



# Pioneer Public Properties ASA

Investor Presentation, Pareto Securities Nordic Bond Conference

January 2016

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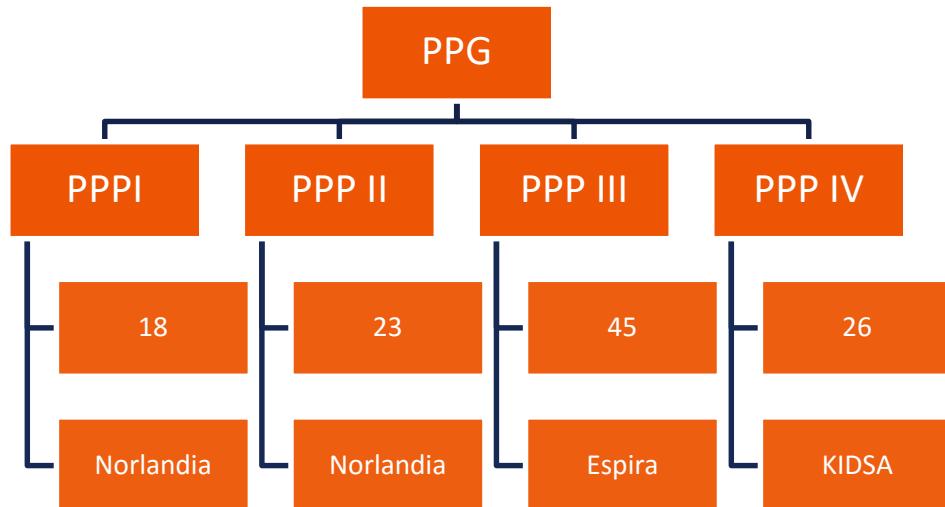
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# Introduction to Pioneer Property Group

## Summary

- PPG owns 112 kindergartens through four separate SPVs
- The properties are located in and around Norwegian cities. Greater Oslo Region (26%) and Bergen (30%) constitute the majority
- Properties are leased out to Norlandia (29%), Espira (53%) and Kidsa (18%)
- Weighted average remaining lease term across the portfolio is 18.7 years
- Key group financials, based on Q3/2015:
  - Total annualized rental income of NOK 204m
  - Property value: NOK 3,413m
  - Total bank- and bond loans: NOK 1731m
  - Total outstanding preference shares: NOK 650m

## Company structure

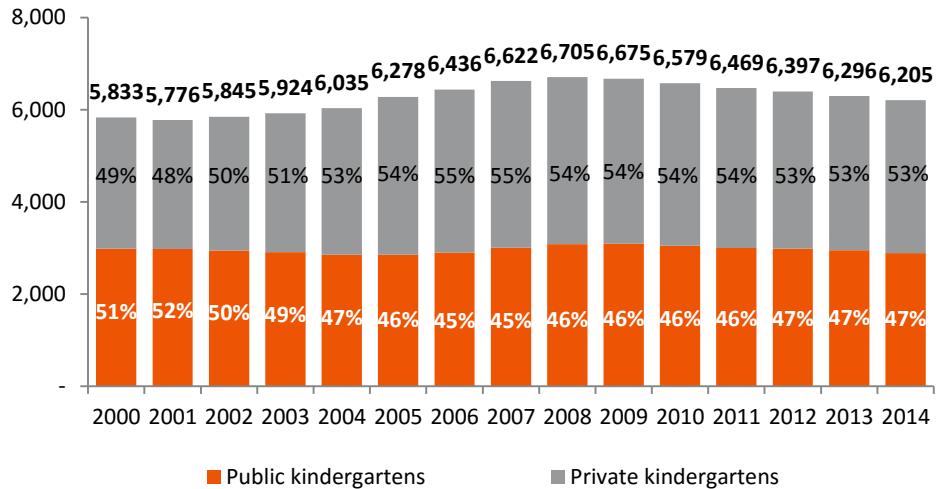


# The Norwegian kindergarten market

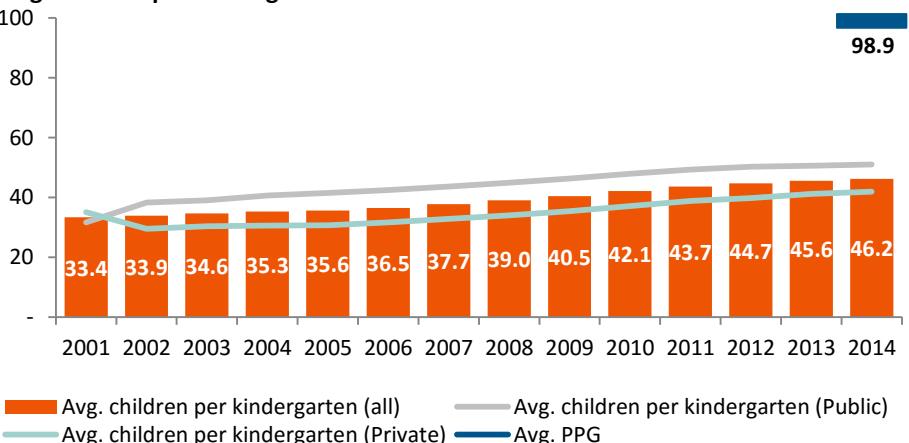
## Regulatory framework

- **Kindergarten-law (“Barnehageloven”)**
  - All children between 1-6 have a legal right to attend kindergarten in their home municipality
  - Private operators are secured “equal treatment” – including financial support
- **Equal financial treatment**
  - Private preschools receive 100% subsidies as the actual costs in the municipalities own-run kindergartens per child
  - Parents pay a maximum contribution of NOK 2655 per month per child, but less if in low-income category
- **Property market strictly regulated**
  - License to build a preschool not be given unless there is a demand in the relevant area
  - Permission not given on a time-limited basis

## Total market value in excess of NOK 50bn

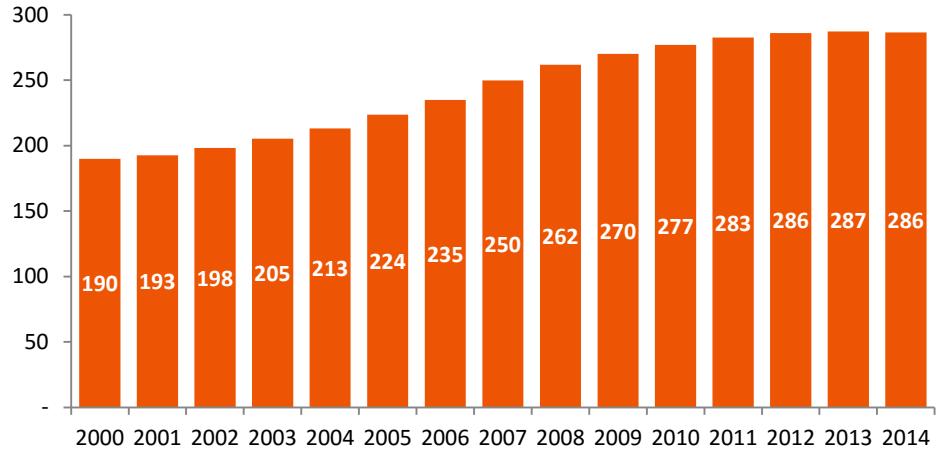


## Avg. children per kindergarten

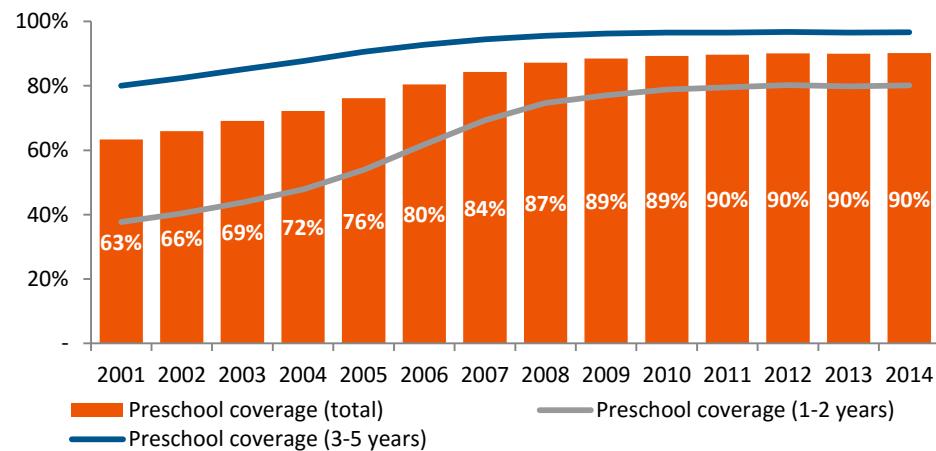


# Private preschools have boosted coverage rates

## Children in preschool (1-5 years)



## Preschool coverage rates

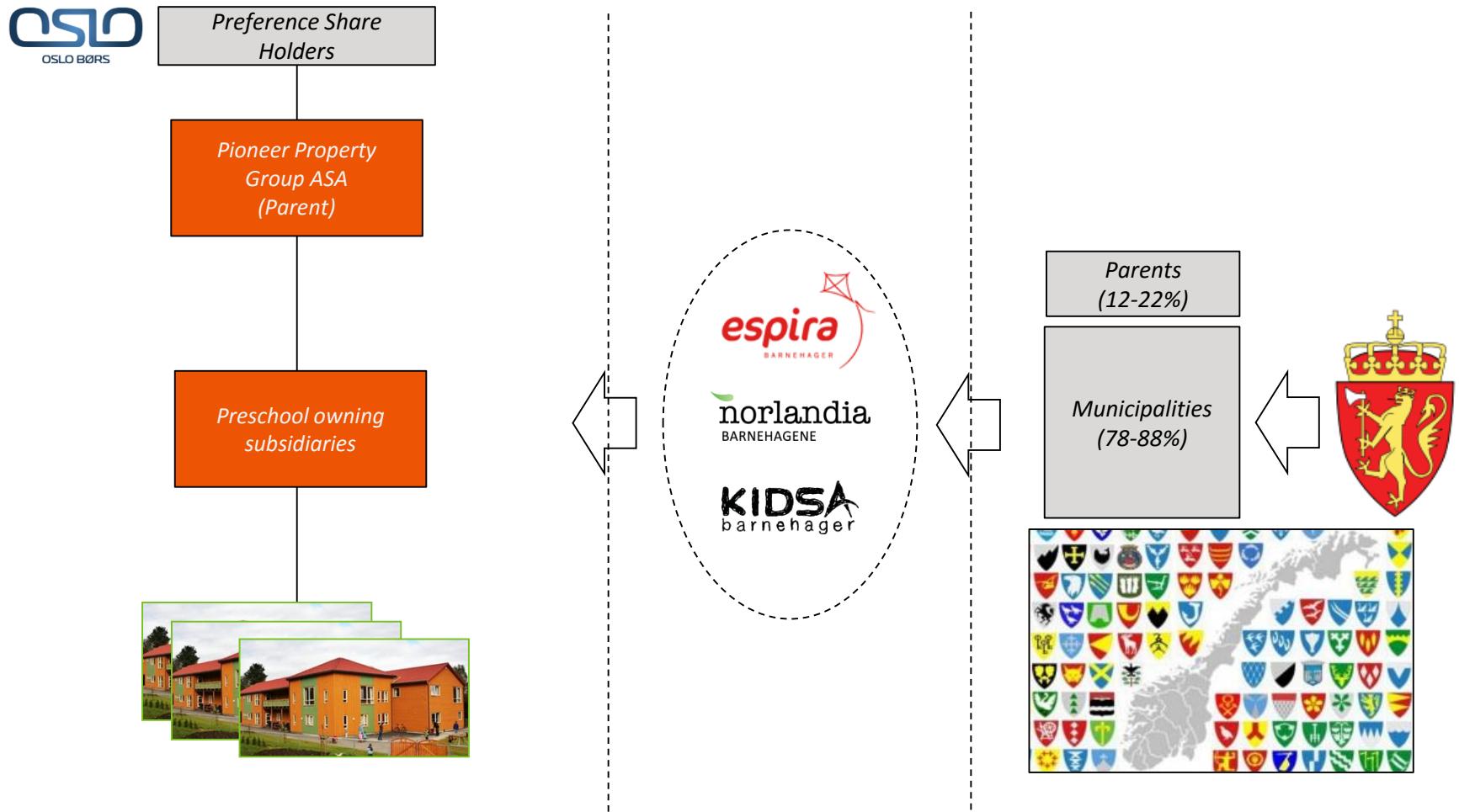


## Private preschools fully integrated

- Government stimulus through cheap state-financed loans and equal treatment of subsidies for private and public players have contributed to strong growth for private preschools in order to reach the target of full coverage for all children
- The market remains fragmented with many local/small operators
- Supply side is strictly regulated in order to avoid oversupply and consequently low utilization and higher cost per child

- Coverage ratios have stabilized around 90%, where private operators account for approx. 53% of the market

# Norwegian Government secures rental income



## PPG

- Owns properties, licenses, and the ultimate right to receive government backed support

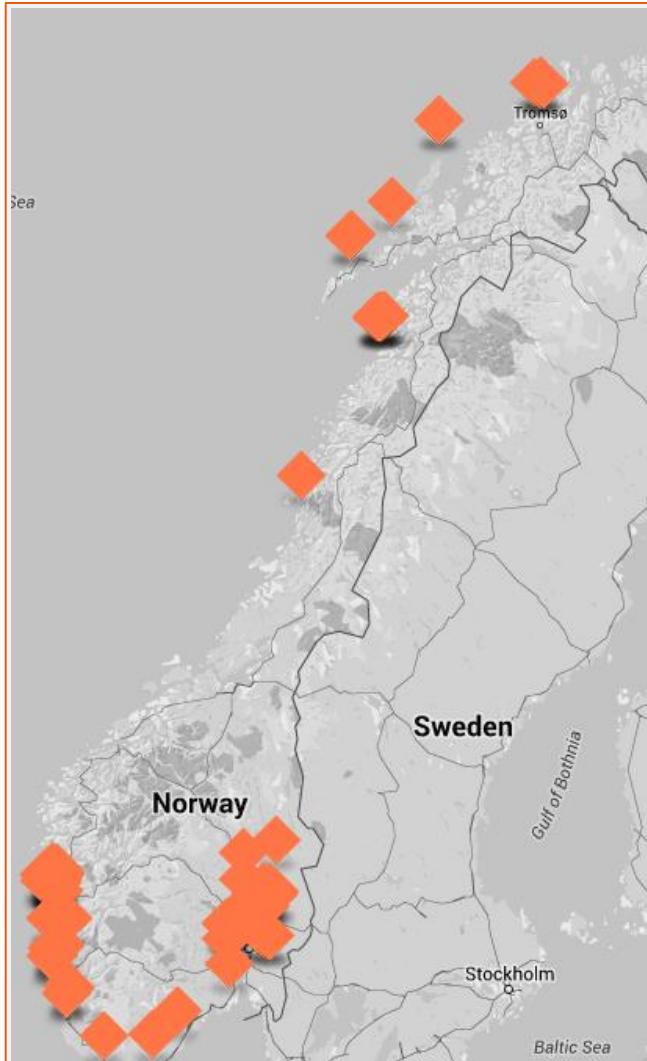
## The Operators

- Replaceable
- 'Commodity' product, with efficient market for services

## The Customers

- Government backed municipalities
- Parents/ultimate users

# Kindergartens in densely populated areas



## Clusters

**Greater Oslo Region**

Rent: NOK 54m  
Rent of total: 26%



**Bergen**

Rent: NOK 62m  
Rent of total: 30%



**North**

Rent: NOK 28m  
Rent of total: 14%



**Other**

Rent: NOK 61m  
Rent of total: 30%



# Triple net lease contracts secures low capex and minimal operational costs

- All Properties are modern and in line with current regulations
  - No need to upgrade the portfolio in the foreseeable future (no imminent capital expenditures of material size)
- The lease agreements with NCG are structured on a «bareboat» triple net basis where the tenant is responsible for all operating expenditures, including (but not limited to):
  - General maintenance (interior and exterior)
  - Insurance
  - All public duties
- The Espira leases are on a double net basis (triple net less real estate insurances and property taxes)
  - Will eventually be replaced with triple-net contracts
- Further development of the properties is possible conditioned on both parties agreeing



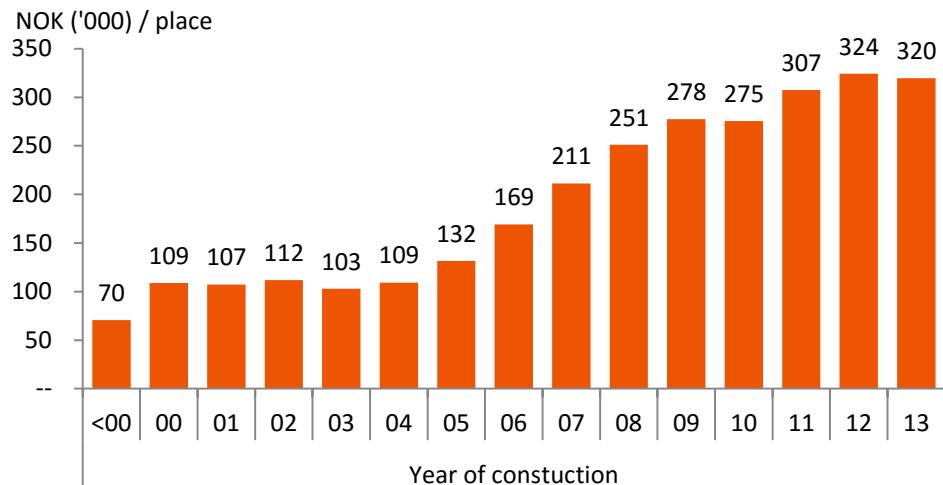
No CAPEX & OPEX requirements at the Issuer's part

# New build cost development underscores solid asset backing

## Comments

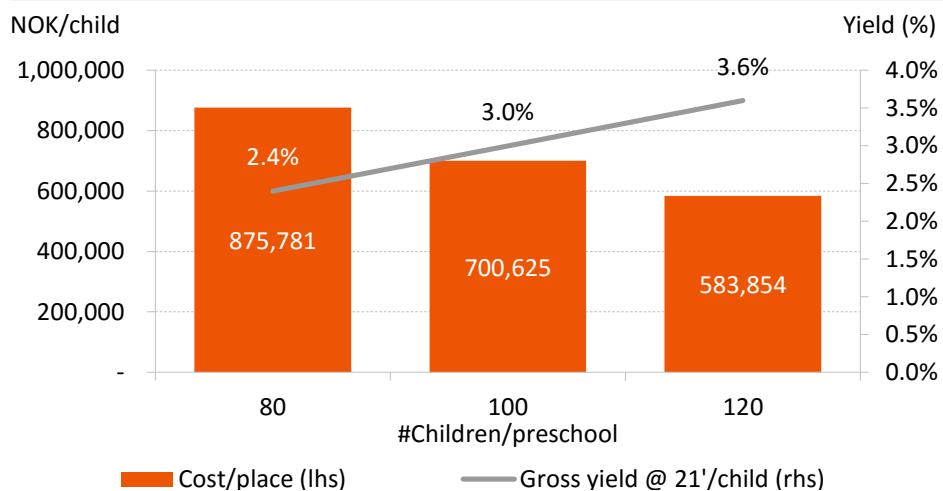
- The average cost to construct a preschool place has increased significantly over the last decade
- With the de-facto monopoly status existing preschools have one could argue that they should be valued higher than newbuilds as they are built primarily in the most densely populated areas
- NCG currently building for approx 400k per child

## Total cost per child development



- Example: Bærum Preschool Plan assumes a cost of NOK 70 million per preschool, with a targeted size of 80-120 children in capacity per preschool
  - This corresponds to cost per preschool place of NOK 584' – 876', significantly above the historical cost per place
  - If considering the market rent of Newsec of NOK 21,000 per child per year, the gross yield is between 2.4-3.6%
  - Based on a required yield of 6% the rent should range between NOK 35,000-52,500 per child per year

## Budgeted cost/child Bærum municipality 2013-2022



# Key financials Q3/2015 progressing as expected

## Q3 Summary

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- First full operational quarter of PPG, since the formation of the group 12<sup>th</sup> May 2015
- Key financials in line with expectations
- First dividend paid to preference shareholders 30<sup>th</sup> September
  - NOK 2.74 per share for Q2 and Q3
  - From Q4 onwards, regular pref-share dividends are NOK 1.875 per share
- Improvement potential within restructuring of senior debt
  - As loans expire, PPG expects to refinance at lower rates
- Solid cash buffer to secure preference share payments
  - Approx MNOK 64 of cash in PPPII and PPPIII

## Key financials Q3/2015

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MNOK (IFRS)	Q3	Annualized (x4)
Rental income	51.1	204.2
EBITDA	45.0	179.8
Interest bearing debt	1,731.0	
<i>Husbanken</i>	547.0	
<i>Commercial bank</i>	617.3	
<i>PPPII bond</i>	193.8	
<i>PPPIII bond</i>	372.9	
Interest payable	21.6	86.4
Effective interest rate		4.99%
Subordinated shareholder debt	164.3	
Non-payable accumulating interest	2.05	8.2
Outstanding preference shares	650.0	
Quarterly dividend (ex Q2 component)	1.875	7.500
Cash balance	211.0	

# Strategy

## Strategy

### Key focus on care services real estate

- Pioneer Property Group shall own, manage and develop real-estate for government-backed care-service operators
- To date the company has started consolidation of- and developed the Norwegian marked for preschool properties

### Consolidate market through acquisitions and broaden foot-print into other care-services real estate

- Build upon the company's strong financial capacity and professional real-estate management
- The preschool market still highly fragmented and ripe for further consolidation through additional acquisitions
- Opportunities materializing within related care services real estate, with similar characteristics as the pre-school market (long-term lease contracts, public- and government-backed tenants)

## Targets

### Financial ambitions

- Continue to build portfolio through market consolidation and acquisitions
- Acquisitions to be equity financed on a deal-by-deal basis
- Listing of the company's preference shares will give easy access to future preference share issues
- Best-in-class debt finance structures

# Appendix



# Main terms preference shares and bonds

## Pioneer Property Group – Preference shares

<b>Issuer:</b>	Pioneer Property Group ASA
<b>Number of outstanding shares:</b>	6,500,000
<b>Dividend:</b>	NOK 7.5 per share annum, quarterly payments
<b>Dividend step-up:</b>	NOK 1 per share annum from 1 July 2020, however only up to a maximum of NOK 10 per annum
<b>Non-dividend:</b>	Any unpaid amounts shall accrue and be subject to a 5% interest pro annum until paid. No value transfer to ordinary shares until the preference shares have received full dividend including interest
<b>Voting rights:</b>	1/10 vote per share
<b>Redemption:</b>	May be carried out after resolution by the general meeting at NOK 130 per share until 1 July 2020, at NOK 100 per share thereafter
<b>Listing:</b>	Oslo Axess

## Pioneer Public Properties II - Bond

<b>Issuer:</b>	Pioneer Public Properties II AS
<b>Volume:</b>	NOK 200m
<b>Maturity:</b>	05.04.2018
<b>Coupon:</b>	3mN+5.00%
<b>Security:</b>	1st lien in 12 kindergarten properties, 2nd lien in 11 kindergarten properties, 1st priority share pledge in subsidiaries, guarantee from Norlandia Care Group AS
<b>Amortization:</b>	NOK 20m after 3 years, NOK 6m after 4 years
<b>Call options:</b>	Non-call
<b>Additional properties:</b>	No additional properties or debt *Minimum liquidity of NOK 5m
<b>Financial covenants:</b>	*Minimum market value clause: Market value of properties > 120% of total debt
<b>Capital distributions:</b>	No distributions
<b>Change of control:</b>	Put at 100%
<b>Listing:</b>	Nordic ABM
<b>Trustee:</b>	Nordic Trustee ASA

## Pioneer Public Properties III - Bond

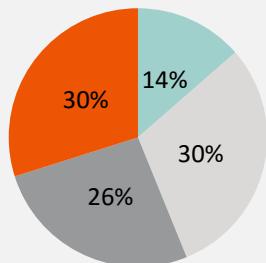
<b>Issuer:</b>	Pioneer Public Properties III AS
<b>Volume:</b>	NOK 385m (NOK 500m borrowing limit)
<b>Maturity:</b>	27.06.2019
<b>Coupon:</b>	3mN+4.50%
<b>Security:</b>	2nd lien in 45 kindergarten properties, shares, intercompany loans, master leases and master lease guarantees
<b>Amortization:</b>	7% of the issued bond amount (incl. tap issues) in year 2, 3 and 4. Remaining to be paid at maturity
<b>Call options:</b>	Make-whole in year 1-2, thereafter callable @ 104%, 102%, 101% and 100% after year 2, 3, 4 and 4.5 respectively
<b>Additional properties:</b>	Additional properties may be added on a 1st or 2nd lien basis (provided that such properties have Husbanken loans) at maximum 73% LTV
<b>Financial covenants:</b>	*Minimum liquidity equivalent to 6 months of interests under the outstanding amount of the Bonds *Minimum market value clause: (Market value + cash) > 120% of total debt (less subordinated debt)
<b>Capital distributions:</b>	Maximum 25% of net profit
<b>Change of control:</b>	Put at 100%
<b>Listing:</b>	Nordic ABM
<b>Trustee:</b>	Nordic Trustee ASA

# Portfolio overview

112 preschools with a total of 11,082 children

Total rent 2015e: NOK 204m (pro-forma figure)

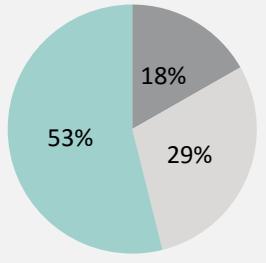
Rent by geography



■ North  
■ Greater Oslo

■ Bergen  
■ Other

Rent by tenant



■ Kidsa Drift  
**KIDS**  
barnehager

■ NCG  
**norlandia**  
BARNEHAGEN

■ Espira  
**espira**  
KONNLAPSBARNEHAGEN

Weighted average lease term

**18.7 years**

Loan to value (gross)

**~52%**

The portfolio can be divided into four main clusters

The three tenants Kidsa Drift, Norlandia Preschool and Espira, stands for 18%, 29% and 53% respectively of the total rent

Weighted average lease term is 18.7 years (First expiry in 2034)

Total property value of NOK 3,441 million and cash of NOKm 211 financed through NOK 1731 million of senior debt and NOK 164 million of subordinated debt



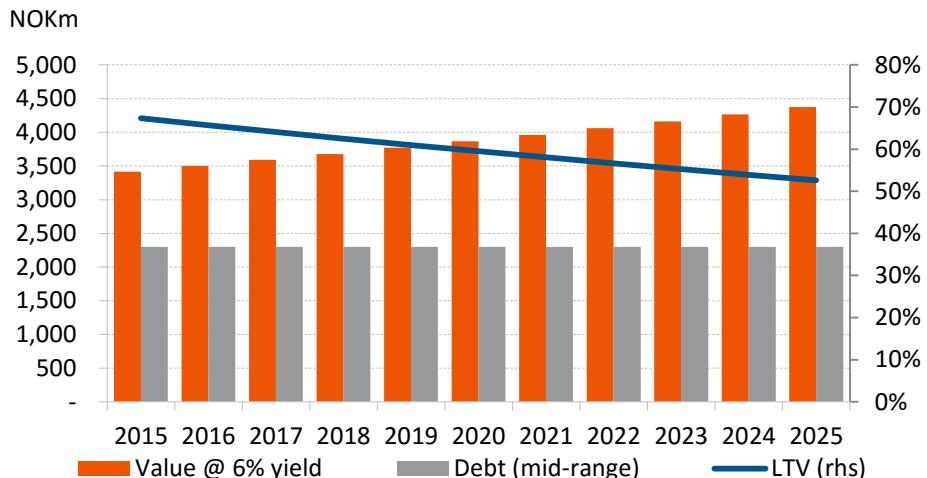
Large portfolio within four main geographical clusters, three strong counterparties and very long lease terms

# Solid asset backing

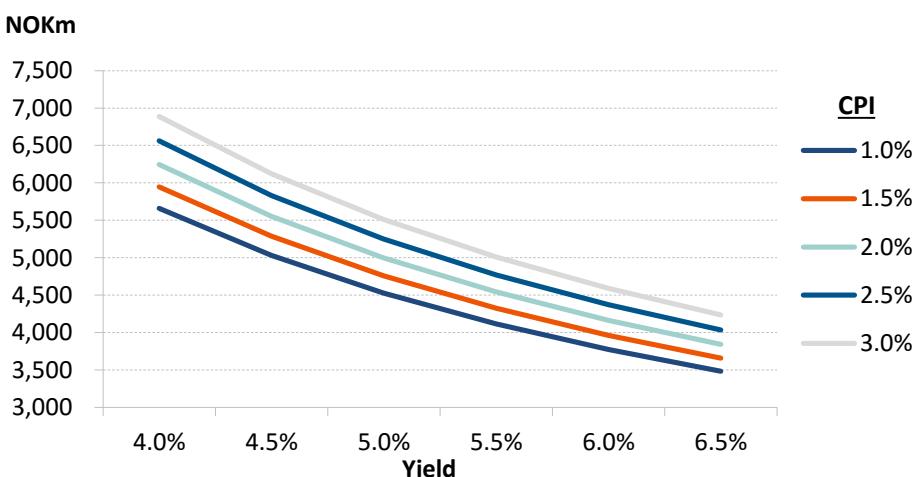
## Recent valuations

- In the listing prospectus (preference shares) the portfolio was valued at NOK 3.4 billion, a yield of 6.0% based on the current rent levels
- In April 2015 Newsec conducted a valuation of the Issuer's preschool portfolio
  - Assumed prime yield of 5.5% and a market rent of NOK 21,000 per children per year
  - The portfolio was valued at NOK 3.6 billion corresponding to a blended yield of 6.36% and ~NOK 323,000 per preschool place
- The current lease agreements are 100% annually CPI adjusted implying that values will increase over the duration of the Notes
  - The figure on the right shows the implied value of the portfolio at maturity of the Notes based on yield level and different CPI-levels
  - The inflation goal of Norway is 2.5%

## Loan to value development with 2.5% inflation



## Valuation sensitivity in 2025 by inflation



# Tenant and lease overview

## Long contracts with strong counterparties

- Norlandia Preschools leases its properties on 20 year contracts (+ 2x10 year option) through a triple-net master lease contract with 100% annual CPI-adjustment. Average 17 years remaining lease
- Espira properties are leased on a double net (triple net less real estate insurances and property taxes) basis with 100% annual CPI adjustment. Average 19 years remaining lease
  - The Espira lease agreements are irrevocable and expire in 2018 and 2019, of which 31 year end 2018
  - Espira have an option to extend some of the lease contracts 10+5 years, which are deemed likely to be exercised as they are considered to be "in the money" and competing kindergartens in the same area are not likely to be sanctioned
- Kidsa Drift signed a new 20 year triple net lease in April 2015
- If Espira or Kidsa Drift do not exercise their renewal options or for some other reason do not fulfil their obligations, Norlandia Preschools has an obligation to assume operations of the preschools and step in to the lease contracts at the same payment terms with 20 years duration from 2014 and 2015, respectively
- The agreement regulating Norlandia Preschools' step-in obligation is a triple net master lease contract



No. of properties (112)	45	42	25
Number of children (11,082)	5,947	3,318	1,817
Property value (NOK 3,417m)	NOK 1,801 (53%)	NOK 980m (29%)	NOK 636m (19%)
Rent (NOK 205m)	NOK 108m	NOK 59m	NOK 38m
Weighted average lease term (years)	19	17	20



# Key people

## Board of Directors

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### **Roger Adolfsen, Chairman**

- Co-founder and owner of a number successful businesses. Together with brother Kristian Adolfsen, numerous controlling interests and operational influence within several industries. See Adolfsen.com for detailed information.

### **Even Carlsen, Board Member**

- Co-founder of Norlandia Preschools. Currently Chairman of Hero Group AS.

### **Nina Torp Høisæter, Board Member**

- CEO of Aberia Healthcare AS

### **Sandra Riise, Board Member**

- CEO of Accounting Norway

### **Geir Hjorth, Board Member**

- Owner and CEO of Alter Ego Gruppen AS

## Management

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### **Runar Rønningen (CEO)**

- MBA in finance and authorized financial analyst (AFA) from NHH
- Financial journalist between 1992 and 1999, including five years in the journal Kapital
- Ten years experience from leading roles in Nordic investment and brokerage houses, including H&Q Norden and Fondsfinans

### **Martin P. Hoff (CFO & IR responsible)**

- Graduated from Boston University 1995
- Worked within the financial markets since 1997
- Work experience includes analyst at SEB Enskilda Securities, consultant with McKinsey & Co., CFO at Tandberg Television, and senior analyst at Arctic Securities

# Norwegian preschool's regulatory system

## Statutory right to a place

### Key characteristics

- From January 1st 2009 all Norwegian children between 1-5 years have a statutory right to a place in a preschool
- In 2002, the main political parties initiated a program to reach “full coverage”
  - Initiative included a legal right of approval for private preschools meeting certain requirements and financial subsidies
- The municipalities are responsible for both the financing of the preschools and that a sufficient number of preschool places are available

## Private and public preschools are entitled to the same subsidies

- The key element of preschool legislation is that private and public preschools are entitled to the same subsidies
- The average cost per child in public preschools is the basis for the support to private units in the same municipality as preschools are organized to break-even
- The actual subsidies range in per cent of public cost base from a minimum of 98% to a maximum of 100%. The arrangement implies that private units have the potential to make profits if they operate more efficiently than the public segment
  - The national contribution level for 2015 are NOK 207,100 per 0-2 year child and NOK 105,600 per 3-6 year child
- In addition to the governmental support, parents can be charged up to NOK 2,580 per month (11 months/year)
  - Parental support account for approx. 15% of the total income in private preschools
  - Parental support was kept flat in 2007-2013 at NOK 2,330, before gradually increasing to NOK 2,580 from 1 May 2015

## Market is strictly regulated

- The market is strictly regulated, and the license to build a preschool will not be given unless there is a demand in the relevant area
  - The permission is not given on a time-limited basis and follows the preschool (i.e. the owner of the preschool)
  - Private preschools face equal minimum requirements with regards to space, service requirements and employees per enrolled child
- Avoids oversupply and consequently low utilization and higher cost per child

# Norwegian preschool market

## Key characteristics

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### Private sector penetration

- Above 53% market penetration for private preschools in Norway, i.e. an integrated part of the preschool system
- The large share of private companies makes the private players an essential and irreversible part of the preschool market
- The sector is still very fragmented making further consolidation likely. The four largest preschool operators in Norway account for around 10% of the total revenues

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### Preschool attendance

- High degree of attendance in preschools in Norway with 90% of all children aged 1 – 5/6 years in preschools

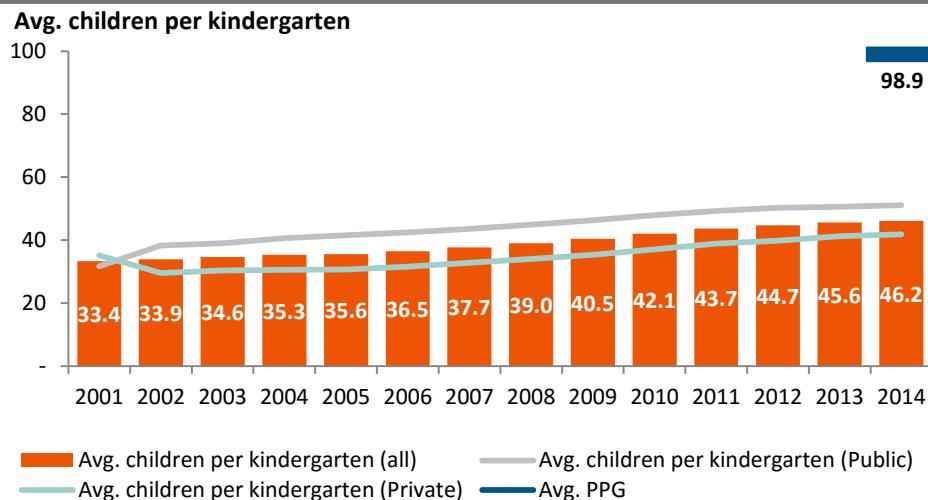
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### Urbanization

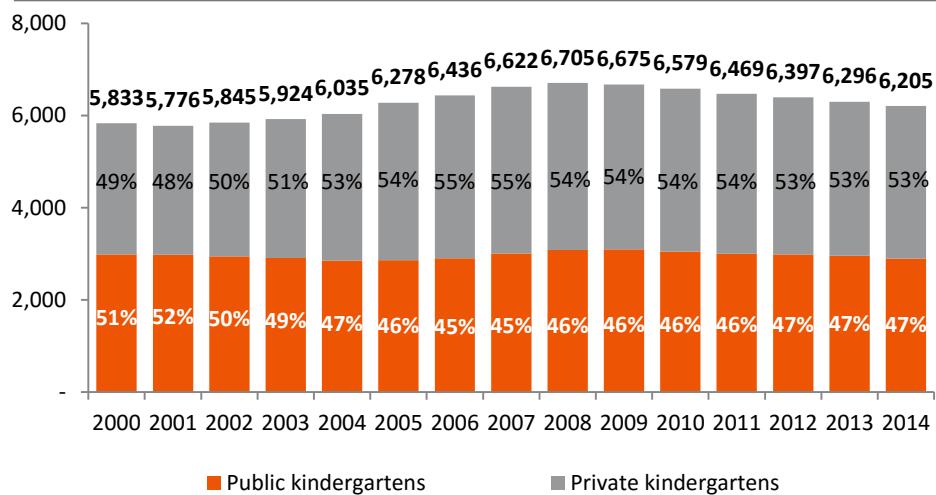
- All markets are experiencing accelerating urbanization driving demand for child-care services in urban areas
- Preschools mainly compete on proximity to the household which means that most of the scale advantages and professionalization of preschools can be translated into healthy margins for best-in-class players

# More children in larger private preschools

## Average number of children per Preschool



## Number of Preschools with public/private split



## Economy of scale

- The size of the preschools have steadily increased, as the economy of scale has become evident
- The average number of children per preschool overall is 46, while the average number in the Issuer's portfolio is 99
- Based on this, the operators' prospects for maintaining solid operating margins for the Issuer's portfolio is very promising

- The number of preschools have been quite stable, while the percentage share of private preschools have increased steadily to 53%
- With economies of scale becoming increasingly important, larger kindergartens have been replacing smaller kindergartens, resulting in a slight decline in number of kindergartens over the last couple of years
- In order to maintain full preschool coverage in the country, the system is dependent on the private players. In addition, the municipalities are saving money on having the private players own and operate their most "costly" preschool, as the average cost for the public preschool will be lower and consequently the support to the private players will go down

# Overview of largest private preschool providers



# Preschools	164	135*	92	78	60	40	~70	45
Ownership type	Private	Private	Private	Private	Non-profit organization	Non-profit organization	Non-profit organization	Non-profit organization
Full-time employees	~2,220	~1,500	1,313	~2,000	945	555	~460	~410
Owners	50/50 Sigurd Aase & Eli Sævareid	See presentation	50/50 Hans & Randi Sundby	EQT private equity fund	Non-profit foundation	Non-profit foundation	Non-profit foundation	Non-profit foundation

\*Includes international Preschools

