

20 NOVEMBER 2018

## ANNUAL GENERAL MEETING – CHAIRMAN’S ADDRESS AND PRESENTATION

Good morning ladies and gentlemen and welcome to the general meetings of unitholders in Arena REIT No. 1 and Arena REIT No. 2 (together, the Trusts) and the annual general meeting of shareholders in Arena REIT Limited (the Company), which together constitute Arena REIT’s 2018 Annual General Meeting (AGM).

My name is David Ross and I am the Independent Chairman of the Board of Directors of Arena REIT Limited and of the Board of Directors of Arena REIT Management Limited ((ARML) the Responsible Entity of the Trusts) and I have been appointed as the chairman of today’s meeting.

The time is now 10am and a quorum is present. I therefore declare the meeting open.

Please take a moment to ensure that your mobile phones are turned to silent.

Allow me to introduce to you the other members of your Board of Directors:

- Bryce Mitchelson, Managing Director;
- Gareth Winter, CFO and Company Secretary (ARML);
- Dennis Wildenburg, Independent Non-Executive Director; and
- Simon Parsons, Independent Non-Executive Director.

The Board has two committees, an Audit Committee and a Remuneration & Nomination Committee which are comprised of only the Independent Directors.

Also with us today are:

- Members of the Arena management team;
- Charles Christie, Partner and Leona Goh, Audit Manager, representing PWC, Arena’s Auditor;
- John Hutchinson, representing Hall & Wilcox, Arena’s Corporate Legal Advisor; and
- Colin Fawns, Returning Officer, Boardroom Limited.

The Board and Management look forward to meeting with securityholders at the conclusion of the meeting.



## Agenda

The agenda for today's meeting includes a brief presentation from me followed by a presentation from Arena's Managing Director, Bryce Mitchelson on the operating performance of Arena in the 2018 financial year and the outlook for the 2019 financial year.

We will then move to general questions followed by the formal business of the meeting, being consideration and voting on six resolutions.

## Highlights for FY18

Arena's financial performance has again been strong, with net operating profit, or distributable income, of \$34.7 million recorded for the year, up 21% on FY17.

This was primarily as a result of growing rental income from annual rent reviews and new income from the eight developments completed in FY17 and a record 14 development projects completed in FY18.

We delivered on our distribution guidance of 12.8 cents per security, an increase of 6.7% over FY17 with underlying earnings per security (EPS) of 13.1 cents, an increase of 6.5% over FY17.

Following the development project completions and the revaluation of the portfolio, Arena's total assets increased to \$726.1 million, up 17% on 30 June 2017 and pleasingly we finished the year with a Net Asset Value per security of \$1.97, up 7% over the same period.

The \$55 million equity raising and \$10 million security purchase plan completed in early FY18 funded new acquisitions, reduced gearing and further improved our capacity to access new opportunities to grow income and enhance portfolio value and quality.

## Securityholder returns

In June 2018, Arena marked five years since its ASX listing. We are pleased to report that over this period Arena delivered a five year ASX total return of 23.6%<sup>1</sup> per annum to 30 June 2018. While the one year ASX total return to 30 June 2018 was relatively flat at 1.2%<sup>1</sup> for the year the financial results and portfolio metrics were strong and the Arena team remain focused on delivering long term investor value.

We see these outcomes as an endorsement of both our strategy and our ability to deliver against our investment objective – to generate attractive and predictable distributions to investors with earnings growth prospects over the medium to long term.

## Remuneration

Reflecting on these positive financial outcomes achieved for the year, I can confirm that the management team substantially met the 2018 key performance objectives (KPI's) set by the Board –

<sup>1</sup> UBS, UBS Australian REIT month in review June 2018

delivering significant growth in earnings and distributions and achieving a range of other non-financial objectives.

The performance objectives have been reset for FY19, and have been designed to challenge and appropriately incentivise management to achieve not only relatively strong EPS growth performance, but also take into consideration the level of risk undertaken to achieve that growth in the prevailing market conditions.

The Board believes the current remuneration framework, which is outlined in the Remuneration Report section of the 2018 Annual Report, aligns the interests of the management team with securityholders and enables Arena to continue to attract and retain a high quality and committed management team.

## **Strategy**

Strategically, we continue to focus on providing long term accommodation solutions to operators of social infrastructure property, with our investments in early learning centres and healthcare properties to date delivering an attractive average total direct property portfolio return since listing of 18% per annum compound.

We continue to differentiate Arena's brand in the marketplace through our partnership approach, working collaboratively with our tenants and business partners to deliver outstanding results.

During the year we extended the portfolio's weighted average lease expiry to 12.9 years enhancing both the long term value of our tenant's businesses and the growth and predictability of Arena's rental income stream.

In our development portfolio, we partnered with existing tenants to secure new sites, and design, develop and construct purpose built properties to add to the portfolio.

Our preferred investment characteristics remain unchanged – our focus is on a combination of:

- long lease terms;
- premises that have strategic importance to tenant operations;
- tenants of high credit quality; and
- leases where outgoings and capital expenditure obligations rest with the tenant rather than the landlord.

As a long-term investor, our focus is on maximising the quality of our portfolio and we see opportunities for Arena to enhance existing properties for increased return as well as the acquisition and development of new high quality assets.

The management team's focus for 2019 remains active management of the existing portfolio, successful execution of our development pipeline, and an ongoing disciplined approach when identifying new opportunities for investment.

We have a highly engaged and passionate team, and as investor interest in social infrastructure property investment continues to grow, we believe our specialised management and development expertise, execution track record and successful partnering reputation are key differentiators for

operators looking for a long term real estate partner. Arena is well placed to continue to deliver on our investment objective – to generate attractive and predictable distributions to investors with earnings growth prospects over the medium to long term.

## Outlook

Despite increased uncertainty in regard to the political landscape and the outlook for the Australian property market, domestic early learning centre (ELC) and healthcare sectors remain supported by strong structural macroeconomic drivers.

Arena's ELC portfolio has been proactively positioned for the current cyclical challenges and opportunities and we remain positive about the outlook for Arena's portfolio for FY19 due to its strong position supported by:

- 100% occupancy;
- Long term triple net leases with minimum annual rent increases;
- Higher level of market rent reviews;
- Full impact of FY18 developments;
- FY19 development completions and acquisitions; and
- Funding capacity to execute on selective new investment and development activities.

As in previous years, I am pleased to advise that we are forecasting distribution growth, reconfirming the distribution guidance we provided in August 2018 for the 2019 financial year of 13.5 cents per security – reflecting growth of 5.5% over the 2018 financial year.

## Conclusion

Before handing over to Bryce I would like to take the opportunity on behalf of the Board and the management team to publicly thank all of our securityholders, tenants and business partners for their continued support.

On behalf of the Board I would also like to acknowledge and express appreciation to our management team for their ongoing commitment and contribution to Arena's performance.

Thank you.

David Ross

Chairman

20 November 2018

– ENDS –

**For further information, please contact:**

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**About Arena REIT**

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

# Arena REIT Annual General Meeting

20 November 2018



**Arena**

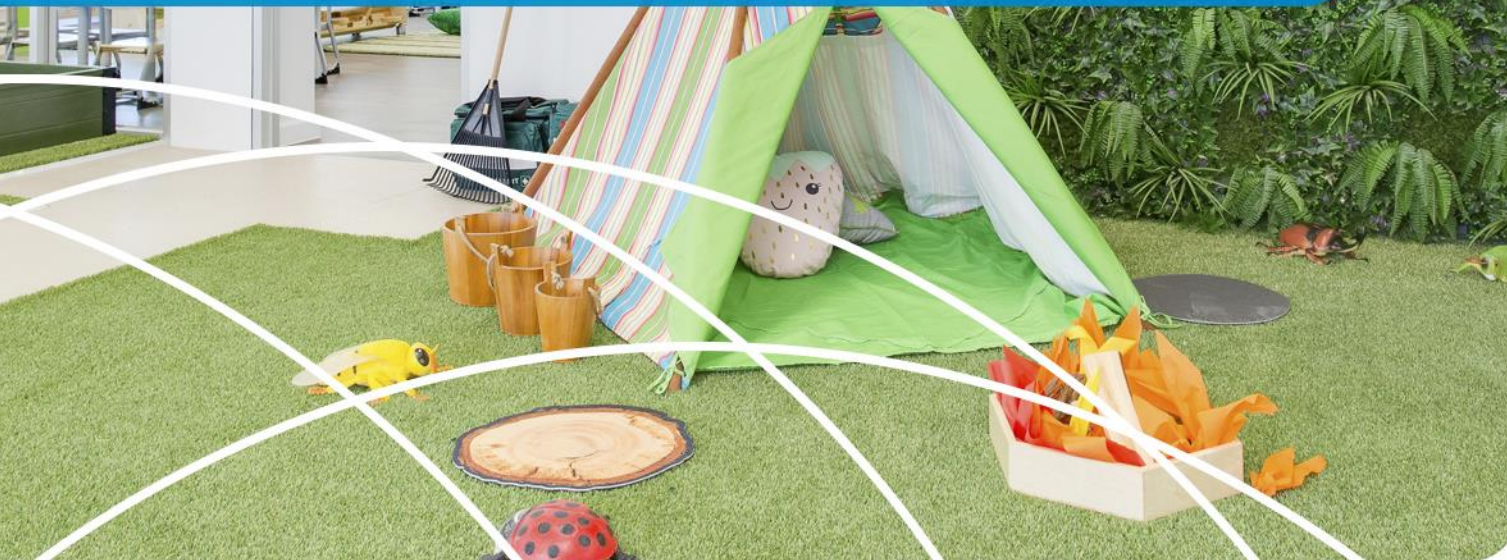
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# Chairman's Address

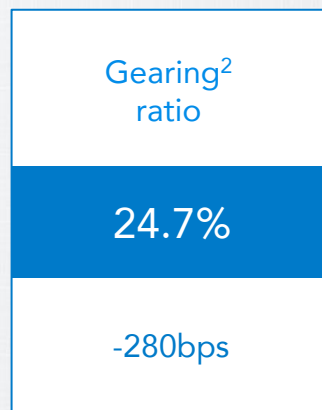
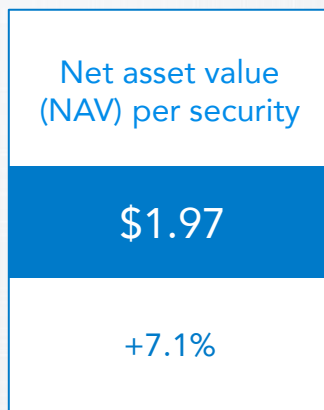
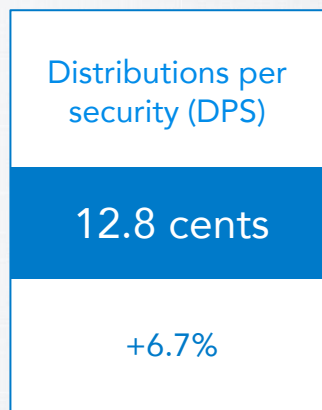
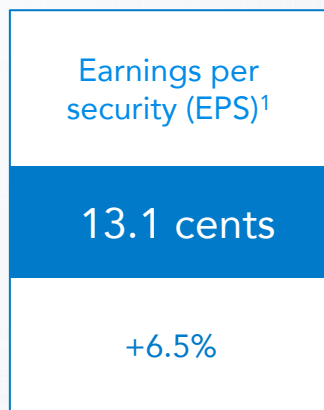
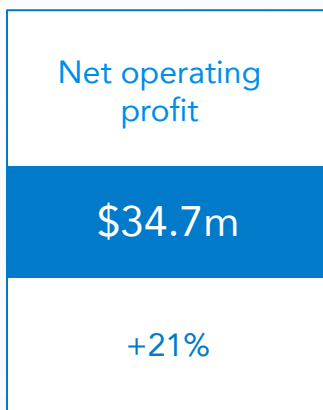
David Ross, Chairman



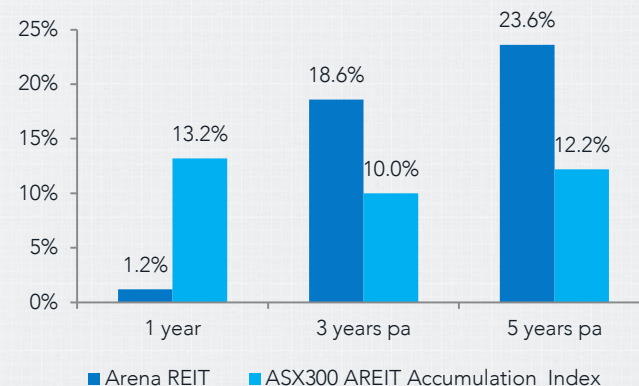


# Highlights for FY2018

Strong operating performance with capacity for future growth



ASX total return<sup>3</sup> performance to 30 June 18



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

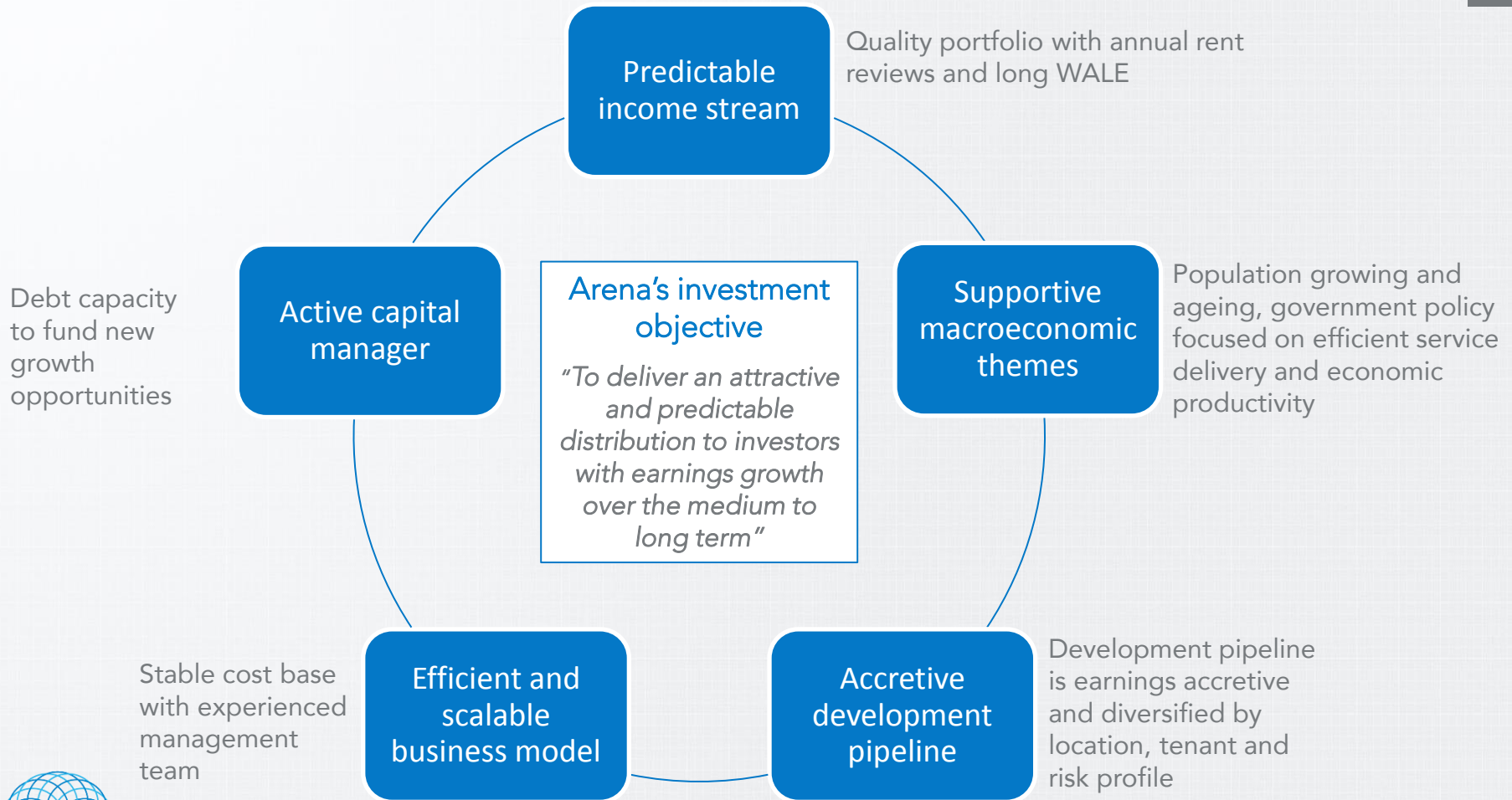
<sup>2</sup> Gearing calculated as ratio of borrowings over total assets.

<sup>3</sup> UBS, UBS Australian REIT month in review, June 2018.



# Strategically well positioned

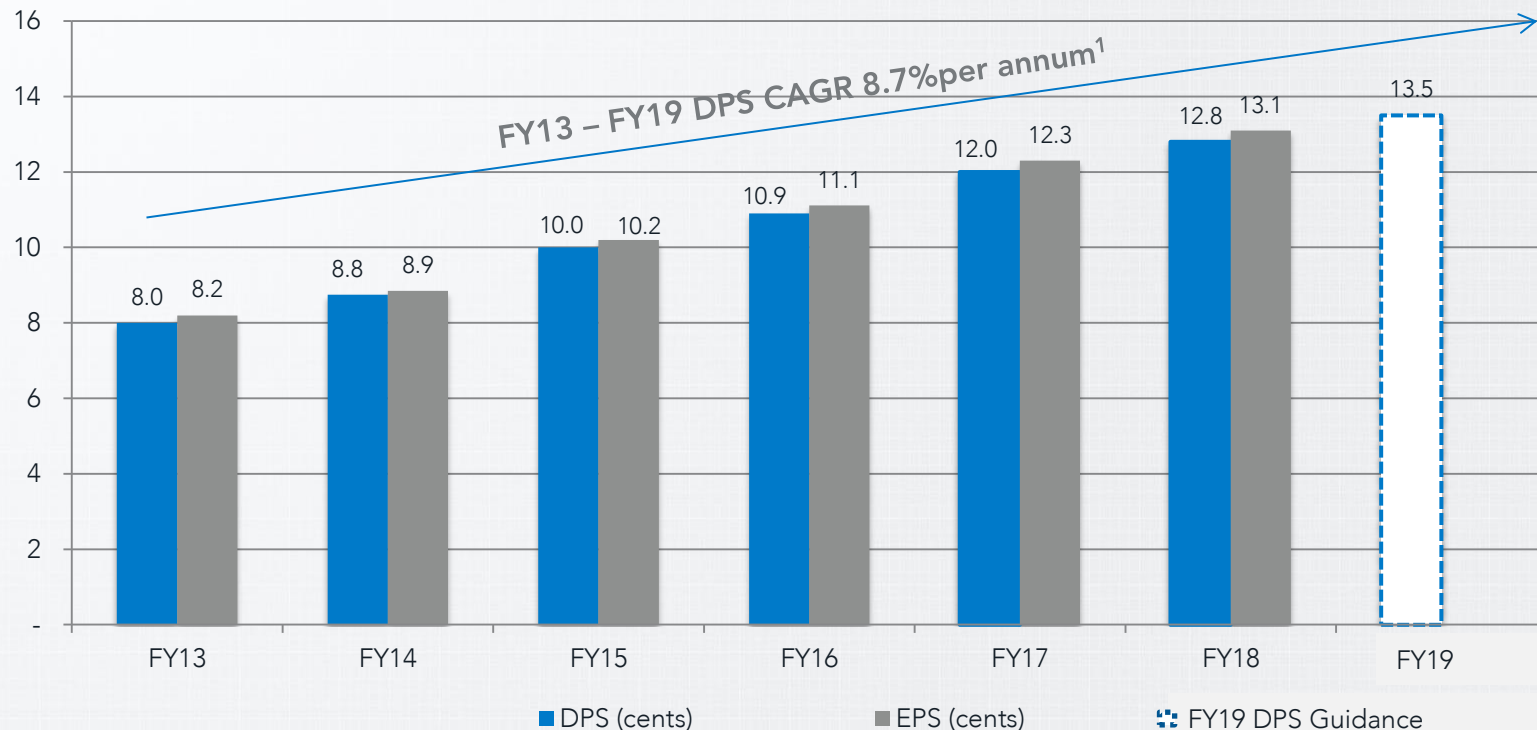
High level of contracted earnings with growth prospects



# Delivering on investment objective<sup>1</sup>

Earnings and distribution growth underpinned by core earnings drivers

Earnings and distributions per security (cents)



<sup>1</sup> 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.

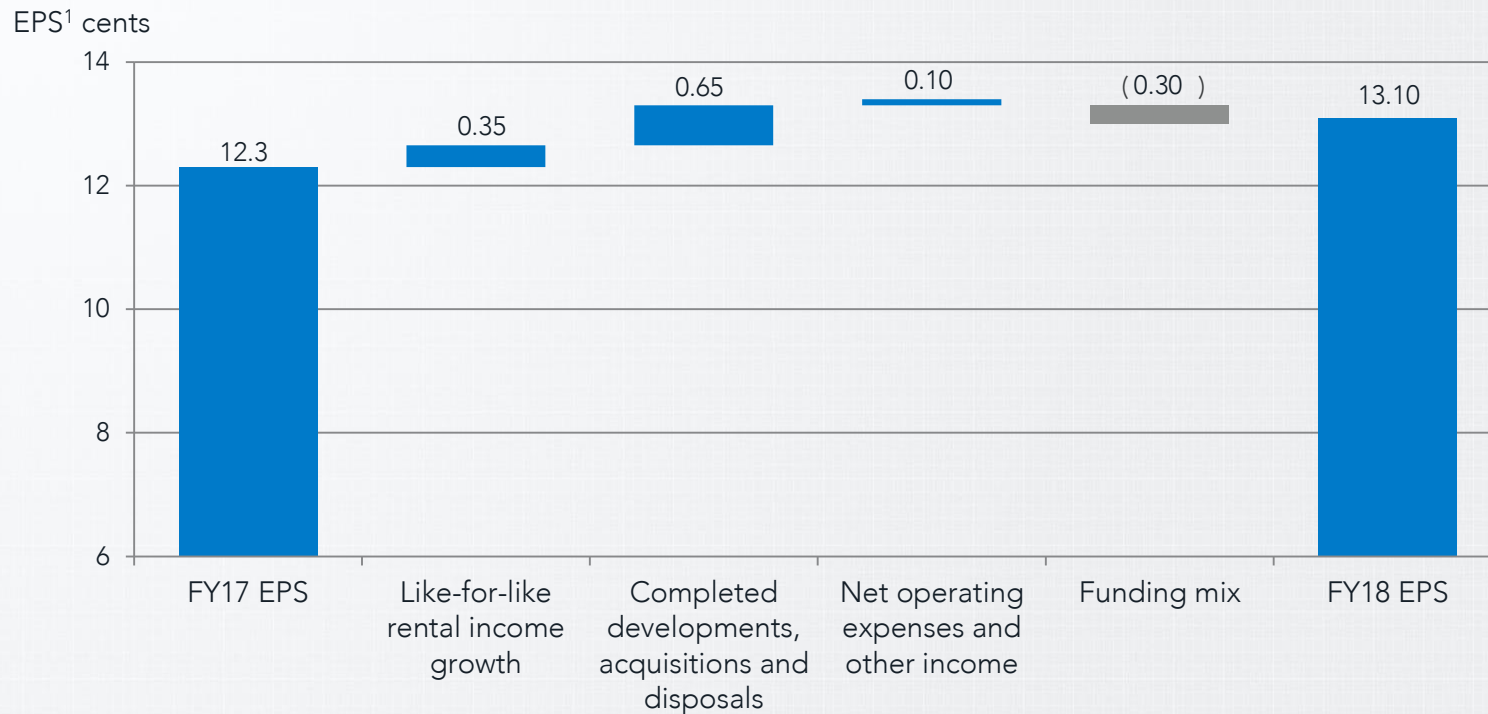
# Managing Director's presentation

Bryce Mitchelson, Managing Director



# FY18 contributors to EPS growth

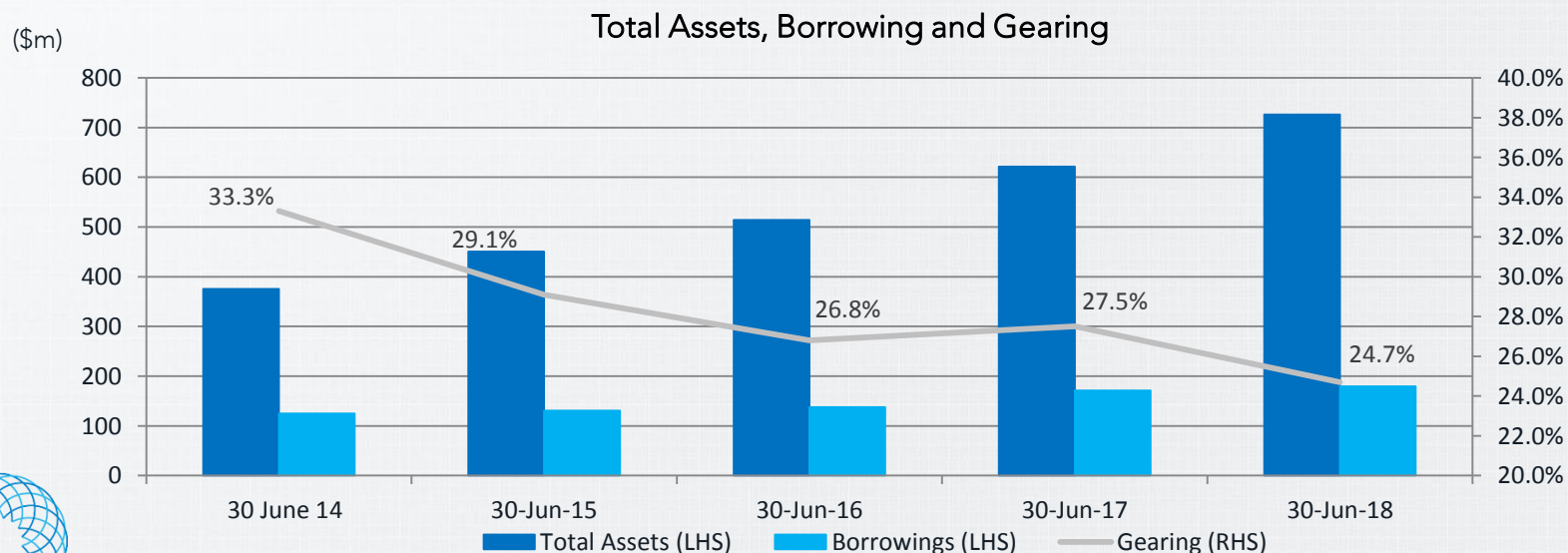
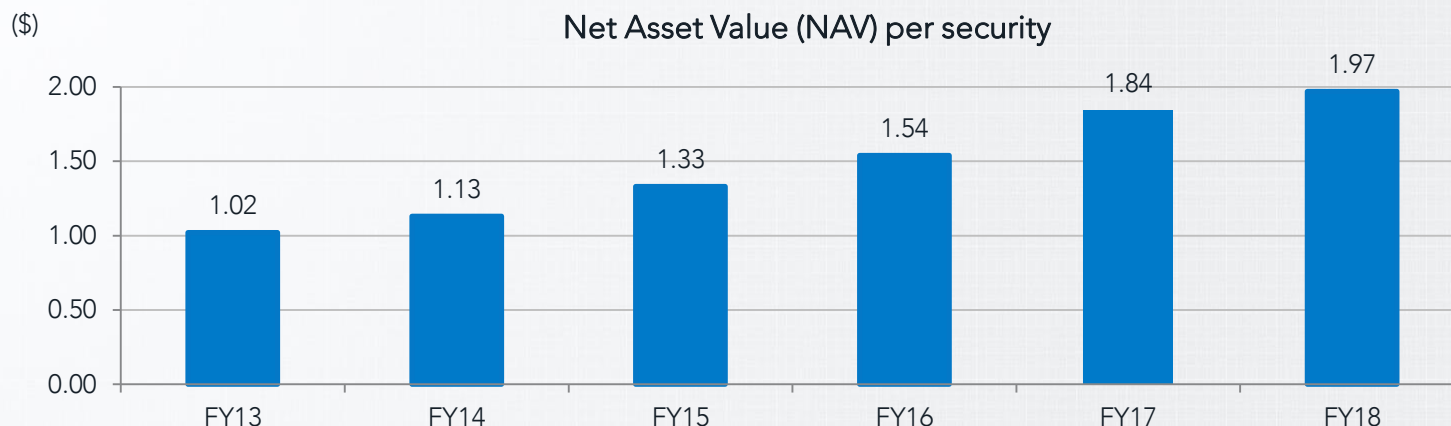
Core earnings drivers continue to underpin EPS<sup>1</sup> growth



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

# Financial position at 30 June 2018

Increase in NAV per security of 7%, gearing reduced to 24.7%



# Portfolio well positioned

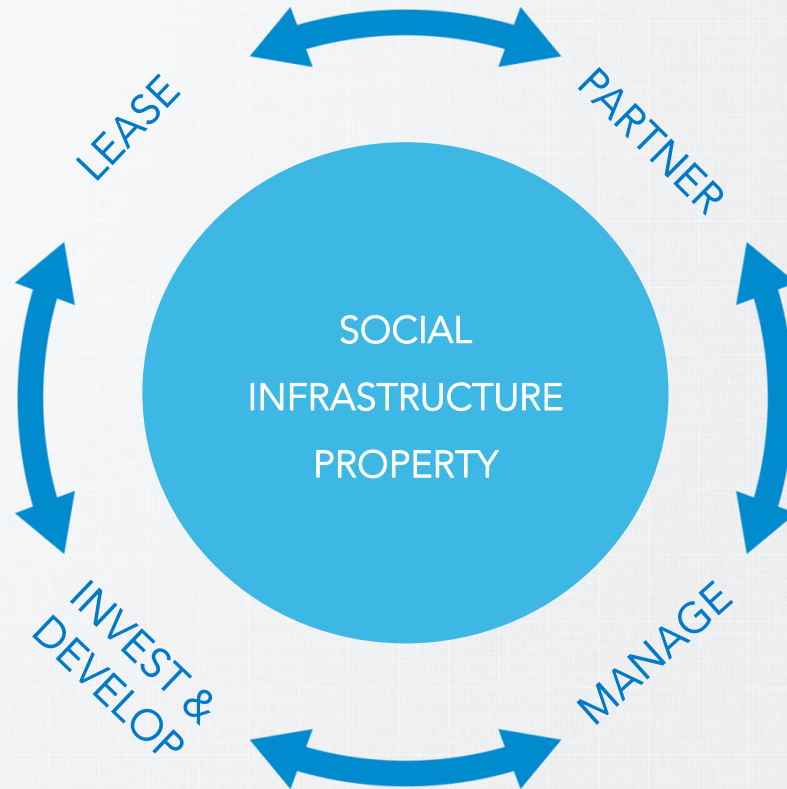
Value-adding business model focused on social infrastructure property

## 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

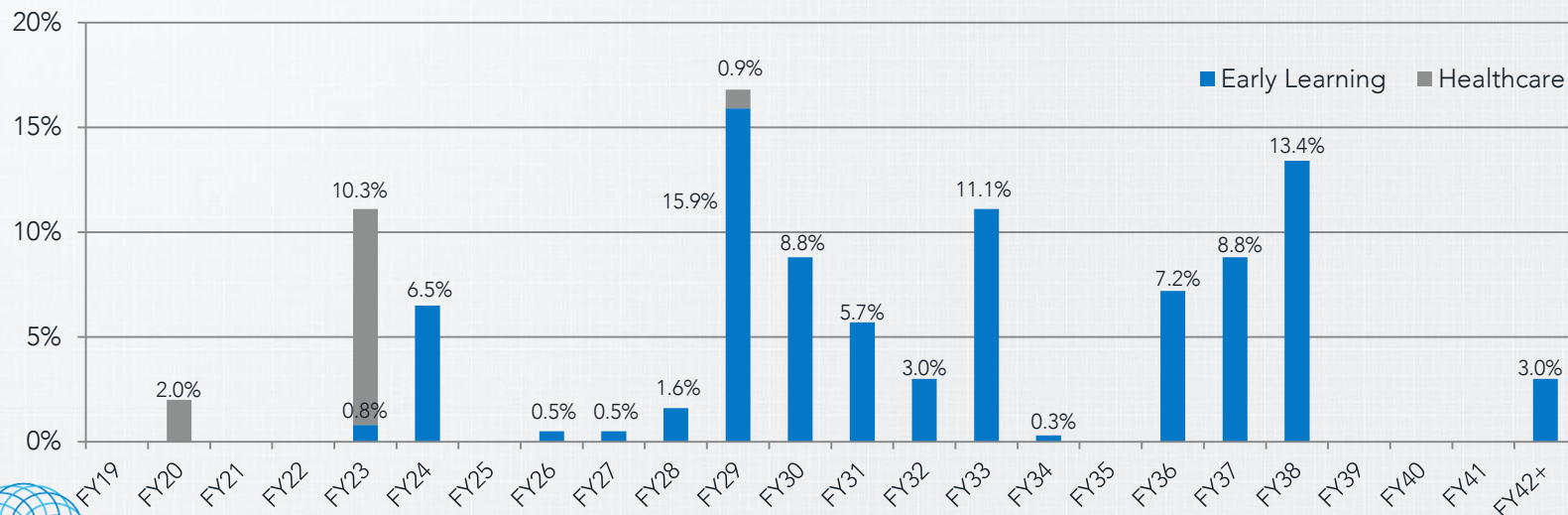
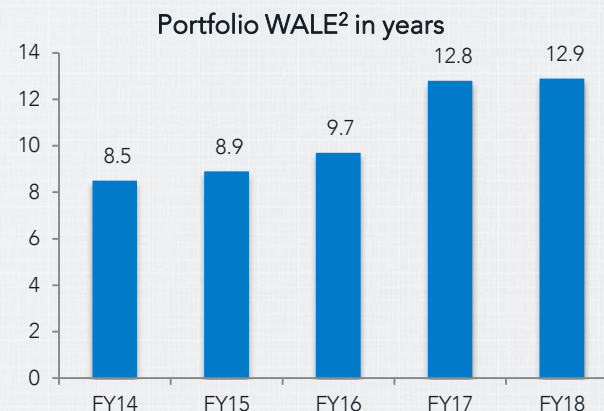
- One existing ELC property acquired and one divested
- One development site divested
- Revaluation uplift \$32 million an increase of 5.3%
- Portfolio weighted average passing yield 6.5%



# Lease expiry profile

Weighted average lease expiry increased to 12.9<sup>1</sup> 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



<sup>1</sup> By income at 30 June 2018

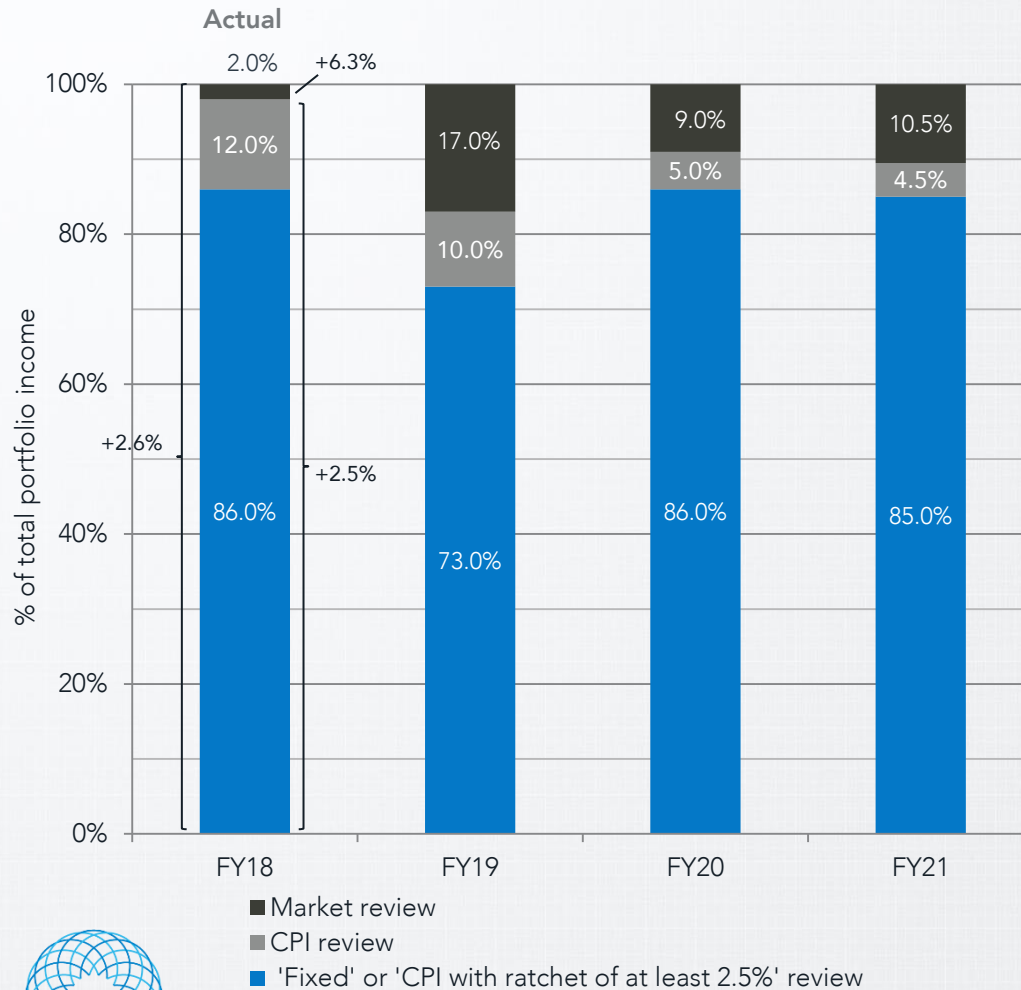
<sup>2</sup> Weighted average lease expiry (by income).





# 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%'



# Developments completed and pipeline

14 high quality, purpose built developments completed in FY18

Developments completed in FY18	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
<b>Total/Weighted average</b>	<b>14</b>	<b>88.3</b>	<b>6.7</b>	<b>19.7</b>	<b>1,725</b>

- 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 at 30 June 2018

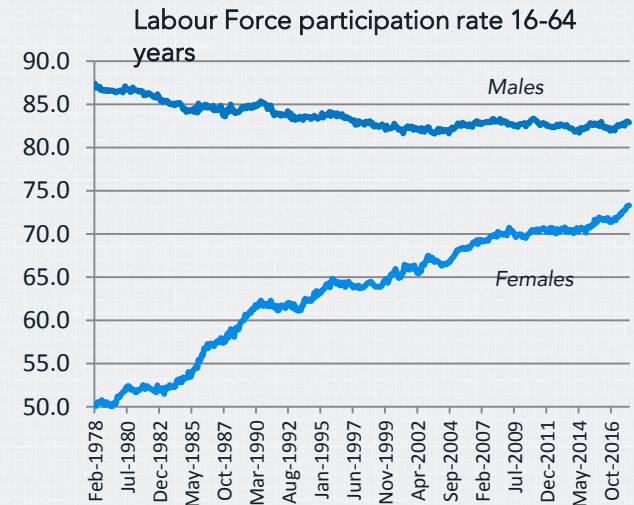
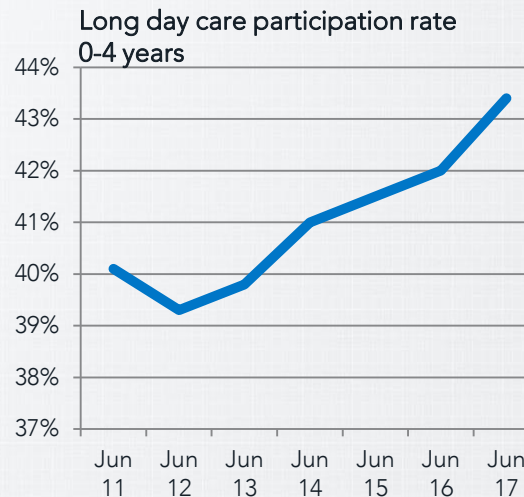
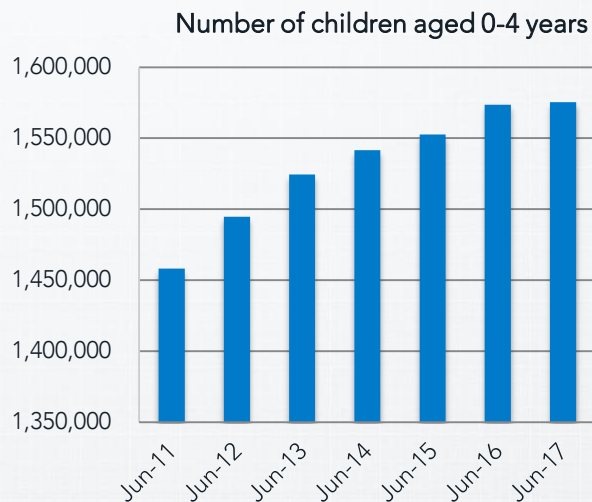
Number of projects	5
Forecast total cost	\$31m
Initial yield on cost	6.5%
Capex amount outstanding	\$14m



# ELC market demand

## Underlying demographics for ELC demand remain positive

- Continued population growth in 0-4 year old children
- Long day care participation rate of 0-4 year olds has continued to increase
- Labour force participation rate of females 16-64 years has continued to increase
- Early positive feedback from tenant partners as a result of changes to government funding

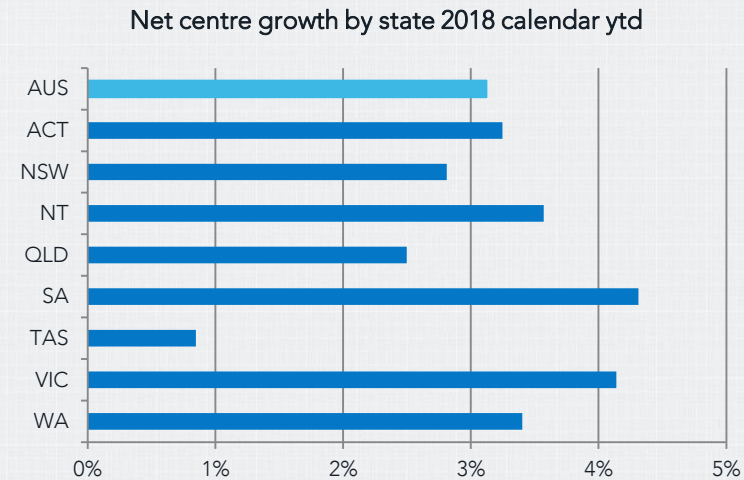
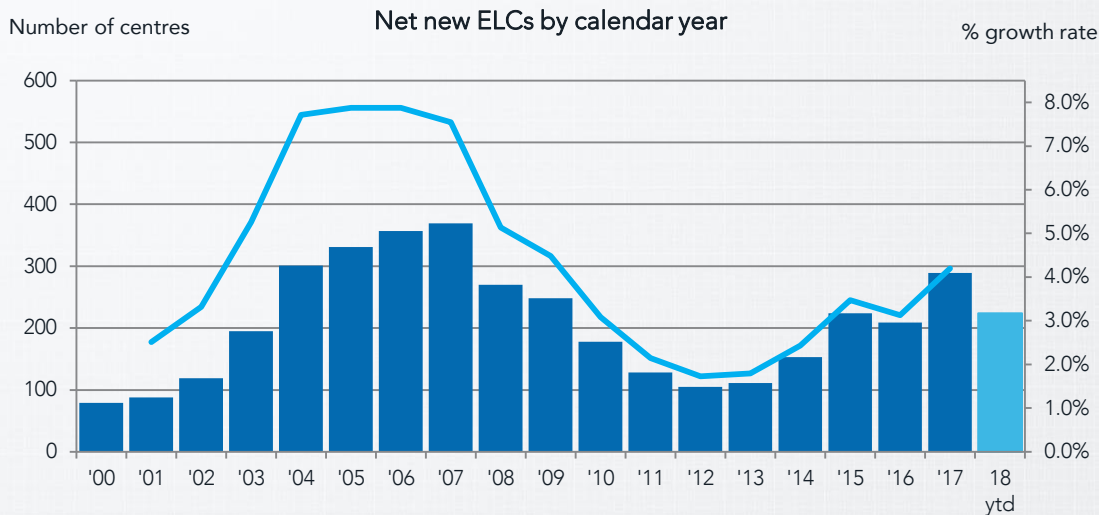


Sources: ABS Statistical Reports No. 3101, Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2018, ABS Labour Force Data, 6202.0 Table 18, Seasonally Adjusted.

# 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

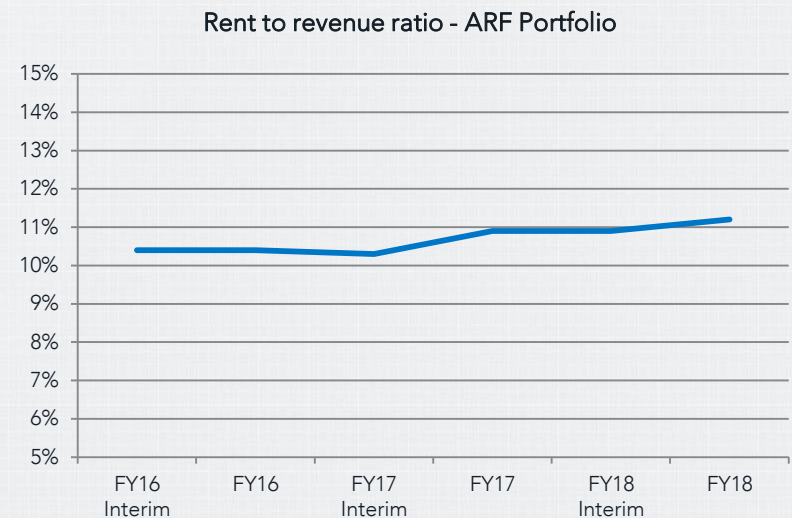
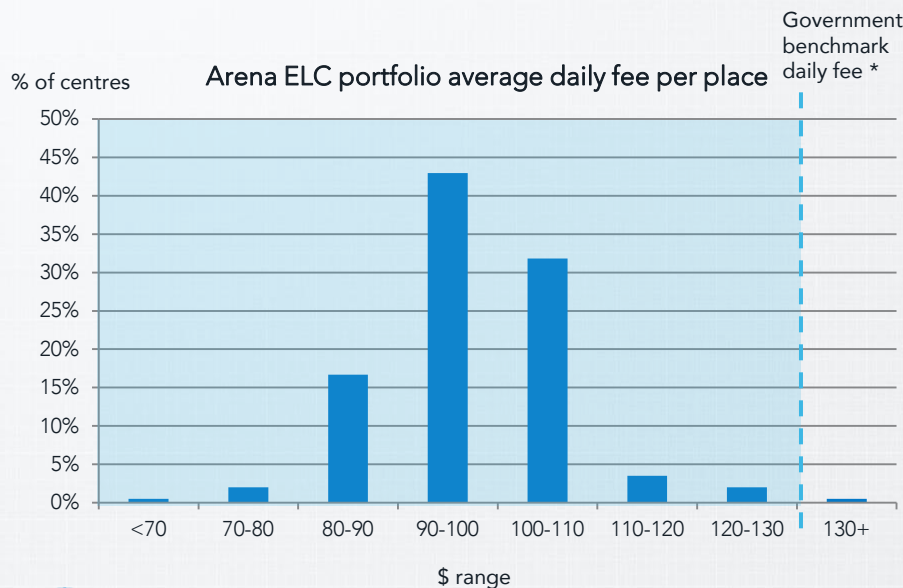


Source: Business Geographics, August 2018, 2018 calendar year to date (or ytd) is 1 January to 1 August 2018.

# 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

## FY19 distributions per security guidance of 13.5 cents<sup>1</sup>, +5.5% on FY18

- ELC and healthcare sectors supported by strong structural macroeconomic demand drivers
- ELC portfolio proactively positioned for current cyclical challenges and opportunities
- Income growth
  - contracted rent increases, higher level of market rent reviews scheduled for FY19
  - full impact of FY18 development completions
  - FY19 development completions and new acquisitions
- 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



<sup>1</sup> 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



# Formal Business





# Ordinary Business

## Resolution 1: Non-binding advisory vote on the Remuneration Report

To consider and, if thought fit, to pass the following as an advisory resolution of the Company:

*'That the Remuneration Report for the financial year ended 30 June 2018 be adopted.'*

Proxy votes	For	Open	Against	Abstain
%	88.64%	1.25%	10.11%	-
Votes	140,503,866	1,976,428	16,032,257	1,900,324



# Other Business

## Resolution 2: Re-election of Mr Dennis Wildenburg as a director of the Company

To consider and, if thought fit, to pass the following as an ordinary resolution of the Company:

*'That Mr Dennis Wildenburg, who in accordance with ASX Listing Rules 14.4 and 14.5 and, being eligible, offers himself for re-election, be re-elected as a director of the Company.'*

Proxy votes	For	Open	Against	Abstain
%	98.36%	1.26%	0.38%	-
Votes	158,731,849	2,027,056	620,833	146,112



# Other Business

## Resolution 3: Grant of deferred short term incentive rights to Mr Bryce Mitchelson

To consider and, if thought fit, to pass the following resolutions as separate ordinary resolutions of the Company and each of the Trusts:

*'That for the purposes of ASX Listing Rule 10.14 and for all other purposes, the grant to the Managing Director, Mr Bryce Mitchelson, of rights as his deferred short term incentive under the Arena REIT Deferred Short Term and Long Term Incentive Plan on the terms set out in the Explanatory Memorandum to this Notice of Meeting, is approved.'*

Proxy votes	For	Open	Against	Abstain
%	98.17%	1.23%	0.60%	-
Votes	157,427,621	1,975,178	962,647	1,160,404



# Other Business

## Resolution 4: Grant of long term incentive performance rights to Mr Bryce Mitchelson

To consider and, if thought fit, to pass the following resolutions as separate ordinary resolutions of the Company and each of the Trusts:

*'That for the purposes of ASX Listing Rule 10.14 and for all other purposes, the grant to the Managing Director, Mr Bryce Mitchelson, of long term incentive performance rights as his long term incentive under the Arena REIT Deferred Short Term and Long Term Incentive Plan on the terms set out in the Explanatory Memorandum to this Notice of Meeting, is approved.'*

Proxy votes	For	Open	Against	Abstain
%	83.15%	1.23%	15.62%	-
Votes	133,365,108	1,975,178	25,050,844	1,134,720



# Other Business

## Resolution 5: Grant of deferred short term incentive rights to Mr Gareth Winter

To consider and, if thought fit, to pass the following resolutions as separate ordinary resolutions of the Company and each of the Trusts:

*'That for the purposes of ASX Listing Rule 10.14 and for all other purposes, the grant to the chief financial officer and an executive director of the Responsible Entity, Mr Gareth Winter, of rights as his deferred short term incentive under the Arena REIT Deferred Short Term and Long Term Incentive Plan on the terms set out in the Explanatory Memorandum to this Notice of Meeting, is approved.'*

Proxy votes	For	Open	Against	Abstain
%	98.16%	1.23%	0.61%	-
Votes	157,418,159	1,974,415	972,872	1,160,404



# Other Business

## Resolution 6: Grant of long term incentive performance rights to Mr Gareth Winter

To consider and, if thought fit, to pass the following resolutions as separate ordinary resolutions of the Company and each of the Trusts:

*'That for the purposes of ASX Listing Rule 10.14 and for all other purposes, the grant to the chief financial officer and an executive director of the Responsible Entity, Mr Gareth Winter, of performance rights as his long term incentive under the Arena REIT Deferred Short Term and Long Term Incentive Plan on the terms set out in the Explanatory Memorandum to this Notice of Meeting, is approved.'*

Proxy votes	For	Open	Against	Abstain
%	92.72%	1.23%	6.05%	-
Votes	148,711,539	1,974,415	9,705,176	1,134,720



# Concluding Remarks

David Ross, Chairman



# Important notice

This presentation has been prepared by Arena REIT (Arena) comprising 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). The information contained in this document is current only as at 30 June 2018 or as otherwise stated herein. This document is for information purposes only and only intended for the audience to whom it is presented. This document contains selected information and should be read in conjunction with the Annual Report for the year ended 30 June 2018 lodged with the ASX on 27 September 2018 and other ASX announcements released from time to time. This document may not be reproduced or distributed without Arena's prior written consent. The information contained in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Arena has not considered the investment objectives, financial circumstances or particular needs of any particular recipient. You should consider your own financial situation, objectives and needs, conduct an independent investigation of, and if necessary obtain professional advice in relation to, this document.

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