

ARENA REIT

FY19 ANNUAL RESULTS

Strong earnings growth,
disciplined strategy

13 August 2019





AGENDA

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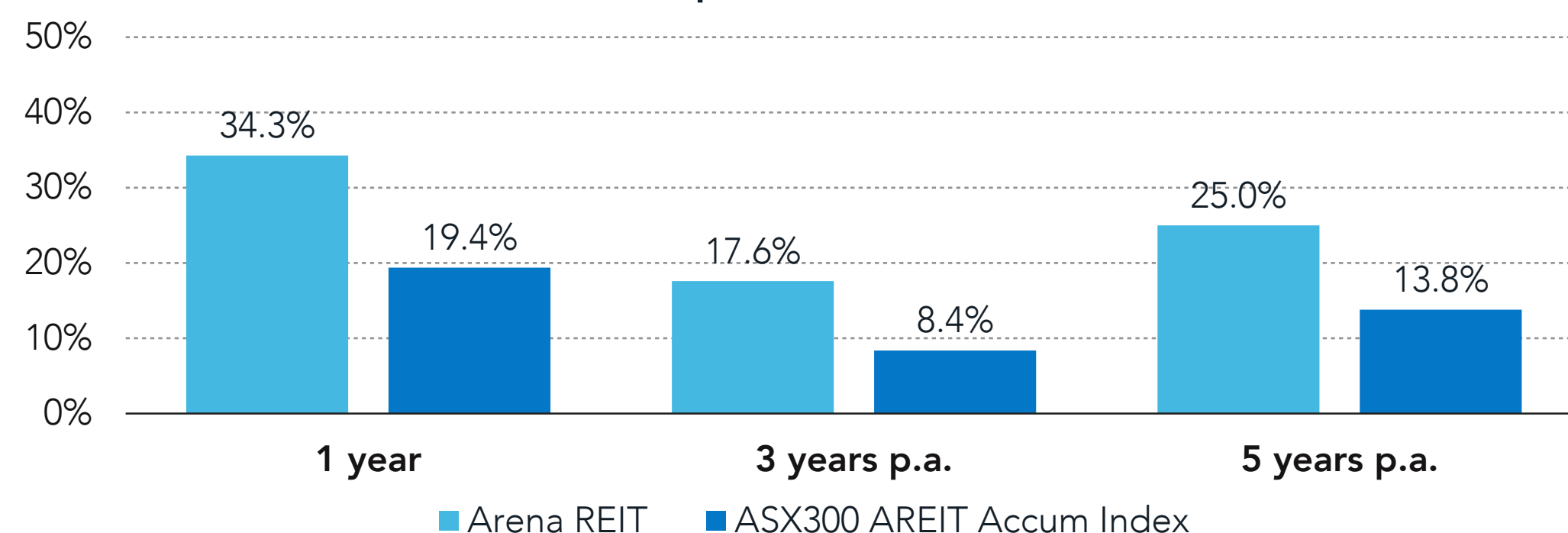


FY19 HIGHLIGHTS

Strong result and earnings growth

- Annual underlying rental income growth: average like-for-like rent reviews +3.6%¹.
- Healthcare portfolio leases with existing tenant partner Healius extended by an average of 10.6 years contributing to valuation increase and portfolio WALE of 14.1 years.
- Acquisition of operating ELC and healthcare properties, ELC development completions and new investment in ELC development projects to support future earnings growth.

ASX total return² performance to 30 June 2019



1. Excludes ten market rent reviews which had not been resolved as at 30 June 2019.

2. UBS, UBS Australian REIT month in review, June 2019.

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

4. Gearing calculated as ratio of borrowing over total assets.

\$37.7m

Net operating profit

+8.7% on FY18

13.8 cents

Earnings per share (EPS)³

+5.3% on FY18

13.5 cents

Distributions per security (DPS)

+5.5% on FY18

\$72m

Acquisitions and development completions

At 6.4% initial yield

+3.6%

Average like-for-like rent increase

+100 bps on FY18

22.8%

Gearing ratio⁴

24.7% at FY18

PORTFOLIO PERFORMANCE

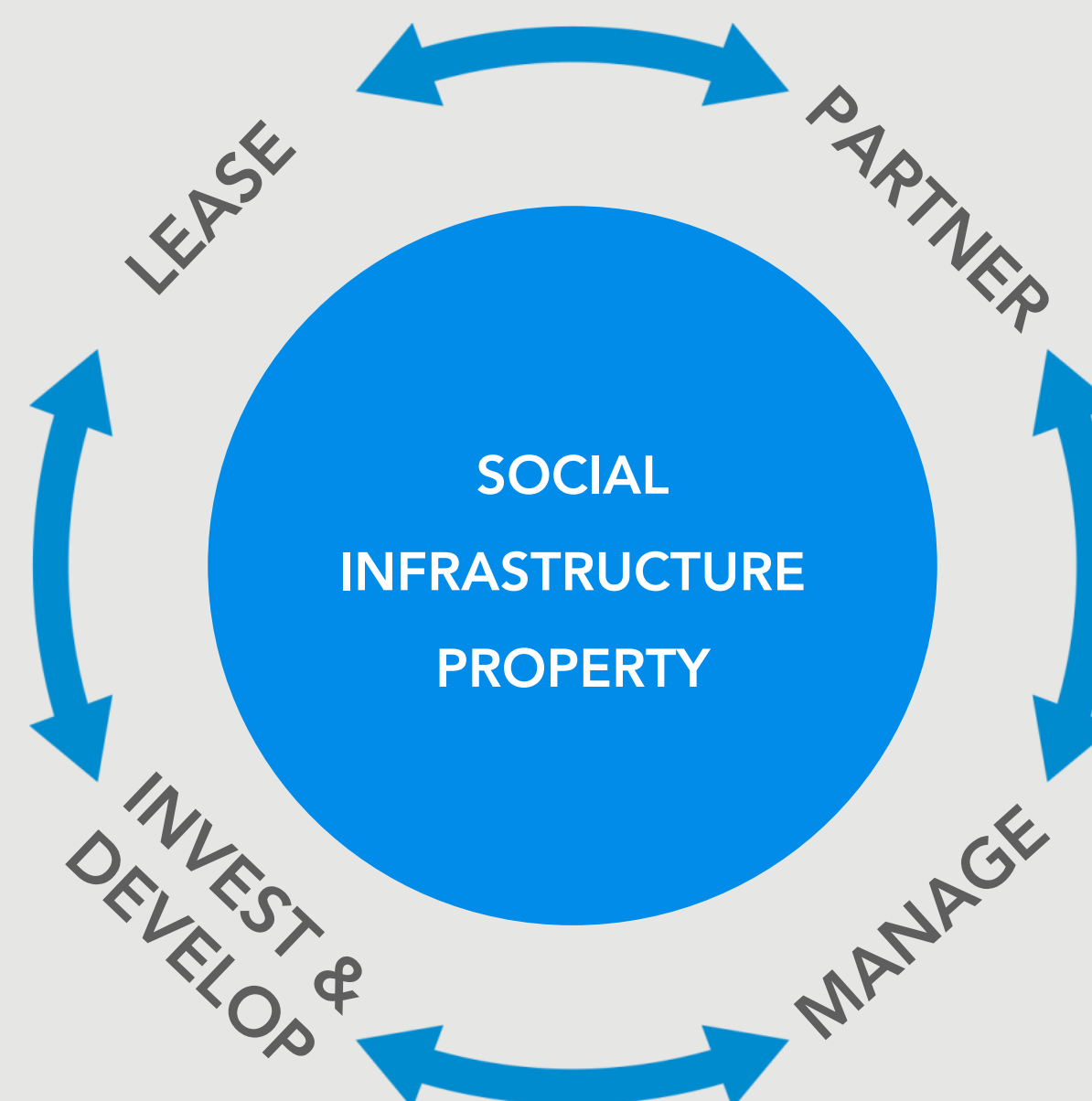
Disciplined strategy supporting positive outcomes

Lease management:

- 100% occupancy.
- Average like-for-like rent increase of +3.6%¹.
- Average market rent review increase of +9.4%¹.

Investment and developments:

- Eight operating properties acquired at a net initial yield of 6.4% with weighted average lease term (by income) of 17 years.
- Four ELC developments completed at a net initial yield on cost of 6.4% on new 20 year leases.
- Eight new ELC development projects acquired².



Working in partnership:

- Acquisition of \$24 million portfolio of specialist disability accommodation properties.
- Healthcare portfolio leases with tenant partner Healius extended by an average of 10.6 years.
- Rejuvenation of existing ELCs in partnership with three tenant groups.

Portfolio management:

- Portfolio weighted average lease expiry (by income) increased by 1.2 years to 14.1 years.
- One ELC property sold.
- Net revaluation uplift of \$32m.
- Portfolio weighted average passing yield 6.38%.

1. Excludes ten market rent reviews which had not been resolved as at 30 June 2019.

2. Three ELC development projects were conditionally contracted prior to 30 June 2019.



FINANCIAL RESULTS

Gareth Winter
Chief Financial Officer



FINANCIAL PERFORMANCE

New investment and rental increases supporting earnings and distribution growth

	FY19	FY18	Change	
	(\$'000)	(\$'000)	(\$'000)	(%)
Property income	48,744	42,673	6,071	+14%
Other income	583	770	(187)	-24%
Total operating income	49,327	43,443	5,884	+14%
Property expenses	(360)	(377)	17	-5%
Operating expenses	(3,937)	(3,493)	(444)	+13%
Finance costs	(7,337)	(4,883)	(2,454)	+50%
Net operating profit	37,693	34,690	3,003	+9%
Statutory net profit	59,323	64,432	(5,109)	-8%
Earnings per security (EPS¹) (cents)	13.8	13.1	0.7	+5.3%
Distribution per security (DPS) (cents)	13.5	12.8	0.7	+5.5%

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

- Continued growth in property income from:
 - Annual rental growth;
 - Investment in operating healthcare and ELC properties, including a \$24 million portfolio of specialist disability accommodation properties; and
 - ELC developments completed throughout FY18 and FY19.
- Operating expenses are higher primarily due to increased registry, regulatory costs and resourcing changes.
- Finance costs have increased in line with the settlement of new investment and development completions.
- Lower statutory net profit arising primarily from revaluation of interest rate hedges (\$8.6 million) in FY19 compared with (\$0.6 million) in FY18.

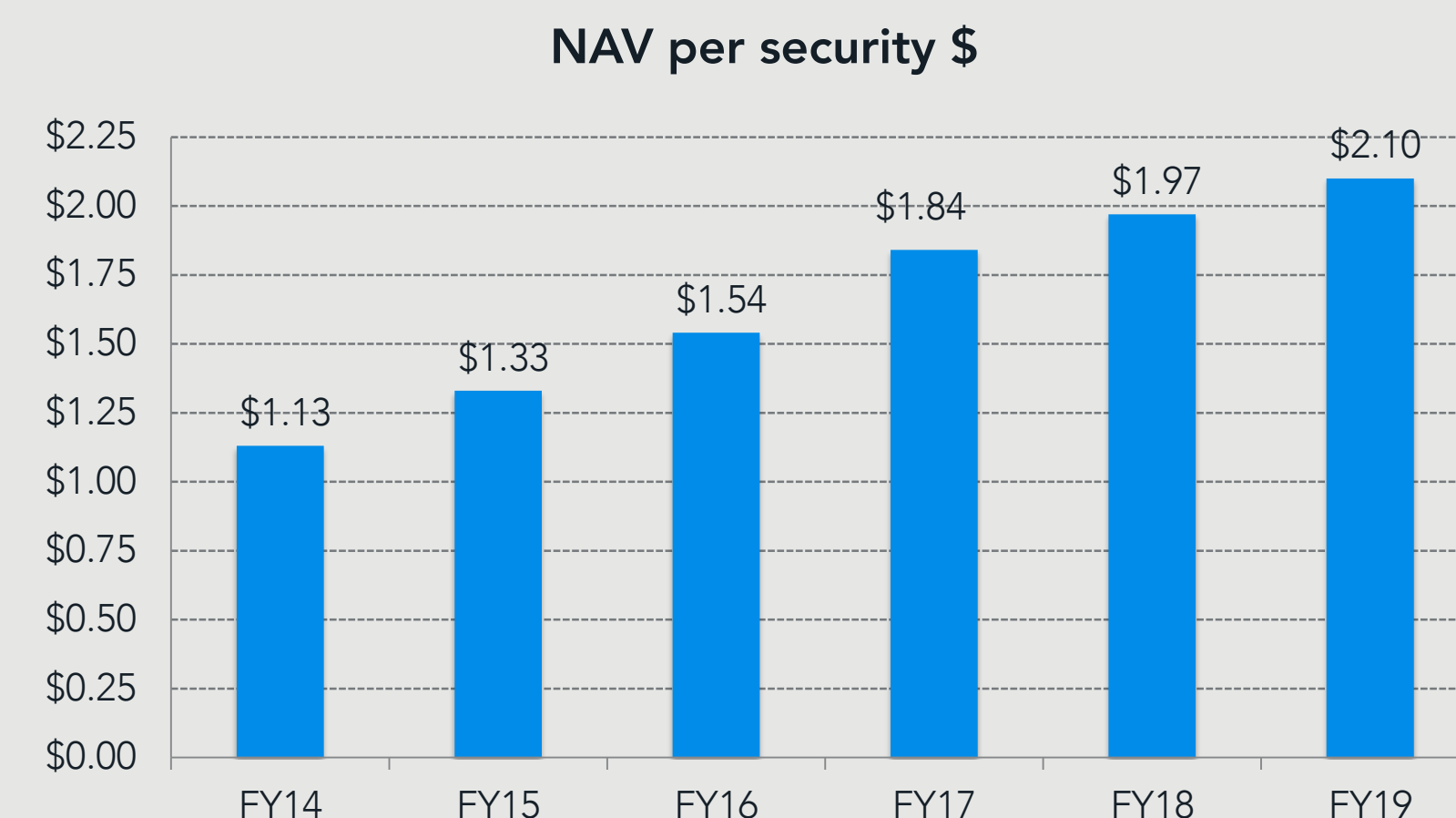
FINANCIAL POSITION

Solid increase in portfolio and net assets

As at 30 June	FY19	FY18	Change
	(\$m)	(\$m)	%
Total assets	825.7	725.8	+14%
Investment properties	798.3	699.4	+14%
Borrowings	188.5	179.5	+5%
Net assets	610.3	531.6	+15%
Securities on issue	291.3	269.4	+8%
Net Asset Value (NAV) per security	\$2.10	\$1.97	+7%
Gearing ¹	22.8%	24.7%	-190bps

1. Gearing calculated as ratio of borrowing over total assets.

- Growth in total assets arising from new investment, ELC developments and revaluations.
- Increase in borrowings to fund new investment offset by equity issue in May-19.



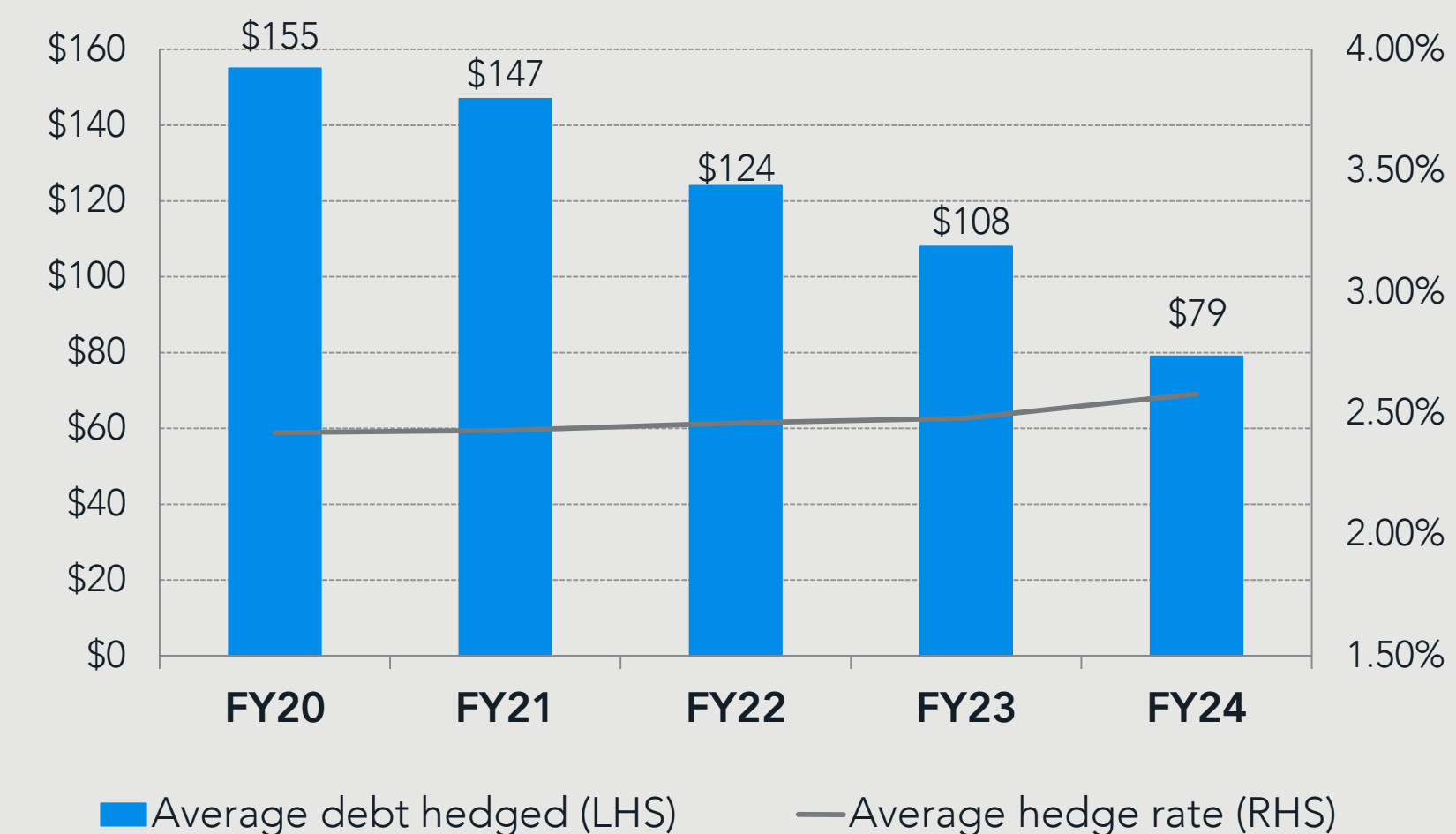
CAPITAL MANAGEMENT

Low risk funding profile and refreshed capacity

As at 30 June	2019	2018	Change
Borrowings	\$188.5m	\$179.5m	+5%
Borrowings facility limit	\$280m	\$230m	+22%
Gearing	22.8%	24.7%	-190 bps
Average facility term	3.3 years	4.4 years	-1.1 years
Weighted average cost of debt	3.65%	3.85%	-20bps
Interest cover ratio	5.5x	6.0x	-0.5x
Hedge cover	82%	78%	+400 bps
Weighted average hedge	2.42%	2.44%	-2 bps
Weighted average hedge term	4.8 years	5.9 years	-1.1 years

- Syndicated borrowing facility limit increased by \$50 million to \$280 million, comprised of:
 - \$130 million expiring 31 March 2022; and
 - \$150 million expiring 31 March 2023.
- \$50 million fully underwritten institutional placement in May 2019.
- DRP in operation – raised \$6.5 million in FY19.
- SPP raised \$16.4 million – securities issued post 30 June 2019.

Hedge maturity profile \$m





PORTFOLIO UPDATE

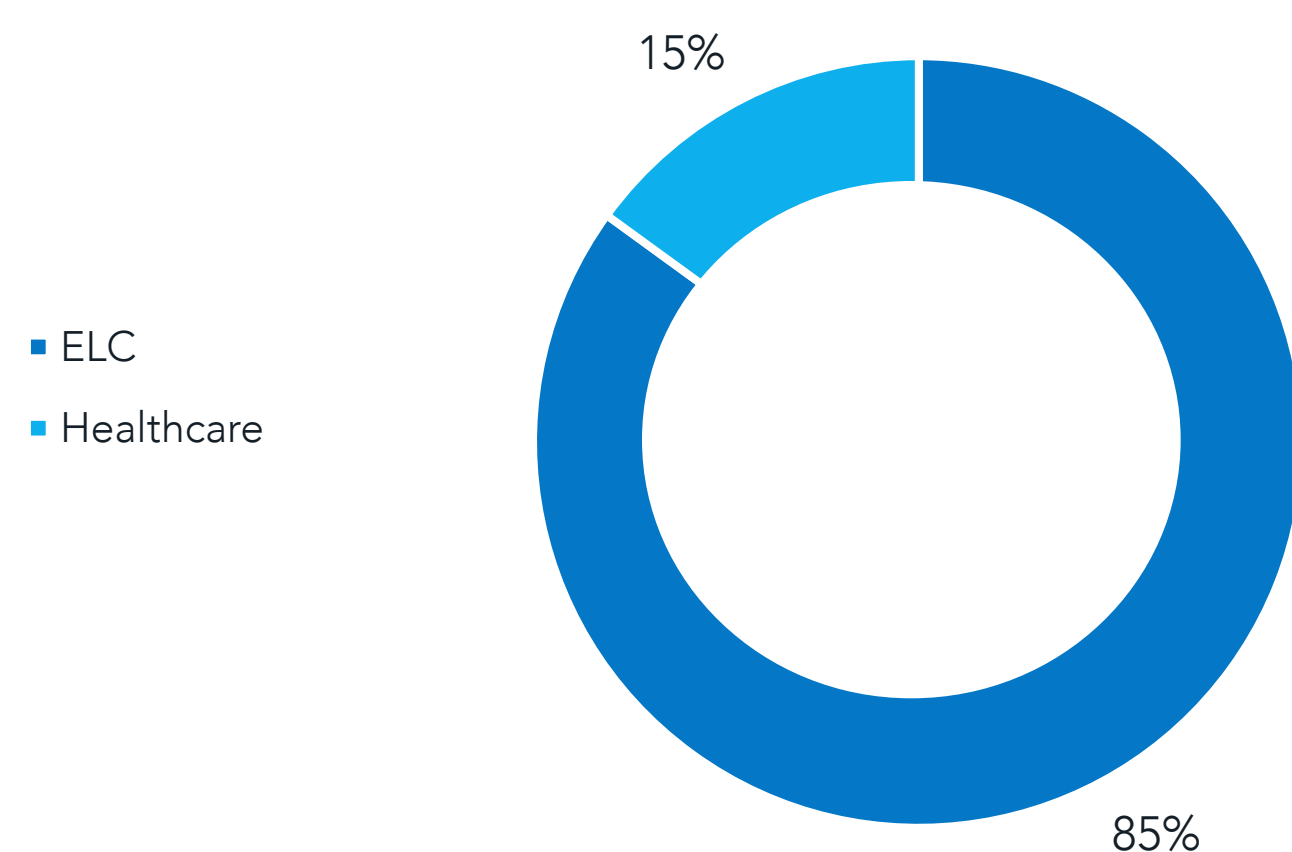
Rob de Vos
Managing Director



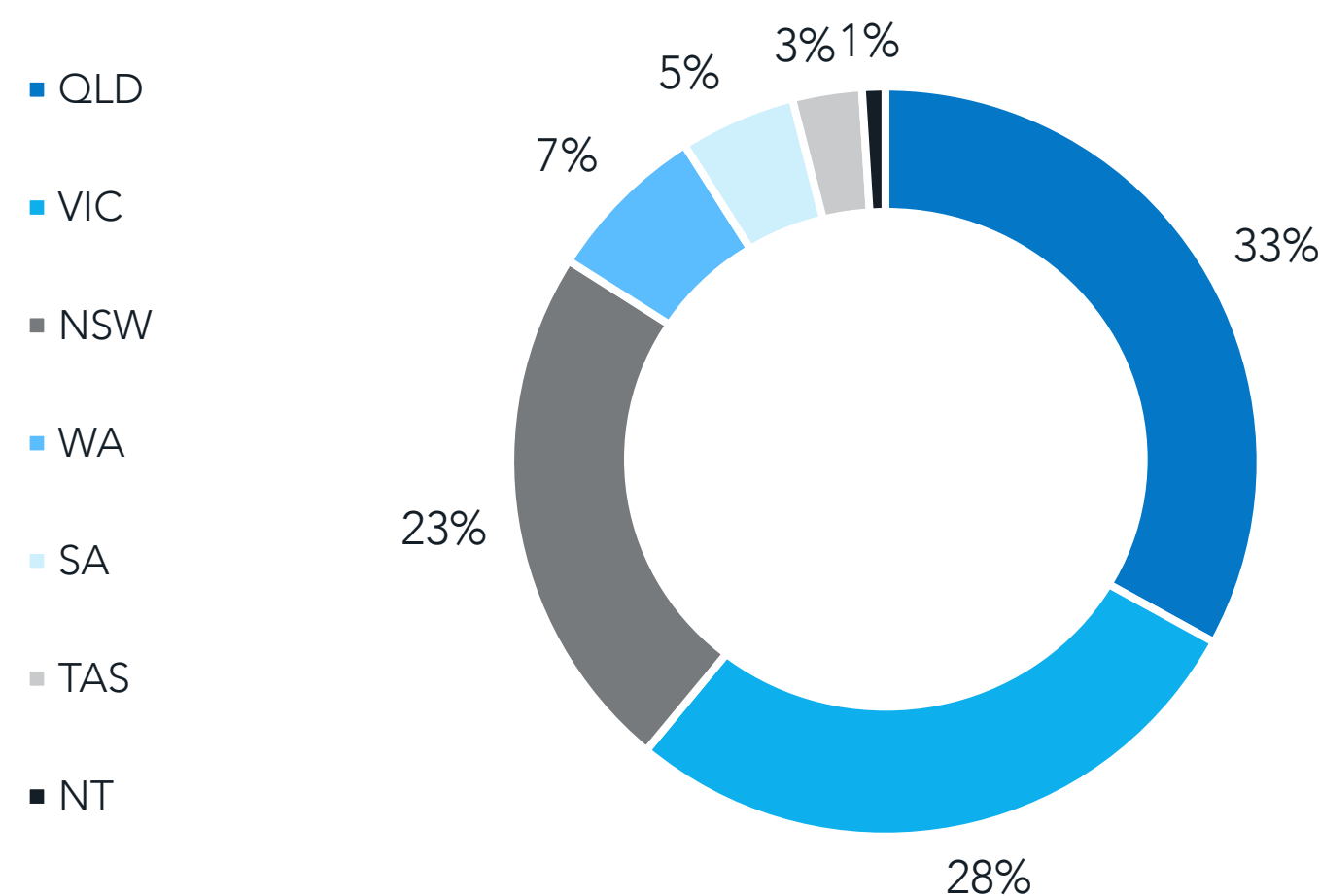
PORTFOLIO OVERVIEW

	Number of assets	30 June 2019 valuation	Net revaluation movement		30 June 2019 passing yield	Change
		\$m	\$m	%	%	bps
ELC portfolio	216	676.2	21.6	3.5	6.44	(2)
Healthcare portfolio	10	122.1	10.8	12.7	6.08	(77)
Total portfolio	226	798.3	32.4	4.6	6.38	(14)

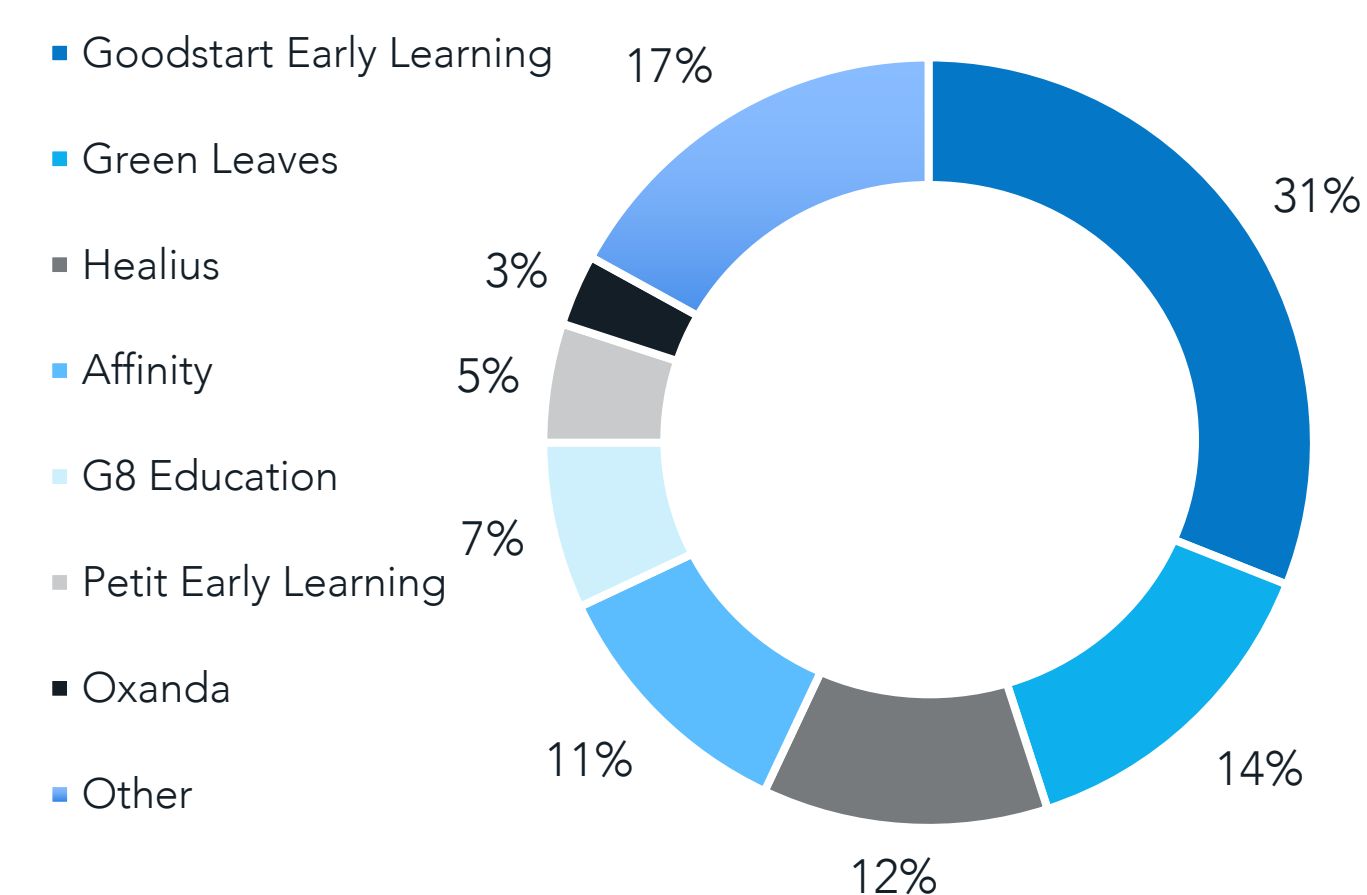
Sector diversity (by value)



Geographic diversity (by value)

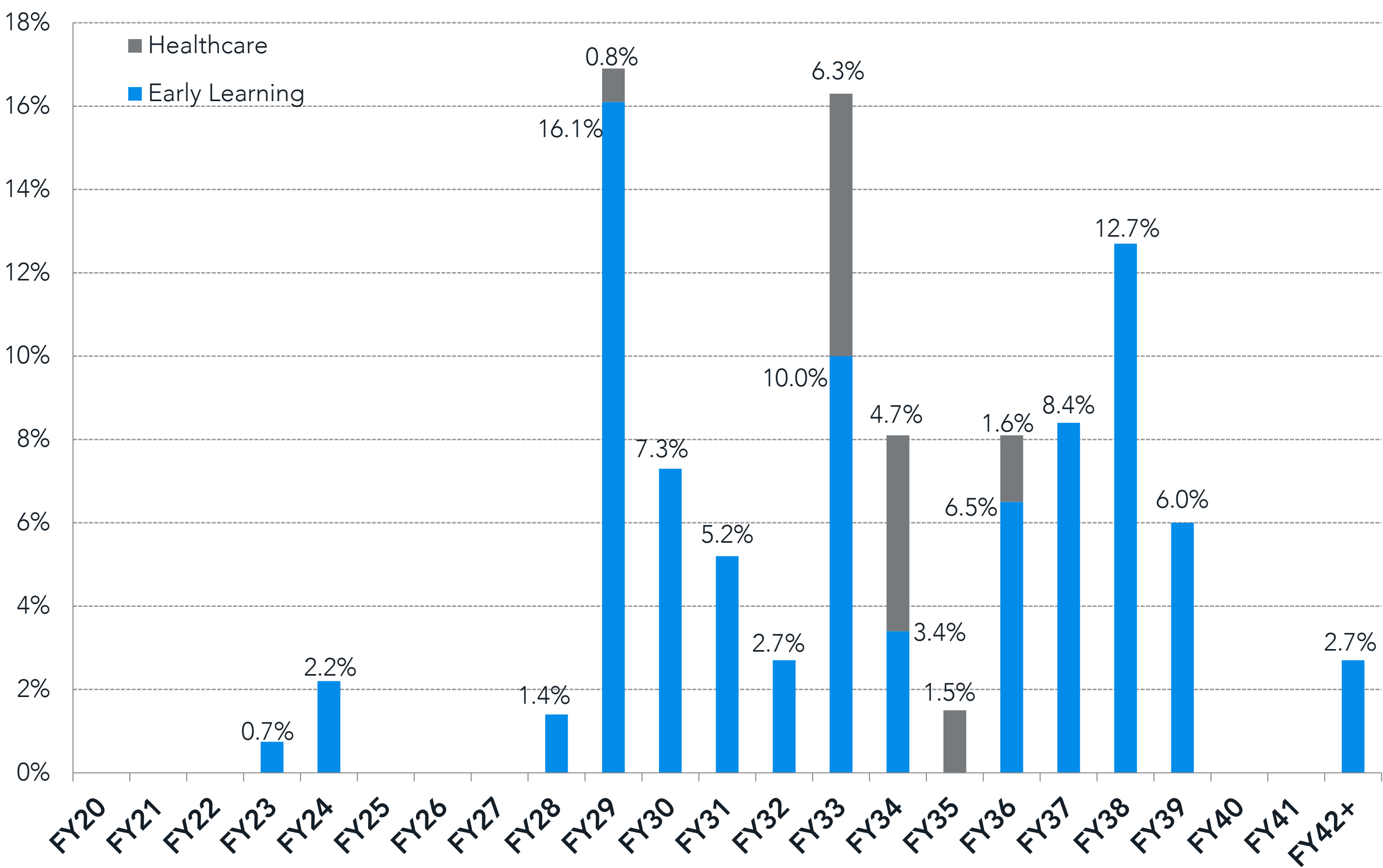


Tenant diversity (by income)



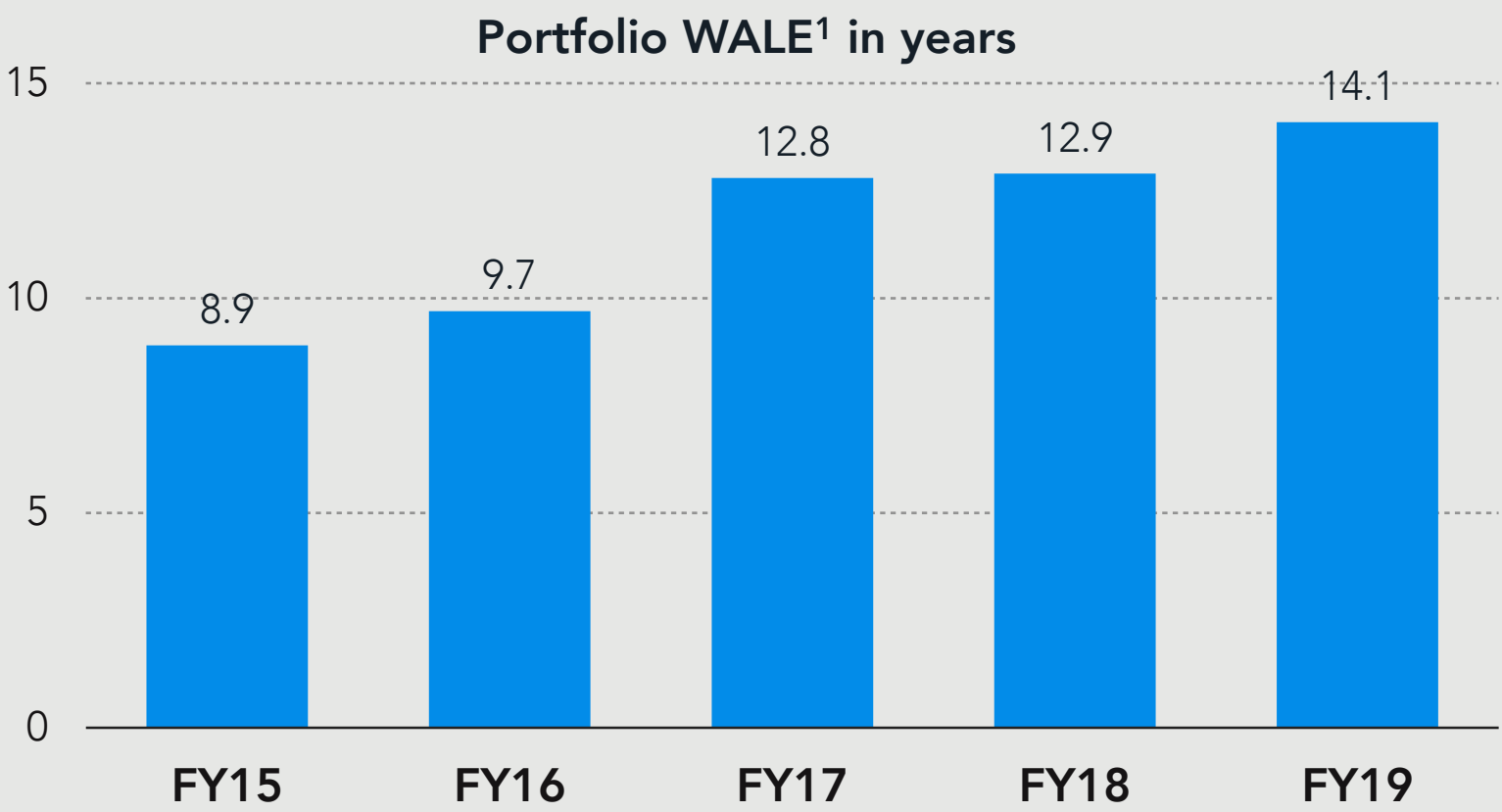
LEASE EXPIRY PROFILE

Weighted average lease expiry of 14.1¹ years



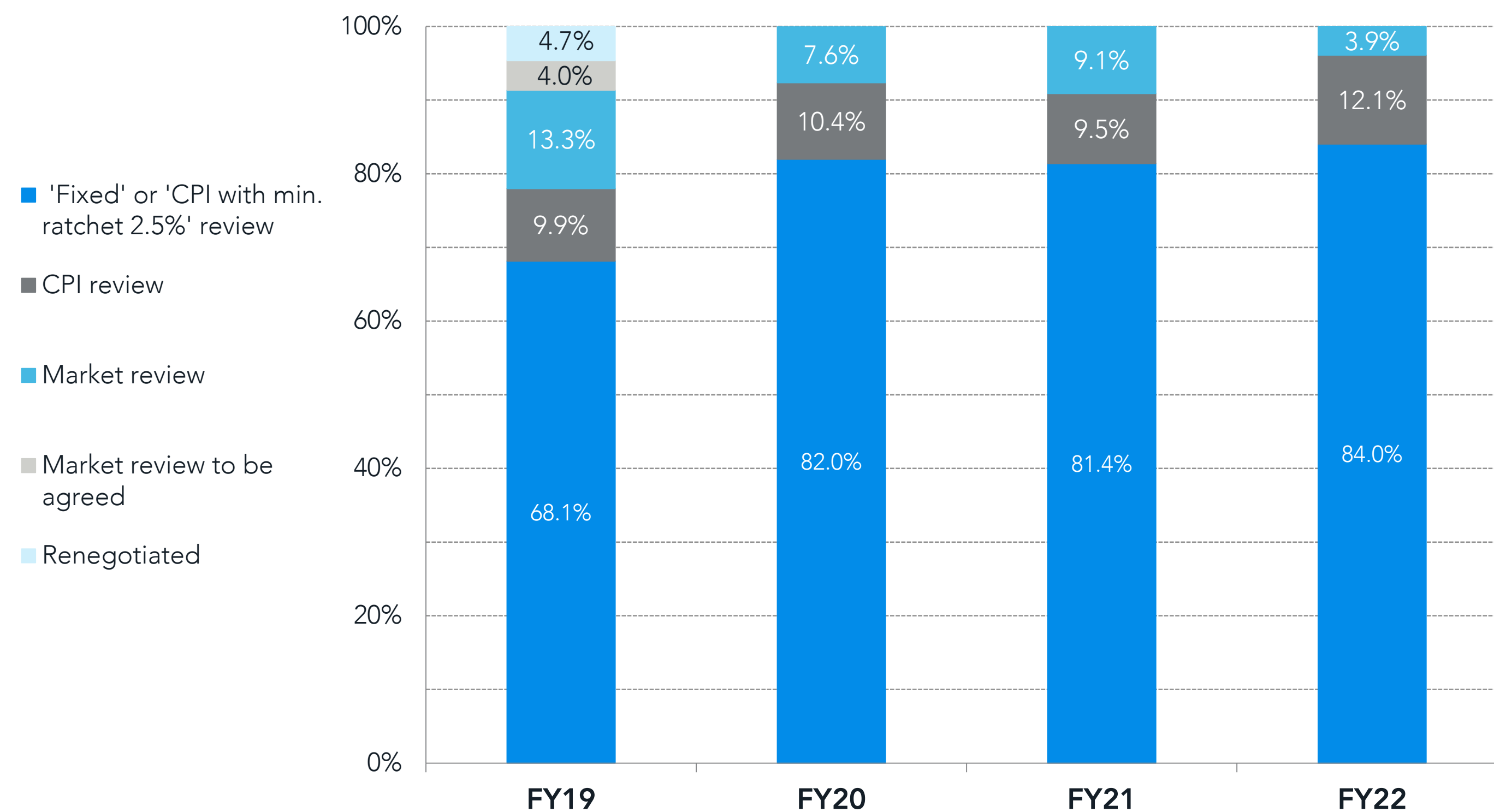
1. By income.

- Healius portfolio leases extended by an average of 10.6 years.
- Four completed ELC developments added to portfolio each with initial lease term of 20 years.
- Eight operating ELC and healthcare properties added to portfolio with weighted average lease expiry of 17 years.
- Less than 3% of portfolio income subject to expiry prior to FY2028.



ANNUAL RENT REVIEWS

Average like-for-like rent increase of +3.6%¹



1. Excludes ten market rent reviews which had not been resolved as at 30 June 2019.

- FY19 average market rent review increase of +9.4%¹.
- FY20 market rent reviews are subject to 0-7.5% cap and collar.

ACQUISITIONS AND DEVELOPMENTS

High quality, purpose built properties

	Number of properties	Total cost (\$m)	Initial yield on cost (%)	Initial lease term (years)
Operating ELC acquisitions	5	23.0	6.7	19.0
Operating healthcare acquisitions	3	24.0	6.0	15.0
ELC development completions	4	25.0	6.4	20.0
Total/weighted average	12	72.0	6.4	18.1

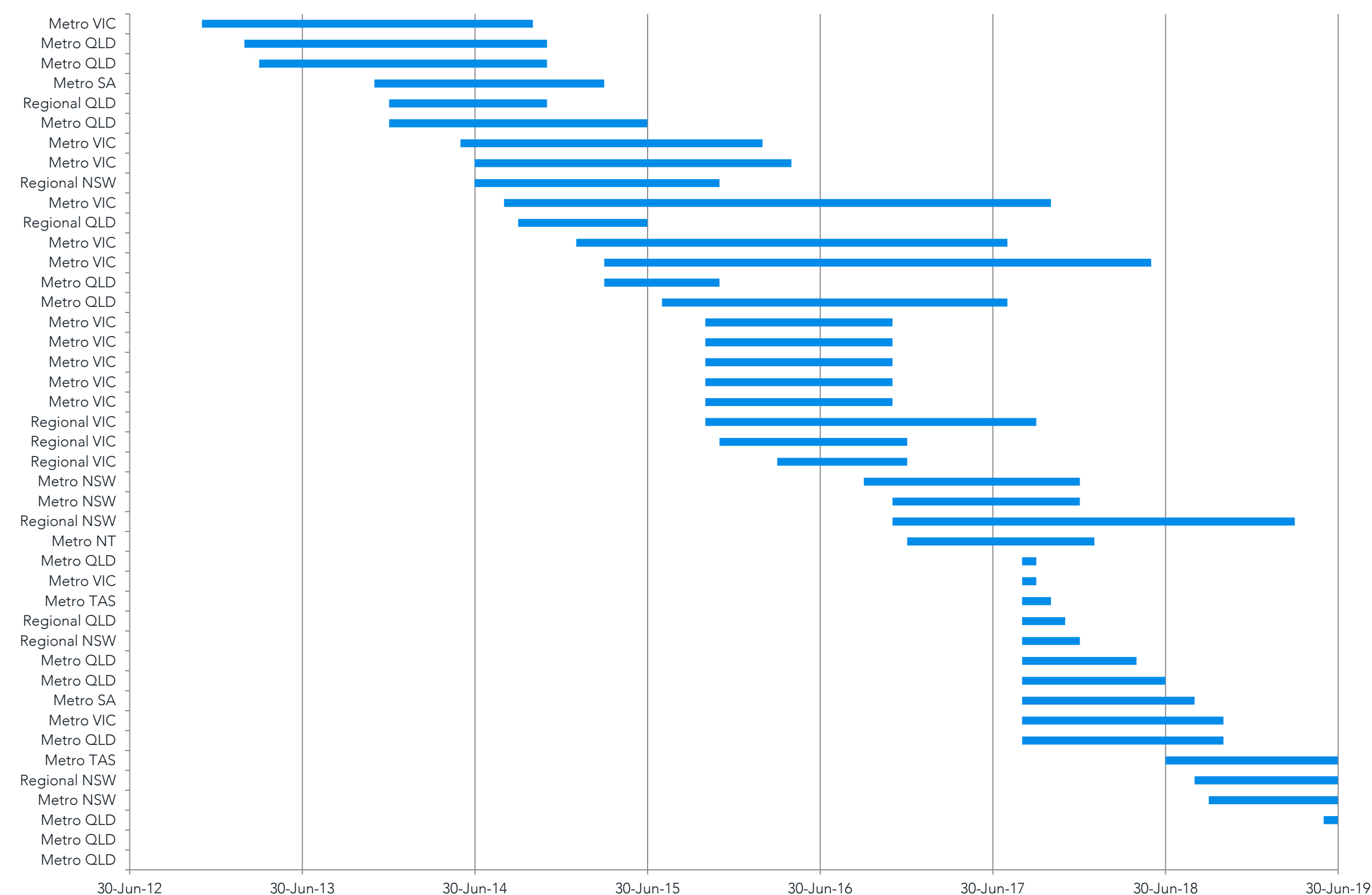
Development pipeline	Contracted developments	Conditionally contracted developments ¹
Number of projects	6	3 ¹
Forecast total cost	\$34 million	\$16 million
Initial yield on cost	6.7%	6.9%
Capex amount outstanding	\$20 million	\$16 million

1. Conditionally contracted prior to 30 June 2019.



DEVELOPMENT COMPLETIONS

Efficient delivery maximises earnings accretion



- 37 developments completed over past seven years at a total cost of \$170 million with eight tenant partners.
- Average period to completion of 15 months.

ELC SECTOR

Supportive underlying demographics

Demand

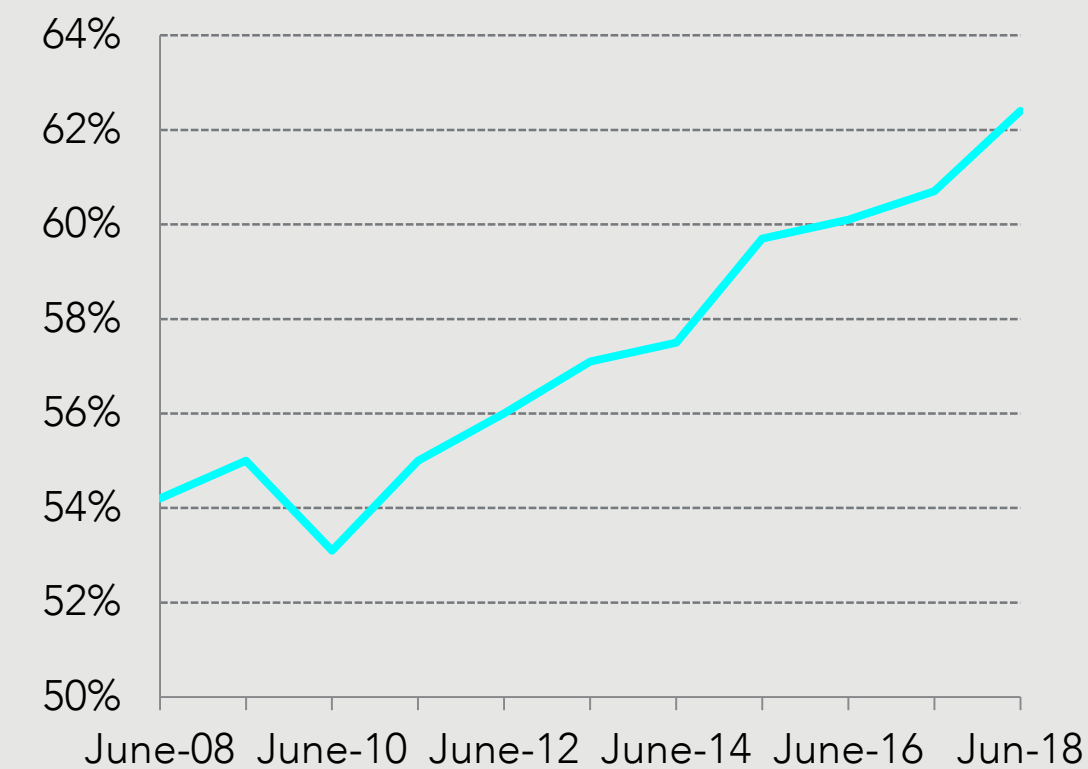
- Strong long day care (LDC) participation rate.
- Record female workplace participation rate.
- Improved affordability from introduction of Child Care Subsidy (CCS).
- Forecast population growth of 18%¹ in 0-4 years age group from 2018 to 2029.

Supply

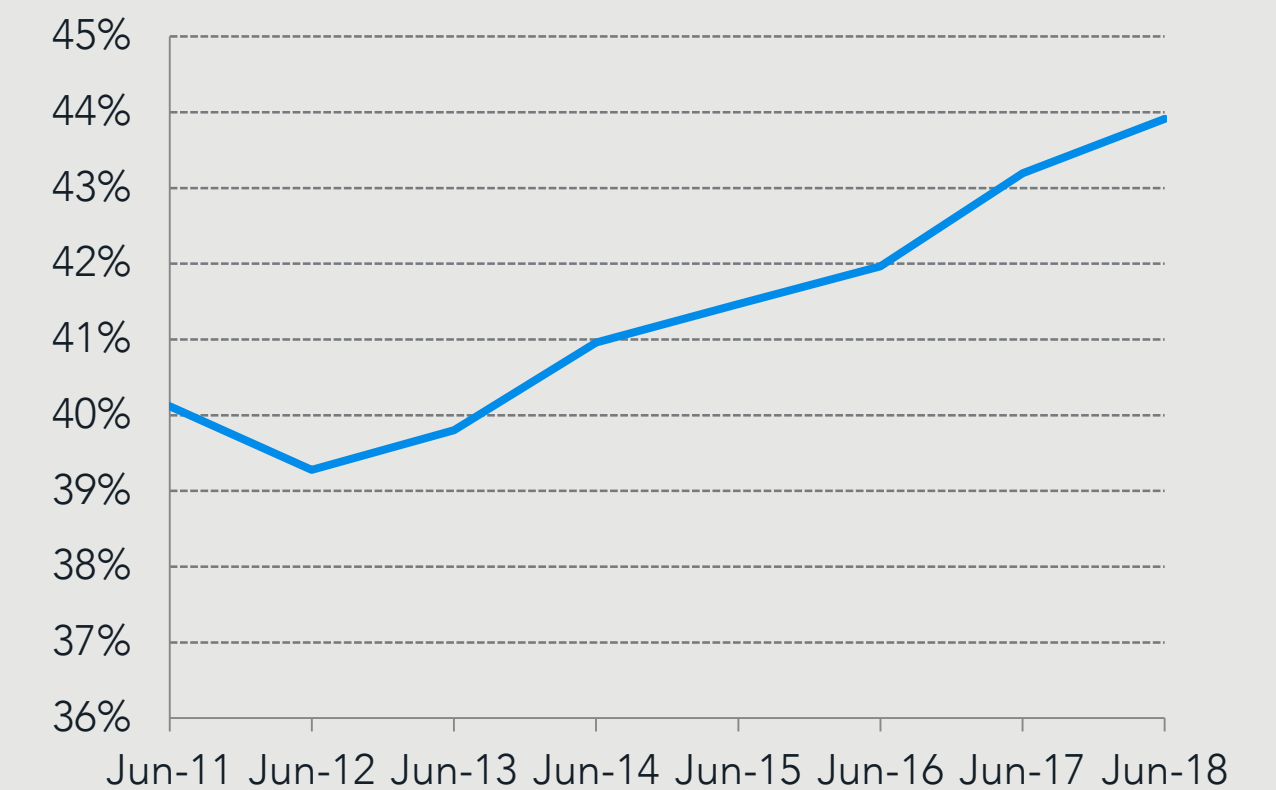
- Growth moderating from 2018 levels.
- Generally more measured approach across sector.

1. ABS Population Projections, Australia 2017-2066 medium assumptions.
 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 2012-2018.
 4. ABS 6401.0 Consumer Price Index: Australia.

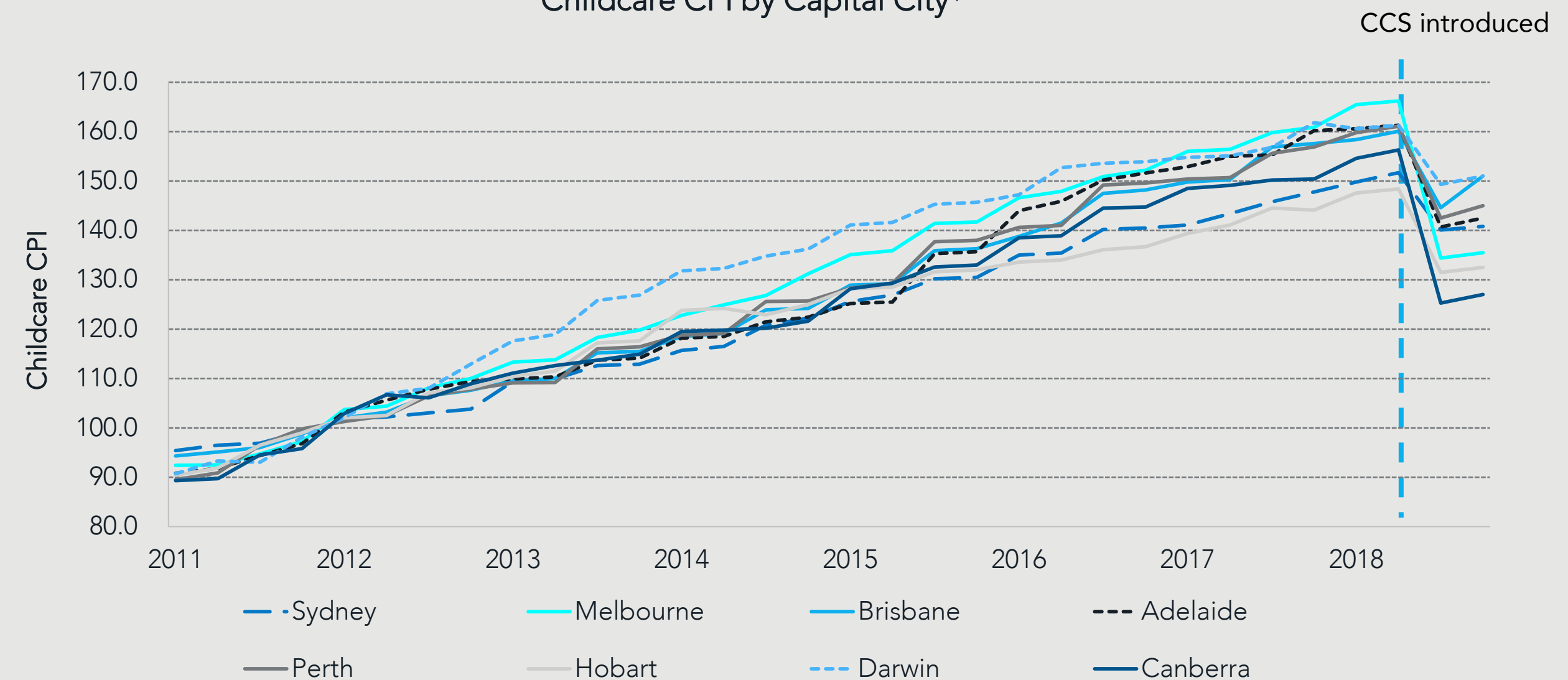
Female Workforce Participation Rate²



LDC participation rate³



Childcare CPI by Capital City⁴



ARENA REIT ELC PORTFOLIO

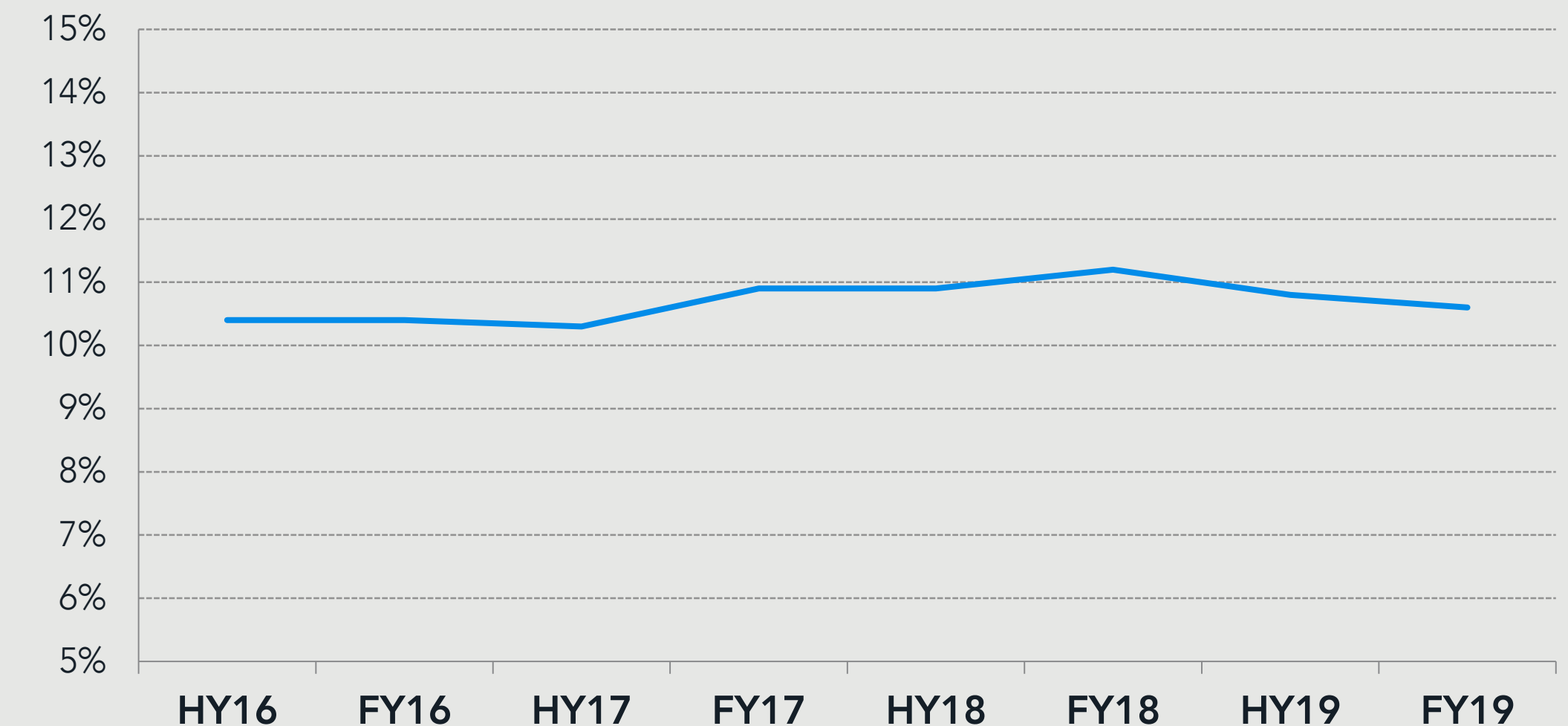
Pro-actively managed and well-placed for current conditions

Portfolio operating data to 31 March 2019¹

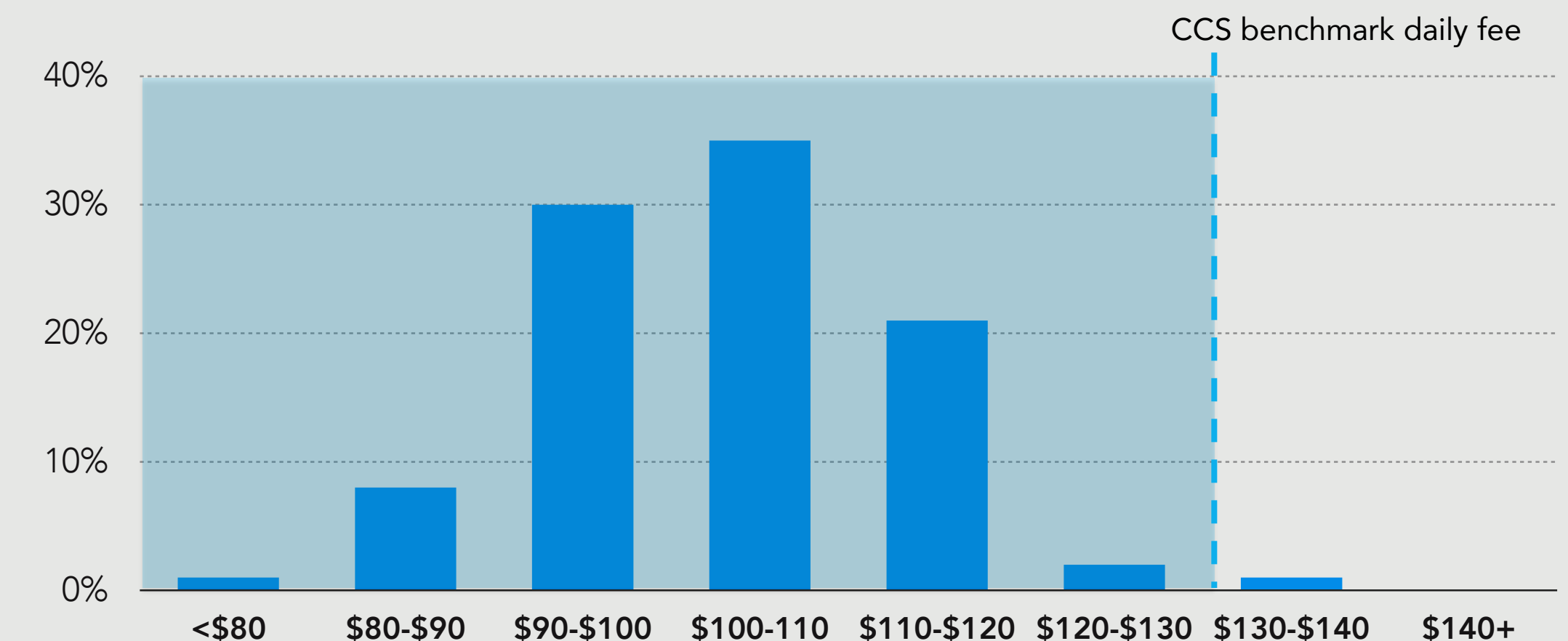
- Average centre occupancy increased.
- Average daily fee increased to \$102.91:
 - +1.7% from 31 December 2018; and
 - +5.6% from 30 June 2018.
- Net rent to revenue ratio reduced to 10.6%.

1. Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2019.
2. Assumes CCS fully covers a daily fee of approximately \$130 based on CCS capped hourly fee of \$11.98 per hour over an 11 hour day.

Arena ELC portfolio – net rent to gross operator revenue¹



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





OUTLOOK





OUTLOOK

Strong underlying earnings growth

INCOME GROWTH

- FY20 distribution guidance of 14.3 cents per security, an increase of 5.9%¹ on FY19.
- Annual rent increases, of which market rent reviews comprise:
 - Approximately 8% of income in FY20; and
 - Approximately 9% of income in FY21.
- Full impact of FY19 and FY20 acquisitions and development completions.
- \$50 million development pipeline comprising nine ELC projects as at 30 June 2019².
- \$9 million additional acquisitions post balance date³.

NEW INVESTMENT OPPORTUNITIES

- Disciplined investment process for opportunities that meet Arena's preferred property characteristics.
- Debt capacity available at low incremental cost.
- Market conditions remain conducive to new opportunities.

1. FY20 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.

2. Three ELC development projects were conditionally contracted prior to 30 June 2019.

3. Contracted post balance date, includes one operating property which has settled, and one conditionally contracted development project.



Our investment objective:

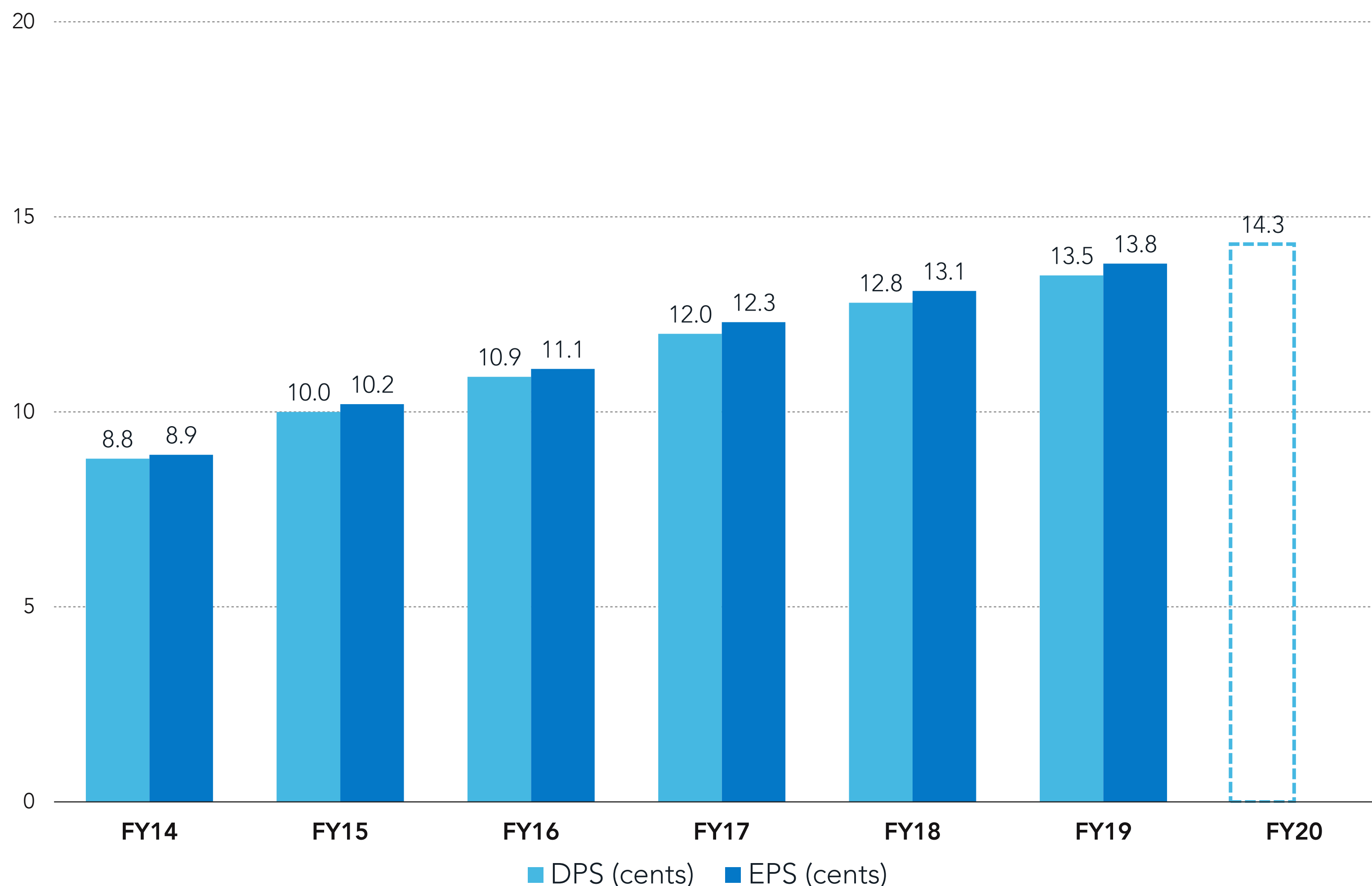
To deliver an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

FY20 DPS GUIDANCE 14.3 CENTS (+5.9%)¹

Earnings and distribution
growth underpinned by
core earnings drivers

1. FY20 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.

Earnings and distributions per security (cents)





QUESTIONS



CORPORATE DIRECTORY

Please direct all enquiries to Sam Rist on samantha.rist@arena.com.au or +61 3 9093 9000



ROB DE VOS

Managing Director



GARETH WINTER

Chief Financial Officer



SAM RIST

Head of Investor Relations



APPENDICES



HISTORICAL FINANCIAL DATA

Period ended/as at 30 June	2019	2018	2017	2016	2015	2014
ASX closing price (\$)	2.74	2.15	2.25	1.99	1.54	1.20
Securities on issue (m)	291.3	269.4	234.8	232.0	228.3	211.5
Market capitalisation (\$m)	798.2	579.1	528.3	461.7	351.6	253.8
Total annual securityholder return (%)	34.3	1.2	19.8	37.6	36.3	26.7
ASX 300 A-REIT Property Index annual return (%)	19.4	13.2	(5.6)	24.6	20.2	11.1
Return on Equity (%)	10.7	13.4	24.7	22.2	23.5	20.5
Earnings per security (EPS) (cents)	13.80	13.10	12.30	11.11	10.20	8.85
EPS growth (%)	5	7	11	9	15	8
Distributions per security (DPS) (cents)	13.50	12.80	12.00	10.90	10.00	8.75
DPS growth (%)	5	7	10	9	14	9
Payout ratio (%)	98	98	98	98	98	99
Total Assets (\$m)	825.7	725.8	621.3	514.0	450.6	375.3
Gearing (%)	22.8	24.7	27.5	26.8	29.1	33.3
NAV (\$)	2.10	1.97	1.84	1.54	1.33	1.13
NAV growth (%)	7	7	19	16	18	11
Weighted average cost of debt (% pa)	3.65	3.85	3.75	3.85	4.30	4.80
Proportion of borrowings hedged (%)	82	78	79	72	69	68

HISTORICAL PORTFOLIO DATA

Period ended/as at 30 June	2019	2018	2017	2016	2015	2014
Number of properties	226	214	205	203	197	193
Sector diversification (by value)						
Early Learning (%)	85	88	86	84	84	81
Healthcare (%)	15	12	14	16	16	19
Occupancy (%)	100	100	100	100	99	99
Weighted Average Lease Expiry (WALE) (years)	14.1	12.9	12.8	9.7	8.9	8.5
Portfolio valuation (\$m)	798.3	699.4	591.7	491.4	420.0	355.8
Portfolio weighted average passing yield (%)	6.38	6.52	6.76	7.30	8.00	8.70
Total property return (%)	11	12	19	19	20	19
Annual like-for-like rental growth (%)	3.6	2.6	4.3	3.6	3.4	2.9
Average annual market rent review increase (ELC) (%)	9.4	6.3	6.2	6.5	6.4	6.1
Development completions						
Number of projects	4	14	8	4	7	-
Total cost (\$m)	25.0	88.3	20.4	19.1	17.0	-
Initial yield on total cost (%)	6.4	6.7	8.6	8.7	9.4	-

FINANCIAL PERFORMANCE

	FY19	FY18	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Property income	48,744	42,673	6,071	+14%
Other income	583	770	(187)	-24%
Total operating income	49,327	43,443	5,884	+14%
Property expenses	(360)	(377)	17	-4%
Operating expenses	(3,937)	(3,493)	(444)	+13%
Finance costs	(7,337)	(4,883)	(2,454)	+50%
Net operating profit (distributable income)	37,693	34,690	3,003	+9%
<i>Non-distributable items:</i>				
Investment property revaluation & straight-lining of rent	32,362	31,591	771	+2%
Change in fair value of derivatives	(8,619)	(553)	(8,066)	-1459%
Profit/(loss) on sale of investment properties	(223)	30	(253)	-843%
Transaction costs	(474)	(566)	92	+16%
Amortisation of security-based payments (non-cash)	(1,169)	(830)	(339)	-41%
Other	(247)	70	(317)	-453%
Statutory net profit	59,323	64,432	(5,109)	-8%

BALANCE SHEET

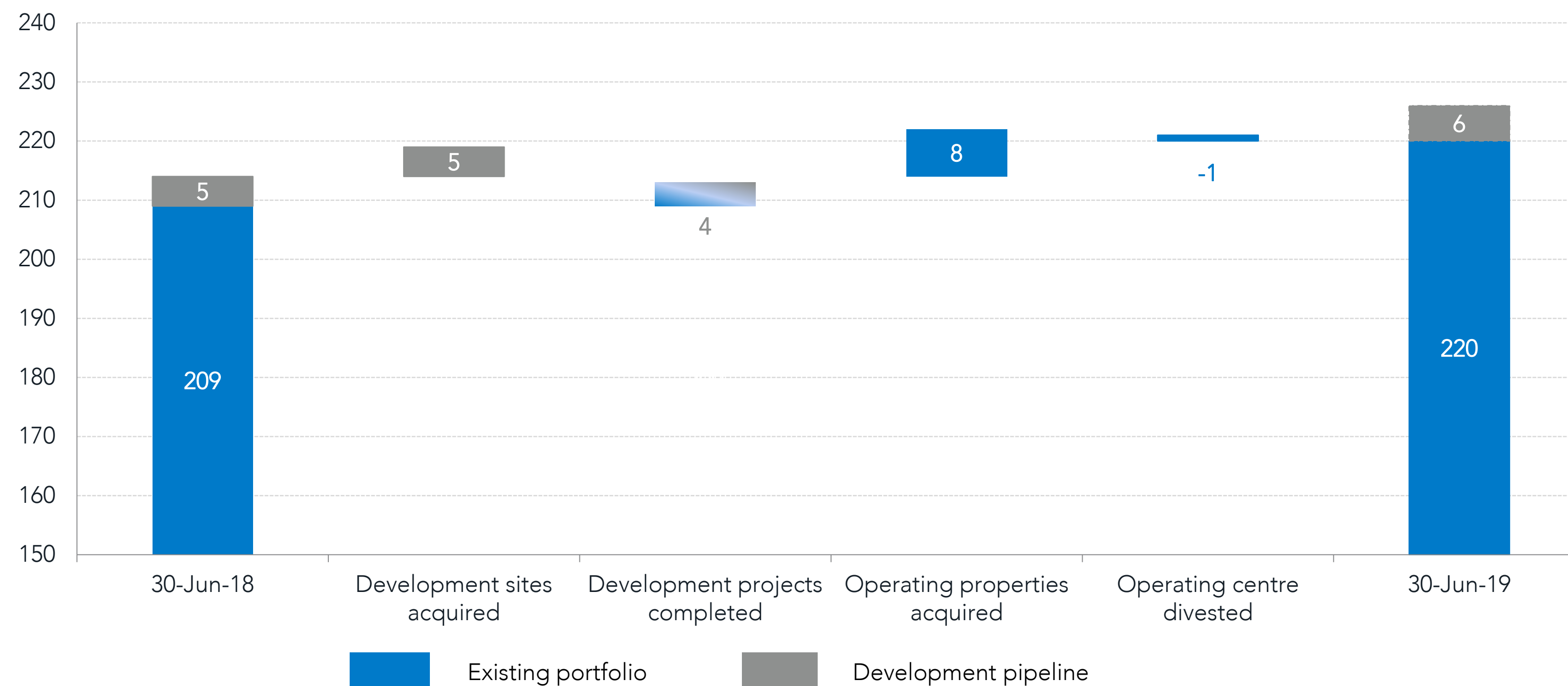
	30 Jun 19	30 Jun 18	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	8,134	8,654	(520)	-6.0%
Receivables and other assets	8,453	6,968	1,485	+21.3%
Investment properties	798,318	699,409	98,909	+14.1%
Intangibles	10,816	10,816	-	-
Total assets	825,721	725,847	99,874	+13.8%
Trade and other liabilities	8,809	6,533	2,276	+34.8%
Distributions payable	9,832	8,619	1,213	+14.1%
Borrowings	187,570	178,491	9,079	+5.1%
Derivatives	9,180	561	8,619	+1536%
Total liabilities	215,391	194,204	21,187	+10.9%
Net assets	610,330	531,643	78,687	+14.8%
Number of securities on issue (m)	291.3	269.4	21.9	+8.1%
Net asset value per security (\$)	2.10	1.97	0.13	+6.6%
Gearing (%)	22.8	24.7		-190bps

Borrowing Summary	Tranche 1	Tranche 2	Total
Total facility	\$130m	\$150m	\$280m
Amount drawn	\$88.5m	\$100m	\$188.5m
Available debt	\$41.5m	\$50m	\$91.5m
Expiry date	31-Mar-22	31-Mar-23	-
Remaining term	2.75yrs	3.75yrs	3.3yrs

Covenant	Facility requirement	Ratio
Loan to value ratio (LVR)	Maximum 50%	25%
Interest cover ratio (ICR)	Minimum 2x	5.5x

PORTFOLIO COMPOSITION AND MOVEMENT

Portfolio movements (30 June 2018 to 30 June 2019)



ELC PORTFOLIO VALUATIONS

As at 30 June 2019	Number of properties	Value (\$m)	Passing yield (%)
Independent ELC freehold valuations			
Victoria	14	63.2	6.1
Queensland	9	26.5	6.8
Western Australia	8	22.1	5.9
New South Wales	5	13.6	6.0
Tasmania	3	10.1	6.6
South Australia	1	6.1	6.7
Independent ELC leasehold valuations - Victoria	5	13.4	8.7
Total independent ELC valuations	45	155.0	6.5
Director ELC freehold valuations			
Queensland	71	229.0	6.8
Victoria	43	141.5	6.0
New South Wales	25	71.6	6.4
Western Australia	14	34.9	6.6
South Australia	5	14.2	6.5
Tasmania	4	9.4	6.6
Northern Territory	2	4.6	7.2
Director ELC leasehold valuations - Victoria	1	2.5	8.7
Total director ELC valuations	165	507.7	6.4
Total ELC portfolio	210	662.7	6.4
Development sites	6	13.5	-
Total ELC portfolio	216	676.2	6.4

ELC PORTFOLIO METRICS

	30 June 2019	30 June 2018	Change
Leased ELCs	210	202	+4.0%
Development sites	6	5	+20%
Total ELCs	216	207	+4.3%
WALE (by income) (years)	14.1	14.2	-0.1 year
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.44	6.46	-2bps
Portfolio value (\$m)	676.2	614.0	+10.1%
Average rental increase (%)	3.8	2.9	+90bps
Rent to gross revenue ratio (%)	10.6 ¹	11.2	-60bps
Average daily fee (\$)	102.91 ¹	97.49	5.6%
Portfolio composition (by value)			
Metropolitan (%)	61	61	-
Regional (%)	39	39	-

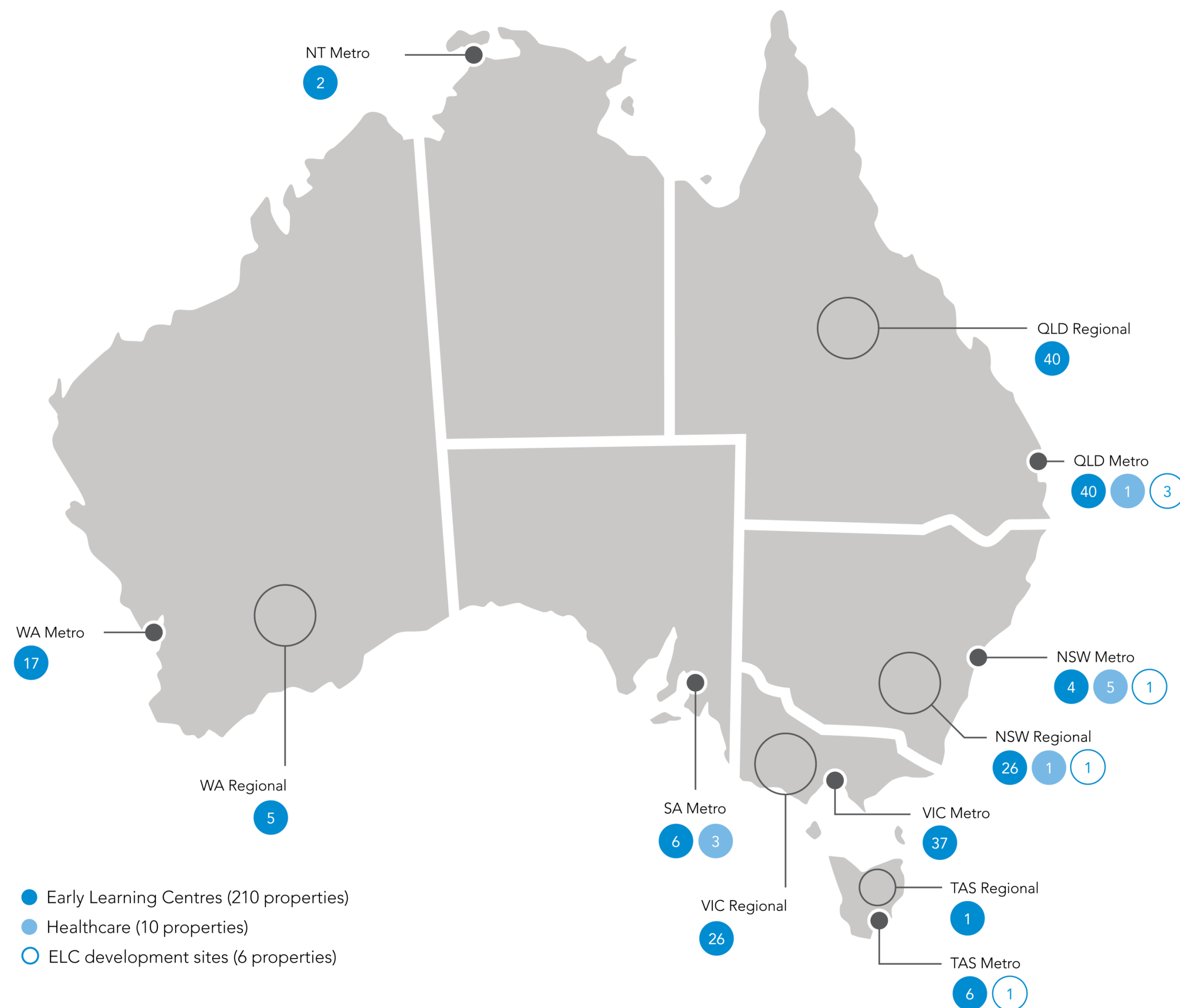
1. Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2019.



HEALTHCARE PORTFOLIO METRICS

	30 June 2019	30 June 2018	Change
Total healthcare properties	10	7	+43%
WALE (by income) (years)	14.2	4.5	+9.7 years
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.08	6.85	-77bps
Property portfolio (\$m)	122.1	85.4	+43%
Average rental increase (%)	2.6	1.3	+130bps
Portfolio composition (by value)			
Metropolitan (%)	90	86	+400bps
Regional (%)	10	14	-400bps

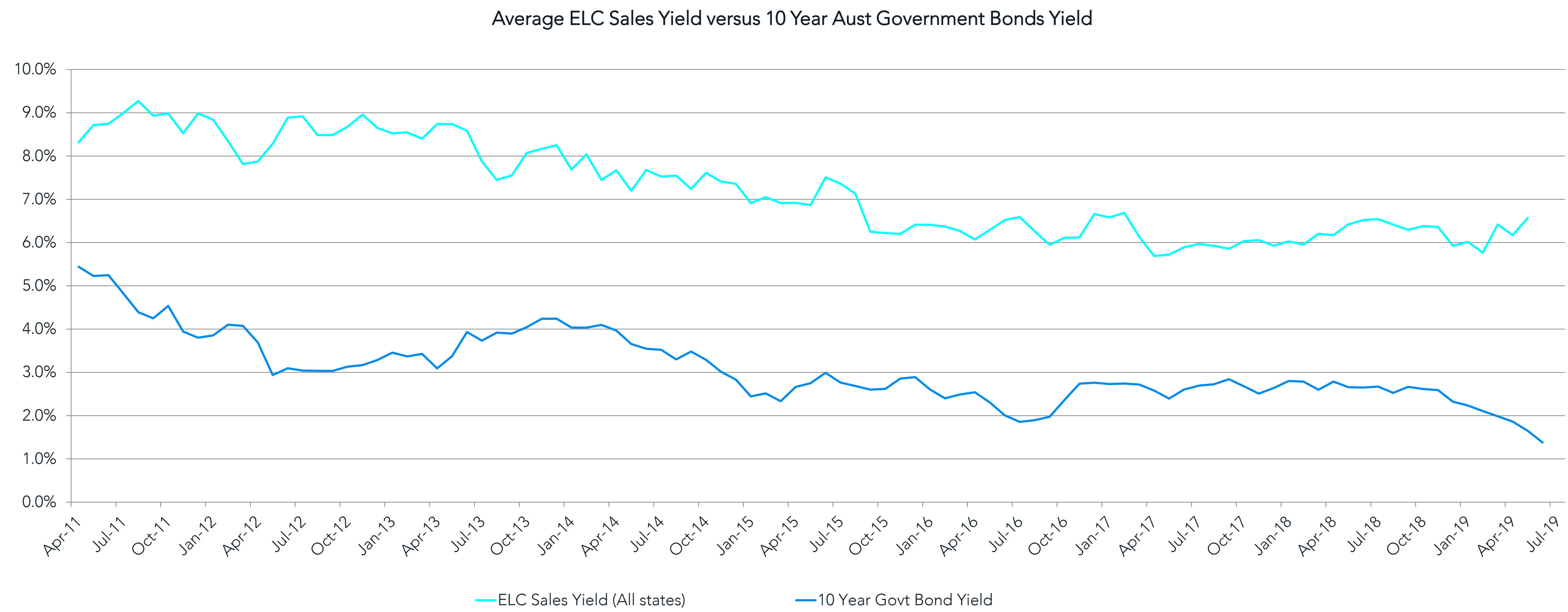
PORFTOLIO LOCATION MAP



ELC MARKET TRANSACTIONS



ELC SALES YIELDS VERSUS 10 YEAR CGB





IMPORTANT NOTICE

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