ASX ANNOUNCEMENT

13 AUGUST 2019

FY19 ANNUAL RESULTS

Strong earnings growth, disciplined strategy

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $37.7 million, up 9% on prior year
- Statutory net profit $59.3 million, down 8% primarily due to revaluation of interest rate hedges
- Earnings per security[1] (EPS) of 13.8 cents, up 5.3% on prior year
- Distributions per security (DPS) of 13.5 cents, up 5.5% on prior year
- Total Assets of $825.7 million, up 14% on 30 June 2018
- Net Asset Value (NAV) per security of $2.10, up 7% on 30 June 2018
- Gearing 22.8%, down from 24.7% at 30 June 2018
- FY20 DPS guidance 14.3 cents per security[2], reflecting growth of 5.9% on FY19

New investment and rental increases supporting earnings and distribution growth

Arena REIT (Arena) announces a net operating profit for FY19 of $37.7 million, an increase of 9% on the prior year. Key contributors to the operating result were rental income growth from annual rent reviews, income from new investment in operating properties and the completion of development projects in FY18 and FY19. The result represents EPS[1] of 13.8 cents, an increase of 5.3% over the prior year. Arena has paid a full-year distribution of 13.5 cents per security, up 5.5% on the prior year. Statutory net profit for the year was $59.3 million, 8% down on the prior year, primarily due to the revaluation of interest rate hedges ($8.6 million) in FY19 compared with ($0.6 million) in FY18.

Arena's total assets increased by 14% to $825.7 million as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The revaluation uplift was the primary contributor to the 7% increase in NAV per security to $2.10 at 30 June 2019.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "We have delivered strong earnings growth for investors during FY19 and provided 5.9% distribution growth guidance for FY20. We remain focused on new investments that deliver predictable earnings and earnings growth prospects while maintaining our investment discipline."

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[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, all developments in progress are completed in line with forecast assumptions, and tenants comply with their lease obligations.*

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PORTFOLIO HIGHLIGHTS

- 100% occupancy maintained
- Average like-for-like rent review increase of 3.6%
- Weighted average lease expiry (WALE) increased by 1.2 years to 14.1 years
- Portfolio annual revaluation uplift of $32.4 million
- Portfolio weighted average passing yield of 6.38%
- Healthcare portfolio leases with Healius extended by an average of 10.6 years
- Acquired 8 operating properties at a net initial yield of 6.4% for a total cost of $47 million
- Four ELC development projects completed on a net initial yield of 6.4% for a total cost of $25 million
- Development pipeline of nine ELC projects at a forecast net initial yield of 6.7% for a total cost of $50 million[3]

Like-for-like rent review increase of 3.6%

Rent reviews during the year resulted in an average like-for-like rent increase of 3.6%. Contributing to this result were 39 market rent reviews completed during FY19 at an average increase of 9.4%[4].

Partnership approach to healthcare portfolio lease extension

Arena's healthcare portfolio leases with Healius were extended from an average of 4 years to 14.6 years during FY19.

WALE extended to 14.1 years

Occupancy was maintained at 100% and the portfolio's weighted average lease expiry (WALE) was increased to 14.1 years (from 12.9 years at 30 June 2018).

Portfolio revaluation uplift of $32.4 million

At 30 June 2019, Arena's portfolio comprised 216 ELC properties and development sites (85% of portfolio by value) and ten healthcare properties (15% of portfolio by value). All 226 properties were valued during FY19, 40 properties were independently valued at 31 December 2018 and 47 properties were independently valued at 30 June 2019, the balance were directors valuations. A revaluation uplift of $32.4 million was recorded for FY19, equivalent to an increase of 4.6%.

The portfolio's weighted average passing yield firmed 14 basis points to 6.38%. The weighted average passing yield on the ELC portfolio firmed 2 basis points to 6.44% and the valuation of the healthcare portfolio firmed 77 basis points to 6.08%. A summary is detailed below:

	No. of Properties	30 Jun 19 Valuation ($m)	Revaluation movement (since 30 June 2018) $m	%	Weighted average passing yield 30 June 19 %	Change bps
ELC portfolio	216	676.2	21.6	3.5	6.44	(2)
Healthcare portfolio	10	122.1	10.8	12.7	6.08	(77)
Total Portfolio	**226**	**798.3**	**32.4**	**4.6**	**6.38**	**(14)**

[3] Three ELC development projects were conditionally contracted prior to 30 June 2019 with an anticipated total cost of $16 million on a forecast initial yield of 6.9%.
[4] Excludes ten market rent reviews which had not been resolved as at 30 June 2019.

Acquisitions and development project completions in FY19

Eight operating ELC and healthcare properties, including a $24 million portfolio of specialist disability accommodation properties were acquired at a net initial yield on cost of 6.4% with a weighted average lease term of 17.1 years. Four ELC development projects were completed at a net initial yield on cost of 6.4% on new 20 year leases and eight new ELC development sites were acquired[5].

ELC market commentary

The underlying demographics for ELC demand remain supportive including:

- Record female workplace participation rate[6];
- Strong long day care (LDC) participation rate[7]; and
- Improved affordability from the Child Care Subsidy (CCS)[8].

New ELC supply is showing signs of moderation with growth of 3.9%[9] in the 12 month period to 30 June 2019, down from 4.0%[9] in the prior 12 month period.

Mr de Vos said "Our tenant partners continue to report a positive impact from the introduction of the CCS with higher occupancy and fee growth[8]. Combined with a more measured approach to new ELC supply across the sector, we view the market as conducive to opportunities."

Development pipeline of $50 million[5]

The development pipeline comprises nine ELC projects with a forecast cost of $50 million ($36 million capital expenditure remains outstanding). The forecast weighted average initial yield on cost for the development pipeline is 6.7%.

CAPITAL MANAGEMENT HIGHLIGHTS

- Borrowing facility increased to $280 million, weighted average term of 3.3 years
- $50 million new equity raised in FY19 and an additional $16.4 million post FY19 balance date
- Gearing 22.8%, down from 24.7% at 30 June 2018
- Weighted average cost of debt at 3.65% pa
- 82% of borrowings hedged for an average term of 4.8 years at 2.42% p.a.

Low risk funding profile

Arena raised $50 million via a fully underwritten institutional placement in May 2019 and a further $16.4 million via a security purchase plan in July 2019. An additional $6.5 million was raised via the dividend and distribution reinvestment plan (DRP) during FY19, which remains open.

Increase in debt facility limit

Arena increased its total debt facility limit to $280 million though the establishment of an additional $50 million facility during FY19. Arena's weighted average cost of debt fell to 3.65% as at 30 June 2019 compared with 3.85% as at 30 June 2018.

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[5] *Three ELC development projects were conditionally contracted prior to 30 June 2019 an anticipated total cost of $16 million on a forecast initial yield of 6.9%.*
[6] *ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).*
[7] *Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2018.*
[8] *Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2019.*
[9] *ACECQA NQF Snapshots 2017-2019.*

Capacity to fund new opportunities

At 30 June 2019, Arena's gearing was 22.8%, compared with 24.7% at 30 June 2018 with undrawn debt capacity of $92 million as at balance date to fund development capex (forecast at $36 million) and new investments.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "We are operating well within our covenant requirements and have raised new equity to create additional capacity to fund opportunities for growth."

OUTLOOK

FY20 distribution guidance of 14.3 cents per security[10]

Arena reaffirms FY20 DPS guidance of 14.3 cents per security[10] reflecting growth of 5.9% over FY19.

Mr de Vos said "With a well-capitalised balance sheet, low incremental cost of debt and a market conducive to opportunities we remain focused on identifying attractive investments that deliver predictable earnings and earnings growth prospects to build long-term value for investors."

– ENDS –

INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 11am AEST today (13 August 2019) to present the FY19 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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[10] *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.*

About Arena REIT

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

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