

ASX ANNOUNCEMENT

13 FEBRUARY 2020

HY20 RESULTS

Development pipeline replenished, asset recycling and debt maturity extended

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of \$21.4 million, up 17% on the prior corresponding period (pcp)
- Earnings per security (EPS) of 7.17 cents, up 6% on pcp
- Distributions per security (DPS) of 7.15 cents, up 6% on pcp
- Total Assets of \$890.4 million, up 8% on 30 June 2019
- Net Asset Value (NAV) per security of \$2.18, up 4% on 30 June 2019

New investment enhancing earnings and distribution growth

Arena REIT (Arena) has today announced a net operating profit for the half-year ended 31 December 2019 of \$21.4 million, up 17% on the pcp.

Key contributors to the result were income growth from annual rent reviews, acquisitions and development projects completed in FY19 and HY20.

This result equated to EPS of 7.17 cents, an increase of 6% on the pcp. Arena has paid a half-year distribution of 7.15 cents per security, up 6% on the pcp.

Statutory net profit for the half-year was \$42.2 million. This was an increase of 24% on pcp predominantly due to higher operating profit, property valuation uplift, profits realised on the sale of divested properties and the positive revaluation of interest rate hedges.

Arena's total assets increased by 8% to \$890.4 million as a result of acquisitions, development capital expenditure and positive portfolio revaluation. The valuation uplift contributed to a 4% increase in NAV of 8 cents per security to \$2.18 at 31 December 2019.

PORTFOLIO HIGHLIGHTS

- Average like-for-like rent review increase of 3.1%¹
- 100% occupancy maintained
- Weighted average lease expiry (WALE) maintained at 14.1 years
- Portfolio valuation uplift of \$20.3 million
- Portfolio weighted average passing yield 6.32%

¹ Includes three FY19 uncapped market rent reviews which were resolved during HY20.



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- Three operating early learning centres (ELCs) and 11 ELC development sites acquired²
- One development project completed
- Five ELC properties divested at average premium of 11.6% to book value
- Development pipeline of 16 ELC projects at a forecast total cost of \$86 million²
- Post balance date acquisition of \$11 million multi-disciplinary healthcare centre

Average like-for-like rent review increase of 3.1%³

Annual rent reviews have been completed over 52% of portfolio income in HY20, with an average like-for-like rent increase of 3.1% over passing rent achieved. Three uncapped FY19 market rent reviews were resolved during HY20 at an average increase of 15.2%. A further seven uncapped FY19 market rents reviews and 15 capped (at +7.5%) HY20 market rent reviews remain unresolved as at 31 December 2019.

Commenced renewable energy program

Arena's renewable energy program is currently focused on working with tenant partners to invest in sustainability initiatives; a multi-site solar installation project is expected to be completed in FY20.

WALE maintained at 14.1 years

Occupancy was maintained at 100% and the portfolio's WALE was maintained at 14.1 years following the completion of one ELC development and acquisition of three operating ELCs, each with an initial 20 year lease term.

Portfolio valuation uplift of \$20.3 million

At 31 December 2019, Arena's property portfolio comprised 223 ELC properties and development sites (85% of portfolio value) and ten healthcare properties (15% of portfolio value). All 233 properties were revalued during HY20, with 44 properties independently valued and the remaining 189 at directors' valuation. A valuation uplift of \$20.3 million was recorded, an increase of 2.5% from FY19.

The portfolio's weighted average passing yield firmed 6 basis points to 6.32%. The weighted average passing yield on the ELC portfolio firmed by 7 basis points and healthcare portfolio firmed by 2 basis points.

| | No. of properties | 31 Dec 19 Valuation (\$m) | Valuation movement (since 30 June 2019) | | Weighted average passing yield 31-Dec-19 | |
|------------------------|-------------------|---------------------------|---|-------------|--|------------|
| | | | \$m | % | % | Change bps |
| ELC portfolio | 223 | 727.9 | +17.9 | +2.6 | 6.37 | (7) |
| Healthcare portfolio | 10 | 125.4 | + 2.4 | +1.9 | 6.06 | (2) |
| Total Portfolio | 233 | 853.3 | +20.3 | +2.5 | 6.32 | (6) |

² One ELC development project was conditionally contracted as at 31 Dec 2019 and one project was unconditionally contracted post balance date.

³ Includes three FY19 uncapped market rent reviews which were resolved during HY20.

Acquisitions and development project completions in HY20

Three operating ELC properties were acquired at a net initial yield on total cost of 6.2%, each with an initial 20 year lease. One ELC development project was completed at a net initial yield on total cost of 6.5% on a new 20 year lease and eleven new ELC development sites were acquired⁴.

Asset recycling underpins ongoing quality of portfolio

Five ELC properties were divested at an average premium of 11.6% to book value.

Arena's healthcare portfolio continues to perform well

Strong macro-economic factors continue to support Australian healthcare accommodation, providing select opportunities in a competitive sector, with tenant enhancement works underway at Arena's medical centre portfolio.

Post balance date acquisition of multi-disciplinary healthcare centre

Arena recently settled the acquisition of an \$11 million multi-disciplinary healthcare centre co-located with the Kalamunda Hospital in Perth. The property is a modern purpose built property majority leased to Mead Medical, a leading local community healthcare provider with complementary pathology and pharmacy tenancies. The property has a triple net lease and was acquired on a 6.5% initial yield with a 10 year WALE.

This acquisition is consistent with Arena's strategy to grow its existing healthcare portfolio and further diversify its portfolio of social infrastructure property. The quality of the asset, our tenant partners and the underlying demand for the services they provide demonstrate the characteristics Arena seeks when considering such opportunities.

ELC sector and portfolio update

Strong underlying demand metrics continue to underpin the strength of the ELC sector. A record 781,830⁵ children were attending long day care (LDC) as at 30 September 2019; a 4% increase over the previous 12 months and 12.5% increase since the introduction of the Child Care Subsidy (CCS). The CCS provides continued affordability for working parents through ongoing lower out of pocket costs which have contributed to record female workplace⁶ and LDC participation rates⁷. ELC LDC supply growth moderated during the first three quarters and increased in the final quarter of calendar 2019⁸.

Managing Director Mr Rob de Vos said "Our tenant partners continue to report strong positive impacts from the CCS. The occupancy rates and operator profitability of Arena's ELC portfolio increased over both the half year and full year to 31 December 2019."

⁴ One ELC development project was conditionally contracted as at 31 Dec 2019 and one project was unconditionally contracted post balance date.

⁵ Australian Government Department of Education and Training.

⁶ ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

⁷ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2019.

⁸ ACECQA data to 31 December 2019.

Development pipeline of \$86 million⁹

The development pipeline now comprises 16 ELC projects with a forecast total cost of \$86 million; \$44 million of forecast capital expenditure remains outstanding. The weighted average initial yield on forecast cost on completion of the development pipeline is 6.7%. Three of the projects are due for completion in the second half of FY20, with the balance due in FY21.

CAPITAL MANAGEMENT HIGHLIGHTS

- Gearing 23.2%, increased from 22.8% at 30 June 2019
- Weighted average cost of debt decreased to 3.55% p.a.
- 76% of borrowings hedged for weighted average term of 4.9 years at 2.31%¹⁰ p.a.
- Post balance date increase of \$50 million in borrowing facility to \$330 million
- Weighted average facility term increased to 4 years¹⁰ with no expiry before March 2023

Post balance date increase in debt maturity and facility limit

Arena increased its total debt facility limit to \$330 million through the establishment of an additional \$50 million facility post balance date, increasing Arena's weighted average facility term to 4 years, while the weighted average cost of debt fell 10 basis points to 3.55% p.a. at 31 December 2019.

Relatively low risk funding profile maintained

Arena raised \$16.4 million of new equity capital via SPP in July 2019 and a further \$5 million during the course of HY20 via the DRP which remains open.

Interest rate hedging decreased during the period with 76% of drawn debt hedged at 31 December 2019 (82% at 30 June 2019). The weighted average hedge term was 4.9 years at an average rate of 2.31%¹⁰ (4.8 years at 2.42% as at 30 June 2019).

Capacity to fund new opportunities

At 31 December 2019, Arena's gearing was 23.2%, increased from 22.8% at 30 June 2019, with undrawn debt capacity of \$123 million¹⁰ to fund the forecast \$44 million balance of development capital expenditure and new investments.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "We continue to operate well within our covenant requirements and have increased debt capacity and term to fund the balance of the development pipeline and additional opportunities for growth."

OUTLOOK

FY20 distribution guidance reaffirmed at 14.3 cents per security¹¹

Following announcement of the HY20 result, Arena has today reaffirmed its FY20 DPS guidance at 14.3 cents per security¹¹. This reflects growth of 6% over FY19.

⁹ One ELC development project was conditionally contracted as at 31 Dec 2019 and one project was unconditionally contracted post balance date.

¹⁰ Includes post balance date extension of borrowing facility term, limit increase of \$50 million and revision of hedges.

¹¹ Estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations.

Mr Rob de Vos said "We remain focused on pro-active portfolio management, continuing to strengthen our tenant relationships and securing attractive investment opportunities to grow earnings and build long-term value for investors."

Impact of Australian bushfires and flooding

A small number of Arena's ELCs were closed briefly during the recent bushfires, predominantly due to air quality issues. To date, none of Arena's properties have been damaged by fire or flooding. Our thoughts are with the many communities impacted directly and indirectly by these devastating events.

Teleconference

An investor teleconference will be held to provide an overview of the operating activities and financial results for the half-year to 31 December 2019. Details of the teleconference are as follows:

Title: Arena REIT HY2020 Results

Date: Thursday 13 February 2020

Time: 11am AEDT

Registration: Investors wishing to participate in the teleconference must register [click here to register](#). Upon registration, investors will be emailed the teleconference dial-in number, the conference passcode and a unique access PIN for the call.

A recording of the investor teleconference will also be made available on the Arena website.

This announcement is authorised to be given to the ASX by Gareth Winter, Company Secretary.

– ENDS –

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About Arena REIT

Arena REIT is an ASX300 listed property group that owns, manages and develops social infrastructure properties across Australia. Our current portfolio of social infrastructure properties is leased to a diversified tenant base in the growing early learning and healthcare sectors. To find out more, visit www.arena.com.au.