

ARENA REIT

2021 HALF YEAR RESULTS

12 February 2021





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HY21 HIGHLIGHTS

Continue to deliver positive portfolio, investment and community outcomes

- 15% growth in net operating profit driven by contracted rental growth, acquisitions and development completions.
- 5% growth in NAV highlights continued resilience of early learning centre (ELC) and healthcare property valuations.
- \$74 million of capital deployed in HY21:
 - \$40 million acquisition of seven operating ELC properties;
 - \$7 million divestment of three ELC properties at 15% premium to book value; and
 - Continued to deliver development completions and expand development pipeline.
- Existing long WALE further increased to 14.7 years.
- FY21 DPS guidance of 14.8 cent per security, an increase of 5.7%¹ on FY20.
- Arena's property portfolio contributes to increased levels of community access, inclusion and wellbeing.

1. FY21 distribution guidance of 14.8 cents per security 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.

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

\$61.1 million

Statutory net profit

+45% on HY20

\$24.7 million

Net operating profit

+15% on HY20

7.35 cents

Distributions per security (DPS)¹

+3% on HY20

\$2.32

Net Asset Value (NAV) per security

+5% on FY20

14.7 years

Weighted Average Lease Expiry (WALE)

+0.7 years on FY20

19.9%

Gearing ratio²

+5% on FY20

DELIVERING ON STRATEGY

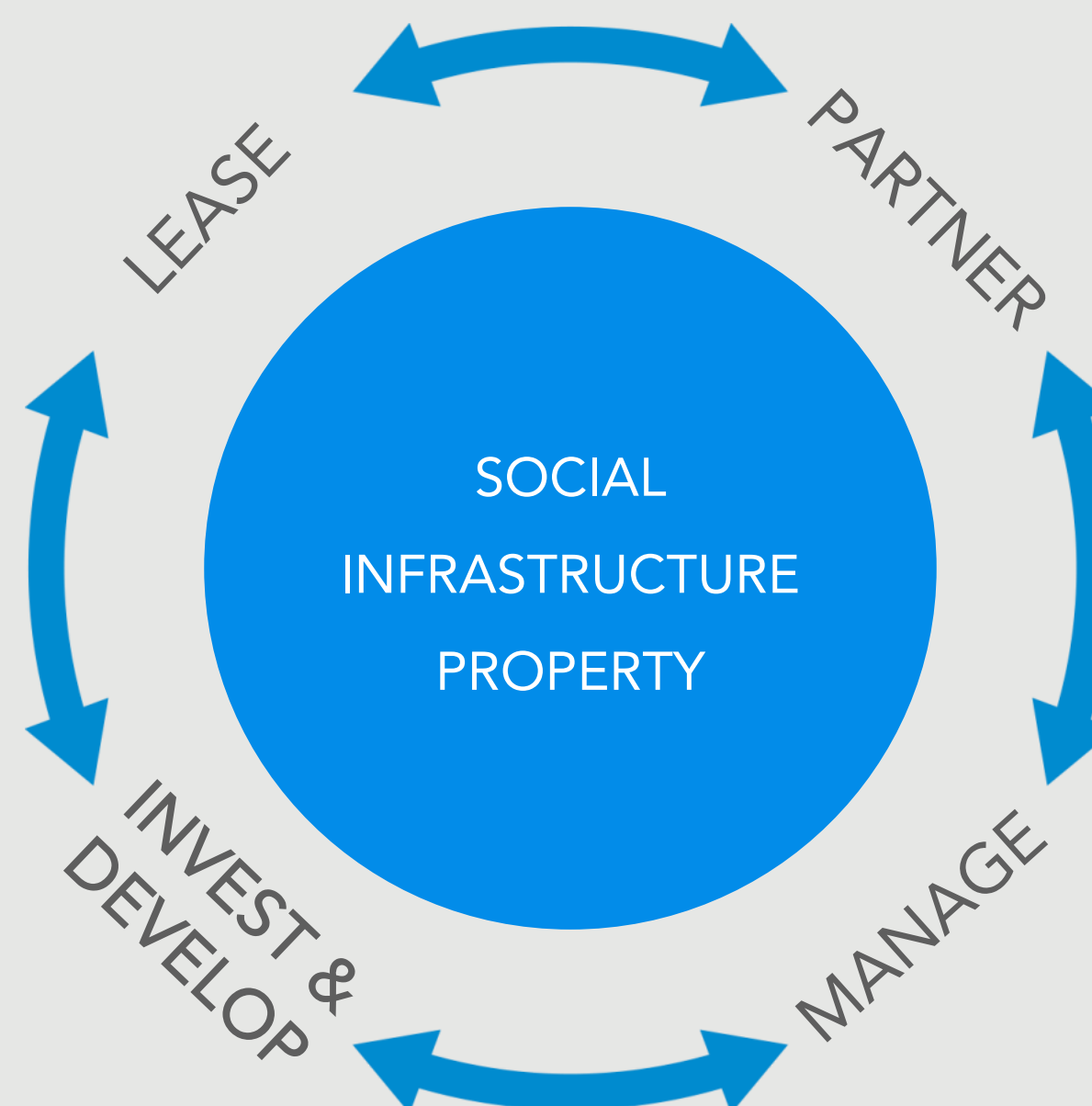
Strategy discipline continues to deliver positive outcomes

Lease management:

- 100% portfolio occupancy.
- Average HY21 like-for-like rent increase of +2.6%¹.

Investment and developments:

- Seven operating properties acquired at an average net initial yield of 6.1% on total cost with initial weighted average lease expiry of 27.3 years.
- Nine ELC developments completed at an average net initial yield on total cost of 6.7% with initial weighted average lease expiry of 20.5 years².
- Five new ELC development projects acquired with forecast total cost of \$26 million³.



Working in partnership:

- Continue to rollout the installation of renewable energy systems.
- Completed rejuvenation of six ELCs in partnership with two tenant groups.
- All tenant partners remain compliant with COVID-19 rent relief agreements⁴.

Portfolio management:

- Portfolio weighted average lease expiry (by income) increased to 14.7 years.
- Three ELC properties sold at average premium of 15.3% to book value.
- Net valuation uplift of \$35.3 million.
- Portfolio weighted average passing yield 6.13%.

1. Excludes 25 unresolved market rent reviews from FY20 and 11 from HY21 which are all subject to a 0% collar and 7.5% cap.

2. Includes two ELC developments that reached practical completion post 31 December 2020.

3. Includes three ELC projects that were conditionally contracted prior to 31 December 2020.

4. Under the National Cabinet Mandatory Code of Conduct landlords are obliged to provide eligible tenants rental relief in proportion to the reduction in trade resulting from COVID-19.



COVID-19 UPDATE

Decisive response, well positioned

- All of Arena's properties remain open and in operation.
- 100% of contracted rent has been receipted for the period 1 July 2020 to 31 January 2021.
- All tenant partners remain compliant with COVID-19 related rent relief agreements¹.
- Less than \$20k new rent relief agreed in HY21¹.
- Strong rebound in ELC occupancy post easing of COVID-19 lockdown restrictions.
- Progress on ELC development program largely unaffected.
- Strong bipartisan government support of ELC sector as it is integral to:
 - Supporting the economic recovery from COVID-19 in the short term; and
 - Improving workforce participation, gender equality, women's financial security and economic activity over the medium to long term².

1. Under the National Cabinet Mandatory Code of Conduct landlords are obliged to provide eligible tenants rental relief in proportion to the reduction in trade resulting from COVID-19.

2. <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>.





SUSTAINABILITY

Working in collaboration to deliver beneficial and sustainable outcomes

- As an owner, manager and developer of social infrastructure properties Arena plays an important role within society.
- Arena's property portfolio contributes to increased levels of community access, inclusion and wellbeing.
- Positive social outcomes are central to Arena's core values.
- Inaugural Sustainability Report for FY2020 issued in September 2020¹.
 - Governance and Risk.
 - Human capital management, purpose and culture.
 - Tenant engagement and retention.
 - Renewable energy.
 - Advancing progress on the United Nations Sustainability Development Goals.
- Arena has identified sustainability priorities over the short and medium term for ongoing action and future reporting.

1. https://www.arena.com.au/arena/media/docs/FA-Arena-SR-2020_WEB.pdf





FINANCIAL RESULTS

Gareth Winter
Chief Financial Officer



FINANCIAL PERFORMANCE

Ongoing investment continues to deliver distribution growth

	HY21	HY20	Change	
	(\$'000)	(\$'000)	(\$'000)	(%)
Property income	28,232	26,448	1,784	7%
Other income	257	293	(36)	-12%
Total operating income	28,489	26,741	1,748	7%
Property expenses	(356)	(261)	(95)	36%
Operating expenses	(1,944)	(1,921)	(23)	1%
Finance costs	(1,473)	(3,133)	1,660	-53%
Net operating profit	24,716	21,426	3,290	15%
Statutory net profit	61,134	42,248	18,886	45%
Earnings per security (EPS¹) (cents)	7.26	7.17	0.09	1%
Distribution per security (DPS) (cents)	7.35	7.15	0.20	3%

1. EPS is calculated as net operating profit over weighted average number of securities on issue.

2. Under the National Cabinet Mandatory Code of Conduct landlords are obliged to provide eligible tenants rental relief in proportion to the reduction in trade resulting from COVID-19.

- Property income continues to increase due to:
 - Contracted annual rental growth;
 - Acquisition of operating ELC properties; and
 - ELC developments completed during FY20 and HY21.
- Property income is presented net of COVID-19 related rent abatements, less than \$20k new rent relief agreed in HY21².
- Higher statutory net profit arising from property valuation uplift, profits on sale of divested properties and positive revaluation of interest rate hedges.
- Property expenses higher due to increased property inspection and valuation costs.
- Finance costs lower due to reduced cost of debt and relatively greater value of development work in progress in HY21.

FINANCIAL POSITION

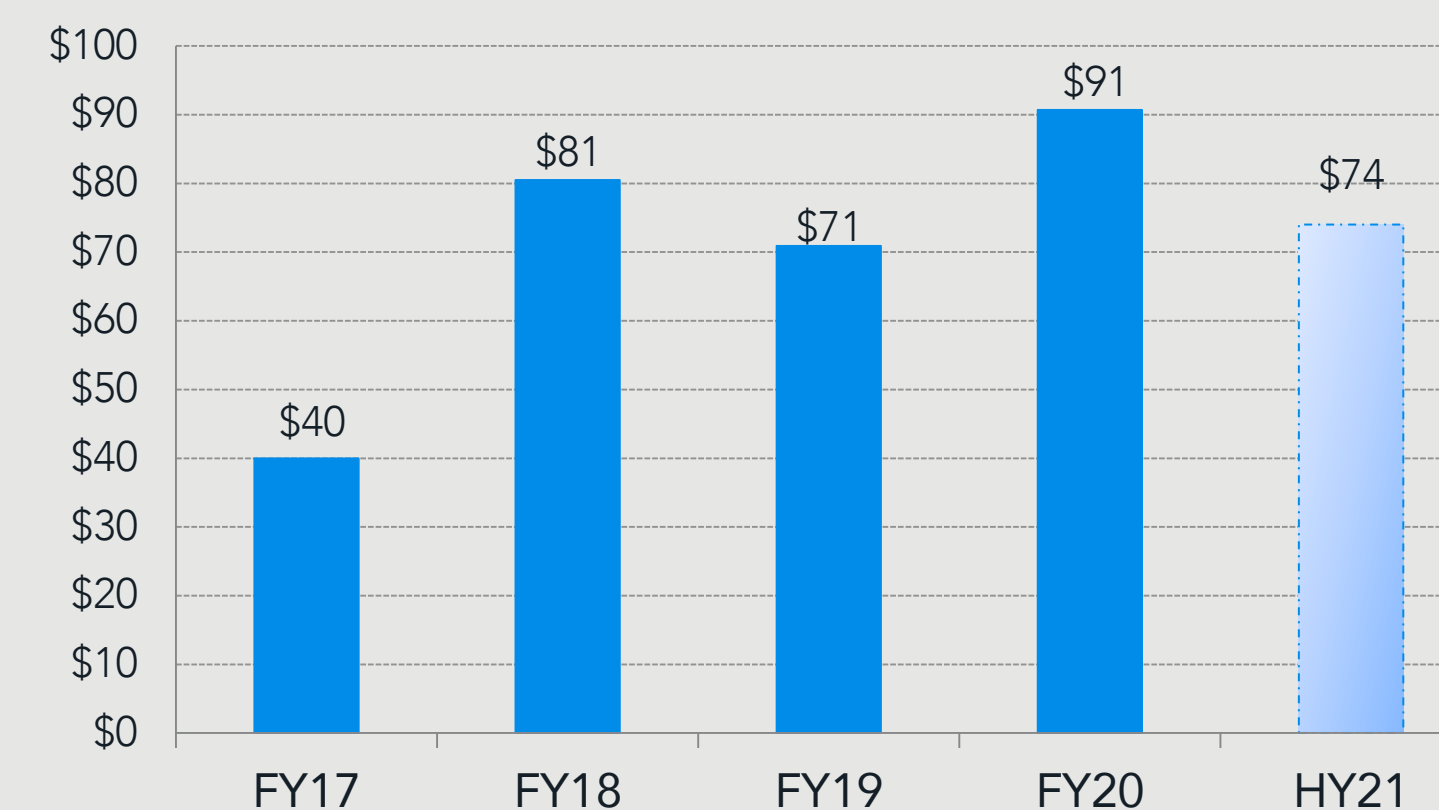
Strong balance sheet supporting asset growth

As at	31 Dec 2020	30 June 2020	Change
	(\$m)	(\$m)	%
Total assets	1,062.2	1,012.6	+5%
Investment properties	1,017.2	914.0	+11%
Borrowings	235.0	215.0	+9%
Net assets	794.4	751.9	+6%
Securities on issue	341.9	327.3	+4%
Net Asset Value (NAV) per security	\$2.32	\$2.22	+5%
Gearing ¹	19.9%	14.8%	+510bps

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

- Growth in total assets continues from the acquisition of operating properties, ELC development completions and property valuation uplift.
- Undrawn debt capacity of \$95 million to fund the balance of development pipeline of \$30 million and future growth opportunities.

Acquisition and development capital expenditure \$m



CAPITAL MANAGEMENT

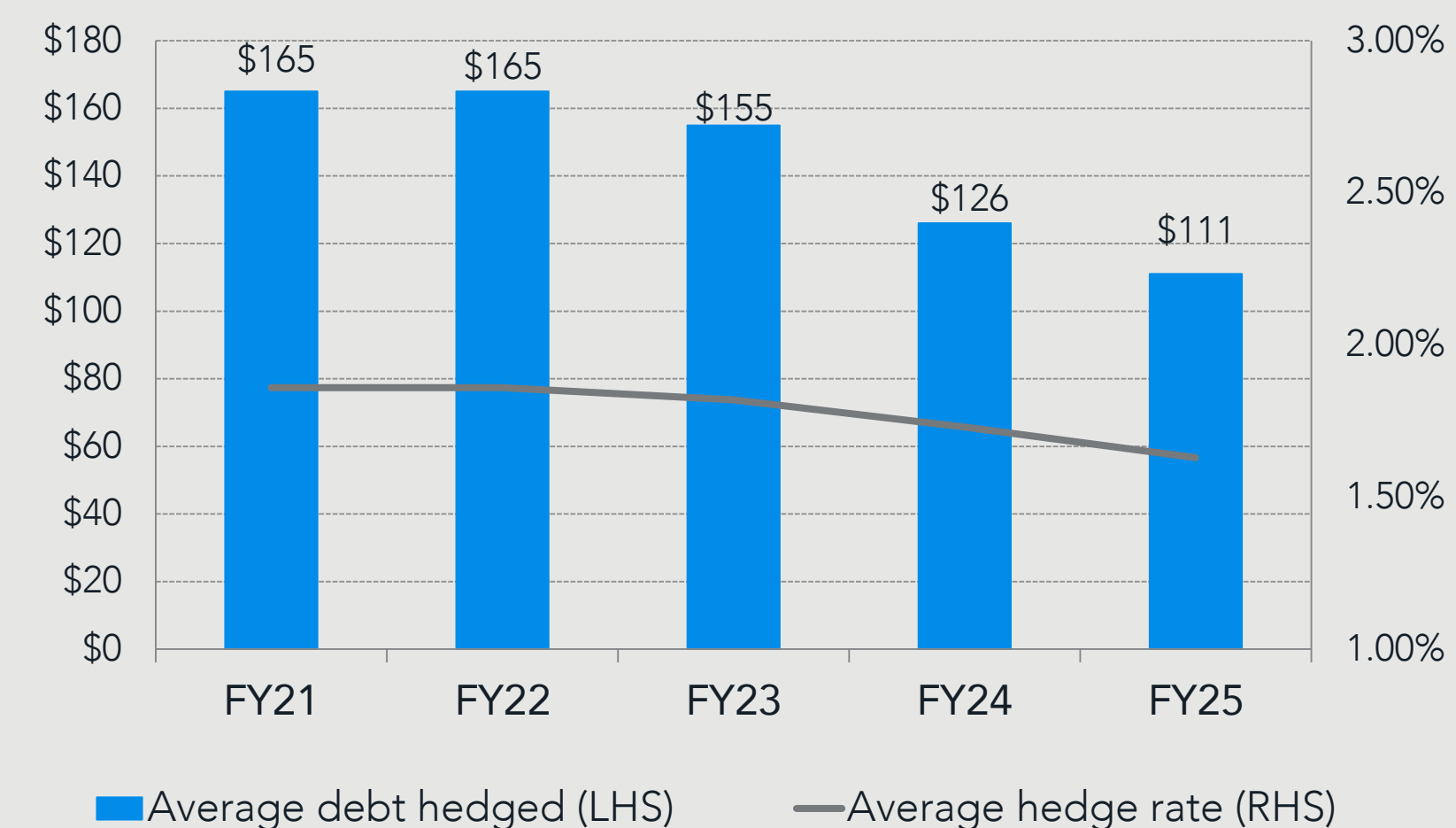
Substantial capacity to fund new investment

As at	31 Dec 2020	30 June 2020	Change
Borrowings	\$235m	\$215m	+\$20 million
Borrowings facility limit	\$330m	\$330m	-
Gearing ¹	19.9%	14.8%	+5%
Weighted average facility term	3 years	3.5 years	-0.5 year
Weighted average cost of debt	2.90%	3.15%	-25bps
Interest cover ratio	8.4x	6.65x	+1.75x
Hedge cover	70%	80%	-10%
Weighted average hedge rate	1.86%	2.20%	-34bps
Weighted average hedge term	4.9 years	4.7 years	+0.2 year

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

- Syndicated borrowing facility limit of \$330 million comprised of:
 - \$130 million expiring 31 March 2023;
 - \$150 million expiring 31 March 2024; and
 - \$50 million expiring 31 March 2025.
- SPP raised \$25 million.
- DRP in operation – \$6 million raised in HY2021.

Hedge maturity profile \$m





PORTFOLIO UPDATE

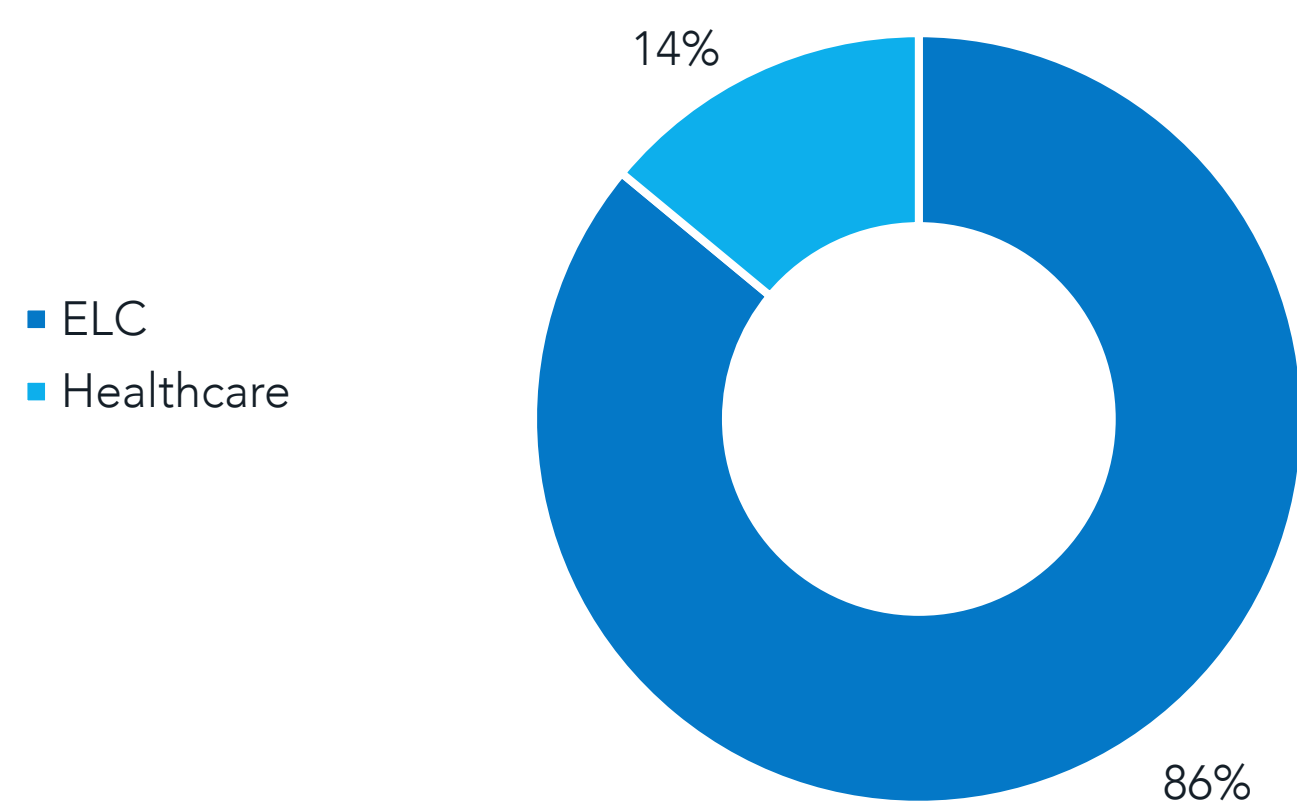
Rob de Vos
Managing Director



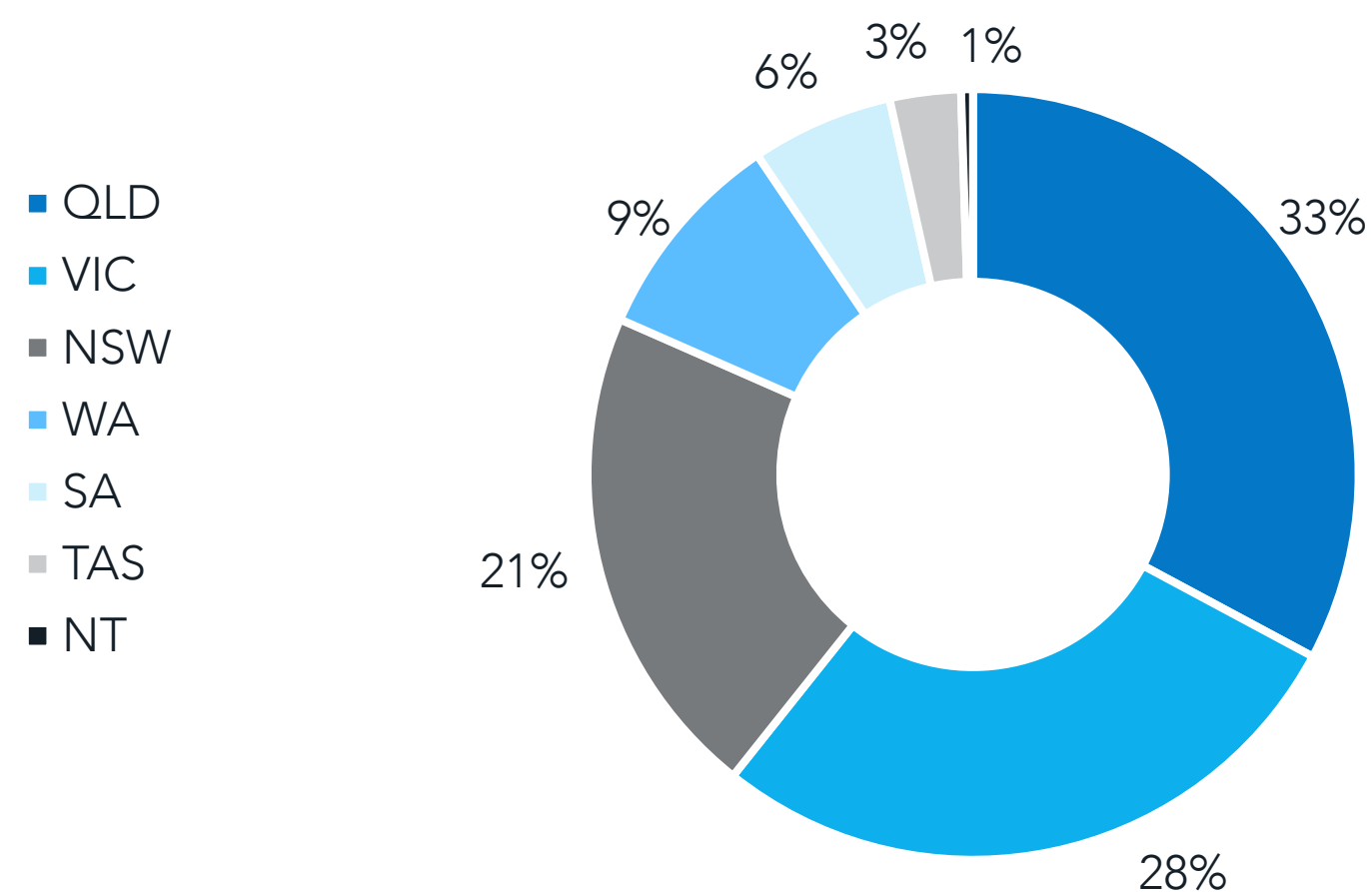
PORTFOLIO OVERVIEW

	Number of assets	31 Dec 2020 valuation	Net valuation movement versus 30 June 2020		31 Dec 2020 passing yield	Change versus 30 June 2020
		\$m	\$m	%	%	bps
ELC portfolio	234	876.4	+31.6	+4.1%	6.16%	(8)
Healthcare portfolio	11	140.8	+3.7	+2.7%	5.99%	(13)
Total portfolio	245	1,017.2	+35.3	+3.9%	6.13%	(9)

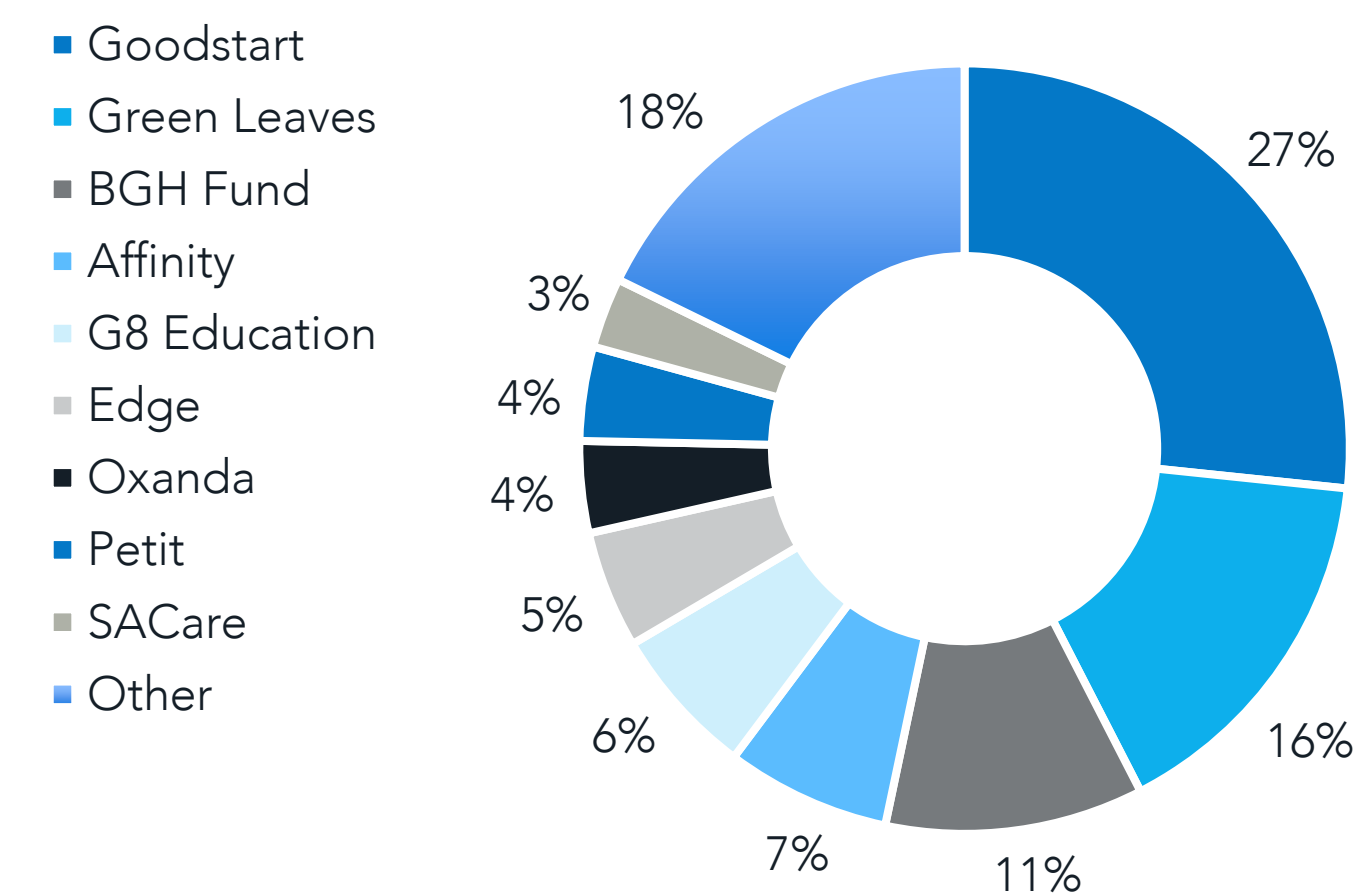
Sector diversity (by value)



Geographic diversity (descending by value)



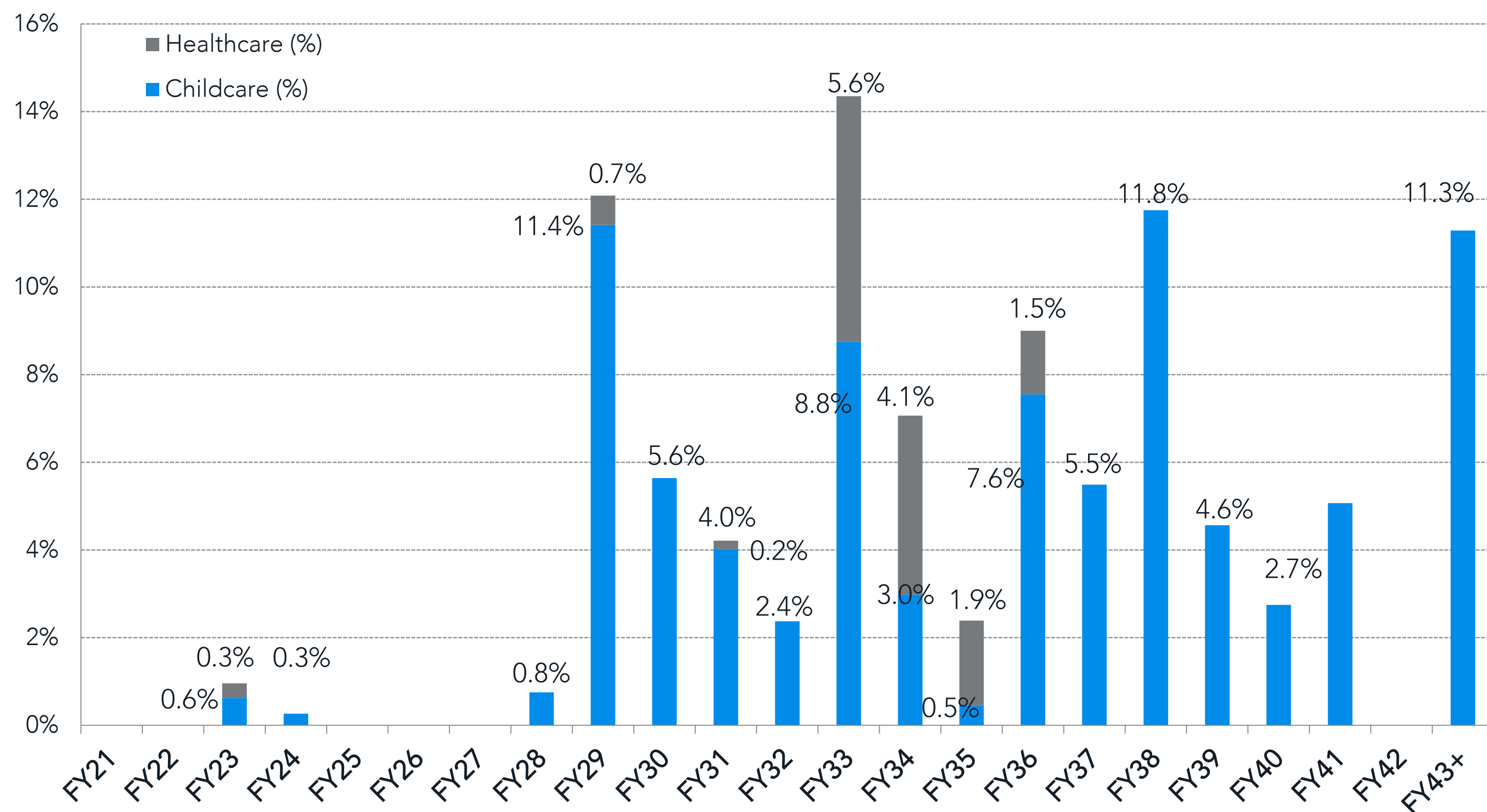
Tenant diversity (descending by income)



1. Totals may not add due to rounding.

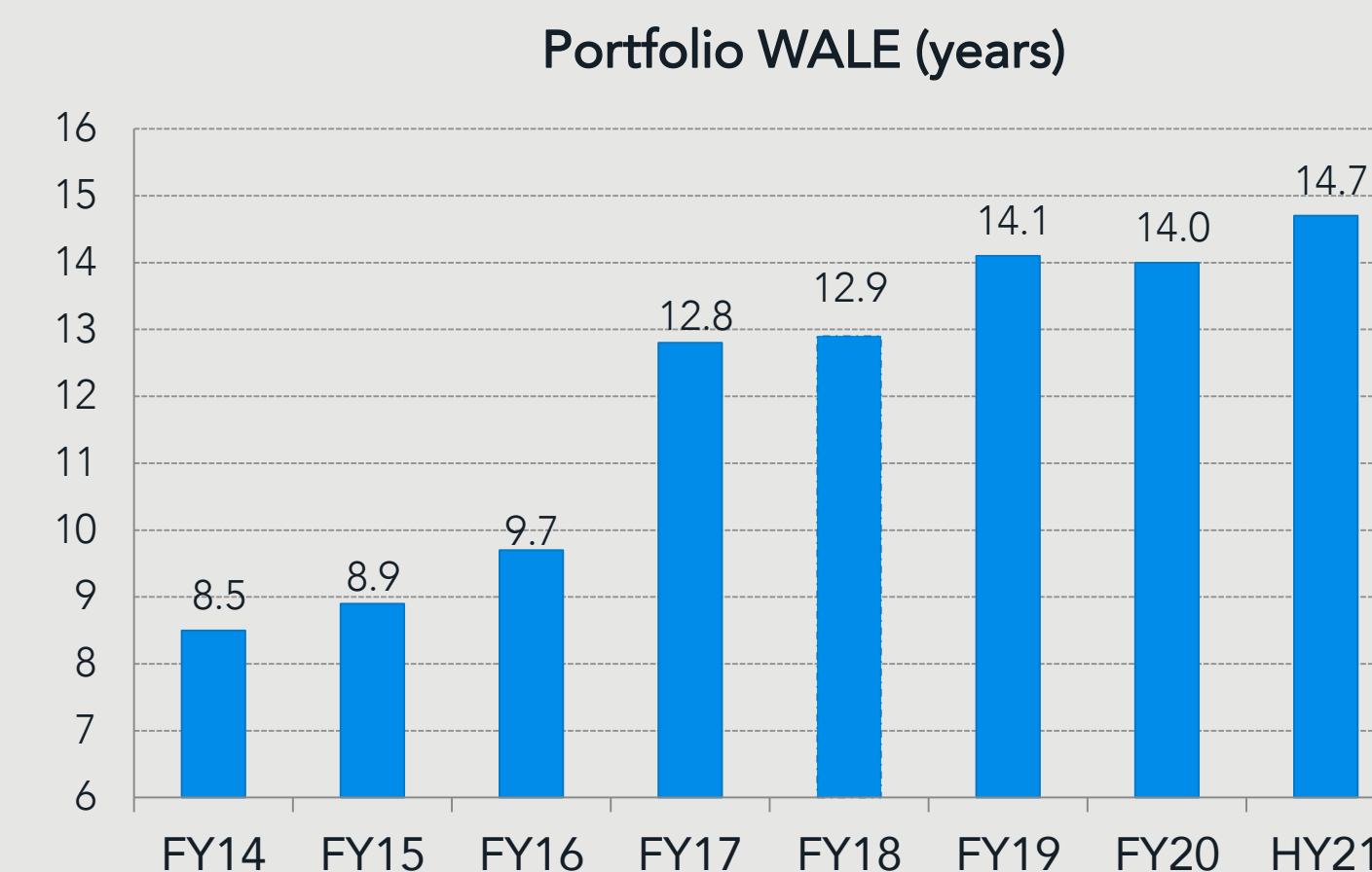
LEASE EXPIRY PROFILE

Weighted average lease expiry increased to 14.7¹ years



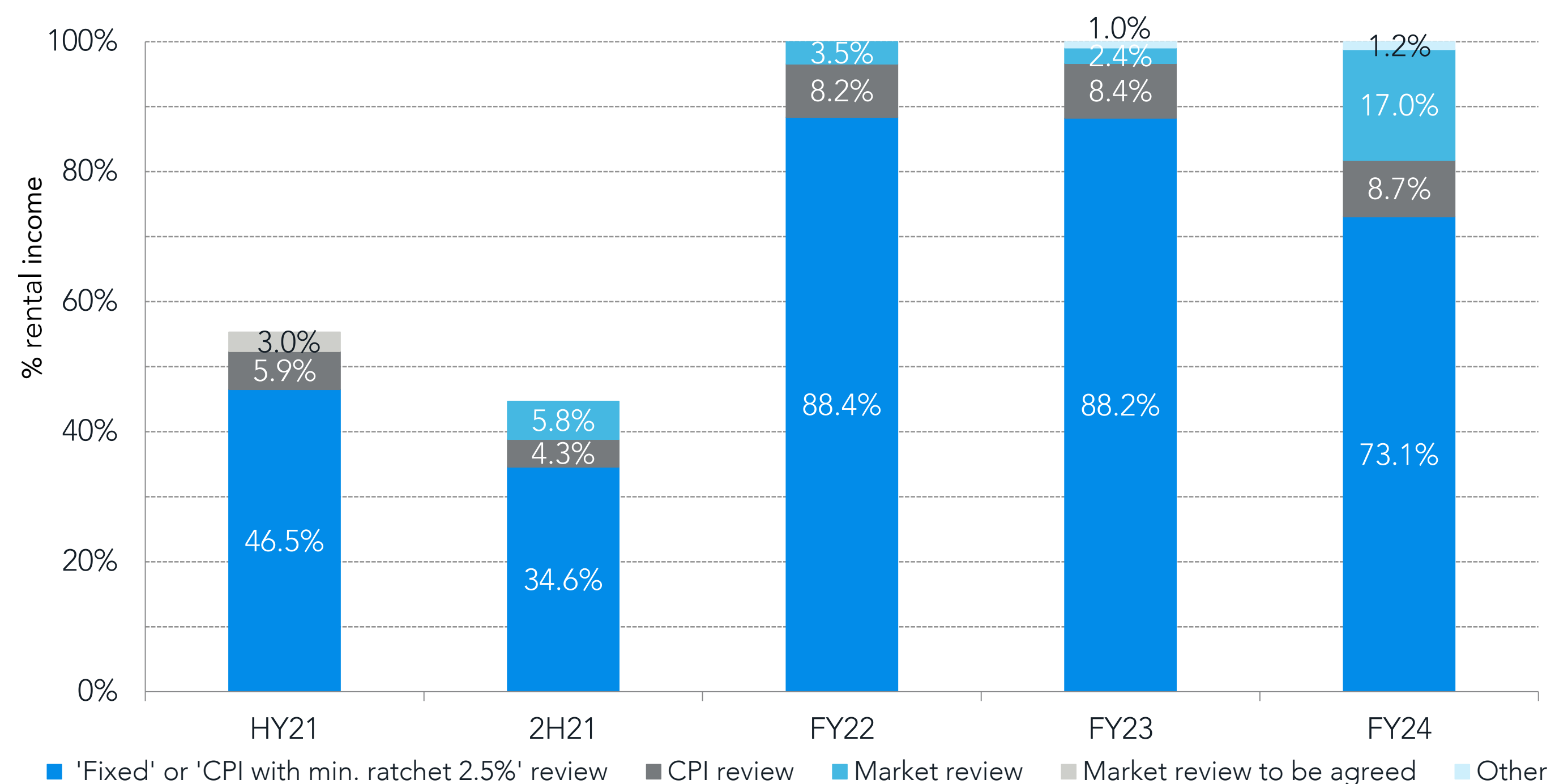
1. By income.
2. Includes two ELC developments that reached practical completion post 31 December 2020.

- Seven operating ELC properties added to portfolio with initial weighted average lease term of 27.3 years.
- Nine ELC development completions added to portfolio with initial weighted average lease term of 20.5 years².
- Only 2% of portfolio income subject to expiry prior to FY2029.



ANNUAL RENT REVIEWS

HY21 average like-for-like rent increase of +2.6%¹



1. Excludes 25 unresolved market rent reviews from FY20 and 11 from HY21 which are all subject to a 0% collar and 7.5% cap.
 2. Totals may not add due to rounding.

- Like-for-like rent increase excludes 25 unresolved market rent reviews from FY20 and 11 from HY21, each are subject to 0% collar and 7.5% cap; market rent review outcomes are backdated to the original review date.
- All FY21 and FY22 market rent reviews are subject to 0% collar and 7.5% cap.
- 17% of FY24 reviews are market rent reviews; all are subject to a 0% collar and approximately half are subject to a 7.5% cap and approximately half are uncapped.



ACQUISITIONS AND DEVELOPMENTS

Creating new accommodation for essential community services

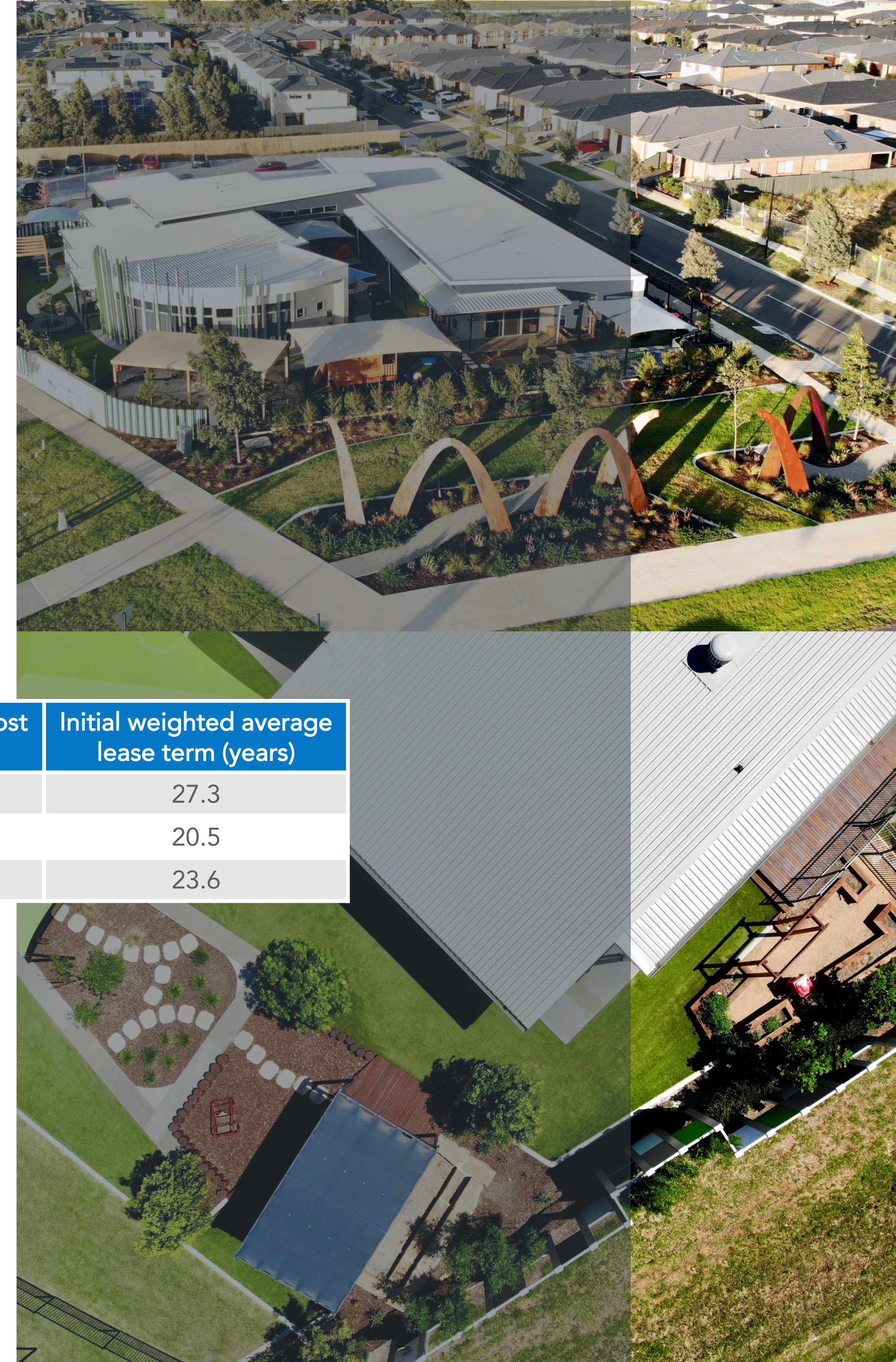
- High quality, purpose built properties with existing tenant partners.
- Nine ELC development projects were completed ¹ in HY21, an additional five are forecast to complete in 2H21 with the balance forecast to complete in FY22.

Acquisitions/development completions	Number of properties	Total cost (\$m)	Initial yield on total cost (%)	Initial weighted average lease term (years)
Operating ELC acquisitions	7	40.4	6.1	27.3
ELC development completions	9	45.8	6.7	20.5
Total/weighted average	16	86.2	6.4	23.6

Development pipeline ²	
Number of projects	13
Forecast total cost	\$74 million
Initial yield on total cost	6.6%
Capex amount outstanding	\$30 million

1. Includes two ELC developments that reached practical completion post 31 December 2020.

2. Includes three ELC projects that were conditionally contracted prior to 31 December 2020.



ELC OPERATING ENVIRONMENT

Strong macroeconomic drivers continue to support Australian ELC sector

- Strong bipartisan government support of ELC sector as it is integral to:
 - Supporting the economic recovery from COVID-19 in the short term; and
 - Improving workforce participation, gender equality, women's financial security and economic activity over the medium to long term¹.
- Strong structural demand for services and record female workforce participation rate have been driving increased long day care (LDC) participation rates over the medium to long term^{2,3}.
- Net new ELC supply moderated⁴ to end December 2020.
- Government support improved by the introduction of Childcare Subsidy (CCS) in July 2018 and strongly reinforced through various COVID-19 related funding commitments⁵.

1. <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>.

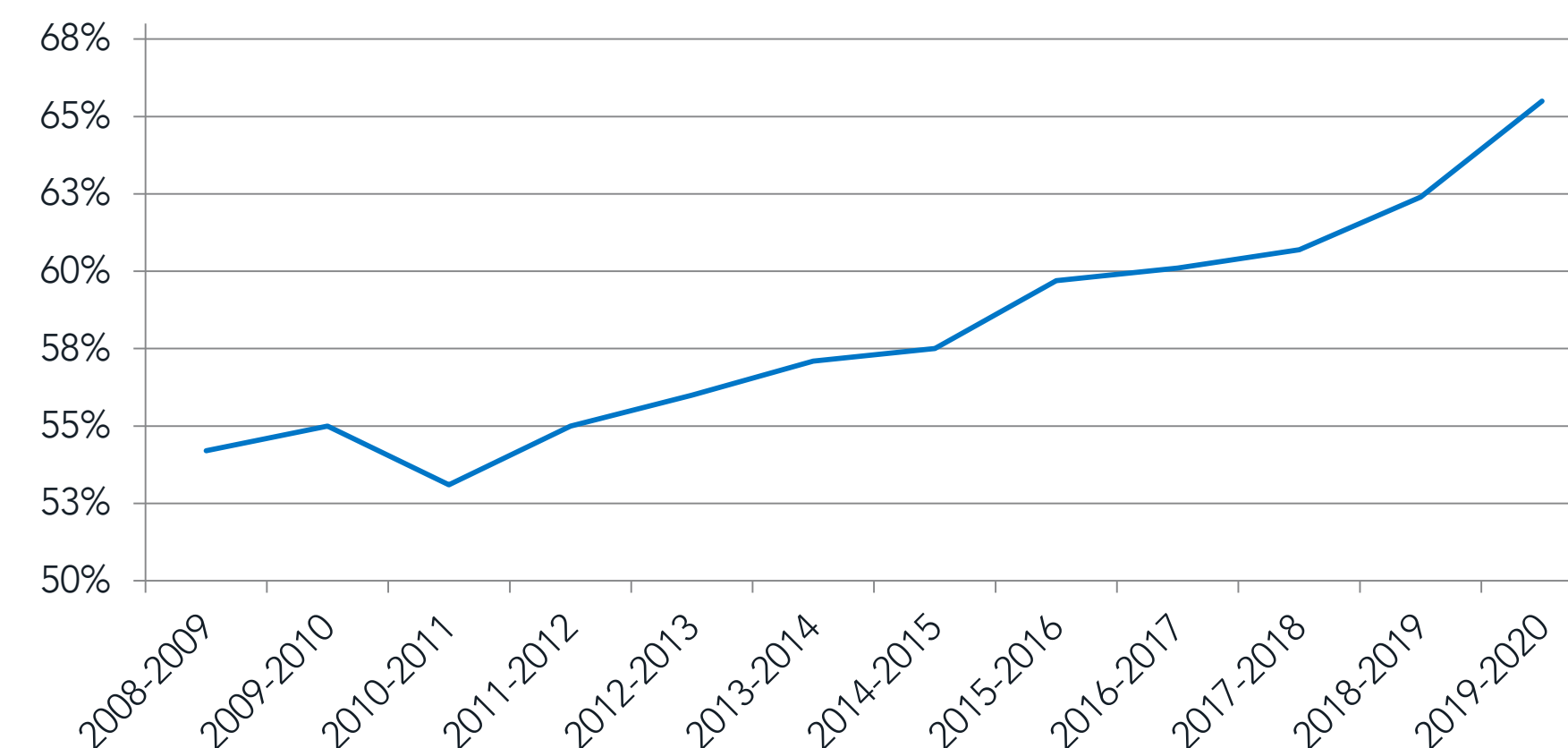
2. ABS Female Labour Force Participation Rate (aged 20-74 at least one dependant child of ELC age).

3. Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.

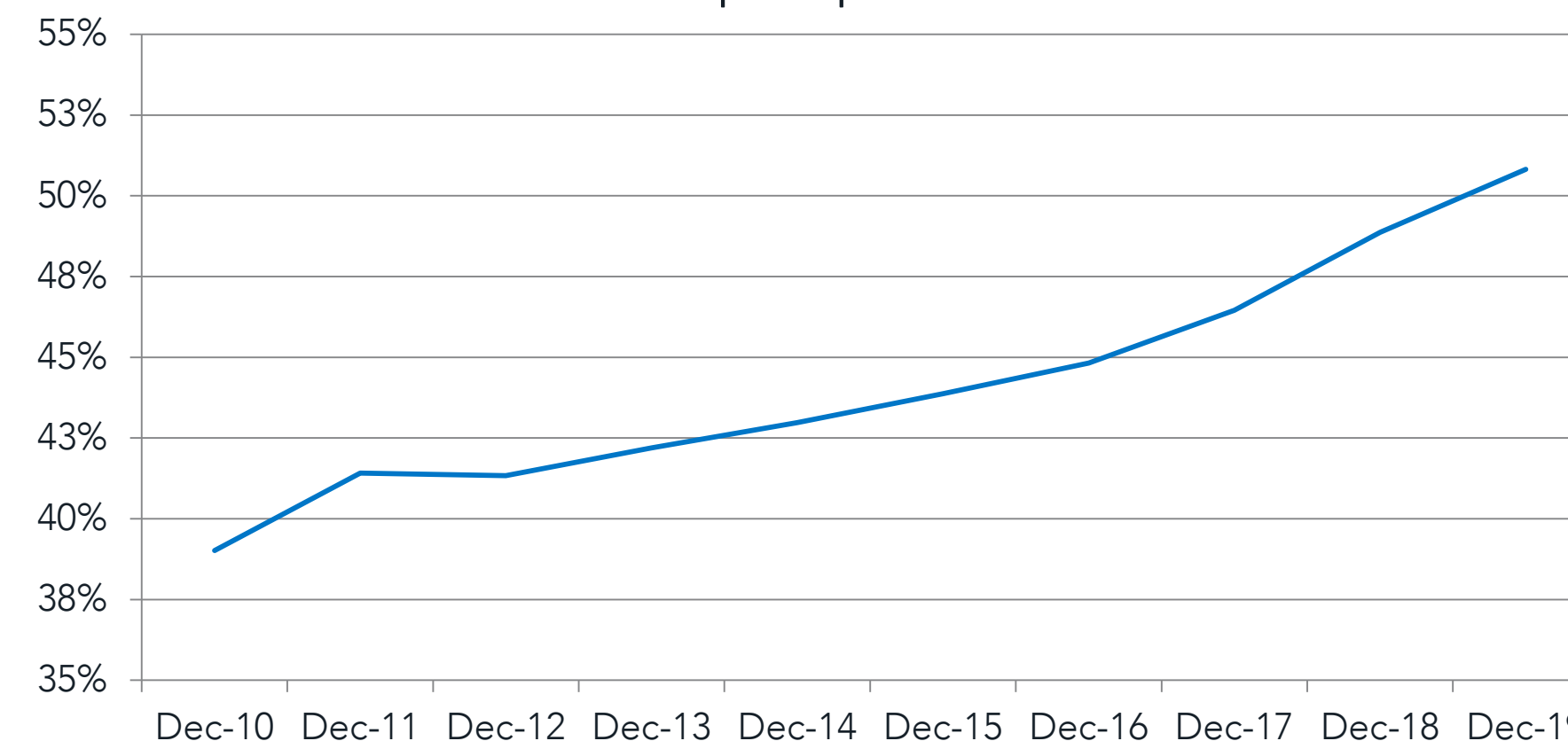
4. <https://www.acecqa.gov.au/resources/national-registers>

5. <https://www.dese.gov.au/covid-19/childcare/>; <https://ministers.dese.gov.au/>

Female Workforce Participation Rate²



LDC participation rate³



ELC PORTFOLIO

Portfolio strength underpinned by asset quality

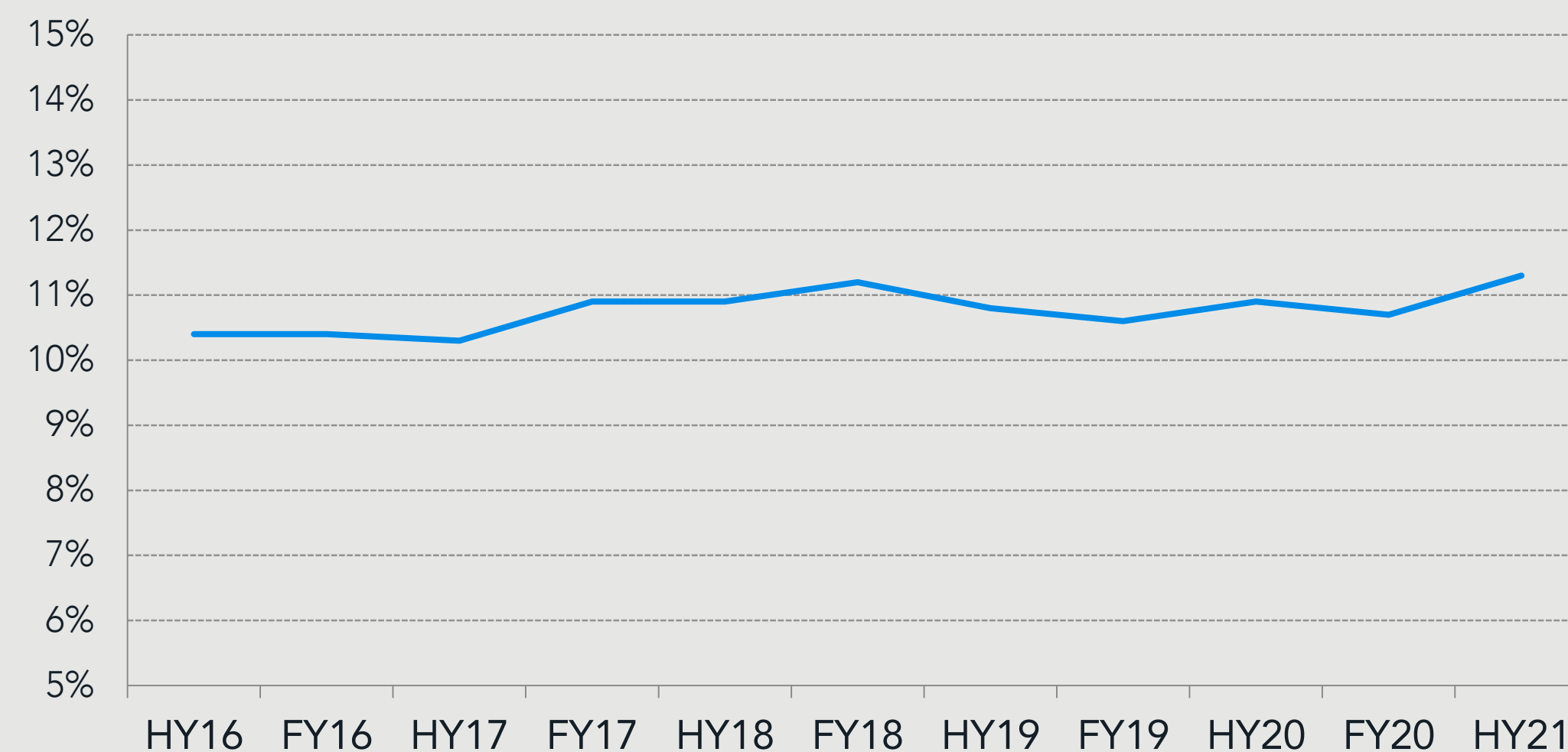
100% portfolio occupancy as at 31 December 2020.

Arena's ELC portfolio operating data¹ to 30 September 2020:

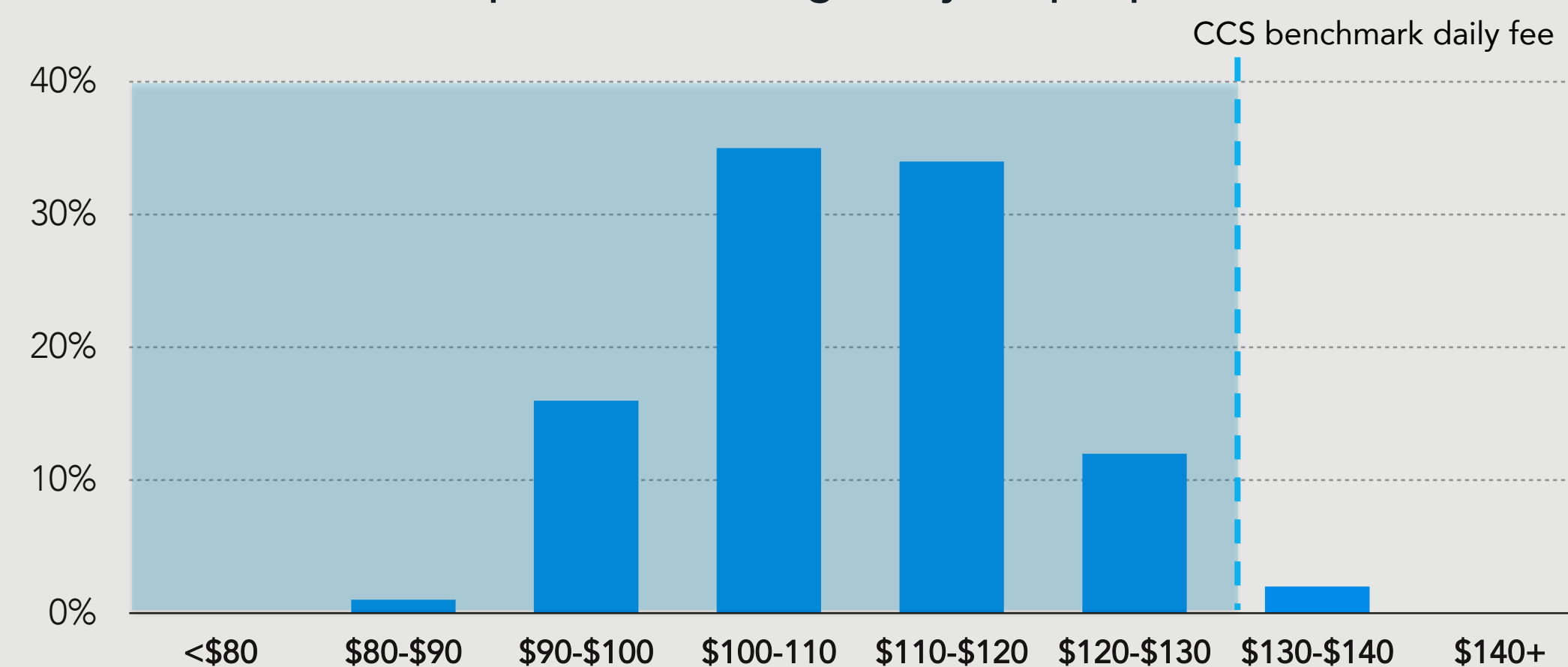
- Strong rebound in ELC occupancy post easing of COVID-19 lockdown restrictions.
- Average centre occupancy stable year on year.
- Average daily fee of \$109.07²:
 - +1.42% from 30 September 2019²; and
 - +2.75% from 31 December 2019².
- Net rent to revenue ratio of 11.3%².

1. Arena analysis based on operating data provided by Arena's tenant partners as at 30 September 2020.
 2. COVID-19 related impacts to ELC operator revenues, government subsidies and attendances may diminish the like-for-like accuracy of these measures during the period.
 3. Assumes CCS fully covers a daily fee of approximately \$134 based on CCS capped hourly fee of \$12.20 per hour over an 11 hour day.

Arena ELC portfolio – net rent to gross operator revenue^{1,2}



Arena ELC portfolio - average daily fee per place^{1,2,3}





HEALTHCARE SECTOR & PORTFOLIO

Strongly sought after asset class

- Strong structural macro-economic drivers continue to support Australian healthcare accommodation including growing and ageing population and increased prevalence of chronic health conditions.
- Healius completed the sale of medical centre business to BGH Capital¹.
- Strong occupancy has been maintained across the specialist disability accommodation portfolio.
- Ongoing investor interest in healthcare property and increasing interest in social infrastructure property more generally.

1. Healius ASX Announcement 9 December 2020.





OUTLOOK

Well positioned for future opportunities and challenges

INCOME GROWTH

- FY21 distribution guidance of 14.8 cent per security, an increase of 5.7%¹ on FY20.
- Annual rent increases, including market rent reviews:
 - Approximately 8% of FY20 income unresolved; and
 - Approximately 9% of FY21 income.
- Full impact of FY20 and partial impact of FY21 acquisitions and development completions.
- \$74 million development pipeline comprising 13 ELC projects².

OUTLOOK

- Early learning and healthcare remain integral to economic recovery.
- Gearing³ at 19.9%, no debt expiry until March 2023.
- Proven ability to secure and execute on high quality opportunities while maintaining a disciplined investment process for opportunities that meet Arena's preferred property characteristics.

1. 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.
2. Includes three ELC projects that were conditionally contracted prior to 31 December 2020.
3. Gearing calculated as ratio of net borrowing over total assets less cash.



Investment objective:

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



QUESTIONS



CORPORATE DIRECTORY

Please direct enquiries to Sam Rist on samantha.rist@arena.com.au



ROB DE VOS

Managing Director



GARETH WINTER

Chief Financial Officer



SAM RIST

Head of Investor Relations



APPENDICES



FINANCIAL PERFORMANCE – HY21

	HY21	HY20	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Property income	28,232	26,448	1,784	+7%
Other income	257	293	(36)	-12%
Total operating income	28,489	26,741	1,748	+7%
Property expenses	(356)	(261)	(95)	+36%
Operating expenses	(1,944)	(1,921)	(23)	+1%
Finance costs	(1,473)	(3,133)	1,660	-53%
Net operating profit (distributable income)	24,716	21,426	3,290	+15%
<i>Non-distributable items:</i>				
Investment property revaluation & straight-lining of rent	35,351	20,213	15,138	
Change in fair value of derivatives	764	296	468	
Profit/(loss) on sale of investment properties	749	871	(122)	
Transaction costs	(25)	(65)	40	
Amortisation of equity based remuneration (non-cash)	(375)	(521)	146	
Other	(46)	28	(74)	
Statutory net profit	61,134	42,248	18,886	

BALANCE SHEET – HY21

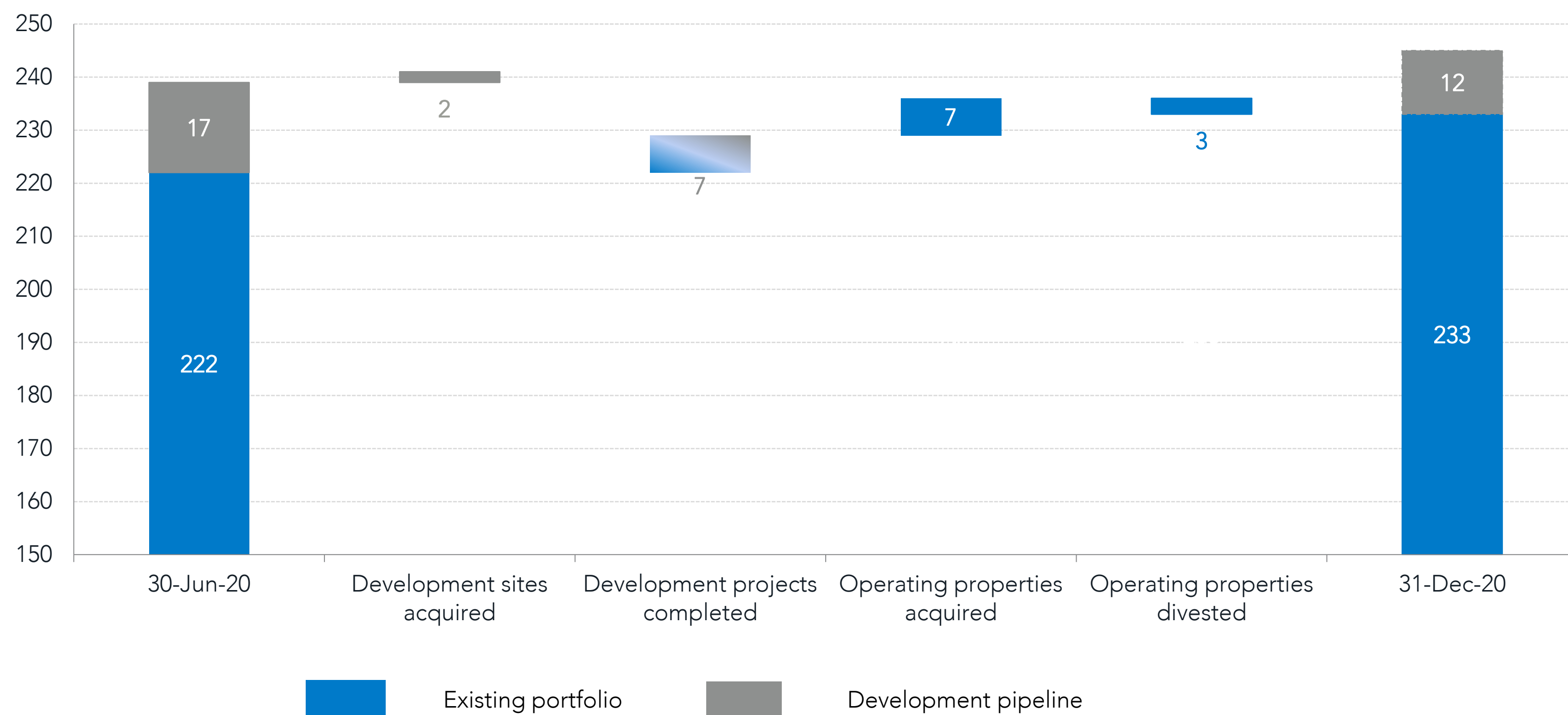
	31 Dec 20	30 June 20	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	28,758	76,330	(47,572)	-62%
Receivables and other assets	5,501	11,427	(5,926)	-52%
Investment properties	1,017,168	914,007	103,161	+11%
Intangibles	10,816	10,816	-	-
Total assets	1,062,243	1,012,580	49,663	+5%
Trade and other liabilities	10,781	11,343	(562)	-5%
Distributions payable	12,735	22,419	(9,684)	-43%
Borrowings	233,971	213,828	20,143	+9%
Derivatives	10,359	13,110	(2,751)	-21%
Total liabilities	267,846	260,700	7,146	+3%
Net assets	794,397	751,880	42,517	+6%
Number of securities on issue (m)	341.9	327.3	14.6	+4%
Net asset value per security (\$)	2.32	2.22	0.10	+5%
Gearing ¹ (%)	19.9	14.8	+510bps	+34%

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

Covenant	Facility requirement	Ratio
Loan to value ratio (LVR)	Maximum 50%	23.1%
Interest cover ratio (ICR)	Minimum 2x	8.4x

PORTFOLIO COMPOSITION AND MOVEMENT

Portfolio movements (30 June 2020 to 31 December 2020)¹



1. Excludes two ELC developments that reached practical completion post 31 December 2020 and three ELC projects that were conditionally contracted prior to 31 December 2020.

ELC PORTFOLIO VALUATIONS

As at 31 December 2020	Number of properties	Value (\$m)	Passing yield (%)
Independent ELC freehold valuations			
Victoria	7	18.4	5.94
Queensland	16	52.9	6.31
Western Australia	7	19.7	6.00
New South Wales	5	29.0	5.32
South Australia	3	11.9	6.48
Total independent ELC valuations	38	131.8	6.01
Director ELC freehold valuations			
Queensland	62	247.4	6.28
Victoria	59	252.1	5.85
New South Wales	27	75.2	6.37
Western Australia	15	45.1	6.02
Tasmania	8	27.3	6.50
South Australia	5	22.7	6.08
Northern Territory	2	5.0	6.84
Total director ELC freehold valuations	178	674.9	6.12
Total freehold ELC portfolio	216	806.7	6.10
Director ELC leasehold valuations – Victoria	6	16.2	9.04
Total ELC portfolio excluding development sites	222	822.9	6.16
ELC development sites	12	53.5	
Total ELC portfolio	234	876.4	6.16

ELC PORTFOLIO METRICS

	31 Dec 2020	30 June 2020	Change
Leased ELCs	222 ¹	211	+11
Development sites	12 ¹	17	-5
Total ELCs	234	228	+6
WALE (by income) (years)	15.1	14.2	+0.9 year
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.16	6.24	-8bps
Portfolio value (\$m)	876.4	777.4	+13%
Average rental increase (%)	2.6	3.9	-130bps
Rent to gross revenue ratio (%)	11.3 ²	10.7 ³	+60bps
Average daily fee (\$)	109.07 ²	109.23 ³	-
Portfolio composition (% by value)			
Metropolitan %	67	65	+200bps
Regional %	33	35	-200bps

1. Excludes two ELC developments that reached practical completion post 31 December 2020 and three ELC projects that were conditionally contracted prior to 31 December 2020.

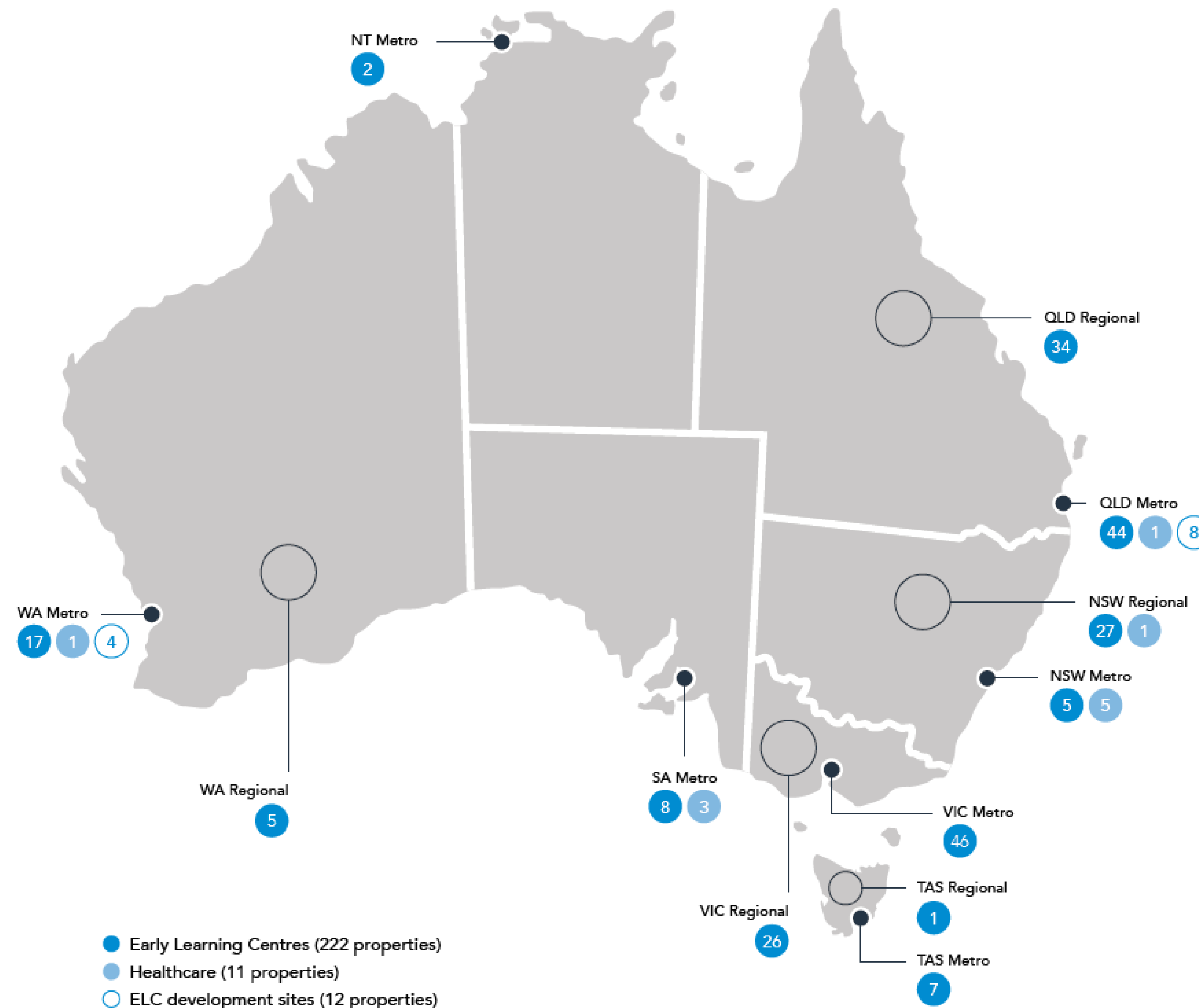
2. Arena analysis based on operating data provided by Arena's tenant partners as at 30 September 2020; COVID-19 related impacts to ELC operator revenues, government subsidies and attendances may diminish the like-for-like accuracy of these measures during the period.

3. Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2020.

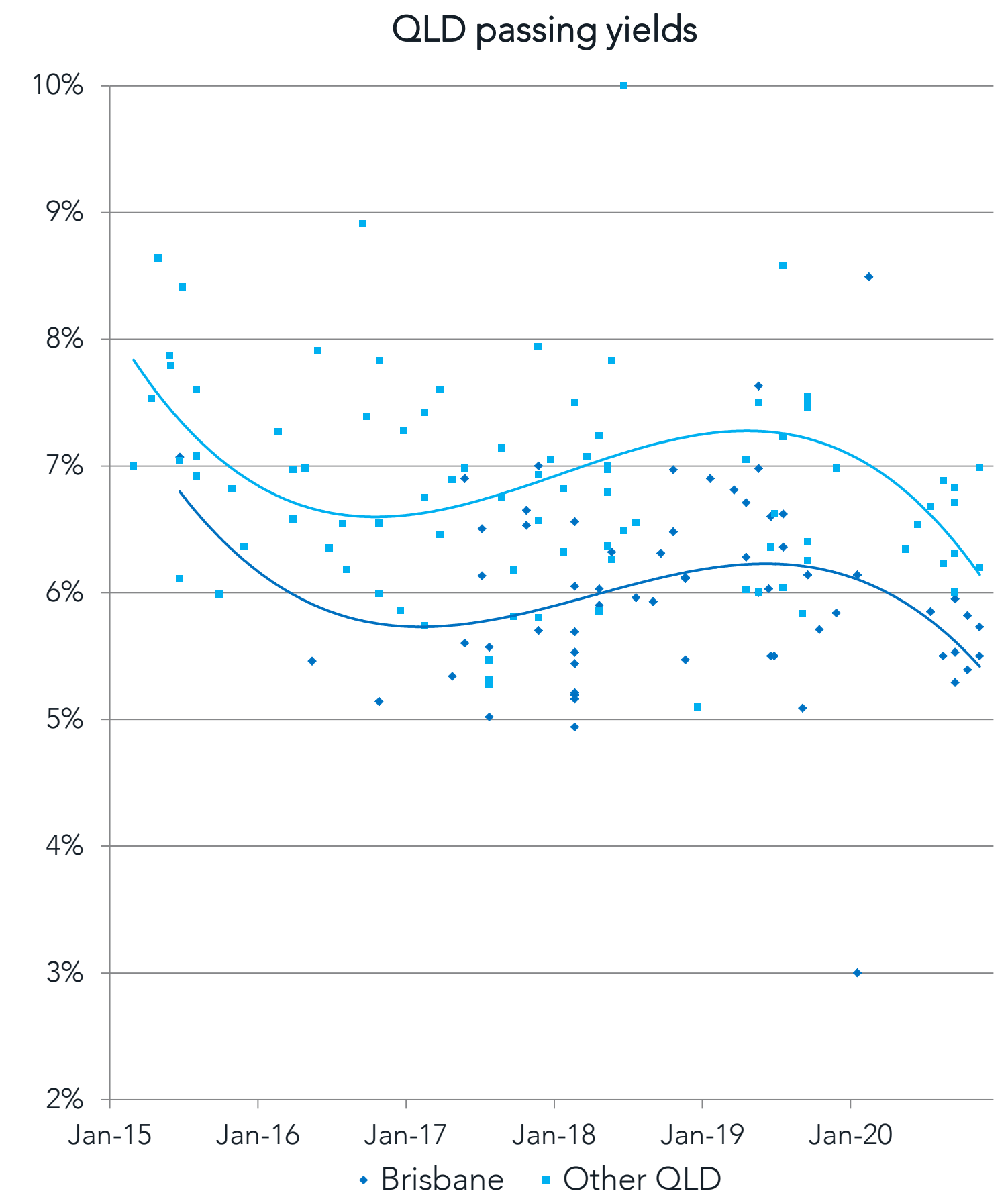
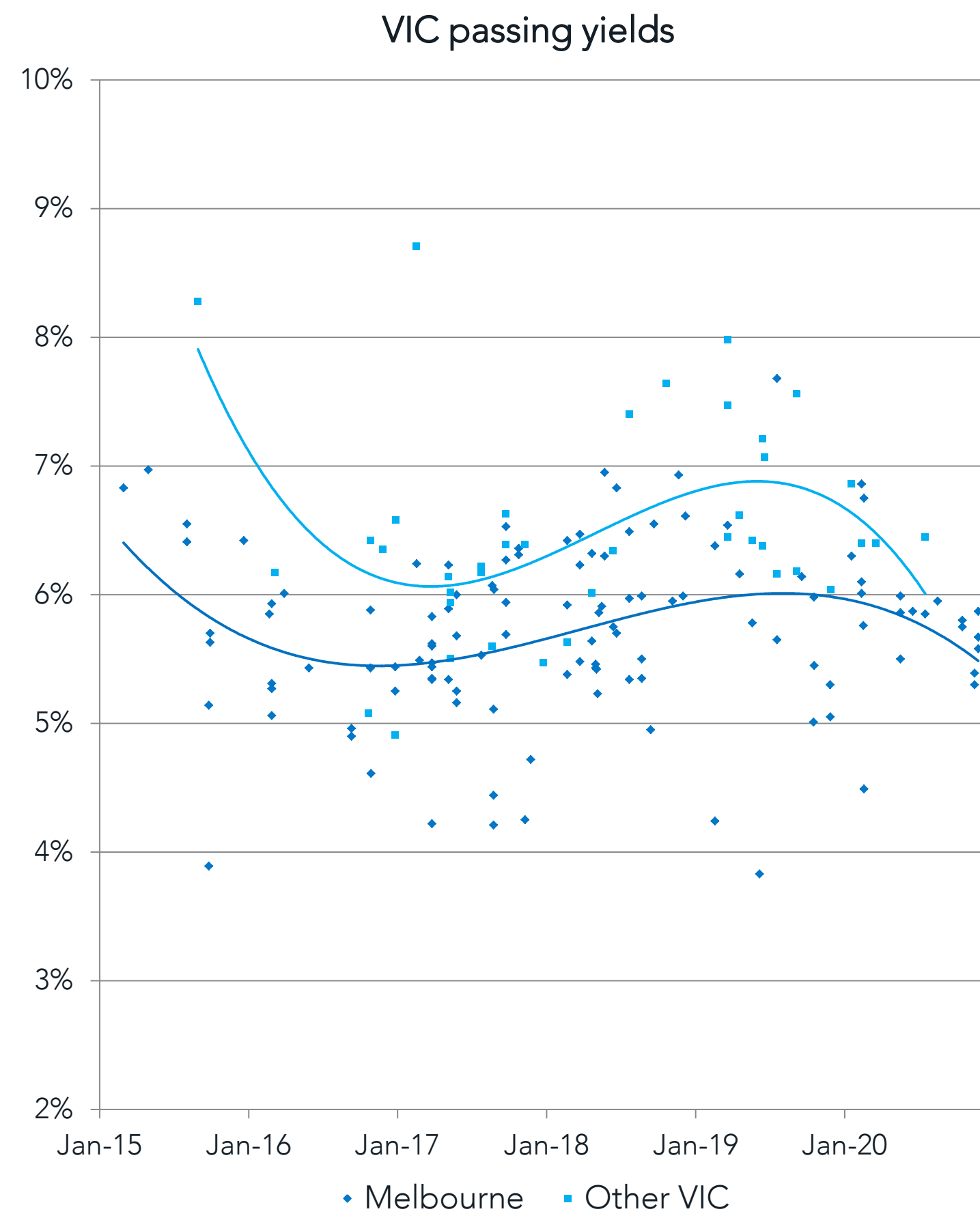
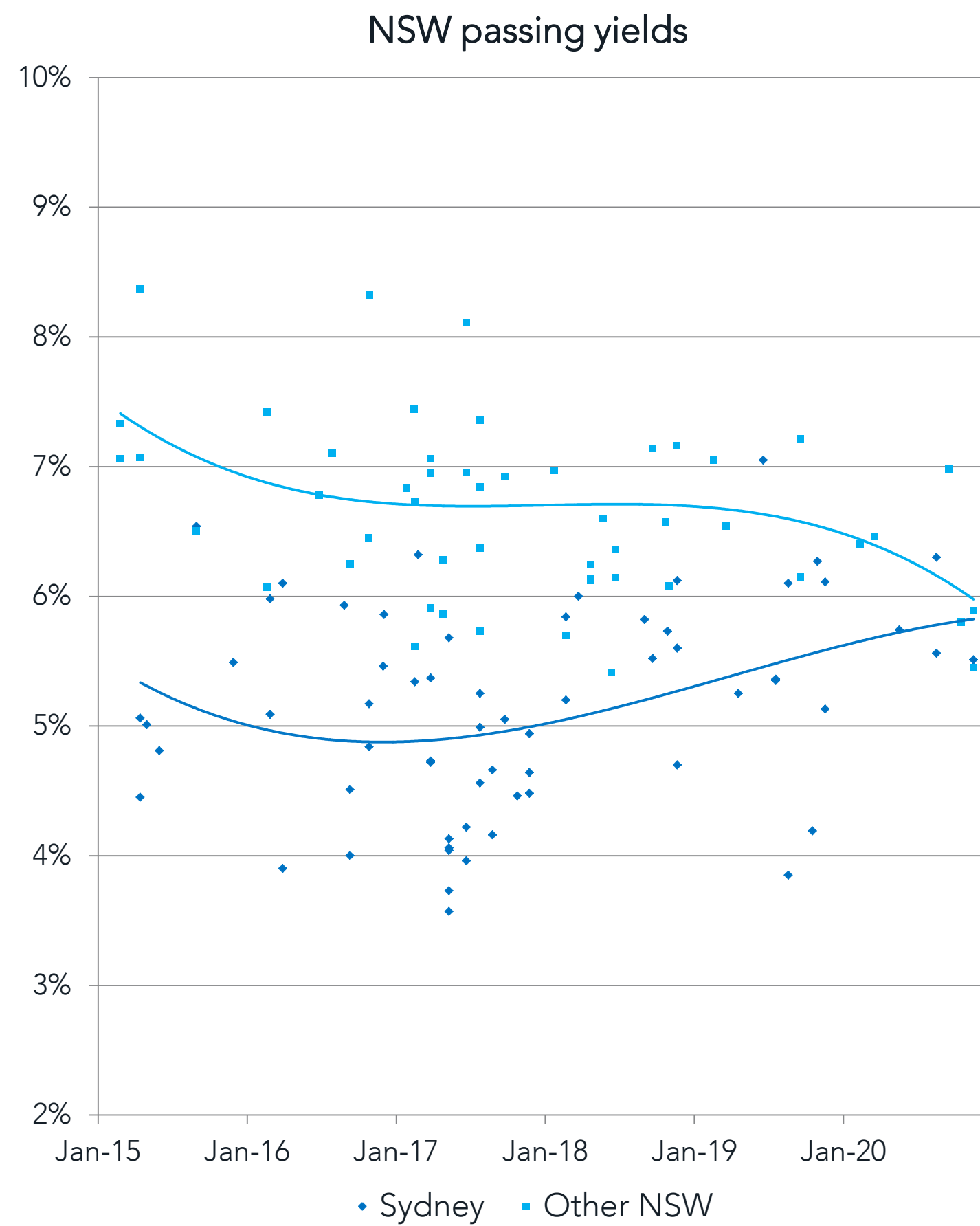
HEALTHCARE PORTFOLIO METRICS

	31 Dec 2020	30 June 2020	Change
Total healthcare properties	11	11	-
WALE (by income) (years)	12.5	12.8	-0.3 years
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	5.99	6.12	-13bps
Property portfolio (\$m)	140.8	136.6	+3%
Average rental increase (%)	2.3	2.25	+5bps
Portfolio composition (% by value)			
Metropolitan %	91	91	-
Regional %	9	9	-

PORFTOLIO LOCATION MAP



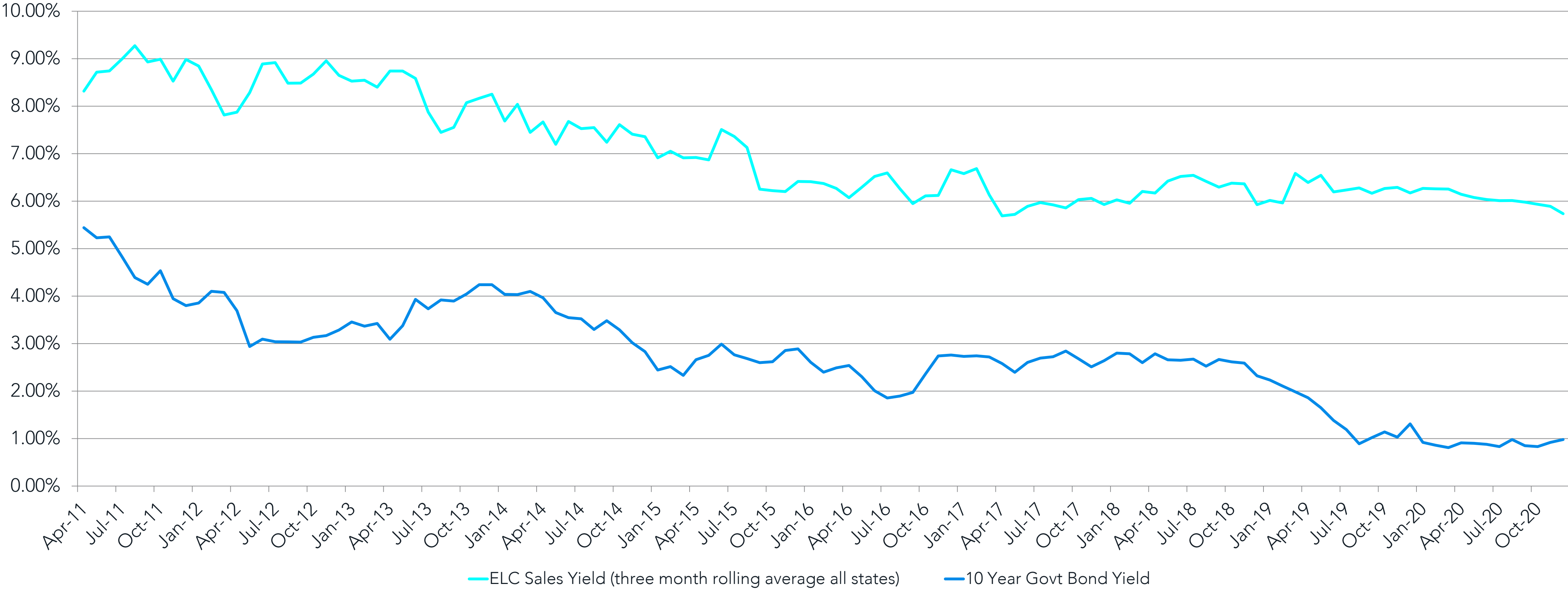
ELC MARKET TRANSACTIONS





ELC SALES YIELDS VERSUS 10 YEAR BOND

Average ELC Sales Yield versus 10 Year Aust Government Bond Yield)





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