



Morgan Stanley Australian Emerging Companies Conference 2014

Arena REIT (ASX Code: ARF)

Exploring competitive advantage

18 June 2014

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About Arena REIT (ARF)

A relatively high yielding social infrastructure small cap A-REIT

- Established as an unlisted trust in 2003 investing into childcare centres.
- GFC and collapse of ABC Learning (major tenant) in 2008 demonstrated resilience of portfolio and management.
- In June 2013:
 - Broadened investment strategy;
 - Raised \$75 million (\$1.01) from institutional and retail investors; and
 - Listed on the ASX.
- Grown portfolio by \$90 million to \$325 million including 18 childcare centres and 6 medical centres*:
 - **Childcare portfolio** – One of Australia largest owners of childcare centre properties in Australia.
 - **Healthcare portfolio** – Multi-disciplinary medical centres leased to Primary Health Care (ARF is their largest landlord).
- Gearing target range 35% - 45%.*
- Quarterly distributions.
- Approximately 3,000 investors (Top 20 investors own 50%).



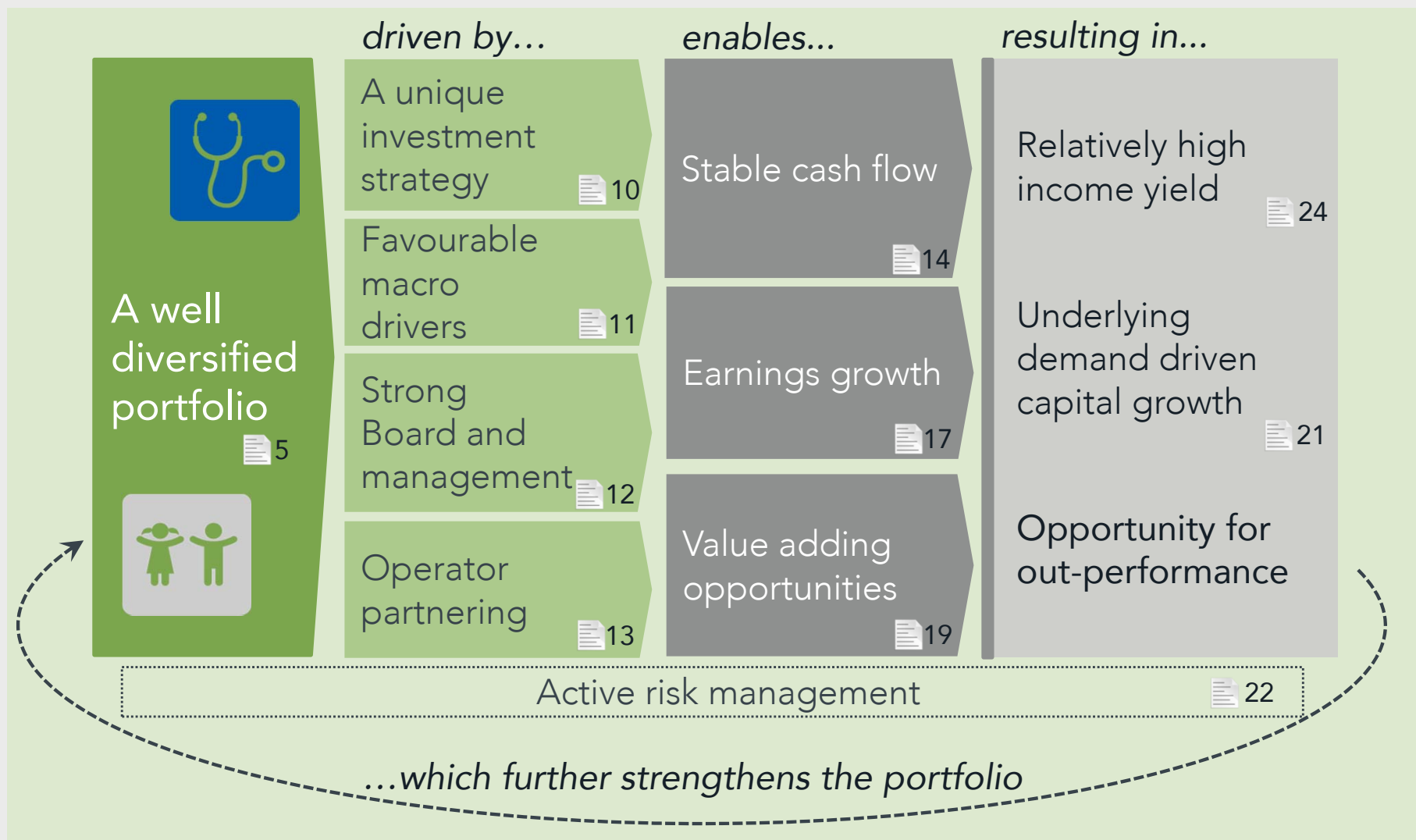
Typical childcare centre.



Leichhardt Medical Centre.

Agenda

Exploring our competitive advantages

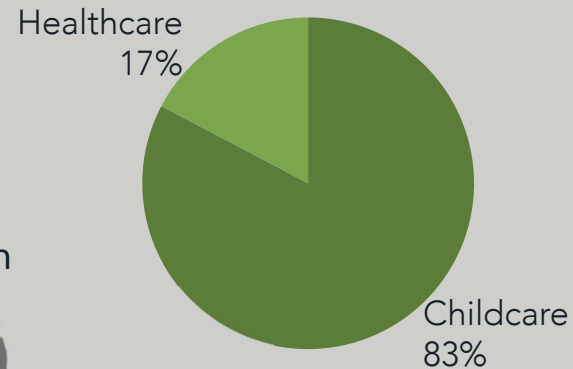


A well diversified portfolio

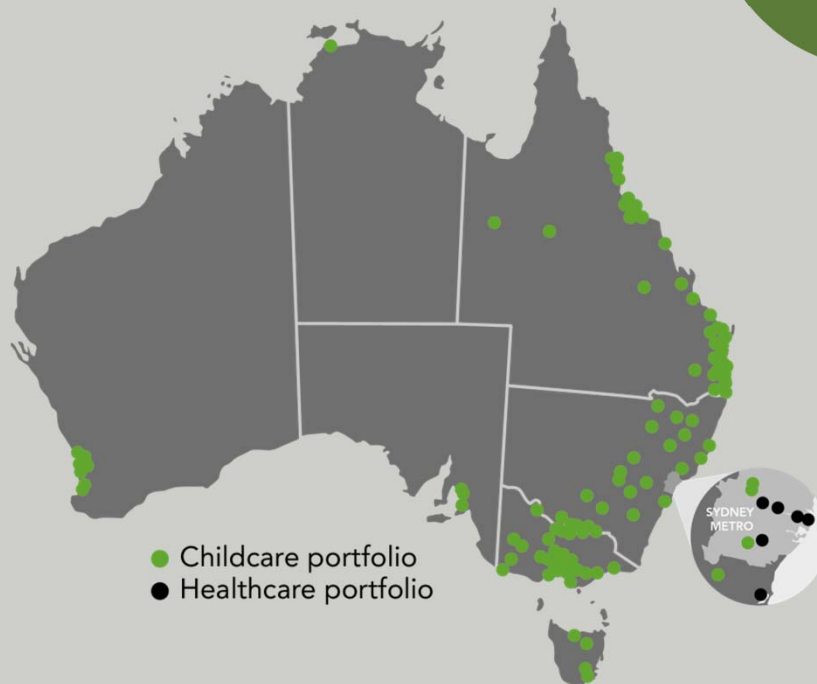
Relatively small assets in many locations

- Total assets: \$331.8 million
- Number of direct properties: 199
- Average age of property: 9 years
- >25 tenants

Sector diversification (by value)



Location diversification



Point Cook Childcare Centre.



Mt Druitt Medical Centre

A well diversified portfolio *continued*



A strong childcare portfolio with long WALE

Childcare portfolio key metrics	31 Dec 2013
<i>Leased childcare centres</i>	183
<i>Available for sale / lease</i>	3
<i>Development land</i>	7
Total properties	193
WALE (years)	8.8
Tenanted occupancy	98.4%
Passing yield*	9.15%
Average places / leased centres	82.2
Property portfolio (\$'000)	269,798
Average value per place	\$17,316
Average rent / leased place	\$1,571
Rental growth (like for like)	2.69%

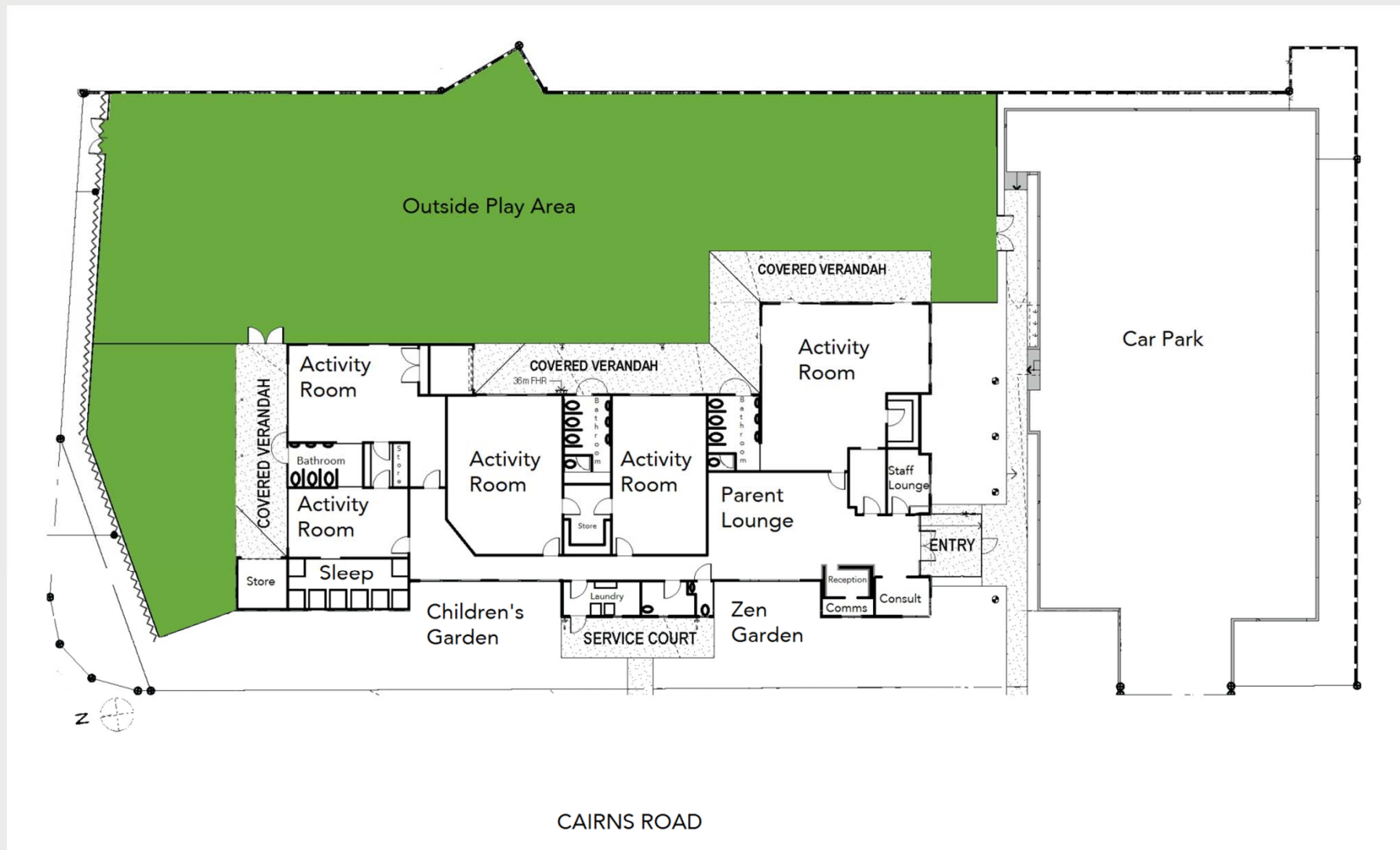
* Excludes vacant centres and office suites.



A well diversified portfolio *continued*



Typical childcare centre layout



A well diversified portfolio *continued*



Medical centre portfolio all leased to PRY and situated in NSW

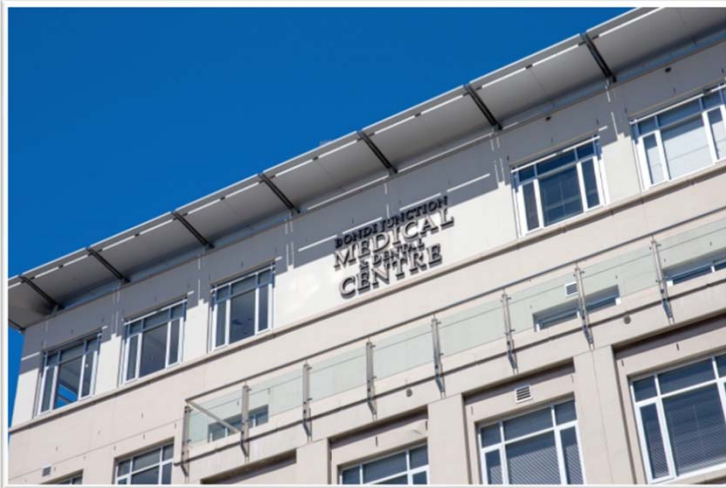
- Services – GP, radiology (diagnostic imaging), pathology, physiotherapy, chemist, and dentistry. (PRY bulk billing model).
- Tenant responsible for all statutory and building operating costs (but not structural).
- Primary has never closed a large scale medical centre.
- Very profitable segment for PRY (reported EBIT margin of 50% approx.).

Property	Address	NLA (sqm)	WALE (years)	Ind value 30/6/13 (\$m)	Passing yield (%)	Value psm NLA (\$)
Bondi Junction Medical and Dental Centre	3a Bronte Street	1,139	8.9	12.00	8.05	10,536
Leichardt Medical and Dental Centre	30 – 38 Short Street	2,036	8.6	12.25	8.74	6,017
Campbelltown Medical and Dental Centre	296 Queen Street	1,622	6.4	7.80	10.42	4,809
Dapto Medical Centre	Princes Highway	2,196	9.3	8.20	9.09	3,734
Wentworthville Medical Centre	122 – 128 Station Street	1,652	8.9	7.70	9.32	4,661
Mt Druitt Medical Centre	22 Jirrang Close	1,490	8.7	6.70	9.72	4,497
		10,135	8.5	54.65	9.08	5,392

A well diversified portfolio *continued*



Bondi Junction Medical and Dental Centre – serving the community



A unique investment strategy

Focusing on non-traditional property sectors



Favourable macro drivers

Demand being driven by demographic and economic factors

Childcare sector¹



More children

+16% projected growth in number of children 0-4 years from 2013-2025.

Higher female workforce participation

+5% growth in female employment participation rate between 2001-2013.

Government funding support

\$5 billion Government expenditure on childcare 2013-2014.

More children in care

+40% growth in children aged 0-4 using long day care between 2004-2013.

More hours in care

Average weekly hours of child attendance increased 25.9 to 27.2 between 2009-2013.

Healthcare sector²



Aging population

+3.3% expected growth in +65 age bracket 2012-2022.

Rising chronic disease

+10% forecast increase in chronic disease by 2020.

Growth in private healthcare

+2.3% growth in number of individuals with private health insurance since 2003.

Increased demand for healthcare premises since 2002

+4.4% growth in private hospitals.

+3.3% growth in public hospitals.

Strong Board and management

Experience combined with a multi disciplinary team to implement strategy



Operator partnering

Committed to long term relationships with our tenants to drive growth

- Long term relationships with childcare and medical operators are very important.
- Combining the operator's and Arena (landlord perspective) expertise provides the opportunity to identify the best childcare and medical centres for long term performance.
- Respond to tenant issues in a timely manner.
- There is an opportunity to continue to acquire centres on a going concern basis, as evidenced by the Affinity transaction.
- Developing quality assets in conjunction with committed operators.
- We seek to maximise outcomes at a portfolio level in a mutually beneficial way:
 - Are flexible where warranted e.g. provide funding for the expansion of centres where suitable; and
 - Solve problems together in a reasonable way e.g. potentially exiting those poorer centres on a 'going concern' basis.

Our aim is to be a proactive landlord

Stable cash flow

Strengthening tenant covenant from broader strategy and consolidation

Goodstart

- Not for profit
- Largest childcare operator in the market
- FY13 net operating cash flow of \$50.4 million

Primary Health Care (PHC)

- ASX market cap of \$2.5 billion

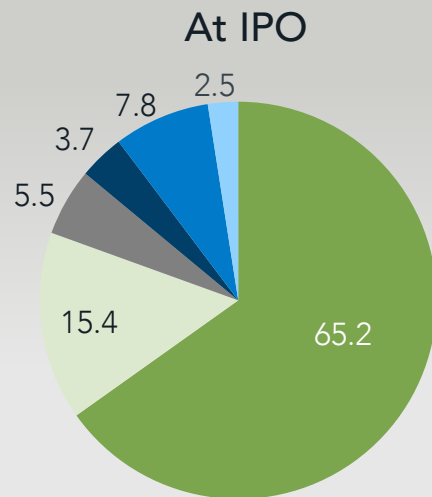
Affinity Education (AFJ)

- Newly ASX listed with market cap of approximately \$200 million

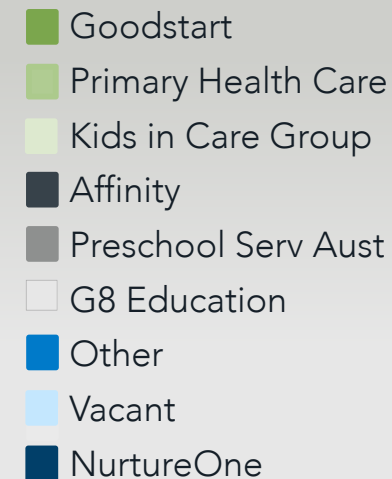
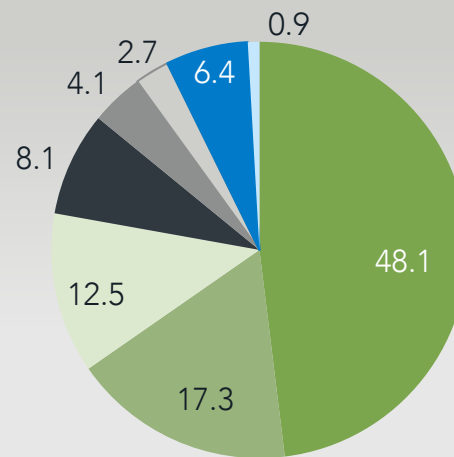
G8 Education (GEM)

- Largest for profit operator.
- ASX market cap of \$1.35 billion

Tenants by value (%)



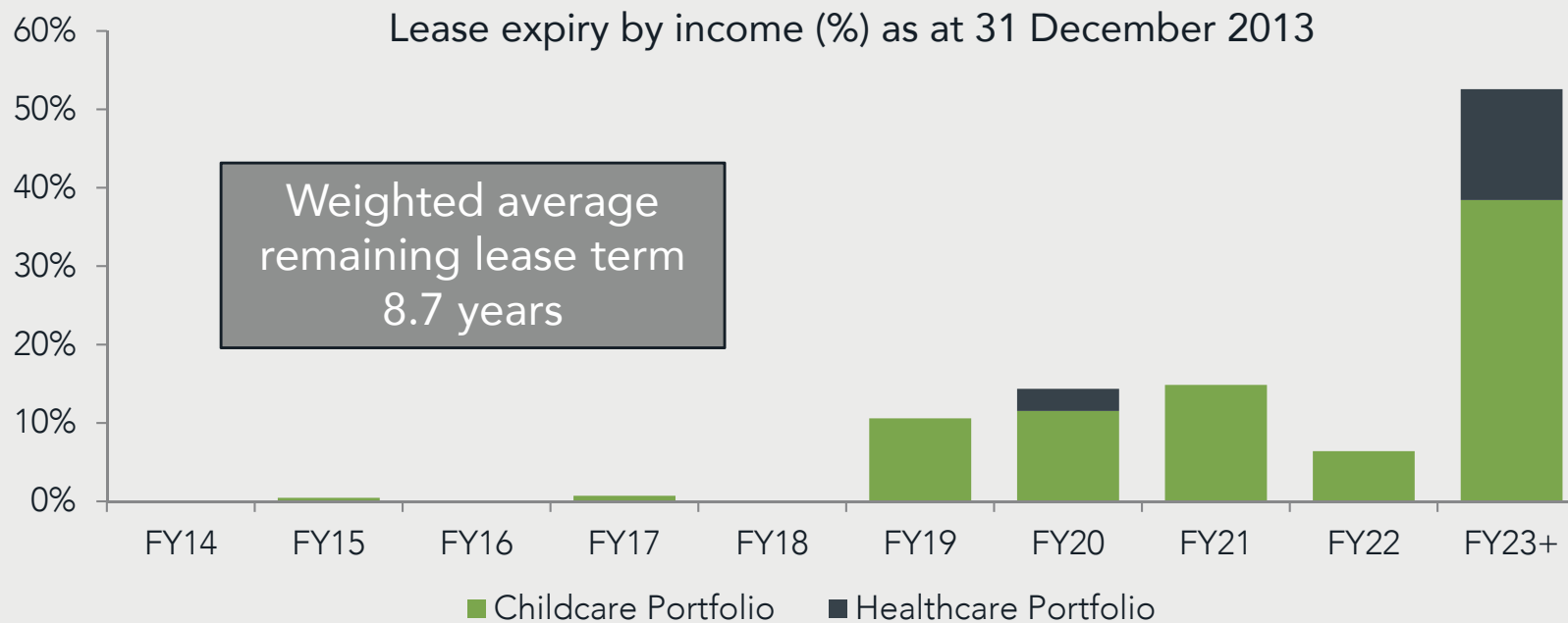
At 31 December 2013



Stable cash flow *continued*

Long lease structure ensures stable income

- All childcare leases are triple net lease structure i.e. tenant responsible for all outgoings, structural repairs, refurbishment etc. Access to monthly operating data.
- Medical centres double net lease structures (excludes structural replacement).
- No significant lease expiries until FY19.
- Value of tenants' business goodwill contingent on tenure and lease compliance.



Stable cash flow *continued*

Comfortable debt headroom position

Financiers	Limit	Drawn	Expiry
ANZ/NAB	\$70m \$70m	\$70m \$37m	30 June 2017 30 June 2019

Financial debt covenants

Covenant	Actual	Covenant
LVR	34.1%	50%
ICR	5.5 x	2.0 x

Debt and hedging profile

Measure	Metric
Debt w/avg maturity	4.25 years
I/R swaps w/avg maturity	3.20 years
% Debt hedged	68%
Ave Hedge Rate	3.33%

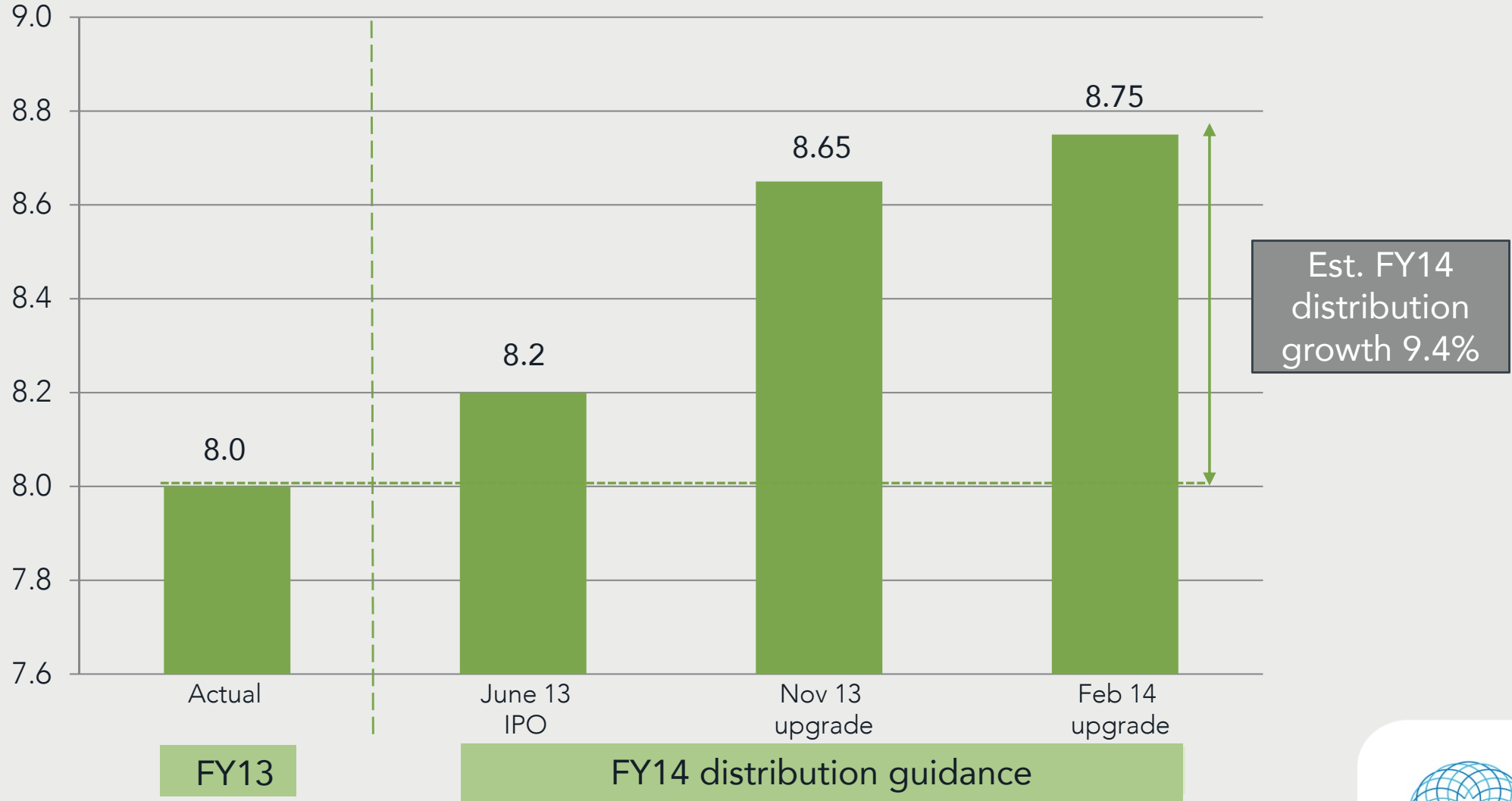
- Both Lenders have expressed their desire to increase exposure over time.
- Other lenders have also actively sought to lend to the Trust during a recent refinancing of ARF.

Total debt cost is competitive

Earnings growth

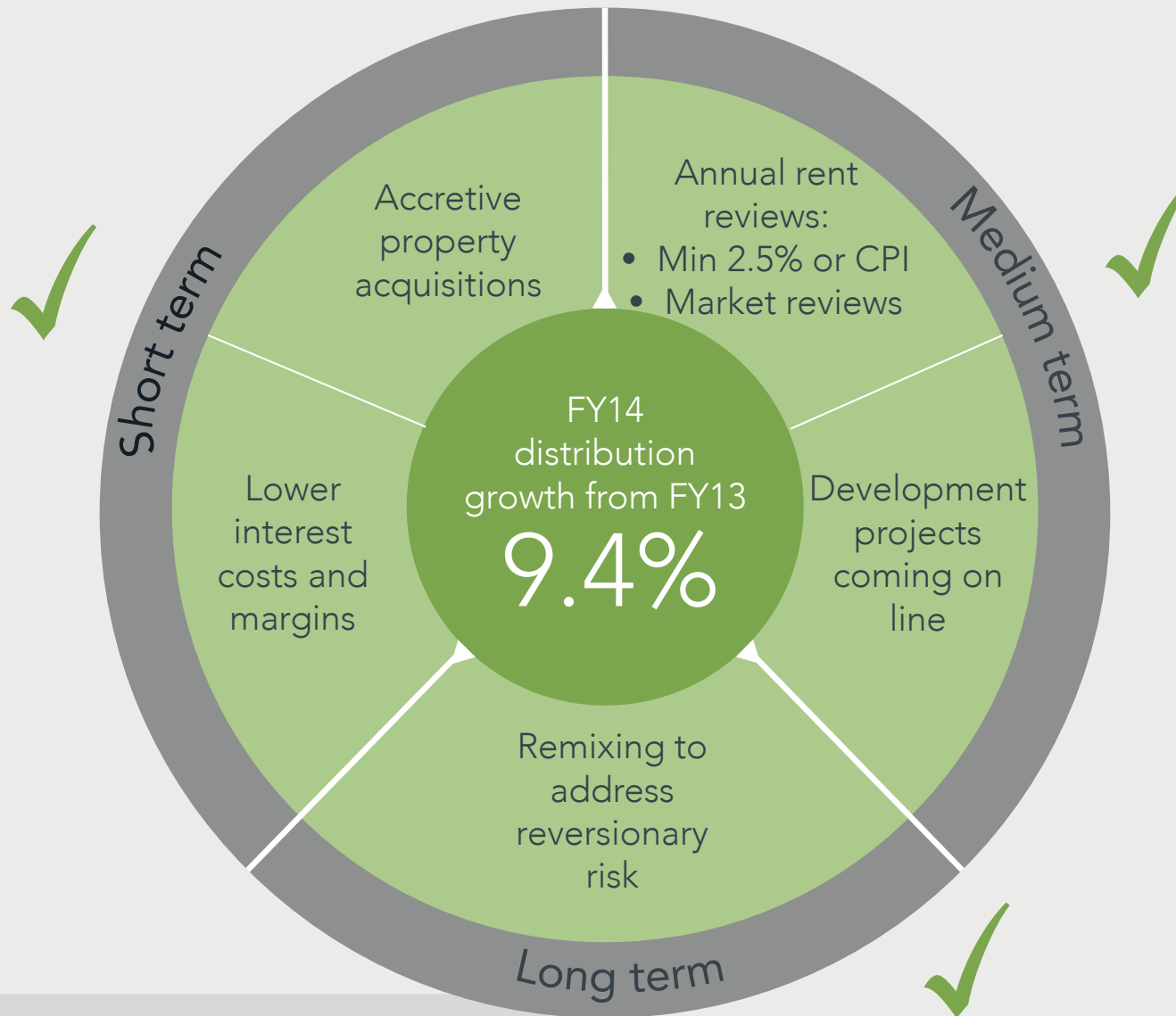
Strong distribution growth since IPO

Cents per security



Earnings growth *continued*

With further distribution growth potential



Value adding opportunities

Growing childcare development pipeline

Strong rationale

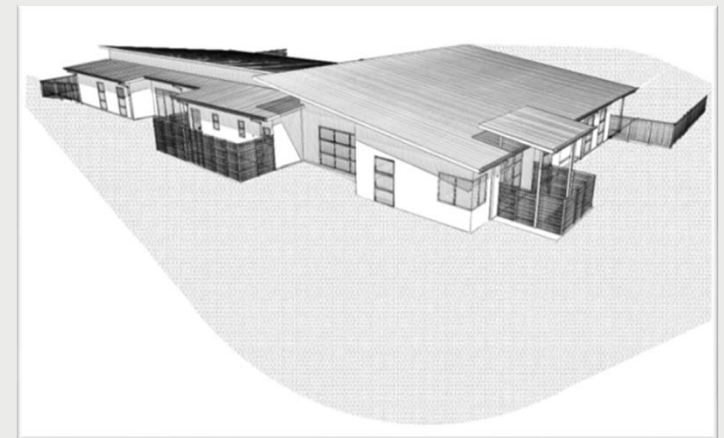
- Opportunity to secure well located sites with suitable demographics and construct high quality centres.
- Must have pre-committed lease in place (not speculative development). Operator partnering opportunity.
- Can use the standard Arena lease.
- Opportunity to access higher income yield on cost and obtain a valuation up-lift on completion.

Growing pipeline

- 7 development sites held as at 31 December 2013, 3 developments in progress.
- Pre-leased at an average net passing yield of 9.4% on total cost (including land).
- Have continued to focus on expanding the pipeline over past 6 months.

How we choose our sites

- Favourable childcare needs assessment.
- The right attributes (size, location, exposure).
- Operator demand.
- Understood planning requirements.
- Viability of feasibility analysis.



Griffin (QLD) childcare centre conceptual design (in progress).

Value adding opportunities *continued*

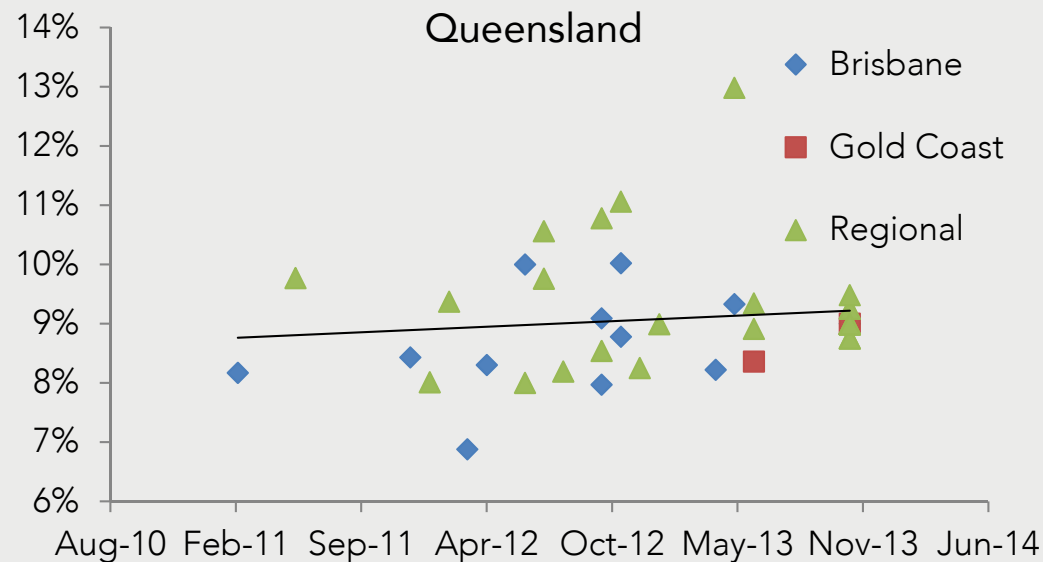
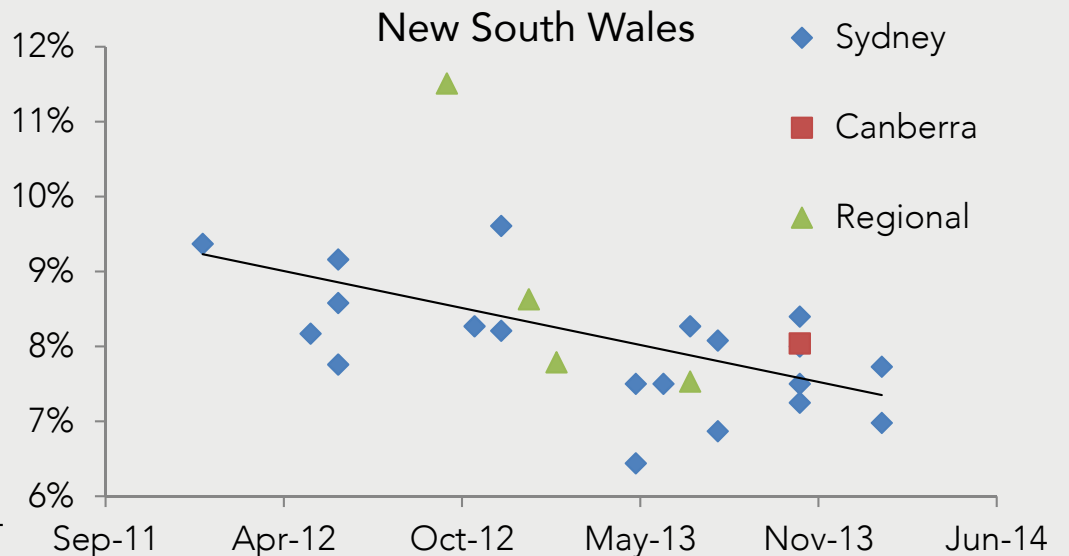
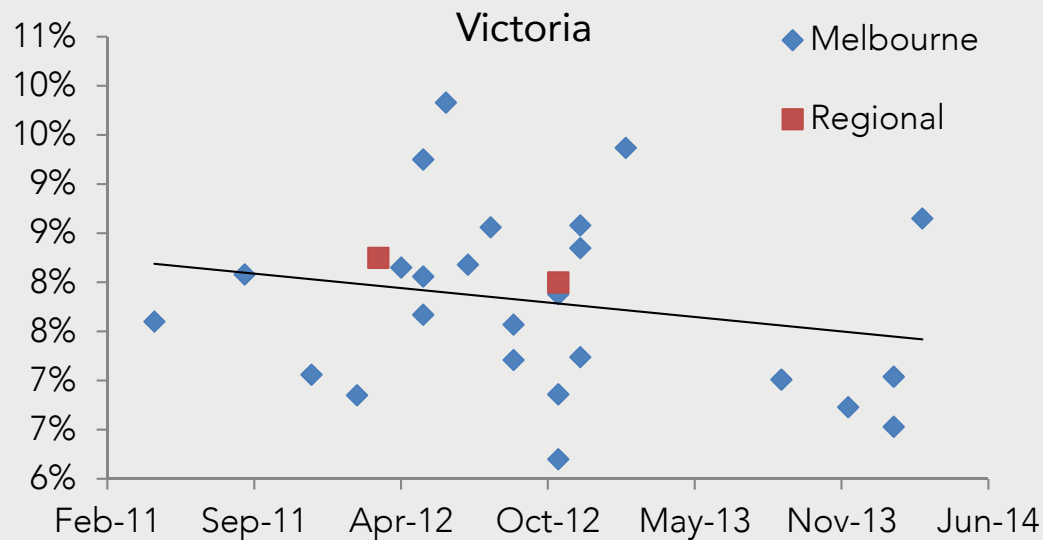
Accessing better quality property for higher returns – pro forma returns

Operating metrics	Regional Queensland	Fringe VIC metropolitan	Inner suburban VIC
Places	105	103	150
Occupancy	80%	80%	85%
Daily fee (\$)	<u>75</u>	<u>85</u>	<u>110</u>
Total revenue (\$'000)	1,606	1,786	3,576
Labour costs (\$'000)	931	1,035	2,074
Other costs (\$'000)	160	178	357
Rent (\$'000)	<u>199</u>	<u>237</u>	<u>555</u>
Total expenses (\$'000)	<u>1,291</u>	<u>1,451</u>	<u>2,986</u>
Net centre contribution (\$'000)	<u>314</u>	<u>334</u>	<u>589</u>
Rent / place (\$)	1,900	2,301	3,700
Rent / revenue	12.4%	13.3%	15.5%

Construction metrics	Regional Queensland	Fringe VIC metropolitan	Inner suburban VIC
Land cost (\$'000)	500	890	4,500
Construction and other costs (\$'000)	<u>1,707</u>	<u>1,746</u>	<u>2,380</u>
Total land and construction cost (\$'000)	<u>2,207</u>	<u>2,636</u>	<u>6,880</u>
Cost per place (\$)	21,027	25,598	45,866
Yield on cost	9.0%	9.0%	8.1%

Underlying demand driven capital growth

Recent sales show childcare yields firming in Victoria and NSW



ARF childcare portfolio passing yields by state

State	Jun-11	Jun-12	Jun-13	Dec-13
QLD	10.21%	9.87%	9.78%	9.33%
NSW	9.70%	9.49%	9.52%	9.24%
VIC	9.22%	9.14%	9.12%	9.08%

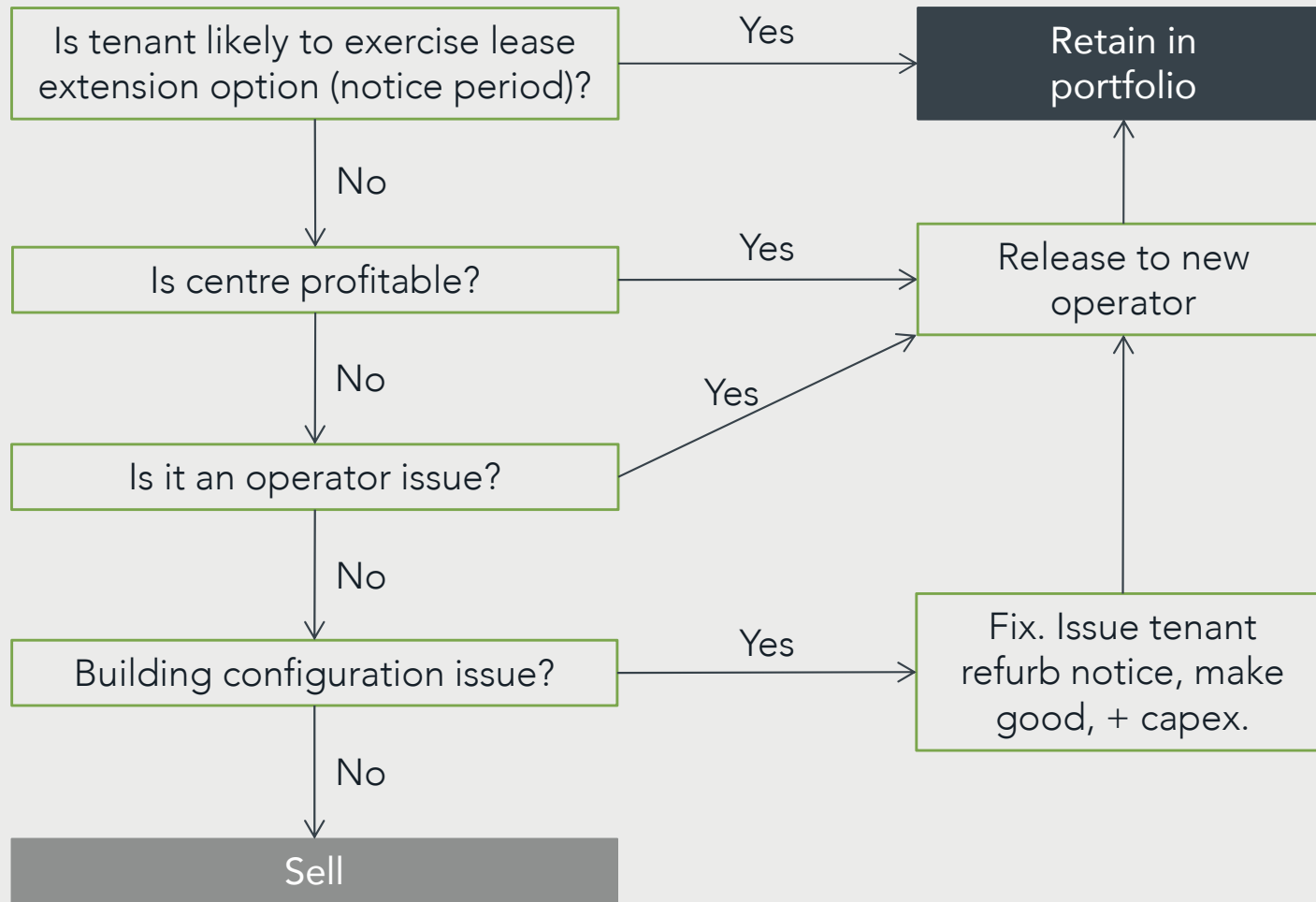
Active risk management

Risk can be managed to improve quality of income streams

Key manageable risk	Mitigation
Concentration - sector and tenant	<ul style="list-style-type: none"> • Broadening of property type and tenants
Tenant lease default	<ul style="list-style-type: none"> • Tenants becoming better capitalised • Tenant business goodwill valuable • Lease security and cross default
Releasing, vacancy, reversionary	<ul style="list-style-type: none"> • Monitor operating performance & rent affordability • Larger size and fit for purpose • Increase exposure to metro (higher land value) • Monitor supply/demand dynamics • Monitor alternative use value
Building obsolescence	<ul style="list-style-type: none"> • Relatively new and purpose built • Continuous refurbishment • Annual building condition inspection • Tenant responsible for refurbishment
Breach of debt covenants	Maintain appropriate margins above covenants
Development	<ul style="list-style-type: none"> • Thorough up-front due diligence and entry point • Tenancy pre-commitment • Uncomplicated construction and relatively short construction period
Key external risk	Comments
Reduced or remixed government funding, changes in policy and law	<ul style="list-style-type: none"> • Government is providing increased funding. • More profitable centres and operators are better placed to withstand any shocks.




Active risk management *continued*

Typical reversionary risk management approach



Relatively high income yield

Favourably positioned

	 Arena	 aet	 GENERATION HEALTHCARE REIT
Asset type	Childcare & Healthcare	Childcare only	Healthcare only
Total assets	\$321.8 million	\$429.4 million	\$246.5 million
Number of properties	193 childcare (incl sites) 6 healthcare	351 childcare	10 healthcare
Location	Australia only	Australia & NZ	Australia
% Freehold (by value)	100%	90%	82%
% of portfolio built post 2000	68% childcare 100% healthcare	38%	82%
Occupancy rate	99%	100%	98.7%
WALE	8.7 years	8.3 years	11.7 years
Gearing	32%	34%	41%
Stated NTA/unit	\$1.03	\$1.40	\$0.98
ASX trading price 12 Jun 14	\$1.21	\$1.67	\$1.31
ASX price premium to NTA	17.5%	19.2%	33.7%
Est FY15 earnings per cents*	9.6	12.4	9.2
Est ASX FY15 trading yield	7.9%	7.4%	7.0%
Est FY15 distribution growth*	7.4%	3.3%	5.0%

Highest
yield and
highest
earnings
growth

All portfolio metrics as at 31 December 2013.

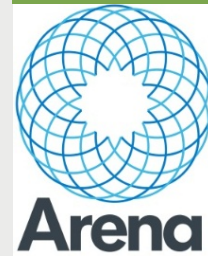
* Source: NAB Capital 11 June 2014. ARF has not made a FY15 earnings or distributions forecast and does not know the assumptions underlying or endorse the NAB Capital forecasts.

For further information



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Suggested reference material available on website

- ARF Product disclosure statement dated 1 November 2013.
- FY14 Half Yearly results webinar presentation
- Presentation – Why invest in Childcare property?

Sources – slide 11

Footnote 1

ABS 3105 Australian Historical Population, Data 2008.
ABS 3101 Australian Demographic Statistics, June 2013.
ABS 3222 Population Projection , Australia, 2012 to 2101.
ABD 6202.0 – Labour Force, Australia.
DEEWR Budget Statements 2010/11 – 2012/13. MYEFO 2013/2014
DEEWR – Child Care in Australia Report – August 2013.

Footnote 2

ABS, Australian Demographic Statistics.
NSW Department of Health.
PHIAC, Statistical Trends, September 2013.
AIHW.

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