



Business Review

JANUARY–SEPTEMBER // 2019



Strong EPRA Earnings and a lease portfolio of more than EUR 500 million, guidance refined

Business review 1 January – 30 September 2019 (unaudited)

Hoivatilat Plc Stock Exchange Release, 6 November 2019 at 8 a.m.

Summary January–September 2019

| EUR thousand | 30 Sep 2019 | 30 Sep 2018 | Change, % | 31 Dec 2018 |
|--|-------------|-------------|-----------|-------------|
| Total revenue | 16,894 | 12,528 | 34.8% | 17,182 |
| Result for the period | 19,026 | 21,002 | -9.4% | 37,003 |
| EPRA Earnings | 7,797 | 5,186 | 50.3% | 7,663 |
| Earnings per share, undiluted (EUR) | 0.75 | 0.83 | -9.6% | 1.46 |
| Earnings per share, diluted (EUR) | 0.74 | 0.82 | -9.8% | 1.45 |
| EPRA Earnings per share (EPRA EPS, EUR) | 0.31 | 0.20 | 55.0% | 0.30 |
| Value of investment properties | 457,367 | 310,450 | 47.3% | 348,899 |
| EPRA NAV per share (EUR) | 8.05 | 6.43 | 25.3% | 7.28 |
| Value of the lease portfolio (without index increases) | 500,916 | 399,812 | 25.3% | 426,953 |
| Economic occupancy rate, % | 100 | 100 | - | 100 |
| Average maturity of the lease portfolio (years) | 14.8 | 15.0 | - | 14.9 |

The impacts of IFRS 16, adopted on 1 January, on the key figures for the review period are shown below in the Financial development section.

Significant events

- EPRA Earnings increased by 50 per cent, and the value of the lease portfolio exceeded 500 EUR million.
- 20 properties were completed.
- Two school projects were secured through competitive bidding after the review period.
- After the review period, a public tender offer was made for the shares of Hoivatilat.

Financial guidance for 2019

Hoivatilat expects its total revenue to be around EUR 23 million in 2019. EPRA Earnings are expected to be at least 40 per cent of revenue. The fair value of the investment properties is expected to be EUR 470–490 million at the end of 2019 (previously EUR 460–490 million). The guidance is based on the assumption that, in 2019, the company will not make significant purchases or sales of completed investment properties, and that the market yields used in the valuation of real estate will remain at their current level.

Jussi Karjula, CEO:

The company continues its strong growth track. At the end of the third quarter of 2019, the lease portfolio exceeded EUR 500 million. The lease portfolio refers to future cash flow from rental properties, or future revenue. This strong outlook is supported by the 100 per cent economic occupancy rate of our properties and the long 14.8-year average maturity of the lease portfolio. The value of

investment properties also reached a record level: nearly EUR 460 million. Due to this, we refine our guidance and raise the lower end of the fair value of investment properties.

Typically, day-care centres and schools are completed during the third quarter, with units starting their operations in August. A record 20 properties were completed between July and September, that will generate a significant increase in revenue before the end of the year. Despite its growth investments and strong growth, the company's cost structure has developed moderately, which is reflected in its strong EPRA Earnings.

Over the years, we have strongly developed the company's operations towards becoming a service company. 'Facilities as a Service' thinking and responsible ownership are diversifying our company compared to the other operators in the market. Municipalities and other public-sector operators are increasingly applying the lease model to competitive bidding for facility projects, which increases the importance of responsible ownership. This year, Hoivatilat has already won six competitive bidding processes for public-sector projects and has signed 12 new customers. These include two school projects, in Järvenpää and Oulu, for which the competitive bidding process was completed after the end of the review period. The total value of these two lease agreements is around EUR 22 million. The duration of both lease agreements is 25 years.

Our business operations in Sweden have also progressed as planned. This year, Hoivatilat AB has signed agreements on the implementation of six projects. Three of these projects are already underway, and the first properties will be completed in the spring of 2020.

Hoivatilat provides high-quality facilities for care and education. Its property portfolio consists of new facilities that meet current regulations and requirements. Its properties provide a functional setting for good care and education in the private, public and third sectors. The proportion of the ageing population is growing rapidly, and the population is concentrating in growth regions, where service facilities will continue to be in high demand.

After the review period, Hoivatilat Plc ("Hoivatilat") and Aedifica SA/NV ("Aedifica"), have on 4 November 2019 announced that Aedifica, through a wholly-owned subsidiary, Aureit Holding Oy ("Offeror"), will make a voluntary recommended public cash tender offer to purchase all the issued and outstanding shares in Hoivatilat which are not owned by Hoivatilat or any of its subsidiaries ("Tender Offer"). The Tender Offer will be made in accordance with the terms and conditions of a tender offer document which will be published by the Offeror on or about 11 November 2019 ("Tender Offer Document").

Aedifica, incorporated in 2005, is a regulated real estate company under Belgian law (Belgian REIT) specialised in European healthcare real estate. Aedifica has developed a portfolio of more than 260 sites in Belgium, Germany, the Netherlands and the United Kingdom with a total value of approximately EUR 2.3 billion.

The Board of Directors of Hoivatilat has on 6 November 2019 issued a statement regarding the Tender Offer, according to which the Board of Directors unanimously recommends that the shareholders of Hoivatilat accept the Tender Offer. The Board of Directors believes that the strategic plans of the Offeror pursuant to the draft Tender Offer Document would not have any immediate material effect on Hoivatilat's operations, assets or location of offices, or the position of its management or employees, or relations with its customers and partners.

Market and economic developments

The municipal portfolio of education, culture, social services and healthcare properties include a large number of old buildings nearing the end of their life cycle, as well as properties with indoor air problems and a maintenance backlog that require renovation. On 17 October 2019, the Finnish Prime Minister's Office published *Indoor Air and Health*, a report examining the current state of indoor air quality and the number of indoor air issues in the private and public sectors. Based on the responses provided by municipalities, significant indoor air problems affect 11–18 per cent of the total square footage of various types of buildings. The most significant problems are related to comprehensive school and upper secondary school facilities, 60–70 per cent of which were built before 1980.

Urbanisation is increasing and the population is ageing in both Europe as a whole and Finland. The number of people aged over 75 will nearly double over the next two decades. At the end of 2017, the number of people aged over 75 in Finland was 502,000, and this is predicted to increase to 925,000 by the end of 2040 (stat.fi). The trend is very similar in Sweden: the number of people aged over 75 will increase by 50 per cent by 2030.

Hoivatilat estimates that the following trends will increase its opportunities for growth and operations:

- Ageing population and the weakening dependency ratio.
- Urbanisation and centralisation of the population.
- Increased debt in the public sector.
- Condition of properties in education and the social and health sectors.
- Change in the municipal purchasing practices (rental and leasing model).
- Increasing use of service vouchers in early education and care services.

Interest rates are expected to remain low in the near future. According to *The Euro and the Economy*, a report published by the Bank of Finland on 3 October 2019, economic development has remained slow in the eurozone, and problems in industry in particular have proved longer-term than previously expected. Inflation is lagging behind its target rate of slightly below 2 per cent, and inflation expectations have continued to decrease since the summer. In September, the European Central Bank downgraded its outlook for both GDP growth and inflation in the eurozone.

At its meeting in September, the ECB Council decided on an extensive monetary policy stimulus package. The ECB cut its deposit rate by 10 basis points to -0.50 per cent. The ECB Council adjusted its interest rate projections and now expects interest rates to remain at their current level or lower until the Council sees the inflation outlook returning strongly towards the European Central Bank's target of nearly 2 per cent. The Council previously expected interest rates to remain at their current level or lower until the end of June 2020.

Significant events in July–September 2019

In July–September, a total of 19 (15) new properties were completed, and the company also acquired 1 (0) completed property.

Financial development

Revenue for the review period was EUR 16.9 million (January–September 2018: EUR 12.5 million), representing an increase of 34.8 per cent year-on-year. The revenue consisted entirely of rental income from properties. The increase in revenue is mainly a result of a significant increase in the number of leases on completed properties.

The net profit for the period was EUR 19.0 (21.0) million, showing a decrease of 9.4 per cent on the previous year. The decrease was due to the change in return requirements used for the valuation of properties being smaller than in the comparison period. The net return of the portfolio decreased by 0.03 percentage points due to external real estate appraisals based on the situation on 30 June 2019. In the comparison period, the decrease in the net return was more significant: 0.16 percentage points. The property development margin has remained good, in line with the company's targets.

EPRA Earnings for the review period were EUR 7.8 (5.2) million, representing an increase of 50.3 per cent. EPRA Earnings represented 46.2 per cent (41.4 per cent) of net sales. EPRA Earnings are not comparable to the previous year because of changes caused by the adoption of IFRS 16 (as of 1 January 2019) and a tax refund included in personnel expenses. The adoption of IFRS 16 had an impact of EUR 0.1 million, and the tax refund had an impact of EUR 0.2 million, on EPRA Earnings.

Undiluted earnings per share were EUR 0.75 (0.83), and diluted earnings per share were EUR 0.74 (0.82). EPRA Earnings per share were EUR 0.31 (0.20).

The value of investment properties at the end of September was EUR 457.4 (310.4) million, representing an increase of 47.3 per cent. The company adopted the IFRS 16 standard on 1 January 2019. As a result of this, lease agreements on plots – which had previously been treated as other leases in line with IAS 17 – were transferred to the consolidated balance sheet, where they increased the value of investment properties and non-current liabilities by EUR 27.9 million. The IFRS 16 standard has not been applied retrospectively, and the figures for the comparison period have not been adjusted in this respect. The valuation of investment properties on 30 September 2019 is based on the

assumptions and yields applied in the half-year report for January–June 2019. The next comprehensive external valuation of the property portfolio will be carried out based on the situation on 31 December 2019.

The rental occupancy rate was 100 per cent (100 per cent), with the average maturity of leases being 14.8 (15.0) years. The value of the lease portfolio (excluding index increases) was EUR 500.9 (399.8) million. At the end of the review period, the number of properties under construction and in the planning phase was 40 (44). Their investment value was EUR 146.7 (120.5) million.

| Properties, 30 September | Completed | | In progress and not started* | | Total | |
|--|------------------|---------|-------------------------------------|---------|--------------|---------|
| | Q3/2019 | Q3/2018 | Q3/2019 | Q3/2018 | Q3/2019 | Q3/2018 |
| Number of properties | 148 | 107 | 40 | 44 | 188 | 151.0 |
| Leasable area, thousand floor m ² | 126.5 | 93.8 | 53.4 | 46.9 | 179.9 | 140.8 |
| Annual rents, EUR million | 25.5 | 18.9 | 10.1 | 8.9 | 35.6 | 27.8 |
| Investment (acquisition cost), EUR million | 293.0 | 209.9 | 146.7 | 120.5 | 439.7 | 330.4 |

* = Properties in progress and not started also include properties for which binding leases or preliminary agreements have been signed, but construction has not yet begun.

EPRA NAV per share on 30 September 2019 was EUR 8.05 (6.43). The equity ratio was 37.4 per cent (46.0 per cent), and the loan-to-value ratio was 51.7 per cent (45.9 per cent).

Flagging notifications

On 29 August 2019, OP Fund Management Company Ltd announced that the OP-Finland equity fund's total number of shares and votes in Hoivatilat had fallen below 5 per cent following a transfer of shares on 28 August 2019. OP Fund Management Company Ltd also announced that the total holding of its managed funds in Hoivatilat was 6.96 per cent on 28 August 2019.

Events after the review period

Hoivatilat Oyj has been selected to implement the Salonpää School project in Oulu and the Central Uusimaa Christian School and Day-care Centre project in Järvenpää. Both projects will be implemented in line with the lease model and will also include facilities for early education. The buildings will be completed in August 2020 and December 2021. The total value of these two lease agreements is around EUR 22 million, with their duration being 25 years.

After the review period, Hoivatilat Plc and Aedifica SA/NV, have on 4 November 2019 announced that Aedifica, through a wholly-owned subsidiary, Aureit Holding Oy, will make a voluntary recommended public cash tender offer to purchase all the issued and outstanding shares in Hoivatilat which are not owned by Hoivatilat or any of its subsidiaries.

Financial targets for 2019–2021

Hoivatilat Plc has set the following financial targets for 2019–2021:

- Average annual increase of 30 per cent in revenue.
- Average EPRA Earnings of 40 per cent of revenue.
- Average equity ratio of at least 30 per cent. The equity ratio includes the effect of the IFRS 16 standard from 1 January 2019.

According to Hoivatilat’s dividend distribution policy, the goal is to distribute at least 50 per cent of EPRA Earnings as dividends every year.

Financial reporting in 2019

The financial statements bulletin for 2019 is expected to be released in February 2020.

Oulu 6 November 2019

Hoivatilat Oyj
Board of Directors

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Hoivatilat in brief:

Hoivatilat Plc specialises in producing, developing, owning and leasing out nursing homes, day-care centres and service communities. Founded in 2008, the company has been working in cooperation with as many as 60 Finnish municipalities and has launched 200 property projects throughout Finland and in Sweden. www.hoivatilat.fi

This is not an interim report in accordance with the IAS 34 standard. The company carries out semi-annual reporting in accordance with the Finnish Securities Markets Act (746/2012) and publishes business reviews for the first three and nine months of the year that outline key information describing the company’s financial performance. The information presented in this review is unaudited. Figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.



HOIVATILAT

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