



Arena REIT FY18 Interim Results

Strengthening the resilience of earnings

22 February 2018



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Highlights

Bryce Mitchelson, Managing Director



Financial highlights

Active six months driving solid financial results

Net operating profit	Earnings per security (EPS) ¹	Distributions per security (DPS)
\$16.8m	6.42 cents	6.40 cents
+18%	+5.1%	+9.4%
Total Assets	Net Asset Value per security	Gearing
\$704.3m	\$1.93	24.0%
+13%	+5%	(350bps)

Highlights

- Growth in rental income from existing portfolio, acquisitions and completed developments driving income and asset growth
- \$65 million equity raising well supported by institutional and retail investors
- Borrowing facility refinanced to extend duration and increase limit
- Well positioned to act on future growth opportunities
- **FY18 DPS guidance reaffirmed at 12.8 cents²**



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

² FY18 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, and tenants comply with their lease obligations.

Portfolio highlights

Focus on enhancing portfolio quality to deliver a growing and predictable income stream

<p>Average like-for-like rent review increase¹</p> <p>2.5%¹</p> <p>54% of FY18 reviews completed</p>	<p>Weighted Average Lease Expiry</p> <p>13.1 years</p> <p>+0.3yrs</p>	<p>Portfolio value</p> <p>\$676.6m</p> <p>+14%</p>
<p>Portfolio weighted average passing yield</p> <p>6.55%</p> <p>(21bps)</p>	<p>Eleven development projects completed¹</p> <p>\$68 million</p> <p>Weighted average yield on cost 6.8%</p>	<p>Development pipeline</p> <p>\$45m total cost</p> <p>Seven projects</p>

Highlights

- Structured annual rent reviews providing predictable and growing income stream
- Record 11 development completions in half-year, enhancing portfolio quality and extending WALE
- August 2017 development portfolio acquisition on track for FY18 completion
- Increase in portfolio value driven by acquisitions, development capex and uplift in valuations



¹ In six months to 31 December 2017.



Financial Results

Gareth Winter, Chief Financial Officer



Financial performance

Solid result underpinned by predictable and growing income stream

	1H FY18	1H FY17	Change	
	(\$'000)	(\$'000)	(\$'000)	(%)
Property income	20,701	18,047	2,654	15%
Other income	317	337	(20)	(6%)
Total operating income	21,018	18,384	2,634	14%
Property expenses	(401)	(449)	48	(11%)
Operating expenses	(1,687)	(1,635)	(52)	3%
Finance costs	(2,172)	(2,078)	(94)	5%
Net operating profit (distributable income)	16,758	14,222	2,536	18%
Statutory net profit	37,087	59,600	(22,513)	(38%)
Earnings per security (EPS) (cents)¹	6.42	6.11	0.31	5.1%
Distribution per security (DPS) (cents)	6.40	5.85	0.55	9.4%

Highlights

- Growth in property income due to development completions in FY17 and 1H FY18 and rent reviews
- Higher payout ratio in first half reflecting equity raising completed during period. Expected to normalise over the course of FY18
- Change in statutory net profit primarily due to scale of revaluation gains (current period \$21.3 million; prior period \$43.2 million)



¹ Earnings per security (EPS) calculated as Net Operating Profit (Distributable Income) / weighted average number of securities on issue.

Financial position

Equity raising providing capacity to fund new opportunities

	31 Dec 2017 (\$m)	30 Jun 2017 (\$m)	Change (\$m)	Change (%)
Total assets	704.3	621.3	83.0	13%
Investment properties	676.6	591.7	84.9	14%
Borrowings	169.0	171.0	(2.0)	(1%)
Net assets	518.5	432.5	86.1	20%
Securities on issue	268.2m	234.8m	33.4m	14%
Net Asset Value per security	\$1.93	\$1.84	\$0.09	5%
Gearing ¹	24.0%	27.5%	(350bps)	-

Highlights

- Increase in investment properties primarily due to \$64.5 million in acquisitions and development capex
- Development capex 100% equity funded via an institutional placement of \$55 million and SPP of \$10 million
- Borrowings stable, gearing reduced to 24% and DRP remains open, providing capacity to fund completion of existing development projects and new opportunities
- Net Asset Value (NAV) per security up \$0.09 to \$1.93 primarily due to property revaluation uplift of \$21.3 million



¹ Gearing calculated as borrowings over total assets.

Capital management

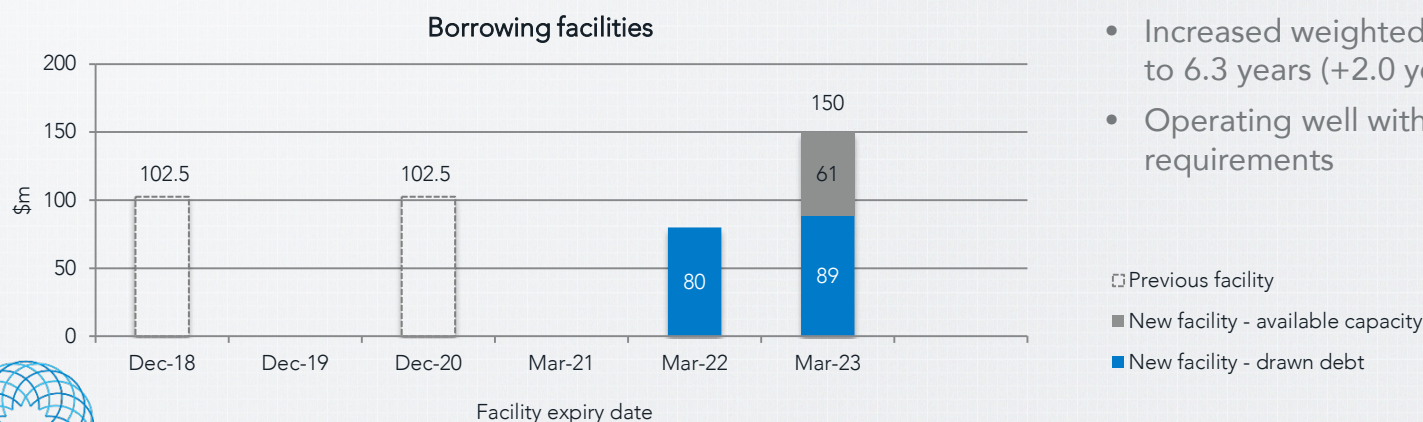
Borrowing facility refinanced to extend term and increase limit

	31 Dec 2017	30 Jun 2017	Change
Borrowings	\$169m	\$171m	(1.2%)
Borrowing facility limit	\$230m	\$205m	12.2%
Gearing	24.0%	27.5%	(350bps)
Average facility term	4.9yrs	2.5yrs	+2.4yrs
Weighted average cost of debt	3.80%	3.75%	+5bps
Interest rate hedging cover	75%	79%	(400bps)
Weighted average hedge term	6.3yrs	4.3yrs	+2yrs

Highlights

Debt refinance during period:

- Average facility term extended to 4.9 years (+2.4 years)
- No expiry for 4.25 years
- Total facility increased to \$230 million (+\$25m)
- Existing capex commitments fully funded with additional capacity for new investment
- Stable cost of debt at 3.8% p.a.
- Increased weighted average hedge term to 6.3 years (+2.0 years)
- Operating well within covenant requirements





Portfolio Update

Rob de Vos, Head of Property



Portfolio overview

Development completions enhancing portfolio quality and extending WALE

Lease management

- 100% occupancy maintained
- Weighted average lease expiry (WALE) extended to 13.1 years
- Average like-for-like rent review increase of 2.5%

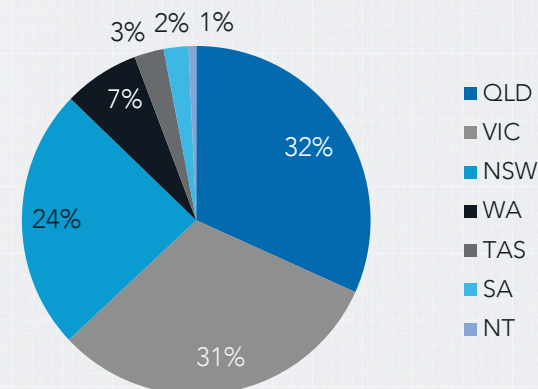
Development projects and transactions

- Eleven ELC development projects completed for a total cost of \$68 million at an average yield on cost of 6.8%
- One ELC property acquired; one development site divested

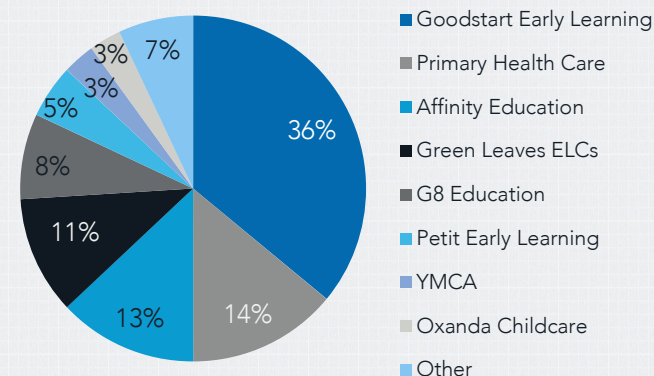
Portfolio value

- Revaluation uplift \$21.3 million (+3.6%)
- Portfolio weighted average passing yield 6.55%

Geographic diversification (by value)



Tenant diversification (by income)

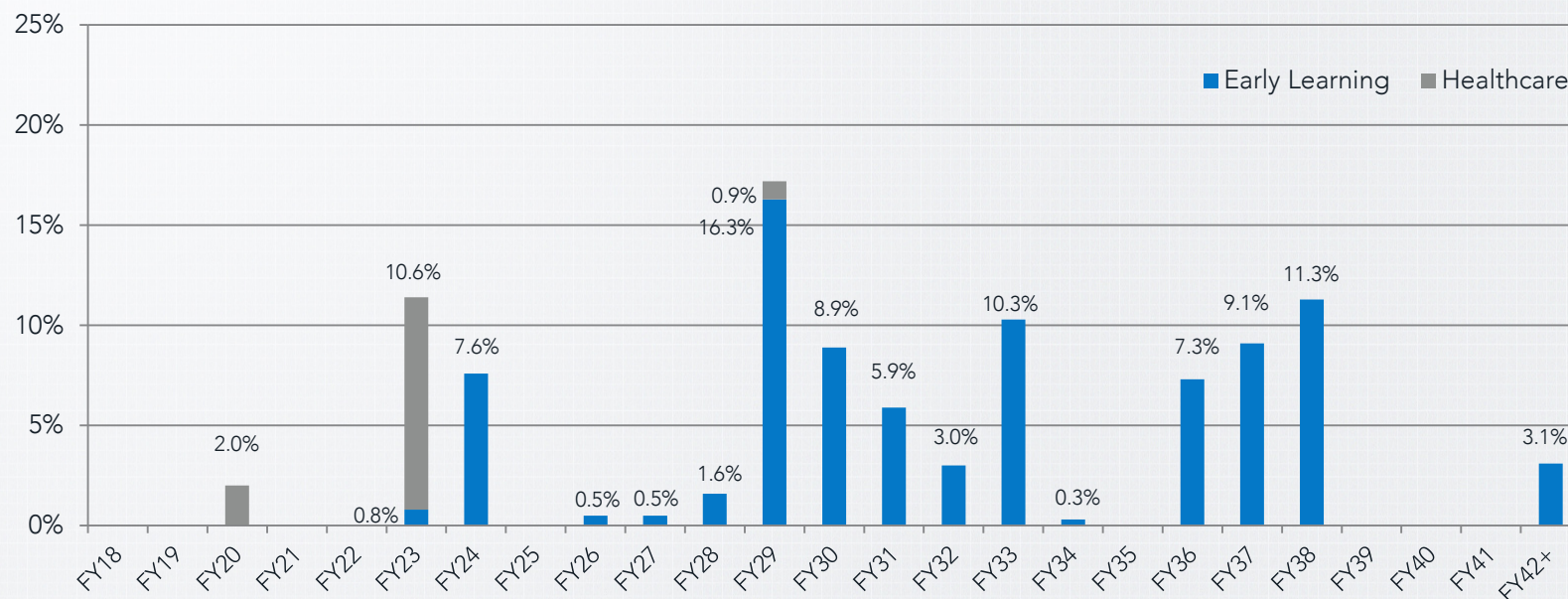


Lease expiry profile

WALE extended to 13.1 years

- Eleven completed developments added to portfolio – average lease term of 19.8 years
- Only 2% of portfolio income subject to expiry prior to June 2022

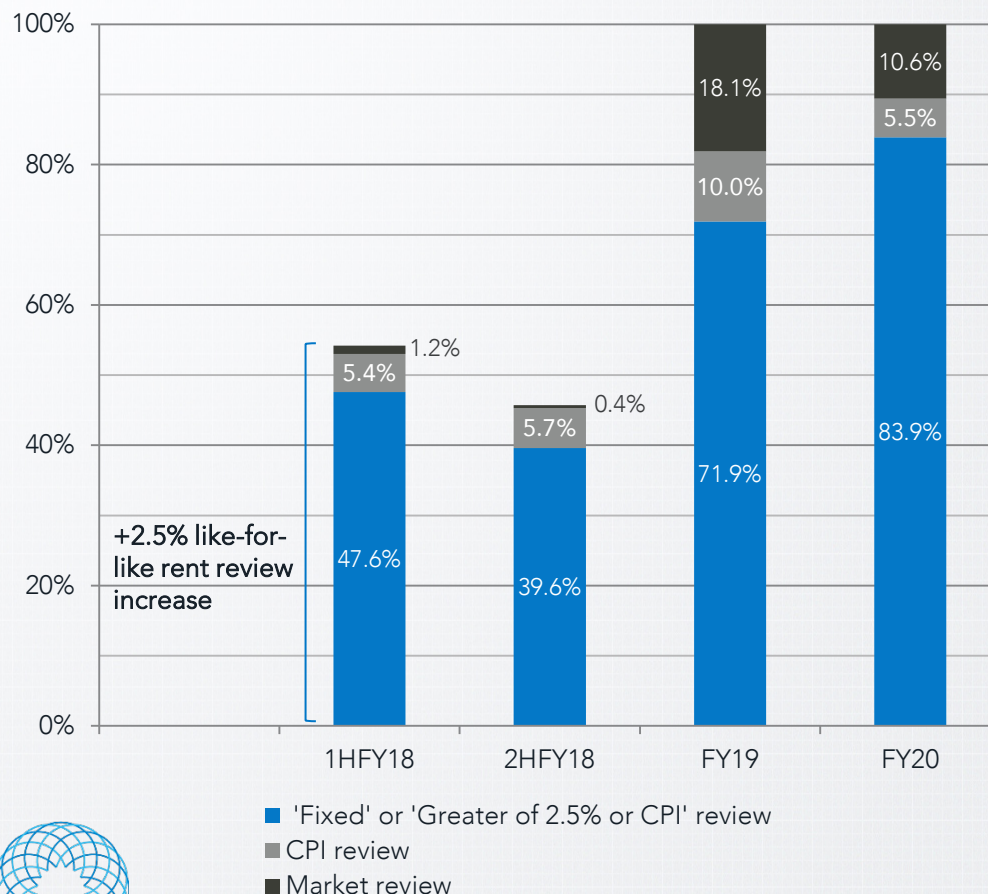
Lease Expiry Profile (by income) (31 December 2017)



Annual rent review profile

1HFY18 average like-for-like rent review increase of 2.5%

Annual rent review profile (by income)



Highlights

- 1HFY18
 - 54% of annual rent reviews completed
 - Average like-for-like rent review increase of 2.5% achieved
 - All FY18 market rent reviews completed – 6.3% increase achieved
- ELC net rent to gross operating revenue ratio of 10.9%
- FY19 rent review outlook:
 - Majority are 'Fixed' or 'Greater of 2.5% or CPI'
 - Market reviews of 18.1% of income (2HFY19)

Valuation movement

Six month net revaluation uplift of \$21.3 million; increase of 3.6%

	Number of assets	31 Dec 2017 Valuation (\$m)	Net revaluation movement (\$m) (%)		31 Dec 2017 Passing yield (%)	Change (bps)
ELC portfolio						
Leasehold portfolio	6	15.6	0.2	1.9	8.60	-
Freehold portfolio	201	577.1	20.7	4.4	6.43	(25)
Total ELC portfolio	207	592.7	20.9	4.3	6.49	(24)
Healthcare portfolio						
Total Healthcare portfolio	7	83.9	0.4	0.5	6.95	3
Total portfolio	214	676.6	21.3	3.6	6.55	(21)

- Average direct market transaction yields in 1HFY18 relatively stable

Eleven ELC developments completed in 1H FY18

	Number of projects	Total cost (\$m)	Initial yield on cost (%)	Weighted average lease term (yrs)	Long day care places
Leasehold portfolio	1	2.5	8.7	25.3	108
Freehold portfolio	10	65.5	6.8	19.6	1,246
Total/Weighted average	11	68.0	6.8	19.8	1,354



YMCA ELC, Torquay North, VIC



Paisley Park ELC, Chadstone, VIC

Early learning market conditions

Operating market conditions more challenging

Demand

- Childcare affordability negatively impacted by increasing number of families reaching subsidy cap
- Additional government funding to sector from July 2018 focussed on improving affordability for lower and middle income working families, and is expected to increase childcare participation over time

Supply

- Net new supply of centres has increased – number of centres increased by 283 (4.1%) in year to March 2017¹
- Estimated 276 net new centres added in CY17 (303 new centres; 27 closed centres)²
- 324 ELC's currently in construction (+4.4%)³

Operating conditions

- Impact of increased supply becoming more evident across the market
- Pressure on occupancy rates at some centres
- Average fee growth moderating – 4.0% in year to March 2017¹
- Heightened focus on costs



¹ Australian Government 'Early Childhood and Child Care in Summary' Reports 2017-2018.

² Business Geographics, February 2018.

³ Business Geographics, February 2018. Excludes projects with approved Development Applications that have not yet commenced construction, and Development Applications that have not yet been approved. Refer slide 35 for state-by-state breakdown

ELC development pipeline \$45 million

Six projects due for completion in FY18; one project in FY19

- Development pipeline reflects current preference for higher weighting to developments that offer a lower risk profile
- Focus on leveraging our real estate skills to secure quality assets with Arena's preferred property characteristics that generate a predictable income stream
- Cautious approach to assessing new investments
- Partnering with operators to identify and secure opportunities

Development pipeline	
Number of projects	7
Forecast total cost	\$45m
Initial yield on cost	6.3%
Capex amount outstanding	\$22m





Outlook



FY18 outlook

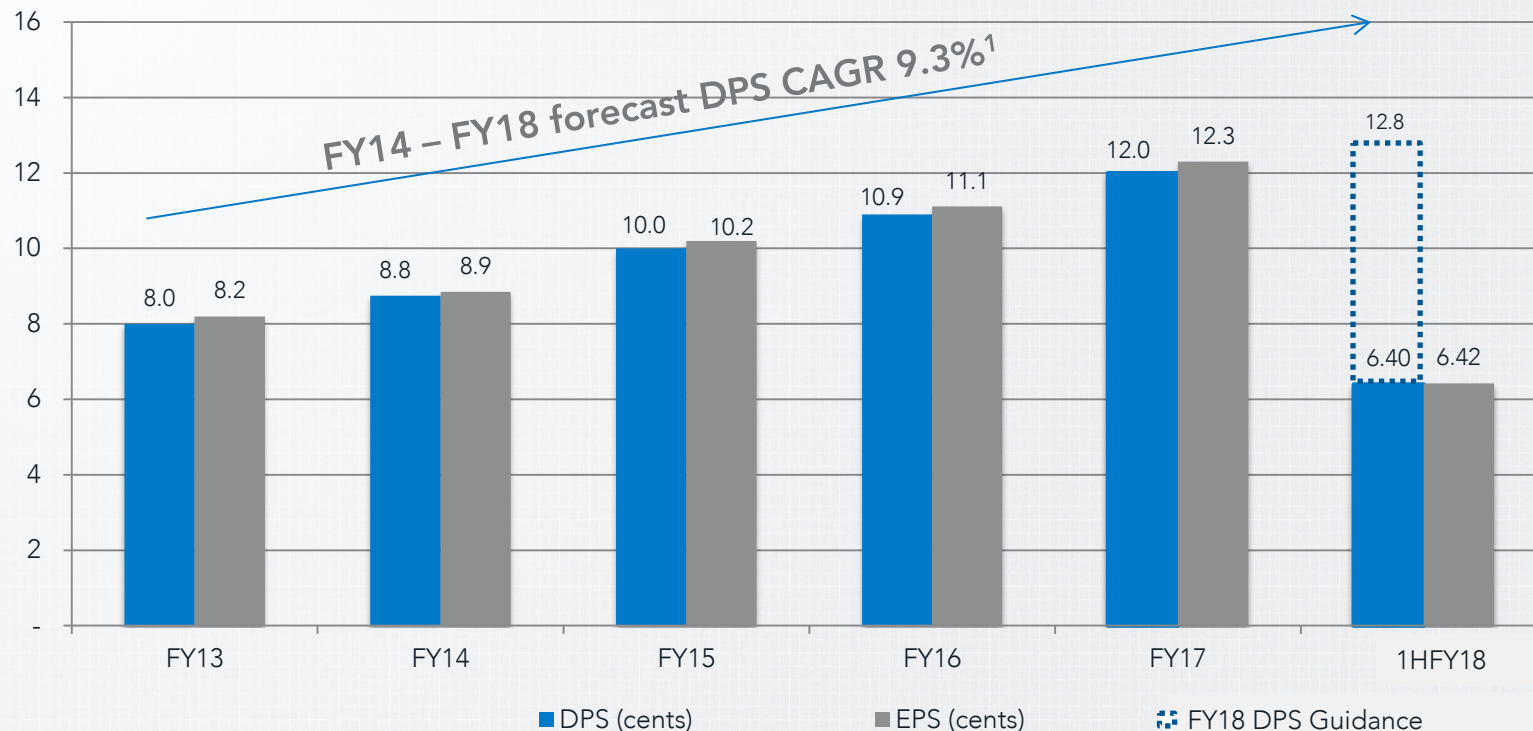
On track with capacity available to fund growth

- 2HFY18 earnings growth to be underpinned by additional rental income from:
 - Development completions
 - Annual rent reviews scheduled in 2HFY18 (46% of portfolio income subject to review)
- Additional government funding to ELC sector from new childcare package from July 2018
- Capacity to make earnings accretive new investments:
 - Gearing at 24%
 - Available borrowing capacity
 - Low incremental cost of borrowing
 - Continuing to source new investment opportunities
- Real estate and operator market conditions may create opportunities



FY18 DPS guidance reaffirmed – 12.8 cents (+6.7%)¹

Earnings and Distributions per security (cents)



¹ FY18 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, and tenants comply with their lease obligations. Forecast FY18 distribution per security growth and five year forecast DPS Compound Average Growth Rate (CAGR) are based on FY18 distribution guidance.



Questions



Directory

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Appendices



Financial performance – 1H FY18

	1H FY18	1H FY17	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Property income	20,701	18,047	2,654	15%
Other income	317	337	(20)	(6%)
Total Operating Income	21,018	18,384	2,634	14%
Property expenses	(401)	(449)	48	(11%)
Operating expenses	(1,687)	(1,635)	(52)	3%
Finance costs	(2,172)	(2,078)	(94)	5%
Net operating profit (distributable income)	16,758	14,222	2,536	18%
<i>Non-distributable items:</i>				
Revaluation gain on investment properties (including SLR adjustment)	21,252	43,176	(21,924)	
Profit/(loss) on sale of investment properties	67	17	50	
Change in fair value of derivatives	(264)	2,499	(2,763)	
Transaction costs	(401)	(4)	397	
Amortisation of security-based payments (non-cash)	(363)	(284)	79	
Other	38	(26)	64	
Statutory net profit	37,087	59,600	22,513	



Balance sheet – 31 December 2017

	31 Dec 17	30 Jun 17	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	9,026	9,082	(56)	(1%)
Receivables and other assets	7,842	9,672	(1,830)	(19%)
Investment properties	676,593	591,712	84,881	14%
Intangibles	10,816	10,816	-	0%
Total assets	704,277	621,282	82,995	13%
Payables and other liabilities	17,566	17,151	415	2%
Borrowings	167,897	170,624	(2,727)	(2%)
Derivatives	273	1,031	(758)	(74%)
Total liabilities	185,736	188,806	(3,070)	(2%)
Net assets	518,541	432,476	86,065	20%
Number of securities on issue (m)	268.2	234.8	33.4	14%
Net asset value per security (\$)	1.93	1.84	0.09	5%
Gearing (%)	24.0	27.5	(350bps)	n/a



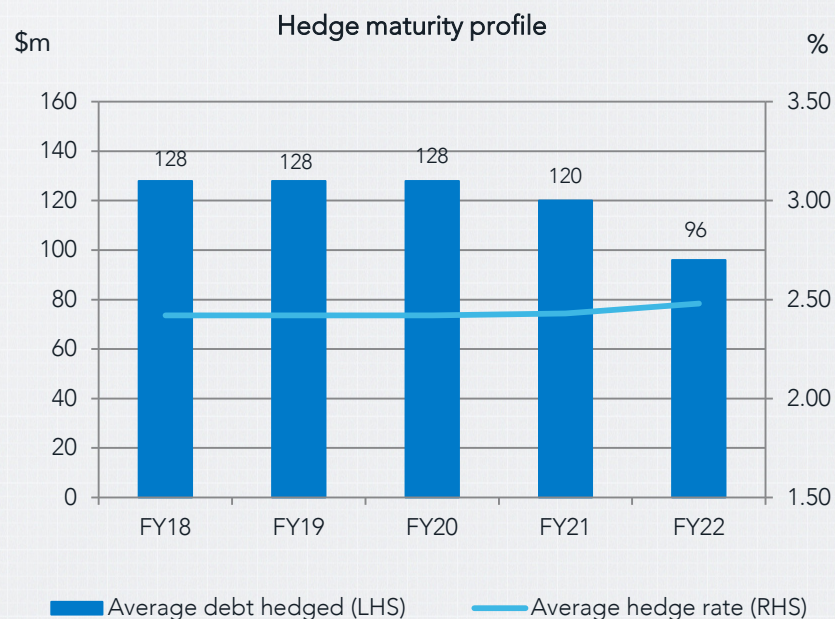
Borrowing and hedging summary

	Tranche 1	Tranche 2	Total
Total facility	\$80m	\$150m	\$230m
Amount drawn	\$80m	\$89m	\$169m
Undrawn	-	\$61m	\$61m
Expiry date	31 Mar 2022	31 Mar 2023	-
Remaining term	4.25yrs	5.25yrs	4.9yrs

Covenant	Facility requirement	As at 31 Dec 2017
Loan to value ratio (LVR) ¹	Maximum 50%	27.6%
Interest cover ratio (ICR)	Minimum 2x	6.4x

¹ Loan to value ratio is calculated as total borrowings over total of latest independent valuation of investment properties.

	31 Dec 2017	30 Jun 2017
Hedge cover	75%	79%
Weighted average hedge interest rate	2.42%	2.39%
Weighted average hedge term	6.3yrs	4.3yrs



Portfolio composition and movement

Portfolio movements (30 June 2017 to 31 December 2017)



ELC portfolio metrics – 31 Dec 2017

	31 Dec 2017	30 Jun 2017	Variance
Leased ELCs	200	188	6.4%
Development sites	7	10	(30%)
Total ELCs	207	198	4.5%
WALE (by income) (years)	14.4	14.2	0.2yrs
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.49	6.73	(24bps)
Portfolio value (\$m)	592.7	507.6	16.8%
Average rental increase (%)	2.9	4.7	-180bps
Rent to gross revenue ratio (%)	10.9	10.9	-
Average daily fee (\$)	95.66	92.54	3.4%
Portfolio composition (by value)			
Metropolitan (%)	60	58	200bps
Regional (%)	40	42	(200bps)
Purpose Built (%)	96	96	-



ELC portfolio valuations – 31 December 2017

	Number of assets	Value (\$m)	Passing yield (%)
ELC – Independent Valuations			
Leasehold	1	2.5	8.56
Freehold			
Queensland	13	32.1	6.91
New South Wales	7	21.7	5.77
Victoria	10	40.8	5.56
Western Australia/Northern Territory	6	15.5	6.28
Tasmania	3	6.6	6.74
South Australia	2	6.1	6.57
Sub-total	41	122.8	6.16
Total ELC independent valuations	42	125.3	6.21
ELC – Director Valuations			
Leasehold	5	13.1	8.60
Freehold			
Queensland	60	172.4	6.93
New South Wales	22	56.1	6.38
Victoria	46	143.6	5.91
Western Australia/Northern Territory	18	40.4	6.94
Tasmania	4	11.7	6.62
South Australia	3	7.4	6.50
Sub-total	153	431.6	6.51
Development sites	7	22.7	-
Total ELC director valuations	165	467.4	6.57
Total ELC portfolio	207	592.7	6.49



ELC developments completed in 1HFY18

	Tenant	Total cost (\$m)	Initial yield on cost (%)	Lease term (yrs)	Long day care places
Leasehold properties					
Torquay North, VIC	YMCA	2.5	8.7	25	108
Freehold properties					
Auburn, NSW	Oxanda	5.6	6.3	20	111
Killara, NSW	Oxanda	7.7	6.0	20	92
Port Macquarie, NSW	Green Leaves	7.7	6.2	20	140
Durack, NT	Country Buddies	2.4	8.0	20	103
Mount Pleasant, QLD	Green Leaves	5.0	8.0	20	143
Murrumba Downs, QLD	Green Leaves	9.8	6.2	20	186
Bellerive, TAS	Green Leaves	6.3	6.3	20	106
Richmond, VIC	Green Leaves	8.6	7.1	20	121
Chadstone, VIC	Paisley Park	5.5	9.1	15	120
Craigieburn, VIC	Green Leaves	7.0	6.2	20	124
Total/Weighted average		68.0	6.8	19.8	1,354



Healthcare portfolio metrics – 31 Dec 2017

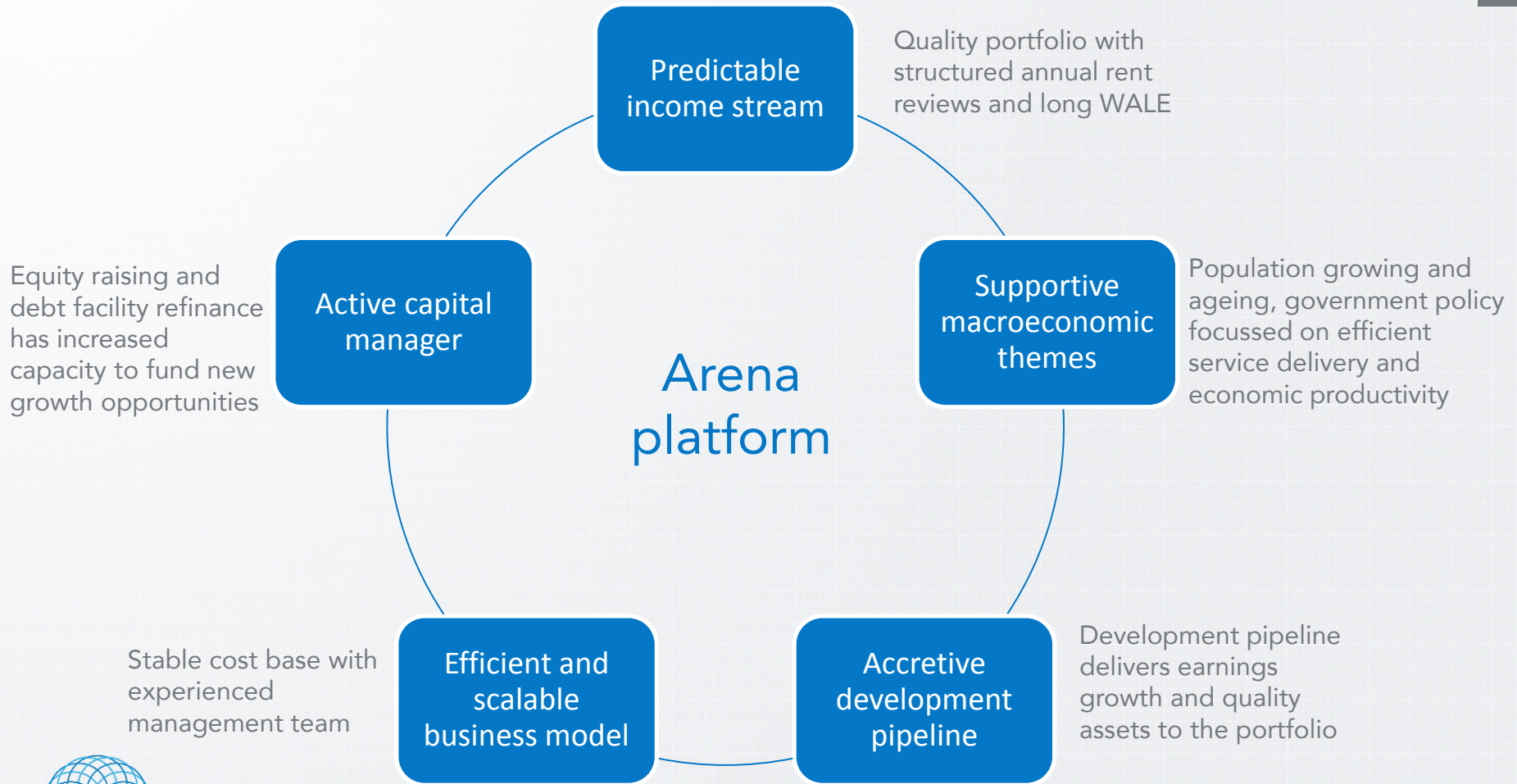
	31 Dec 2017	30 Jun 2017	Variance
Medical centres	7	7	-
Development sites	-	-	-
Total healthcare properties	7	7	-
WALE (by income) (years)	5	5.5	(0.5yrs)
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.95	6.92	3bps
Property portfolio (\$m) ¹	83.9	84.1	(0.3%)
Average rental increase (%)	1.1	2.5	(140bps)
Portfolio composition			
Metropolitan (by value) (%)	86	86	-
Regional (by value) (%)	14	14	-
Purpose Built (by value) (%)	100	100	-



¹ All healthcare assets were subject to Director's valuation. The decrease in portfolio value was the result of Arena's sale of its investment in BSH Joint Venture, which was wound up during the period.

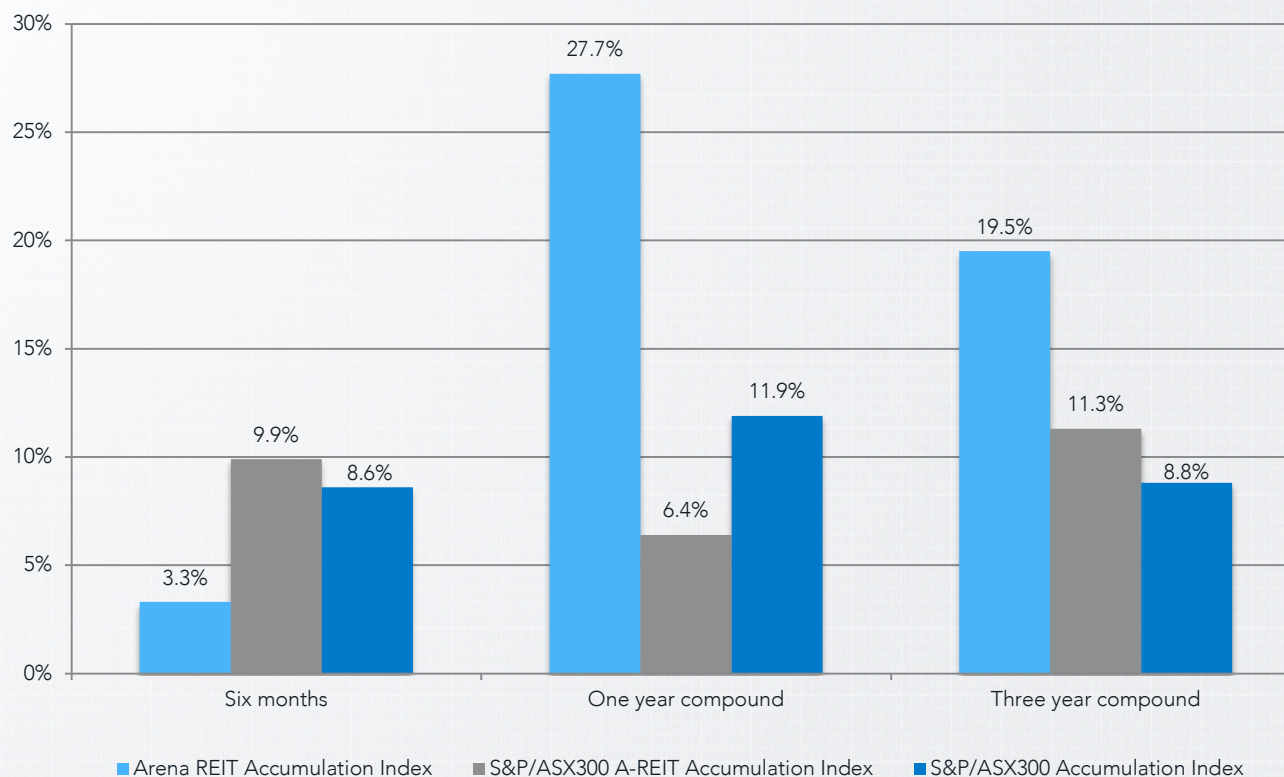
Arena investment case

Positioned to deliver predictable and growing earnings with a scalable business model



ASX total return performance

ASX total return performance (as at 31 December 2017)



Source: UBS, Australian REIT month in review, December 2017.

'Jobs for Families' package – from July 2018

- New activity test (previously minimum 24 hours of subsidy)

Hours of activity (per fortnight)	Maximum number of hours of subsidy (per fortnight)	
8 – 16 hours	36 hours	Families earning less than \$65,710 that do not meet the activity test will have access to 24 hours of subsidised care
16 – 48 hours	72 hours	
48 hours +	100 hours	

- New benchmark hourly fee to which subsidy applies – \$11.55 (indexed annually) (previously uncapped)
- New subsidy arrangements (previously mix of scaled income tested Child Care Rebate (CCR) and Child Care Benefit (CCB) of 50% (up to annual cap of \$7,500 per child))

Combined Family Income	Subsidy % of fee charged (up to relevant hourly fee cap)	Cap changes
Up to \$65,710	85%	<ul style="list-style-type: none"> Removal of subsidy cap for incomes up to \$185,710 Increase in cap to \$10,000 for families earning \$185,710 to \$350,000 Removal of subsidy for family incomes \$350,000
From \$65,710 to \$170,710	Tapering to 50%	
\$170,710 to \$250,000	50%	
From \$250,000 to \$340,000	Tapering to 20%	
\$340,000 to \$350,000	20%	
\$350,000+	0%	

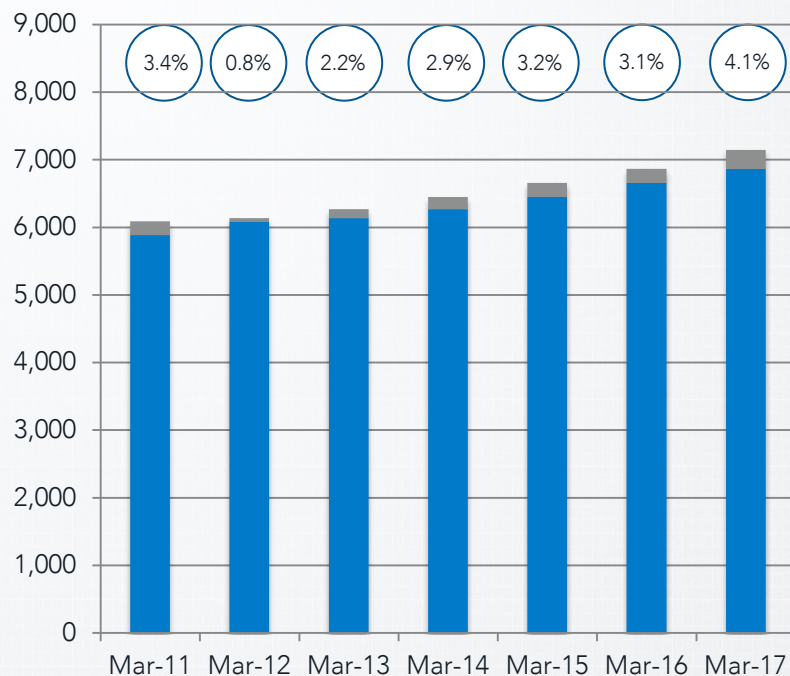
- Additional support for disadvantaged and vulnerable families



Source: Department of Education and Training https://docs.education.gov.au/system/files/doc/other/child_care_package_6pp_dl_final.pdf

ELC market data

Number of long day care centres, increase over prior year (%)



- Number of long day care centres in prior year
- Net increase in long day care centres
- Net percentage increase in long day care centres



Source: Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2018 .

Estimated number of long day care centres in construction

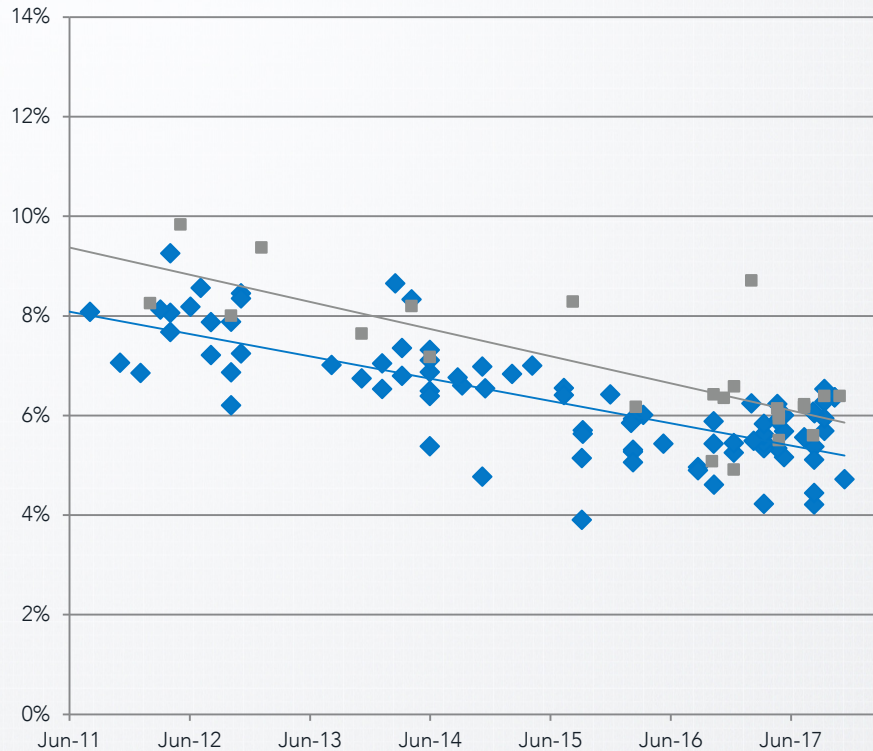
State	Estimated number of ELCs Dec 2017 ¹	ELC projects in construction (February 2018) ²	Forecast % increase
ACT	158	6	3.8%
NSW	3,004	124	4.1%
NT	80	5	6.3%
QLD	1,537	46	3.0%
SA	374	19	5.1%
TAS	123	1	0.8%
VIC	1,456	104	7.1%
WA	595	19	3.2%
Total	7,327	324	4.4%

¹ Australian Government 'Early Childhood and Child Care in Summary' Reports 2017, Business Geographics, February 2018.

² Business Geographics, February 2018. Excludes projects with approved Development Applications that have not yet commenced construction, and Development Applications that have not yet been approved.

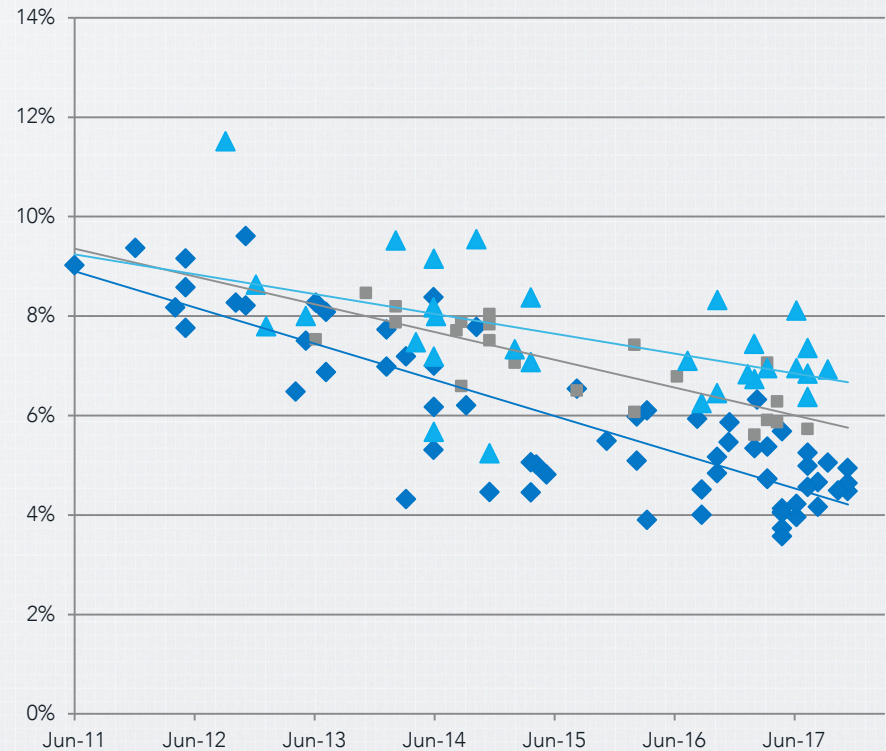
ELC property market sales evidence

VIC passing yields



◆ Metro
— Linear (Metro)
■ Regional
— Linear (Regional)

NSW passing yields



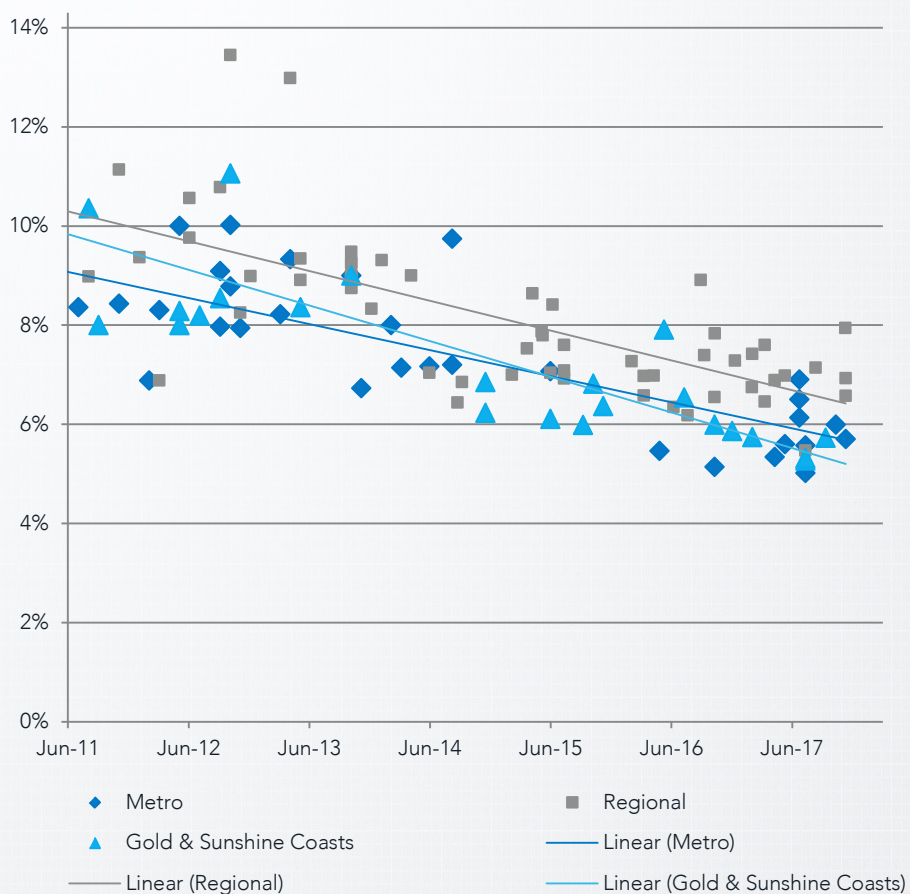
◆ Metro
— Linear (Metro)
■ Major Regional
— Linear (Major Regional)
▲ Regional
— Linear (Regional)



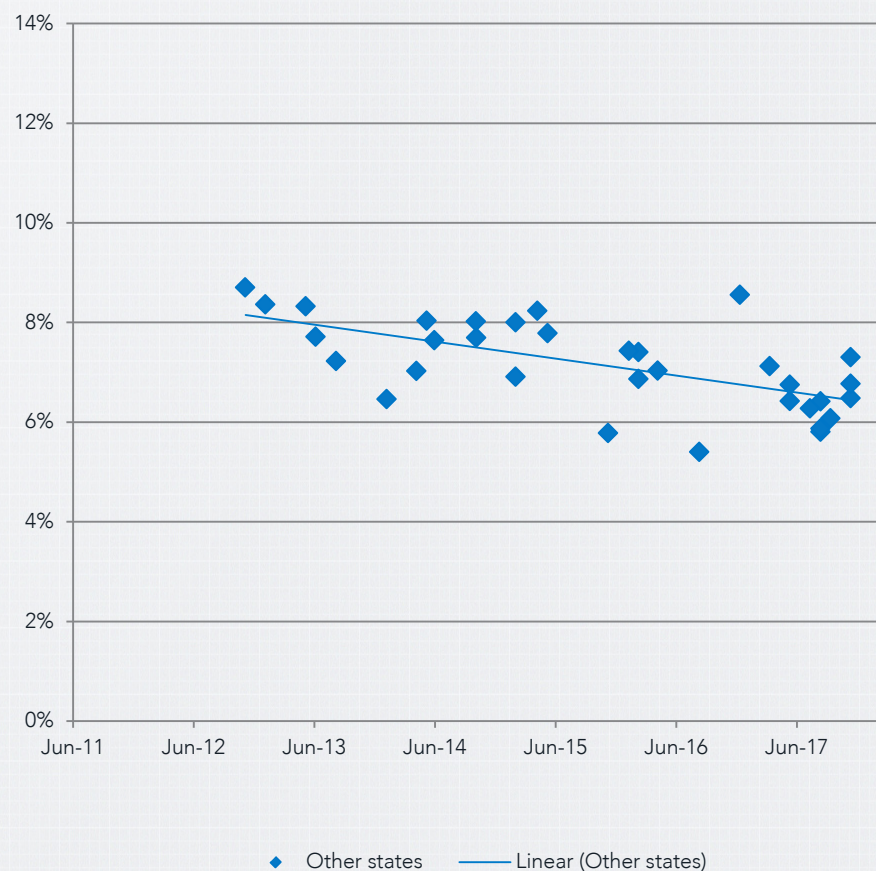
Source: Arena analysis.

ELC property market sales evidence

QLD passing yields



Other states passing yield



Source: Arena analysis.

Important notice

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