

## As a strategic acquirer of medical facilities across the U.S., Global Medical REIT provides a solid investment in a well-performing real estate portfolio



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**CEOCFO:** *Mr. Busch, according to the Global Medical REIT site, you are monetizing medical facilities. How so?*

**Mr. Busch:** We are primarily in the sale-leaseback business, which means we typically purchase medical facilities from doctor or provider groups and lease those properties back to them. The tenants receive capital from the sale of their property but also get to remain in the property as tenants. We seek out medical operators that are financially healthy with strong credit profiles, which makes them desirable tenants.

**CEOCFO:** *Why are they available if they are doing so well?*

**Mr. Busch:** Many physician practices, while profitable, don't retain earnings and may want capital to grow or invest in the practices. Also, some transactions are completed in order to cash out older doctors and allow new doctors to join practices without having to buy into the real estate.

**CEOCFO:** *What else is it about a facility that might attract you or have you look away even though it is profitable?*

**Mr. Busch:** We conduct extensive due diligence on every site, including site visits. One thing we focus on during due diligence is whether a tenant is a leader in its geographic market. Earnings quality and diversification are also important. Profitable practices might only be profitable by relying on one source of revenue to subsidize other unprofitable parts of the practice – or even because they have added business lines that aren't part of their core business (for example, rural hospitals with large lab departments). Finally, we focus on secondary and tertiary markets and tend to avoid primary markets. Properties in primary markets tend to be more expensive and generally don't fit our return profile.

**CEOCFO: Does a practice that is running well typically continue to run well?**

**Mr. Busch:** Generally, physician practices tend to be larger and run by sophisticated executives--or they might be part of national provider systems. This often means they're run more like businesses than a traditional doctor's office. We believe this corporate model tends to enhance the financial performance of a practice due to sophisticated billing and purchasing departments and a focus on cost controls. However, the medical landscape is constantly changing; even the best-run practices could be profitable one day but not the next. That's why we have a multi-faceted due diligence approach that focuses not only on the tenant's practice, but also on the real estate itself. During due diligence, we ask ourselves what we could do with the property if the tenant fails. If the property is attractive and in a favorable geographic area, for example, we may get comfortable knowing we could re-tenant or sell the property quickly if a tenant defaulted. Alternatively, if we believe the building itself has little or no value without the current tenant in place, we may pass on the investment altogether.

**CEOCFO: How do you weigh concerns about the changing medical insurance climate?**

**Mr. Busch:** We look to partner with tenants providing services relatively safe from reimbursement risk. We believe the areas most immune to changes in reimbursements are the kinds of services baby boomers and older generations use or will use frequently. These include orthopedics, gastro, cancer and rehabilitation services. We try to avoid areas more susceptible to negative changes in reimbursement policies, such as skilled nursing, substance abuse or drug rehabilitation services. We also focus our investments on off-campus medical office buildings, which is currently where most payors are trying to steer their members.

**CEOCFO: Do you look for a mix geographically or if there were two or three good facilities in one particular area, would you consider taking them on?**

**Mr. Busch:** Firstly, our portfolio is exceptionally geographically diverse and includes facilities in more than 20 States. We are mindful of geographic concentration in our portfolio, but we ultimately go where the deals take us. This is especially true in situations where we may be the preferred capital provider for a health system with multiple facilities in one geographic location, like our NOMS portfolio in northern Ohio.

**CEOCFO: Once you have a facility, how do you keep track of what is going on there?**

**Mr. Busch:** Our leases are typically triple net and require the tenants to maintain the buildings and ensure that they are suitable for the medical activities conducted there. We monitor that the properties are in compliance with the terms of the lease including annual inspections, that tax and insurance obligations are met and that they've provided financials that show the condition of the business. We are in regular contact with our tenants in the course of securing these and other lease-driven responsibilities and value the relationship, as our average lease has approximately ten years of term left and so it is a relationship that benefits both for a long time.

**CEOCFO: Is the investment community able to easily understand your approach or has it been a challenge to get across Global Medical difference?**

**Mr. Busch:** The real challenge is just getting the attention of the investor community, period. As a small- cap REIT, we aren't necessarily on the radar of a lot of institutional investors. We really have to be proactive from an investor relations standpoint. That's why I spend so much time personally on the road meeting with investors. Once we're in front of investors and explain our story and strategy—which we believe have been proven by our performance--investors begin to pay attention.

**CEOCFO:** *Does the macroeconomic conditions have a large effect? Are their outside influences that might make a difference?*

**Mr. Busch:** Our business is affected by macroeconomic conditions, both positively and negatively. On the plus side, our business is fairly recession-proof, as people need healthcare regardless of the state of the economy. On the other hand, rising interest rates can negatively impact our business by increasing our cost of capital.

**CEOCFO:** *Why do people go for more healthcare when the economy is in a recession?*

**Mr. Busch:** There are a couple of reasons driving that. First, the financial stress people experience during a recession can actually manifest itself in physical ailments that require medical attention--- high blood pressure, for example. Secondly, recessions tend to cause layoffs. Assuming they are insured during that time, people who are out of work might use that time to have that knee or hip surgery they've been putting off.

**CEOCFO:** *What is next? Do you have a certain number of buildings or practices you would like to add?*

**Mr. Busch:** We are still in our growth phase, and we'll continue to acquire properties that meet our investment criteria. We focus on MOBs and certain post-acute practices like in-patient rehab, and we plan to stay focused on those kinds of properties while also keeping an eye out for non-core opportunistic investments.

**CEOCFO:** *Are you looking for funding or partnerships?*

**Mr. Busch:** Our primary sources of funding are our credit facility and equity raised from the capital markets. Given that we are still growing, though, we're always looking for attractive alternative sources of capital, and that could include joint venture partnerships or other structured arrangements. We also take a global approach to financing, hence our name, and we're willing to search the globe for attractive financing sources.

**CEOCFO:** *What surprised you as Global Medical REIT has grown and evolved to where you are today?*

**Mr. Busch:** What has surprised me the most is just how little due diligence real estate investors conduct when buying properties. The due diligence process has almost become commoditized. While that may be the cheap way of doing it, you can miss incredibly important aspects if you streamline due diligence excessively. We believe in a multi-faceted, hands-on due diligence process that leaves no stone unturned. We believe our due diligence efforts truly are what separate us from our peers, and I think this is reflected in our high-quality tenant base. I've been in this industry a long time, and the one investment philosophy that has withstood the test of time is that you have to know your product.

**CEOCFO:** *Why pay attention to Global Medical REIT Inc?*

**Mr. Busch:** We've grown our portfolio significantly over the past few years while maintaining our diligence discipline, and that's evidenced by our above-market rent coverage numbers. We believe we generate outsized returns relative to our risk profile, and those investors who have taken the time to hear our story and realize this have been rewarded.

**CEOCFO:** *Is there anything that people might miss when they first look at Global Medical REIT?*

**Mr. Busch:** Traditional wisdom in the REIT space is that higher property cap rates means higher risk, and this is certainly true in most instances. For GMRE, higher property cap rates are the result of buying good properties in overlooked markets. The beauty of the healthcare real estate sector is that healthcare is needed everywhere, not just New York and Los Angeles. Properties in secondary and tertiary can be just as profitable as properties in primary markets. One difference between Global Medical REIT and our competitors is that we will go anywhere for a deal that fits our investment objectives---whether that's in the suburbs of Dallas or the middle of Kansas. Because of that willingness, we can find high-quality assets others have overlooked.

