

# ASX ANNOUNCEMENT

22 NOVEMBER 2024

## 2024 AGM CHAIR'S ADDRESS AND MANAGING DIRECTOR'S REPORT

### Chair's Address

#### FY2024 Highlights

Arena has again delivered positive outcomes for our stakeholders during FY2024.

Despite broader challenges in real estate investment markets arising from persistently high inflation and higher interest rates, Arena has performed well against its investment objective. This has been achieved through our ongoing disciplined capital, leasing and portfolio management and the careful management of operating costs, while at the same time embedding sustainability across our business strategies.

Arena has produced earnings and distribution growth, successfully delivered development completions, replenished the development pipeline and maintained the portfolio's long WALE.

Arena's statutory net profit for the year was \$57.5 million, representing a decrease of 22.5% primarily due to a lower revaluation gain on investment properties and derivatives compared to the prior period. Underlying net operating profit increased by 4.7% to \$62 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 17.65 cents, an increase of 3.2% on the prior year. Arena has paid a full-year distribution per security (DPS) of 17.4 cents, an increase of 3.6% on the prior year.

Arena's total assets increased by 3% to \$1.62 billion as a result of acquisition and development capital expenditure. Arena's net asset value was \$3.41 as at 30 June 2024, in line with \$3.42 as at 30 June 2023.

Arena continues to operate well within its banking covenant requirements. We have extended the maturity dates on each tranche of our \$500 million syndicated borrowing facility while maintaining hedging discipline and capacity to pursue investments consistent with strategy.



Arena completed a post balance date \$120 million Institutional Placement that was strongly supported by new and existing securityholders. Eligible existing securityholders were also offered the opportunity to participate in a post balance date Security Purchase Plan which was oversubscribed, raising an additional \$24 million on the same terms as the Institutional Placement.

The positive outcomes achieved during FY2024 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.

### **Delivering on Arena's Investment Objective**

Arena's investment proposition and partnership approach are integral to building better communities, together. Strong macroeconomic drivers continue to support growth in the demand for essential community services across Australia. These themes, combined with Arena's disciplined origination, capital management and asset management expertise have positioned the business well to sustainably deliver on its purpose and investment objective of delivering predictable distributions to securityholders with the prospect for growth.

I am pleased to advise that we are forecasting DPS growth for FY2025 and reaffirm distribution guidance for FY2025 of 18.25 cents per security<sup>1</sup> representing 4.9% growth over FY2024.

### **Remuneration Framework**

Arena's remuneration framework is designed to attract, incentivise and retain talent by providing market competitive rewards with incentive opportunity aligned to strategy and performance thereby guiding the behaviour and actions of Executive KMP.

There were no changes to the remuneration framework in FY2024.

Executive KMP (KMP) were awarded 95% of their target Short Term Incentive (STI) which reflects:

- The delivery of a minimum FY2024 distribution target of 17.4 CPS;
- The delivery of FY2024 DIS in the target range of 3-4% growth;
- Expected FY2025 DIS supporting FY2025 guidance in the range of 3-4% growth; and
- The strong performance in respect of a range of non-financial strategic business objectives across culture, discipline, relationships and capital deployment as detailed in in Arena's 2024 remuneration report.

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<sup>1</sup> FY2025 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.

The FY2022 Long Term Incentive (LTI) was tested as at 30 June 2024 and fully vested as:

- Arena's FY2024 DIS of 17.65 cents per security (representing a 5.1% compound annual growth rate (CAGR) over the three year performance period) exceeded the high hurdle of 17.6 cents per security; and
- Arena's TSR of 25% (equivalent to an 8% CAGR) ranked at the 83<sup>rd</sup> percentile of the comparator group over the three year period ended 30 June 2024.

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. Arena has a minimum securityholding requirement (MSHR) for Executive KMP which is set at 100% of their fixed annual remuneration (to be accumulated over a maximum period of four years).

All KMP are compliant with Arena's MSHR policy.

Arena's remuneration framework will continue to clearly link and equitably reward and incentivise the achievement of performance-based outcomes and behaviours that reflect our purpose, values and stakeholder expectations.

## 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 recently welcomed Mr Adam Tindall as an independent non-executive director. Adam's depth of experience across investment management and real estate strongly complements the Board's existing mix of skills and experience.

As foreshadowed last month, Mr Dennis Wildenburg will retire as a director of Arena following today's AGM. On behalf of the Arena Board, we would like to thank Dennis for his substantial contribution to the strong performance of Arena since its ASX listing. Dennis has been an exemplary Chair of Arena's Audit Committee, a valuable member of the Board and its other committees and will retire after more than a decade of service.

The changes undertaken during FY2024 continue the renewal and succession planning of your Board and demonstrate our commitment to fostering diversity, innovation, and sustained excellence in governance. During FY2024 Arena maintained its gender balance target for the Arena REIT Limited Board and 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 the skills, experiences, and perspectives that complement Arena's existing Board members and best positions 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 presentation**

Thank you, David.

I would also like to acknowledge the Traditional Custodians of the land 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 2024 Annual General Meeting.

## **Delivering on Strategy**

Over the last two decades Arena 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 investment environment emerge in FY2024, characterised by higher inflation and higher interest rates; Arena's performance was again positive; underpinned by the growing community demand for the community services that we accommodate and the ongoing disciplined capital, asset and interest rate management undertaken by your management team.

During the year, Arena:

- achieved strong rental growth across the portfolio, with like-for-like annual rent increases of 4.9%;
- maintained its sector leading, long contracted lease duration of 18.5 years; 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 90% of the portfolio using solar renewable energy.

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

- completing seven ELC development projects at an average net initial yield on total cost of 5.1%;
- replenishing our development pipeline with 14 new projects, to take our development pipeline to 21 ELC projects that will support future earnings growth; and
- post balance date we acquired a further six operating ELC properties at an average net initial yield on cost of 6%.

Arena's management team has specialist asset management and development expertise and a strong track record that includes the successful delivery of 77 development projects for our tenant partners over the past twelve 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 2024, Arena's portfolio consisted of 276 social infrastructure properties with a portfolio valuation of over \$1.5 billion.

Geographically, we have 78% 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 services and increases in long day care participation rates.

The Federal Government recently announced additional funding to support a 15% wage increase for early childcare education and care workers in services that agree to limit daily fee increases to 4.4% over the next 12 months. The increased funding is expected to result in improved staff availability and better outcomes for families.

Federal government investment into creating affordable childcare for working families has bipartisan support and is 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 term<sup>2</sup>.

Arena's community-based healthcare and specialist disability accommodation portfolios continue to perform in-line with management's expectation.

The broader Australian healthcare sector is facing short term challenges arising from inflation and higher interest rates as well as sector specific funding issues. Accordingly, we anticipate short term downward pressure on some Australian healthcare real estate values as a result of more challenging operating conditions.

Over the longer-term, demand for Australian healthcare services is expected to increase due to supportive macroeconomic themes.

## Sustainability

**Sustainability is embedded across all of Arena's business strategies, and we believe that positions the business to achieve positive long term commercial and community outcomes.**

We are proud of the achievements made by the team and our tenant partners in FY2024, highlights of these include:

- Zero organisational scope 1 and 2 emissions.
- 6-star rating for organisational NABERS energy co-assessment.
- Certified Carbon Neutral by Climate Active for business operations in 2022-2023.
- Certified Carbon Neutral by Climate Active for business services in 2022-2023.
- Solar renewable energy systems are now installed on over 90% of Arena's property portfolio.
- An Emission Reduction Plan was adopted, targeting net zero Financed Emissions by 2050, with an interim 2030 target of a 60-70% reduction in the intensity of Arena's Financed Emissions<sup>3</sup>; and we have achieved
- A 36% absolute reduction and 42% reduction in the intensity of Arena's Financed Emissions to the end FY2023.

Please refer to [Arena's FY2024 Sustainability Report](#) for more detailed information.

## Outlook

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

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<sup>2</sup> [Cheaper childcare: A practical plan to boost female workforce participation \(grattan.edu.au\)](#)

<sup>3</sup> Financed Emissions are Scope 3 Category 15 emissions by indoor floor area measured in kgCO<sub>2</sub>e/m<sup>2</sup> in line with supplemental guidance for the financial sector by the TCFD as compared with equivalent restated FY2021 baseline.

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

We have today reaffirmed distribution guidance for FY2025 of 18.25 cents per security<sup>4</sup> representing an increase of 4.9% on FY2024.

Arena is well positioned to navigate ongoing and emerging economic challenges and has an expanded and experienced management team ready to capitalise on new growth opportunities as they emerge.

Arena's outlook is positive, and we look forward to continuing to execute on our well defined strategy and investment objective of delivering an attractive and predictable distributions to investors with earnings growth prospects over the medium to long term, while delivering on our purpose of Better Communities. Together.

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 FY2024, 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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<sup>4</sup> FY2025 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.