

Arena REIT to combine with Sydney HealthCare Trust

Overview

- **Proposal** – Arena Investment Management Limited (**Arena**) today announced a proposal to staple Arena REIT (**ARF**) to Sydney HealthCare Trust (**SHCT**) (**Stapling Proposal**) to form an ASX listed stapled group (**Stapled Group**).
- **About SHCT** – SHCT is an unlisted trust which owns 6 multi-disciplinary medical centres (**Healthcare Portfolio**) located in and around Sydney leased to Primary Health Care Limited (**Primary Health Care**), with a weighted average lease expiry (**WALE**) of 9.0 years¹. The Healthcare Portfolio is valued at \$54.7 million² based on a passing yield of 8.9% and SHCT has a net tangible asset value of ~\$1.02 per unit³.

Bryce Mitchelson, Joint Managing Director, commented “SHCT is an unlisted trust approaching its maturity in August 2014 with several major investors seeking liquidity. The Stapling Proposal provides attractive options to all SHCT investors and caters for those investors seeking immediate liquidity at a price above the current net tangible asset value. Positively, it also allows those investors wanting to continue to receive distributions, to roll their investment into Arena REIT’s more diversified portfolio with ongoing liquidity provided by the ASX.”

- Under the Stapling Proposal, ARF and SHCT units are to be stapled together on a 1:1 basis (**Stapling Ratio**). Post the Stapling Proposal investors will continue to own their units in ARF and they will be stapled to new units in SHCT. The new stapled securities will trade on ASX as one security. ARF has also offered SHCT investors the opportunity to redeem some or all of their investment at a price equivalent to \$1.15 per SHCT unit (**Redemption Price**). The Stapling Proposal requires the approval of investors in both trusts at meetings to be held on Monday, 9 December 2013.

Commenting on the Stapling Proposal James Goodwin, Joint Managing Director said “If investors approve the stapling of ARF and SHCT, it will create a leading real estate investment vehicle with a diversified exposure to Australia’s childcare and healthcare sectors. The Stapling Proposal is consistent with the broadened investment strategy of ARF and our objective to enhance earnings while diversifying our exposure across quality tenants and complementary real estate sectors”.

¹ At 30 June 2013, weighted by income.

² At 30 June 2013.

³ At 30 June 2013.

- **Key benefits** – The Stapling Proposal, if approved by investors, would deliver the following significant benefits to ARF and its investors:
 - **Increases underlying earnings** – FY14 distributions are forecast to increase to 8.45 cents per stapled security⁴. On a pro forma annualised basis, the FY14 net profit available for distribution is forecast to be 8.8 cents per stapled security (a 7.3% increase on the original FY14 forecast of 8.2 cents per ARF unit). ARF investors who hold units on 10 December 2013 will receive an interim distribution of 1.7 cents for the period between 1 October 2013 and the day prior to the date on which the Stapled Group is admitted to the ASX (expected to be 10 December 2013).
 - **Relatively long and attractive lease terms** – The SHCT Healthcare Portfolio has a remaining WALE of 9.0 years⁵ which is in line with ARF's existing childcare portfolio. Importantly, under the terms of the leases, Primary Health Care is responsible for all operational and statutory outgoings including insurance, land tax (on a multiple holding basis) and repairs and maintenance (other than of a structural nature).
 - **Purpose built medical centres** – All the centres were built between 2000 and 2002 specifically for Primary Health Care on a long lease-back basis including their head office function in Leichhardt, NSW.
 - **Increases portfolio carrying value by 23.1%**⁶ – The Stapling Proposal will result in a carrying value of the combined portfolio of \$289.6 million (compared to \$234.9 million for ARF on a stand-alone basis).
 - **Significant portfolio diversification**⁷
 - **Introduces healthcare exposure** – Stapled Group investors will have an 18.9% weighting to the healthcare sector and an 81.1% weighting to the childcare sector. Healthcare is a growing sector which has out-performed the traditional property sectors since 2007, and like childcare, is relatively non-cyclical.
 - **Broadens tenancy base** – Stapled Group investors will have a 19% exposure to a high quality covenant being Primary Health Care, an S&P/ASX100 listed company which is a leading provider of medical services in Australia.
- **Delivers on strategy** – Prior to listing, ARF set out an investment strategy with the aim of generating attractive and predictable distributions to investors through increased diversification beyond the childcare sector. SHCT's Healthcare Portfolio satisfies all of ARF's investment objectives which include relatively long remaining lease terms, premises which have strategic importance for the tenant, high credit quality tenants and/or leases where the tenant is responsible for all, or substantially all, of the property outgoings and where Arena believes that reversionary risk can be managed.
- **Increase in gearing** – If the Stapling Proposal is implemented, ARF will increase its debt facility limit from \$110 million to \$140 million and fund the Stapling Proposal and Redemption Offer using its undrawn debt capacity. Arena anticipates that, depending on how many SHCT investors participate in the Redemption Offer, ARF's gearing will increase from the current 11% to between 23% and 29%. This remains below ARF's target gearing ratio of between 35% and 45%. The Arena Property Fund (**APF**), which is a major investor in SHCT (46.9%), has confirmed that it will accept the Redemption Offer in full.

⁴ The forecast will vary depending upon the number of SHCT investors who accept the Redemption Offer. The higher the participation in the Redemption Offer, the more favourable the impact on ARF's forecast distributions. Refer to the PDS for the basis of preparation, risks and assumptions on the forecast.

⁵ As at 30 June 2013, weighted by income.

⁶ As at 30 June 2013.

⁷ All figures as at 30 June 2013, and where relevant, on a pro forma basis assuming the Stapling Proposal is approved and implemented.

- **On-market buy-back facility cancelled** – The previously announced on-market buyback facility is cancelled with immediate effect. No units were bought back under the facility as its conditions were never satisfied.
- **Proposal documentation** – Together with this announcement, Arena has issued a Notice of Meeting and Explanatory Memorandum for ARF and also a Product Disclosure Statement (**PDS**) for the Stapled Group. These documents, as well as a Notice of Meeting and Explanatory Memorandum for SHCT, are expected to be dispatched to investors on 15 November 2013.
- **Independent expert opinion** – Moore Stephens has been appointed as an independent expert to opine on the Stapling Proposal and has concluded that “the Stapling Proposal is in the best interest of, and is fair and reasonable to ARF investors”.⁸
- **Board recommends ARF and SHCT investors vote IN FAVOUR** – The Stapling Proposal has the unanimous support of the Arena Board (in the absence of a superior proposal) which recommends that ARF and SHCT investors vote in favour of the Stapling Proposal.

Arena’s Chairman, David Ross commented “The Arena Board has been diligent in ensuring that the interests of both ARF and SHCT investors have been properly and separately considered. We believe the Stapling Proposal is attractive for both ARF and SHCT investors and unanimously recommend that investors vote in favour”.

- **Webinar investor briefing** – Arena will hold online webinar briefings for both ARF and SHCT investors on 27 November 2013 to explain and discuss the Stapling Proposal in detail. To attend a webinar briefing, please register online at www.arenainvest.com.au.
- **ARF investor meeting** – A meeting of ARF investors will be held on Monday, 9 December 2013 at 12.00pm at the Spring Street Conference Centre, 1 Spring St, Melbourne to consider and vote on the Stapling Proposal and related constitutional changes. For the Stapling Proposal to be approved, 75% of the votes cast (in person or by proxy) by eligible investors must be cast in favour and SHCT investors must also approve the Stapling Proposal at a meeting of SHCT to be held at 10.00am the same day. Proxy voting forms will be enclosed with the ARF Notice of Meeting. The Arena Board encourages all eligible investors to vote.

Additional information

Vote on the Stapling Proposal

The Stapling Proposal is subject to a number of conditions, as outlined in the Notices of Meeting and Explanatory Memoranda, including the approval of both ARF and SHCT investors. Investors should read the relevant Notice of Meeting and Explanatory Memorandum and the PDS carefully and in their entirety before making a decision and voting (whether in person, by corporate representative or by proxy) at the meetings to be held on Monday, 9 December 2013.

Stapling Ratio and Redemption Price

The Stapling Ratio (1:1) was determined primarily with reference to the 30 June 2013 NTA per unit of both ARF and SHCT (both approximately \$1.02).

The Redemption Price (\$1.15) was determined having regard to a number of factors including:

- a competitive offer price in the current market for acquiring the SHCT Healthcare Portfolio having regard to the effectiveness of the Stapling Proposal with respect to transaction costs;
- the recent volume weighted average trading price of ARF on ASX;
- the 30 June 2013 NTA per unit of both ARF and SHCT (both approximately \$1.02);

⁸ Moore Stephens Independent Experts Report dated 31 October 2013.

- the benefit to ARF investors from the increase in forecast FY14 earnings for the Stapled Group; and
- the overall benefits of the Stapling Proposal to ARF Investors, including the portfolio diversification benefits.

The Redemption Price of \$1.15 represents a premium to SHCT's 30 June 2013 portfolio gross carrying value of ~6.5%. However from ARF's perspective, after taking into consideration the higher transaction costs that would be involved if ARF acquired SHCT's portfolio directly, the premium paid on SHCT's carrying value (under that scenario) is effectively ~2.6%.

ARF buyback

At the time ARF was listed, the Arena Board put in place an on-market buyback to enhance liquidity for existing investors. It was intended that the buyback facility would only be used if ARF traded at or below NTA (currently ~\$1.02 per unit) and only up to \$1.00 per unit. Since listing in June 2013, ARF has traded at or above NTA and is currently trading at ~\$1.15. Following the announcement of the Stapling Proposal, the Board has resolved to cancel the buyback with immediate effect.

ARF sale facility

Due to legal restrictions, the opportunity to participate in the Stapled Group is not available to ARF investors whose registered address is outside Australia or New Zealand. A sale facility has been arranged for those foreign investors on the Stapling Record Date. The stapled securities that foreign investors would have otherwise received under the Stapling Proposal will be sold and foreign investors will instead receive their proportionate share of the proceeds of the sale in cash. Details of this sale facility will be outlined in the relevant Notice of Meeting and Explanatory Memorandum.

Investor meeting details

Full details of the advantages, disadvantages and risks of the Stapling Proposal for each group of investors are set out in the Notices of Meeting and Explanatory Memoranda. These are expected to be dispatched on 15 November 2013 to convene separate meetings of ARF and SHCT investors to consider and if appropriate, approve the Stapling Proposal.

Detailed pro forma historical and forecast financial information of the Stapled Group, including the key assumptions on which it is based and the key risk factors are set out in sections 5 and 7 of the Product Disclosure Document (**PDS**). This has been lodged with the Australian Securities and Investments Commission today and is also available on the ASX website and the Arena website at www.arenainvest.com.au.

A copy of the Independent Expert's Report is included in both the ARF and SHCT Notice of Meeting and Explanatory Memorandum.

Key dates*

Dispatch of PDS and Notices of Meeting and Explanatory Memoranda to ARF and SHCT investors Dispatch of SHCT Redemption Offer election forms to SHCT investors	Friday, 15 November 2013
Closing date for SHCT Redemption Offer	Wednesday, 4 December 2013
Last date for lodgement of Proxies	Saturday, 7 December 2013
Meetings of ARF and SHCT investors	Monday, 9 December 2013
Last day of ASX trading of existing ARF Units	Tuesday, 10 December 2013
Admission of Stapled Group to official list of ASX Deferred settlement trading of Stapled Securities begins	Wednesday, 11 December 2013
Stapling record date Last day for registration of transfers of existing ARF Units and SHCT Units	Tuesday, 17 December 2013
Stapling commencement date Allotment of SHCT Units and ARF Units Stapled Securities redeemed pursuant to Redemption Offer Issue of SHCT Units and ARF Units Dispatch holding statements for stapled securities	Wednesday, 18 December 2013
Trading of Stapled Securities commences on a normal settlement basis	Thursday, 19 December 2013
Redemption Offer Settlement Date	Friday, 3 January 2013

*The timetable above is indicative only. Unless otherwise specified, all times and dates refer to Australian Eastern Daylight Time (AEDT). Arena reserves the right to amend any or all of these dates and times subject to the Corporations Act, the Listing Rules and other applicable laws, or to withdraw the Stapling Proposal, without prior notice. Any amendment to the timetable will be announced to the market through ASX. The quotation and commencement of trading of the Stapled Units is subject to confirmation from ASX.

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About Arena REIT

ARF is an S&P/ASX 300 listed real estate investment trust with a strategy to invest in sectors such as childcare, healthcare, education, and government tenanted facilities leased on a relatively long term basis.

About Sydney HealthCare Trust

SHCT is an unlisted trust that was established in 2002 and owns a portfolio of 6 multi-disciplinary medical centres located in and around the Sydney area. The current independent valuation of the portfolio is \$54.7 million and it is leased to Primary Health Care on a weighted average lease term of 9.0 years (as at 30 June 2013).

About Arena (responsible entity)

Arena is one of Australia's leading property funds management businesses, currently managing more than \$1 billion in assets and has a strong track record in investing in childcare and healthcare assets over the last decade.

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Disclaimer

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