

# ASX ANNOUNCEMENT

24 NOVEMBER 2022

## 2022 AGM CHAIR'S ADDRESS AND MANAGING DIRECTOR'S REPORT

### Chair's Address

#### FY22 Highlights

The COVID-19 Pandemic continued to present challenges for our tenant partners in financial year 2022 (FY22), and more recently uncertainty arising from inflationary pressures, interest rate increases, wages pressures and staff shortages, have combined to create further uncertainty.

On behalf of the Board of Arena I would like to express our gratitude to our tenant partners for their continued resilience and ability to deliver essential services to Australian communities and our team for their commitment and performance during FY22.

Arena has produced strong earnings, distribution and capital growth, successfully delivered acquisitions and development completions, replenished the development pipeline, maintained the portfolio's long WALE and further improved our progress with regard to sustainability outcomes.

These positive investment and community outcomes are a result of the quality of Arena's property portfolio, the proactive approach of Arena's management team and the strong macroeconomic themes that support investment in social infrastructure property. It is also an endorsement of Arena's disciplined strategy and ability to deliver on our investment objectives.

Arena's statutory net profit for the year was \$334 million, representing an increase of 102% on the prior year. Underlying net operating profit increased by 8.4% to \$56 million due to higher operating income from contracted annual rent growth and positive market rent review outcomes, acquisitions, and development completions.

The result represents earnings per security (EPS) of 16.3 cents, an increase of 7.2% on the prior year. Arena has paid a full-year distribution per security (DPS) of 16.0 cents, an increase of 8.1% on the prior year.

Arena's total assets increased by 32% to \$1.52 billion as a result of result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The portfolio revaluation uplift was the primary contributor to the 32% increase in net asset value per security to \$3.37 at 30 June 2022.



Arena continues to operate well within its banking covenant requirements. We have expanded our liquidity while maintaining hedging discipline and capacity to pursue investments consistent with strategy.

Arena remains well positioned to navigate ongoing and emerging economic and investment challenges and to consider new opportunities that are consistent with Arena's investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

As in previous years, I am pleased to advise that we are forecasting DPS growth for FY23 and reaffirm distribution guidance for FY23 of 16.8 cents per security<sup>1</sup> representing 5% growth over FY22.

## Sustainability

Sustainability is integral to Arena's investment approach and best positions Arena to achieve positive long term investment and community outcomes.

Arena's portfolio facilitates access to essential community services with positive social impact:

- ELCs provide early childhood education and care which improve lifelong learning prospects of Australian children and allows parents and carers the opportunity to remain in, join or re-join the workforce.
- Medical centres provide local, community-based primary health care services.
- Specialist disability accommodation is designed to provide a better quality of life for residents with high physical support needs.

Given the environmental and social footprint of its assets, Arena has an opportunity to leverage its own sustainability initiatives by partnering with its tenants. Accordingly, Arena's overarching approach to sustainability is to actively seek out 'Partnerships for Change.' Our partnership approach delivers mutually beneficial outcomes for our communities, team, tenant partners and ultimately our investors.

Key sustainability outcomes detailed in Arena's FY22 Sustainability Report include:

- Active collaboration with tenant partners on sustainability initiatives.
- Solar renewable energy systems installed on 80% of Arena's property portfolio.
- A climate action plan including greenhouse gas inventory of Arena's financed emissions.
- Inaugural TCFD-aligned climate risks and opportunities disclosures.
- Arena REIT certified carbon neutral by Climate Active for business operations in 2021-2022.

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<sup>1</sup> FY23 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, no material change in current market conditions 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.

- Analysed operations and supply chains to voluntarily opt into modern slavery reporting.

Key future sustainability goals are to:

- Continue to collaborate with tenant partners on appropriately identified ESG/Sustainability initiatives and report progress.
- Install solar renewable energy systems on 90% of Arena's property portfolio.
- Develop a detailed transition plan including an emissions reduction roadmap for our operations and asset portfolio.
- Align reporting with recommendations of the TCFD.
- Achieve gender balance for the ARL Board using the 40:40:20 model.
- Develop a Reconciliation Action Plan that is Endorsed by Reconciliation Australia.
- Continue to build on our Modern Slavery response in line with our roadmap.

## Remuneration

We remain focused on the development of our team and maintaining remuneration structures that equitably reward, retain and incentivise the achievement of sustainable business

outcomes and behaviours that reflect our Purpose, Values and community expectations to create long-term value for our stakeholders.

An independent review of Arena's remuneration framework was completed in financial year 2021 (FY21) for implementation in FY22; details of the review were disclosed in the FY21 Remuneration Report and are also provided in the FY22 Remuneration Report.

In the four years since the previous independent review, Arena experienced significant growth, including a 60% increase in property income, an 85% increase in total assets and a 134% increase in market capitalisation.

The key decisions implemented with respect to FY22 remuneration reflect contemporary market practice, talent retention in an increasingly competitive market, the progression of Arena's strategy and individual and collective employee performance.

Executive KMP (KMP) were awarded 97.5% of their target Short Term Incentive (STI) which reflects:

- The delivery of above target DPS and distributable income per security (DIS) growth in FY22 and business initiatives implemented in FY22 to support a minimum DIS growth target in FY23; and
- The performance of KMP in respect of non-financial objectives, including high level of retention, team alignment and engagement and substantial advancement in our sustainability credentials.

The FY20 Long Term Incentive (LTI) was tested as at 30 June 2022 and fully vested as:

- Arena's FY22 DIS of 16.3 cents per security (representing a 5.7% compound annual growth rate (CAGR) over the three year performance period) exceeded the high hurdle of 16.0 cents per security (target of 5.1% CAGR); and
- Arena's three year total securityholder return (TSR) of 69% (equivalent to a 19% CAGR) for the three-year period ended 30 June 2022 ranked 1st amongst the comparator group comprising the 28 A-REITs (including Arena) in the ASX300 REIT index at 1 July 2019.

There are no changes to the remuneration framework proposed in FY23. Following Arena's entry into the ASX200 AREIT Index in FY22, the Board has determined the comparator group for the Relative TSR measure in the FY23 LTI grant will be the members of the ASX200 AREIT index on 1 July 2022 (previously the ASX300 AREITs).

We recognise it is important for KMP to be aligned with securityholders, not just through the remuneration framework, but also by maintaining a material securityholding interest. In recognition of this, Arena introduced a minimum securityholding requirement for Executive KMP in FY22 set at 100% of their fixed annual remuneration, to be accumulated over a maximum period of four years. The existing non-executive director minimum securityholder requirement was increased in FY22 to 100% of the base board fee to be accumulated over a maximum period of three years.

Arena is strongly committed to diversity among both team members and the Board. We believe that a diverse set of team members reflects the communities in which we all live, makes us a better company and ensures that a range of different perspectives can be brought to the table when considering issues. It assists with team retention and engagement and helps us meet our stakeholders' expectations regarding key attributes of a sustainable company.

With regard to achieving Board gender balance, as outlined in the notice of meeting and explanatory memorandum for today's meeting, Arena is currently in the process of recruiting another female non-executive director which we expect to finalise shortly. Following this appointment, Dr Simon Parsons (who is standing for re-election today) is expected to stay on the Board for an orderly period of transition before retiring. At this point and assuming the re-election of Ms Rosemary Hartnett at today's meeting, the Arena REIT Limited Board will be comprised of 40% female directors.

## **Conclusion**

Before handing over to Arena's Managing Director, Rob de Vos I would like to take the opportunity on behalf of the Board and the management team to thank our investors, tenants, and business partners for their ongoing support.

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

## **Managing Director's Report**

I would also like to acknowledge the Traditional Custodians of the various lands on which we meet today, and recognise their ongoing connection to land, waters and community, and to offer a warm welcome to everyone, to Arena REIT's 2022 Annual General Meeting.

### **Delivering on Strategy**

I am pleased to report that despite an environment of heightened risk in FY22, Arena's disciplined strategy has again supported positive operational, financial and community outcomes.

The growth in demand for the services we accommodate, along with our and our tenant partners disciplined and proactive management programs, has resulted in the portfolio being in an excellent position.

During the year, we have:

- maintained our sector leading, long contracted lease duration of 20 years;
- achieved a portfolio valuation increase of over \$250 million, as a result of yield compression, rental growth and the completion of new developments;
- successfully divested two ELC properties at a premium to book value, and reinvested those proceeds back into our development pipeline;
- maintained 100% occupancy – which has been the case for seven consecutive years; and;
- achieved strong rental growth, with like-for-like increases of 4.1%.

We have worked in partnership with our tenants to progress our solar renewable energy programs. 100 solar energy systems were installed across the portfolio in FY22, and we now have over 80% of the portfolio using solar renewable energy.

We have had success in executing on our investment and development activities including:

- acquiring seven operating ELC properties at an average net initial yield of 5.4% on total cost;
- completing six ELC developments at an average net initial yield on total cost of 6.4%; and
- replenishing our development pipeline with nine new projects, to take our development pipeline to 20 ELC projects that will support future earnings growth.

Arena's management team has specialist asset management and development expertise and a strong track record that includes the successful delivery of 60 development projects for our tenant partners over the past ten years at a total cost of \$298 million.

At the core of what we do and how we do it, are our purpose and values- and we continue to differentiate Arena's brand in the marketplace through a partnership approach, working collaboratively with our tenants and other stakeholders to achieve: Better communities. Together.

We are confident in Arena's strategy, the strength of our team, the portfolio and the important contribution the services we accommodate make to improving community outcomes.

## Portfolio Overview

As at 30 June 2022, Arena's portfolio consisted of 263 social infrastructure properties occupying over 70 hectares of land.

Asset revaluations during the period provided for a portfolio valuation of \$1.46 billion representing an increase of 23% from the prior year.

Geographically, we have 80% of the portfolio located in the high population, eastern seaboard states; and we continue to improve our spread of tenant partnerships, with 32 tenant partners in total as at June 2022.

Strong structural demand continues for childcare services and a record female workforce participation rate continues to drive participation rates<sup>2,3</sup>.

Australia's Federal Government has committed to further reduce the cost of childcare by lifting the maximum CCS rate to 90% for the first child in care, and to keep the recently increased subsidy rate at a maximum of 95% for subsequent children in care. The Government also intends to reduce the rate at which the subsidy tapers and to lift the maximum household income threshold in order to promote the use of, and make childcare more affordable for Australian families<sup>4</sup>.

These measures have specifically been designed to improve lifelong learning prospects of Australian children, increase workforce participation, improve gender equality, including women's financial security and to stimulate broader economic activity over the medium to long term<sup>5</sup>.

Strong structural macro-economic drivers also continue to support Australian healthcare accommodation, including a growing and aging population and an increased prevalence of chronic health diseases.

Healthcare properties remain strongly sought after, with increased domestic and international interest in Australian healthcare property and increasing interest in social infrastructure property more generally.

## Outlook

Arena remains well positioned to navigate ongoing and emerging economic challenges.

Our portfolio of social infrastructure properties facilitates access to essential community services with positive social impact.

Strong macroeconomic themes underpin the value proposition of Arena's portfolio which provides long term income predictability with the prospect of income growth with inflation protection.

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<sup>2</sup> ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

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

<sup>4</sup> <https://anthonyalbanese.com.au/media-centre/labors-plan-for-cheaper-child-care-budget-reply-2022>

<sup>5</sup> [Cheaper childcare: A practical plan to boost female workforce participation \(grattan.edu.au\)](http://cheaperchildcare.org.au/practical-plan-to-boost-female-workforce-participation)

Our investment and capital management discipline sees us well positioned to consider new opportunities that are consistent with strategy and deliver on Arena's investment objective.

We are reaffirming distribution guidance for FY23 of 16.8 cents per security<sup>6</sup> representing an increase of 5% on FY22.

I have comfort in assuring our business stakeholders that the Arena team will continue to work hard to achieve positive investment outcomes, that in-turn provide positive outcomes for Australian communities.

In closing, I would like to thank our Board members and our executive team, our contractors and service providers for their dedication and hard work through FY22, and to thank you, our Securityholders for your support and ongoing interest in Arena REIT.

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

- ENDS –

**For further information, please contact:**

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## About Arena REIT

Arena REIT is an ASX200 listed property group that develops, owns and manages 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](http://www.arena.com.au).

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