 12 months of the accounting period end) and reflects the increasing level of deployment of current capital implied by our portfolio growth assumptions (see below).

Exhibit 10: Adjusted earnings and dividend cover

£m unless stated otherwise	FY20	FY21e	FY22e
EPRA earnings	23.1	27.0	28.4
Rental income arising from recognising rental premiums & fixed rent uplifts	(4.9)	(5.3)	(5.0)
Rent premium due from exchanged contracts	0.7	0.8	0.8
Adjusted earnings	**18.9**	**22.4**	**24.2**
Dividend cover by EPRA earnings	115%	132%	136%
Dividend cover by adjusted earnings	**94%**	**110%**	**116%**

Source: Edison Investment Research

Financial flexibility to support further growth

Impact entered the COVID-19 pandemic with low gearing, good liquidity, material borrowing headroom on existing agreed debt facilities and no debt maturities before 2023. It currently has £125m of committed banking facilities comprising a £25m term loan facility and £100m of more flexible revolving credit facilities (RCF). At the end of FY20, £76.4m of the debt facilities had been drawn reflected in the reported gross LTV of 17.8% (including cash of £8.0m the net LTV was 16.2%). Thus far in FY21 Impact has drawn down an additional £20m to fund acquisitions and other capital commitments and our forecasts assume that £40m in total is drawn during the year. Including both the additional debt and our assumed acquisitions, we expect a gross LTV of just over 24% at end-FY21. With an internal upper limit to gross LTV of 35%, scope would remain for further accretive growth funded by increased debt facilities. Impact says that it is continuing to explore new alternative sources of debt finance to support the continued growth of the business while maintaining conservative leverage levels. With this in mind, and given the scale of the market opportunity, we would expect the company to also seek additional equity funding at some stage in the future.

Exhibit 11: Summary of debt portfolio

Lender	Facility type	Facility (£m)	Maturity	Margin	Interest cover covenant	Propco LTV covenant
Metro Bank	Term loan/RCF	50.0	Jun-23	Base rate +2.65%	200%	35%
Clydesdale Bank	RCF	25.0	Mar-24	Libor +2.25%-2.50%	325%	55%
HSBC	RCF	50.0	Apr-23*	Libor +1.95%	250%	55%
Total facilities		**125.0**				

Source: Impact Healthcare REIT data. Note: *HSBC facility includes option of up to two-year extension subject to HSBC approval.

We estimate the average maturity of the debt facilities at a little under 2.5 years with an average cost of c 2.4% (based on three-month Libor at 0.1%). To mitigate the interest rate risk of the variable rate borrowing, Impact has hedged £25.0m, until June 2023, with an interest rate cap that protects against a rise in Libor above 1%.

Valuation

Impact has a clear and progressive dividend policy under which it seeks to grow its dividend in line with inflation-linked rental uplifts, and has increased annual aggregate DPS each year since IPO. The increased dividend target of 6.41p (+1.9%) for FY21 represents an attractive yield of 5.6%, while the shares trade at a small c 4% premium to FY20 EPRA net tangible asset value (NTA).

Dividends are a key component of the wider total return target of 9% pa, alongside the potential for capital growth (driven by inflation-linked rental growth and asset management opportunities) enhanced by moderate gearing. Since IPO in March 2017 to the end of FY20, the cumulative total return (adjusted for dividends paid but not assuming reinvestment of dividends) was 33.8%, or an average annualised rate of 7.9%. Dividends accounted for around two-thirds of the total return. We estimate that adjusting for acquisition costs incurred in growing the portfolio since IPO and subsequently written off, approaching c £10m or more than 3p per share, the cumulative total return would increase with the average annualised return being 8.6%.

Exhibit 12: Consistently positive NTA total return

	2017*	2018	2019	2020	Cumulative
Opening NTA per share (p)	98.0**	100.6	103.2	106.8	97.9
Closing NTA per share (p)	100.6	103.2	106.8	109.6	109.6
Dividends paid (p)	3.0	6.0	6.1	6.3	21.4
NTA total return	**7.2%**	**8.5%**	**9.5%**	**8.5%**	**33.8%**
Compound annual average return					7.9%

Source: Company data, Edison Investment Research. Note: *7 March 2017 to 31 December 2017. **Adjusted for IPO costs.

Exhibit 13 shows a summary of the performance and valuation of a group of REITs that we consider to be Impact's closest peers within the broad and diverse commercial property sector. The group is invested in the primary healthcare, supported housing and care home sectors, all targeting stable long-term income growth derived from long lease exposures. The table is based on trailing DPS declared and so does not reflect the increase in Impact's FY21 DPS target.

Exhibit 13: Peer group comparison

	Price (p)	Market cap. (£m)	P/NTA* (x)	Yield** (%)	Share price performance			
					1 month	3 months	YTD	12 months
Assura	72	1740	1.28	3.9	-4%	-6%	-13%	-16%
Civitas Social Housing REIT	108	671	1.00	5.0	1%	3%	13%	-7%
Primary Health Properties	148	2096	1.31	4.0	-4%	-3%	-11%	-12%
Target Healthcare	113	519	1.05	5.9	3%	-1%	11%	-4%
Triple Point Social Housing REIT	101	407	0.95	5.1	-6%	-9%	4%	-11%
Average			**1.12**	**4.8**	**-2%**	**-3%**	**1%**	**-10%**
Impact Healthcare	**114**	**362**	**1.04**	**5.5**	**2%**	**4%**	**25%**	**-3%**
UK property sector index	1,636				1%	2%	21%	-2%
UK equity market index	3,831				2%	4%	28%	-2%

Source: Historical company data, Refinitiv. Note: *Based on last published EPRA NTA (or NAV) per share. **Based on trailing 12-month DPS declared. Prices as at 31 March 2021.

In terms of share price performance, the peer group has outperformed the overall UK property sector and the FTSE All-Share Index over the past year. We attribute this to the long-term leases, in many cases indexed to inflation, typical of the group as well as strong tenant covenants, reflecting the essential role that the assets play in supporting the care and health sectors. Impact shares have performed slightly ahead the average, particularly over the past three months, capturing the period of vaccine roll-out across the care home sector. Despite this, the care home investors, Impact and Target, continue to have the highest yields in the peer group.

In our view, the potential for a re-rating of Impact shares is strong, based on:

- The robust operational and financial performance of tenants, with rents paid in full.

- A clear inflation-linked progressive dividend policy, with DPS well covered by EPRA earnings and by adjusted ('cash') earnings from FY21.
- A long weighted average unexpired lease term (WAULT) (20 years before 10-year tenant extension options) with no break clauses and upward-only, triple net rents, linked to RPI.
- Moderate gearing and available capital to deploy in a sector where care home demand is forecast to grow significantly, driven by an ageing population with increasing care needs.

Exhibit 14: Financial summary

Year to 31 December (£m)	2017	2018	2019	2020	2021e	2022e
INCOME STATEMENT						
Cash rental income	9.5	13.9	19.1	25.9	30.7	32.7
Rental income arising from recognising rental premiums & fixed rent uplifts	(0.1)	3.4	4.9	4.9	5.3	5.0
Net rental income	9.4	17.3	24.0	30.8	36.0	37.7
Administrative & other expenses	(2.3)	(4.3)	(4.6)	(5.3)	(5.4)	(5.6)
Operating profit before change in fair value of investment properties	7.1	13.0	19.4	25.6	30.5	32.1
Change in fair value of investment properties	2.4	4.1	9.1	5.6	4.8	5.1
Gain on disposal	0.0	0.0	0.0	0.2	0.0	0.0
Operating profit	9.5	17.2	28.5	31.3	35.3	37.2
Net finance cost	0.0	(0.7)	(2.1)	(2.5)	(3.5)	(3.7)
Profit before taxation	9.5	16.5	26.3	28.8	31.8	33.5
Tax	(0.0)	0.0	0.0	0.0	0.0	0.0
Profit for the year (IFRS)	9.5	16.5	26.3	28.8	31.8	33.5
Adjust for:						
Change in fair value of investment properties	(2.4)	(4.1)	(9.1)	(5.6)	(4.8)	(5.1)
Gain on disposal	0.0	0.0	0.0	(0.2)	0.0	0.0
Change in fair value of interest rate derivatives	0.0	0.1	0.4	0.1	0.0	0.0
EPRA earnings	7.1	12.4	17.6	23.1	27.0	28.4
Rental income arising from recognising rental premiums & fixed rent uplifts	0.1	(3.4)	(4.9)	(4.9)	(5.3)	(5.0)
Amortisation of loan arrangement fees	0.0	0.2	0.4	0.7	0.8	0.8
Non-recurring costs	0.0	0.7	0.2	0.0	0.0	0.0
Adjusted earnings	7.1	9.9	13.4	18.9	22.4	24.2
Average number of shares in issue (m)	162.6	192.2	254.0	319.0	319.0	319.0
Basic & diluted IFRS EPS (p)	5.82	8.57	10.37	9.02	9.97	10.51
Basic & diluted EPRA EPS (p)	4.35	6.47	6.95	7.25	8.47	8.90
Basic & diluted adjusted EPS (p)	4.39	5.17	5.26	5.93	7.04	7.57
Dividend per share (declared) (p)	4.50	6.00	6.17	6.29	6.41	6.54
EPRA earnings dividend cover	97%	108%	113%	115%	132%	136%
Adjusted earnings dividend cover	98%	86%	85%	94%	110%	116%
BALANCE SHEET						
Investment properties	156.2	220.5	310.5	405.7	451.2	460.3
Other non-current assets	1.7	5.7	10.1	15.9	21.3	26.3
Non-current assets	157.9	226.2	320.7	421.6	472.4	486.5
Cash and equivalents	38.4	1.5	47.8	8.0	9.9	9.4
Other current assets	0.1	0.6	0.6	0.1	0.1	0.1
Current assets	38.5	2.1	48.3	8.1	10.0	9.5
Borrowings	0.0	(24.7)	(23.5)	(74.2)	(115.0)	(115.8)
Other non-current liabilities	(1.7)	(1.9)	(1.8)	(2.8)	(2.8)	(2.8)
Non-current liabilities	(1.7)	(26.6)	(25.2)	(77.0)	(117.8)	(118.6)
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	(1.2)	(3.3)	(3.1)	(3.1)	(3.7)	(3.8)
Current Liabilities	(1.2)	(3.3)	(3.1)	(3.1)	(3.7)	(3.8)
Net assets	193.5	198.3	340.7	349.5	361.0	373.7
Adjust for derivative financial liability/(asset)	0.0	(0.5)	(0.1)	(0.0)	(0.0)	(0.0)
EPRA net assets	193.5	197.9	340.6	349.5	361.0	373.7
Period end shares (m)	192.2	192.2	319.0	319.0	319.0	319.0
IFRS NAV per ordinary share	100.6	103.2	106.8	109.6	113.2	117.2
EPRA NTA per share	100.6	102.9	106.8	109.6	113.2	117.2
CASH FLOW						
Net cash flow from operating activities	8.2	10.0	14.9	21.0	25.8	27.1
Purchase of investment properties (including acquisition costs)	(153.3)	(55.1)	(73.4)	(88.5)	(36.7)	0.0
Capital improvements	(0.5)	(3.9)	(8.2)	(1.7)	(4.0)	(4.0)
Other cash flow from investing activities	0.0	0.0	0.1	0.9	0.0	0.0
Net cash flow from investing activities	(153.8)	(58.9)	(81.5)	(89.3)	(40.7)	(4.0)
Issue of ordinary share capital (net of expenses)	189.3	(0.1)	132.2	0.0	0.0	0.0
(Repayment)/drawdown of loans	0.0	26.0	(0.9)	51.2	40.0	0.0
Dividends paid	(5.3)	(11.6)	(16.1)	(20.0)	(20.3)	(20.8)
Other cash flow from financing activities	0.0	(2.3)	(2.2)	(2.8)	(2.8)	(2.9)
Net cash flow from financing activities	184.0	12.0	112.9	28.5	16.9	(23.6)
Net change in cash and equivalents	38.4	(36.9)	46.3	(39.8)	2.0	(0.5)
Opening cash and equivalents	0.0	38.4	1.5	47.8	8.0	9.9
Closing cash and equivalents	38.4	1.5	47.8	8.0	9.9	9.4
Balance sheet debt	0.0	(24.7)	(23.5)	(74.2)	(115.0)	(115.8)
Unamortised loan arrangement costs	0.0	(1.3)	(1.7)	(2.2)	(1.4)	(0.6)
Net cash/(debt)	38.4	(24.5)	22.7	(68.4)	(106.4)	(107.0)
Gross LTV (net debt as % gross assets)	0.0%	11.4%	6.8%	17.8%	24.1%	23.5%

Source: Impact Healthcare REIT accounts, Edison Investment Research

EDISON

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