

ASX ANNOUNCEMENT

23 NOVEMBER 2023

2023 AGM CHAIR'S ADDRESS AND MANAGING DIRECTOR'S REPORT

Chair's Address

FY2023 Highlights

Financial year 2023 was characterised by a rapidly changing external economic environment arising from inflationary pressures, rapid interest rate increases, cost and wages pressures and labour shortages.

In response to this new environment, the Arena REIT (Arena) team has maintained discipline across our capital, leasing and portfolio management strategies and successfully managed operating costs while delivering on our investment objective.

Arena has produced earnings and distribution growth, successfully delivered acquisitions and development completions, replenished the development pipeline, maintained the portfolio's long WALE and made material progress on our sustainability objectives during the reporting period.

These positive 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 objective.

Arena's statutory net profit for the year was \$74 million, representing a decrease of 78% primarily due to a lower revaluation gain on investment properties and derivatives compared to the prior period. Underlying net operating profit increased by 6% to \$60 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 17.1 cents, an increase of 5% on the prior year. Arena has paid a full-year distribution per security (DPS) of 16.8 cents, an increase of 5% on the prior year.

Arena's total assets increased by 3% to \$1.57 billion as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The portfolio revaluation uplift was the primary contributor to the 1% increase in net asset value per security to \$3.42 at 30 June 2023.



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's investment proposition and partnership approach are integral to building better communities, together. We remain well positioned to navigate ongoing and emerging economic and investment challenges and to explore and consider new opportunities that are consistent with Arena's investment objective of generating an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

I am pleased to advise that we are forecasting DPS growth for FY2024 and reaffirm distribution guidance for FY2024 of 17.4 cents per security¹ representing 3.6% growth over FY2023.

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.

We continued to make material progress on our sustainability goals during the reporting period. We recently issued Arena's 2023 Sustainability Report which provides detail on our commitment to strategies that address sustainability challenges faced by Arena and Arena's stakeholders and identifies opportunities to progress positive change, including goals for ongoing action and future reporting.

Please refer to [Arena's FY2023 Sustainability Report](#) for more detailed information.

Remuneration

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

¹ FY2024 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals and no material change in current market or operating conditions.

performance based outcomes and behaviours that reflect our purpose, values and stakeholder expectations.

There were no changes to the remuneration framework in FY2023.

Following Arena's entry into the ASX200 AREIT Index in FY2022, the Relative TSR comparative group for the FY2023 LTI grant was changed to the members of the ASX200 AREIT index on 1 July 2022 (previously the ASX300 AREITs).

Executive KMP (KMP) were awarded 75% of their target Short Term Incentive (STI) which reflects:

- The delivery of 5% target distribution per security growth in FY2023; and
- The performance in respect of non-financial objectives demonstrated through operational outcomes and advancement of Arena's sustainability program.

The FY2021 Long Term Incentive (LTI) was tested as at 30 June 2023 and fully vested as:

- Arena's FY2023 DIS of 17.1 cents per security (representing a 5.6% compound annual growth rate (CAGR) over the three year performance period) exceeded the high hurdle of 16.9 cents per security (target of 5.1% CAGR); and
- Arena's TSR of 82% (equivalent to a 22% CAGR) for the three-year period ended 30 June 2023 ranked 1st amongst the comparator group that comprised 29 A-REITs (including Arena) in the ASX300 REIT index at 1 July 2020.

We recognise it is important for KMP to be aligned with securityholders, not just through the remuneration framework, but also by maintaining a minimum securityholding interest.

In recognition of this, Arena's minimum securityholding requirement (MSHR) for Executive KMP is set at 100% of their fixed annual remuneration (to be accumulated over a maximum period of four years). The MSHR for non-executive directors is set at 100% of the base Board Fee (to be accumulated over a maximum period of three years).

All KMP are compliant with our MSHR policy.

There are no changes to the remuneration framework proposed in FY2024.

Our focus in FY2024 is being ready for new growth opportunities as they arise, executing on our well-defined strategy and delivering on our purpose of Better Communities. Together.

Your Board

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.

Arena welcomed Ms Helen Thornton as an independent non-executive director during the period. Helen's depth of experience across audit, finance, governance, property and risk management complements the Board's existing mix of skills and experience.

As foreshadowed at Arena's 2022 Annual General Meeting, Dr Simon Parsons retired as a director of Arena in June 2023. On behalf of the Arena Board, we would like to thank Simon for his substantial contribution to Arena since its ASX listing. Simon was a valuable member of the Board and its committees, retiring after 11 years of service.

The changes undertaken during FY2023 marked the commencement of the renewal and succession planning of your Board and demonstrates our commitment to fostering diversity, innovation, and sustained excellence in governance. During FY2023 Arena met its target to achieve gender balance for the Arena REIT Limited Board and maintained gender balance for senior executives using the 40:40:20 model.

Your Board has a deliberate and forward-looking approach to ongoing Board renewal. We expect this approach to mitigate governance risks while supporting Arena's resilience in the evolving corporate and economic landscape. Our proactive approach intends to deliver skills, experiences, and perspectives that complement Arena's newer Board members and best position Arena for future success.

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.

Thank you.

Managing Director's Report

Thank you David.

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 2023 Annual General Meeting.

Delivering on Strategy

FY2023 marked Arena's tenth year as an ASX listed business and over 20 years as trusts exclusively investing in social infrastructure property.

Over the last two decades the business has developed, owned and managed a leading portfolio of social infrastructure property, providing positive investment returns to our securityholders and delivering positive social impacts to the many Australian communities in which we invest.

Whilst we have seen a new investing environment emerge over the last 12 months, characterised by higher inflation and higher interest rates; Arena's performance for financial year 2023 was again ultimately underpinned by the growing community demand for the essential community services that we accommodate. Demand for these services combined with ongoing disciplined capital, asset and interest rate management has provided for overall positive outcomes across the portfolio and for the communities in which we invest.

During the year, we:

- achieved strong rental growth across the portfolio, with like-for-like annual rent increases of 6.8%;
- maintained our sector leading, long contracted lease duration of just under 20 years;
- successfully divested two healthcare properties at an average yield of 4.4% and reinvested those proceeds back into our development pipeline; and
- maintained a stable net asset value per security as an increase in the portfolio capitalisation rate was offset by passing and market rent increases.

We have worked in partnership with our tenants to further progress our solar renewable energy program and now have over 83% of the portfolio using solar renewable energy.

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

- acquiring two operating ELC properties at an average net initial yield of 6% on total cost;
- completing ten ELC developments at an average net initial yield on total cost of 5.8%; and
- replenishing our development pipeline with nine new projects, to take our development pipeline to 16 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 70 development projects for our tenant partners over the past ten years.

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 tenant partners 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 2023, Arena's portfolio consisted of 272 social infrastructure properties occupying over 73 hectares of land.

Asset revaluations during the period provided for a portfolio valuation of \$1.52 billion representing an increase of 1% from the prior year.

Geographically, we have over 80% of the portfolio located in the high population, eastern seaboard states; and we continue to improve our spread of tenant partnerships.

Strong macroeconomic drivers continue to support the Australian childcare sector. Rising female workforce participation continues to drive demand for childcare services and long day care participation rates over the medium to long term^{2,3}. From July 2023 Australian families have benefitted from improved affordability measures⁴ introduced by the Federal Government, including:

- increasing the maximum Childcare Subsidy (CCS) rate to 90% for the first child in care;
- retaining the increased CCS rate at a maximum of 95% for subsequent children in care; and
- increasing the CCS for every family earning less than \$530,000 in annual household income with one child in care.

These measures have been designed to improve lifelong learning prospects of Australian children, increase workforce participation, improve gender equality, including women's financial security, and stimulate economic activity over the medium to long term⁵.

² ABS Labour Force status by Relationship in household, Sex, State and Territory.

³ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2023.

⁴ Labor's Plan for Cheaper Child Care | Policies | Australian Labor Party (alp.org.au)

⁵ Cheaper childcare: A practical plan to boost female workforce participation (grattan.edu.au)

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

Healthcare properties remain strongly sought after, with ongoing domestic and international investor 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 and today we are reaffirming distribution guidance for FY2024 of 17.4 cents per security⁶ representing an increase of 3.6% on FY2023.

Our portfolio of social infrastructure properties facilitates access to essential community services that provide a positive social impact.

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

Our ongoing disciplined approach to investment and capital management has positioned the business well to consider and act upon new opportunities that may arise in a changing investment environment, which are consistent with our purpose and strategy and deliver on our investment objective.

On behalf of Arena's management team, we look forward to continuing to work hard with, and for, our stakeholders, to achieve positive investment outcomes for our securityholders, that will in-turn provide positive outcomes for the many Australian communities in which we invest.

In closing, I would like to thank our Board members and the Arena management team, our contractors, service providers and tenant partners for their dedication and hard work through FY2023, 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 -

⁶ FY2024 distribution guidance is estimated on a status quo basis assuming no new acquisitions or disposals and no material change in current market or operating conditions.

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.