

ASX ANNOUNCEMENT

13 AUGUST 2020

2020 FULL YEAR RESULTS

FINANCIAL HIGHLIGHTS

- Statutory net profit \$76.6 million, up 29% on prior year
- Net operating profit (distributable income) of \$43.8 million, up 16% on prior year
- Earnings per security¹ (EPS) of 14.55 cents, up 5% on prior year
- Distributions per security (DPS) of 14.0 cents, up 4% on prior year
- Total Assets of \$1,012.6 million, up 23% on 30 June 2019
- Net Asset Value (NAV) per security of \$2.22², up 6% on 30 June 2019
- Gearing 14.8%, down from 22.1% at 30 June 2019
- FY21 DPS guidance of 14.4-14.6 cents per security³, reflecting growth of 3-4% on FY20

Result demonstrates portfolio resilience in a challenging environment

Arena REIT (Arena) announces a net operating profit for FY20 of \$43.8 million, an increase of 16% on the prior year. Key contributors to the operating result were rental income growth from contracted annual and market rent reviews, acquisition of operating early learning centres (ELC) and healthcare properties and income from development projects completed throughout FY19 and FY20. The result represents EPS¹ of 14.55 cents, an increase of 5% over the prior year. Arena has paid a full-year distribution of 14.0 cents per security, up 4% on the prior year. Statutory net profit for the year was \$76.6 million, an increase of 29% on the prior year.

Arena's total assets increased by 23% to \$1,012.6 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 6% increase in NAV per security to \$2.22² at 30 June 2020.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "I would like to acknowledge the impact and challenges COVID-19 has brought to many communities and on behalf of Arena I would like to express our gratitude to our tenant partners and the front line workers in each of our early learning and health care properties. Despite ongoing uncertainty, we remain confident in Arena's strategy, the strength of our portfolio and the important contribution the services we accommodate will make in aiding economic recovery and improving future community outcomes."

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

² Includes SPP securities which were issued on 1 July 2020 while settlement proceeds were received on 30 June 2020.

³ FY21 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, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.



PORTFOLIO HIGHLIGHTS

- 100% occupancy maintained
- Average like-for-like rent review increase of 3.4%
- Weighted average lease expiry (WALE) maintained at 14 years
- Portfolio revaluation uplift of \$36.9 million
- Portfolio weighted average passing yield of 6.22%
- Acquired \$11 million multi-disciplinary healthcare centre at 6.5% initial yield on total cost
- Acquired three ELC properties with 6.2% weighted average initial yield on total cost of \$15.5 million
- Acquired 17 development projects taking development pipeline to 20⁴ projects with forecast weighted average initial yield of 6.6% on total anticipated cost of \$112 million
- Three ELC development projects completed at 6.7% weighted average initial yield on total cost of \$17 million

Like-for-like rent review increase of 3.4%

Rent reviews during the year resulted in an average like-for-like rent increase of 3.4%. Contributing to this result were ten FY19 market rent reviews which were completed during FY20 at an average increase of 18.9%⁵.

COVID-19 rent relief

Rent relief provided by Arena to tenant partners as a result of COVID-19 amounted to 4% of contracted rent for FY20, of which 3.5% was deferred and will be collected in future periods; 71% is scheduled to be collected in FY21, and 0.5% was abated.

WALE maintained at 14 years

Occupancy was maintained at 100% and the portfolio's WALE was maintained at 14 years following the completion of three ELC development projects, one healthcare and three ELC acquisitions with a total initial weighted average lease term of 18 years.

Commenced renewable energy program

Arena's renewable energy program is currently focused on working with tenant partners to invest in sustainability initiatives; a multi-site solar installation project was completed during FY20.

Asset recycling underpins ongoing quality of portfolio

Five ELC properties were divested during FY20 at an average premium of 11.6% to book value with proceeds to be reinvested into the development pipeline.

Acquisitions and development project completions in FY20

Four operating ELC's and an \$11 million multi-disciplinary healthcare centre were acquired at a net initial yield on total cost of 6.5% with a weighted average lease term of 18 years. Three ELC development projects were completed at a net initial yield on cost of 6.7% with a weighted average initial lease term of 22 years and 17⁴ new ELC development sites were acquired.

⁴ Includes four projects that have not yet settled; including one subject to an unconditional contract and three which are awaiting satisfaction of subdivision or planning approval.

⁵ Excludes 26 FY20 market rent reviews which were unresolved as at 30 June 2020, each are subject to 0% collar and 7.5% cap.

Portfolio valuation uplift of \$36.9 million

At 30 June 2020, Arena's portfolio comprised 211 ELC properties and 17⁶ ELC development sites (85% of portfolio by value) and eleven healthcare properties (15% of portfolio by value). All 222 operating properties were independently valued as at 30 June 2020. A revaluation uplift of \$36.9 million was recorded for FY20, equivalent to an increase of 4.6%.

The portfolio's weighted average passing yield firmed 10 basis points to 6.22%. The weighted average passing yield on the ELC portfolio firmed 21 basis points to 6.24% and the valuation of the healthcare portfolio remained in line with previous period at 6.12%. A summary is detailed below:

	No. of Properties	30 Jun 20 Valuation	Revaluation movement (since 30 June 2019)		Weighted average passing yield	
		(\$m)	\$m	%	30 June 20 %	Change bps
ELC portfolio	228	777.4	34.7	5.1	6.24	(21)
Healthcare portfolio	11	136.6	2.2	1.8	6.12	4
Total Portfolio	239	914.0	36.9	4.6	6.22	(10)

Arena's healthcare portfolio continues to perform well

Strong macro-economic factors continue to support Australian healthcare accommodation. Medical centre visitation, imaging and pathology services were reduced up to May 2020 due to COVID-19 but have been improving in-line with the broader economy opening up.

Healius has announced⁷ that its medical centres experienced strong revenues throughout the COVID-19 period underpinned by telehealth services, and of its intention to sell its medical centre business to BGH Capital.

Arena's specialist disability accommodation portfolio has been unaffected by COVID-19 to date outside the introduction of increased sanitation, resident security and well-being programs.

ELC sector and portfolio update

All of Arena's ELC properties remain open and in operation, including those in greater Melbourne and regional Victoria. Lockdowns in response to COVID-19 significantly impacted ELC occupancies across the portfolio during the period. There has been a strong rebound in occupancy levels post easing of lockdown restrictions (outside greater Melbourne) with occupancy levels generally within 5% of pre-COVID-19 levels and higher in some cases. There is continued uncertainty in lockdown affected areas (greater Melbourne and regional Victoria); however current government support has been designed to maintain operator viability.

The Government responded strongly to the impact of COVID-19 on the ELC sector including the implementation of the Early Childhood Education and Care Relief Package (ECECRP), JobKeeper package, ELC transition payment and top-ups for lockdown affected areas, relaxation of the activity test and waiver of gap fees and additional absence days for COVID-19 related reasons.

⁶ Includes four projects that have not yet settled; including one subject to an unconditional contract and three which are awaiting satisfaction of subdivision or planning approval.

⁷ Healius ASX Announcement 15 June 2020.

Strong macroeconomic drivers continue to support the Australian ELC sector including:

- Provision of early learning services integral to assisting Australians to get back to work in the short term and improving workplace productivity over the medium to long term.
- Strong structural demand for services and record female workforce participation rate which drove increased long day care (LDC) participation rates pre COVID-19^{8,9}.
- Government support improved through introduction of CCS in July 2018 and ongoing COVID-19 related funding commitments.

Development pipeline of \$112 million¹⁰

The development pipeline comprises 20¹⁰ ELC projects with a forecast cost of \$112 million (\$57 million of capital expenditure remains outstanding as at balance date). The forecast weighted average initial yield on total anticipated cost for the development pipeline is 6.6%. Progress on Arena's ELC development program has been largely unaffected by COVID-19 to date.

CAPITAL MANAGEMENT HIGHLIGHTS

- \$85 million new equity raised in FY20 and an additional \$25 million post FY20 balance date
- Borrowing facility increased to \$330 million, weighted average remaining facility term of 3.5 years
- Gearing¹¹ 14.8%, down from 22.1% at 30 June 2019
- Weighted average cost of debt at 3.15% at 30 June 2020 compared with 3.65% as at 30 June 2019
- 80% of borrowings hedged for an average term of 4.7 years at 2.20% p.a.

Low risk funding profile

Arena raised \$60 million via a fully underwritten institutional placement in June 2020 and a further \$25 million via a security purchase plan (SPP) in July 2020. An additional \$8 million was raised via the dividend and distribution reinvestment plan (DRP) during FY20, which remains open and \$17 million via the SPP completed in July 2019.

Increase in debt facility limit

Arena increased its total debt facility limit by \$50 million to \$330 million during FY20; the weighted average remaining facility term was 3.5 years at 30 June 2020 with no debt expiry until March 2023. Arena's weighted average cost of debt fell to 3.15% as at 30 June 2020 compared with 3.65% as at 30 June 2019.

Capacity to fund new opportunities

At 30 June 2020, Arena's gearing¹¹ was 14.8%, compared with 22.1% at 30 June 2019 with \$76 million of cash reserves and \$115 million of undrawn debt capacity as at balance date to fund development capital expenditure (forecast at \$57 million) and new investment opportunities.

⁸ ABS Female Labour Force Participation Rate (aged 20-74 at least one dependant child of ELC age).

⁹ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2019.

¹⁰ Includes four projects that have not yet settled; including one subject to an unconditional contract and three which are awaiting satisfaction of subdivision or planning approval.

¹¹ Gearing calculated as ratio of net borrowing over total assets less cash.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "We are operating well within our banking covenant requirements and have raised new equity to provide capacity to pursue future social infrastructure property investments consistent with strategy while also improving liquidity and reducing gearing."

OUTLOOK

FY21 distribution guidance of 14.4-14.6 cents per security¹²

Arena provides FY21 DPS guidance of 14.4-14.6¹² cents per security reflecting growth of 3-4% over FY20.

Mr de Vos said "Arena remains well positioned to navigate the ongoing and emerging challenges arising from COVID-19 and to consider new opportunities that are consistent with strategy and Arena's investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term."

This announcement is authorised to be given to ASX by Gareth Winter, Company Secretary.

– ENDS –

INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 11am AEST today (13 August 2020) to present the FY20 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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¹² FY21 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, tenants comply with their existing or adjusted lease obligations and is based on Arena's current assessment of the future impact of COVID-19 pandemic (which is subject to a wide range of uncertainties) and assumes ongoing government support of the early learning sector.

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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