



Arena REIT FY18 Annual Results

Resilience of earnings and distribution growth

21 August 2018



Agenda

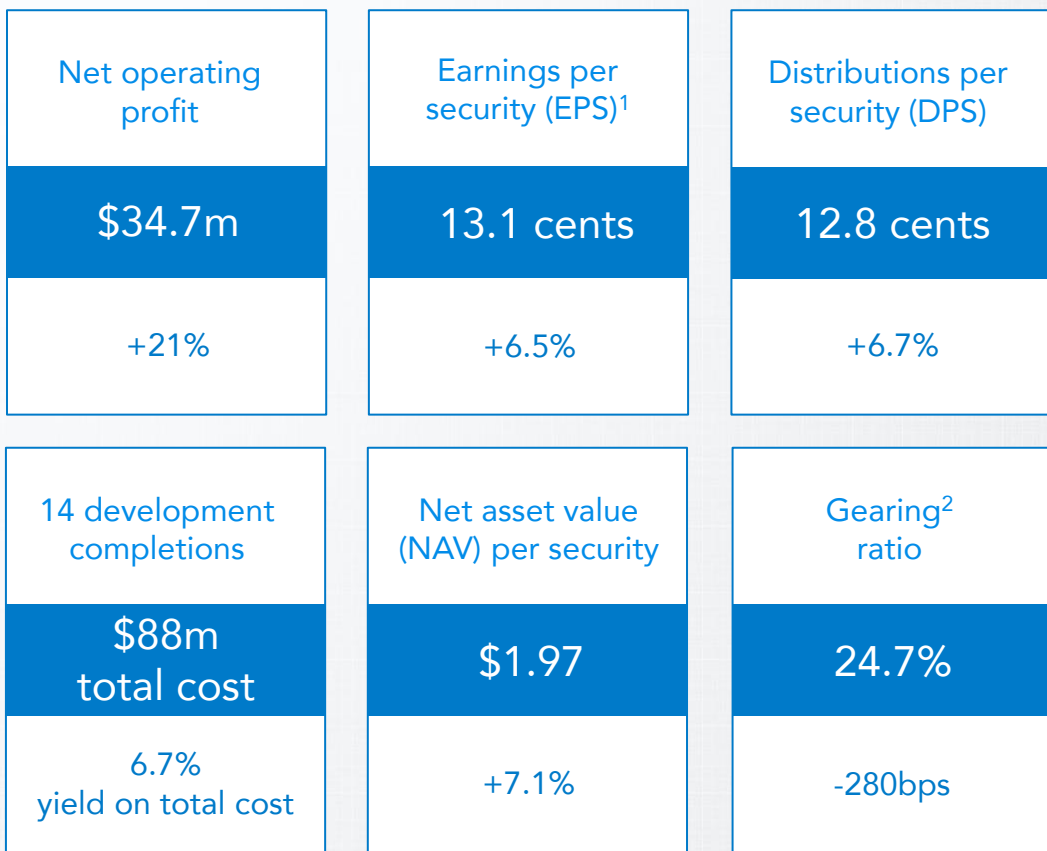
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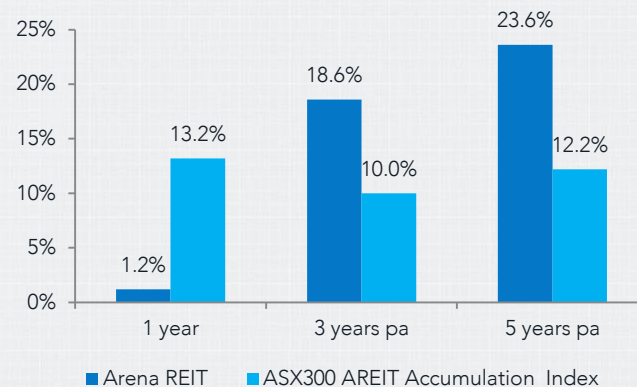
Bondi Junction Medical Centre, Bondi NSW

Highlights for FY2018

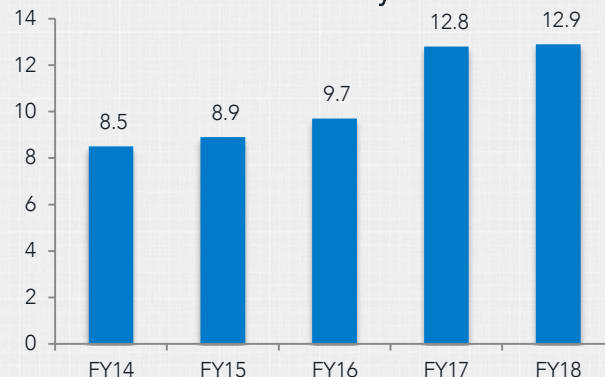
Strong operating performance with capacity for future growth



ASX total return³ performance to 30 June 18



Portfolio WALE⁴ in years



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

² Gearing calculated as ratio of borrowings over total assets.

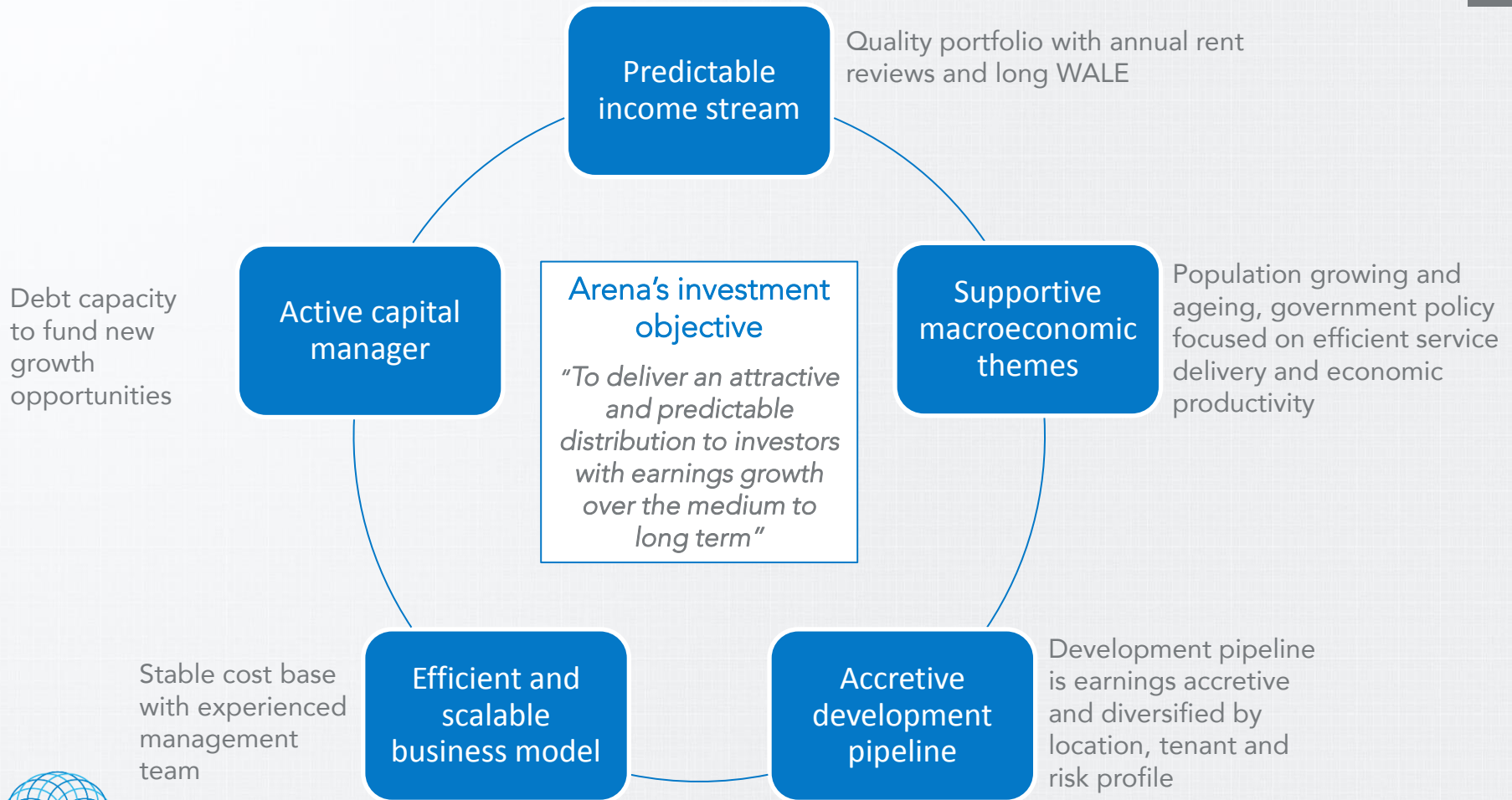
³ UBS, UBS Australian REIT month in review, June 2018.

⁴ Weighted average lease expiry (by income).



Strategically well positioned

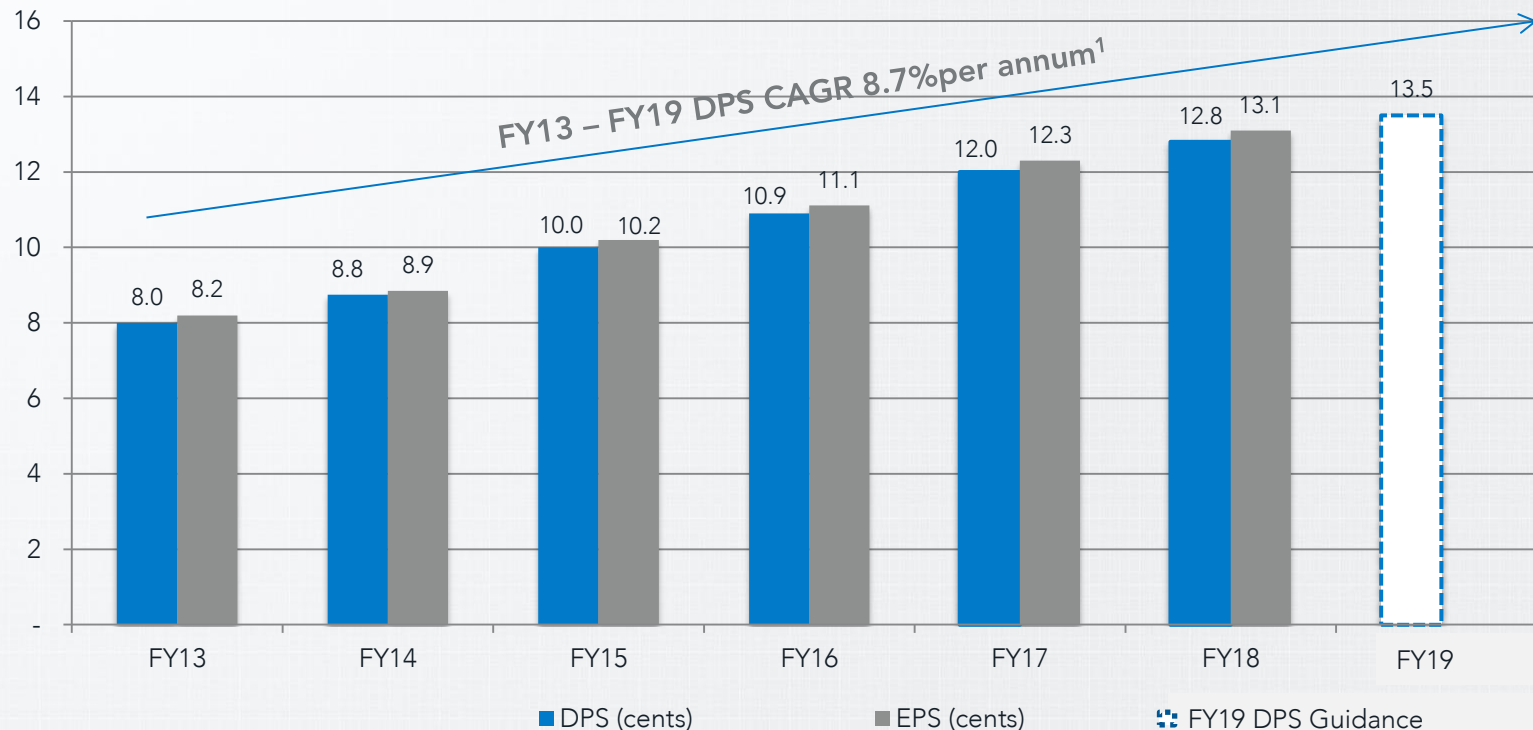
High level of contracted earnings with growth prospects



FY19 DPS guidance – 13.5 cents (+5.5%)¹

Earnings and distribution growth underpinned by core earnings drivers

Earnings and distributions per security (cents)



¹ FY19 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. DPS Compound Average Growth Rate (CAGR) includes FY19 distribution guidance.

Financial Results

Gareth Winter, Chief Financial Officer



Financial performance

Rent reviews and development completions drive growth in operating earnings

	FY18	FY17	Change	
	(\$'000)	(\$'000)	(\$'000)	(%)
Property income	43,128	37,437	5,691	15%
Other income	770	689	81	12%
Total operating income	43,898	38,126	5,772	15%
Property expenses	(832)	(1,152)	320	-28%
Operating expenses	(3,493)	(3,535)	42	-1%
Finance costs	(4,883)	(4,714)	(169)	4%
Net operating profit	34,690	28,725	5,965	21%
Statutory net profit	64,432	96,791	(32,359)	-33%
<hr/>				
Earnings per security (EPS) (cents)¹	13.1	12.3	0.8	6.5%
Distribution per security (DPS) (cents)	12.8	12.0	0.8	6.7%

Continued growth in operating income from:

- ELC developments completed throughout FY17 and FY18
- structured annual rental growth

Property expenses are lower due to costs associated with out of cycle lease extensions incurred in FY17

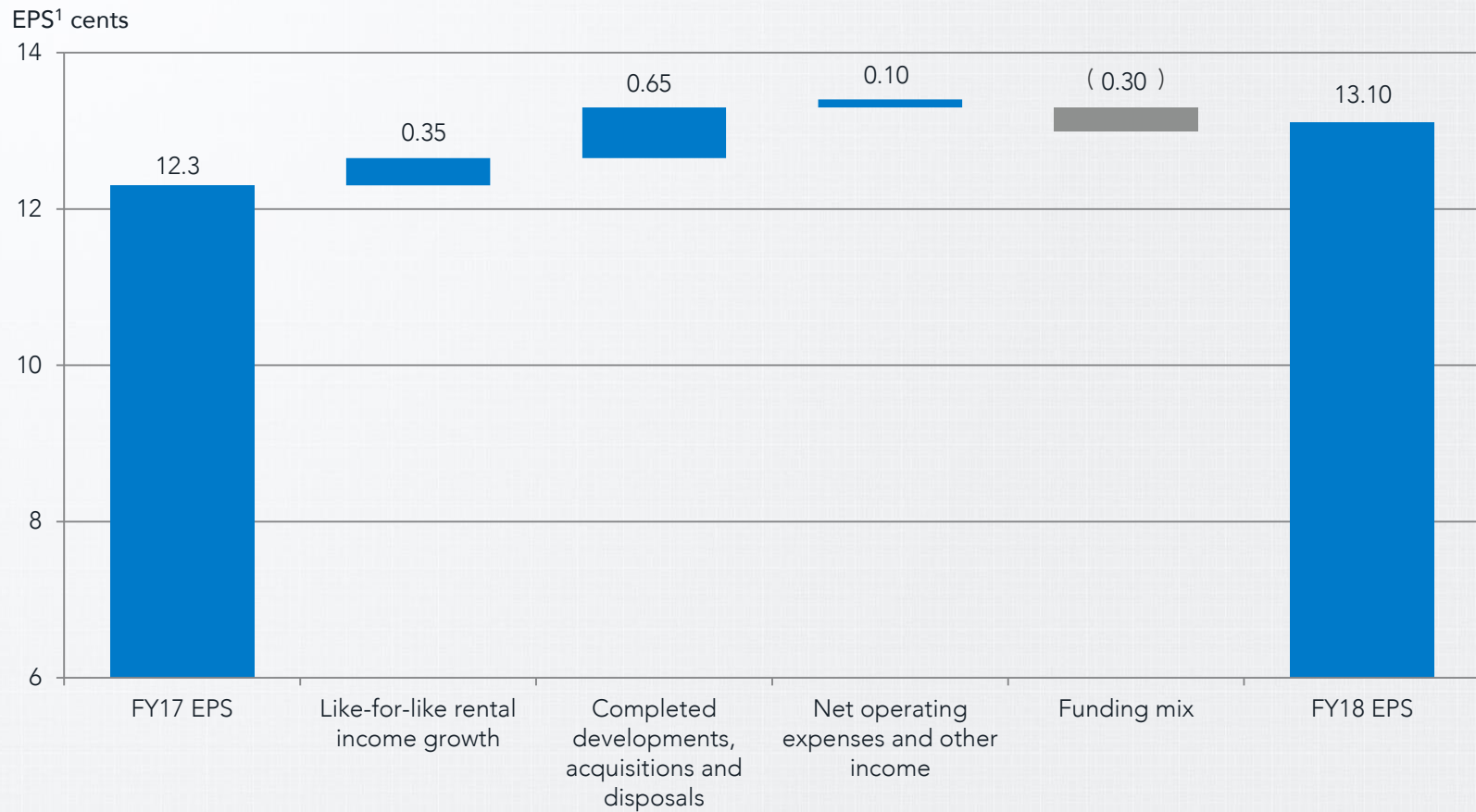
Lower statutory net profit from reduced uplift in investment property valuations (FY18: +\$31.6m v FY17 +\$66.9m)



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

Contributors to EPS growth

Core earnings drivers continue to underpin EPS¹ growth

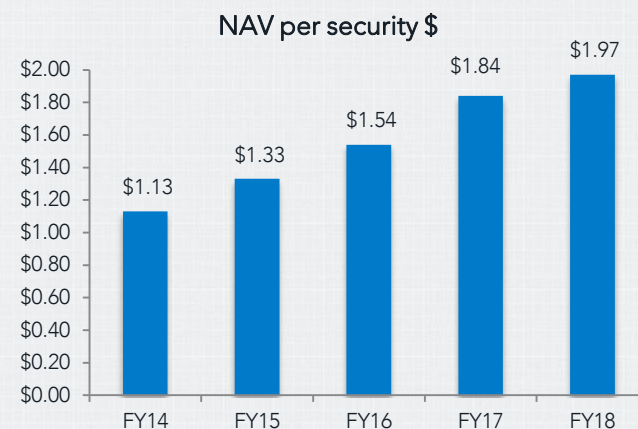


¹ Earnings per security (EPS) calculated as net operating profit over weighted average number of securities on issue.

Financial position

Substantial growth with low risk funding profile

As at 30 June	2018 (\$m)	2017 (\$m)	Change (%)
Total assets	726.1	621.3	+17%
Investment properties	699.4	591.7	+18%
Borrowings	179.5	171.0	+5%
Net assets	531.6	432.5	+23%
Securities on issue	269.4	234.8	+15%
Net Asset Value per security	\$1.97	\$1.84	+7%
Gearing ¹	24.7%	27.5%	-280bps



Substantial growth in total assets from new investment in ELC developments, acquisitions and revaluations

Minor increase in debt as FY18 development and acquisitions primarily funded from new equity



¹ Gearing calculated as ratio of borrowings over total assets.

Capital management

Capacity for new investment

As at 30 June	2018	2017	Change
Borrowings	\$179.5m	\$171m	+5%
Borrowing facility limit	\$230m	\$205m	+12%
Gearing	24.7%	27.5%	-280bps
Average facility term	4.4yrs	2.5yrs	+1.9yrs
Weighted average cost of debt	3.85%	3.75%	+10bps
Interest cover ratio	6.0x	5.6x	+0.4x

As at 30 June	2018	2017	Change
Hedge cover	78%	79%	-100bps
Weighted average hedge	2.44%	2.39%	+5bps
Weighted average hedge term	5.9yrs	4.3yrs	+1.6yrs

Borrowing facility increased to \$230 million in December 2017

24.7% gearing provides capacity for growth

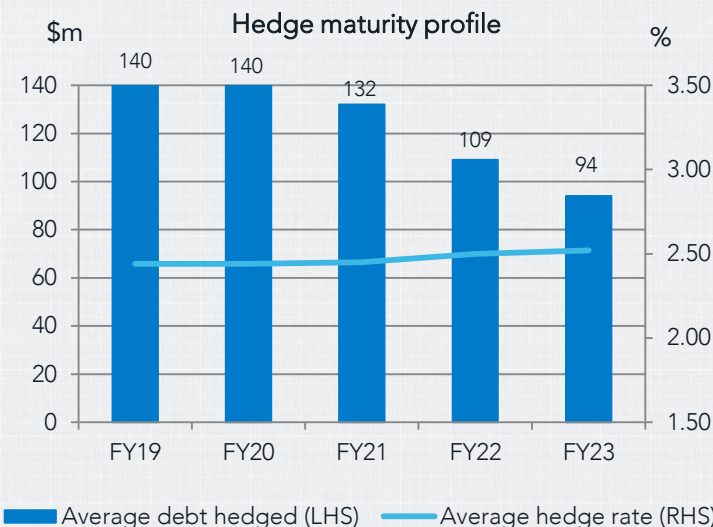
Term of debt and interest rate hedges extended

Equity funding to support new investment:

\$55 million institutional placement in July 2017

\$10 million Security Purchase Plan in August 2017

DRP in operation – \$4.3 million raised in FY18



Portfolio Update

Rob de Vos, Head of Property



Portfolio performance

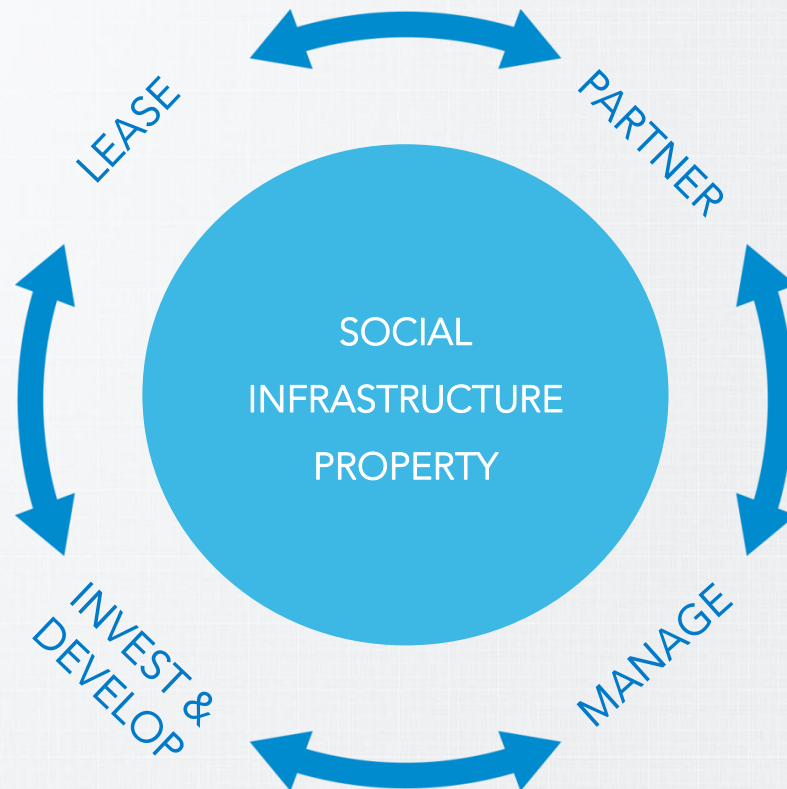
Value-adding business model focused on social infrastructure property

Lease management

- 100% occupancy maintained
- Average like-for-like rent review increase of 2.6%
- Average market rent review increase of 6.3%

Development projects

- 10 ELC development sites acquired
- 14 ELC development projects completed for a total cost of \$88 million at an average yield on cost of 6.7%



Working in partnership

- Extended lease terms out of cycle, taking portfolio weighted average lease expiry to 12.9 years
- Partnering with tenants to identify and secure new opportunities

Portfolio management

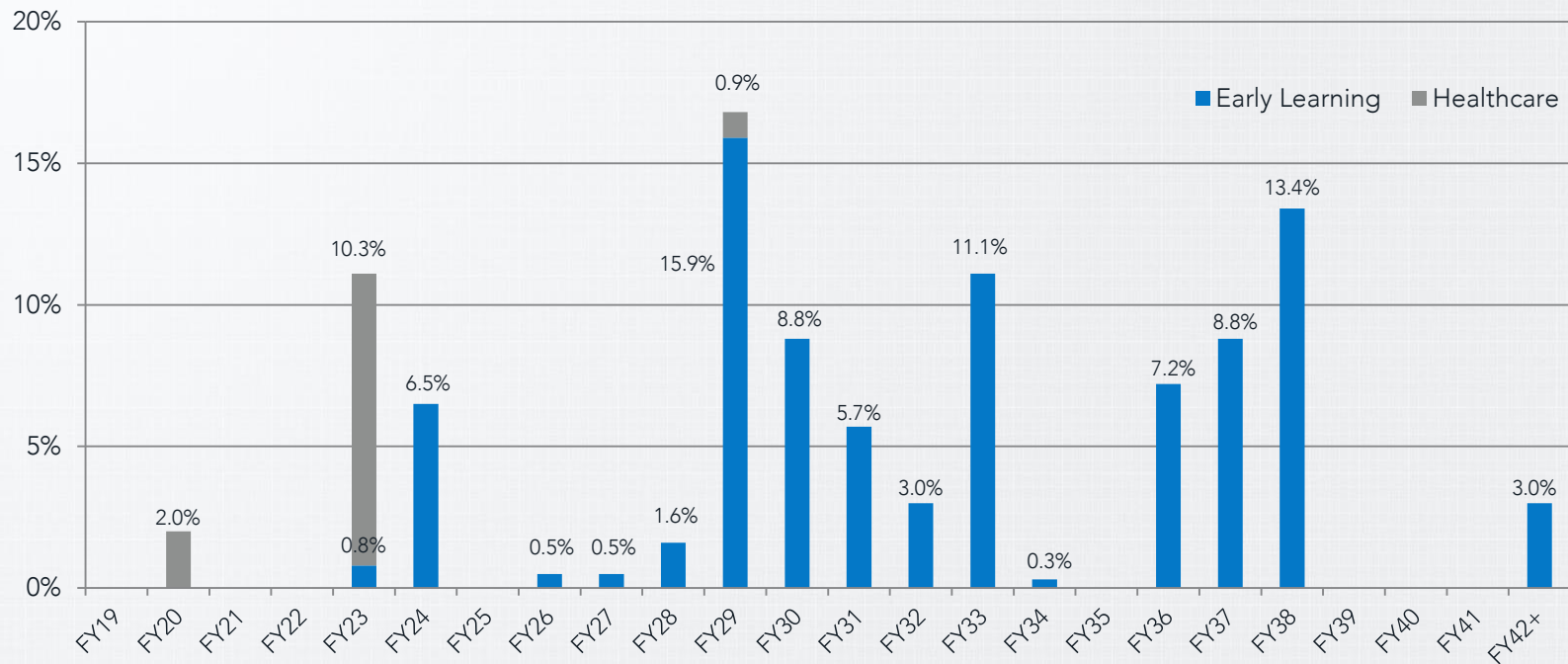
- One existing ELC property acquired and one divested
- One development site divested
- Revaluation uplift \$32 million an increase of 5.3%
- Portfolio weighted average passing yield 6.5%



Lease expiry profile

Weighted average lease expiry increased to 12.9¹ years

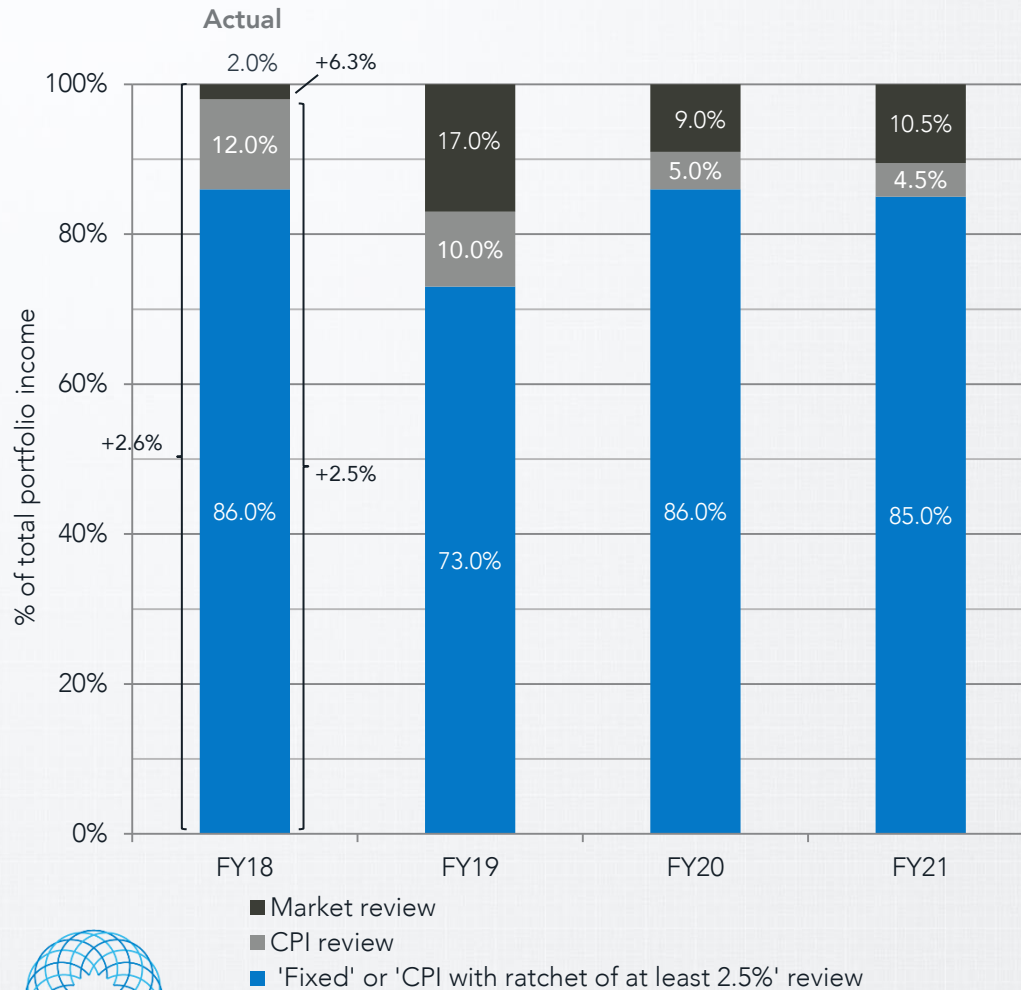
- 14 completed developments added to portfolio with average initial lease term of 19.7 years
- Only 2% of portfolio income subject to expiry prior to FY2023
- Less than 23% of portfolio income subject to expiry prior to FY2029



¹ By income at 30 June 2018

Annual rent review profile

FY18 like-for-like rent increase of +2.6%



FY18 rent review summary:

- Average like-for-like rent review increase of 2.6% achieved
- Market rent reviews achieved 6.3% rental increase

FY19 rent review outlook:

- Market reviews represent 17% of income (42% of which are uncapped)
- Majority are 'Fixed' or 'CPI with a ratchet of at least 2.5%'



Valuation movement

Revaluation uplift of \$31.6 million; total portfolio increase of 5.3%

	Number of assets	30 Jun 2018 valuation (\$m)	Net revaluations movement		30 Jun 2018 passing yield (%)	Change (bps)
			(\$m)	(%)		
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)

- 2H18 revaluation uplift of \$10.3 million taking FY18 revaluation uplift to \$31.6 million
- Total ELC market transactions of approximately \$540 million were recorded during FY18¹
- ELC direct market transaction yields shifted slightly higher on average in 2H18¹



¹ Market data compiled by Arena; not all market transactions may be included.

14 ELC developments completed in FY18

High quality, purpose build projects in preferred locations

	Number of projects	Total cost (\$m)	Initial yield on cost (%)	Initial lease term (yrs)	Long day care places
Leasehold portfolio	1	2.5	8.7	25.3	108
Freehold portfolio	13	85.8	6.6	19.2	1,617
Total/Weighted average	14	88.3	6.7	19.7	1,725



Paisley Park ELC, Bundoora VIC



YMCA, Torquay North VIC



Oxanda, Killara NSW

Development and acquisition pipeline

Existing development pipeline partially completed, new acquisitions secured

- Focus on leveraging our property skills to secure quality assets with Arena's preferred property characteristics that generate a predictable income stream
- Disciplined approach to assessing new investment opportunities
- Partnering with tenants to identify and secure opportunities

Existing development pipeline

Number of projects	5
Forecast total cost	\$31m
Initial yield on cost	6.5%
Capex amount outstanding	\$14m

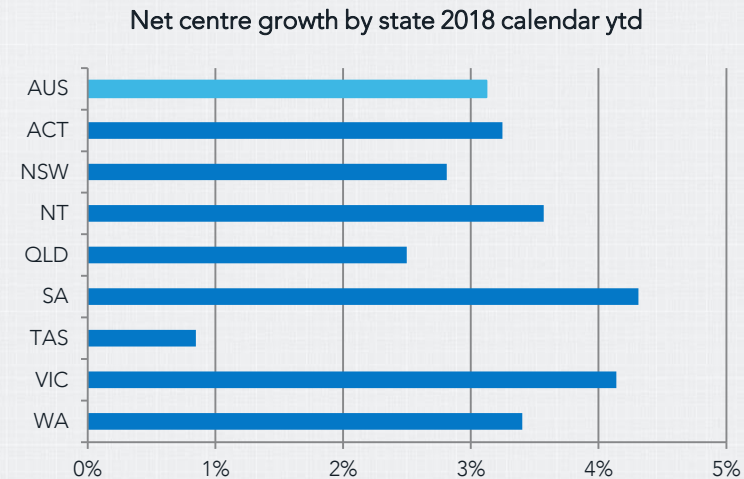
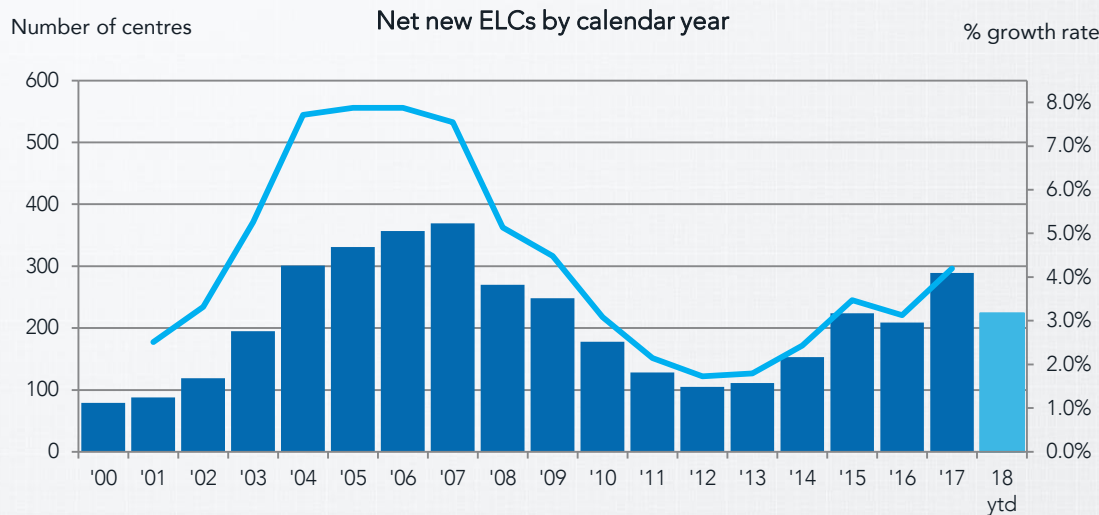
- Two of the above existing development projects have reached practical completion
- Additional properties acquired



ELC market supply

New supply presenting challenges and creating opportunities

- 224 net new centres added to supply in 2018 calendar year to date
- Approximately 300 additional new childcare centres currently in construction
- Tenants are focused on optimising profitability of existing centres
- Financing has tightened for smaller tenants and developers



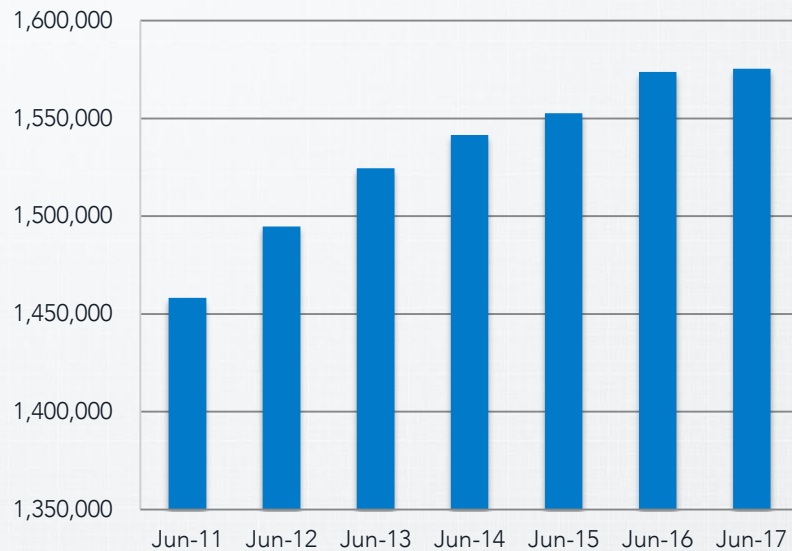
Source: Business Geographics, August 2018, 2018 calendar year to date (or ytd) is 1 January to 1 August 2018.

ELC market demand

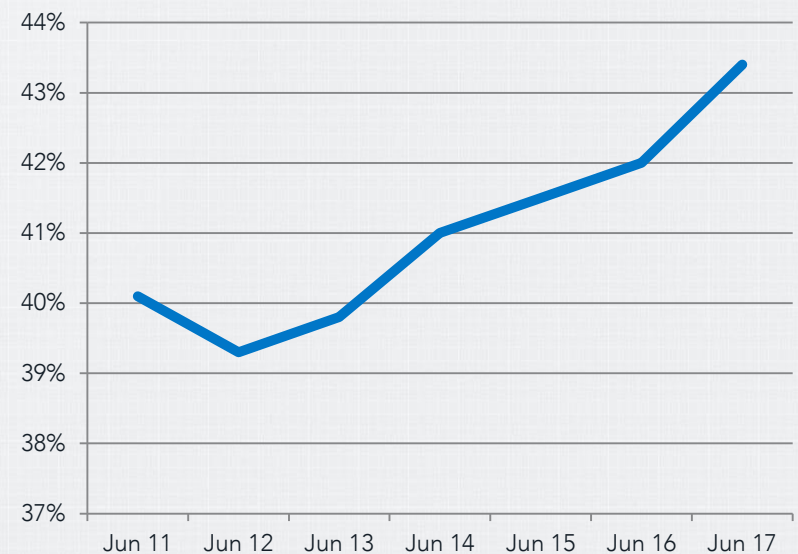
Underlying demographics for ELC demand remain positive

- Continued population growth in 0-4 year olds
- Long day care participation rate of 0-4 year olds has continued to increase
- Early positive feedback from tenant partners as a result of changes to government funding

Number of children aged 0-4 years



Long day care participation rate 0-4 years



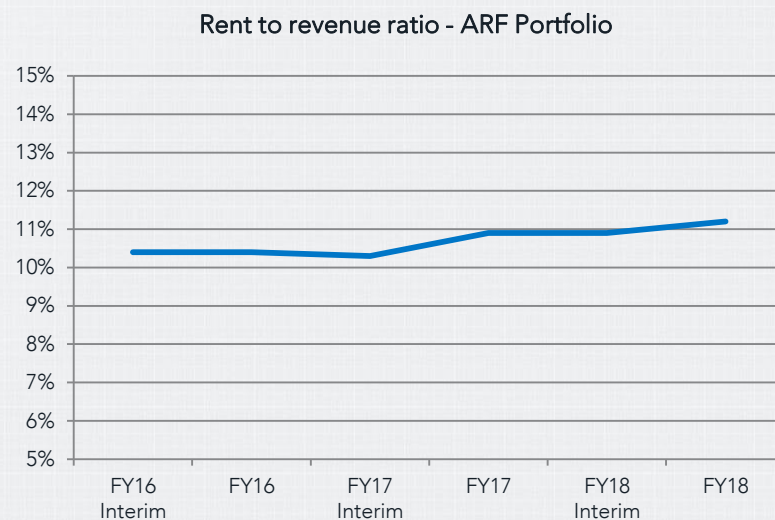
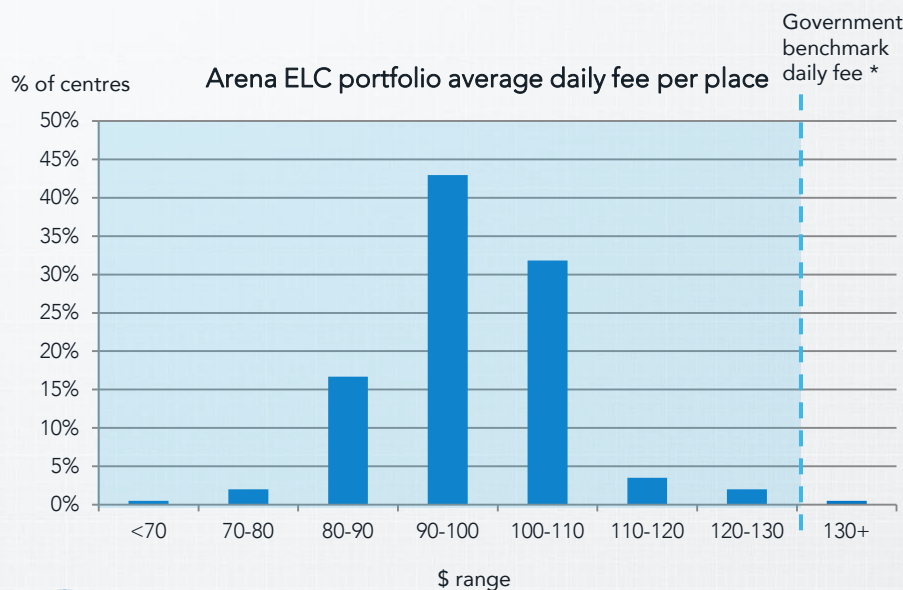
Sources: ABS Statistical Reports No. 3101, Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2018.



Arena REIT ELC portfolio

Proactively managed ELC portfolio, well placed in current market

- Portfolio occupancy 100%
- Total portfolio comparatives over the twelve month period to 30 June 2018
 - Average daily fee increased by 5.3% from \$92.54 to \$97.49
 - Average centre occupancy rate decreased marginally
 - Like-for-like tenant revenues increased by 2% and average centre EBITDA increased by 5%
 - Rent to gross revenue ratio increased from 10.9% to 11.2%



Source: Arena analysis.

* Assumes Child Care Subsidy (CCS) fully covers a daily fee of approximately \$130 based on CCS capped hourly fee of \$11.77 per hour over an 11 hour day.

Outlook



Arena

Outlook

FY19 distributions per security guidance of 13.5 cents¹, +5.5% on FY18

- Income growth
 - contracted rent increases, higher level of market rent reviews scheduled for FY19
 - full impact of FY18 development completions
 - five development projects contracted with estimated cost of \$31 million at 6.5% projected yield on cost
- New investment opportunities
 - debt capacity available at low cost of funds
 - market conditions conducive to new opportunities
 - disciplined investment process for opportunities that meet Arena's preferred property characteristics

Arena's investment objective

"To deliver an attractive and predictable distribution to investors with earnings growth over the medium to long term"



¹ FY19 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.

Questions



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Appendices



Historical financial data

Period ended/as at	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15	30-Jun-14
ASX closing price (\$)	2.15	2.25	1.99	1.54	1.20
Securities on issue (m)	269.4	234.8	232.0	228.3	211.5
Market capitalisation (\$m)	579.1	528.3	461.7	351.6	253.8
Total annual securityholder return (%)	1.2	19.8	37.6	36.3	26.7
ASX 300 A-REIT Property Index annual return (%)	13.2	(5.6)	24.6	20.2	11.1
Return on Equity (%)	13.4	24.7	22.2	23.5	20.5
Earnings per security (EPS) (cents)	13.10	12.30	11.11	10.20	8.85
EPS growth (%)	7	11	9	15	8
Distributions per security (DPS) (cents)	12.80	12.00	10.90	10.00	8.75
DPS growth (%)	7	10	9	14	9
Payout ratio (%)	98	98	98	98	99
Total Assets (\$m)	726.1	621.3	514.0	450.6	375.3
Gearing (%)	24.7	27.5	26.8	29.1	33.3
NAV (\$)	1.97	1.84	1.54	1.33	1.13
NAV growth (%)	7	19	16	18	11
Weighted average cost of debt (% pa)	3.85	3.75	3.85	4.30	4.80
Proportion of borrowings hedged (%)	78	79	72	69	68



Historical portfolio data

	FY18	FY17	FY16	FY15	FY14
Number of properties	214	205	203	197	193
Sector diversification (by value)					
Early Learning (%)	88	86	84	84	81
Healthcare (%)	12	14	16	16	19
Occupancy (%)	100	100	100	99	99
Weighted Average Lease Expiry (WALE) (years)	12.9	12.8	9.7	8.9	8.5
Portfolio valuation (\$m)	699.4	591.7	491.4	420.0	355.8
Portfolio weighted average passing yield (%)	6.52	6.76	7.30	8.00	8.70
Total property return (%)	12	19	19	20	19
Annual like-for-like rental growth (%)	2.6	4.3	3.6	3.4	2.9
Average annual market rent review increase (ELC) (%)	6.3	6.2	6.5	6.4	6.1
Development completions					
Number of projects	14	8	4	7	-
Total cost (\$m)	88.3	20.4	19.1	17.0	-
Initial yield on total cost (%)	6.7	8.6	8.7	9.4	-



Financial performance

	FY18	FY17	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Property income	43,128	37,437	5,691	15%
Other income	770	689	81	12%
Total operating income	43,898	38,126	5,772	15%
Property expenses	(832)	(1,152)	320	(28)%
Operating expenses	(3,493)	(3,535)	42	(1)%
Finance costs	(4,883)	(4,714)	(169)	4%
Net operating profit (distributable income)	34,690	28,725	5,965	21%
<i>Non-distributable items:</i>				
Investment property revaluation & straight-lining of rent	31,591	66,856	(35,265)	53%
Change in fair value of derivatives	(553)	1,805	(2,358)	(131)%
Profit/(loss) on sale of investment properties	30	12	18	150%
Transaction costs	(541)	(77)	(464)	(603)%
Amortisation of security-based payments (non-cash)	(855)	(576)	(279)	(48)%
Other	70	46	24	52%
Statutory net profit	64,432	96,791	(32,359)	(33)%



Balance sheet

	30 Jun 18	30 Jun 17	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	8,654	9,082	(428)	(5)%
Receivables and other assets	7,208	9,672	(2,464)	(25)%
Investment properties	699,409	591,712	107,697	18%
Intangibles	10,816	10,816	-	-%
Total assets	726,087	621,282	104,805	17%
Trade and other liabilities	6,773	9,930	(3,157)	(32)%
Distributions payable	8,619	7,221	1,398	19%
Borrowings	178,491	170,624	7,867	5%
Derivatives	561	1,031	(470)	(46)%
Total liabilities	194,444	188,806	5,638	3%
Net assets	531,643	432,476	99,167	23%
Number of securities on issue (m)	269.4	234.8	34.6	15%
Net asset value per security (\$)	1.97	1.84	0.13	7%
Gearing (%)	24.7	27.5	(2.8)	(280bps)



Portfolio valuations – at 30 June 2018

	Number of assets	Value (\$m)	Passing yield (%)
ELC – Independent Valuations			
Queensland	10	39.3	6.63%
New South Wales	3	14.4	6.05%
Western Australia & Northern Territory	2	4.5	7.21%
Victoria	14	35.2	5.89%
Total ELC independent valuations	29	93.4	6.29%
ELC – Director Valuations			
Queensland	64	178.1	6.89%
New South Wales	26	64.2	6.28%
Western Australia	22	51.7	6.76%
Tasmania	7	18.5	6.69%
South Australia	5	13.8	6.50%
Victoria - freehold	43	161.4	5.83%
Victoria - leasehold	6	15.6	8.59%
Total ELC director valuations	173	503.3	6.43%
Total ELC portfolio	202	596.7	6.46%
Healthcare – Independent valuations	2	25.5	7.38%
Healthcare – Director valuations	5	59.9	6.63%
Total Healthcare portfolio	7	85.4	6.85%
Developments	5	17.3	-
Total portfolio	214	699.4	6.52%



Borrowing summary

As at 30 June 2018

	Tranche 1	Tranche 2	Total
Total facility	\$80m	\$150m	\$230m
Amount drawn	\$80m	\$99.5m	\$179.5m
Available debt	-	\$50.5m	\$50.5m
Expiry date	31-Mar-22	31-Mar-23	
Remaining term	3.75yrs	4.75yrs	4.4yrs

Covenant	Facility requirement	Ratio
Loan to value ratio (LVR) ¹	Maximum 50%	28%
Interest cover ratio (ICR)	Minimum 2x	6.0x



¹ LVR is calculated as total borrowings over total of latest independent valuation of investment properties

Portfolio composition and movement

Portfolio movements (30 June 2017 to 30 June 2018)



ELC developments completed in FY18

	Tenant Partner	Total cost (\$m)	Initial lease term (yrs)	Long day care places
Leasehold properties				
Torquay North, VIC	YMCA	2.5	25	108
Freehold properties				
Auburn, NSW	Oxanda	5.6	20	111
Killara, NSW	Oxanda	7.7	20	92
Port Macquarie, NSW	Green Leaves	7.7	20	140
Durack, NT	Journey Early Learning	2.4	20	103
Mount Pleasant, QLD	Green Leaves	5.2	20	143
Murrumba Downs, QLD	Green Leaves	9.8	20	186
Pelican Waters, QLD	Green Leaves	6.8	20	128
Warner Lakes, QLD	Green Leaves	6.6	20	128
Bellerive, TAS	Green Leaves	6.3	20	106
Bundoora, VIC	Paisley Park	6.6	15	120
Richmond, VIC	Green Leaves	8.6	20	116
Chadstone, VIC	Paisley Park	5.5	15	120
Craigieburn, VIC	Green Leaves	7.0	20	124
Total/Weighted average		88.3	19.7	1,725



ELC portfolio metrics

	30 Jun 2018	30 Jun 2017	Change
Leased ELCs	202	188	7.4%
Development sites	5	10	(50%)
Total ELCs	207	198	4.5%
WALE (by income) (years)	14.2	14.2	-
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.46	6.73	(27bps)
Portfolio value (\$m)	614.0	507.6	21.0%
Average rental increase (%)	2.9	4.7	(180bps)
Rent to gross revenue ratio (%)	11.2	10.9	30bps
Average daily fee (\$)	97.49	92.54	5.3%
Portfolio composition (by value)			
Metropolitan (%)	61	58	300bps
Regional (%)	39	42	(300bps)
Purpose Built (%)	96	96	-



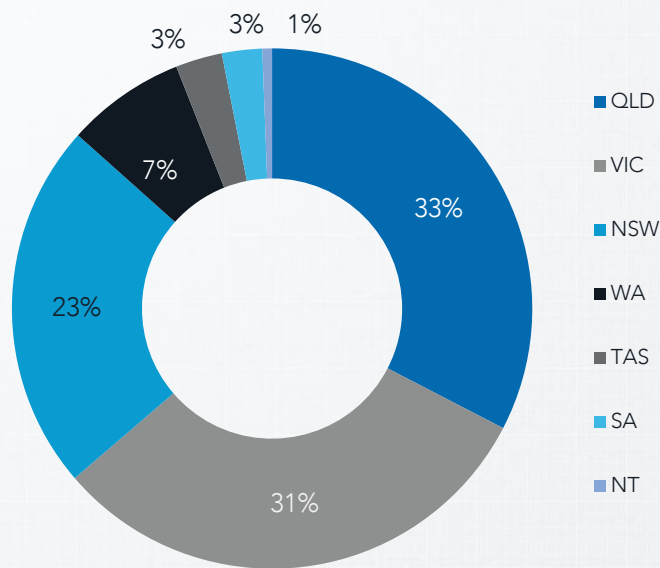
Healthcare portfolio metrics

	30 Jun 2018	30 Jun 2017	Change
Total healthcare properties	7	7	-
WALE (by income) (years)	4.5	5.5	(1yr)
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.85	6.92	(7bps)
Property portfolio (\$m)	85.4	84.1	1.5%
Average rental increase (%)	1.3	2.5	(120bps)
Portfolio composition (by value)			
Metropolitan (%)	86	86	-
Regional (%)	14	14	-
Purpose Built (%)	100	100	-

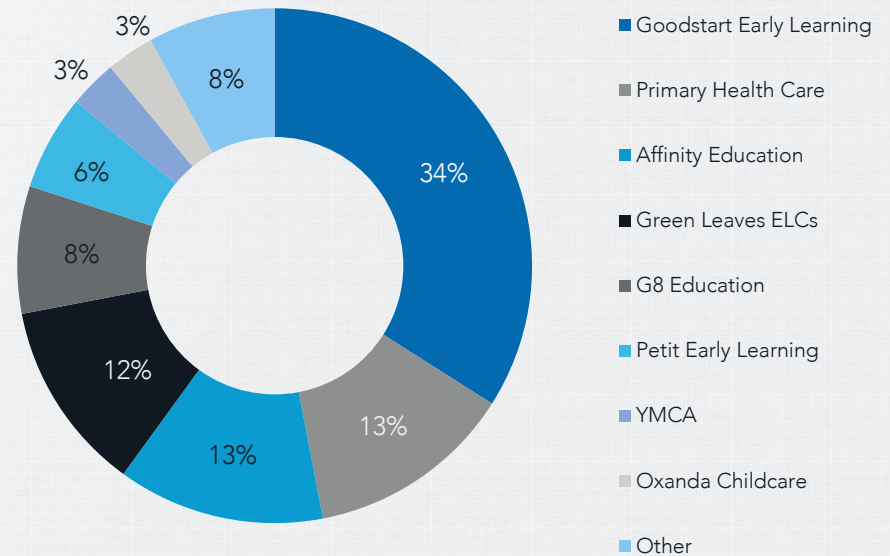


Portfolio diversification

Geographic diversification (by value)

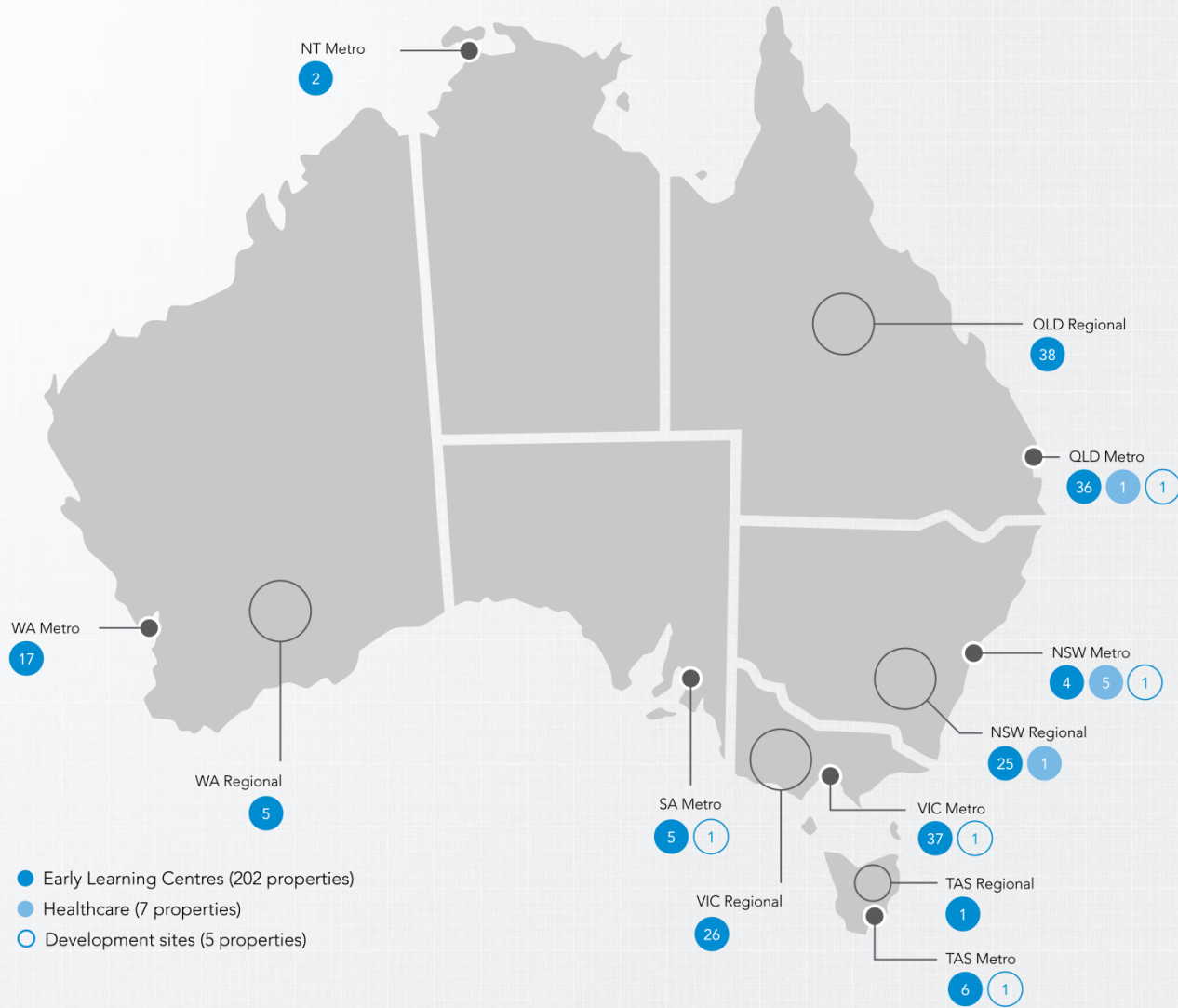


Tenant partner diversification (by income)



Total amount may not add up due to rounding

Portfolio location map



'Jobs for Families' package – July 2018

- New activity test (previously minimum 24 hours of subsidy)

Hours of activity (per fortnight)	Maximum number of hours of subsidy (per fortnight)	
8 – 16 hours	36 hours	Families earning less than \$65,710 that do not meet the activity test will have access to 24 hours of subsidised care
16 – 48 hours	72 hours	
48 hours +	100 hours	

- New benchmark hourly fee to which subsidy applies – \$11.77 (indexed annually) (previously uncapped)
- New subsidy arrangements (previously mix of scaled income tested Child Care Rebate (CCR) and Child Care Benefit (CCB) of 50% (up to annual cap of \$7,500 per child))

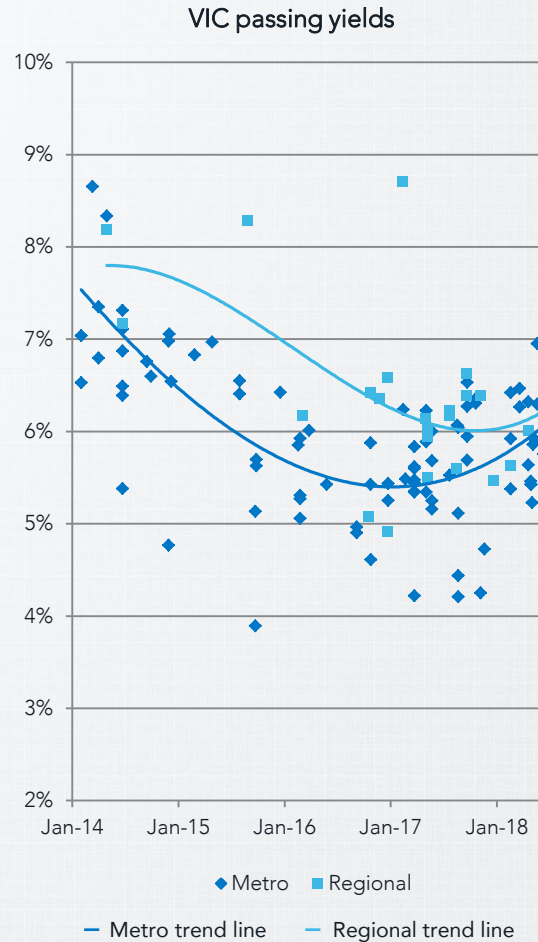
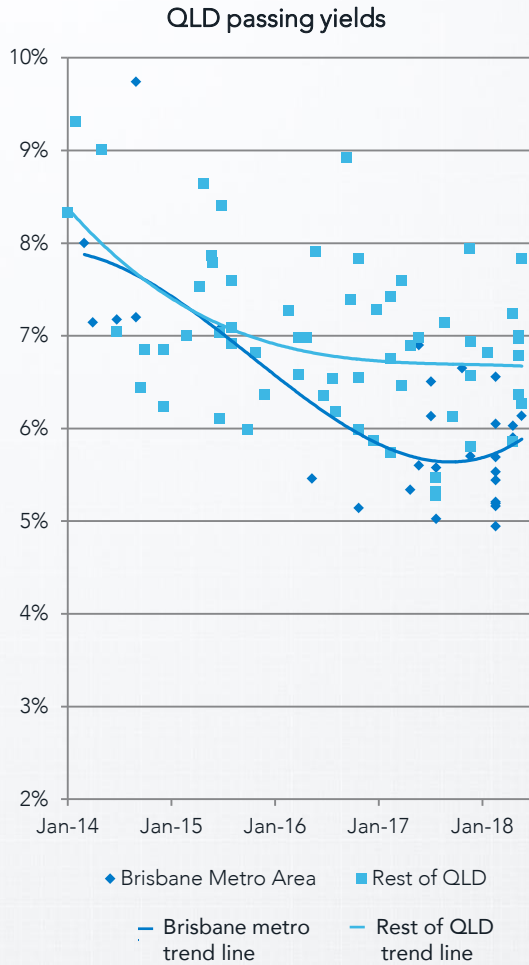
Combined Family Income	Subsidy % of fee charged (up to relevant hourly fee cap)	Cap changes
Up to \$65,710	85%	<ul style="list-style-type: none"> Removal of subsidy cap for incomes up to \$185,000 Increase in cap to \$10,000 for families earning over \$185,000 Removal of subsidy for family incomes \$350,000
From \$65,710 to \$170,710	Tapering to 50%	
\$170,710 to \$250,000	50%	
From \$250,000 to \$340,000	Tapering to 20%	
\$340,000 to \$350,000	20%	
\$350,000+	0%	

- Additional support for disadvantaged and vulnerable families



Source: Department of Education and Training https://docs.education.gov.au/system/files/doc/other/a3_overview_090517.pdf

ELC market transactions



Source: Market data compiled by Arena; not all market transactions may be included.

Important notice

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