EDISON

Target Healthcare REIT

Consistent positive returns with social impact

Company outlook

Real estate

Target Healthcare REIT has delivered consistently positive returns since IPO in 2013 and this has continued through the pandemic. Q321 EPRA NAV increased 0.8% to 109.1p and including DPS paid the NAV total return was 2.4%. In this note we provide an overview of company strategy and future prospects as the operator sector emerges from the worst impacts of the pandemic, and as Target deploys its strong capital resources, boosted by the £60m (gross) March equity raise, in accretive portfolio growth.

Year end	Rental income (£m)	Adjusted net earnings* (£m)	Adjusted EPS*(p)	EPRA NAV/ share (p)	DPS (p)	P/NAV/ share (x)	Yield (%)
06/20	44.2	23.2	5.27	108.1	6.68	1.09	5.7
06/21e	49.8	26.1	5.55	108.1	6.72	1.09	5.7
06/22e	56.4	33.6	6.57	109.4	6.80	1.08	5.8
06/23e	59.5	35.5	6.95	111.9	6.88	1.05	5.8

Note: *Adjusted earnings exclude revaluation movements, non-cash income arising from the accounting treatment of lease incentives and guaranteed rent review uplifts, and acquisition costs, and include development interest under forward fund agreements.

Further accretive growth and increasing DPS

Income and capital values continue to benefit from upwards-only, mostly inflation-linked rent increases and yield tightening, with investors attracted by the visible, non-cyclical nature of care home property. The tenant base has proved robust through the pandemic with average rent cover maintained at 1.5x or better on a trailing 12-month basis and rent collection consistently in the range of 92–94%; the progressive dividend policy has continued uninterrupted and tangible progress is underway with under-performing tenants. Substantially all capital available for investment has been allocated to board approved advanced-stage acquisitions with exchange of contracts/completions imminent. Our updated forecasts include acquisitions of c £100m (before costs), consistent with the company's 25% LTV target. Current rent provisions reduce our FY21 earnings forecast, but as they fall away and as acquisitions/developments complete we forecast further DPS growth in FY22/23, well covered by EPRA earnings and full covered by cash earnings.

Sustainable long-term, inflation-linked income

The care home sector is driven by demographics rather than the economy and although the pandemic has had a near-term impact on admissions and occupancy, a growing elderly population and a shortage of quality homes suggests a strong demand in years to come. Target puts an unwavering focus on asset quality as well as location and the operational and financial performance of tenants. It believes that modern, purpose-built homes with flexible layouts and high-quality residential facilities, are key to providing sustainable, long-duration rental income, appealing to residents and allowing tenants to provide better and more effective care.

Valuation: Attractive indexed, long-term income

The FY21e yield is an attractive 5.7% with good prospects for DPS growth. This supports a premium to NAV, which at 1.09x (Q321 NAV) is in line with the average since IPO but below the 1.19x peak. Robust rent collection and DPS payments through the pandemic indicate potential for yield tightening.

7 May 2021

Price	**117.8p**
Market cap	**£603m**

Net debt (£m) as at 31 March 2021	87.4
Net LTV as at 31 March 2021	13.4%
Shares in issue	511.5m
Free float	100%
Code	THRL
Primary exchange	LSE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	4.3	1.6	12.2
Rel (local)	0.8	(6.6)	(10.3)
52-week high/low		118.4p	90.2p

Business description

Target Healthcare REIT invests in modern, purpose-built residential care homes in the UK let on long leases to high-quality care providers. It selects assets according to local demographics and intends to pay increasing dividends underpinned by structural growth in demand for care.

Next events

Q321 DPS paid	28 May 2021
FY21 year-end	30 June 2021

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Edison profile page

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

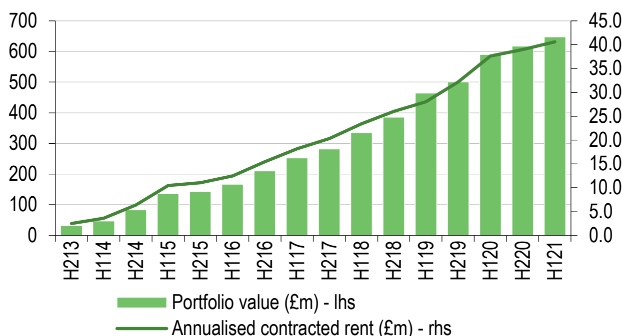
Consistent positive return with a social impact

Target Healthcare REIT (Target) is a closed-ended property investment company that is a real estate investment trust (REIT) for the purposes of UK taxation. It is externally managed by Target Fund Managers, a sector specialist investment manager with an experienced team. The group's shares are traded on the Main Market of the London Stock Exchange with a premium listing. The investment objective is to provide investors with attractive quarterly dividend income through investment in a diversified portfolio (by tenant, asset, geography and source of fees) of high-quality, mostly purpose-built, well-equipped residential and nursing care homes providing full en-suite wetroom facilities and generous indoor and outdoor public and private spaces. The demand for care home places is ultimately driven by a growing population of elderly, with increasingly complex care needs, and is relatively insensitive to wider economic conditions; meanwhile there is an under-supply of quality care home beds. The homes that Target invests in are let to a diversified group of 27 selected operators on long (average weighted average unexpired lease term (WAULT) 28.6 years), on fully insuring and repairing leases with predominantly upwards-only inflation indexed rents (generally capped and collared). This provides a high level of visibility to future contractual income, while risk-adjusted returns for the sector (income and capital) have historically compared favourably with most other commercial property sectors.

The company and investment manager have a strong belief in the positive social impact that its homes can generate, and is giving increasing focus to its environmental, social and governance (ESG) strategy. It starts from a position where its business strategy is closely aligned with ESG principles and a full suite of relevant key performance indicators will be introduced during the current year. Target is an engaged landlord and puts a strong emphasis on the tenant quality and the levels of care provided, recognising this as a crucial element in delivering sustainable long-term returns. The benefits that modern, high-quality homes bring to residents, operators and staff have been highlighted by the pandemic, while such buildings generally benefit from good EPC ratings.

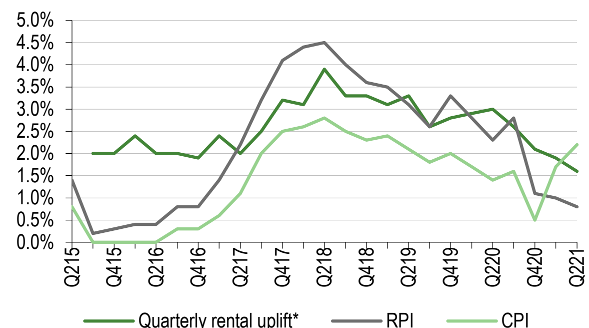
Target has delivered consistent profitable growth since IPO in 2013 and has increased aggregate quarterly DPS each year. Despite the pandemic this trend has continued through the past year, with the company targeting an increased aggregate DPS of 6.72p for the year that will end on 30 June 2021 (FY21), a yield of 5.8%. Driven by inflation-linked rent increases and strong investor interest in the relatively non-cyclical care home real estate sector, capital values and net asset value (NAV) have also increased. From IPO in March 2013 to the end of December 2020 (Q221), the company delivered an EPRA NAV total return (EPRA NAV growth plus dividends paid but not reinvested) of 59.2%, or an average annualised rate of 6.0%. With dividends reinvested the company estimates a cumulative return of 77.5% or 7.7% pa.

Exhibit 1: Growing assets and rental income



Source: Target Healthcare REIT

Exhibit 2: Rents linked to inflation



Source: Target Healthcare REIT, Bank of England. Note: *Average uplift on rent reviews agreed in quarter.

Meeting the shortage of quality care home supply

Target's strategy is based on the recognition that as the average age of the UK population continues to increases, along with the care needs of older people, there is a clear requirement for investment that will increase the size and quality of the UK care home estate.

Although the COVID-19 pandemic is having a near-term impact on care home admissions and occupancy, demographic trends clearly suggest that the need for elderly residential care will continue to increase for a great many years. Those aged 85 or over are the fastest growing part of the UK population and the predominant users of residential care. The Office for National Statistics forecasts that this group will more than double by mid-2046 to 3.2 million. The number of people living with dementia is expected to grow at an even faster pace. The research consultancy LaingBuisson has forecast that an additional 93,000 beds may be needed over the next 10 years, an increase of more than 20% on the current number.

The number of UK nursing and care home beds has actually fallen over the past 20 years, to less than 500,000 currently, primarily driven by the withdrawal of local authorities from care home operation and by obsolete homes leaving the market. Even since 2013, with the bulk of the local authority withdrawal complete, the number of new beds being built has only just matched the number withdrawing. The number of new homes has continued to decline as smaller, often converted and obsolete homes withdraw to be replaced by modern, larger homes.

Despite recent new building and the continued withdrawal of obsolete stock, there are still many older, often converted properties that may be unsuitable for upgrading and increasingly struggle to meet the standard needed to support the delivery of safe, effective and high-quality care increasingly demanded by residents and their families, care professionals and regulators such as the Care Quality Commission. Such properties may increasingly be seen as unfit for purpose or economically unviable and while modern, purpose-built homes do not guarantee good levels of care, they confer clear advantages to operators and residents alike. Among a range of indicators that guide Target's investment decisions is full en-suite wetroom provision, the appeal of which to residents is obvious and the operational advantages have been highlighted by the pandemic (see below). Data sourced from LaingBuisson suggests that across the UK sector, rooms with full en-suite wetroom facilities represent a minority (only around one-fifth) of the care home stock, with the vast majority of en-suite facilities representing WC and handwash basins only. Target will only invest in homes with full en-suite wet room facilities in place (more than 95% of portfolio beds) or, on occasion, where there is an agreement with the tenant that a satisfactory upgrade will be undertaken, and 85% of the homes in its portfolio at the end of FY20 had been built in the previous 10 years.

Taking account of the net new rooms that will be required in coming years and the need to replace or upgrade a significant share of the existing stock, the sector investment requirement is very significant. With care provision largely in the hands of the private sector, private capital providers such as Target have a vital role to play in meeting this need and shaping the development of future provision, offering the potential for stable, long-term returns to investors while providing a positive social and community impact.

Robust performance during the pandemic

Target seeks to provide investors with stable and sustainable dividend income and to achieve this it invests in modern, purpose-built care homes, putting a strict focus on the quality of the physical assets and their location, and seeks good-quality tenants capable of providing strong levels of care, sustainably, over the long term. The COVID-19 pandemic has put this strategy to the test and the

evidence thus far shows a generally resilient operational and financial performance by tenant operators, with robust levels of rent collection maintained, and quarterly dividends uninterrupted and continuing to increase. While many of the factors supporting the resilience of tenant operators are sector-wide, we would also highlight the contribution that Target's modern, purpose-built homes make in supporting its own tenant base. Modern home configuration and design, including en-suite wet room facilities and generous communal space, make it possible to comfortably isolate individual floors, parts of floors or even individual rooms, to control the spread of infection, safely support visiting and exercise, and provide good air quality. A recent virtual property tour explored this in detail, with many testimonials from tenant operators, and may be viewed on the company's website at www.targethealthcarereit.co.uk/investor-relations/reports-and-presentations/financial-reporting.

While there remains much uncertainty about the future course of events with respect to the pandemic, with the vaccine roll-out in care homes at an advanced stage (all residents in Target homes were offered the first dose by the end of January and most have now received the second dose), and the easing of the lockdown continuing (with an expectation that it will end in June), it seems an appropriate time to review the impact and immediate prospects. In particular we note that:

- **The incidence of COVID-19 in Target homes remains low**. The Q321 update puts confirmed cases at less than 1% of portfolio beds, in a handful of homes, well below the April 2020 peak when suspected or confirmed cases (potentially under-estimated due to a shortage of testing) represented 3.2% of beds across 32 homes. Management data throughout the pandemic indicate that through a cautious approach to resident admissions and a quick implementation of lockdown procedures, infection cases were minimised. Where they did occur the spread of infection through homes was well-controlled, and the measures taken became increasingly effective as the pandemic progressed.
- **Average rent cover has remained robust despite the challenges and reduced home occupancy.** From Target's perspective, homes are fully let to the operators, but the operators have seen a c 10% reduction in home occupancy over the past year (to a little under 85% we believe). To a large extent this has been offset by fee growth, non-essential cost containment, and government support measures for the sector. Across the operational portfolio, average rent cover[1] for mature homes (those that have had the same operator for a three-year period or more, and therefore excluding newly developed homes not yet stabilised) remained at c 1.6x throughout much of the year, on a trailing 12-month basis, dipping slightly to 1.5x in the quarter to December 2020. With vaccines rolled out and care home visiting once again possible, home managers are reporting strong levels of enquiry from potential tenants, a positive indicator for rebuilding occupancy.
- **Rent collection has continued to be robust and increased quarterly dividends have been uninterrupted.** Since the start of the pandemic, Target has consistently collected 92–94% of quarterly rents due in respect of mature homes. As at 23 April, 92% of rent due and payable for the current quarter had been collected. Most of the recent and ongoing rent arrears relate primarily to two tenants across four of the homes and Target reports tangible progress in addressing these, reflected in improvements to trading performance and the re-tenanting of one home on favourable terms, reflected in an immediate valuation uplift. As we discuss in the financial section below, we expect the ongoing provisioning against rent arrears to continue until Q122, but on a declining basis.

[1] Rent cover is a key metric used by Target in monitoring and assessing the ability of individual homes and operators to sustainably support the rents that it expects from its portfolio. The ratio tracks operational cash earnings at the home level (before rent) with the agreed rent and is presented on a rolling 12-month basis.

Growing and increasingly diversified portfolio

The asset manager's strict focus on the quality of each asset largely rules out the acquisition of multi-asset portfolios (which will usually present assets of mixed quality) such that the growth in Target's portfolio has been very granular, asset by asset. In spite of this, as at 31 March 2021(end-Q321) Target's portfolio had grown to a value of £650.8m, comprising 76 properties, of which 73 were operational and three were pre-let sites being developed under forward-funding agreements, let to 27 different tenants. With an annualised contracted passing rent of £40.3m, the portfolio valuation reflected an EPRA net initial yield (and EPRA topped-up net initial yield, which is now the same as lease incentives have unwound) of 5.94%. The WAULT of 28.6 years remains one of the highest in the property sector, the product of 30- to 35-year leases at inception and the low average age of the assets. All leases are fully repairing and insuring, with one exception upwards-only, with the majority Retail Price Index (RPI)-linked, subject to caps and collars, although some have fixed annual uplifts. The long WAULT and inflation-linked leases provide considerable visibility of long-term income growth.

Exhibit 3: Portfolio summary

	Mar-21	Jun-20	Jun-19	Jun-18	Jun-17
	Q321	FY20	FY19	FY18	FY17
Properties*	76	73	63	55	45
Beds**	5,277	5,073	4,094	3,552	3,096
Tenants	27	27	24	21	16
Contracted rent (£m)	40.3	39.0	32.2	26.0	20.3
Portfolio value (£m)	650.8	617.6	500.9	385.5	266.2
WAULT	28.6 years	29.0 years	29.1 years	28.5 years	29.5 years
EPRA Topped-up net initial yield	5.94%	6.04%	6.26%	6.44%	6.75%

Source: Target Healthcare REIT data. Note: *Including three homes under development. **Including 206 beds under development.

Exhibit 4 shows the split of tenants at 31 December 2020 (end-H121), with the seven largest tenants representing just over 50% of contracted rents (the largest, Ideal Carehomes, 13.2%).

Exhibit 4: Diversified tenant base

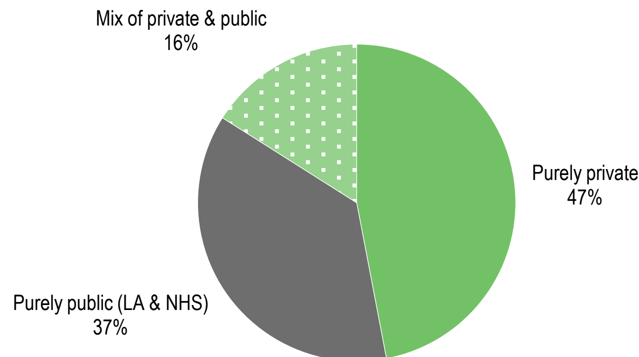
	Number of properties	Market value (£m)	WAULT (years)	Contracted rent (£m)	Share of contracted rent
Ideal Carehomes	13	92.2	29.5	5.4	13.2%
Bondcare	7	61.9	29.9	4.0	9.7%
Athena Healthcare	5	41.6	32.8	2.8	6.9%
Burlington Care	6	36.8	29.1	2.6	6.3%
Aura Care	2	31.8	27.5	2.3	5.6%
Priory	5	32.1	20.5	2.2	5.3%
Hamberley Care	2	35.8	33.5	2.1	5.2%
Other	37	315.5	28.2	19.4	47.8%
Portfolio total*	**77**	**647.7**	**28.7**	**40.6**	**100%**

Source: Target Healthcare REIT. Note: *Portfolio total includes the 76 care homes and 20 retirement apartments held for sale with a value of £7.3m.

Across the portfolio, Target estimates that approximately 63% of the income of the operator tenants includes at least some element of private fees, and that in turn purely private fees represent c 47% and mixed private/public fees ('top-ups') c 16%. Fees received from purely public sources (local authorities and the NHS) represent approximately 37%. As may be expected from the quality of the assets, the private fee element is above the industry average (c 50:50 private/public) and this is reflected in higher than industry average fees per resident received by the operator tenants; in the quarter ended 30 September 2020, Target estimates £964 per week per resident compared with £790 for all UK care homes (sourced from LaingBuisson). As well as being higher than local authority fee rates, private fees have grown faster, and in real inflation adjusted terms in recent years. The pandemic has highlighted the symbiotic relationship between the care and health sectors and may accelerate long-awaited reforms to the funding of care. However, there are no

immediate proposals or timetable, and while reform could enhance local authority funding resources the form that it might take remains unclear.

Exhibit 5: Diversified tenant funding*



Source: Target Healthcare REIT. Note: *Estimates based on information gathered by the investment manager from tenants over the past 12 months.

Investment activity has resumed

Investment activity paused for a while as the effects of the first wave the pandemic were assessed but recommenced in July 2020 and is poised to accelerate as Target deploys its recently increased capital resources. July saw the £15m (including costs) acquisition of a new-build care home in Bicester, Oxfordshire, and two pre-let development sites were also acquired during H121 subject to forward funding agreements with a combined commitment of £21.4m. Also during H121, practical completion was reached on the £10m forward-funded development (Burscough, Lancashire) and construction work continued on the £9.7m development at Rudheath in Cheshire.

As previously indicated by the company, during Q321, one care home, representing c 1% of portfolio value, was sold, at a premium to book value as well as cost value, under a pre-existing agreement with the tenant.

Significant further planned investments

With its equity raise in March, Target provided details of a significant pipeline of identified further investment opportunities, and substantially all capital available for investment, including the proceeds of the equity issue, have been allocated to board-approved acquisitions under non-binding heads of terms.

The March pipeline comprised four ‘imminent acquisition assets’ at an advanced stage of due diligence and negotiation, with an aggregate investment value of £46.7m, and a further pipeline of 16 assets (referred to as the ‘pipeline assets’) for which negotiations had commenced, representing an aggregate potential further investment of £177m (including costs). The investment manager has also begun early due diligence on additional assets that had been identified as meeting the company’s strict investment criteria.

The imminent acquisition assets comprised one forward funding scheme and three modern care homes, which the company said it hoped to be able to acquire by 30 June 2021 (end FY21) subject to satisfactory completion of due diligence, adding three new tenants to the group in the process.

The pipeline assets comprised 10 modern care homes, five forward funding schemes and a forward commitment (a commitment to acquire at completion but without providing development funding) that would add a further five tenants to the group if all completed.

Our updated forecasts assume acquisition of the £46.7m imminent acquisition assets and an additional £50m (before costs) in acquisitions by December 2021 (end-Q222).

Engaged landlord

Most of the recent and ongoing rent arrears relate primarily to two tenants across four of the homes. The pandemic has aggravated the performance issues at these homes, and has slowed Target's efforts to address these, although the relative immaturity of two of the homes is also a factor. Most homes in the portfolio are mature with stabilised, high levels of occupancy under normal trading conditions. However, with its focus on asset quality, Target often invests in completed newly opened homes and commits to acquire pre-let developments at completion, often forward funding the development phase. Newly opened homes typically require up to 36 months to establish occupancy levels and reach mature levels of financial performance, and with its extensive industry experience the investment manager is well placed to support tenants through what can sometimes be a challenging phase and provide ongoing support.

At the two immature homes, both operated by one tenant, the performance improvement that was underway was punctuated by COVID-19, although occupancy and trading are again improving towards the levels anticipated by the investment decision. The other two homes are mature homes that were acquired at yields that reflected Target's assessment of the increased level of risk posed by the performance of the large national operator. Although delayed by COVID-19, one of the homes has now been re-tenanted to an existing tenant (a family-owned operator), with the combination of a longer lease length and slightly reduced annual rent better positioning the home for the future and generating an immediate net valuation uplift. A lease transfer payment from the outgoing tenant will fund capex on the home and cover rent incentives granted to the incoming tenant. We expect similar action on the second home. This changing of tenants when required is part of the investment manager's role as an engaged landlord. The recent actions on these two home mirrors the successful FY20 re-tenanting of six assets (c 8% of rent roll) leased to Orchard Homes, which also preserved shareholder value and continuity of resident care and demonstrated the resilience of good-quality assets and their appeal to a range of tenant operators.

Management and governance

Independent board and specialist external manager

Target Healthcare REIT is overseen by an independent board of directors and is externally managed, under a management contract, by Target Fund Managers. Target Fund Managers was founded in 2010 by Kenneth MacKenzie, its chief executive. It is a sector specialist manager investing exclusively in the elderly healthcare property sector. The growing investment team (28 individuals as of February 2021) brings together strong experience in all aspects of the healthcare property sector including operating, owning, investing in, developing and building healthcare businesses and healthcare property assets. We provide biographies of the key members of the investment team on page 16.

The investment management fee schedule has a tiered fee structure with reducing rates at higher NAV levels, allowing shareholders to benefit from the increasing economies of scale that a larger portfolio provides. The marginal investment management fee will reduce from 1.05% to 0.95% as average NAV increases above £500m (end-Q321: c £558m). There is no performance fee.

Exhibit 6: Management fee structure

Average net assets	Fee margin
First £500m	1.05%
£500m to £750m	0.95%
£750m to £1,000m	0.85%
£1,000m to £1,500m	0.75%
£1,500m+	0.65%

Source: Target Healthcare REIT. Note: Rates effective 1 July 2018.

The independent non-executive chairman of the board since IPO in 2013 is Malcolm Naish, a chartered surveyor with more than 40 years' experience of working in the real estate industry. Before becoming chairman of Target, Mr Naish was head of property at Scottish Widows Investment Partnership until 2012. The other independent directors of the company bring broad experience in the real estate, healthcare, and fund management and administration sectors. They are Professor June Andrews OBE (appointed 2013), a former trade union leader, NHS manager and senior civil servant and world-renowned dementia expert; Gordon Coull (appointed 2013), a former partner at Ernst & Young LLP specialising in investment trusts and property; Thomas Hutchison III (appointed 2013), who has more than 40 years of experience focused in the lodging, hospitality, real estate development, seniors' housing and financial services industries; and Alison Fyfe (appointed May 2020), a highly experienced property professional with 35 years of experience in surveying, banking and property finance.

Financials: Continuing to grow through the pandemic

Target has delivered consistent profitable growth since IPO in 2013 and has increased aggregate quarterly DPS each year. Despite the pandemic this trend has continued through the past year (Exhibit 7), with income returns being supported by acquisitions and development completions as well as inflation-indexed rental uplifts, despite provisions being taken against rent receivables from a small number of tenants/homes. Capital returns have also benefited from rent uplifts as well as further tightening in market valuation yields with investors continuing to be attracted by the non-cyclical nature of returns, and this was the main factor driving the acceleration in Q321 quarterly EPRA NAV total return to 2.4% (dividends added back but not reinvested).

Exhibit 7: Quarterly financial performance trend

Pence per share	Sep-19	Dec-19	Mar-20	Jun-20	Full year	Sep-20	Dec-20	Mar-21
	Q120	Q220	Q320	Q420	FY20	Q121	Q221	Q321
Opening EPRA NAV	107.5	107.9	108.1	108.0	107.5	108.1	108.0	108.2
Property revaluation	0.6	1.3	0.7	0.6	3.2	0.5	0.9	1.2
Property acquisition costs & other capital items	(0.1)	(0.6)	(0.1)	0.0	(0.8)	(0.2)	(0.1)	0.0
Net gains/(losses) on investment property revaluation	**0.5**	**0.7**	**0.6**	**0.6**	**2.4**	**0.3**	**0.8**	**1.2**
Equity issuance	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Movement in revenue reserve (excluding performance fee accruals)	1.2	1.2	1.3	1.2	4.9	1.3	1.3	1.2
Dividend paid	(1.4)	(1.7)	(1.7)	(1.7)	(6.5)	(1.7)	(1.7)	(1.5)
Other	0.0	0.0	(0.3)	0.0	(0.3)	0.0	(0.2)	0.0
Closing EPRA NAV per share	**107.9**	**108.1**	**108.0**	**108.1**	**108.1**	**108.0**	**108.2**	**109.1**
EPRA NAV total return	1.9%	1.7%	1.5%	1.6%	6.8%	1.5%	1.7%	2.4%

Source: Target Healthcare REIT data

Exhibit 8 shows the more detailed H121 financial data, which more clearly highlights recent trends in financial performance. In our comments below we particularly focus on adjusted earnings, a measure that includes company-specific adjustments and is aimed at presenting a clearer picture of recurring cash earnings as a basis for dividend distributions. In addition to the usual EPRA adjustments to IFRS earnings (for property valuation movements and other non-recurring items), the adjusted earnings measure excludes non-cash IFRS rent smoothing and includes development interest earned on development forward funding extended. The IFRS smoothing primarily relates to the straight-line recognition under IFRS of fixed and guaranteed minimum rent uplifts over the life of the leases. Licence fee income accrues during the construction phase of forward funded development schemes and is 'settled' at completion by a reduction in the amount paid to the developer. This typically results in a valuation uplift (to market value), which is excluded from EPRA earnings and so otherwise not recognised.

Exhibit 8: H121 financial performance

£m unless stated otherwise	H121			H120			H121/H120
	IFRS	Adjustment	Adjusted earnings*	IFRS	Adjustment	Adjusted earnings*	Adjusted earnings*
Rent revenue	20.3		20.3	17.0		17.0	19.6%
Income from guaranteed rent reviews & lease incentives	4.6	(4.6)	0.0	3.9	(3.9)	0.0	
Development interest under forward fund agreements	0.0	0.2	0.2	0.0	0.6	0.6	
Total income	**24.9**	**(4.3)**	**20.5**	**20.8**	**(3.3)**	**17.6**	**16.9%**
Investment management fee	(2.8)		(2.8)	(2.5)		(2.5)	11.7%
Other expenses	(3.2)		(3.2)	(1.5)		(1.5)	106.8%
Operating profit before property gains/(losses)	**18.9**	**(4.3)**	**14.5**	**16.8**	**(3.3)**	**13.5**	**7.7%**
Realised/unrealised gains/(losses) on properties	0.2	(0.2)	0.0	1.8	(1.8)	0.0	
Operating profit	**19.1**	**(4.6)**	**14.5**	**18.6**	**(5.1)**	**13.5**	**7.7%**
Net finance cost	(3.3)	0.9	(2.4)	(2.0)		(2.0)	
Tax	0.0		0.0	0.0		0.0	
Net earnings	**15.8**	**(3.6)**	**12.2**	**16.6**	**(5.1)**	**11.5**	**6.1%**
Other data:			**H121**			**H120**	**H121/H120**
IFRS EPS (p)			3.46			3.91	-11.6%
Adjusted EPS (p)			2.66			2.72	-2.2%
EPRA earnings (before company specific adjustments)			12.0			10.9	9.3%
EPRA EPS (p)			3.61			3.50	3.2%
Adjusted EPS (p)			**2.66**			**2.72**	**-2.2%**
DPS declared (p)			**3.36**			**3.34**	**0.6%**
Dividend cover			**0.79**			**0.75**	
NAV per share, IFRS & EPRA (p)			108.2			108.1	0.1%
Investment properties			647.7			589.9	9.8%
Borrowings			162.0			135.0	
Cash			18.3			31.8	
Gross LTV			25.0%			22.9%	

Source: Target Healthcare data

We note the following key features of the recent adjusted earnings performance:

- H121 cash rental income (before IFRS smoothing) increased by 19.6% to £20.3m compared with H120 (and was also up by 6.6% on H220), driven by portfolio acquisitions, development completions and like-for-like growth in contracted rents of 0.7% (followed by a further 0.4% like-for-like growth in Q321).
- Annualised contracted rents increased to £40.6m in H120 (end-FY20: £39.0m), but was £40.3m at end-Q321 with the property disposal and home re-tenanting (at a reduced rent) offsetting underlying growth.
- H121 investment management fees increased with the growth in average NAV (primarily reflecting a full period impact from the September 2020 £80m gross equity raise), but at a slower rate than income. Other expense growth was driven by the c £1.9m provision against rent receivables (c £0.5m in H120) and although not specifically disclosed, the movement in revenue reserve shown in Exhibit 7 and the recent quarterly rent collection data indicate that this continued through Q321.
- Net finance expense (excluding the impact of debt refinancing) increased with higher average debt, drawn to fund portfolio growth.
- Including development interest (lower during the period reflecting the completion of several schemes), H121 adjusted earnings increased 6.1% to £12.2m compared with H120 and increased on H220 (£11.7m). Adjusted earnings per share was slightly lower at 2.66p (H120 2.72p) but increased compared with H220 (2.55p).
- On an EPRA basis H121 DPS was well covered at 107% (H120: 97%; H220: 103%) and 79% on an adjusted earnings basis, both including the impact of receivables provisioning; excluding this we estimate adjusted earnings cover of 92%.

As well IFRS smoothing adjustments (including in income but excluded from net valuation movements to avoid inflating NAV) and excluding interest earned in respect of forward funding, H121 IFRS earnings of £15.8m include:

- £0.9m of non-recurring refinancing costs.
- £0.3m of net unrealised property revaluation movement, reflecting a 1.7% like-for-like gain in the value of operational investment properties; a further 1.0% gain was registered in Q321. The gains are driven by underlying rental growth and further yield tightening.

Exhibit 9: Income statement revaluation movement

£m	H121	H120	H220
Gross revaluation movement	6.6	7.6	6.5
Acquisition costs written off	(1.0)	(3.4)	(0.5)
Movement in lease incentives	(0.8)	(0.7)	(1.1)
Movement in fixed or guaranteed rent reviews	(4.6)	(3.9)	(4.4)
Gains/(losses) on revaluation of investment properties reflected in income statement	**0.3**	**(0.3)**	**0.5**

Source: Target Healthcare REIT data

- H121 EPRA NAV per share increased slightly to 108.1p and including DPS paid in the period the EPRA NAV total return was 3.2% (or 3.3% assuming re-investment of dividends), continuing a consistent quarterly trend of positive returns.

Updated forecasts

Our revised forecasts, shown in detail in the financial summary in Exhibit 16 at the back of this note, are updated to include the H121 asset management and investment activity detailed above (the acquired home at Bicester, the Chesterfield and Droitwich Spa developments, the home disposal and re-tenanting) and the H121 results, the March 2021 £60m (gross) equity raise and further acquisitions. Our assumed acquisitions are sufficient to deploy the proceeds from the equity raise, with associated debt, while being consistent with the company's c 25% loan to value (LTV) target.

Our assumptions include:

- The purchase of all four imminent acquisition assets by the end of 30 June 2021 (end-FY21) for an aggregate £46.7m (including costs). We have allocated this:
  - £12.0m to the new forward funding scheme with estimated acquisition costs of 2% and net initial yield of 6.0%. We allow for completion by September 2022 (Q123); and
  - the balance to completed homes with estimated acquisition costs of 6.8% and a net initial yield of 5.75%.
- Further acquisitions amounting to a net £50 (including reinvestment of the Q321 asset sale proceeds and including costs of 6.8%) at an assumed net initial yield of 5.75%; £25m by the end of September 2021 (end-Q122) and £25m by the end of December (Q222).
- Completion of the forward-funded development schemes in place at end-H121. We assume completion of the Rudheath development the end of June 2021 (end-FY21); Chesterfield by the end of September 2021 (end-Q122); and Droitwich Spa by the end of December 2021 (end-H122). In aggregate we expect these developments to contribute c £1.9m to annualised rents, or a 6% yield on investment.
- We have assumed rent indexation broadly in line with consensus expectations for a pick-up in UK RPI (from 1.5% in 2020 to 3.0% in 2021 and 2.9% in 2022) and have allowed for continuing near-term impairment of rent receivables, at a declining rate until end-Q122. For H221 this amounts to c £1.0m (c 5% of contracted passing rent) and in Q122 c £0.2m (c 2% of contracted passing rent).
- Costs are substantially driven by investment manager fees as per the schedule in Exhibit 6 above. Our forecast for other expenses includes some additional provisioning against rent

receivables in H221 (c £1.0m) and Q122 (c £0.2m), but at a declining rate to reflect the asset management initiatives discussed above.

- Gross revaluation movements are assumed to be in line with rent indexation, effectively assuming no change in valuation yields. As reported under IFRS in the income statement, this is partly offset by acquisition costs and IFRS smoothing rent effects.

A summary of our key forecasts is shown in Exhibit 10, including FY22 and FY23 for the first time. FY21 is adjusted for several of the factors listed above. The increase in forecast rental income includes a positive impact from acquisitions as well as a c £2.0m increase in our forecast for non-cash IFRS rent smoothing adjustments, excluded from adjusted 'cash' earnings. FY21e adjusted earnings also now includes c £3,0m (the H1 charge plus H2 estimate) in rent receivable impairment, while adjusted EPS includes a slight increase in the average number of shares in the year resulting from the March 2021 equity raise. FY21e DPS is increased in line with quarterly payments and the annual target. With acquisitions and development completions continuing to lift revenues in FY22 and FY23 we expect continuing growth in DPS (c 1.2% pa in each year), substantially covered by adjusted 'cash' earnings in FY22 and fully covered in FY23.

Exhibit 10: Forecast changes/updates

	Rental income (£m)			Adj. net earnings (£m)			Adjusted EPS (p)			EPRA NAV/share (p)			DPS (p)		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
06/21e	47.6	49.8	4.6	28.6	26.1	-8.6	6.3	5.5	-11.2	111.9	108.1	(3.4)	6.68	6.72	0.6
06/22e	N/A	56.4	N/A	N/A	33.6	N/A	N/A	6.6	N/A	N/A	109.4	N/A	N/A	6.80	N/A
06/23e	N/A	59.5	N/A	N/A	35.5	N/A	N/A	6.9	N/A	N/A	111.9	N/A	N/A	6.88	N/A

Source: Edison Investment Research

Funding strategy targets moderate gearing

To fund portfolio growth since IPO, Target has steadily increased its capital resources, both equity and debt capital, sufficient to take advantage of opportunities in the market while avoiding excessive gearing and mitigating any drag on returns. The company targets moderate gearing with a medium-term target of around 25% (borrowings to gross assets) with a maximum permitted level of 35%. The £60m (gross) upsized equity issue in March 2021 (c 54.0m new shares at 111p) forms part of a placing programme, approved by shareholders, under which up 150m new shares may be issued at the discretion of the board at any point up until 11 February 2022. The 150m shares includes the March issue, with c 96.0m shares still available under the programme and may be issued on a non-pre-emptive basis at a premium to EPRA net tangible assets (NTA), sufficient to cover the cost of issue. The placing programme should allow the company to tailor future equity issuance to its acquisition pipeline, providing flexibility and minimising any drag on returns. We estimate that at the current share price, the additional shares that may be issued would provide funding for c £140m of additional investment commitment, over and above the investment we assume in our forecasts, on a geared basis (25% LTV).

During H121 available debt facilities were increased from £180m to £220m, comprising £80m of fully drawn fixed-rate term loan facilities and £140m of more flexible variable-rate revolving credit facilities (RCF). The increase in facilities and extension of the term was completed with a minimal increase in the ongoing interest costs and lengthened the group weighted average term to expiry to more than five years with a weighted average cost, including amortisation of loan arrangement fees and swap costs, of c 2.8%. During Q321 Target used the proceeds of the equity raise to temporarily reduce borrowings by £48m to £114m. Allowing for cash balances of £26.6m, net debt was £87.4m and the net loan to value ratio was a low 13.4%.

Exhibit 11: Summary of debt portfolio

Lender	Facility type	Facility	Term	Margin
RBS	Term loan	£30m	Nov-25	SONIA + 2.18%
	Revolving credit facility	£40m	Nov-25	SONIA + 2.33%
HSBC	Revolving credit facility	£100m	Nov-23*	SONIA + 2.17%
ReAssure	Term loan & revolving credit facility	£50m	Jan-32	Fixed 3.28%

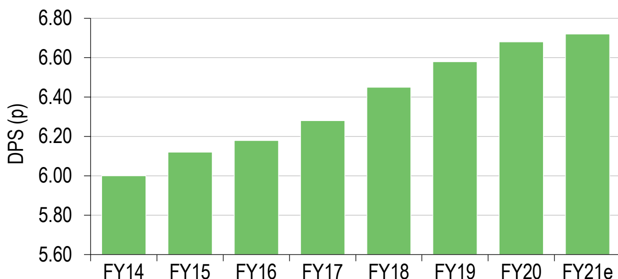
Source: Target Healthcare REIT data. Note: *HSBC facility includes two one-year extension options subject to HSBC approval.

Of the total debt facilities, £80m are fixed rate/hedged and £140m floating rate. All loans are secured against investment properties owned by the group with maximum LTV requirements of 50–60% and interest cover ratios of a minimum 300%. All covenants have been complied with during the past year.

Valuation: Growing DPS and scope for yield compression

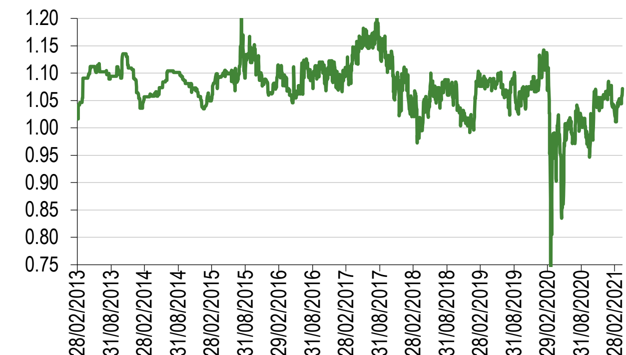
Annualised DPS has increased in each year since Target's IPO in 2013, paid quarterly and uninterrupted by the pandemic. The current quarterly run-rate of DPS (1.68p) leaves the company on target for aggregate annual DPS of 6.72p in the current (FY21) financial year, representing a prospective yield of 5.7% and taking annual compound growth in DPS since 2014 to 1.63%. Based on the end-Q321 EPRA NAV per share of 109.1p, the P/NAV is 1.09x, broadly in line with the average since IPO of c 1.08x and below the peak of 1.19x. The only period of notable relative weakness in the P/NAV was at the start of the COVID-19 pandemic when uncertainty was high for care home operators and for the wider equity market.

Exhibit 12: Consistent DPS growth since IPO, supported by inflation-indexed rent uplifts



Source: Target Healthcare REIT data. Note: FY21e based on current quarterly run-rate of DPS.

Exhibit 13: Income returns have generally supported a premium to NAV



Source: Refinitiv price data and Target Healthcare REIT quarterly NAV per share data.

Exhibit 14 shows the NAV total return history since IPO. The cumulative total return (adjusted for dividends paid but not assuming reinvestment of dividends) from IPO in March 2013 to 31 December 2020 (end-H121) was 59.2% or an average annualised rate of 6.0%. Dividends accounted for c 80% of the total. On the dividend reinvested basis reported by Target, the cumulative return is 77.5%, an annualised 7.7%. Our forecasts imply an annual average return of 7.0% pa in the FY21–23 period, increasing in FY23 in the absence of assumed acquisitions and acquisition-related costs.

Exhibit 14: NAV total return history (no reinvestment of dividends paid)

	FY14*	FY15	FY16	FY17	FY18	FY19	FY20	H121	Cumulative
Opening NAV per share (p)	98.0**	94.7	97.9	100.6	101.9	105.7	107.5	108.1	98.0
Closing NAV per share (p)	94.7	97.9	100.6	101.9	105.7	107.5	108.1	108.2	108.1
DPS paid (p)	6.5	6.1	6.2	6.3	6.4	6.5	6.7	3.4	48.0
NAV total return in period	**3.3%**	**9.7%**	**9.0%**	**7.5%**	**10.1%**	**7.8%**	**6.8%**	**3.2%**	**59.2%**
Compound annual average return									**6.0%**

Source: Target Healthcare REIT data, Edison Investment Research. Note: Company published total returns are on a dividend reinvested basis and are higher. *22 January 2013 to 30 June 2014. **Adjusted for IPO costs.

In Exhibit 15 we show a comparison of Target with its nearest competitors. The Target dividend yield is well above the peer group average and its P/NAV is broadly in line. Within the peer group, the impact on valuation of investor perceptions of the strength of tenant covenant is apparent. The primary healthcare investors (Assura and PHP) trade with below average dividends yields, resulting in above average P/NAV ratings, and in our view this is partly a reflection that most of their rents are funded by government, either directly or indirectly through GP rent reimbursement. Against the background of strong demographically driven fundamentals, a successful test of the strength of tenant covenant during the exceptional challenge of the pandemic suggests good potential for Target's yield differential to narrow versus the peer group average.

Exhibit 15: Peer valuation and performance comparison

	WAULT (years)	Price (p)	Market cap (£m)	P/NAV* (x)	Annualised yield (%)**	Share price performance			
						One month	Three months	12 months	From 12-month high
Assura	12	73	1771	1.31	3.9	0%	-1%	-5%	-15%
Civitas Social Housing	23	113	705	1.05	4.8	4%	4%	17%	-2%
Impact Healthcare	20	112	357	1.02	5.6	-1%	1%	21%	-4%
Primary Health Properties	12	149	2105	1.32	4.2	0%	2%	-6%	-10%
Residential Secure Income	N/A	97	166	0.92	5.2	5%	4%	8%	-1%
Triple Point Social Housing	26	104	420	0.98	5.0	2%	-3%	12%	-8%
Average	**19**			**1.10**	**4.8**	**2%**	**1%**	**8%**	**-7%**
Target Healthcare	**29**	**118**	**539**	**1.09**	**5.7**	**4%**	**2%**	**12%**	**-1%**
UK property sector index		1,725				4%	8%	24%	-2%
UK equity market index		4,012				3%	8%	24%	0%

Source: Company data, Refinitiv prices as at 6 May 2021. Note: *Based on last published EPRA NAV per share. **Based on last declared quarterly DPS and annualised. Impact Healthcare REIT has said that it will target an increase in FY21 DPS from 6.29p to 6.41p but has yet to declare a Q121 DPS.

Sensitivities

The visibility of Target's contractual income and dividend paying capacity is provided by long leases and RPI-linked rent increases. We see the key sensitivities as relating to the following:

- Regulatory changes or changes to government care policy have the potential to materially affect the sector, both positively and negatively, in ways that are difficult to predict. Changes to the long-term funding of care could have a positive impact on demand and stimulate much needed investment in the sector.
- The failure of any of the tenants could negatively affect the collection of contractual income. Target seeks to mitigate this risk through a rigorous investment process, ongoing oversight of all its homes and engagement with its operators, and the increasing diversity of its tenant base. Were any operator or home to fail, a focus on investing in high-quality homes situated in areas with supporting demography should make the home attractive to another operator.
- Key operational and financial risks to the tenant operators include: their ability to maintain high standards of care and compliance with stringent and evolving regulatory oversight; upward pressure of staff costs and local shortages, especially for trained nursing staff; and budgetary pressures on the local authorities that fund c 50% of UK care home beds. High-specification, modern, purpose-built accommodation may be more likely to attract self-funded residents for

whom industry fees are on average materially higher than for local authority-funded residents. Such properties may also assist operators in delivering better quality care and attracting and retaining staff. The COVID-19 pandemic has increased the risks and challenges facing operators in the near term, although the performance of Target's tenants has thus far proved overall encouraging, with maintained robust rent collection.

- Average care home fees have risen at a faster rate than RPI in recent years, particularly fees for self-funded residents. In many cases these fees will be met by a draw-down of home equity and/or other savings. Any sustained reduction in personal wealth could have a negative impact on the growth of privately funded fees.
- Strong investor interest in care home assets has seen valuations increase and the yields available on investment tighten, particularly for good-quality, modern, purpose-built assets. Favourable funding conditions have maintained a positive investment spread and, to the extent that further portfolio growth is accompanied by expansion of the equity base above £500m, the reduction in the marginal rate of investment management fees should be beneficial.
- RPI-linked rent increases protect against inflation, providing inflation does not rise too much. Target's RPI-linked leases are subject to caps and collars, and we would expect the blended cap to be around 4% with a floor at c 2%. Should inflation increase significantly, above c 4%, the cap to rental increases could cause income growth to lag the growth in expenses and funding costs. We would nevertheless expect such conditions to generate more significant challenges to the mainstream commercial property market where occupancy is also likely to be more volatile.
- Of Target's £220m of committed term loan and revolving credit facilities, £80m is fixed/hedged and £140m is floating rate. Assuming no change in the differential between Libor or the Sterling Overnight Indexed Average (SONIA) and RPI, the impact on the variable funding costs arising from any increase in Libor/SONIA should be matched by increases in rental income, provided RPI does not rise above the cap on rent increases.

Exhibit 16: Financial summary

Year to 30 June (£m)	2014	2016	2017	2018	2019	2020	2021e	2022e	2023e
INCOME STATEMENT									
Rent revenue	3.8	12.7	17.8	22.0	27.9	36.0	40.7	47.4	50.5
Movement in lease incentive/fixed rent review adjustment	1.5	4.1	5.1	6.3	6.4	8.2	9.1	9.0	9.0
Rental income	5.4	16.8	22.9	28.4	34.3	44.2	49.8	56.4	59.5
Other income	0.0	0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Total revenue	5.4	16.9	23.6	28.4	34.3	44.3	49.8	56.4	59.5
Gains/(losses) on revaluation	(2.2)	(0.6)	1.6	6.4	6.2	1.7	(1.7)	(0.5)	3.4
Realised gains/(losses) on disposal	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Management fee	(0.6)	(2.7)	(3.8)	(3.7)	(4.7)	(5.3)	(5.9)	(6.4)	(6.5)
Other expenses	(0.8)	(1.0)	(1.2)	(1.5)	(2.7)	(4.3)	(5.4)	(3.1)	(2.9)
Operating profit	1.7	12.7	20.1	29.6	33.0	37.0	36.8	46.5	53.5
Net finance cost	0.2	(0.9)	(0.8)	(2.0)	(3.1)	(5.4)	(5.2)	(5.3)	(5.7)
Profit before taxation	1.9	11.7	19.3	27.6	29.9	31.6	31.6	41.2	47.8
Tax	(0.0)	(0.0)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
IFRS net result	1.9	11.7	19.1	27.6	29.9	31.6	31.7	41.2	47.8
Adjust for:									
Gains/(losses) on revaluation	2.2	(0.4)	(2.2)	(6.4)	(6.2)	(1.7)	1.6	0.5	(3.4)
Other EPRA adjustments	0.0	1.0	0.4	0.0	0.7	0.5	1.0	0.0	0.0
EPRA earnings	4.1	12.3	17.3	21.2	24.5	30.5	34.3	41.7	44.5
Adjust for fixed/guaranteed rent reviews	(1.5)	(4.1)	(5.1)	(6.3)	(6.4)	(8.2)	(9.1)	(9.0)	(9.0)
Adjust for development interest under forward fund agreements	0.0	0.0	0.0	0.3	2.0	1.0	0.9	0.9	0.1
Adjust for performance fee	0.2	0.9	1.0	0.6	0.0	0.0	0.0	0.0	0.0
Group adjusted earnings	2.7	9.0	13.2	15.7	20.1	23.2	26.1	33.6	35.5
Average number of shares in issue (m)	105.2	171.7	252.2	282.5	368.8	440.3	471.0	511.5	511.5
IFRS EPS (p)	1.80	6.81	7.58	9.77	8.10	7.18	6.72	8.06	9.35
EPRA EPS (p)	3.92	7.15	6.87	7.50	6.63	6.92	7.28	8.15	8.69
Adjusted EPS (p)	2.59	5.25	5.23	5.54	5.45	5.27	5.55	6.57	6.95
Dividend per share (declared) (p)	6.00	6.18	6.28	6.45	6.58	6.68	6.72	6.80	6.88
Dividend cover		1.08	0.83	0.82	0.82	0.76	0.80	0.97	1.01
BALANCE SHEET									
Investment properties	81.4	200.7	266.2	362.9	469.6	570.1	641.2	706.9	712.6
Other non-current assets	0.0	3.7	4.0	27.1	37.6	46.0	56.5	65.5	74.5
Non-current assets	81.4	204.5	270.2	390.1	507.2	616.1	697.6	772.3	787.0
Cash and equivalents	17.1	65.1	10.4	41.4	26.9	36.4	21.5	5.8	5.4
Other current assets	6.5	13.2	25.6	3.4	4.3	11.2	6.7	3.5	3.6
Current assets	23.6	78.3	36.0	44.8	31.2	47.6	28.2	9.3	9.0
Bank loan	(11.8)	(20.4)	(39.3)	(64.2)	(106.4)	(150.1)	(152.1)	(197.9)	(198.7)
Other non-current liabilities	0.0	(4.1)	(4.0)	(4.7)	(7.1)	(6.4)	(6.8)	(8.0)	(8.4)
Non-current liabilities	(11.8)	(24.5)	(43.3)	(68.9)	(113.5)	(156.5)	(158.9)	(205.9)	(207.1)
Trade and other payables	(3.1)	(5.0)	(6.0)	(7.4)	(11.8)	(13.1)	(14.1)	(16.3)	(16.8)
Current Liabilities	(3.1)	(5.0)	(6.0)	(7.4)	(11.8)	(13.1)	(14.1)	(16.3)	(16.8)
Net assets	90.2	253.3	256.9	358.6	413.1	494.1	552.9	559.4	572.2
Adjust for derivative financial liability	0.0	0.3	0.0	0.1	0.7	0.2	0.2	0.2	0.2
EPRA net assets	90.2	253.6	256.9	358.7	413.8	494.3	553.0	559.6	572.3
Period end shares (m)	95.2	252.2	252.2	339.2	385.1	457.5	511.5	511.5	511.5
IFRS NAV per ordinary share	94.7	100.4	101.9	105.7	107.3	108.0	108.1	109.4	111.8
EPRA NAV per share	94.7	100.6	101.9	105.7	107.5	108.1	108.1	109.4	111.9
CASH FLOW									
Cash flow from operations	3.2	8.9	4.4	23.6	20.5	25.6	29.2	40.9	42.0
Net interest paid	0.2	(0.7)	(0.6)	(1.4)	(2.3)	(4.1)	(3.7)	(4.5)	(4.9)
Tax paid	0.0	(0.2)	(0.5)	(0.1)	0.0	(0.1)	0.0	0.0	0.0
Net cash flow from operating activities	3.3	8.1	3.2	22.1	18.2	21.5	25.5	36.4	37.1
Purchase of investment properties	(51.9)	(61.9)	(63.3)	(90.0)	(99.6)	(117.5)	(72.0)	(66.1)	(2.4)
Disposal of investment properties	0.0	0.0	0.0	0.0	0.0	14.1	4.0	3.7	0.0
Net cash flow from investing activities	(51.9)	(61.9)	(63.3)	(90.0)	(99.6)	(103.4)	(68.0)	(62.5)	(2.4)
Issue of ordinary share capital (net of expenses)	44.5	97.5	0.0	91.7	48.9	78.2	58.6	0.0	0.0
(Repayment)/drawdown of loans	8.6	(12.8)	20.9	26.0	42.0	44.0	2.0	45.0	0.0
Dividends paid	(4.4)	(9.7)	(15.6)	(17.4)	(23.6)	(29.2)	(31.7)	(34.7)	(35.1)
Other	0.0	14.8	0.0	(1.5)	(0.3)	(1.6)	(1.4)	0.0	0.0
Net cash flow from financing activities	48.8	89.8	5.3	98.8	67.0	91.4	27.5	10.3	(35.1)
Net change in cash and equivalents	0.2	35.9	(54.7)	31.0	(14.5)	9.5	(14.9)	(15.8)	(0.4)
Opening cash and equivalents	16.9	29.2	65.1	10.4	41.4	26.9	36.4	21.5	5.8
Closing cash and equivalents	17.1	65.1	10.4	41.4	26.9	36.4	21.5	5.8	5.4
Balance sheet debt	(11.8)	(20.4)	(39.3)	(64.2)	(106.4)	(150.1)	(152.1)	(197.9)	(198.7)
Unamortised loan arrangement costs	(0.5)	(0.6)	(0.7)	(1.8)	(1.6)	(1.9)	(1.1)	(0.3)	0.5
Net cash/(debt)	4.9	44.1	(29.6)	(24.6)	(81.1)	(115.6)	(131.7)	(192.4)	(192.8)
Gross LTV	15.1%	10.5%	14.2%	17.1%	21.6%	24.9%	22.3%	26.0%	25.5%
Net LTV	0.0%	0.0%	10.5%	6.4%	16.2%	18.9%	19.2%	25.2%	24.8%

Source: Target Healthcare REIT historical data, Edison Investment Research

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Revenue by geography

Leadership team

Non-executive chairman, Target Healthcare REIT: Malcolm Naish

Mr Naish has chaired the company since its launch in 2013, and also has listed company board experience via his role as chairman of Ground Rents Income Fund and as a non-executive director of GCP Student Living. He is a qualified surveyor with more than 40 years' experience of working in the real estate industry, most recently as head of property at Scottish Widows Investment Partnership (SWIP), from 2007 to 2012, where he had responsibility for a multi-billion pound portfolio of commercial property assets. In previous roles, he was director and head of DTZ Investment Management, was a founding partner of Jones Lang Wootton Fund Management, and UK managing director of LaSalle Investment Management. In 2002, he co-founded Fountain Capital Partners, a pan-European real estate investment manager and adviser. Mr Naish was chairman of the Scottish Property Federation for 2010/11 and holds a number of advisory roles in the private and charity sectors

Chief executive, Target Fund Managers: Kenneth MacKenzie

Kenneth MacKenzie is founder and chief executive of Target Fund Managers (TFM), the company's investment manager. He is a chartered accountant with over 40 years of business leadership experience with the last 15 in healthcare. In addition to his responsibilities as TFM's chief executive, Kenneth leads the creation and management of its client funds and oversees fundraising and investor liaison. In 2005, he led the acquisition of Independent Living Services, Scotland's largest domiciliary care provider, growing and developing the business before exiting via a disposal to a private equity house. He had previously negotiated the proposed acquisition of a large UK independent living business in a joint venture with the US care home operator, Sunrise Senior Living. Before becoming involved in the healthcare sector, he owned businesses in fields as diverse as publishing, IT, shipping and accountancy.

Finance director, Target Fund Managers: Gordon Bland

Gordon Bland is finance director of Target Fund Managers (TFM), the company's investment manager. He is a chartered accountant with extensive experience of financial reporting within the asset management industry and provides financial input to the strategic and commercial activities of the senior TFM team. He also leads the finance function, where his key responsibilities include: financial planning and analysis; risk management; ownership of relationships with debt providers, treasury services; and financial reporting to shareholders. Prior to joining Target, he worked at PricewaterhouseCoopers for almost 10 years. That included two years at its Toronto office, where he served asset management and financial-services clients in the UK, Canada and Australia. His clients included SWIP, Scottish Widows, Lloyds Banking Group, Gartmore, Baillie Gifford and Schroders.

Head of investment, Target Fund Managers: John Flannelly

John Flannelly has been head of investment at Target Fund Managers (TFM), the company's investment manager, since its inception in 2010. He is a chartered accountant with 20 years' experience, the last 15 of which have been in real estate investment management. He has primary responsibility for investment activity across the TFM business and has been involved in the appraisal of several hundred care homes opportunities, resulting in the acquisition of around 100 properties for those clients. His career began with Arthur Andersen, where he worked on audits, financial due diligence and corporate finance projects. He later moved to the Bank of Scotland to structure MBO finance packages, and then into real estate investment management. Immediately prior to joining TFM he was investment director for an institutional investor, where he held board positions at a UK top-10 care home operator and a care home development business.

Head of healthcare, Target Fund Managers: Andrew Brown

Andrew Brown has been head of healthcare at Target Fund Managers (TFM), the company's investment manager, since its inception in 2010. His primary responsibilities include inspecting properties owned by client funds as well as prospective acquisitions during due diligence. TFM's in-house demographic and market analysis is undertaken by his team. Andrew has spent most of his life in the care sector. Prior to joining TFM, he and his family developed one of the largest continuing care retirement communities in the UK, Auchlochan Trust. He was also an investor in Trinity Care. He has played the role of developer, builder and operator of care homes, all of which has produced a community of approximately 350 care beds, almost 100 retirement properties and over 300 staff. These facilities included both residential care homes and nursing homes and Andrew was directly responsible for operations.

Head of asset management, Target Fund Managers: Scott Steven

Scott Steven joined Target Fund Managers (TFM), the company's investment manager, in 2017 and became head of asset management in 2018. His experience spans a variety of asset management, corporate finance, and banking roles, initially with Bank of Scotland where he qualified as a chartered banker. During 15 years with the bank, he worked in the private equity and pan-European property investment businesses. Latterly, under the Lloyds Banking Group umbrella, he led a team with responsibility for managing and restructuring substantial corporate real estate assets.

Principal shareholders (Source: Refinitiv, 6 May 2021)	(%)
Premier Miton	6.5
BlackRock	6.2
Baillie Gifford & Co	5.0
Alder Investment Management	4.6
Investec Wealth & Investment	4.6
Gravis Capital Management	4.2
BMO Global Asset Management	3.8
CCLA Investment Management	3.5
Rathbone Investment Management	3.4

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