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ASX/Media Announcement

Region Group Announces 1H FY23 Results

Region Group (ASX: RGN) ("RGN") is pleased to announce its results for the half year ended 31 December 2022 ("1H FY23").

Financial Performance highlights

- Statutory net loss after tax of $95.1m, down 122.0% compared to 1H FY22, impacted by a like-for-like decrease of $131.2m in property valuations
- Funds From Operations ("FFO") of $94.1m decreased by 0.2%, largely driven by the increased cost of debt
- Adjusted Funds From Operations ("AFFO") of $85.7m increased by 5.9%, driven by comparable property net operating income ("NOI") growth of 4.2%. Excluding the impact of the increase in interest rates, AFFO has increased by 11.1%
- AFFO per security is 7.60 cps, up 3.4% compared to 1H FY22
- Distributions per security is 7.50 cps, up by 4.2% compared to 1H FY22 and represents a payout ratio of 99% of AFFO
- Current average cost of debt 3.2% per annum with 76.5% of debt either fixed or hedged. Gearing of 31.7% is well within RGN's target gearing of 30-40%
- Assets under management have increased to over $5.0bn, a 1.7% increase on 30 June 2022
- Net tangible assets have decreased by 5.7% to $2.65 per security
- During January 2023, the investment in Charter Hall Retail REIT ("CQR") was divested realising net proceeds of $26.7m

Operational Performance highlights

- Total Moving Annual Turnover ("MAT") has grown by 3.6% with specialty store MAT increasing by 5.8%. Compared to pre COVID-19 (as at 31 December 2019), total MAT has grown by 12.2%, with supermarkets increasing by 11.1% and specialties by 13.6%
- Leasing spreads have increased to 4.4%, compared to 2.0% in FY22, with a stable retention rate of 86.0%
- Improved specialty vacancy rate of 4.9% and maintained portfolio occupancy at 98.0%
- Progressing well toward Net Zero by FY30
  - All shopping centres have had LED lighting and smart digital energy meters installed

  - Currently 12 solar sites are installed, 8 sites under construction and 12 sites in design
- Five convenience-based shopping centres acquired for $180.0m in July 2022
- Metro Fund acquired Beecroft Place in July 2022 for $65.0m with further opportunity to grow management income through meeting the initial target fund size of $750m
- Carrara Shopping Centre contracted to sell in November 2022 at 2.2% premium above 30 June 2022 book value

Region Group Chief Executive Officer, Anthony Mellowes said: "The last six months have continued to prove the resilience of our convenience-based shopping centres. Tenant sales have grown across all sales categories, with non-discretionary sales increasing by 6.4%. Anchor tenant sales have continued to grow with an additional four tenants paying turnover rent. Our leasing spreads, average specialty gross rent and sales productivity have shown positive results.

"The progress we have made in executing our sustainability initiatives in 1H FY23 has put us in good stead to deliver our Net Zero target earlier than expected. We have completed the installation of 9.0MW of solar to date, of our 25MW target by FY26, and have commenced the construction of another 5.6MW solar and the design of a further 12.6MW solar.

"We continue to take a disciplined approach toward accretive acquisition and divestment opportunities, which has seen the acquisition of five new shopping centres, the contracted sale of Carrara Shopping Centre and the divestment of securities in CQR. The Metro Fund will continue to be a platform to gives us access to metropolitan neighbourhood centres, while growing our management fee income."

Region Group Chief Financial Officer, Evan Walsh said: "The performance of our core business remains strong and continues to be our focus as we strive to achieve our goal of ensuring defensive, resilient cashflows to support secure and growing long-term distributions to our security holders.

"Excluding the impact of the rising market interest rates, our adjusted funds from operations have increased by a strong 11.1% which has been driven by our comparable NOI growing by 4.2%.

"We maintain a prudent debt and capital management position with proforma gearing, post the sale of Carrara Shopping Centre, CQR and the January 2023 DRP, decreasing to under our target range and no debt expiries until June 2024."

Region Group Chief Operating Officer, Mark Fleming said: "Convenience-based shopping centre performance is resilient, with solid leasing and sales results driving the performance of our core business.

"Our non-discretionary tenants continue to deliver solid sales. We remain strategically focused on remixing our retail properties toward non-discretionary categories and reducing our long-term vacancies where deals are accretive.

"We pride ourselves on being essentially local - our shopping centres are located within local regional and metro communities, which means we are well placed for last mile logistics. We continue to support the growing online supermarket offering through co-investment opportunities that support Coles and Woolworths Direct to Boot and Home Delivery concepts which continue to evolve."

Financial Performance

Earnings

Region recorded a statutory net loss after tax of $95.1m. This has been largely driven by the decrease in valuation of investment properties.

Excluding non-cash and one-off items, Funds From Operations (FFO) was $94.1m down 0.2%. Excluding the impact of rising interest rates, FFO has increased by 5.3%. The key drivers were:

- Net property income has increased by 4.2% compared to 1H FY22, driven by comparable NOI growth of 4.2% ($4.4m), with the impact of net acquisitions
- Funds management income growth of $1.5m or 25.0% compared to 1H FY22 was driven by fees on increased assets under management ("AUM")
- Corporate expenses remain in line with 1H FY22
- No rental assistance (waivers or deferrals) has been provided to tenants in 1H FY23 with the expected credit loss (ECL) allowance decreased by $1.0m
- Management expense ratio ("MER") of 0.35% improved from 0.38% compared to full year ended 30 June 2022 ("FY22")

Adjusted Funds From Operations (AFFO) increased by $4.8m with maintenance capital expenditure and leasing incentives $5.0m lower than the prior period.

Property Valuations

The value of investment properties has increased by $25.8m to $4,486.7m with the acquisition of five convenience-based shopping centres in July 2022 for $180.0m being largely offset by the decrease in the fair value of the existing portfolio driven by a 0.23% softening of the weighted average market capitalisation rate.

The total portfolio weighted average capitalisation rate is 5.67% with sub-regional centres expanding to 6.12% and neighbourhood centres at 5.50%.

Net tangible assets per security have decreased to $2.65 per security, primarily due to this decrease in valuations.

Debt and Capital Management

Balance Sheet Gearing is 31.7% (with proforma gearing of under 30%), with a preference to maintain gearing around the lower end of the target range of 30 – 40%.

Region has cash and undrawn facilities of $277.3m ($370m on a proforma basis), with the average cost of debt being 3.2% and an average debt maturity of 4.8 years. There is no debt expiring until June 2024.

76.5% of debt is either fixed or hedged (82% on a proforma basis) with an average maturity of 3.1 years. Hedging is expected to remain at the higher end of RGN's target range of 50-100%.

Distributions

The distribution per security for 1H FY23 was 7.50 cps which was 0.30 cps or 4.2% higher than 1H FY22 and was paid on 31 January 2023 and represents approximately 99% of AFFO.

The distribution reinvestment plan (DRP) remained active for the January 2023 distribution. The DRP was 50% underwritten with $42.5m raised at $2.61 per security. We expect that the DRP will remain in place during FY23.

Operational Performance

Portfolio Occupancy

RGN had a portfolio occupancy rate of 98.0% as at 31 December 2022 which is line with 30 June 2022. The specialty vacancy rate has improved by 0.1% to 4.9% and specialty tenant holdovers is 3.9% of gross income (a decrease of 0.4% from 4.3% at 30 June 2022).

Turnover Rent and Sales Growth

The comparable store sales growth for 12 months to 31 December 2022, for stores trading more than 24 months is outlined below:

Total portfolio	31 Dec 2022	30 June 2022
Supermarkets	2.9%	2.4%
Discount Department Stores	7.7%	(6.1%)
Mini Majors	3.1%	1.5%
Specialties	5.8%	0.4%
Total	**3.6%**	**1.3%**

Total MAT grew by 3.7% when excluding NSW and VIC where there was a trading impact from COVID-19 in the prior period. We have seen total MAT increasing by 12.2%. Supermarkets by 11.1% and Specialties by 13.6% when compared to pre COVID-19 (MAT compared to 12-month period to 31 December 2019).

The solid MAT growth across our Anchor tenants (Supermarkets and Discount Department Stores) has resulted in turnover rent increasing to $3.3m at 1H FY23. A total of 51 Anchor tenants or 39% of total are paying turnover rent. A further 10% of Anchor tenants are within their turnover rent thresholds, and two Anchor tenant turnover rents were captured in a base rent review during the period.

Supermarket Online Sales

We are continuing to support the online supermarket offering, which continues to grow (although growth has moderated) since COVID-19. These online sales are included in 96% of our supermarket turnover rent calculations, and of our 95 Coles and Woolworths stores, 87 including 100% of online sales and four include 50% of online sales. We continue to support Coles and Woolworths direct to boot and home delivery concepts which continue to evolve.

Specialty Key Metrics

Our Specialty tenants have remained resilient during the period:

- Specialty sales productivity has improved from $9,865 to $10,167 per square metre ("psm") with NSW and VIC returning to normalised levels following COVID-19
- Our average specialty gross rent has improved from $793 to $806 psm
- Average specialty occupancy cost remains at 8.7%
- A total of 198 leasing deals were completed in 1H FY23 with leasing spreads increasing to 4.4% (vs. 2.0% in FY22)

Sustainability

We are on track to achieve Net Zero for scope 1 and scope 2, by FY30. To date, we have:

- Completed the installation of LED lighting and smart digital energy meters across 100% of our shopping centres
  - We have also commenced the replacement of R22 mechanical plants across the portfolio and feasibility studies are underway of large-scale batteries for onsite energy storage
- Completed the installation of 9.0MW solar to date, of our 25MW solar target
  - We have commenced the construction of a further 5.6MW solar and the design of a further 12.6MW solar
- Commissioned three new building management systems at Central Highlands Marketplace, Lavington Square and West End Plaza
  - We have also commenced post-implementation analysis and BMS audits of high energy-level consumption sites
- Continued to provide ongoing support to 128 students through our active partnership with The Smith Family
  - We have commenced a Local Community Engagement Plan project for maximum local community impact

Growth Opportunities

Acquisitions, Divestments and Indicative Development Pipeline

During the period we acquired five investment properties of convenience-based shopping centres for $180.0m for an implied fully let yield of 6.0%. Prior to 31 December 2022, we contracted to sell Carrara Shopping Centre for $23.5m, an uplift of 2.2% on June 2022 book value. The market capitalisation rate at 30 June 2022 was 4.75% with the transaction expected to be completed in March 2023.

At 31 December 2022 we had a holding of 6.78m securities in CQR. During January 2023, we sold our entire investment realising net proceeds of $26.7m.

Our development pipeline continues, and over the next five years we plan on investing over $250m to ensure our centres remain at the heart of their community. For 1H FY23, we have invested $15.2m across supermarket online offering facilities and pad site development on excess land, rebuilding Lismore Central which was impacted by the flood events that took place in early 2022, and sustainability initiatives.

Funds Management

Metro Fund ("The Fund") (a JV with Singaporean sovereign wealth fund, GIC) continues to offer a platform for growth. The Fund acquired Beecroft Place in July 2022 for $65m and has an initial target fund size of $750m focusing on assets within metropolitan suburbs. The Fund gives us access to metropolitan neighbourhoods in partnership with a high quality and globally recognised partner, while growing asset-light management fee income.

Strategy and Outlook

Our core strategy remains unchanged, while we are focused on delivering our clear purpose – "Supporting better communities through life's essentials". This means the places we create will deliver both a practical and positive experience, as we work to be the first choice for essentials at a place nearby.

We do this through optimising the core business which includes partnering with our supermarkets to support the growth of their online offering. Actively managing our retail centres in driving sustainable rental uplifts across our Specialty and Mini Major tenants. Leveraging our scale to maintain our controllable property expenses. Actively considering opportunities to invest in our retail properties to cement our positioning within our communities as "Essentially Local", increasing customer sentiment, to generate increased returns in the future. Lastly, we continue to focus on executing our sustainability strategy.

We continue to take a disciplined approach to acquisitions and divestment opportunities and follow a targeted spend on our development pipeline and sustainability initiatives. Our growth opportunities are supported through the continuation of expanding our Funds Management platform through the growth of the Metro Fund.

Earnings Guidance

Our AFFO guidance for FY23 is 15.2 cps with a target distribution payout ratio of approximately 100%.

This guidance assumes that there are no further acquisitions or disposals.

Increased interest rates are expected to negatively impact our earnings. Our 3 month BBSW assumption for 2H FY23 is 3.6%, which is in line with the current market curve. Excluding the impact of interest expense, AFFO per security guidance would represent an increase of 5.4% compared to FY22.

A link to pre-register for the webcast of the investor briefing will be available at www.regiongroup.au.

This document has been authorised to be given to the ASX by the Board of RGN.

ENDS

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Security holders should contact the RGN Information Line on 1300 318 976 with any queries.

About Region Group

Region Group (RGN) includes two internally managed real estate investment trusts owning a portfolio of convenience-based retail properties located across Australia. Region invests in retail properties predominantly anchored by non-discretionary retailers, with long leases to tenants such as Woolworths Limited, Coles Limited and companies in the Wesfarmers Limited group. Region Group comprises two registered managed investment schemes, Region Management Trust (ARSN 160 612 626) and Region Retail Trust (ARSN 160 612 788). The security in each Trust are stapled to form the stapled listed vehicle, Region Group (ASX: RGN), formerly known as SCA Property Group (ASX: SCP).