21 AUGUST 2018

# FY18 ANNUAL RESULTS

## Resilience of earnings and distribution growth

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $34.7 million, up 21% on prior year
- Statutory net profit $64.4 million, down 33% primarily due to reduced revaluation gains
- Earnings per security[1] (EPS) of 13.1 cents, up 6.5% on prior year
- Distributions per security (DPS) of 12.8 cents, up 6.7% on prior year
- $65 million equity raising in August 2017 to fund portfolio acquisition
- Total Assets of $726.1 million, up 17% on 30 June 2017
- Net Asset Value (NAV) per security of $1.97, up 7.1% on 30 June 2017
- Gearing 24.7%, down from 27.5% at 30 June 2017
- FY19 DPS guidance 13.5 cents per security[2], reflecting growth of 5.5% on FY18

### Strong operating performance

Arena REIT (Arena) has today announced a net operating profit for FY18 of $34.7 million, an increase of 21% on the prior year. Statutory net profit for the year was $64.4 million, 33% down on the prior year, primarily due to reduced revaluation gains ($31.6 million compared with $66.9 million in prior year). Key contributors to the operating result were rental income growth from annual rent reviews and income from acquisitions and development projects completed in FY17 and FY18. The result represents earnings per security[1] (EPS) of 13.1 cents, an increase of 6.5% over the prior year. Arena has paid a full-year distribution of 12.8 cents per security, up 6.7% on the prior year.

Arena's total assets increased by 17% to $726.1 million as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The revaluation uplift contributed to the 7% increase in Net Asset Value (NAV) per security to $1.97 at 30 June 2018.

Commenting in respect of today's announcement, Arena's Managing Director Mr Bryce Mitchelson said "We have continued to deliver growth for investors throughout FY18, including actively working to enhance the key metrics of the existing portfolio, acquiring new investments and successfully executing on our development pipeline."

### FY19 DPS guidance

Arena has today provided FY19 DPS guidance of 13.5 cents per security[1], reflecting growth of 5.5% on FY18.

*[1] Earnings per security (EPS) is calculated as net operating profit over weighted average number of securities.*
*[2] Estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations.*

PORTFOLIO HIGHLIGHTS

- Average like-for-like rent review increase of 2.6%
- 100% occupancy maintained
- Weighted average lease expiry (WALE) slightly increased by 0.1 year to 12.9 years
- Portfolio annual revaluation uplift of $31.6 million
- Portfolio weighted average passing yield 6.5%
- Acquired 10 development properties with a total project cost of $71 million[3]
- One operating ELC acquired and one divested, one development site divested
- 14 ELC development projects completed for a total cost of $88 million at a 6.7% yield
- Development pipeline of five ELC projects at a forecast total cost of $31 million

### Like-for-like rent review increase of 2.6%

Rent reviews during the year resulted in an average like-for-like rent increase of 2.6%. This result is due to the high level of 'Fixed' or 'Greater of 2.5% or CPI' reviews during FY18, with only 2% of all rent reviews being subject to market review. The market rent reviews which were undertaken during FY18 were completed at an average increase of 6.3%.

### WALE increased by 0.1 year to 12.9 years

Portfolio occupancy was maintained at 100% and following the lease commencements for completed development projects, the portfolio's weighted average lease expiry (WALE) increased to 12.9 years compared with 12.8 years at 30 June 2017.

### Acquisition of property development portfolio

In August 2017, Arena acquired a portfolio of nine Early Learning Centre (ELC) properties in development for a total cost of $65 million[4]. These properties were acquired on a fund through basis[5], with a forecast average yield on cost of 6.25%.

Each of these developments has a triple-net lease for an initial 20 year term and annual rent reviews at a minimum of 3% per annum (market rent review at each 10 year anniversary).

### Portfolio revaluation uplift of $31.6 million

At 30 June 2018, Arena's portfolio comprised 207 ELC properties and development sites (88% of portfolio value) and seven healthcare properties (12% of portfolio value). All 214 properties were valued during FY18, with 73 properties independently valued and the remaining 141 at directors' valuation. A revaluation uplift of $31.6 million was recorded, equivalent to an increase of 5.3%.

The portfolio's weighted average passing yield firmed 24 basis points to 6.5%. The weighted average passing yield on the ELC portfolio firmed 27 basis points to 6.46% and the valuation of the healthcare portfolio firmed from 6.92% to 6.85%. A summary is detailed below:

[3] *Total cost includes property purchase price and project costs of $69.3 million plus stamp duty and associated transaction costs.*
[4] *Total cost includes property purchase price and project costs of $63.3 million plus stamp duty and associated transaction costs.*
[5] *A fund through acquisition involves the acquisition of land and progressive payment of development costs on which a return is derived.*

| | No. of Properties | 30 Jun 18 Valuation ($m) | Revaluation movement (since 30 June 2017) | | Weighted average passing yield | |
|---|---|---|---|---|---|---|
| | | | $m | % | 30-June-18 % | Change bps |
| ELC portfolio | 207 | 614.0 | 29.7 | 5.8 | 6.46 | (27) |
| Healthcare portfolio | 7 | 85.4 | 1.9 | 2.3 | 6.85 | (7) |
| **Total Portfolio** | **214** | **699.4** | **31.6** | **5.3** | **6.52** | **(24)** |

## 14 development projects completed

14 ELC development projects were completed during FY18, for a total cost of $88 million and an initial yield on cost of 6.7%. Six of the projects were part of the August 2017 development portfolio acquisition, and the remaining eight were projects in progress at 30 June 2017.

| | Number of projects | Total cost ($m) | Initial yield on cost (%) | Average lease term (yrs) | Long day care places |
|---|---|---|---|---|---|
| Leasehold developments | 1 | 2.5 | 8.7 | 25.3 | 108 |
| Freehold developments | 13 | 85.8 | 6.6 | 19.2 | 1,617 |
| **Total development** | **14** | **88.3** | **6.7** | **19.7** | **1,725** |

## ELC market commentary

In the early learning sector, some centre operators have experienced pressure on occupancies as a result of:

- **families reaching their subsidy cap prior to the end of the financial year –** The new government childcare funding package which took effect in July 2018 is targeted at improving the affordability of childcare for lower and middle income working families, and is expected to increase childcare participation for these families over time. More immediately, it is expected to alleviate the affordability pressures faced by many families that reach their subsidy cap prior to the end of each financial year.
- **an increase in new ELC supply entering the market –** An estimated 289 net new centres (+4.2%) opened in calendar year 2017 (315 new centres, 26 closed centres)[6], and a further net 224 centres opened in the first half of calendar year 2018.

Commenting on Arena's portfolio, Head of Property Mr Rob de Vos said "We continue to closely monitor the underlying operating performance of our tenants. In aggregate, their business operations are more profitable than the same time last year despite a slight reduction in their centre occupancy."

## Development pipeline of $31 million

The development pipeline now comprises five ELC projects with a forecast cost of $31 million ($14 million capital expenditure remains outstanding). The weighted average initial yield on cost for the development pipeline is 6.5%; two projects have reached practical completion since balance date.

[6] *Source: Business Geographics, August 2018.*

Mr de Vos said "The forecast return of projects in the pipeline reflects our preference at this point in the cycle to have a higher weighting to projects that offer a lower risk profile. Our core development focus remains on securing quality investments that exhibit Arena's preferred property characteristics and generate a predictable income stream."

CAPITAL MANAGEMENT HIGHLIGHTS

- Borrowing facility refinanced; increased to $230 million, weighted average term of 4.4 years
- $69.3 million new equity raised
- Gearing 24.7%, down from 27.5% at 30 June 2017
- Weighted average cost of debt at 3.85% pa
- 78% of borrowings hedged for an extended average term of 5.9 years at 2.44% p.a.

### Strengthened financial position

During the year Arena has undertaken a number of initiatives aimed at strengthening its financial position:

- **$69.3 million new equity raised –** Arena raised $55 million via an institutional placement and a further $10 million via a security purchase plan in August 2017. The funds were used to 100% equity fund the development portfolio acquisition in August 2017. An additional $4.3 million was raised via the dividend and distribution reinvestment plan (DRP), which remains open;
- **Refinancing of debt facility to extend duration and increase limit –** Arena renegotiated its debt facility and weighted average debt duration is now 4.4 years (from 2.5 years at 30 June 2017) and increased the facility limit to $230 million;
- **Interest rate hedging extended –** Interest rate hedging was also extended during the period, with the weighted average hedge duration lengthened to 5.9 years at an average swap rate of 2.44% compared with 4.3 years at 2.39% as at 30 June 2017. At 30 June 2018, 78% of drawn debt was hedged.

Notwithstanding the extended debt and hedge term, Arena's all-in weighted average cost of debt was 3.85% p.a.

### Capacity to fund new opportunities

At 30 June 2018, Arena's gearing was 24.7%, down from 27.5% at 30 June 2017 with undrawn debt capacity of $50 million to fund outstanding development capex (forecast at $14 million) and new investments.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "Over the course of the year we have strengthened our financial position through substantial capital management activity and increased capacity for future investment."

## OUTLOOK

### FY19 distribution guidance of 13.5 cents per security[7]

Arena has today provided FY19 DPS guidance of 13.5 cents per security[7]. This reflects growth of 5.5% over FY18, and compound annual growth in DPS since listing in June 2013 of 8.7% per annum[8].

Mr Mitchelson said "With a well-capitalised balance sheet and funding capacity we remain focused on identifying attractive investment opportunities to build long-term value for investors."

– ENDS –

### INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 11.30am AEST today (21 August 2018) to present the FY18 annual results. A copy of the annual results presentation has also been lodged with the ASX and is available on Arena's website (www.arena.com.au). To participate in the investor teleconference, please click here to register.

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### About Arena REIT

Arena REIT is an ASX300 property group that owns, manages and develops social infrastructure property assets across Australia. Our current portfolio of social infrastructure property assets is leased to a diversified tenant base in the early learning and healthcare sectors. To find out more, please visit www.arena.com.au

### Important Notice



[7] *Estimated on a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with forecast assumptions and tenants comply with their lease obligations.*
[8] *DPS Compound Annual Growth Rate (CAGR) includes FY19 distribution guidance.*

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