

ASX ANNOUNCEMENT

11 AUGUST 2022

2022 FULL YEAR RESULTS

FINANCIAL HIGHLIGHTS

- Statutory net profit \$334 million, up 102% on prior year
- Net operating profit (distributable income) of \$56 million, up 8.4% on prior year
- Earnings per security¹ (EPS) of 16.3 cents, up 7.2% on prior year
- Distributions per security (DPS) of 16 cents, up 8.1% on prior year
- Total Assets of \$1.52 billion, up 32% on 30 June 2021
- Net Asset Value (NAV) per security of \$3.37, up 32% on 30 June 2021
- Gearing 20.2%, increased from 19.9% at 30 June 2021
- 100% of contracted rent collected in FY22
- FY23 DPS guidance of 16.8 cents per security², reflecting growth of 5% on FY22

Positive investment and community outcomes

Arena REIT (Arena) announces a net operating profit for financial year 2022 (FY22) of \$56 million, an increase of 8.4% on the prior year. Key contributors to higher operating income include acquisition of operating early learning centre (ELC) properties and development projects completed during financial year 2021 and FY22 and growth in contracted annual and market rent reviews. The result represents EPS¹ of 16.3 cents, an increase of 7.2% over the prior year. Arena has paid a full-year distribution of 16 cents per security, an increase of 8.1% on the prior year. Statutory net profit for the year was \$334 million, an increase of 102% on the prior year.

Arena's total assets increased by 32% to \$1.52 billion as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The revaluation uplift was the primary contributor to the 32% increase in NAV per security to \$3.37 at 30 June 2022.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "The COVID-19 pandemic continued to present challenges for our tenant partners during FY22 and more recently a changing economic environment arising from inflationary pressures, interest rate increases, wages pressures and staff shortages have combined to create further uncertainty.

Arena REIT Limited (ACN 602 365 186) Arena REIT Management Limited ACN 600 069 761 AFSL No. 465754 as responsible entity of Arena REIT No. 1 (ARSN 106 891 641) and Arena REIT No. 2 (ARSN 101 067 878)



¹ Earnings per security (EPS) is calculated as net operating profit over weighted average number of securities.

² FY23 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.

We acknowledge these challenges and express our gratitude to our tenant partners for their continued resilience and ability to deliver essential services to Australian communities and our team for their commitment and performance during FY22."

PORTFOLIO HIGHLIGHTS

- 100% occupancy maintained
- Average like-for-like rent review increase of 4.1%
- Weighted average lease expiry (WALE) of 19.8 years³
- Portfolio revaluation uplift of \$254 million, equivalent to an increase of 23% on prior year investment property value
- Portfolio weighted average passing yield of 4.91%
- Acquired seven operating ELC properties at an average net initial yield of 5.4% on total cost
- Acquired nine new ELC development projects with forecast total cost of \$56 million⁴
- Six ELC developments completed at an average net initial yield on total cost of 6.4%

Investment proposition and partnership approach drives sustainable and commercial outcomes

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

Arena's portfolio facilitates access to essential community services with positive social impact:

- 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 sustainability outcomes to be detailed in Arena's FY22 Sustainability Report include:

- Active collaboration with tenant partners on sustainability initiatives.
- Solar renewable energy systems installed on 80% of Arena's property portfolio.
- Climate action plan including greenhouse gas inventory of Arena's financed emissions.
- Inaugural TCFD-aligned climate risks and opportunities disclosures.
- Arena REIT certified carbon neutral by Climate Active for business operations in 2021-2022.
- Analysed operations and supply chains to voluntarily opt into Modern Slavery reporting.

Like-for-like rent review increase of 4.1%

100% of contracted rent has been receipted for the period 1 July 2021 to 30 June 2022 and rent reviews during the year resulted in an average like-for-like rent increase of 4.1%.

Long WALE of 19.8³ years

Occupancy was maintained at 100% and the portfolio's existing long WALE was maintained at 19.8 years following the acquisition of seven operating ELC properties with an initial weighted average lease expiry of 24.1 years, the completion of six ELC developments with an initial weighted average lease expiry of 20.8 years and a series of leases were extended to facilitate installation of solar renewable energy systems.

³ By income.

⁴ Excludes five ELC developments that are contracted subject to planning or other conditions precedent.

Asset recycling underpins ongoing quality of portfolio

Two ELC properties were divested during FY22 at an average premium of 15% to book value with proceeds reinvested into the development pipeline.

Acquisitions and development project completions in FY22

Seven operating ELC properties were acquired at an average net initial yield of 5.4% on total cost, with an initial weighted average lease expiry of 24.1 years. Six ELC developments were completed at an average net initial yield on total cost of 6.4%, with an initial weighted average lease expiry of 20.8 years.

Portfolio valuation uplift of \$254 million

At 30 June 2022, Arena's portfolio comprised 237 ELC properties, 15⁵ ELC development sites (88% of portfolio by value) and 11 healthcare properties (12% of portfolio by value). 96 ELC properties and six healthcare properties were independently valued throughout FY22, and the balance of the portfolio was subject to directors valuations. A revaluation uplift of \$254 million was recorded for the period, equivalent to an increase of 23% on the prior year property value.

The portfolio's weighted average passing yield firmed 86 basis points to 4.91%. The weighted average passing yield on the ELC portfolio firmed 94 basis points to 4.90% and the healthcare portfolio firmed 32 basis points to 5.02%. A summary is detailed below:

		30 Jun 2022	Revaluation movement (since 30 June 2021)		Weighted average passing yield	
	No. of	Valuation			30 June 2022	Change
	Properties	\$m	\$m	%	%	bps
ELC portfolio	252	1,287.6	232.1	24.2	4.90	(94)
Healthcare portfolio	11	174.3	22.4	14.6	5.02	(32)
Total Portfolio	263	1,461.9	254.5	22.9	4.91	(86)

ELC sector and portfolio update

Government support was improved by the introduction of the Childcare Subsidy (CCS) in July 2018 and the essential nature of the services provided by the ELC sector was reinforced through the various COVID-19 related funding commitments⁶.

Australia's new Labor Federal Government has committed to further reduce the cost of childcare⁷ by lifting the maximum Child Care Subsidy (CCS) rate to 90% for the first child in care, and to keep the recently increased CCS rate at a maximum of 95% for subsequent children in care. The Government also intends to reduce the rate at which the CCS tapers with household income and lift the maximum household income at which the CCS ends from \$354,305 to \$530,000. These measures have been designed to improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term⁸.

⁵ Excludes five ELC developments that are contracted subject to planning or other conditions precedent.

⁶ https://www.dese.gov.au/covid-19/childcare, https://ministers.dese.gov.au/.

¹ <u>https://www.alp.org.au/policies/women_economic_recovery</u>.

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

Strong structural demand for services and a record female workforce participation rate continue to drive increased long day care (LDC) participation rates over the medium to long term^{9,10}.

Arena's healthcare portfolio continues to perform well

Strong structural macro-economic drivers continue to support Australian healthcare accommodation, including a growing and ageing population and increased prevalence of chronic health conditions. Strong occupancy has been maintained across the specialist disability accommodation portfolio

Healthcare properties remain strongly sought after, with increased domestic and international interest in Australian healthcare property and increasing interest in social infrastructure property more generally.

PHC Darlinghurst medical centre was sold¹¹ at a 3.7% net initial yield and the net proceeds returned to investors during FY22; PHC Syndicate investors realised a compound total return of 13.4% per annum over their 20 year investment period.

Development pipeline of \$139 million¹²

The development pipeline comprises 20¹² ELC projects with a forecast total cost of \$139 million, with \$88 million of capital expenditure outstanding as at balance date. The forecast weighted average initial yield on the total anticipated cost for the development pipeline is 5.5%.

CAPITAL MANAGEMENT HIGHLIGHTS

- \$100 million increase in syndicated borrowing facility to \$430 million
- \$130 million extension of facility tranche from 31 March 2023 to 31 March 2026
- Weighted average remaining facility term of 3.4 years at 30 June 2022
- Weighted average cost of debt was 2.9% at 30 June 2021 compared with 2.65% as at 30 June 2021
- Gearing 20.2%¹³, increased from 19.9% at 30 June 2021
- 77% of borrowings hedged for an average term of 4.3 years at 1.68% p.a.

Increase in borrowing facility and extension of facility tranche

Arena increased its syndicated borrowing facility by \$100 million and extended an \$130 million facility tranche from 31 March 2023 to 31 March 2026 during FY22; the weighted average remaining facility term was 3.4 years at 30 June 2022 with no debt expiry until March 2024. Arena's weighted average cost of debt was 2.9% as at 30 June 2022 compared with 2.65% as at 30 June 2021.

Capacity to fund new opportunities

At 30 June 2022, Arena's gearing was 20.2%¹³ with in excess of \$100 million of undrawn debt capacity as at balance date to fund the balance of the development capital expenditure of \$88 million and future growth opportunities.

 $^{^{9}}$ ABS Labour Force status (husband, wife or partner, or lone parent, with dependent children).

¹⁰ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.

¹¹ PHC Darlinghurst medical centre was owned by two unlisted property vehicles that were managed by Arena.

¹² Includes five ELC developments that are contracted subject to planning or other conditions precedent.

¹³ Gearing calculated as ratio of net borrowings over total assets less cash.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "Arena continues to operate well within its banking covenant requirements. We have expanded our liquidity while maintaining hedging discipline through the cycle with sustained capacity to pursue investments consistent with strategy."

OUTLOOK

Financial Year 2023 (FY23) distribution guidance of 16.8 cents per security¹⁴

Arena provides FY23 DPS guidance of 16.8¹⁴ cents per security reflecting growth of 5% over FY22.

Mr de Vos said "Arena's portfolio of social infrastructure properties facilitates access to essential community services with positive social impact. These strong macroeconomic themes underpin Arena's value proposition which provides long term income predictability with the prospect of income growth with inflation protection. Our investment and capital management discipline sees us well positioned to consider new opportunities that are consistent with strategy and deliver on Arena's investment objective."

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

- ENDS -

INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 9.30am AEST today (11 August 2022) to present the FY22 Annual Results. A copy of the annual results presentation has been lodged with the ASX and is available on <u>Arena's website</u>. To participate in the investor teleconference, please <u>click here</u> to register; a recording of the teleconference will be available on the Arena website.

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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.

¹⁴ FY23 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.

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