

ASX ANNOUNCEMENT

11 FEBRUARY 2022

HY2022 RESULTS & UPGRADE TO FY2022 DISTRIBUTION GUIDANCE

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of \$27.5 million, up 11% on the prior corresponding period (pcp)
- Statutory net profit of \$185.8 million, up 204% on pcp
- Total Assets of \$1.35 billion, up 17% on 30 June 2021
- Net Asset Value (NAV) per security of \$3.02, up 18% on 30 June 2021
- Earnings per security (EPS) of 8.0 cents, up 10% on pcp
- Distributions per security (DPS) of 7.9 cents, up 7.5% on pcp
- FY22 full year distribution guidance increased to 16.0¹ cents, up 8.1% on pcp

Delivering on our investment objectives and improving community outcomes

Arena REIT (Arena) has today announced a net operating profit for the half-year ended 31 December 2021 of \$27.5 million, up 11% on the pcp.

Key contributors to the result were income growth from contracted annual rent reviews, acquisitions and development projects completed in financial year 2021 (FY21) and half year 2022 (HY22).

This result equated to EPS of 8.0 cents, up 10% on the pcp. Arena has paid DPS of 7.9 cents for the half-year, an increase of 7.5% on the pcp and financial year 2022 (FY22) forecast distribution guidance has been increased from 15.8 to 16.0¹ cents per security (cps), an increase of 8.1% on FY21.

Statutory net profit for the half-year was \$185.8 million. This was an increase of 204% on pcp predominantly due to an increase in operating profit, investment 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 17% from 30 June 2021 to \$1.35 billion as a result of acquisitions, development capital expenditure and the positive portfolio revaluation. The valuation uplift contributed to an 18% increase in NAV of 46 cents per security to \$3.02 at 31 December 2021.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said, "I would like to acknowledge the significant efforts and achievements of our tenant partners under ongoing challenging conditions. I'd also like to express my appreciation to the Arena team for their

¹ FY22 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals, all developments in progress are completed in line with forecast assumptions, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of the COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.



dedication and hard work and true partnership approach in delivering positive community and investment outcomes.”

PORTFOLIO HIGHLIGHTS

- 100% of the portfolio facilitates access to essential community services
- 100% portfolio occupancy maintained
- 100% of contracted rent has been received for the period 1 July 2021 to 31 December 2021
- Weighted average lease expiry (WALE) of 19.8 years
- Portfolio valuation uplift of \$153 million
- Portfolio weighted average passing yield 5.14%
- Continued to rollout the installation of solar renewable energy systems
- One operating early learning centre (ELC) and eight ELC development sites acquired
- Terms agreed post balance date for the acquisition of six operating ELC properties for \$38 million
- Three development projects completed
- Two ELC properties divested at an average premium of 15% to book value
- Development pipeline of 19 ELC projects at a forecast total cost of \$122 million²
- Average like-for-like rent review increase of 3.6%

Investment proposition and approach drives sustainable and commercial outcomes

Sustainability is integral to Arena’s investment approach and best positions Arena to achieve positive long term commercial outcomes.

Arena’s properties facilitate access to essential community services:

- ELCs provide early childhood education and care which allows parents and carers the opportunity to remain in, join or re-join the workforce.
- Medical centres provide local, community-based primary health care services.
- Specialist disability accommodation is designed to provide a better quality of life for residents with high physical support needs.

Key FY2022 sustainability goals include:

- Collaborating with tenant partners on ESG initiatives.
- Reporting on collaboration with tenant partners regarding installing solar renewable energy.
- Reporting on renewable energy production for properties where it has been installed.
- Outlining an organisational carbon emission reduction plan.
- Outlining a carbon emission reduction plan for Arena’s property portfolio.
- Outlining a plan to align with the Task Force on Climate-Related Financial Disclosures (TCFD).
- Voluntarily opting into Modern Slavery reporting.
- Implementing company specific policies/procedures for managing ESG risks.
- Extending and disclosing Arena’s approach to various employee initiatives.

² Includes two ELC projects conditionally contracted post 31 December 2021.

COVID-19 update

All of Arena's properties are open and in operation. Arena's origination and development programs are largely unaffected and all tenant partners are compliant with COVID-19 related rent relief agreements³.

Acquisitions and development project completions in HY22

One operating ELC property was acquired for \$9.4 million at a net initial yield on total cost of 4.7% and three ELC development projects were completed for \$16.9 million at a net initial yield on cost of 6.4%, each with an initial lease term of 20 years, and eight new ELC development projects were acquired.

Long portfolio WALE of 19.8 years

Portfolio occupancy was maintained at 100% and the portfolio WALE is 19.8 years following the ELC acquisition and developments completed during the half year.

\$38 million post balance date ELC portfolio transaction

Arena has agreed terms post balance date to acquire a portfolio of six operating ELC properties for \$38 million with a forecast initial yield on total cost of 5.6% to be leased to an existing tenant partner on a 25 year initial lease term.

Asset recycling underpins ongoing quality of portfolio

Two ELC properties were divested for \$10.1 million at an average premium of 15% to book value.

Portfolio valuation uplift of \$153 million

At 31 December 2021, Arena's property portfolio comprised 245 ELC properties and development sites (87% of portfolio value) and 11 healthcare properties (13% of portfolio value). All 256 properties were revalued during HY22, with 51 properties independently valued and the remaining 205 at directors' valuation. A valuation uplift of \$153.3 million was recorded, an increase of 13.8% from FY2021.

The portfolio's weighted average passing yield firmed 63 basis points to 5.14%. The weighted average passing yield on the ELC portfolio firmed by 71 basis points and healthcare portfolio firmed by 12 basis points.

	No. of properties	31 Dec 21 Valuation (\$m)	Valuation movement (since 30 June 2021)		Weighted average passing yield	
			\$m	%	31-Dec-21 %	Change bps
ELC portfolio	245	1,138.6	+139.9	+14.6	5.13	(71)
Healthcare portfolio	11	166.5	+ 13.4	+ 8.8	5.22	(12)
Total Portfolio	256	1,305.1	+153.3	+13.8	5.14	(63)

Average like-for-like rent review increase of 3.6%

Annual rent reviews have been completed for 56.3% of portfolio income in HY22, with an average like-for-like rent increase of 3.6% achieved.

³ Under the National Cabinet Mandatory Code of Conduct landlords are obliged to provide eligible tenants rental relief in proportion to the reduction in trade resulting from COVID-19.

ELC sector update

Strong macroeconomic drivers continue to support the Australian ELC sector. Demand for services and record female workforce participation rate have been driving increased long day care participation rates over the medium to long term^{4,5}.

Government support was improved by the introduction of the Childcare Subsidy (CCS) in July 2018 and strongly reinforced through various COVID-19 related funding commitments⁶.

The Federal Government brought forward an additional \$1.7 billion⁷ commitment to the sector, with the removal of the annual CCS cap to apply in FY22 and a higher CCS for families with more than one child in care to commence from 7 March 2022, in order to:

- Support the economic recovery from COVID-19 in the short term; and
- Improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term⁸.

Arena's healthcare portfolio continues to perform well

Strong macroeconomic factors continue to support Australian healthcare accommodation. There is strong ongoing investor interest in healthcare property and increasing interest in social infrastructure property more generally.

Development pipeline of \$122 million⁹

The development pipeline now comprises 19 ELC projects with a forecast total cost of \$122 million; \$71 million of forecast capital expenditure remains outstanding. The weighted average initial yield on forecast total cost on completion of the development pipeline is 5.9%.

CAPITAL MANAGEMENT HIGHLIGHTS

- Gearing¹⁰ 18.8%, decreased from 19.9% at 30 June 2021
- Weighted average cost of debt decreased to 2.6% p.a. as at 31 December 2021
- 76% of borrowings hedged for weighted average term of 4.7 years at 1.60% p.a.
- Weighted average facility term of 3.9 years with no expiry until March 2024

Low risk funding profile maintained

Arena's weighted average facility term is 3.9 years with no near term expiry and the weighted average cost of debt fell 5 basis points to 2.6% p.a. as at 31 December 2021. Interest rate hedging decreased during the period with 76% of drawn debt hedged at 31 December 2021 compared with 81% at 30 June 2021. The weighted average hedge term was 4.7 years at an average rate of 1.60% compared with

⁴ ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

⁵ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.

⁶ <https://www.dese.gov.au/covid-19/childcare/>; <https://ministers.dese.gov.au/>.

⁷ <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/making-child-care-more-affordable-and-boosting>.

⁸ <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>.

⁹ Includes two ELC projects conditionally contracted post 31 December 2021.

¹⁰ Gearing calculated as ratio of net borrowings over total assets less cash.

4.4 years at 1.67% as at 30 June 2021. Arena raised \$4.9 million during the half-year via the DRP, which remains open.

Capacity to fund new investment opportunities

At 31 December 2021, Arena's gearing¹¹ was 18.8%, decreased from 19.9% at 30 June 2021 with undrawn debt capacity of \$155 million to fund the post balance date ELC portfolio transaction of \$38 million, the balance of the development pipeline of \$71 million, and future growth opportunities.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said, "Arena's balance sheet gearing and expanded debt facilities fully fund the development pipeline with capacity to deploy capital into further growth opportunities."

OUTLOOK

FY22 forecast distribution guidance increased to 16.0 cents¹²

FY22 forecast distribution guidance has been increased from 15.8 to 16.0¹² cps, reflecting growth of 8.1% over FY21.

Mr de Vos said "Early learning and healthcare services are integral to improving community outcomes. This important theme underpins Arena's portfolio value proposition which provides long term income predictability with the prospect of income growth with inflation protection."

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 2021. Details of the teleconference are as follows:

Title: Arena REIT HY22 Results

Date: Friday 11 February 2022

Time: 9.30am 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; this information will also be emailed to you as a calendar invitation.

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 –

¹¹ Gearing calculated as ratio of net borrowings over total assets less cash.

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About Arena REIT

Arena REIT is an ASX200 listed property group that develops, owns and manages 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.

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