

ARENA REIT

2020 HALF YEAR RESULTS

13 February 2020





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HY20 HIGHLIGHTS

Pipeline replenished, asset recycling

- Contracted rental growth, acquisitions and development completions have driven 6% growth in EPS¹.
- Long WALE maintained at 14.1 years.
- Acquisition of three operating ELC properties and divestment of five ELC properties.
- Acquisition of 11 new projects² taking development pipeline to 16 projects with forecast total cost of \$86 million.
- Commenced renewable energy program.
- Debt maturity extended and capacity increased.
- \$11 million post balance date healthcare acquisition.

1. EPS is calculated as net operating profit over weighted average number of securities on issue.

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.

4. Gearing calculated as ratio of borrowing over total assets.

\$21.4m

Net operating
profit

+17% on HY19

7.17 cents

Earnings per share
(EPS)¹

+6% on HY19

7.15 cents

Distributions per
security (DPS)

+6% on HY19

\$2.18

Net Asset Value
(NAV)

+4% on FY19

+3.1%

Average like-for-like
rent increase³

23.2%

Gearing ratio⁴

22.8% at FY19

DELIVERING ON STRATEGY

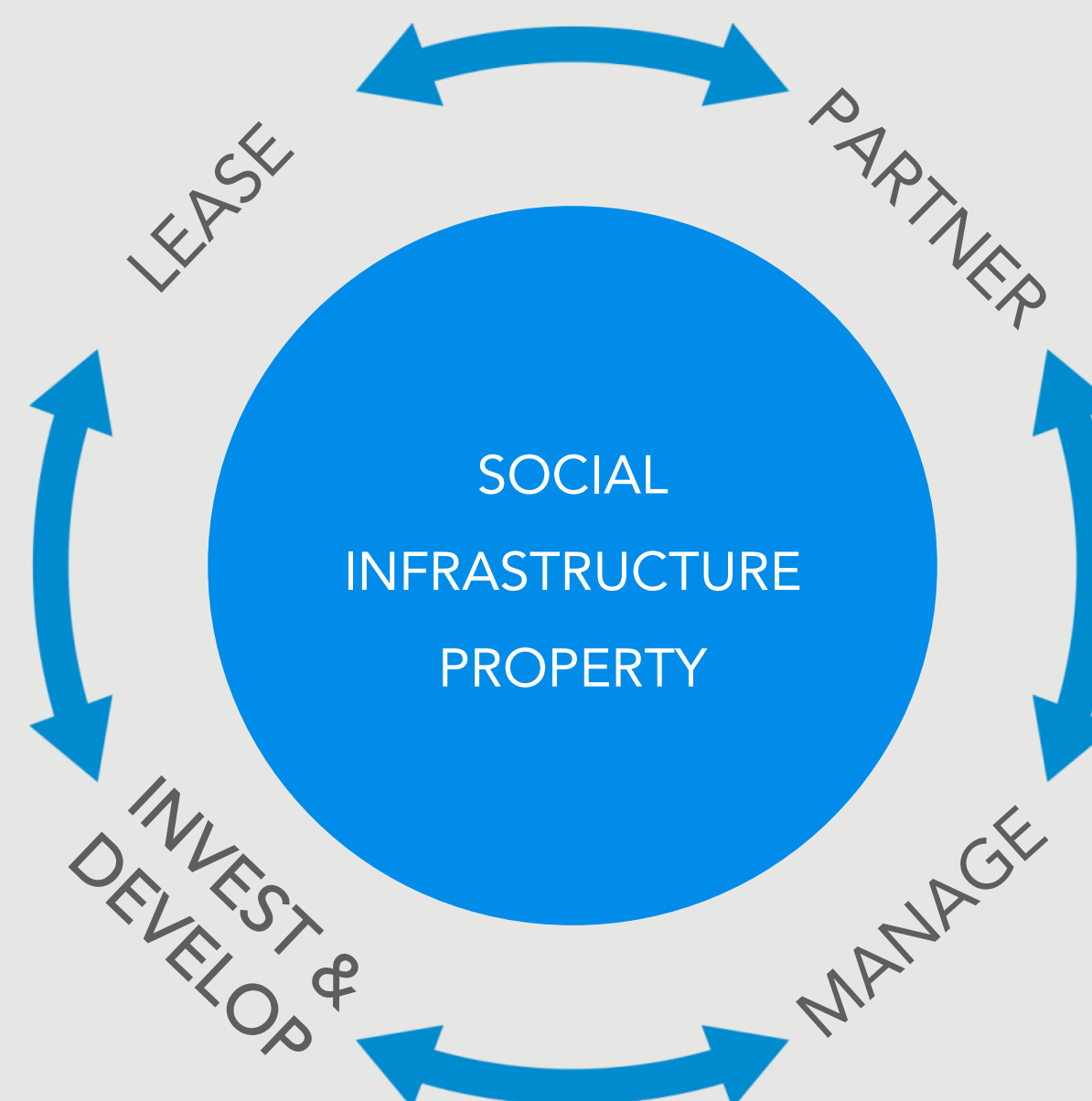
Positive portfolio and capital management outcomes

Lease management:

- 100% occupancy.
- Average HY20 like-for-like rent increase of +3.1%¹.

Investment and developments:

- Three operating properties acquired at a net initial yield of 6.2% with 20 year lease terms.
- One ELC development completed at a net initial yield on cost of 6.5% with 20 year lease.
- 11 new ELC development projects acquired with forecast total cost of \$86 million².
- \$11 million post balance date healthcare acquisition.



Working in partnership:

- Commenced renewable energy program.
- Rejuvenation of existing ELCs in partnership with two tenant groups.

Portfolio management:

- Portfolio weighted average lease expiry (by income) maintained at 14.1 years.
- Five ELC properties sold at average premium of 11.6% to book value.
- Net valuation uplift of \$20.3m.
- Portfolio weighted average passing yield 6.32%.

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

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



FINANCIAL RESULTS

Gareth Winter
Chief Financial Officer



FINANCIAL PERFORMANCE

New investment enhancing earnings and distribution growth

	HY20	HY19	Change	
	(\$'000)	(\$'000)	(\$'000)	(%)
Property income	26,448	23,488	2,960	+13%
Other income	293	265	28	+11%
Total operating income	26,741	23,753	2,988	+13%
Property expenses	(261)	(254)	(7)	+3%
Operating expenses	(1,921)	(1,853)	(68)	+4%
Finance costs	(3,133)	(3,324)	191	-6%
Net operating profit	21,426	18,322	3,104	+17%
Statutory net profit	42,248	34,188	8,060	+24%
Earnings per security (EPS ¹) (cents)	7.17	6.77	0.40	+6%
Distribution per security (DPS) (cents)	7.15	6.75	0.40	+6%

1. EPS is calculated as net operating profit over weighted average number of securities on issue.

- Property income continues to increase due to:
 - Contracted annual and market rental growth;
 - Acquisition of operating ELC properties; and
 - ELC developments completed throughout FY19 and HY20.
- Higher statutory net profit arising from higher property valuation uplift, profits realised on sale of divested properties and positive revaluation of interest rate hedges.



FINANCIAL POSITION

Portfolio and net asset growth remains solid

As at	31 Dec 2019	30 June 2019	Change
	(\$m)	(\$m)	%
Total assets	890.4	825.7	+8%
Investment properties	853.3	798.3	+7%
Borrowings	207.0	188.5	+10%
Net assets	652.9	610.3	+7%
Securities on issue	300.0	291.3	+3%
Net Asset Value (NAV) per security	\$2.18	\$2.10	+4%
Gearing ¹	23.2%	22.8%	+40bps

- Growth in total assets continues from the acquisition of operating properties, ELC development completions and property valuation uplift.
- Gearing remains relatively low with undrawn debt capacity of \$123 million to fund the balance of development pipeline and future growth opportunities².

1. Gearing calculated as ratio of borrowing over total assets.

2. Includes post balance date borrowing facility limit increase of \$50 million.

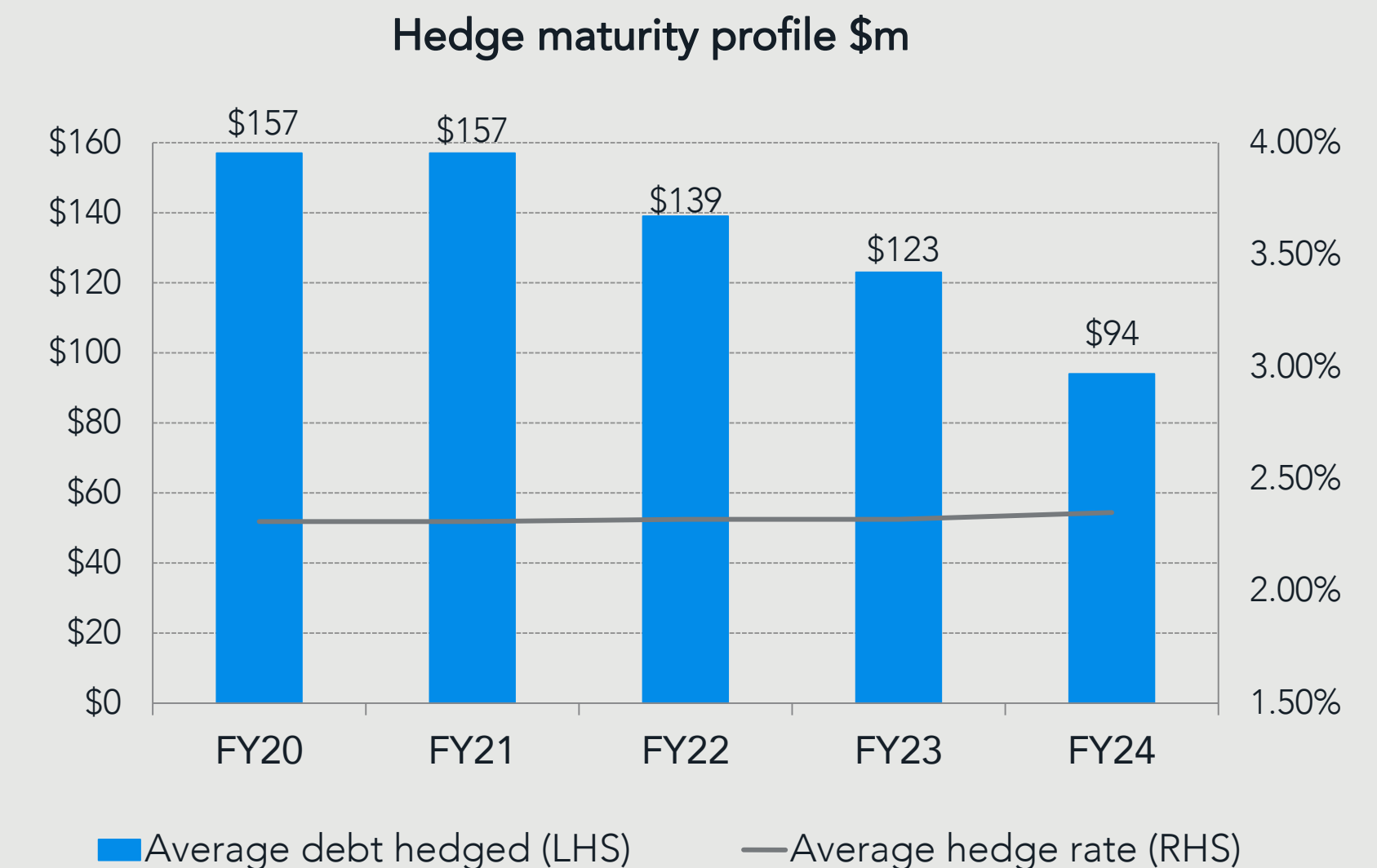
CAPITAL MANAGEMENT

Debt maturity extended and capacity refreshed

As at	31 Dec 2019	30 June 2019	Change
Borrowings	\$207.0m	\$188.5m	+10%
Borrowings facility limit	\$330m ¹	\$280m	+\$50m
Gearing	23.2%	22.8%	+40bps
Weighted average facility term	4 years ¹	3.3 years	+0.7 years
Weighted average cost of debt	3.55%	3.65%	-10bps
Interest cover ratio	6.4x	5.5x	+0.9x
Hedge cover	76% ¹	82%	-600bps
Weighted average hedge rate	2.31% ¹	2.42%	-11bps
Weighted average hedge term	4.9 years ¹	4.8 years	+0.1 year

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

- Syndicated borrowing facility limit increased post balance date by \$50 million to \$330 million, comprised of:
 - \$130 million expiring 31 March 2023;
 - \$150 million expiring 31 March 2024; and
 - \$50 million expiring 31 March 2025.
- DRP in operation – raised \$5 million in HY20.
- SPP raised \$16.4 million in July 2019.





PORTFOLIO UPDATE

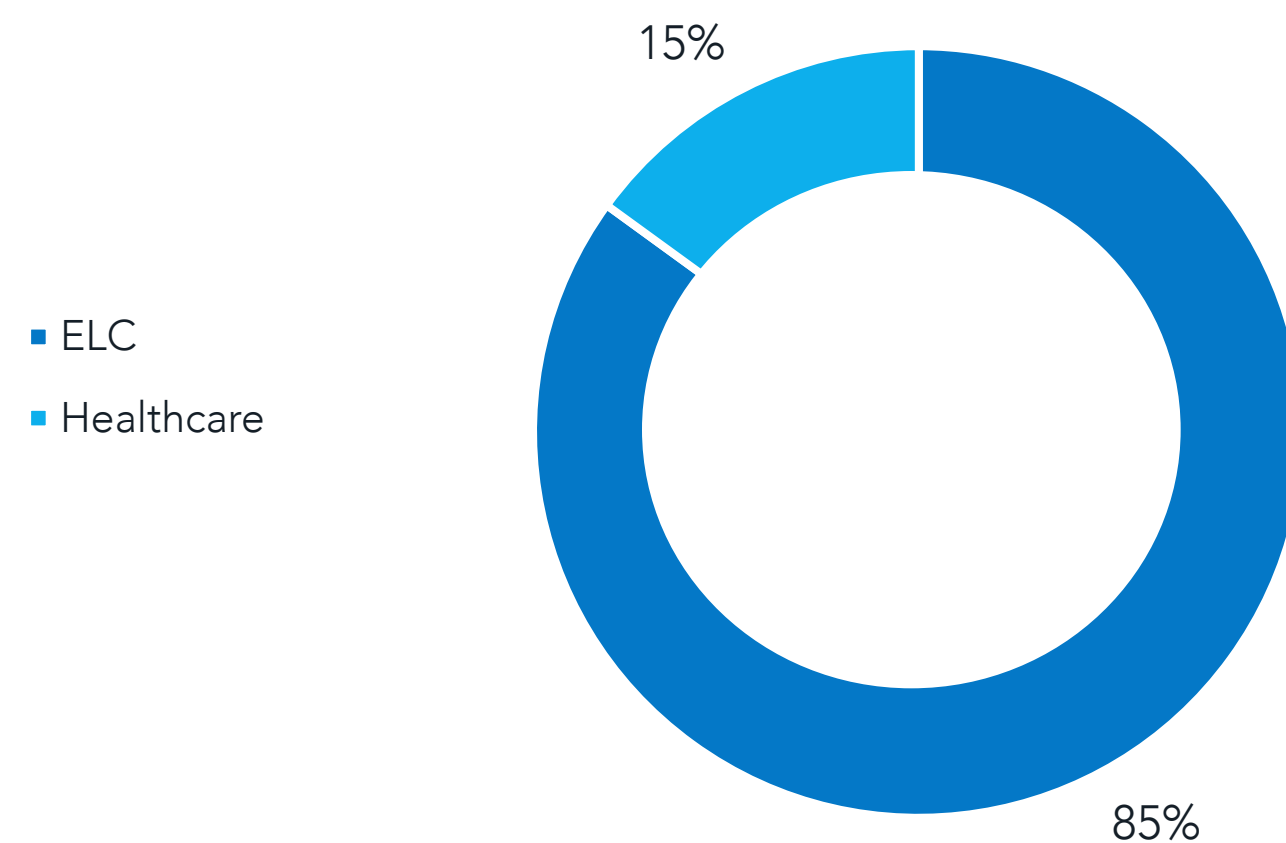
Rob de Vos
Managing Director



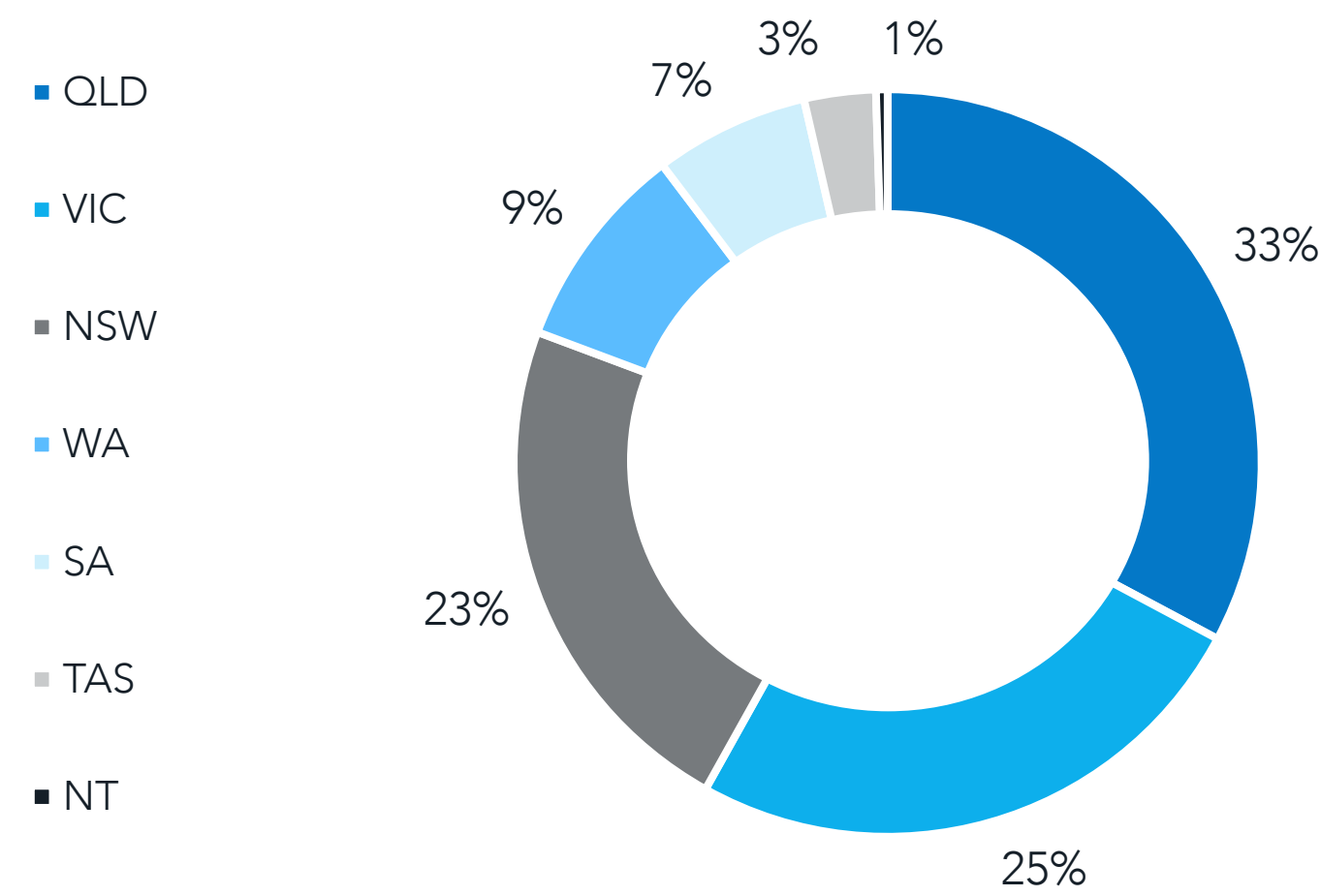
PORTFOLIO OVERVIEW

	Number of assets	31 Dec 2019 valuation	Net valuation movement		31 Dec 2019 passing yield	Change
		\$m	\$m	%	%	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)

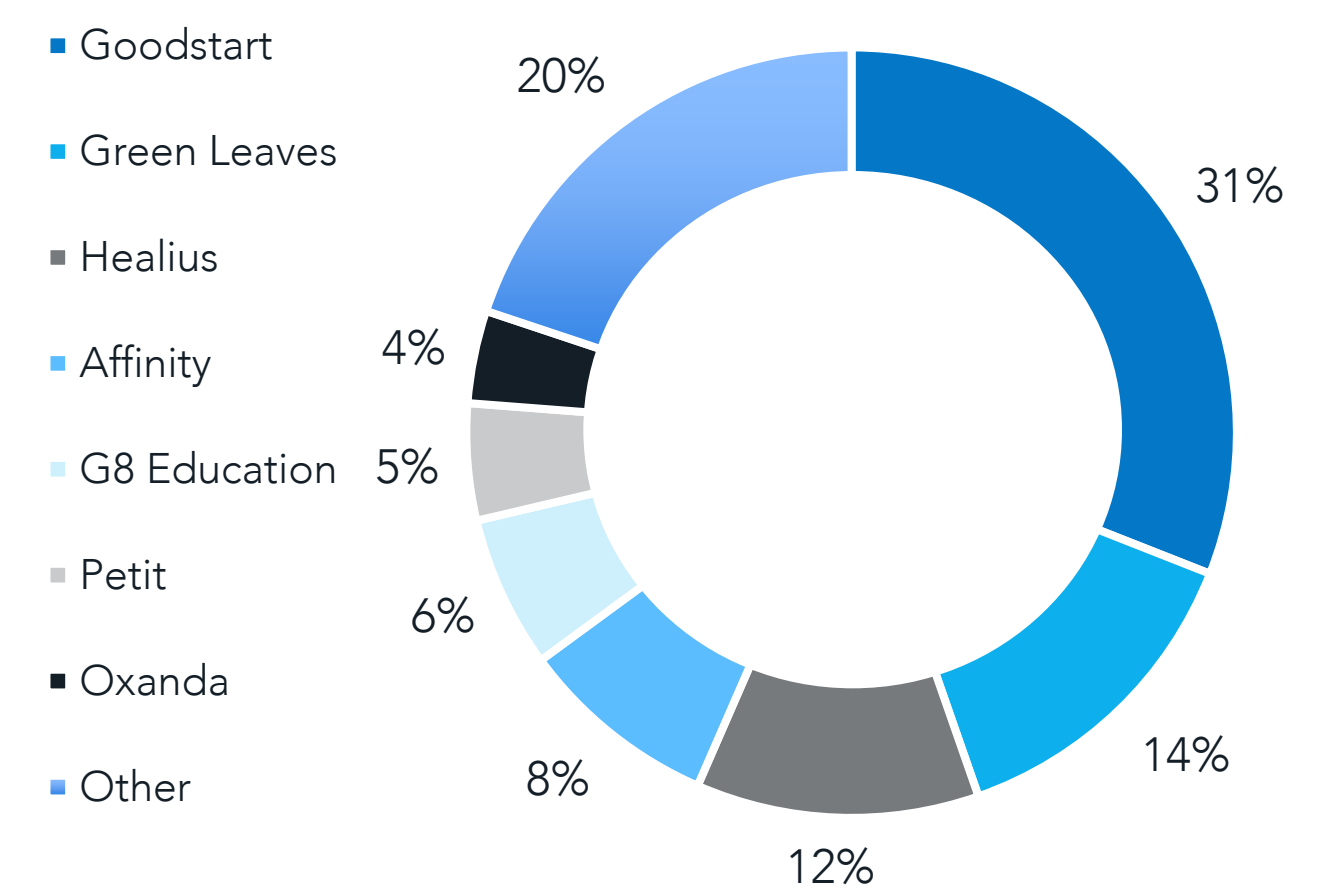
Sector diversity (by value)



Geographic diversity (by value)



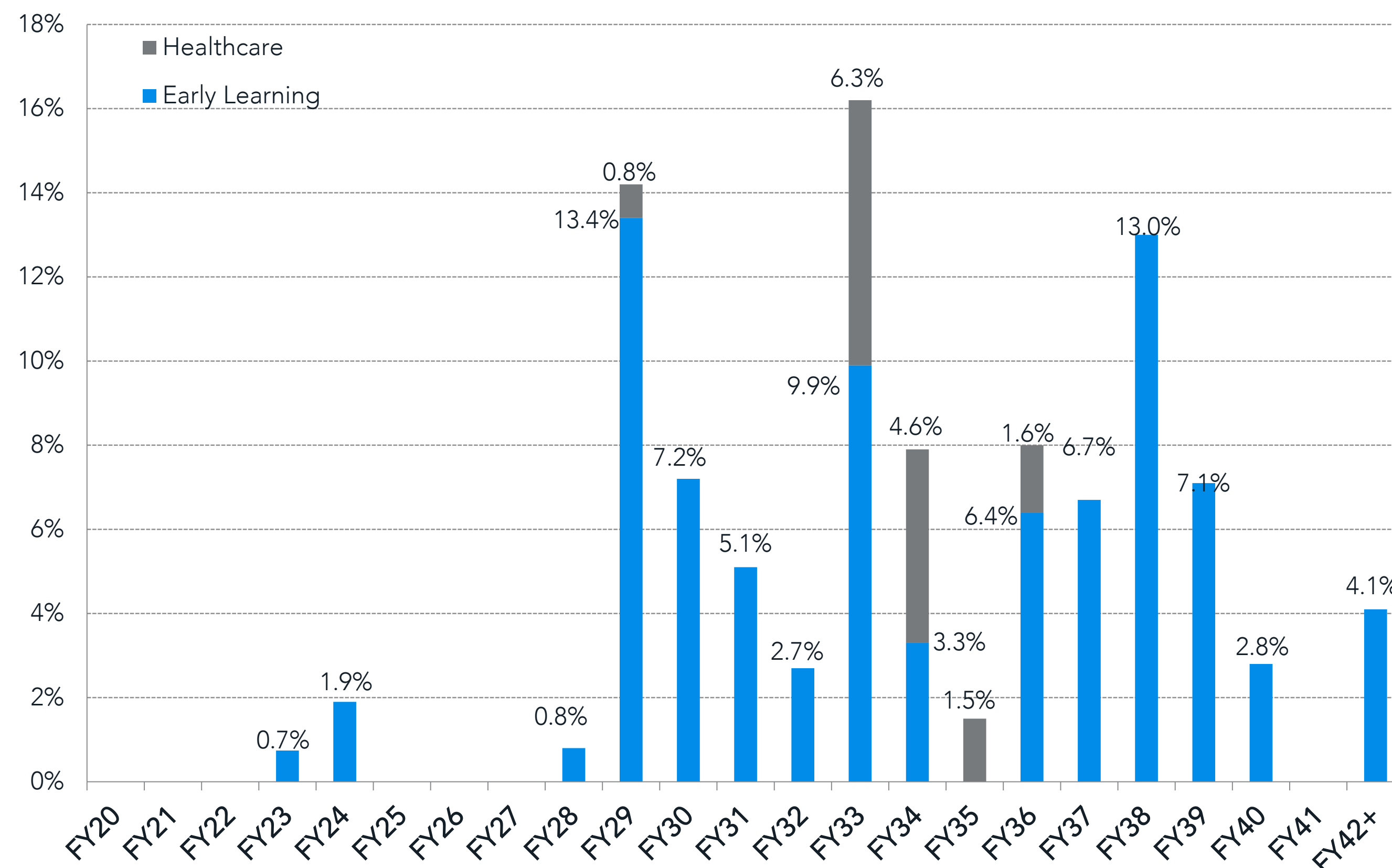
Tenant diversity (by income)



1. Totals may not add due to rounding.

LEASE EXPIRY PROFILE

Weighted average lease expiry maintained at 14.1¹ years

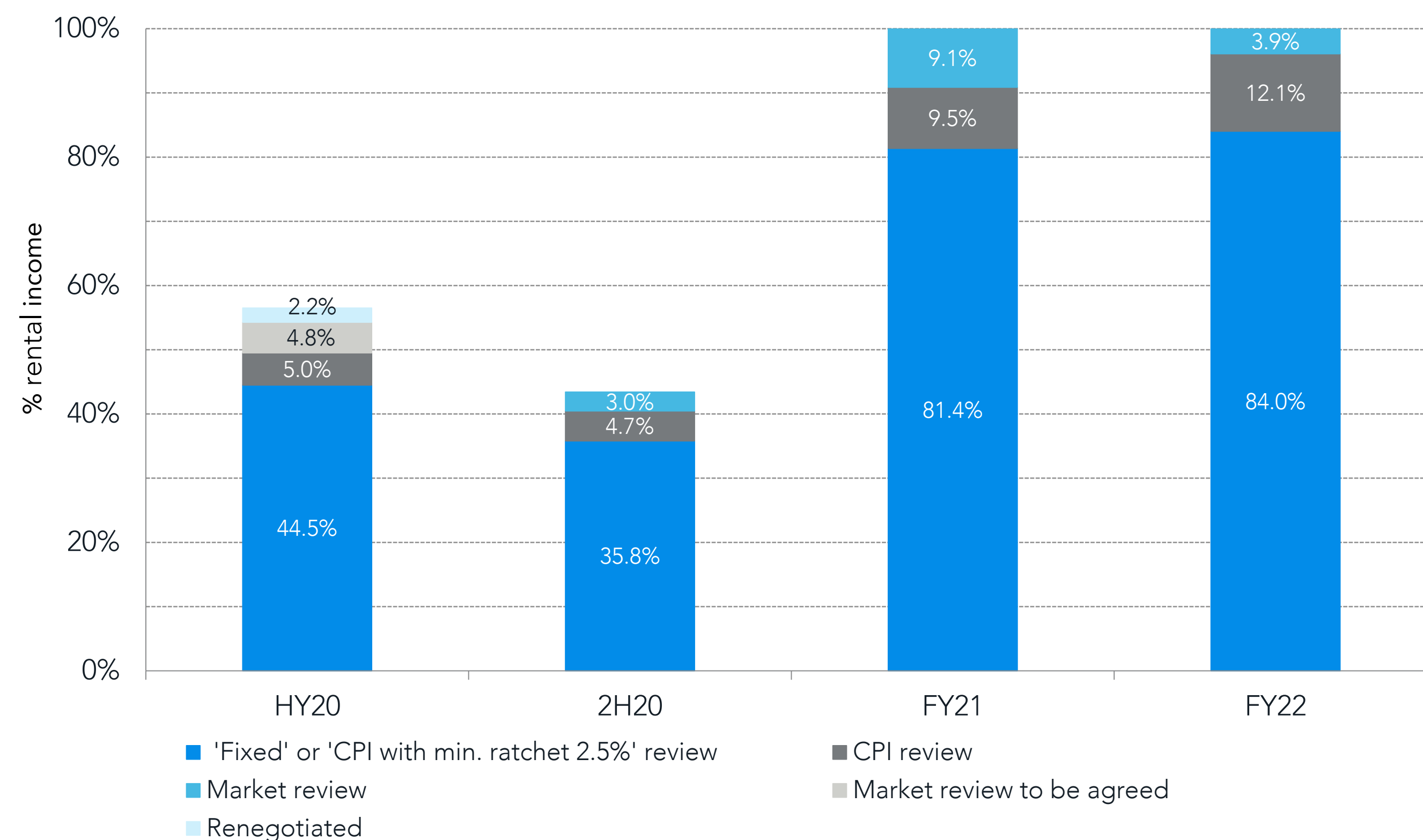


1. By income.

- Three operating ELC properties added to portfolio with initial lease term of 20 years.
- One completed ELC development added to portfolio with an initial 20 year lease.
- Less than 3.5% of portfolio income subject to expiry prior to FY2029.

ANNUAL RENT REVIEWS

HY20 average like-for-like rent increase of +3.1%¹



- Like-for-like rent increase includes positive impact of three FY19 market rent reviews which were resolved during HY20 at an average increase of +15.2%.
- Seven uncapped FY19 and 15 capped at +7.5% HY20 market rent reviews remain unresolved as at 31 December 2019.
- All FY20 and FY21 market rent reviews are subject to 0-7.5% cap and collar.

1. Includes three FY19 uncapped market rent reviews which were resolved during HY20.
2. Totals may not add due to rounding.



ACQUISITIONS AND DEVELOPMENTS

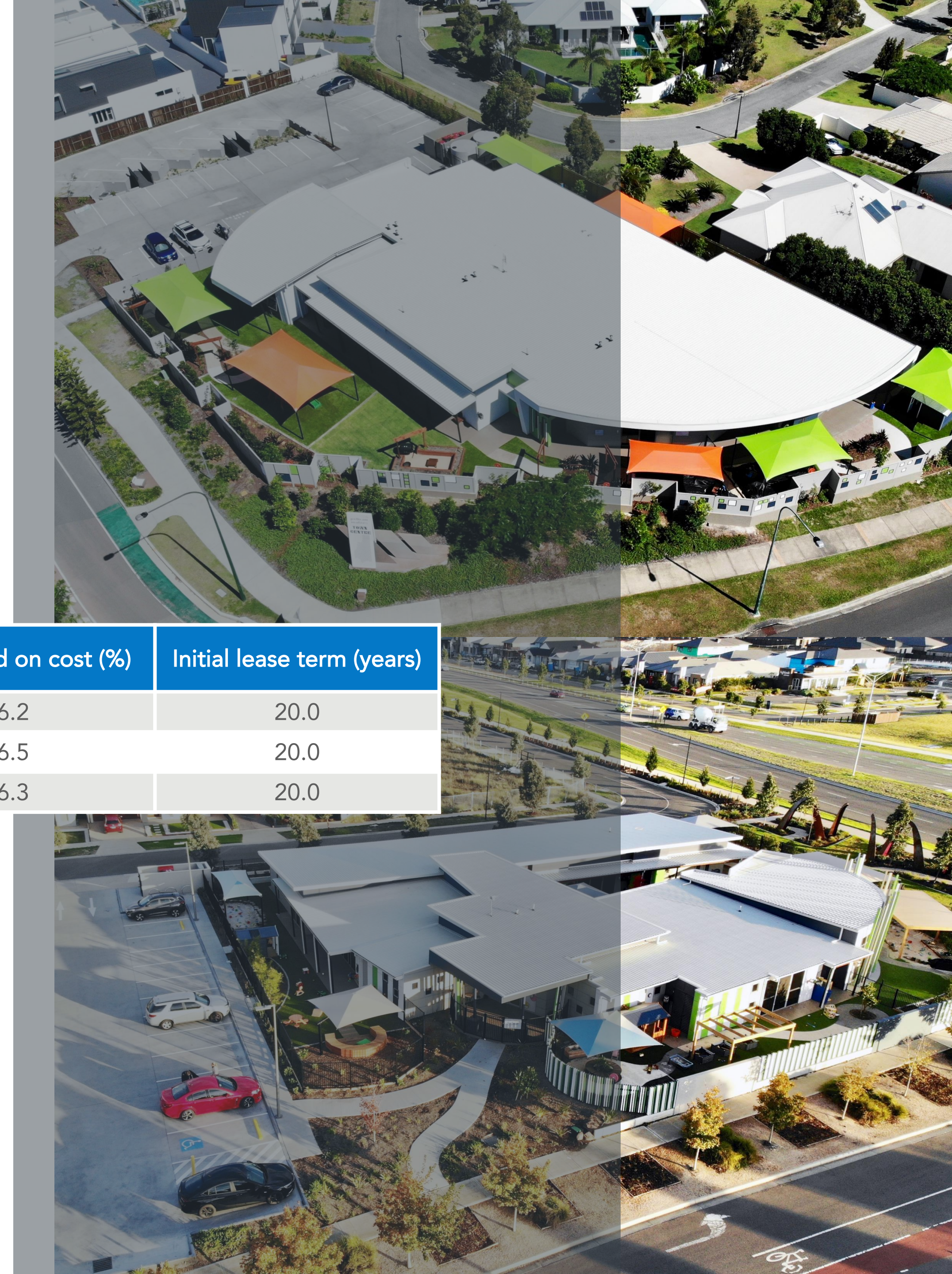
Development pipeline replenished

- High quality, purpose built properties.
- Three development projects are forecast to complete in 2H20 with the balance of current projects forecast to complete in FY21.

Acquisitions/development completions	Number of properties	Total cost (\$m)	Initial yield on cost (%)	Initial lease term (years)
Operating ELC acquisitions	3	15.5	6.2	20.0
ELC development completions	1	5.6	6.5	20.0
Total/weighted average	4	21.1	6.3	20.0

Development pipeline	Settled or unconditionally contracted at 31 Dec 2019	Conditionally contracted ¹
Number of projects	14	2
Forecast total cost	\$76 million	\$10 million
Initial yield on cost	6.7%	6.7%
Capex amount outstanding	\$34 million	\$10 million

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



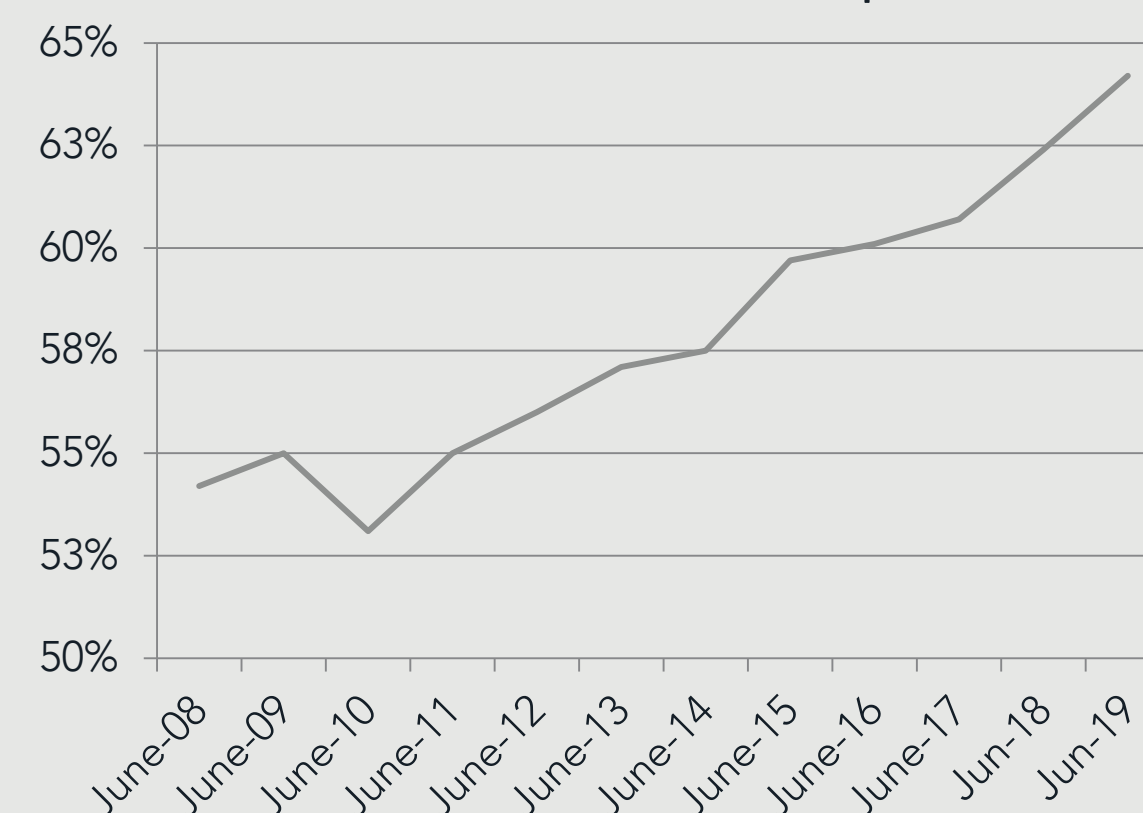
ELC SECTOR

Strong underlying demand metrics

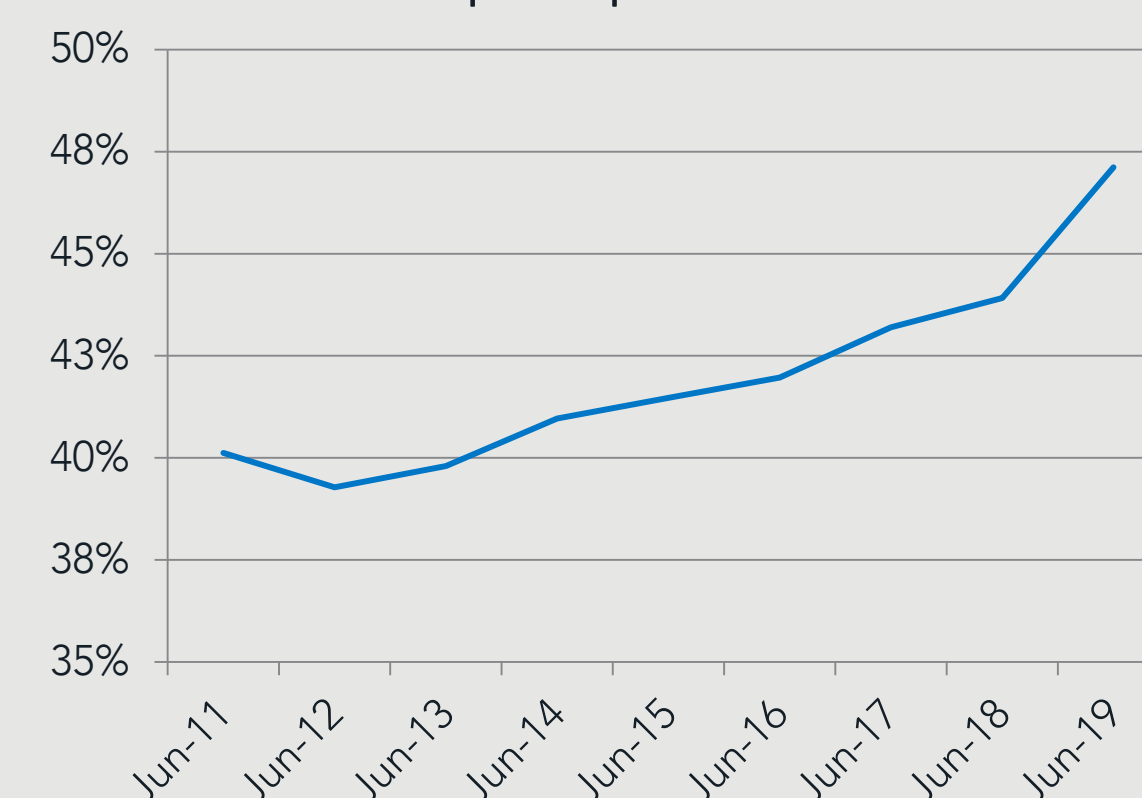
- Record 781,830¹ children attending long day care (LDC) at 30 September 2019; +4% yoy and +12.5% since introduction of Child Care Subsidy (CCS).
- Record female workplace participation rate².
- Record LDC participation rate³.
- Ongoing affordability from introduction of CCS.
- Forecast population growth of 17%⁴ in 0-4 years age group from 2019 to 2030.
- New ELC supply growth moderated in the first three quarters and increased in the final quarter of calendar 2019.

1. Australian Government Department of Education and Training.
 2. ABS Female Labour Force Participation Rate (aged 20-74 at least one dependant child of ELC age).
 3. Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2019.
 4. ABS Population Projections, Australia 2017-2066 medium assumptions.
 5. ABS 6401.0 Consumer Price Index: Australia.

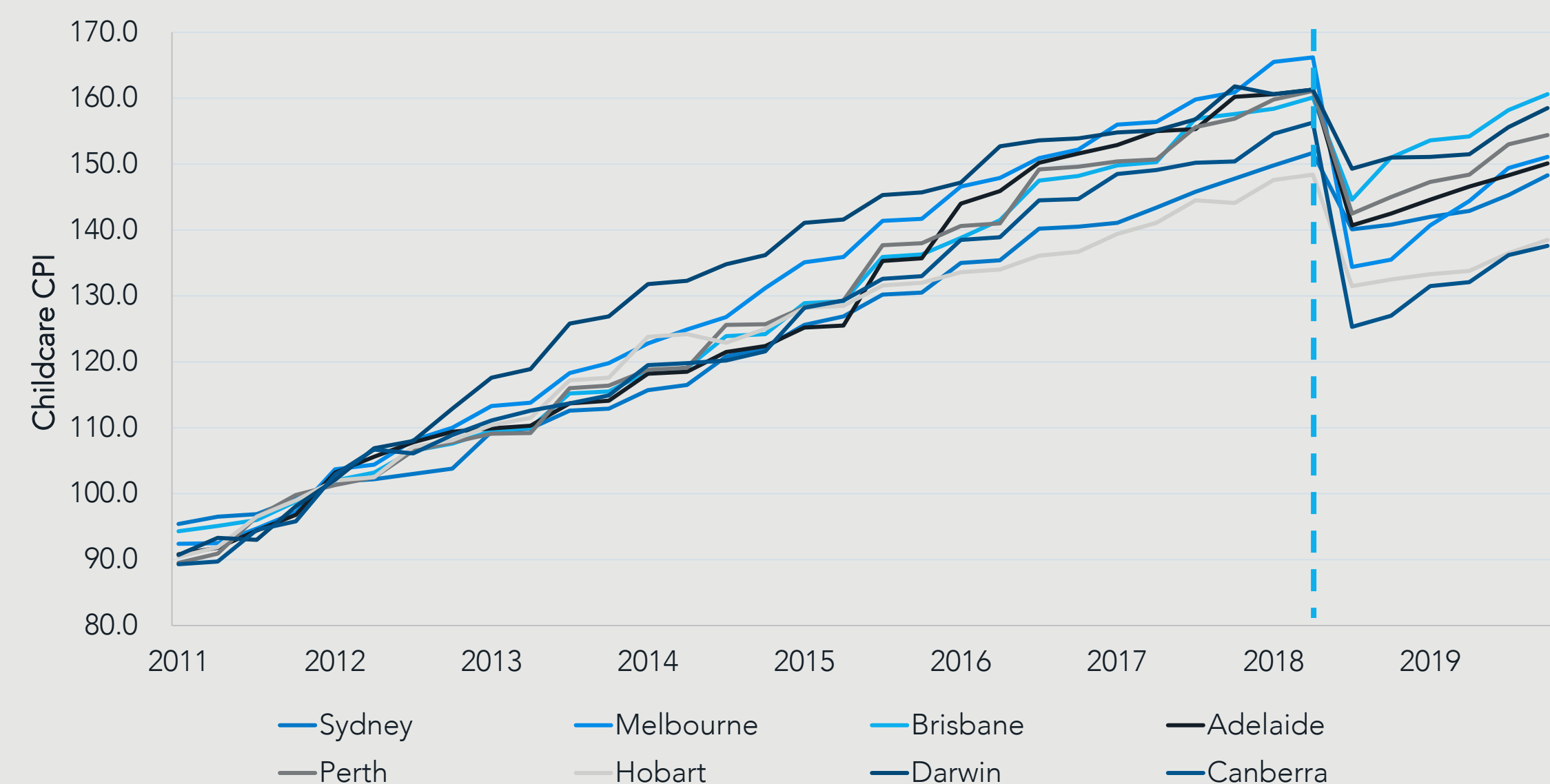
Female Workforce Participation Rate ²



LDC participation rate³



Childcare CPI by Capital City⁵



ARENA REIT ELC PORTFOLIO

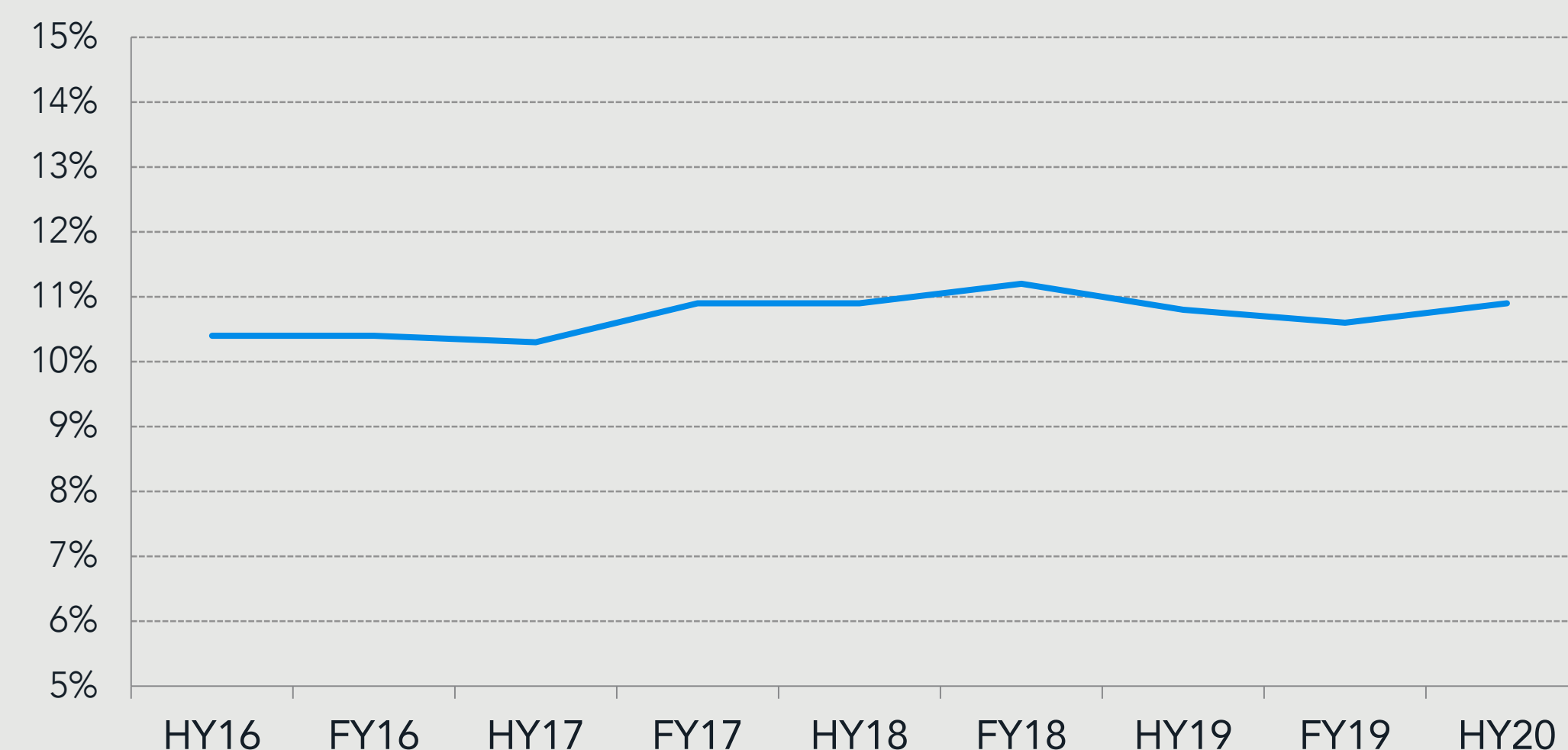
Portfolio strength underpinned by asset quality

Portfolio operating data to 30 September 2019¹

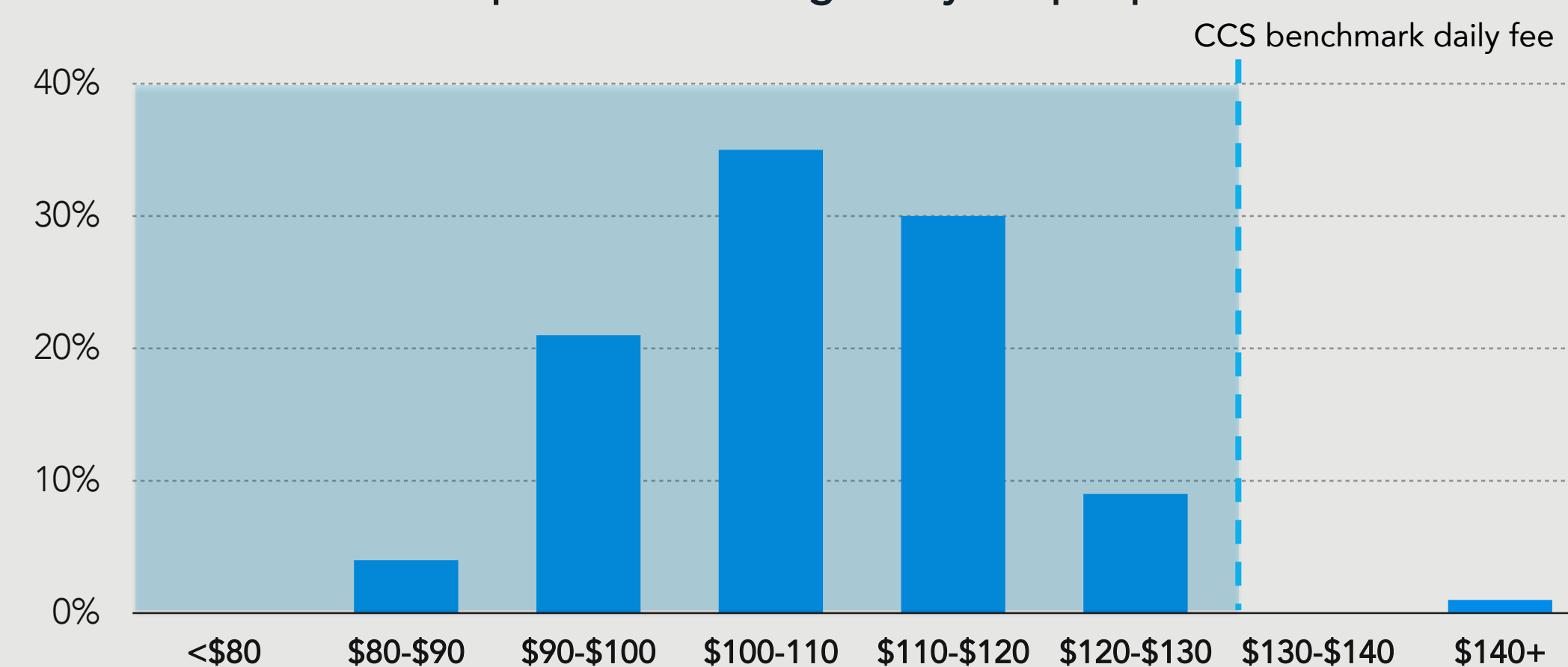
- Average centre occupancy increased.
- Average daily fee increased to \$107.53:
 - +3.6% from 30 June 2019; and
 - +5.0% from 30 September 2018.
- Net rent to revenue ratio increased marginally to 10.9%.

1. Arena analysis based on operating data provided by Arena's tenant partners as at 30 September 2019.
2. Assumes CCS fully covers a daily fee of approximately \$130 based on CCS capped hourly fee of \$11.98 per hour over an 11 hour day.

Arena ELC portfolio – net rent to gross operator revenue¹



Arena ELC portfolio - average daily fee per place^{1,2}





HEALTHCARE SECTOR & ARENA REIT PORTFOLIO

Select opportunities in competitive sector

- Strong macro-economic drivers supporting Australian healthcare accommodation.
- Arena's healthcare portfolio continues to perform well:
 - Strong occupancy across specialist disability accommodation portfolio.
 - Medical centre portfolio tenant enhancement works underway.
- Post balance date acquisition of \$11 million multi-disciplinary medical centre co-located with the Kalamunda Hospital, WA:
 - Modern purpose built property majority leased to Mead Medical, a leading local community healthcare provider with complementary pathology and pharmacy tenancies.
 - 10 year WALE, triple net lease, 6.5% initial yield.





OUTLOOK





OUTLOOK

Resilience in underlying earnings growth


INCOME GROWTH

- Reaffirming FY20 distribution guidance of 14.3 cents per security, an increase of 6%¹ on FY19.
- Annual rent increases, of which market rent reviews comprise:
 - Approximately 8% of income in FY20; and
 - Approximately 9% of income in FY21.
- Impact from FY19 and FY20 acquisitions and development completions.
- \$86 million development pipeline comprising 16 ELC projects as at 31 December 2019².
- \$11 million post balance date healthcare acquisition.

NEW INVESTMENT OPPORTUNITIES

- Disciplined investment process for opportunities that meet Arena's preferred property characteristics.
- Debt capacity increased at low incremental cost.
- Track record of securing and executing on high quality opportunities.

1. FY20 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, and tenants comply with their lease obligations.
2. One ELC development project was conditionally contracted as at 31 Dec 2019 and one project was unconditionally contracted post balance date.



Investment objective:
To deliver an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.



QUESTIONS





CORPORATE DIRECTORY

Please direct enquiries to Sam Rist on samantha.rist@arena.com.au or +61 3 9093 9000



ROB DE VOS

Managing Director



GARETH WINTER

Chief Financial Officer



SAM RIST

Head of Investor Relations



APPENDICES



FINANCIAL PERFORMANCE – HY20

	HY20	HY19	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Property income	26,448	23,488	2,960	+13%
Other income	293	265	28	+11%
Total operating income	26,741	23,753	2,988	+13%
Property expenses	(261)	(254)	(7)	+3%
Operating expenses	(1,921)	(1,853)	(68)	+4%
Finance costs	(3,133)	(3,324)	191	-6%
Net operating profit (distributable income)	21,426	18,322	3,104	+17%
<i>Non-distributable items:</i>				
Investment property revaluation & straight-lining of rent	20,213	18,571	1,642	
Change in fair value of derivatives	296	(2,055)	2,351	
Profit/(loss) on sale of investment properties	871	-	871	
Transaction costs	(65)	(112)	47	
Amortisation of equity payments remuneration (non-cash)	(521)	(498)	(23)	
Other	28	(40)	68	
Statutory net profit	42,248	34,188	8,060	

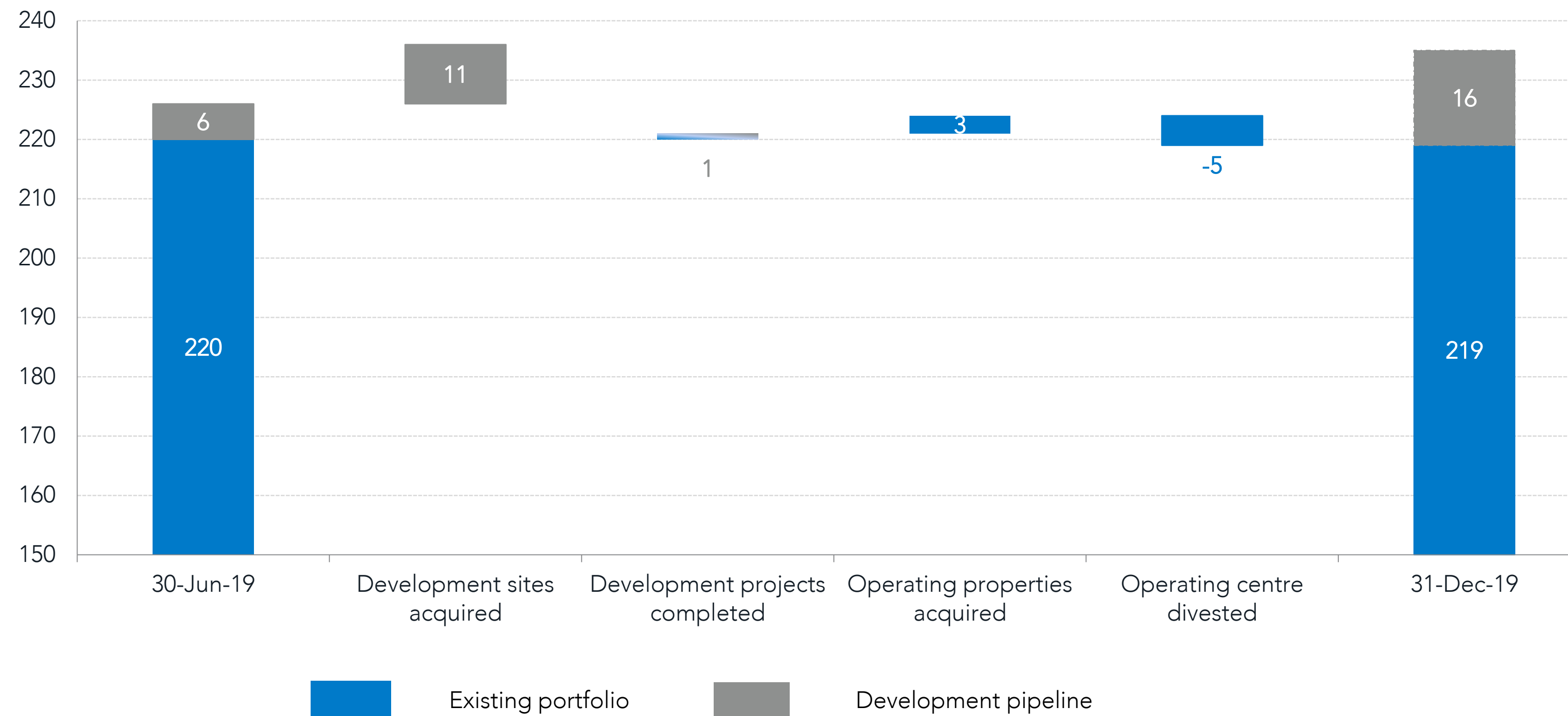
BALANCE SHEET – HY20

	31 Dec 19	30 Jun 19	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	11,706	8,134	3,572	+44%
Receivables and other assets	14,579	8,453	6,126	+72%
Investment properties	853,306	798,318	54,988	+7%
Intangibles	10,816	10,816	-	-
Total assets	890,407	825,721	64,686	+8%
Trade and other liabilities	11,669	8,809	2,860	+32%
Distributions payable	10,726	9,832	894	+9%
Borrowings	206,213	187,570	18,643	+10%
Derivatives	8,884	9,180	(296)	-3%
Total liabilities	237,492	215,391	22,101	+10%
Net assets	652,915	610,330	42,585	+7%
Number of securities on issue (m)	300.0	291.3	8.7	3%
Net asset value per security (\$)	2.18	2.10	0.08	4%
Gearing (%)	23.2	22.8	40bps	n/a

Covenant	Facility requirement	Ratio
Loan to value ratio (LVR)	Maximum 50%	25.9%
Interest cover ratio (ICR)	Minimum 2x	6.4x

PORTFOLIO COMPOSITION AND MOVEMENT

Portfolio movements (30 June 2019 to 31 December 2019)¹



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

ELC PORTFOLIO VALUATIONS

As at 31 December 2019	Number of properties	Value (\$m)	Passing yield (%)
Independent ELC freehold valuations			
Victoria	16	51.9	5.56
Queensland	9	25.4	6.69
Western Australia	7	18.4	6.40
New South Wales	10	22.2	6.47
South Australia	2	6.6	6.45
Total independent ELC valuations	44	124.5	6.12
Director ELC freehold valuations			
Queensland	67	228.1	6.62
Victoria	43	169.7	6.05
New South Wales	21	71.9	6.14
Western Australia	15	40.8	6.26
Tasmania	7	19.8	6.58
South Australia	4	14.3	6.47
Northern Territory	2	4.7	7.06
Total director ELC freehold valuations	159	549.3	6.36
Director ELC leasehold valuations - Victoria	6	16.2	8.80
Total director ELC valuations	165	565.5	6.43
Total ELC portfolio	209	690.0	6.37
ELC development sites	14	37.9	
Total ELC portfolio	223	727.9	6.37

ELC PORTFOLIO METRICS

	31 Dec 2019	30 June 2019	Change
Leased ELCs	209	210	-
Development sites	14	6	+133%
Total ELCs	223	216	+3%
WALE (by income) (years)	14.1	14.1	-
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.37	6.44	-7bps
Portfolio value (\$m)	727.9	676.2	+8%
Average rental increase (%)	3.2	3.8	-60bps
Rent to gross revenue ratio (%)	10.9 ¹	10.6 ²	+30bps
Average daily fee (\$)	107.53 ¹	102.91 ²	+4.5%
Portfolio composition (% by value)			
Metropolitan	64	61	+300bps
Regional	36	39	-300bps

1. Arena analysis based on operating data provided by Arena's tenant partners as at 30 September 2019.

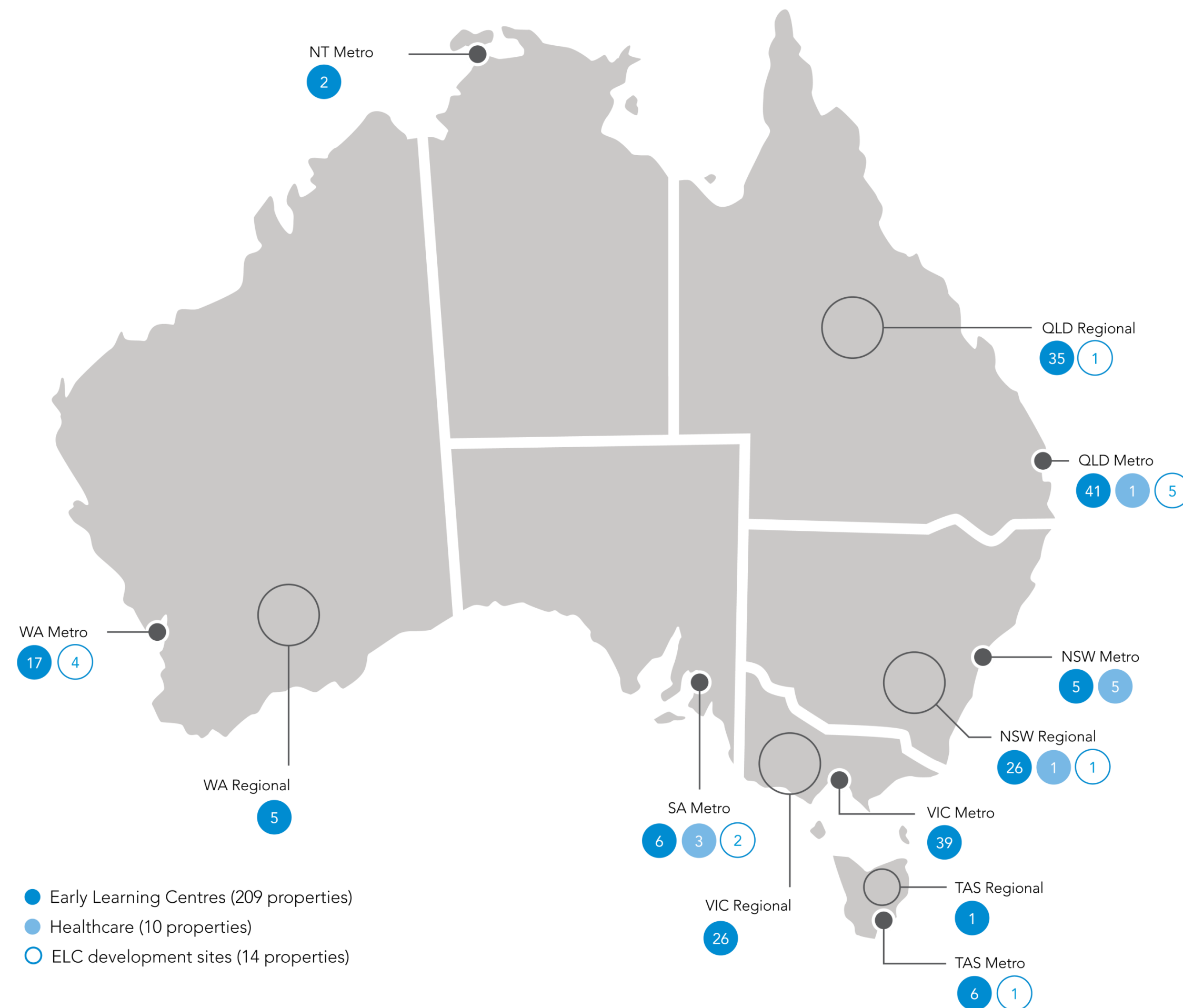
2. Arena analysis based on operating data provided by Arena's tenants partner as at 31 March 2019.



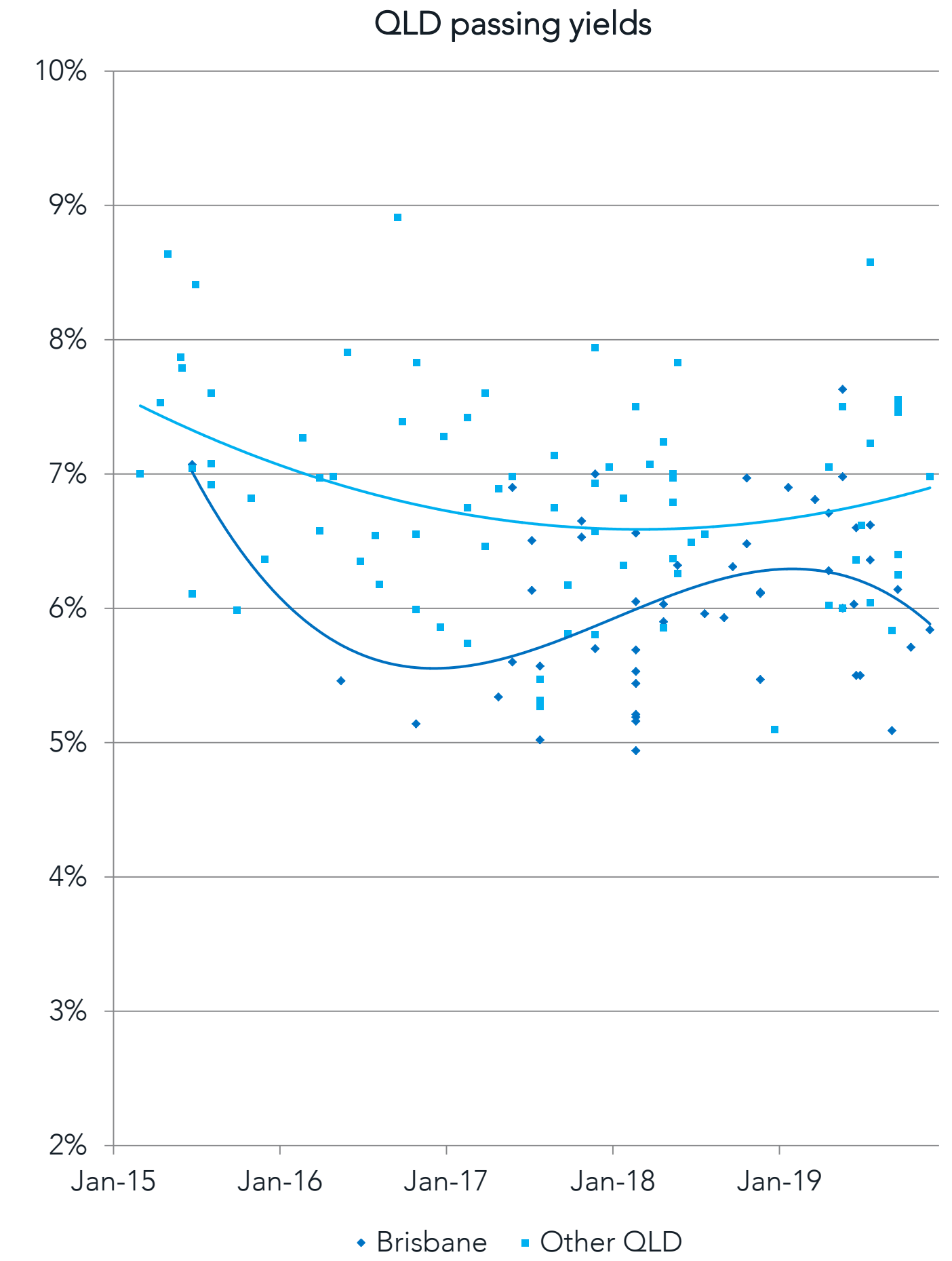
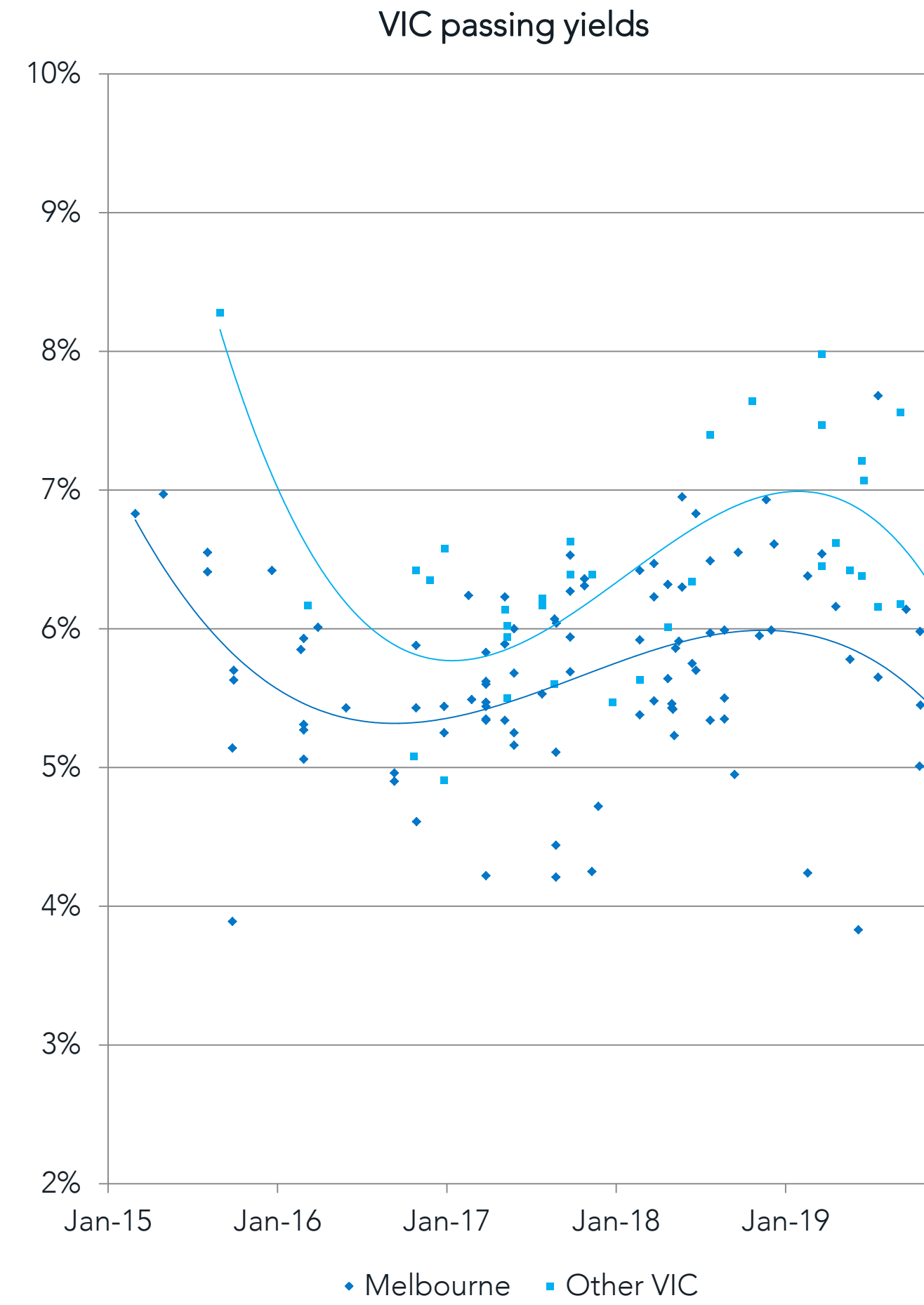
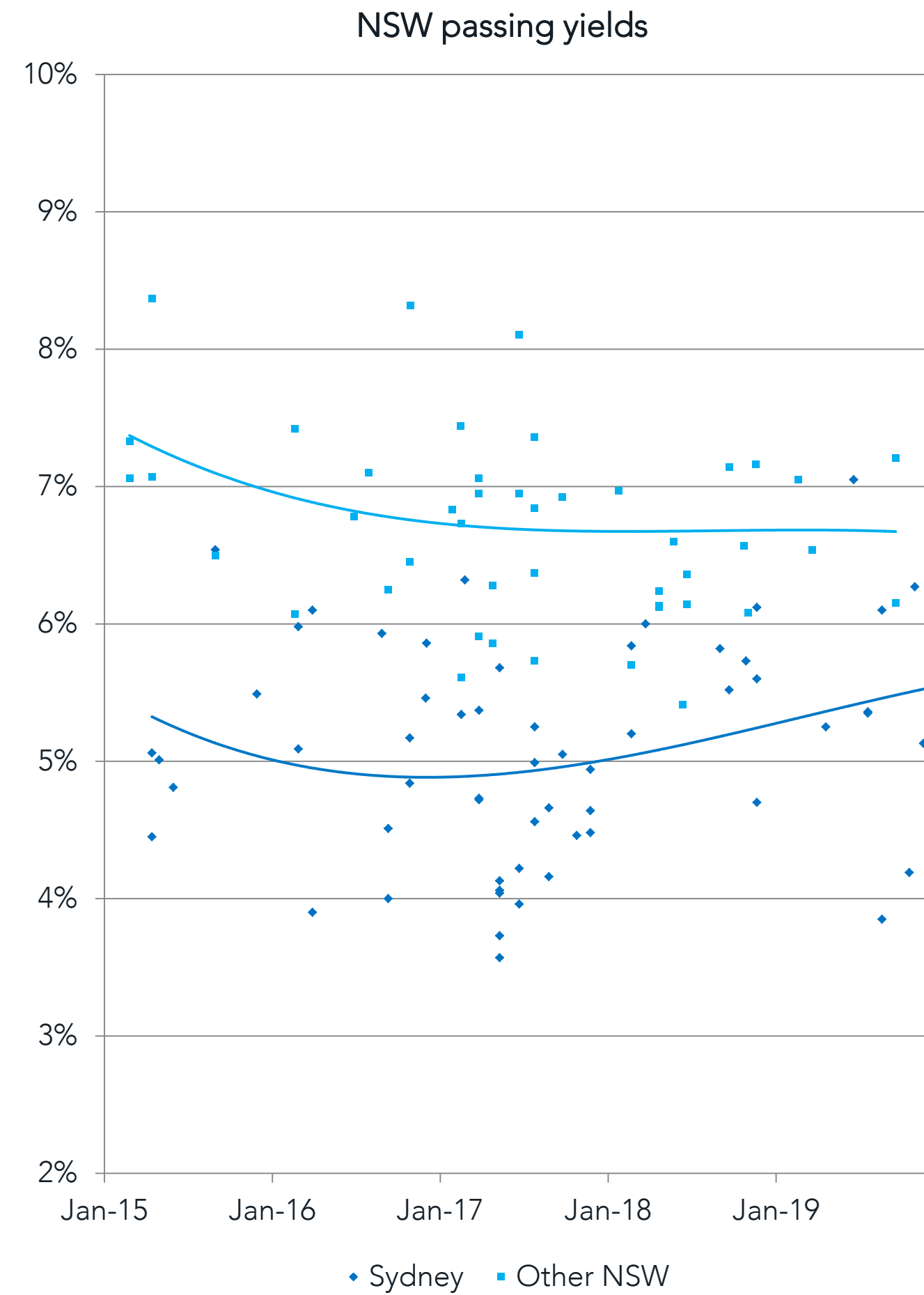
HEALTHCARE PORTFOLIO METRICS

	31 Dec 2019	30 June 2019	Change
Total healthcare properties	10	10	-
WALE (by income) (years)	13.7	14.2	-0.5 year
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.06	6.08	-2bps
Property portfolio (\$m)	125.4	122.1	+3%
Average rental increase (%)	2.7	2.6	+10bps
Portfolio composition (% by value)			
Metropolitan	90	90	-
Regional	10	10	-

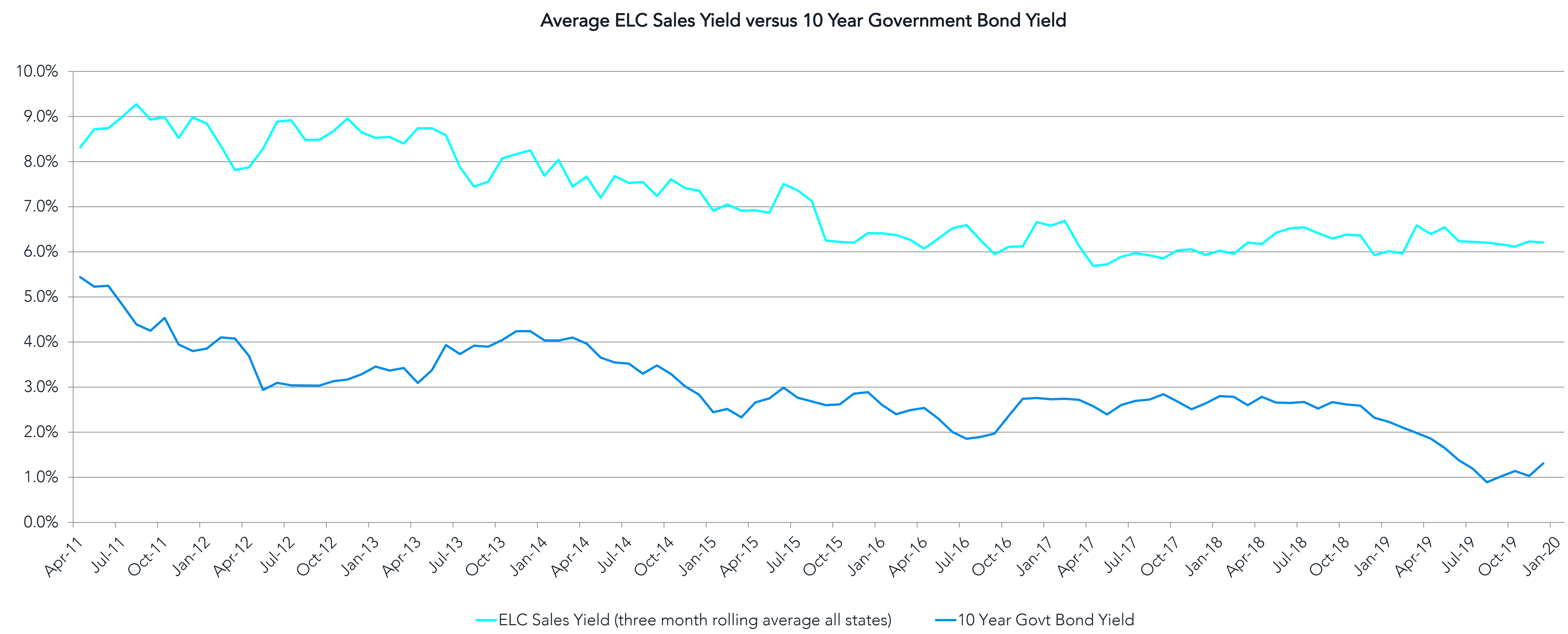
PORTFOLIO LOCATION MAP



ELC MARKET TRANSACTIONS



ELC SALES YIELDS VERSUS 10 YEAR BOND





IMPORTANT NOTICE

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