ARENA REIT

2021 FULL YEAR RESULTS

11 August 2021

Arena

AGENDA

FY21 HIGHLIGHTS

Continuing strong portfolio, investment and community outcomes

- 18.5% growth in net operating profit driven by contracted rental growth, acquisitions and development completions and lower finance costs.
- 15% growth in NAV highlights essential nature of early learning (ELC) and healthcare properties.
- $106 million of capital deployed in FY21:
  - $40 million acquisition of seven operating ELC properties; and
  - Continued delivery of development completions and expanded development pipeline.
- Divestment of six ELC properties at 16% premium to book value.
- Existing long WALE further increased to 20.1[1] years.
- Gearing ratio of 19.9%[2].
- FY22 DPS guidance of 15.8 cents per security, an increase of 6.8%[3] on FY21.

$165.4 million
Statutory net profit
+116% on FY20

$51.9 million
Net operating profit
+18.5% on FY20

15.2 cents
Earnings per security[4] (EPS)
+4.5% on FY20

14.8 cents
Distributions per security (DPS)
+6% on FY20

$2.56
Net Asset Value (NAV) per security
+15% on FY20

20.1 years[1]
Weighted Average Lease Expiry (WALE)
+6.1 years on FY20

1. Post balance date portfolio lease renegotiation with Goodstart included an increase of 25 years of term on 87 ELC properties.
2. Gearing calculated as ratio of net borrowings over total assets less cash.
3. 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 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.
4. EPS is calculated as net operating profit over weighted average number of securities on issue.

DELIVERING ON STRATEGY

Strategy discipline and working in partnership continue to deliver positive outcomes

Portfolio management:

- Portfolio weighted average lease expiry (by income) increased to 20.1[1,2] years.
- Six ELC properties sold at average premium of 16% to book value.
- Net valuation uplift of $107.6 million.
- Portfolio weighted average passing yield 5.77%.

Lease management:

- Post balance date portfolio lease renegotiation with Goodstart on 87 ELC properties across Australia[2].
- 100% portfolio occupancy.
- Average FY21 like-for-like rent increase of +3.3%[3].

Working in partnership:

- Continue to rollout the installation of renewable energy systems.
- Completed rejuvenation of six ELCs in partnership with two tenant groups.
- All tenant partners remain compliant with COVID-19 rent relief agreements[4].

Investment and developments:

- Seven operating properties acquired at an average net initial yield of 6.1% on total cost with initial weighted average lease expiry of 27.3 years.
- 14 ELC developments completed at an average net initial yield on total cost of 6.6% with initial weighted average lease expiry of 20.8 years.
- Nine new ELC development projects acquired with forecast total cost of $54 million[5].

1. Pro-forma WALE as at 30 June 2021.
2. Arena REIT (ASX: ARF) ASX Announcement Market Update 29 July 2021.
3. Includes 25 market rent reviews from FY20 which were all resolved at an average increase of +6.5%.
4. Under the National Cabinet Mandatory Code of Conduct landlords are obliged to provide eligible tenants rental relief in proportion to the reduction in trade resulting from COVID-19.
5. Excludes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

COVID-19 UPDATE

Arena's portfolio accommodates essential services

- All of Arena's properties currently remain open and in operation.
- 100% of contracted rent has been receipted for the period 1 July 2020 to 30 June 2021.
- Origination and development programs largely unaffected.
- Medical centre properties assisting in national COVID-19 vaccination program and precedent for strong recovery in elective procedures following easing of any COVID-19 related restrictions.
- The essential nature of the services provided by the ELC sector was reinforced through the various COVID-19 related funding commitments[1] over the last 12 months. The Federal Government has recently committed a further investment of $1.7 billion[2] to the sector to:
  - Support ongoing economic recovery in the short term; and
  - Improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term[3].

1. https://www.dese.gov.au/covid-19/childcare; https://ministers.dese.gov.au/
2. https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/making-child-care-more-affordable-and-boosting
3. https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf

SUSTAINABILTY

Investment proposition and approach drives sustainability and commercial outcomes

Sustainability outcome

- Develop, own and manage social infrastructure property which facilitates access to essential educational and healthcare services provided by our current tenant partners across multiple local communities.
- Installation of solar renewable energy systems reduces the carbon emissions of tenant partners:
  - >21% of Arena's properties currently using; and
  - Additional 45% of properties are in the process of installing.
- Increasing stakeholder engagement with regard to sustainability.
- Increasing and updating leading framework indicators.
- Additional sustainability priorities over the short and medium term for ongoing action and future reporting.

Commercial outcome

- Proven track record in securing and executing on high quality opportunities which provide efficient, flexible and well located accommodation at sustainable initial and ongoing rent.
- Disciplined investment process delivering ongoing EPS, DPS and NAV growth.
- Operating cost savings for tenant partners.
- Rentalisation of cost of installation of renewable energy systems over the life of lease or increased valuation upside and predictability of income through lease extensions.
- Partnership approach delivers mutually beneficial outcomes for our team, tenant partners and ultimately our investors.
- Broadened universe of capital providers with mandate to invest.

FINANCIAL RESULTS

Gareth Winter
Chief Financial Officer

FINANCIAL PERFORMANCE

Ongoing investment supporting earnings and distribution growth

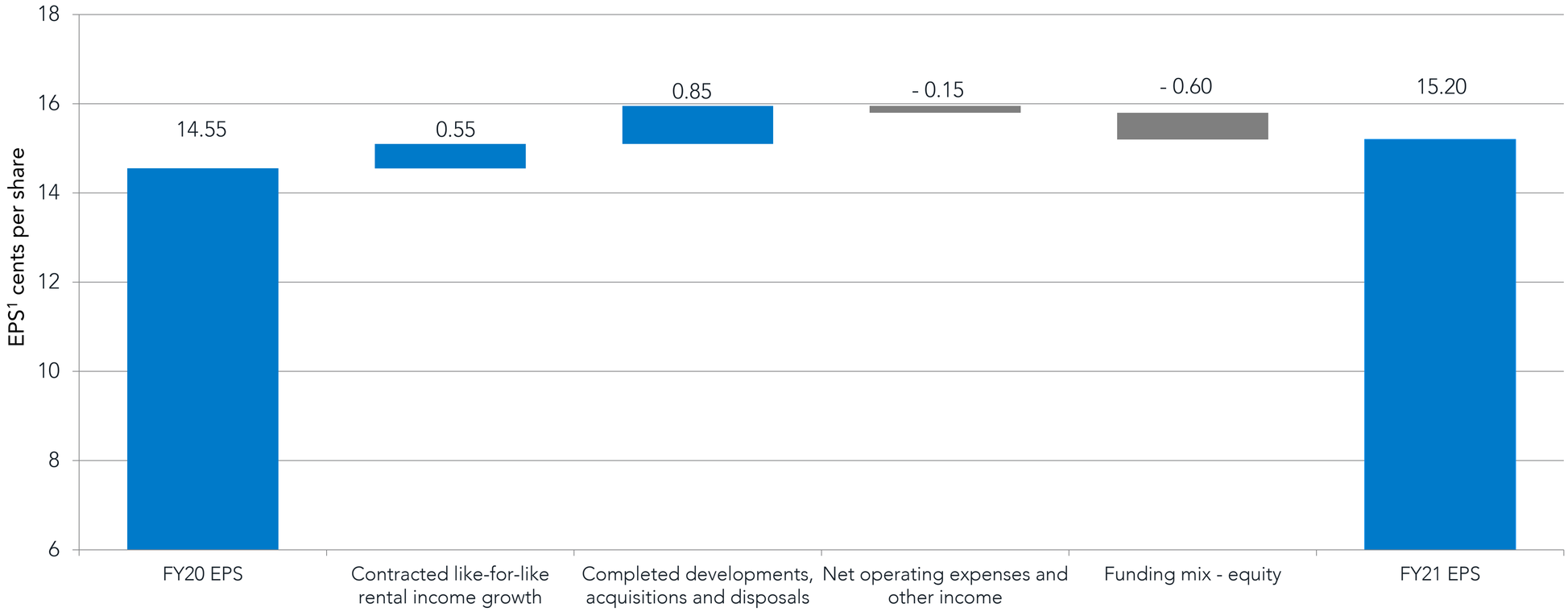
	FY21	FY20	Change	
	($'000)	($'000)	($'000)	(%)
Property income	59,808	53,844	5,964	+11%
Other income	541	559	(18)	-3%
Total operating income	**60,349**	**54,403**	5,946	+11%
Property expenses	(602)	(530)	(72)	+14%
Operating expenses	(4,382)	(4,291)	(91)	+2%
Finance costs	(3,422)	(5,738)	2,316	-40%
Net operating profit	**51,943**	**43,844**	8,099	+18.5%
Statutory net profit	**165,351**	**76,641**	88,710	+116%
Earnings per security (EPS[1]) (cents)	**15.2**	**14.55**	0.65	+4.5%
Distribution per security (DPS) (cents)	**14.8**	**14.0**	0.80	+6%

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

- Property income continues to increase due to:
  - Contracted annual rental growth and market rent reviews;
  - Acquisition of operating ELC properties; and
  - ELC developments completed during FY20 and FY21.
- Higher statutory net profit arising from both increased property income and property valuation uplift, profits on sale of divested properties and positive revaluation of interest rate hedges.
- Finance costs lower due to reduced cost of debt and relatively higher capitalisation of interest due to increased development work in progress during FY21.

CONTRIBUTORS TO EPS GROWTH

Rental growth and development completions supporting EPS growth



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

FINANCIAL POSITION

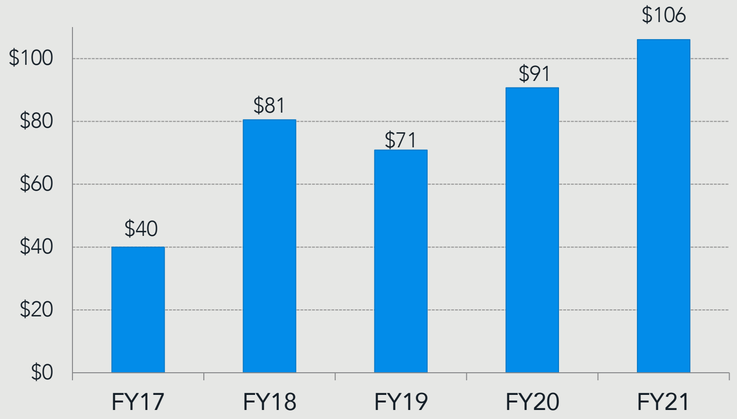
Strong balance sheet supporting asset growth

As at	30 June 2021	30 June 2020	Change
	($m)	($m)	%
Total assets	1,151.5	1,012.6	14%
Investment properties	1,112.4	914.0	22%
Borrowings	240.0	215.0	12%
Net assets	878.9	751.9	17%
Securities on issue	343.6	327.3	5%
Net Asset Value (NAV) per security	$2.56	$2.22	+15%
Gearing[1]	19.9%	14.8%	+510bps

1. Gearing calculated as ratio of net borrowings over total assets less cash.

- Growth in total assets continues from the acquisition of operating properties, ELC development completions and property valuation uplift.
- Undrawn debt capacity of $90 million to fund the balance of development pipeline of $57 million and future growth opportunities.

Acquisition and development capital expenditure $m



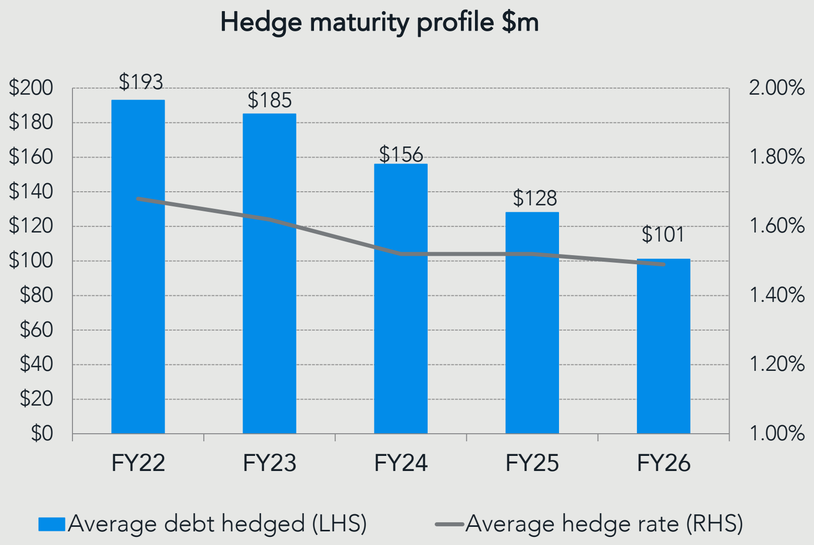
CAPITAL MANAGEMENT

Substantial capacity to fund new investment

As at	30 June 2021[1]	30 June 2020	Change
Borrowings	$240m	$215m	+$25 million
Borrowings facility limit	$330m	$330m	-
Gearing[2]	19.9%	14.8%	+510bps
Weighted average facility term	3.7 years	3.5 years	+0.2 year
Weighted average cost of debt	2.65%	3.15%	-50bps
Interest cover ratio	8.9x	6.65x	+2.25x
Hedge cover	81%	80%	+100bps
Weighted average hedge rate	1.67%	2.20%	-53bps
Weighted average hedge term	4.4 years	4.7 years	-0.3 year

1. Incorporates the extension of the $130 million facility tranche to 31 March 2026 (previously 31 March 2023) and additional hedging completed post 30 June 2021.
2. Gearing calculated as ratio of net borrowings over total assets less cash.

- Syndicated borrowing facility limit of $330 million comprised of:
  - $150 million expiring 31 March 2024;
  - $50 million expiring 31 March 2025; and
  - $130 million expiring 31 March 2026.
- DRP in operation – $11.4 million raised in FY2021.



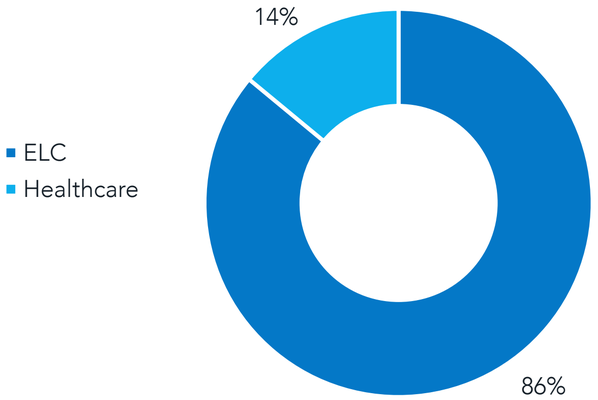
PORTFOLIO UPDATE

Rob de Vos
Managing Director

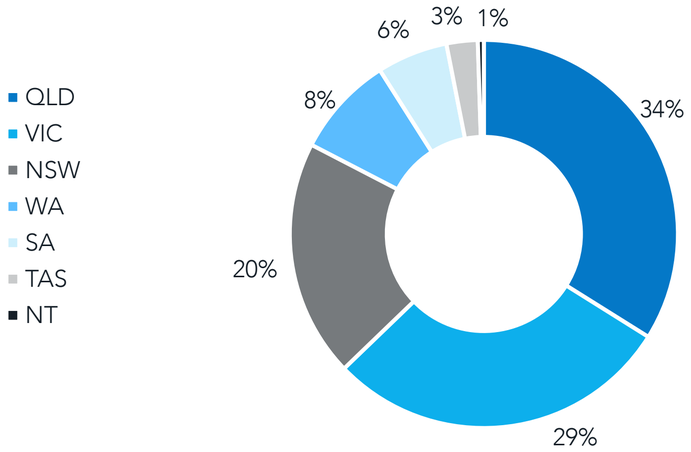
PORTFOLIO OVERVIEW

	Number of assets	30 June 2021 valuation	Net valuation movement versus 30 June 2020		30 June 2021 passing yield	Change versus 30 June 2020
		$m	$m	%	%	bps
ELC portfolio	238	959	+92.0	+11.8%	5.84%	(40)
Healthcare portfolio	11	153	+15.6	+11.4%	5.34%	(78)
Total portfolio	**249**	**1,112**	**+107.6**	**+11.8%**	**5.77%**	**(45)**

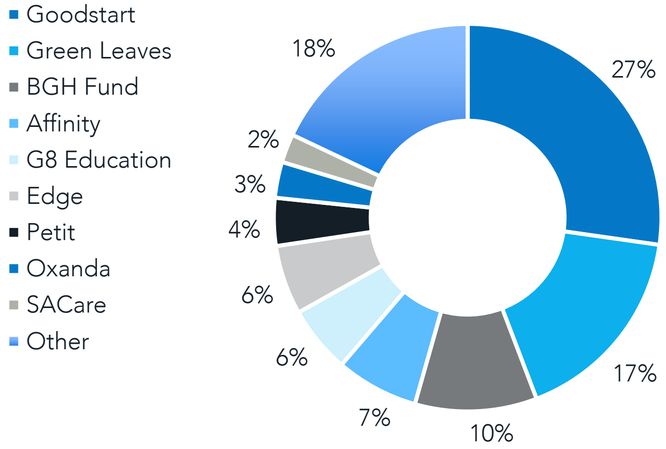
Sector diversity (by value)



Geographic diversity (descending by value)



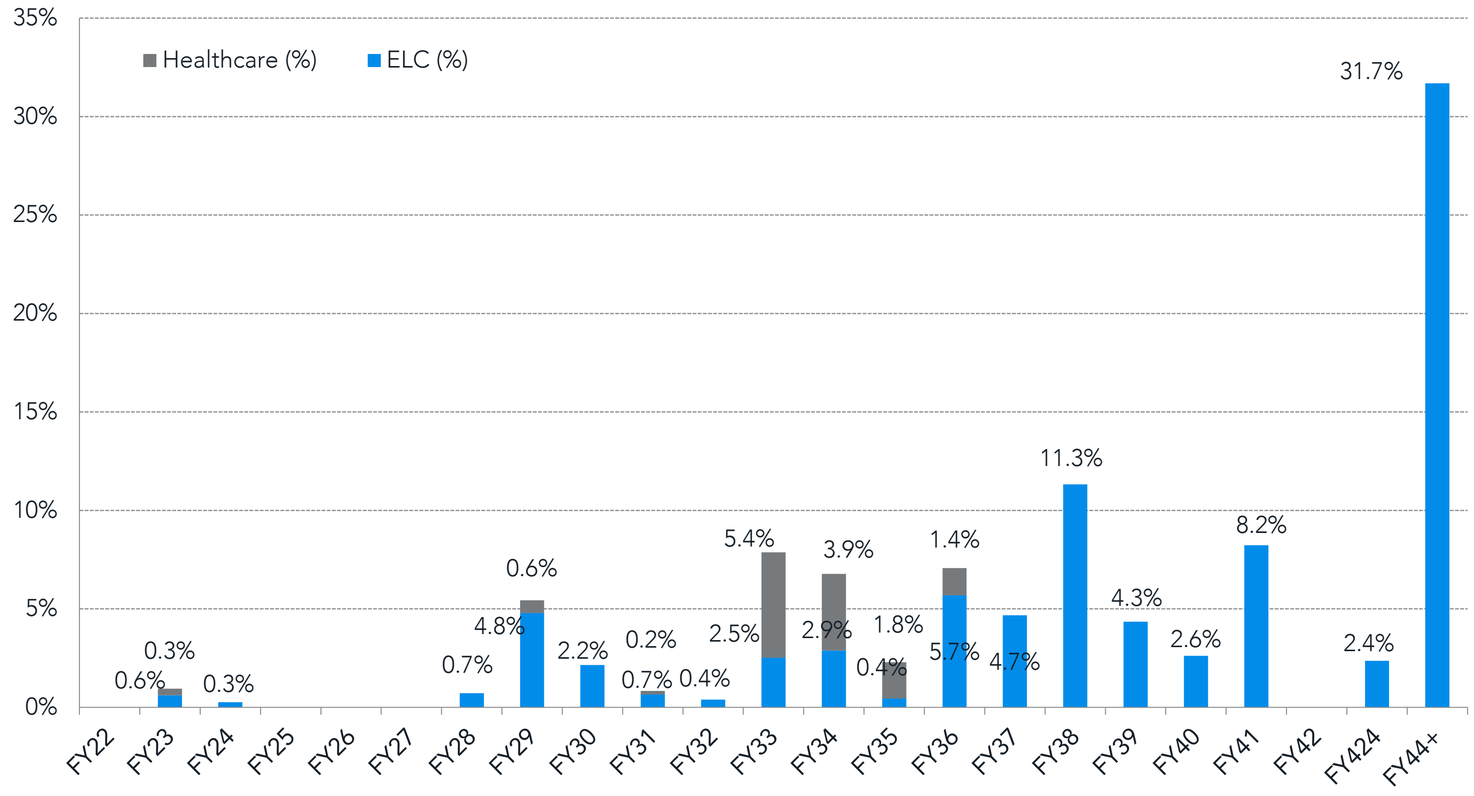
Tenant diversity (descending by income)



Totals may not add due to rounding.

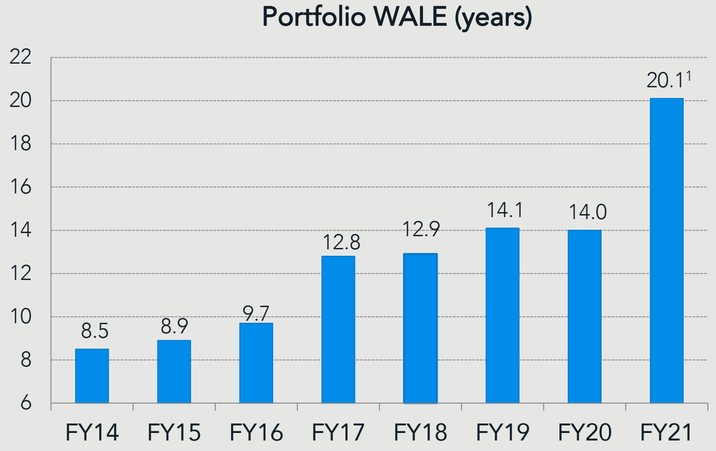
LEASE EXPIRY PROFILE[1]

Weighted average lease expiry increased to 20.1 years[2]



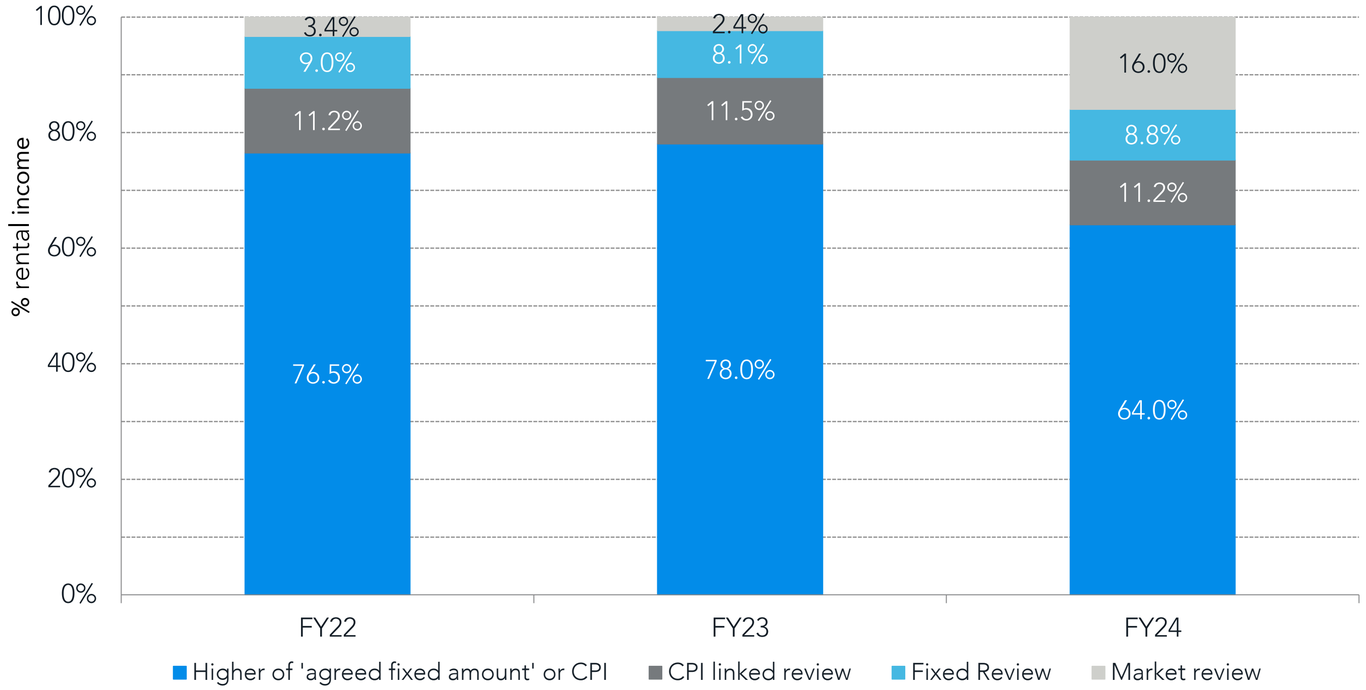
1. Pro-forma WALE as at 30 June 2021.
2. By income.

- Post balance date portfolio lease renegotiation with Goodstart included an increase of 25 years of term on 87 ELC properties across Australia.
- Seven operating ELC properties added to portfolio with initial weighted average lease term of 27.3 years.
- 14 ELC development completions added to portfolio with initial weighted average lease term of 20.8 years.



ANNUAL RENT REVIEWS

FY21 average like-for-like rent increase of +3.3%[1]



- All FY20 and FY21 market reviews were resolved at an average increase of +6.5%; these review outcomes apply from the original review date.
- 16% of FY24 reviews are market rent reviews; all are subject to a 0% collar and approximately half are subject to a 7.5% cap and approximately half are uncapped.
- >76% of annual reviews in FY22 and FY23 will increase at the higher of an agreed fixed amount or CPI.

1. Includes 25 market rent reviews from FY20 and 11 from HY21 which were all resolved at an average increase of +6.5%.
2. Totals may not add due to rounding.

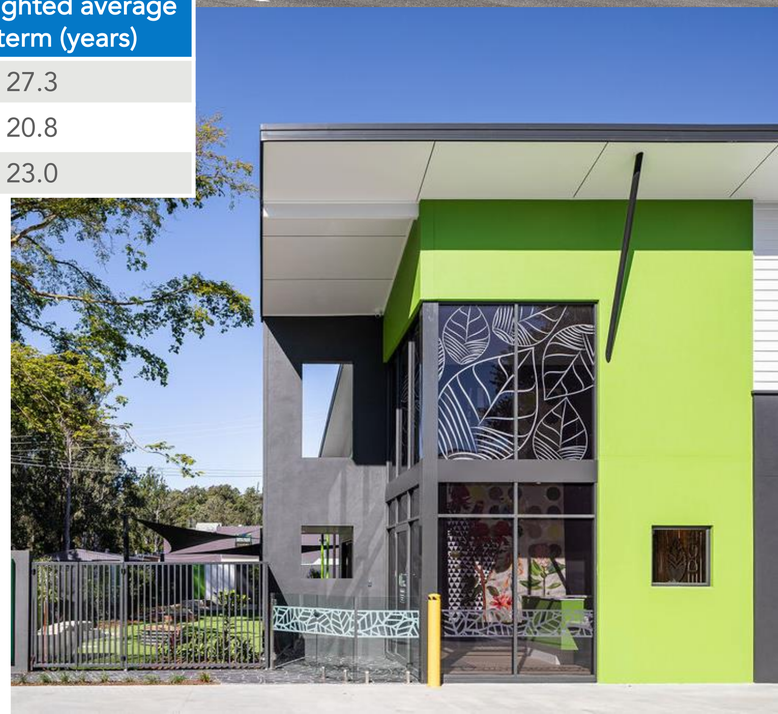
ACQUISTIONS AND DEVELOPMENTS

Delivering essential community service accommodation

- High quality, purpose built properties with existing and new tenant partners.
- 14 ELC development projects were completed in FY21.
- Development pipeline scheduled to be completed over FY22 and FY23.

Acquisitions/development completions	Number of properties	Total cost ($m)	Initial yield on total cost (%)	Initial weighted average lease term (years)
Operating ELC acquisitions	7	40.4	6.1	27.3
ELC development completions	14	74.7	6.6	20.8
Total/weighted average	21	115.1	6.4	23.0

Development pipeline[1]	
Number of projects	15
Forecast total cost	$91 million
Initial yield on total cost	6.2%
Capex amount outstanding	$57 million



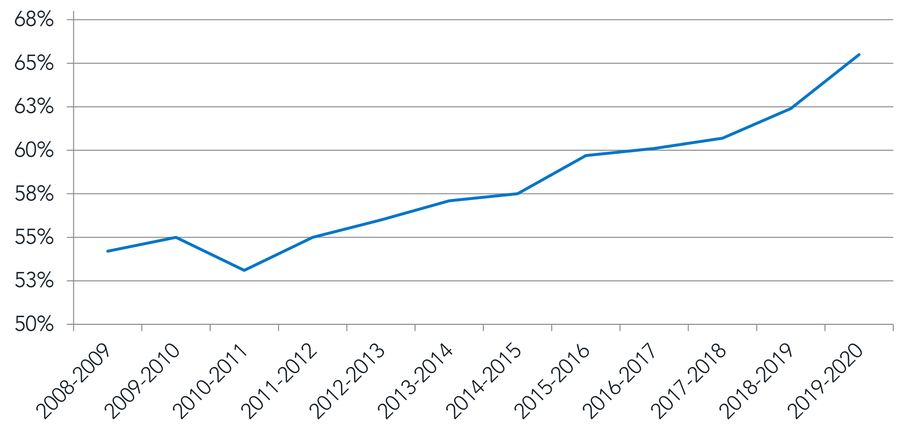
1. Includes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

ELC OPERATING ENVIRONMENT

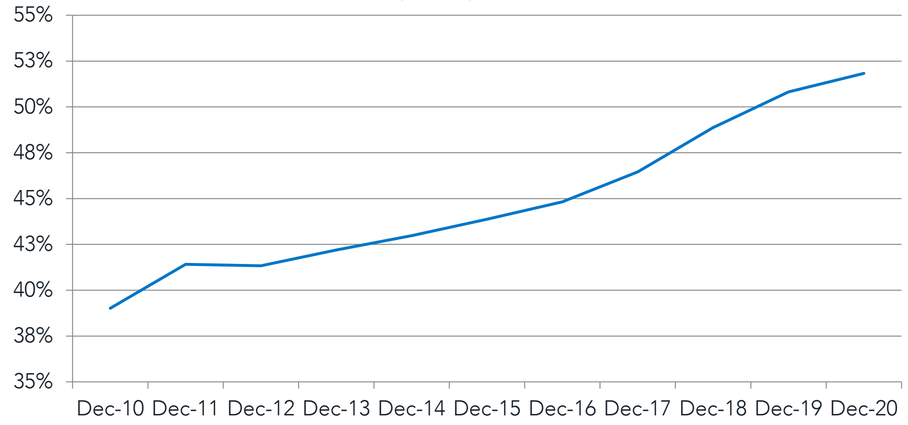
Strong macroeconomic drivers continue to support Australian ELC sector

- Government support was improved by the introduction of Childcare Subsidy (CCS) in July 2018 and the essential nature of the services provided by the ELC sector was reinforced through the various COVID-19 related funding commitments[1] over the last 12 months.
- The Federal Government has recently committed a further investment of $1.7 billion[2] to the sector to:
  - Support ongoing economic recovery in the short term; and
  - Improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term[3].
- Strong structural demand for services and record female workforce participation rate continue to drive increased long day care (LDC) participation rates over the medium to long term[4,5].
- Net new ELC supply to 30 June 2021 was +3.65%[6].

Female Workforce Participation Rate[4]



LDC participation rate[5]



1. https://www.dese.gov.au/covid-19/childcare/; https://ministers.dese.gov.au/.
2. https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/making-child-care-more-affordable-and-boosting.
3. https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf.
4. ABS Female Labour Force Participation Rate (aged 20-74 at least one dependant child of ELC age).
5. Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.
6. https://www.acecqa.gov.au/resources/national-registers.

ELC PORTFOLIO

Portfolio strength continues to be underpinned by quality offering

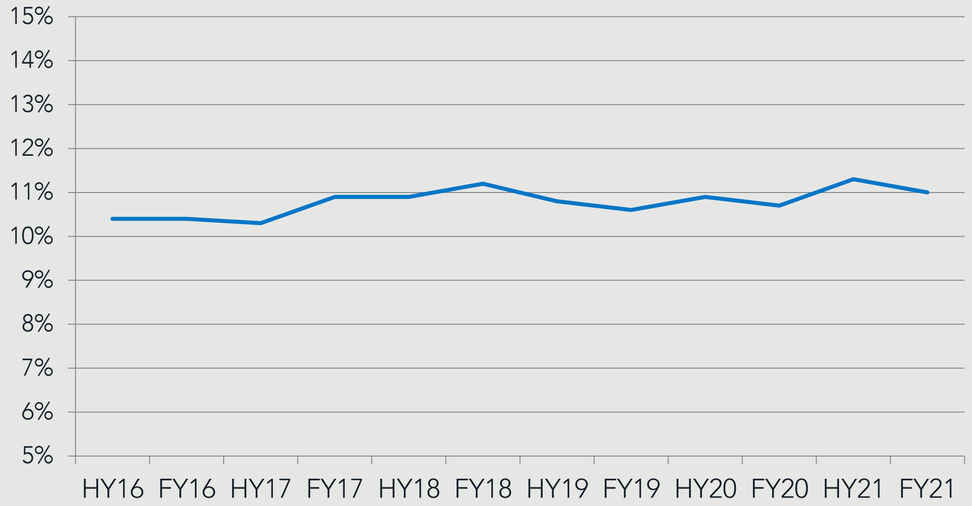
100% portfolio occupancy as at 30 June 2021.

Arena's ELC portfolio operating data[1] to 31 March 2021:

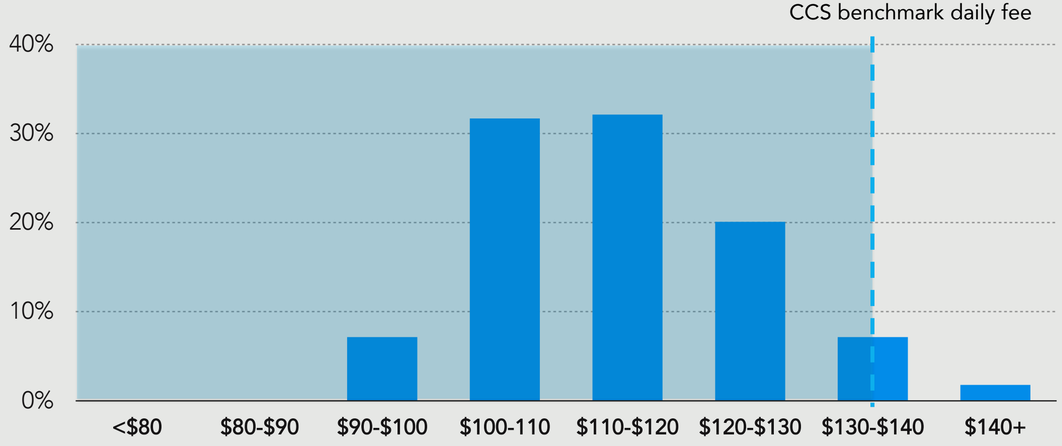
- Overall ELC occupancy is higher as compared with previous average 31 March occupancy.
- Average daily fee of $114.16[2]:
  - +0.44% from 31 December 2020[2]; and
  - +4.51% from 31 March 2020[2].
- Net rent to revenue ratio of 11.0%[2].

1. Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2021.
2. COVID-19 related impacts to ELC operator revenues, government subsidies and attendances may diminish the like-for-like accuracy of these measures during the period.
3. Assumes CCS fully covers a daily fee of approximately $135.40 based on CCS capped hourly fee of $12.31 per hour over an 11 hour day.

Arena ELC portfolio – net rent to gross operator revenue[1,2]



Arena ELC portfolio - average daily fee per place[1,2,3]



HEALTHCARE SECTOR & PORTFOLIO

Strongly sought after asset class

- Strong structural macro-economic drivers continue to support Australian healthcare accommodation including growing and ageing population and increased prevalence of chronic health conditions.
- Medical centres participating in COVID-19 vaccination roll-out.
- Strong occupancy has been maintained across the specialist disability accommodation portfolio.
- Increased domestic and international interest in Australian healthcare property and increasing interest in social infrastructure property more generally.

OUTLOOK

Long term income predictability with inflation protection

INCOME GROWTH

- FY22 distribution guidance of 15.8 cents per security, an increase of 6.8%[1] on FY21.
- Annual rent increases:
  - >76% of rent reviews in FY22 and FY23 will increase at the higher of an agreed fixed amount or CPI; and
  - 16% of FY24 reviews are market rent reviews.
- Full impact of FY21 and partial impact of FY22 acquisitions and development completions.
- $91 million development pipeline comprising 15 ELC projects[2].

OUTLOOK

- Essential nature of early learning and healthcare reinforced through COVID-19 period.
- Gearing[3] at 19.9%, no debt expiry until March 2024.
- Proven ability to secure and execute on high quality opportunities while maintaining a disciplined investment process for opportunities that meet Arena's preferred property characteristics.

1. 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 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.
2. Includes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.
3. Gearing calculated as ratio of net borrowings over total assets less cash.

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

QUESTIONS

CORPORATE DIRECTORY

Please direct enquiries to Sam Rist on samantha.rist@arena.com.au

ROB DE VOS

Managing Director

GARETH WINTER

Chief Financial Officer

SAM RIST

Head of Investor Relations

APPENDICES

FINANCIAL PERFORMANCE – FY21

	FY21	FY20	Change	
	($'000)	($'000)	($'000)	%
Property income	59,808	53,844	5,964	+11%
Other income	541	559	(18)	-3%
Total operating income	**60,349**	**54,403**	**5,946**	**+11%**
Property expenses	(602)	(530)	(72)	+14%
Operating expenses	(4,382)	(4,291)	(91)	+2%
Finance costs	(3,422)	(5,738)	2,316	-40%
Net operating profit (distributable income)	**51,943**	**43,844**	**8,099**	**+18.5%**
Non-distributable items:				
Investment property revaluation & straight-lining of rent	107,651	36,926	70,725	
Change in fair value of derivatives	4,949	(4,104)	9,053	
Profit/(loss) on sale of investment properties	1,909	1,303	606	
Transaction costs	(39)	(144)	105	
Amortisation of equity-based remuneration (non-cash)	(983)	(1,155)	172	
Other	(79)	(29)	(50)	
Statutory net profit	**165,351**	**76,641**	**88,710**	

BALANCE SHEET – FY21

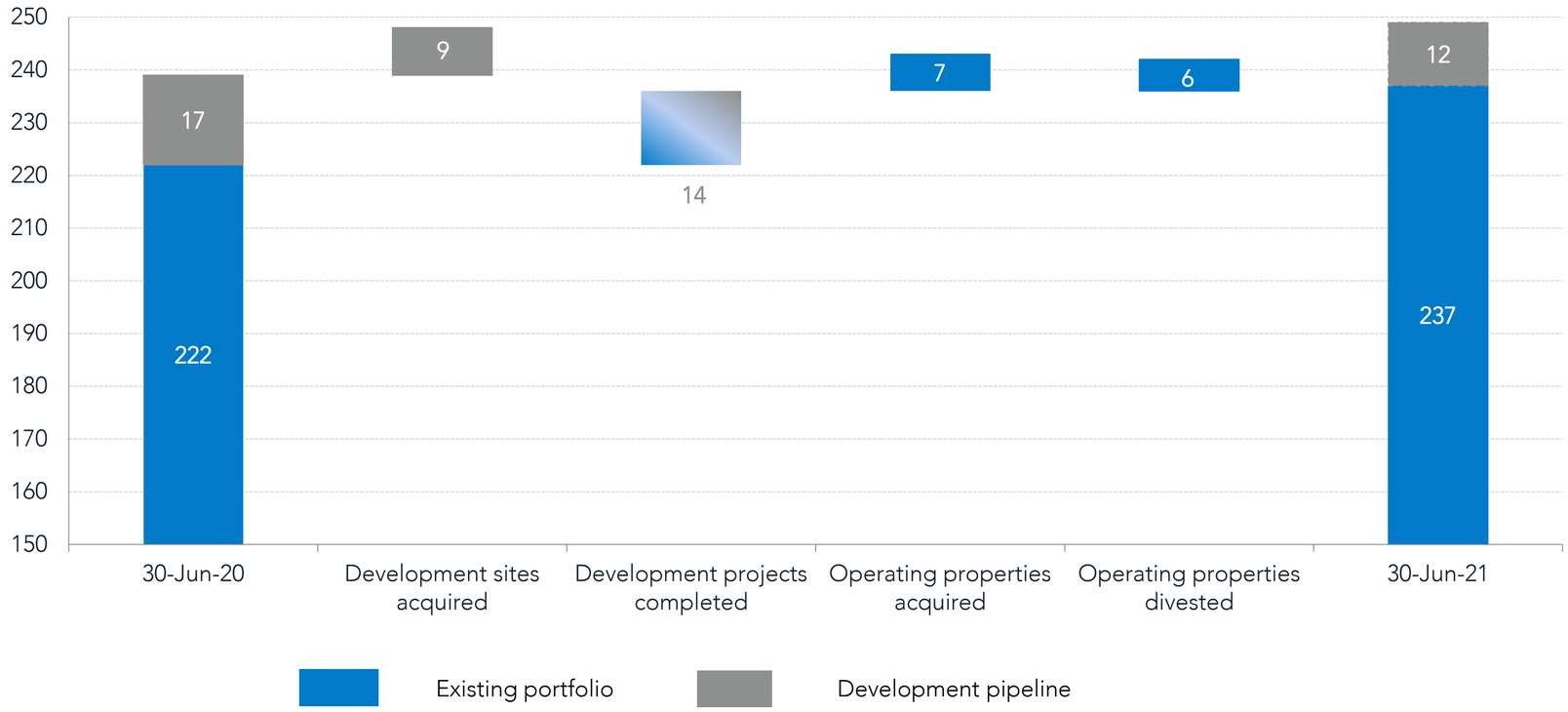
	30 June 21	30 June 20	Change	
	($'000)	($'000)	($'000)	%
Cash	14,018	76,330	(62,312)	-82%
Receivables and other assets	14,246	11,427	2,819	+25%
Investment properties	1,112,431	914,007	198,424	+22%
Intangibles	10,816	10,816	-	-
Total assets	**1,151,511**	**1,012,580**	**138,931**	**+14%**
Trade and other liabilities	14,455	11,218	3,237	+29%
Distributions payable	12,801	22,419	(9,618)	-43%
Borrowings	239,163	213,953	25,210	+12%
Derivatives	6,174	13,110	(6,936)	-53%
Total liabilities	**272,593**	**260,700**	**11,893**	**+5%**
Net assets	**878,918**	**751,880**	**127,038**	**+17%**
Number of securities on issue (m)	343.6	327.3	+16.3m	+5%
Net asset value per security ($)	2.56	2.22	$0.34	+15%
Gearing[1] (%)	19.9	14.8	+510bps	+34%

1. Gearing calculated as ratio of net borrowings over total assets less cash.

Covenant	Facility requirement	Ratio
Loan to value ratio (LVR)	Maximum 50%	21.6%
Interest cover ratio (ICR)	Minimum 2x	8.9x

PORTFOLIO COMPOSITION AND MOVEMENT

Portfolio movements (30 June 2020 to 30 June 2021)[1]



1. Excludes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

ELC PORTFOLIO VALUATIONS

As at 30 June 2021	Number of properties	Value ($m)	Passing yield (%)
Independent ELC freehold valuations			
Queensland	15	$ 59.7	5.83%
New South Wales	2	$ 8.1	5.40%
Victoria	12	$ 45.6	5.42%
Western Australia	4	$ 12.5	5.94%
Tasmania	5	$ 17.7	6.21%
Northern Territory	2	$ 5.4	6.36%
Total independent ELC freehold valuations	**40**	**$ 149.0**	**5.75%**
Director ELC freehold valuations			
Queensland	65	$ 278.2	6.08%
New South Wales	30	$ 103.3	5.82%
Victoria	54	$ 254.3	5.38%
South Australia	8	$ 36.7	6.02%
Western Australia	20	$ 69.6	5.83%
Tasmania	3	$ 11.6	6.25%
Total director ELC freehold valuations	**180**	**$ 753.7**	**5.79%**
Total freehold ELC portfolio	**220**	**$ 902.7**	**5.78%**
Independent ELC leasehold valuations – Victoria	6	$ 16.5	8.90%
Total ELC portfolio excluding development sites	**226**	**$ 919.2**	**5.84%**
ELC development sites	12	$ 40.0	n/a
Total ELC portfolio	**238**	**$ 959.2**	**5.84%**

ELC PORTFOLIO METRICS

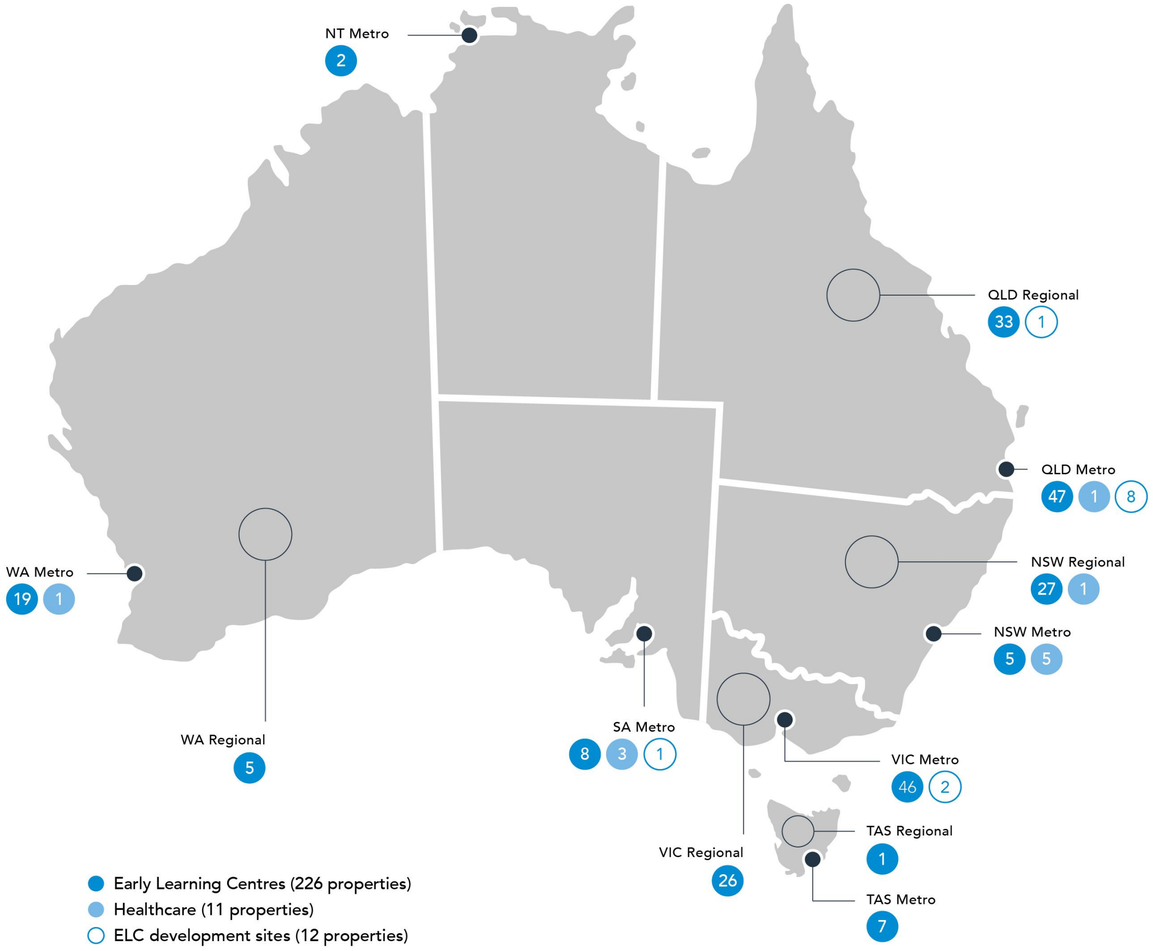
	30 June 2021	30 June 2020	Change
Leased ELCs	226	211	+15
Development sites	12[1]	17	-5
Total ELCs	238	228	+10
WALE (by income) (years)	21.4[2]	14.2	+7.2 years
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	5.84	6.24	-40bps
Portfolio value ($m)	959.1	777.4	+23%
Average rental increase (%)	3.64	3.9	-26bps
Rent to gross revenue ratio (%)	11.0[3]	10.7[4]	+30bps
Average daily fee ($)	114.16[3]	109.23[4]	+5%
Portfolio composition (% by value)			
Metropolitan %	68	65	+300bps
Regional %	32	35	-300bps

1. Excludes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.
2. Post balance date portfolio lease renegotiation with Goodstart included an increase of 25 years of term on 87 ELC properties.
3. Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2021; COVID-19 related impacts to ELC operator revenues, government subsidies and attendances may diminish the like-for-like accuracy of these measures during the period.
4. Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2020; COVID-19 related impacts to ELC operator revenues, government subsidies and attendances may diminish the like-for-like accuracy of these measures during the period.

HEALTHCARE PORTFOLIO METRICS

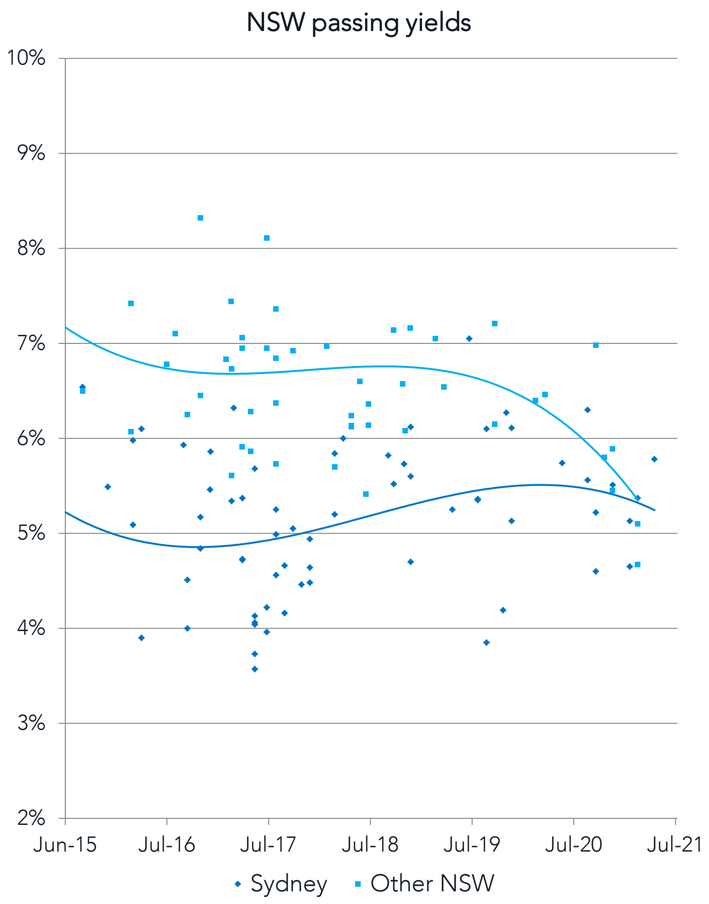
	30 June 2021	30 June 2020	Change
Total healthcare properties	11	11	-
WALE (by income) (years)	11.9	12.8	-0.9 years
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	5.34	6.12	-78bps
Property portfolio ($m)	153.3	136.6	+12%
Average rental increase (%)	1.7	2.25	-55bps
Portfolio composition (% by value)			
Metropolitan %	91	91	-
Regional %	9	9	-

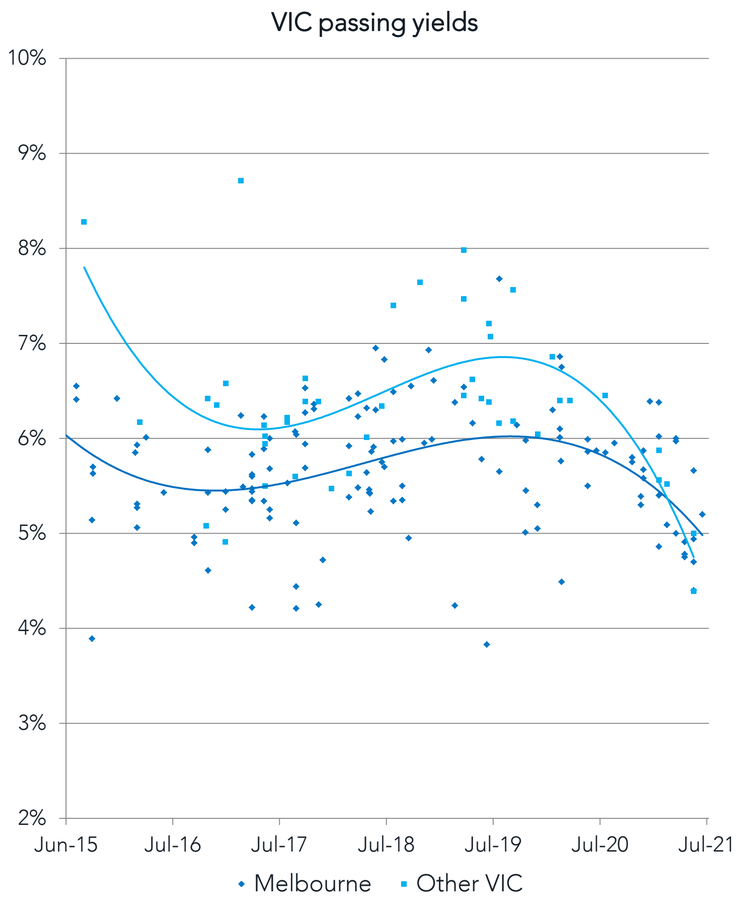
PORTFOLIO LOCATION MAP

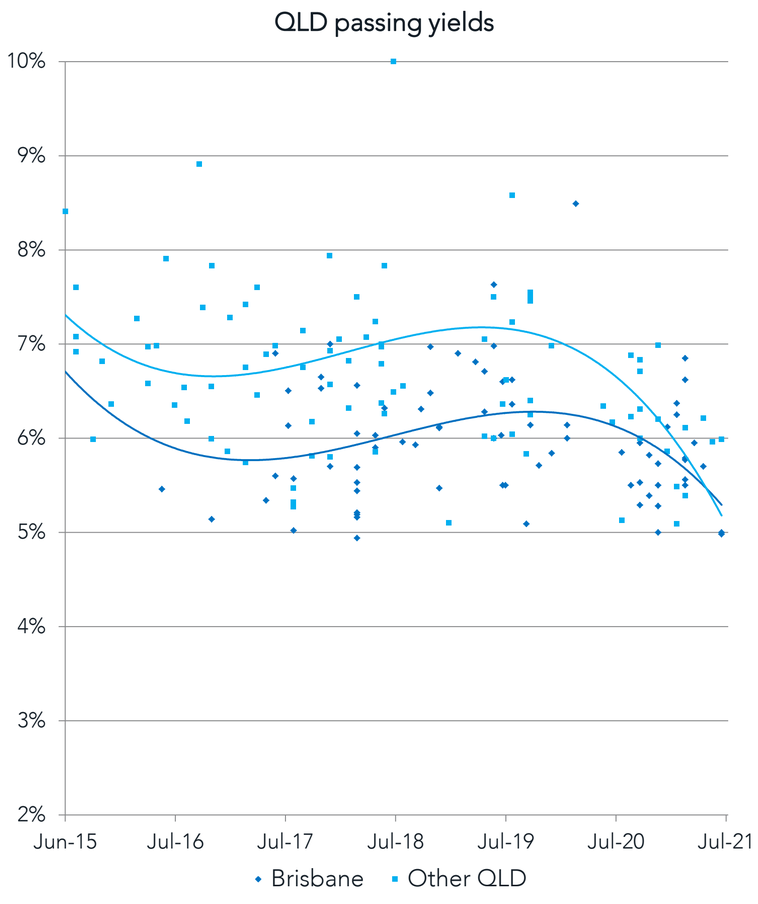


1. Excludes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

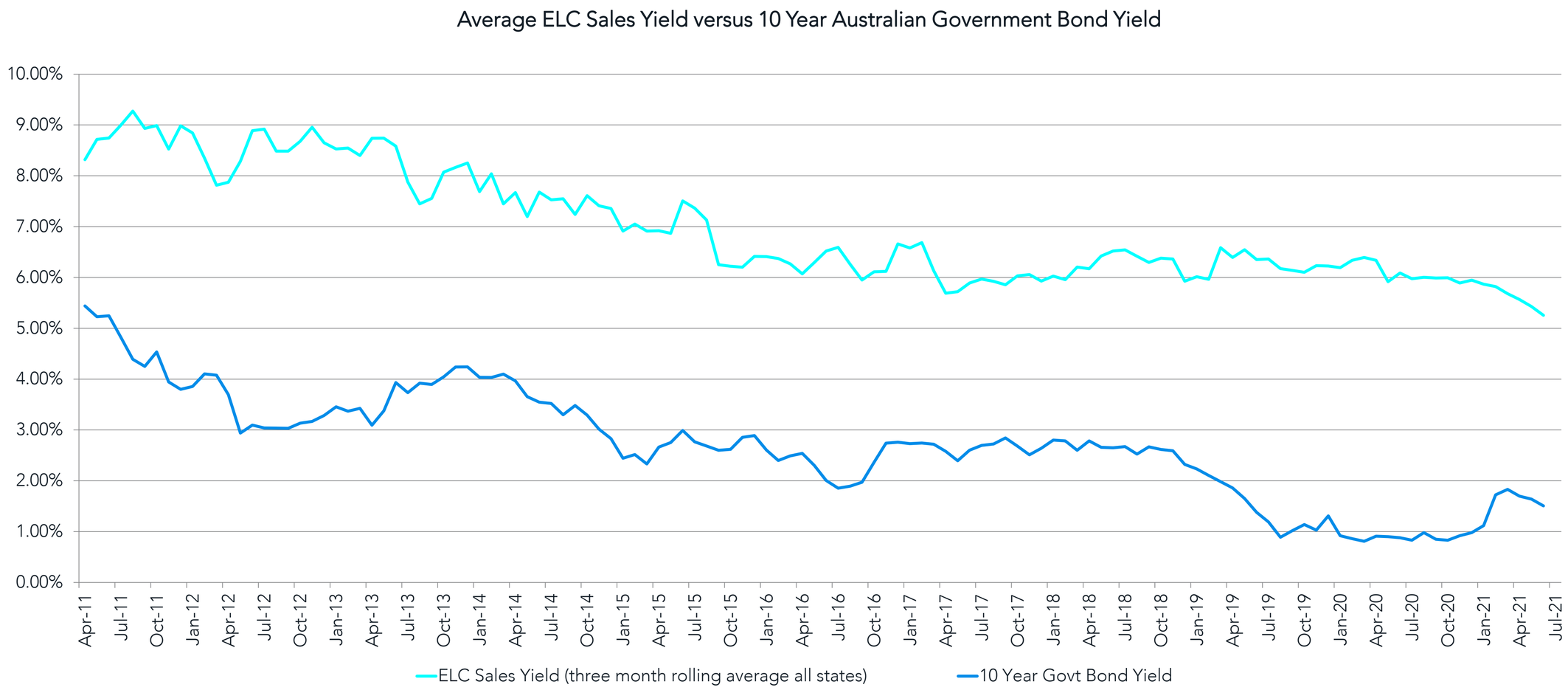
ELC MARKET TRANSACTIONS







ELC SALES YIELDS VERSUS 10 YEAR BOND



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