SECURE INCOME REIT PLC

Secure Income REIT Plc
Results for the six months ended 30 June 2020

10 September 2020

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Interim results summary: 30 June 2020

	30 June 2020	31 Dec 2019		
Portfolio independent valuation	**£1,958.7m**	£2,083.1m	↓ 6.0%	Includes impact of all concessions granted to date
EPRA NTA per share	**386.4p**	429.4p	↓ 10.0%	
Net LTV	**35.3%**	31.9%	↑ 10.7%	Non-recourse debt structure
Uncommitted cash	**£219.6m**	£234.2m	↓ 6.2%	Reduced due to deployment to fund dividends
Contractual passing rents pre Covid concessions	**£111.8m**	£110.7m	↑ 1.0%	Temporary rent concessions – return to originally contracted levels by 1 January 2022
WAULT	**20.8 years**	21.0 years	↓ 1.0%	Reduction lessened from 0.5 years to 0.2 years from Pubs extensions
	30 June 2020	**30 June 2019**		
Total Accounting Return	**(8.1)%**	7.0%		EPRA NTA down 43.0p, net of 8.4p dividends
Adjusted EPRA EPS	**5.1p**	8.1p	↓ 37.0%	Impact of rent concessions over period of reduction (not lease term)
Dividends per share in the period	**8.4p**	7.9p	↑ 6.3%	Rent concessions are temporary; strong liquidity supports dividends
Latest quarterly DPS of 3.65 p paid August annualised as a percentage of EPRA NTA	**3.8%**	4.0%		

Support for leisure and hotels tenants

Travelodge *(25% of pre concession contractual total rents of £111.8 million)*

- Travelodge conducted a **CVA with some unusual features**
  - no sites have been disclaimed
  - Leases return to their originally contracted rent levels and terms on 1 January 2022
  - 119 of SIR's 123 leases contain **no cost landlord only break options** up to 20 November 2020
- **temporary rent reduction** of £14.4m in 2020 (£4.8m in H1) and £8.6m in 2021

Merlin *(32% of pre concession contractual rents)*

- Consensually agreed **deferral of June & September quarter rents** of £17.8m to September 2021

Stonegate Pubs *(2% of pre concession contractual rents)*

- Exchanged six months' **rent free period** from March 2020, equivalent to £1.1m, for lease extensions to 25 years and improved alienation provisions

No further concessions have been granted to tenants.

Rent concession cash flow impact

	H1 2020 £m	H2 2020 £m	2020 £m	H1 2021 £m	H2 2021 £m	2021 £m
Hotels CVA reduction	(4.8)	(9.6)	**(14.4)**	(4.3)	(4.3)	**(8.6)**
Merlin rent deferral	(8.9)	(8.9)	**(17.8)**	-	17.8	**17.8**
Pubs rent free for improved lease terms	(0.5)	(0.6)	**(1.1)**	-	-	**-**
Cash flow impact on rent	**(14.2)**	**(19.1)**	**(33.3)**	**(4.3)**	**13.5**	**9.2**
Pre concession contractual rent at start	55.3	55.4	**110.7**	56.0	56.0	**112.0**
Fixed rental uplifts	0.3	0.7	**1.0**	1.0	1.4	**2.4**
After concession granted	41.4	37.0	**78.4**	52.7	70.9	**123.6**

- All rents expected to revert to originally contracted levels by 1 January 2022
- All tenants who were granted concessions have abided strictly to the terms of those arrangements.
- No rents are overdue at 30 June 2020 save for a negligible £30k of rent

Rent concession Adjusted EPRA Earnings impact

	H1 2020 £m	*H2 2020 £m*	*2020 £m*	*H1 2021 £m*	*H2 2021 £m*	*2021 £m*
Hotels CVA reduction	(4.8)	(9.6)	**(14.4)**	(4.3)	(4.3)	**(8.6)**
Merlin rent deferral	(0.6)	(17.2)	**(17.8)**	-	17.8	**17.8**
Pubs rent free for improved lease terms	(0.5)	(0.6)	**(1.1)**	-	-	**-**
Total Adjusted EPRA Earnings impact £m	**(5.9)**	**(27.4)**	**(33.3)**	**(4.3)**	**13.5**	**9.2**
Total Adjusted EPRA Earnings per share impact	**(1.9)**	**(8.4)**	**(10.3)**	**(1.3)**	**4.2**	**2.9**

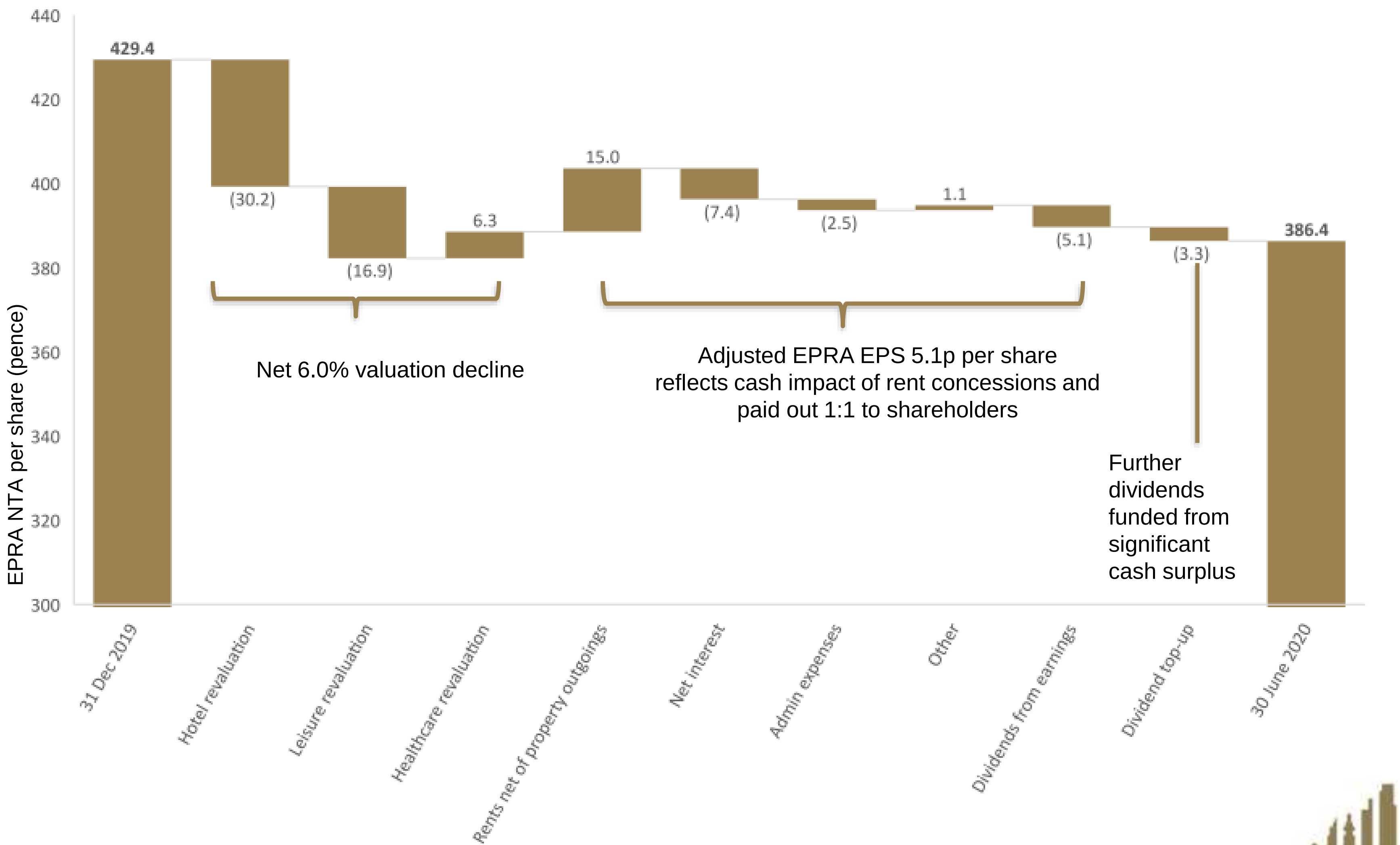
- The 2020 H1 & H2 earnings profile differs from the cash flows:
  - Merlin rents due on 25 March for the quarter in advance to 24 June were paid in full, therefore only seven days' rents for the first half of the year were deferred
  - Full year earnings and cash impact are the same
- Costs of £0.7 million (0.2 pence per share) have also been charged to the income statement and all are captured within the results for the six months to 30 June 2020

Adjusted EPRA earnings per share

	June 2020 *pence per share*	June 2019 *pence per share*
Rent net of property outgoings		
Properties owned throughout with no concessions	**6.9**	6.8
Properties owned throughout with concessions	**8.1**	10.0
Hospitals sold August 2019	**-**	2.4
	15.0	19.2
Net finance costs:		
On facilities drawn throughout	**(7.4)**	(7.4)
On debt repaid August 2019	**-**	(1.0)
Admin & corporate costs	**(2.5)**	(2.6)
Tax charge (German assets)	**-**	(0.1)
Adjusted EPRA Earnings	**5.1**	8.1
Excluding rent net of interest on sold hospitals	-	(1.4)
Like for like – adjusted for hospitals sale	**5.1**	6.7

- Rent concessions reflected in Adjusted EPRA Earnings to better reflect actual cash earnings

EPRA NTA per share



Capital structure at 30 June 2020

	£m
Properties at valuation	**1,958.7**
Gross debt	**(931.7)**
Cash	**241.1**
Other net liabilities (inc rent in advance)	**(16.1)**
EPRA NTA	**1,252.0**
Net LTV	***35.3%***

- All debt is **non recourse** in structurally ring fenced facilities
- Covenant levels designed with **suitable risk adjusted headroom and cure rights**
- Lenders have supported all tenant support measures

- **£219.6 m unfettered cash** at 30 June 2020 outside of debt structures and net of creditors

- SIR entered the Covid crisis with significant unfettered cash available outside of the ring fenced debt structures:
  - created flexibility in supporting tenants where needed; and
  - a platform for a return to the growth trajectory

Financing and liquidity

In built protection

- Six ring fenced facilities – **no recourse to the uncommitted cash balance** and no cross collateralisation
- Covenant headroom designed at loan inception to provide “shock absorbers” in case needed
  - Headroom reduced on hotel and leisure facilities through rent concession periods; expected to be restored when full contracted income resumes
  - Tightest LTV default sensitivity is 33% (Hotels), tightened from 38% (Healthcare) at 31 December 2019
  - Tightest ICR default sensitivity is 26% (Hotels), tightened from 33% (Healthcare) at 31 December 2019
- In built cash cure rights (surplus cash can be injected into secured structures to cure breaches) available but no need to deploy to date
- Financial covenants met throughout the period; consents and waivers granted as required to accommodate rent concessions with full support of our lenders and no other changes to debt terms

Interest cost fixed throughout debt term

- Weighted average maximum interest cost of 4.9% pa (4.9% pa in 2019)
- Weighted average term to expiry 3.6 years
  - first maturity in Autumn 2022: £382 million leisure facility at 5.7% p.a. fixed rate
  - current expectation is that material interest savings should be achievable on refinancing; potential refinancing at lower LTV

Covenant headroom at 30 June 2020

	Gross debt	Gross LTV	Valuation fall sensitivity from latest valuation to trigger LTV default		Rent fall to trigger ICR default	
			30 June 2020	31Dec 2019	30 June 2020	31Dec 2019
2 x Travelodge facilities	£65.4m £59.0m	33% 31%	**33%** **38%**	46% 51%	**26%** **49%**	62% 71%
Arena, Brewery, Pubs	£60.0m	32%	**36%**	39%	**70%**	71%
Merlin leisure	£382.0m	62%	**No LTV default test**	No LTV default test	**28%** *after waiver period*	27%
Healthcare (Ramsay & Orpea)	£301.3m	48%	**40%**	38%	**37%**	35%
Healthcare (Ramsay)	£64.0m	44%	**45%**	44%	**44%**	42%

- Sensitivities are **before** any mitigating action such as exercise of cash cure rights

Cash reserves

- In 2019 the surplus cash raised on the sale of eight hospitals was retained for:
  1. Acquisitions, with ability to move quickly to take advantage of opportunities
  2. Special dividends and / or capital returns
  3. Reserves for application to debt to ride out economic shocks arising from external sources including ‘Black Swan’ events
- **Uncommitted cash at 30 June 2020 of £219.6 million** includes £149.4 million of the surplus from the sale of hospitals yet to be deployed
- In context, the uncommitted cash held at 30 June 2020:
  - equates to 3 years of the Group’s **entire** 2019 interest and administrative cost cash outflows; or
  - covers the Group’s annualised interest cost 4.8 times; or
  - covers the rent reductions agreed with tenants over 9 times.
- The Investment Adviser, Prestbury, does not earn a fee on the undeployed surplus cash from the Hospitals sale, saving the Company an annualised c. £1.1 million

Dividend policy

- Dividend policy has historically been to **pay out Adjusted EPRA EPS 1:1 in covered quarterly cash dividend**
- In 2019, we undertook to top up the core dividend to compensate, short term, for the net income on the sold hospitals: 2.75p per share annualised in 2019 and 3.0p per share in 2020.
- Reassessment of dividend policy in light of the pandemic:
  - as cash resources are currently directed towards tenant support through the pandemic, the **dividend top-up from the hospitals sale is discontinued**
  - recognising that the rent concessions are temporary and with significant cash reserves held, **dividends continue to be paid at the levels guided with the 2019 results, excluding the hospitals top-up**: estimated at 3.65 pence per share per quarter currently, rising to 3.95 pence in July 2021
  - Policy **remains under review to** maintain a resilient balance sheet and having regard to tenant trading and financial standing

Dividend per share (p)	*2016 year*	*2017 year*	*2018 year*	*2019 year*	*2020 H1*	*2020 Q3*
Core dividend	5.9p	13.6p	13.9p	15.2p	7.1p	3.65p
Hospitals income top-up	-	-	-	1.1p	1.3p	-
Dividends paid	**5.9p**	**13.6p**	**13.9p**	**16.3p**	**8.4p**	**3.65p**

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June 2020 property valuations

	Healthcare		Leisure		Budget Hotels		Total	
	30 June 2020 £m	Like for like change since Dec 2019	30 June 2020 £m	Like for like change since Dec 2019	30 June 2020 £m	Like for like change since Dec 2019	**30 June 2020 £m**	Like for like change since Dec 2019
Independent valuation:								
31 Dec 2019	748.4		851.9		482.8		**2,083.1**	
Revaluation, constant FX	20.7	2.8 %	(54.7)	(6.4)%	(98.0)	(20.3)%	**(132.0)**	**(6.4)%**
Euro FX	-	-	7.6	0.9 %	-	-	**7.6**	**0.4 %**
At 30 June 2020	**769.1**	**2.8 %**	**804.8**	**(5.5)%**	**384.8**	**(20.3)%**	**1958.7**	**(6.0)%**

- Leisure and Hotels valuations subject to RICS standard Material Valuation Uncertainty

Property yields

	Healthcare		Leisure		Budget Hotels		Total	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019
Net Initial Yield (topped up)	4.46%	4.46%	5.39%	5.07%	6.90%	5.50%	**5.32%**	**4.95%**
Running Yield by 1/1/22[1]	4.58%	4.71%	5.71%	5.40%	7.31%	5.83%	**5.58%**	**5.25%**

- **Topped up Net Initial Yield up 37bp to 5.3%**
- **Running yield expected to rise to 5.6%[1] by 1 January 2022** when rents should be restored to originally contracted levels

(1) *Using valuers' assessments of RPI (2.5% pa on average) and taking no account of any open market uplift on Ramsay Hospitals.*

Contracted rents before concessions

	Healthcare		Leisure		Budget Hotels		Total		
Passing rent:	30 June 2020 £m	Change since Dec 2019	30 June 2020 £m	Change since Dec 2019	30 June 2020 £m	Change since Dec 2019	**30 June 2020 £m**	**31 Dec 2019 £m**	
Like for like	36.6	2.8%	46.5	(0.8)%	28.3	0.0%	**111.4**	110.7	**+ 0.6%**
Euro FX	-	-	0.4	1.0%	-	-	**0.4**	-	**+ 0.4%**
Total	36.6	2.8%	46.9	0.2%	28.3	0.0%	**111.8**	110.7	**+ 1.0%**

All healthcare assets have fixed annual uplifts

£32.5m p.a. rent with annual upwards only RPI reviewed in the year and up 1.5%; £6.5m fixed annual 3.34% increases occur each July

£1.3m Car Park lease expired in March

Reviewed on a staggered five-yearly cycle with RPI uplifts *1 April 2020 to 31 Dec 2021 rolling up and deferred to Jan 2022*

Travelodge reviews by passing rent:
2020 22% } deferred
2021 24% } deferred
2022 39%
2023 11%
2024 4%

Tenant progress

Ramsay Hospitals *(31% of total pre concession contractual rents of £111.8 million)*

- Government has block booked the hospitals, covering all costs including rent until end September but triggered a "de-escalation notice" to permit some private work to re-commence
- Private hospitals in the UK will be paid up to £10bn by the NHS over the next four years in contracts awarded by November to relieve a predicted patient backlog of almost 10 million by Christmas[1] and Ramsay will be tendering for this work
- Ramsay's pre-Covid UK earnings were 80% NHS
- Australian listed parent guarantees lease obligations: Over £8 billion market capitalisation [2]; £0.6bn placing in May 2020 reduced leverage and enhanced liquidity
- A top 5 global private hospital operator and the largest healthcare provider in Australia, France and Scandinavia

Florence Nightingale Hospital, London NW1 *(2% of total pre concession contractual rents)*

- Lease obligations guaranteed by Orpea, £6 billion market capitalisation [2]
- Central London's only private psychiatric hospital

1 NHS England / FT
2 Market data at 8 September 2020

Tenant progress

Merlin *(32% of total pre concession contractual rents)*

- Our UK & German theme parks & hotels reopened on 4th July & 25th May and are trading ahead of Merlin's COVID recovery plan[1], especially accommodation.
- 118 out of 134 global attractions have reopened.
- Merlin was taken private in November 2019 at an EV of £6bn by Kirkbi (Lego – world's largest toymaker with operating profit for the six months to 30 June 2020 up 11% to £0.5bn), CPPIB (£230bn AUM) & Blackstone (£400bn AUM).
- Self-help measures have included fully drawing existing facilities and issuing an upsized 2025 bond issue of €500m in April 2020, trading at a yield to maturity of c. 6.25%[1]

Travelodge *(25% of total pre concession contractual rents)*

- All hotels opened by mid-August. Occupancy trending to 50-60% since reopening [2]
- Total RevPAR recovering ahead of sector but too early to draw conclusions on trends [2]
- Travelodge has confirmed that leases accounting for c. $^2/_3$ of their 2019 EBITDA no longer retain any break option, with three months of the option period still to run
- We continue to thoroughly explore opportunities to maximise portfolio value

1 At the time of bond issue on 24th April 2020. Market data at 7 September 2020
2 Travelodge 2020 Q2 Financial Results Presentation

Tenant progress

Manchester Arena *(5% of total pre concession contractual rents)*

- The offices are open, but the Arena remains closed
- Arena operator SMG is part of ASM, the world's largest venue management company
- ASM's credit is rated B3 by Moody's with a "healthy cash position"

The Brewery, Chiswell St, London EC1 *(3% of total pre concession contractual rents)*

- The premises, the third largest catered event space in central London, are closed but ready to open when restrictions on gatherings are lifted on 1st October.
- Pre-COVID order book was at record levels

Stonegate Pubs *(2% of total pre concession contractual rents)*

- All 18 pubs have now reopened
- Stonegate is the UK's biggest operator of pubs and recently raised £1.2bn in a bond issue to refinance the Ei acquisition and also raised £50 million in debt and a £50m RCF at that time

Very long term income with no breaks

Weighted average term to expiry 20.8 years – no tenant breaks

Share price analysis taking hospitals at par

	NTA £m	EPRA NTA pence per share	
30 June 2020 cash balance	241	74	
Healthcare assets	396	122	Healthcare assets retain potential for premium pricing
NTA of cash + hospitals	**637**	**196**	
Market cap / share price at 9 September 2020	**875**	**270**	
Implied EPRA NTA of leisure and hotels taking hospitals and cash at par	238	74	
Compared to EPRA NTA of leisure and hotels at 30 June 2020 valuation	615	190	
		61%	NTA discount of leisure & hotels to share price
		8.8%	Implied valuation yield of leisure & hotels

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Outlook

- Over 90% of our leisure and hotel assets have reopened, rising to 95% by 1 October
- In a ‘lower for longer’ interest rate environment, demand for well secured, long term, inflation protected income in sustainable industries should remain strong
- The reasons to invest in SIR remain valid:
  - tenants in sustainable industries
  - Key Operating Assets
  - high barriers to entry
  - long index linked leases
  - market leading operators and majority with additional protection of global guarantors
- The balance sheet has proved its resilience and is well positioned for a return to growth
- The Management Team is ambitious, enthused and very much aligned with shareholders to deliver value

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Appendices

Glossary

Adjusted EPRA EPS	**EPRA EPS** adjusted to exclude non-cash and non-recurring costs, calculated on the basis of time weighted shares in issue
DPS	Dividends per share
Dividend Cover	**Adjusted EPS** dividend by **DPS**
EPRA	European Public Real Estate Association
EPRA EPS	A measure of **EPS** designed by **EPRA** to present underlying earnings from core operating activities
EPRA NTA	A measure of **NAV** designed by **EPRA** to present the fair value of a company on a long term basis by excluding items such as interest rate derivatives held for long term benefit, net of an adjustment to exclude 50% of any deferred tax
EPS	Earnings per share, calculated as the earnings over a period, after tax, attributable to members of the parent company divided by the weighted average number of shares in issue over the period
FRI	Full Repairing and Insuring lease terms – where a tenant bears maintenance, repair and insurance costs
Key Operating Asset	An asset where the operations conducted from the property are integral to the tenant's business
Loan To Value or LTV	The outstanding amount of a loan expressed as a percentage of property value
NAV	Net asset value
Net Initial Yield	Annualised net rents on investment properties expressed as a percentage of the investment property valuation, less purchasers' costs
Net LTV	**LTV** calculated on the gross loan amount and any other secured liabilities, less cash balances
Prestbury	Prestbury Investment Partners Limited, the investment adviser to the company
RevPAR	Revenue per available room
Running yield	The anticipated **Net Initial Yield** at a future date, taking account of any rent reviews in the intervening period
Topped Up Net Initial Yield	**Net Initial Yield** adjusted to include notional rent in respect of let properties which are subject to a rent free period at the valuation date.
Total Accounting Return, or TAR	The movement in **EPRA NAV per share** over a period plus distributions paid in the period, expressed as a percentage of **EPRA NAV per share** at the start of the period
Total Shareholder Return, or TSR	The movement in share price over a period plus distributions per share paid in the period, expressed as a percentage of the share price at the start of the period
Weighted Average Unexpired Lease Term, or WAULT	The term to the first break or expiry of a lease, weighted by rental value

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