

Q1
2019



Record-high lease portfolio

Business review 1 January – 31 March 2019 (unaudited)

Suomen Hoivatilat Oyj stock exchange release 08 May 2019 at 8 a.m.

Summary January–March 2019

EUR thousand	1–3/2019	1–3/2018*	Change, %	1–12/2018
Total revenue	5,278	3,994	32.1%	17,182
Result for the period	4,365	3,611	20.9%	37,003
Operating result	2,043	1,376	48.4%	7,663
Earnings per share, undiluted (EUR)	0.17	0.14	21.4%	1.46
Earnings per share, diluted (EUR)	0.17	0.14	21.4%	1.45
Operating result per share (EUR)	0.08	0.05	60.0%	0.30
Value of investment properties	394,388	268,284	47.0%	348,899
NAV per share (EUR)	7.30	5.69	28.3%	7.28
Value of the lease portfolio (without index increases)	472,880	343,531	37.7%	426,953
Economic occupancy rate, %	100%	100%	-	100%
Average maturity of the lease portfolio (years)	15.0	14.3	-	14.9

* Key figures for the comparison period have been adjusted to reflect the change in the recognition practice for real estate taxes.

Significant events

- The first projects in Sweden started
- The company won the competitive bidding for municipal day-care centres in Oulu, Vaasa and Rovaniemi
- The second school project started
- The company signed an agreement on a EUR 100 million commercial paper programme

Financial guidance for 2019

Hoivatilat expects its total revenue to be around EUR 23 million in 2019. Its operating result is estimated to be around 40% of revenue. The fair value of the investment properties is expected to be EUR 460–490 million at the end of 2019 (previously EUR 440–470 million). The financial guidance was adjusted due to the adoption of the IFRS 16 standard. Due to a change in the accounting principle, lease agreements on plots were transferred to the consolidated balance sheet, where they increase the value of the investment properties. 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:

Our growth company has been working hard in early 2019. In my view, the rapid start of business operations in Sweden and the closing of several significant municipal deals were particularly positive developments during the review period.

Three new properties were completed during the review period, with the company's lease portfolio increasing to more than EUR 470 million. The average maturity of the agreement portfolio was 15.0 years. The investment value of projects under construction and projects to be started was around EUR 159 million, which is clearly higher than ever before in the history of the company. At the end of the period, there were 25 construction projects in progress all over Finland. The company won several public bids in early 2019, such as a bid for a school project in Mikkeli and bids for the municipal day-care centres in Oulu, Vaasa and Rovaniemi. The Oulu project has a 25-year lease.

The company's business operations are growing rapidly, and the structure of financing plays a significant role in creating profitable growth. In April, we supplemented our debt financing tools by introducing a commercial paper programme. The programme diversifies the company's financing base, as well as securing the Group's normal investment and working capital financing.

Hoivatilat joined the European Public Real Estate Association (EPRA) on 1 April 2019. The membership enables the company to report EPRA key figures as part of its financial information. The company expects that it will report key figures in line with EPRA's recommendations for the first time for the period 1 January – 30 June 2019.

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.

Market and economic developments

Urbanisation is increasing, and the population is ageing in both Europe 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.

The preparation of the much-debated health and social services reform in Finland was discontinued on 8 March 2019, following the resignation of the government of Prime Minister Juha Sipilä. Further developments are pending the formation of a new government. In recent weeks, the municipalities have assumed a more active role in reforming service structures.

The state and municipal portfolio of education, social services and healthcare properties includes 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.

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
- Increasing use of service vouchers in early education and care services

Interest rates are expected to remain low in the near future. The Bank of Finland predicts that interest rates will increase slightly over the next few years. According to its forecast, short-term interest rates will remain negative or at zero level for 2019–2020, and ten-year bond interest rates will remain at around 1 per cent. In its report issued in December, the Bank of Finland states that the most rapid period of growth is over in Finland, although growth will continue for the next three years. (www.eurojatalous.fi)

Material events during the review period

On 26 March 2019, the company announced that its first projects in Sweden had started. The company signed an agreement on the implementation of day-care centres in Eskilstuna, Ronneby and Norrtälje. The total investment value of the three day-care centres is around EUR 11 million. In addition, the company signed agreements on four projects for municipal tenants: a school in Mikkeli and day-care centres in Oulu, Rovaniemi and Vaasa.

Financial development

Revenue for the review period was EUR 5.3 million (January–March 2018: EUR 4.0 million), representing an increase of 32.1% year-on-year. The revenue consisted entirely of rental income from properties. The increase in revenue is a result of a significant increase in the number of leases on completed properties. The result for the period after taxes amounted to EUR 4.3 (3.6) million. The operating result for the period was EUR 2.0 (1.4) million. The operating result was 38.7% (34.5%) of revenue. The increase in the operating result was mainly due to growth in rental income. The operating result increased by 48.4% and the result for the period increased by 20.9% year-on-year. Diluted and undiluted earnings per share were both EUR 0.17 (0.14). The operating result per share was EUR 0.08 (0.05).

The value of investment properties at the end of March was EUR 394.4 (268.3) million, representing an increase of 47.0%. 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 around EUR 26.2 million. The IFRS 16 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 31 March 2019 is based on the assumptions and yields applied in the financial statements of 31 December 2018. The next comprehensive external valuation of the property portfolio will be carried out on 30 June 2019.

The Annual General Meeting on 26 March 2019 decided to distribute a dividend of EUR 0.17 per share, which corresponds to approximately 56,4 % of the operating result for the financial period. The dividend is registered in the balance sheet on 31 March 2019 as a liability and a deduction of equity.

The rental occupancy rate was 100% (100%), with an average maturity of leases of 15.0 (14.3) years. The value of the lease portfolio (excluding index increases) was EUR 472.9 (343.5) million. At the end of the review period, the number of properties under construction and in the planning phase was 49 (48). Their investment value was EUR 158.6 (102.9) million.

Properties	Completed		In progress and not started*		Total	
	31/03/2019	31/03/2018	31/03/2019	31/03/2018	31/03/2019	31/03/2018
Number of properties	123	92	49	48	172	140.0
Leasable area, thousand floor m ²	108.2	79.9	60.2	43.2	168.4	123.1
Annual rents, EUR million	22.0	16.3	11.4	8.3	33.4	24.6
Investment (acquisition cost), EUR million	245.0	174.1	158.6	102.9	403.6	277.0

* = 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.

Net asset value (NAV) per share on 31 March 2019 was EUR 7.30 (5.69). The equity ratio was 39.7% (47.3%), and the loan-to-value ratio was 44.5% (43.3%). The adoption of the IFRS 16 standard had a negative effect on the equity ratio and a positive effect on the loan-to-value ratio. Without the effect of the IFRS 16 standard, the equity ratio would have been 42.5% and the loan-to-value ratio would have been 47.7%.

The accounting principle concerning the treatment of real estate tax has changed as of 1 January 2018. Real estate tax for the full year is now recognised as an expense at the beginning of the year. The earlier principle was in line with IFRIC 21: real estate tax was recognised as a liability on the balance sheet at the time it was incurred, and real estate tax was allocated as an expense over time. The business review for January–March 2018, published on 3 May 2018, was prepared in line with the previous practice. In the business review for January–March 2019, the figures for the comparison period have been adjusted to reflect the amended accounting principle.

Effect of the change in the accounting principle concerning real estate tax on the key figures for the comparison period January–March 2018:

Key figure	Adjusted 1–3/2018	Previously reported 1–3/2018
Result for the period	3,611	3,889
Operating result for the period	1,376	1,664
NAV per share	5.69	5.70
Earnings per share, undiluted	0.14	0.15
Earnings per share, diluted	0.14	0.15
Operational result per share	0.05	0.07

Decisions by the Annual General Meeting

The Annual General Meeting of Hoivatilat was held in Helsinki on 26 March 2019. Its decisions were announced on 26 March 2019. They are also available on the company's website.

Events after the review period

On 11 April 2019, the company announced that it had signed an agreement on a domestic EUR 100 million commercial paper programme. Within the programme, the company may issue commercial papers of less than one-year maturity. This arrangement diversifies the company's financing base, as well as securing the Group's normal investment and working capital financing.

Financial targets for 2019–2021

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

- Average annual increase of 30 per cent in revenue
- Average operating profit at 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 as of 1 January 2019.

According to Hoivatilat's dividend distribution policy, the goal is to distribute at least 50 per cent of the operating profit as dividends every year.

Financial reporting in 2019

Hoivatilat's half-year financial report for January–June will be published on 22 August 2019, and a business review for January–September will be published on 6 November 2019.

Oulu 8 May 2019

Suomen Hoivatilat
Board of Directors

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Suomen Hoivatilat in brief:

Suomen Hoivatilat Oyj specialises in producing, developing, owning and leasing out nursing homes, day care centres and service blocks. Founded in 2008, the company has been working in cooperation with as many as 60 Finnish municipalities and has launched 180 property projects throughout Finland.

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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