



Arena REIT 2019 Half Year Results

Strong core earnings, lease extensions and acquisitions

19 February 2019

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Financial highlights for HY19

Operating performance underpinned by predictable and growing income

Net operating profit	Earnings per security (EPS) ¹	Distributions per security (DPS)
\$18.3m	6.77 cents	6.75 cents
+9.3%	+5.5%	+5.5%
Total assets	Net asset value (NAV) per security	Gearing ² ratio
\$764m	\$2.03	25.7%
+\$38 million	+3.0%	+100bps

- Strong earnings and growth supported by:
 - portfolio rent reviews;
 - full impact of FY18 and HY19 acquisitions and development completions.
- Well positioned for growth opportunities.
- FY19 DPS guidance reaffirmed at 13.5 cents³.

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

² Gearing calculated as ratio of borrowings over total assets.

³ FY19 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 for HY19

Active management further strengthens portfolio position

<p>Average rent review increase</p> <p>3.1%</p> <p>57% of FY19 reviews completed</p>	<p>Weighted Average Lease Expiry (WALE)¹</p> <p>14.2 years</p> <p>+1.3 years</p>	<p>Portfolio value</p> <p>\$743 million</p> <p>+6.2%</p>
<p>Portfolio weighted average passing yield</p> <p>6.46%</p> <p>(6bps)</p>	<p>Acquisition of 2 operating ELCs</p> <p>\$10.6 million</p> <p>@6.7% initial yield</p>	<p>3 development completions</p> <p>\$20.4 million</p> <p>@average yield on cost 6.3%</p>

- HY19 rent reviews provide predictable underlying rental income growth:
 - achieved average market rent reviews +6.3%.
- Healthcare portfolio leases with existing tenant partner Healius (formerly Primary) extended by an average of 10.6 years contributing to longer WALE and increased valuation.
- Development completions, acquisition of operating ELCs and new ELC development opportunities to support earnings growth.
- Unlisted managed fund extended +2 years.



¹ Weighted average lease expiry (by income).

Financial Results

Gareth Winter, Chief Financial Officer



Financial performance

New investment supporting strong operating earnings

	HY19	HY18	Change	
	(\$'000)	(\$'000)	(\$'000)	(%)
Property income	23,729	20,701	3,028	15%
Other income	265	317	(52)	-16%
Total operating income	23,994	21,018	2,976	14%
Property expenses	(495)	(401)	(94)	23%
Operating expenses	(1,853)	(1,687)	(166)	10%
Finance costs	(3,324)	(2,172)	(1,152)	53%
Net operating profit	18,322	16,758	1,564	9%
Statutory net profit	34,188	37,087	(2,899)	-8%
Earnings per security (EPS) (cents)¹	6.77	6.42	0.35	5.5%
Distribution per security (DPS) (cents)	6.75	6.40	0.35	5.5%

- Continued growth in operating income from:
 - structured annual rental growth; and
 - ELC acquisitions and developments completed throughout FY18 and HY19.
- Increased registry and regulatory costs contributed to higher operating costs.
- Finance costs reflective of development completions now earning rental income.
- Lower statutory net profit from reduced uplift in investment property valuations (HY19: +\$18.6m v HY18 +\$21.3m).



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

Financial position

Further capacity to fund additional acquisition opportunities

As at	31 Dec 2018 (\$m)	30 June 2018 (\$m)	Change (%)
Total assets	763.7	726.1	+5%
Investment properties	742.9	699.4	+6%
Borrowings	196.0	179.5	+9%
Net assets	551.2	531.6	+4%
Securities on issue	271.3	269.4	+1%
Net Asset Value per security	\$2.03	\$1.97	+3%
Gearing ¹	25.7%	24.7%	+100bps

- Increase in investment properties primarily due to investment in ELC development expenditure, capital expenditure and net revaluations.
- Net Asset Value (NAV) per security increase predominantly due to net property revaluation uplift of \$18.6 million.
- Borrowings increased to fund development capital expenditure and acquisitions.
- Gearing at 25.7% provides further capacity for growth.



¹ Gearing calculated as ratio of borrowings over total assets.

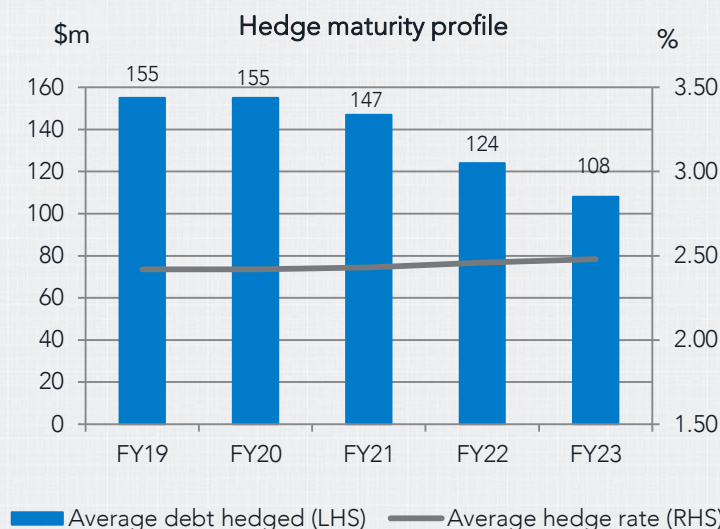
Capital management

Well hedged, low risk funding profile

As at	31 Dec 2018	30 June 2018	Change
Borrowings	\$196.0m	\$179.5m	+9%
Borrowing facility limit	\$280m ¹	\$230m	+22%
Gearing	25.7%	24.7%	+100bps
Average facility term	3.8yrs ¹	4.4yrs	-0.6yrs
Weighted average cost of debt	3.85%	3.85%	-
Interest cover ratio	5.85x	5.95x	-0.10x

As at	31 Dec 2018	30 June 2018	Change
Hedge cover	79%	78%	+100bps
Weighted average hedge	2.42%	2.44%	-2bps
Weighted average hedge term	5.3yrs	5.9yrs	-0.6yrs

- Stable cost of debt.
- Additional hedge cover for new borrowings.
- Operating well within covenant requirements.
- DRP in operation, \$3.2 million raised in HY19.
- Increased borrowing facility by \$50 million post period end.



¹ Includes borrowing facility limit increase of \$50m post period end.



Portfolio Update

Rob de Vos, Managing Director



Portfolio performance

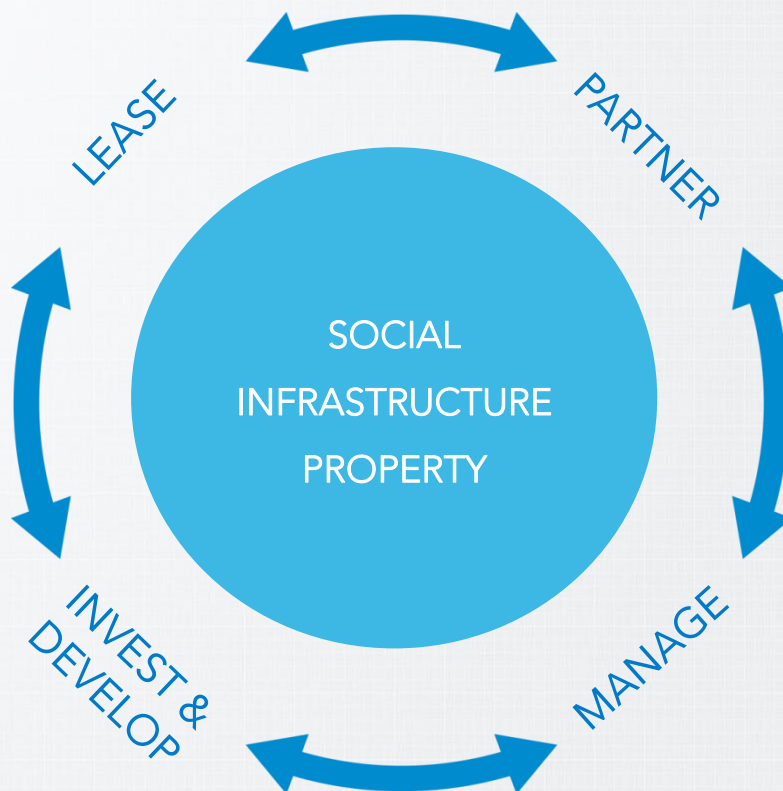
Value adding business strategy supporting positive outcomes

Lease management

- 100% occupancy.
- Average like-for-like rent review increase +3.1%.
- Average market rent review increase +6.3%.

Developments

- 3 ELC developments completed at a net initial yield on cost of 6.3% on new 20 year leases.
- 2 new ELC development sites acquired.



Working in partnership

- Healthcare portfolio leases with tenant partner Healius extended by an average of 10.6 years.
- Post balance date acquisition of \$24 million portfolio of specialist disability accommodation properties.

Portfolio management

- 2 operating ELC properties acquired at a net initial yield of 6.7% with weighted average lease term of 17.8 years.
- Net revaluation uplift \$18.6 million.
- Portfolio weighted average passing yield 6.46%.



Healthcare portfolio

Partnership approach provides an increase in WALE and portfolio value

- Healthcare portfolio leases with Healius (formerly Primary Health Care Limited) extended from average 4 years to 14.6 years.
- Expiries on initial terms now staggered from FY29 to FY36.
- Healthcare portfolio net valuation increase from \$85.4 to \$96.3 million.
- Improved control over property management and upgrades to buildings.
- Upgrade works consistent with Healius' initiative to improve customer experience.

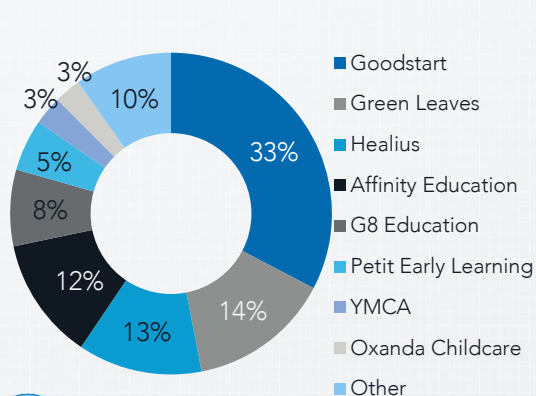


Portfolio overview

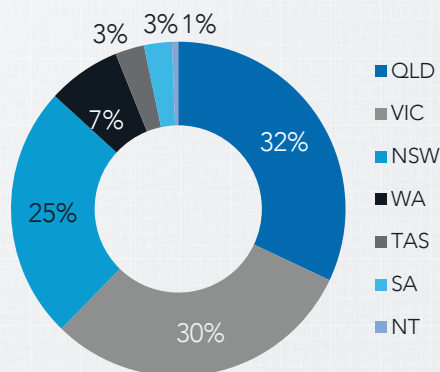
Healthcare portfolio lease extension increases predictability of earnings

	Number of assets	31 Dec 2018 valuation (\$m)	Net revaluations movement		31 Dec 2018 passing yield (%)	Change (bps)
			(\$m)	(%)		
ELC portfolio	211	646.6	9.4	1.5	6.50	4
Healthcare portfolio	7	96.3	9.2	10.8	6.20	(65)
Total portfolio	218	742.9	18.6	2.7	6.46	(6)

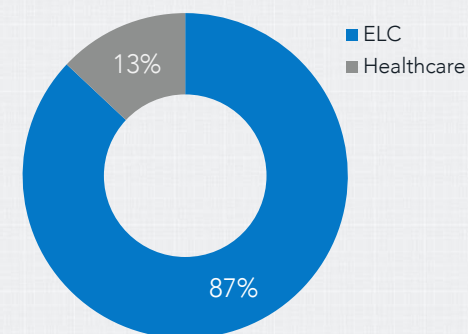
Tenant partner diversification (by income)



Geographic diversification (by value)



Sector diversification (by value)

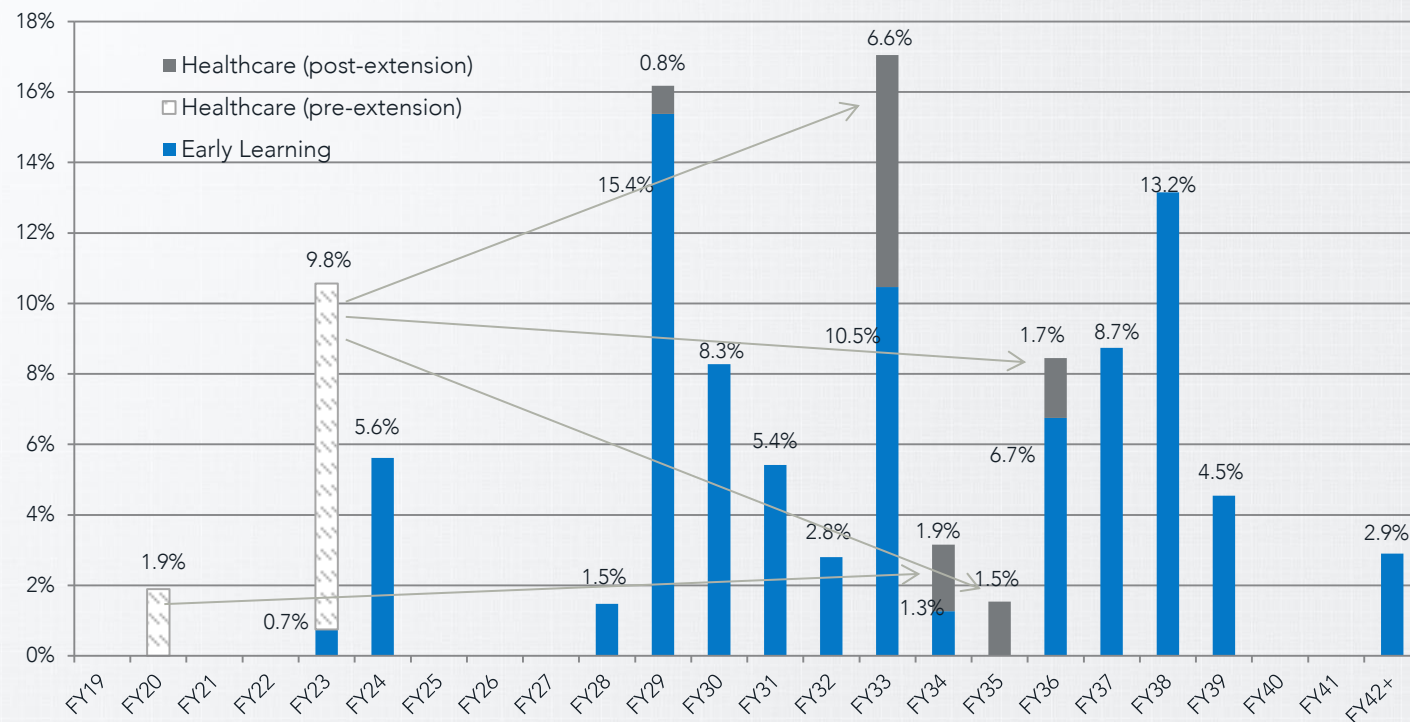


Totals may not add due to rounding.

Lease expiry profile

Weighted average lease expiry increased to 14.2¹ years

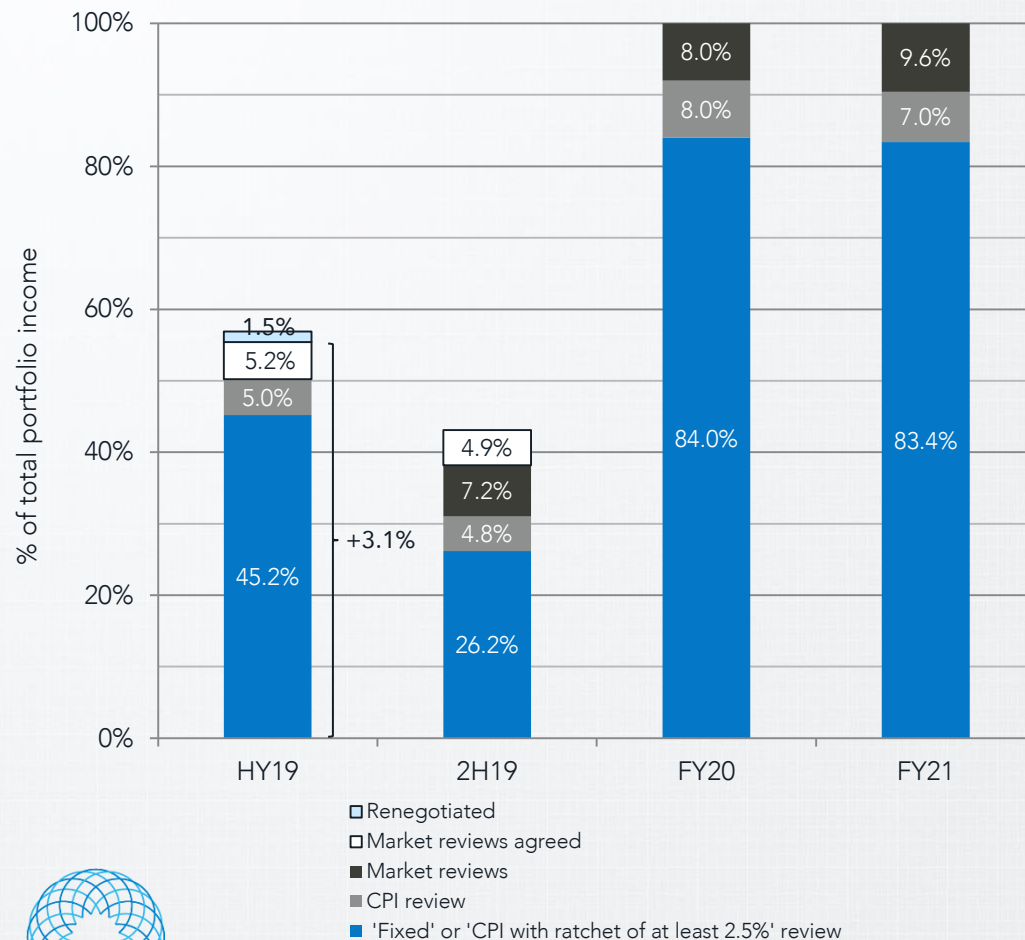
- 3 completed developments added to portfolio each with initial lease term of 20 years
- Less than 1% of portfolio income subject to expiry prior to FY2024
- Less than 25% of portfolio income subject to expiry prior to FY2030



¹ By income at 31 December 2018

Annual rent review profile

HY19 average like-for-like rent review increase of +3.1%



HY19 rent review summary:

- Average like-for-like rent review increase of +3.1% (does not include renegotiated leases).
- 19 market rent reviews agreed with average increase of +6.3%.

2H19 rent review outlook:

- A further 91 rent reviews scheduled for 2H19.
- Including 20 market rent reviews representing 7.2% of total income.



ELC acquisitions and developments

High quality purpose built properties acquired, developments completed

	Quantity	Total cost (\$m)	Initial yield on cost (%)	Initial lease term (yrs)	Number of places
ELC acquisitions	2	10.6 ¹	6.7	17.8	231
ELC development completions	3	20.4	6.3	20.0	328
Total/Weighted average	5	31.0	6.4	19.2	559

- Focus on leveraging our property skills to secure quality assets that generate a predictable income stream and meet Arena's preferred property characteristics
- Continue to partner with tenants to identify and secure opportunities

Development pipeline

Number of projects	4
Forecast total cost	\$21 million
Initial yield on cost	6.7%
Capex amount outstanding	\$11 million

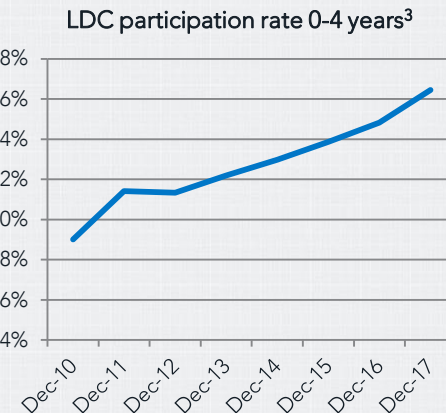
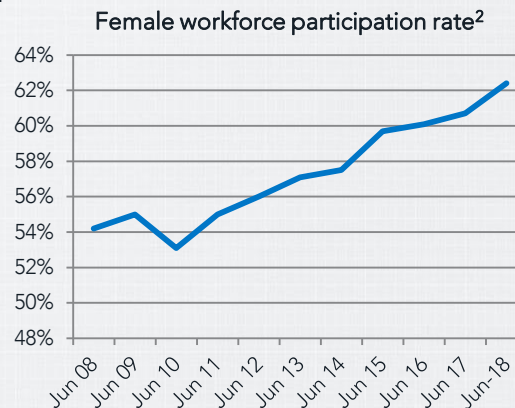
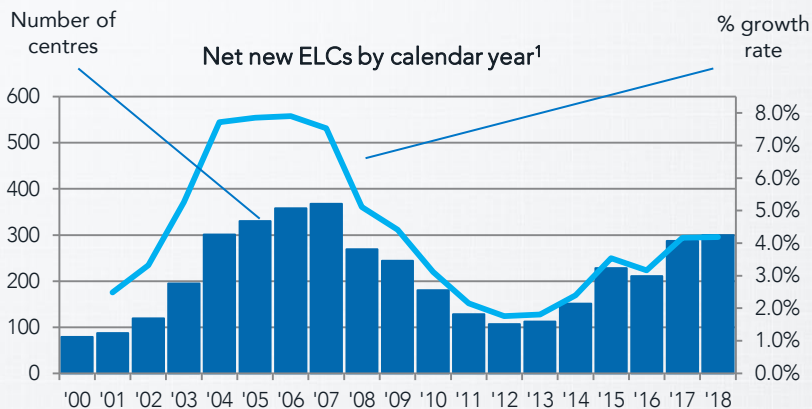


¹ Includes forecast capital expenditure not yet spent.

ELC operating conditions

New centre supply growth slowed, underlying demand demographics remain supportive

- New centre supply growth slowed in last quarter of calendar year 2018
- Female labour force and long day care participation rates remain strong
- Tenant partners report positive impact from introduction of Child Care Subsidy



¹ Business Geographics, January 2019.

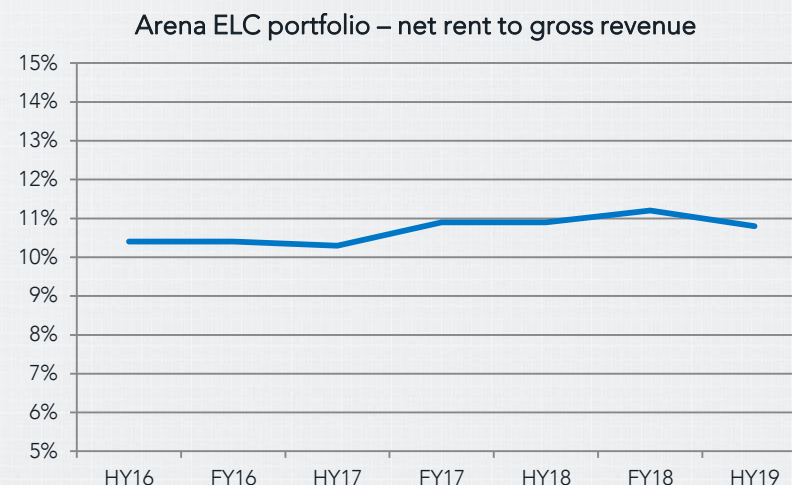
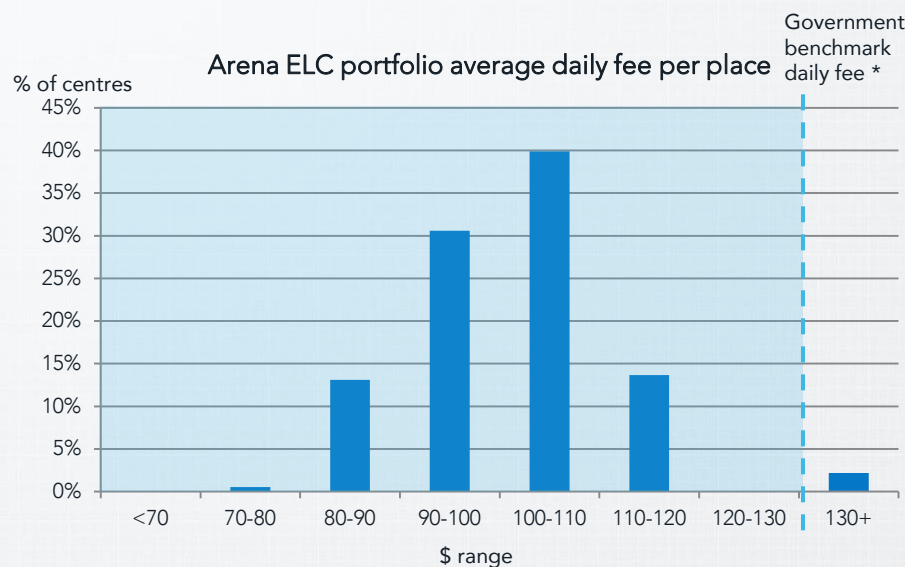
² Australian Bureau of Statistics Female Labour Force Participation Rate (females aged 20-74 with at least one dependant child of ELC age).

³ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2018.

Arena REIT ELC portfolio

Proactively managed ELC portfolio, well placed in current market

- Operator comparatives over the six month period to 31 December 2018
 - Average daily fee increased from \$97.51 to \$101.18
 - Average centre occupancy rate increased
 - Net rent to gross revenue ratio stable around 11%



Source: Arena analysis based on operating data provided by 90% of Arena's tenant partners as at 31 December 2018. Assumes CCS fully covers a daily fee of approximately \$130 based on CCS capped hourly fee of \$11.77 per hour over an 11 hour day.

Healthcare acquisition

Post balance date acquisition of specialised use properties

- Post balance date acquisition of \$24 million portfolio of three specialist disability accommodation properties in metropolitan Adelaide on an initial income yield of 6% on purchase price.
- Leased to SACARE, a leading provider of disability care and rehabilitation services in South Australia.
- Initial lease term of 15 years subject to annual rent reviews of CPI+0.5%.
- Portfolio diversification improved by sub-sector and tenant.





Outlook



Outlook

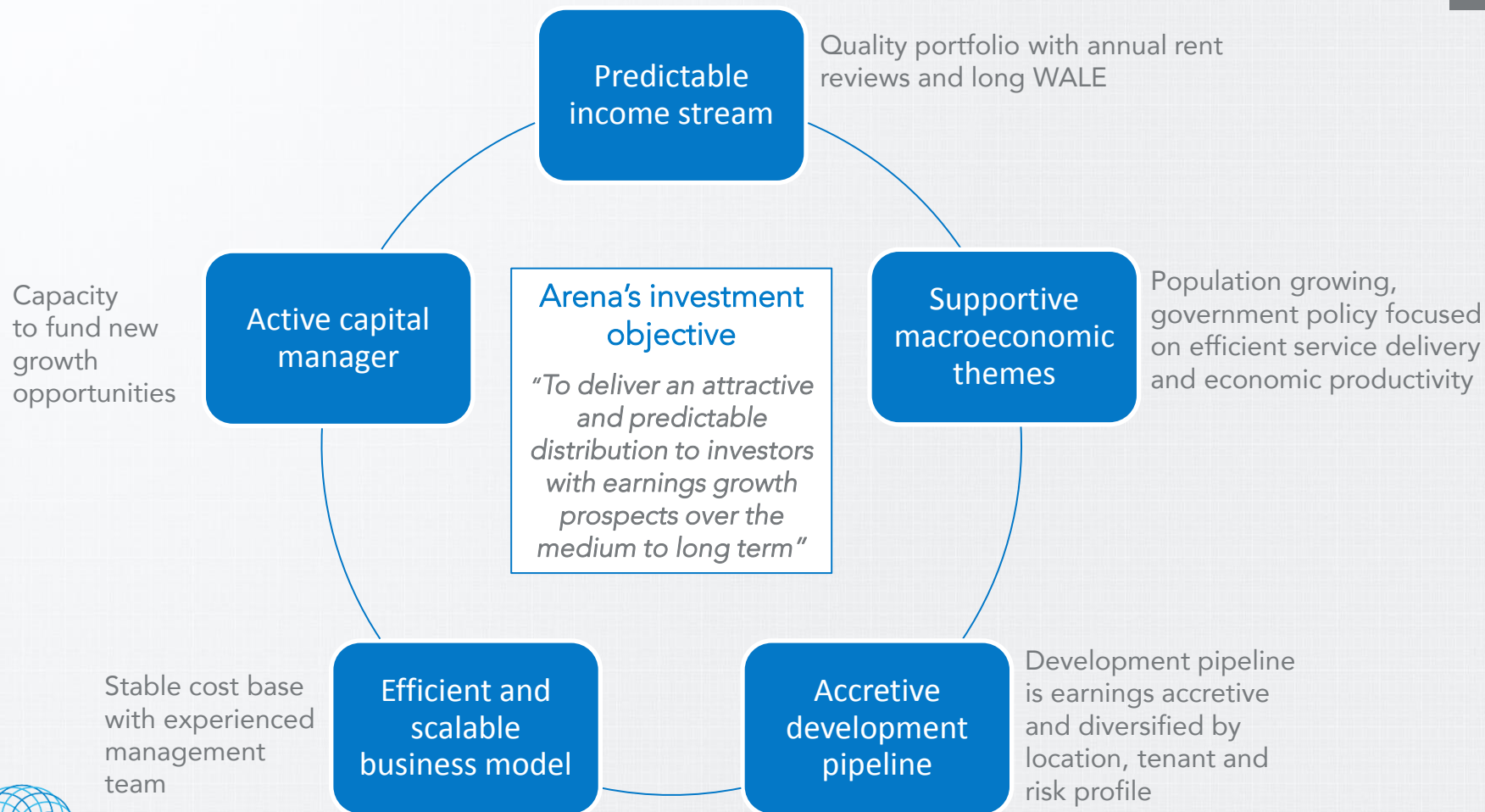
Growing portfolio underpinned by supportive macroeconomic themes

- Income growth
 - Contracted rent increases, higher level of market rent reviews scheduled for completion in 2H19
 - Full impact of FY18 and FY19 acquisitions and development completions
 - Four development projects with estimated cost of \$21 million at 6.7% projected yield on cost
 - Unlisted managed fund extended until end 2020
- New investment opportunities
 - Low gearing and additional debt capacity
 - Market conditions conducive to new opportunities
 - Continue to seek avenues for diversification
 - Disciplined investment process for opportunities that meet Arena's preferred investment characteristics



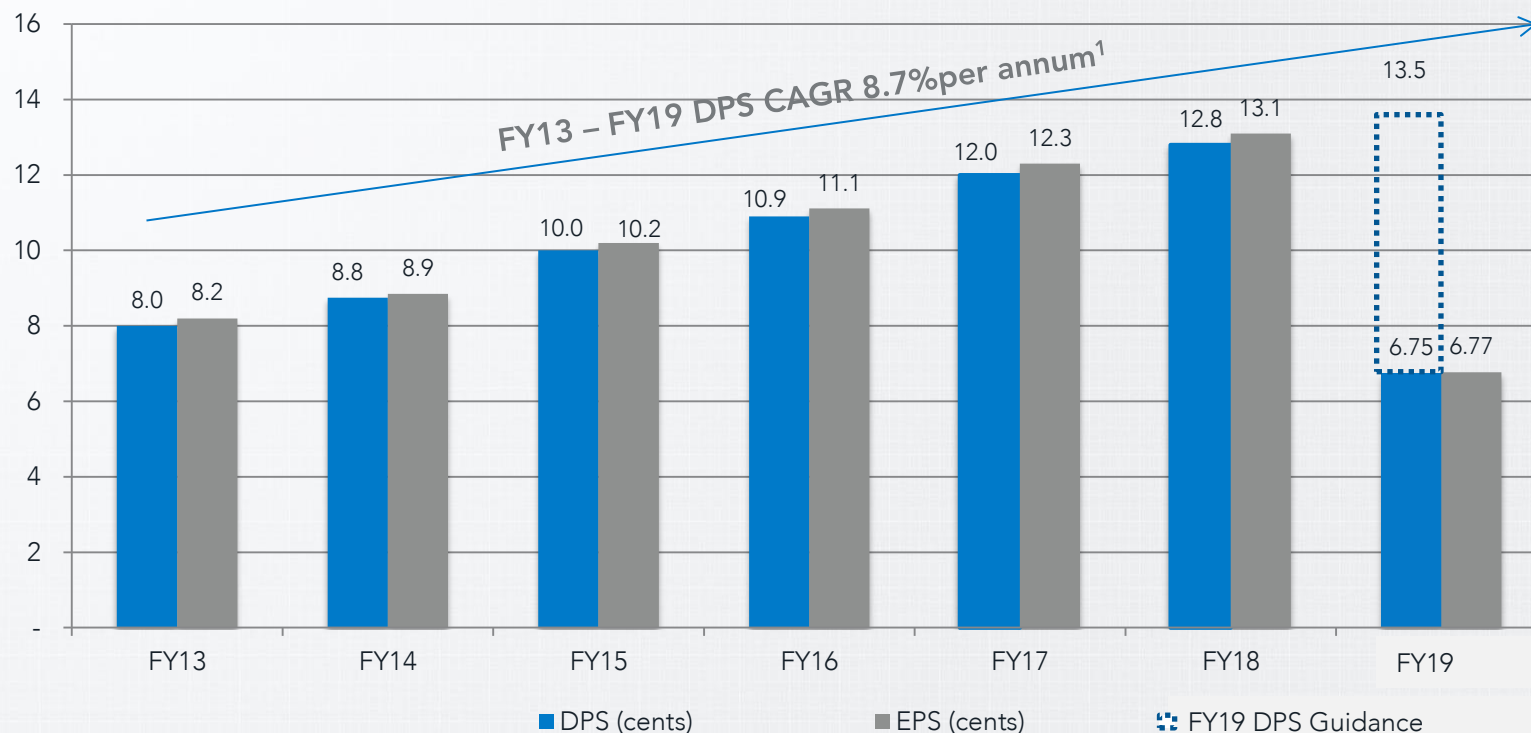
Strategically well positioned

High level of long term contracted earnings with growth prospects



FY19 DPS guidance reaffirmed – 13.5 cents (+5.5%)¹

Earnings and distributions per security (cents)



¹ FY19 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. DPS Compound Average Growth Rate (CAGR) includes FY19 distribution guidance.



Questions



Directory

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Chief Financial Officer

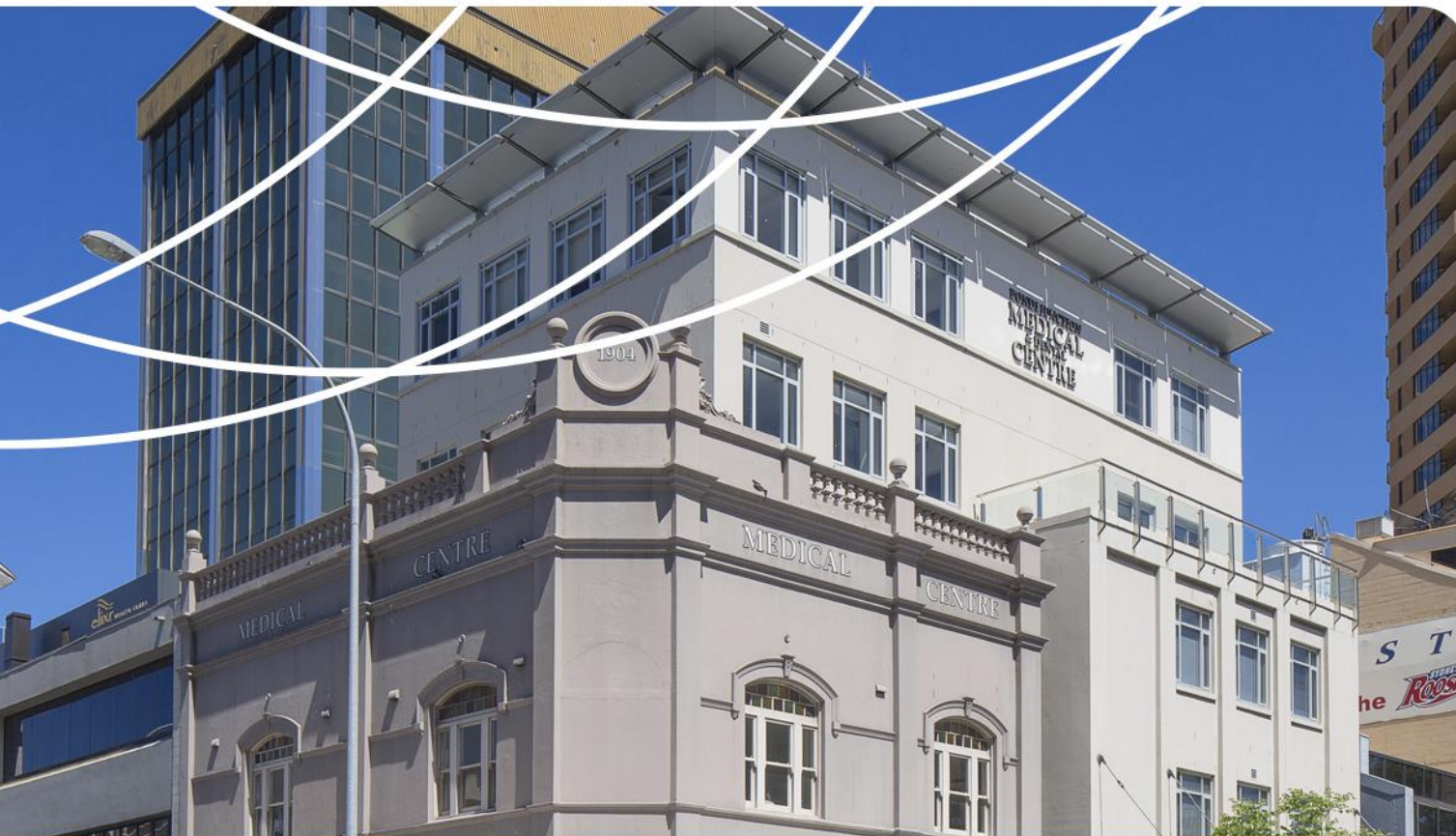
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Appendices

Financial performance – HY19

	HY19	HY18	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Property income	23,729	20,701	3,028	15%
Other income	265	317	(52)	(16%)
Total operating income	23,994	21,018	2,976	14%
Property expenses	(495)	(401)	(94)	23%
Operating expenses	(1,853)	(1,687)	(166)	10%
Finance costs	(3,324)	(2,172)	(1,152)	53%
Net operating profit (distributable income)	18,322	16,758	1,564	9%
<i>Non-distributable items:</i>				
Revaluation gain on investment properties (including straight line rent adjustment)	18,571	21,252	(2,681)	
Profit/(loss) on sale of investment properties	-	67	(67)	
Change in fair value of derivatives	(2,055)	(264)	(1,791)	
Transaction costs	(112)	(401)	289	
Amortisation of security-based payments (non-cash)	(498)	(363)	(135)	
Other	(40)	38	(78)	
Statutory net profit	34,188	37,087	(2,899)	



Balance sheet – 31 December 2018

	31 Dec 18	30 Jun 18	Change	
	(\$'000)	(\$'000)	(\$'000)	%
Cash	7,758	8,654	(896)	(10%)
Receivables and other assets	2,271	7,208	(4,937)	(68%)
Investment properties	742,853	699,409	43,444	6%
Intangibles	10,816	10,816	-	0%
Total assets	763,698	726,087	37,611	5%
Trade and other liabilities	5,599	6,773	(1,174)	(17%)
Distributions payable	9,157	8,619	538	6%
Borrowings	195,107	178,491	16,616	9%
Derivatives	2,617	561	2,056	366%
Total liabilities	212,480	194,444	18,036	9%
Net assets	551,218	531,643	19,575	4%
Number of securities on issue (m)	271.3	269.4	1.9	1%
Net asset value per security (\$)	2.03	1.97	0.06	3%
Gearing (%)	25.7	24.7	100bps	n/a



Borrowing and hedging summary

	Tranche 1	Tranche 2	Tranche 3 ²	Total
Total facility	\$80m	\$150m	\$50m	\$280m
Amount drawn	\$80m	\$140m ¹	-	\$220m
Undrawn	-	\$10m ¹	\$50m	\$60m
Expiry date	31 Mar 22	31 Mar 23	31 Mar 22	-
Remaining term	3.25yrs	4.25yrs	3.25yrs	3.8yrs ²

Covenant	Facility requirement	As at 31 Dec 2018
Loan to value ratio (LVR) ³	Maximum 50%	28.7%
Interest cover ratio (ICR)	Minimum 2x	5.85x

	31 Dec 2018	30 Jun 2018
Hedge cover	79%	78%
Weighted average hedge interest rate	2.42%	2.44%
Weighted average hedge term	5.3yrs	5.9yrs



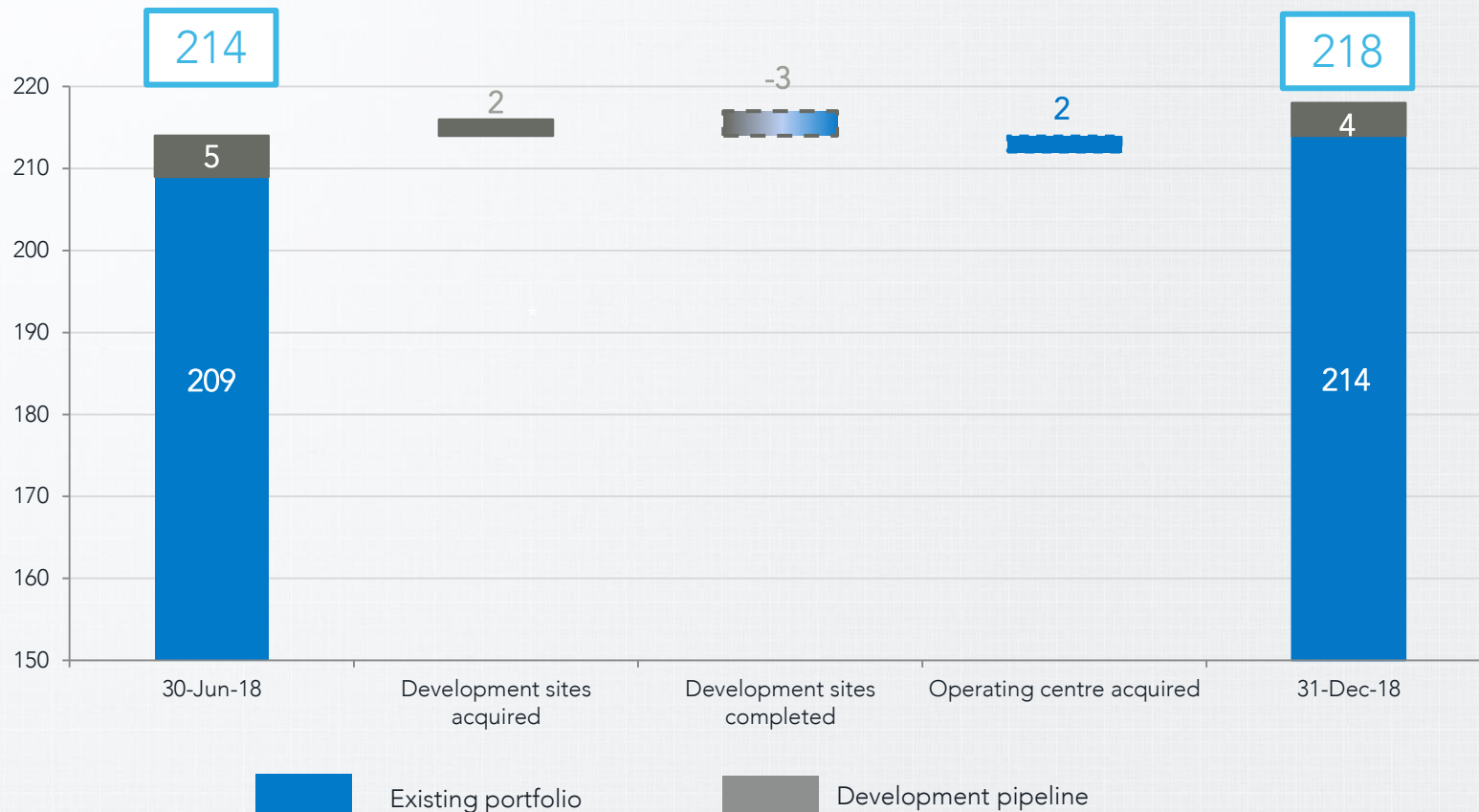
¹ Includes funding of healthcare acquisition announced on 18 February 2019.

² Includes tranche 3 of borrowing facility established post period end.

³ Loan to value ratio is calculated as total borrowings over total of latest independent valuation of investment properties.

Portfolio composition and movement

Portfolio movements (30 June 2018 to 31 December 2018)



ELC portfolio metrics

	31 Dec 2018	30 Jun 2018	Change
Leased ELCs	207	202	2.5%
Development sites	4	5	(20%)
Total ELCs	211	207	1.9%
WALE (by income) (years)	14.2	14.2	-
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.5	6.46	4bps
Portfolio value (\$m)	646.6	614.0	5.3%
Average rental increase (%)	3.2	2.9	30bps
Rent to gross revenue ratio (%)	11.0	11.2	(20bps)
Average daily fee (\$)	101.18	97.49	3.8%
Portfolio composition (by value)			
Metropolitan (%)	62	61	100bps
Regional (%)	38	39	(100bps)
Purpose Built (%)	96	96	-



ELC portfolio valuations

	Number of assets	Value (\$m) 31 Dec 2018	Passing yield (%) 31 Dec 2018
ELC – Independent Valuations			
Freehold			
Queensland	18	61.0	6.49
Victoria	10	38.9	6.00
New South Wales	10	25.6	6.67
South Australia	2	5.1	6.52
Total ELC independent valuations	40	130.6	6.38
ELC – Director Valuations			
Freehold			
Queensland	59	176.1	7.02
Victoria	48	169.5	5.83
New South Wales	19	53.2	6.20
Western Australia	22	52.4	6.77
Tasmania	7	18.9	6.62
South Australia	4	15.3	6.39
Northern Territory	2	4.5	7.20
Leasehold	6	15.9	8.68
Total ELC director valuations	167	505.8	6.46
Total ELC portfolio	207	636.4	6.50
Development sites	4	10.2	-
Total ELC portfolio	211	646.6	6.50

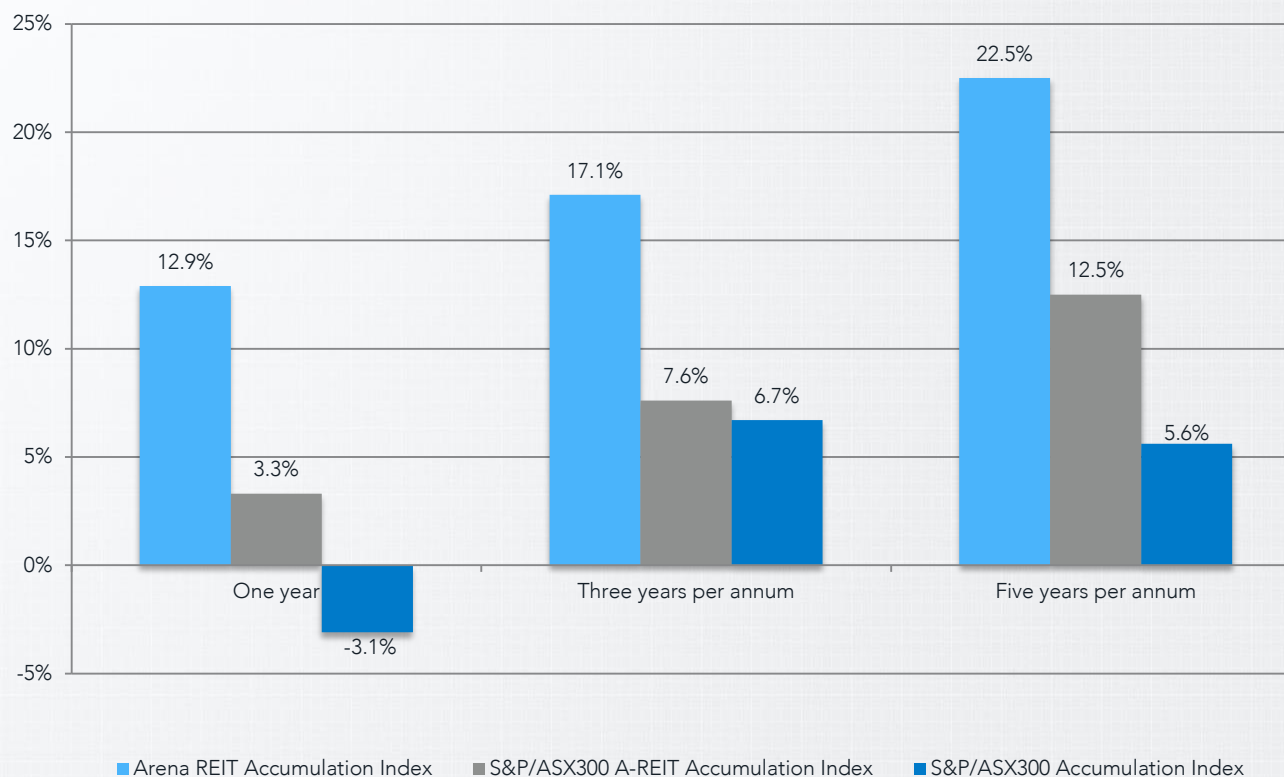


Healthcare portfolio metrics

	31 Dec 2018	30 Jun 2018	Change
Total healthcare properties	7	7	-
WALE (by income) (years)	14.6	4.5	+10.1yrs
Tenanted occupancy (%)	100	100	-
Average passing yield (%)	6.20	6.85	(65bps)
Property portfolio (\$m)	96.3	85.4	12.8%
Average rental increase (%)	2.8	1.3	150bps
Portfolio composition (by value)			
Metropolitan (%)	87	86	100bps
Regional (%)	13	14	(100bps)
Purpose Built (%)	100	100	-

ASX total return performance

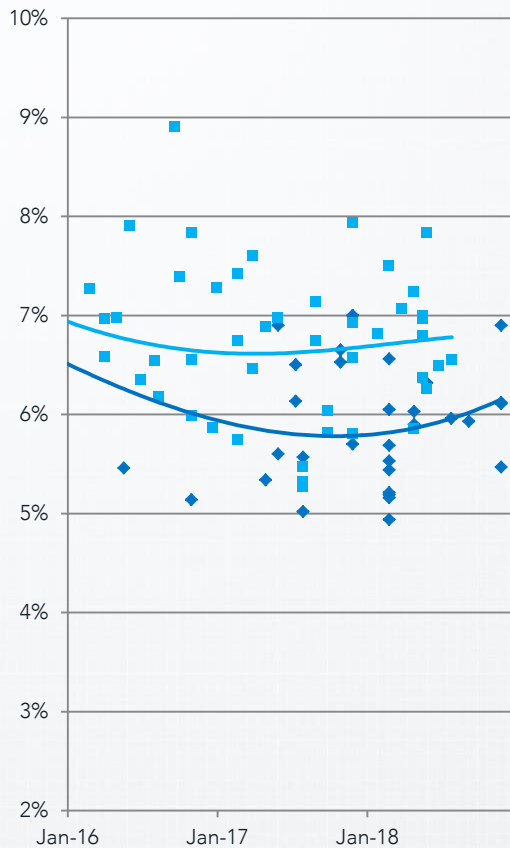
ASX total return performance (as at 31 December 2018)



Source: UBS, Australian REIT month in review, December 2018.

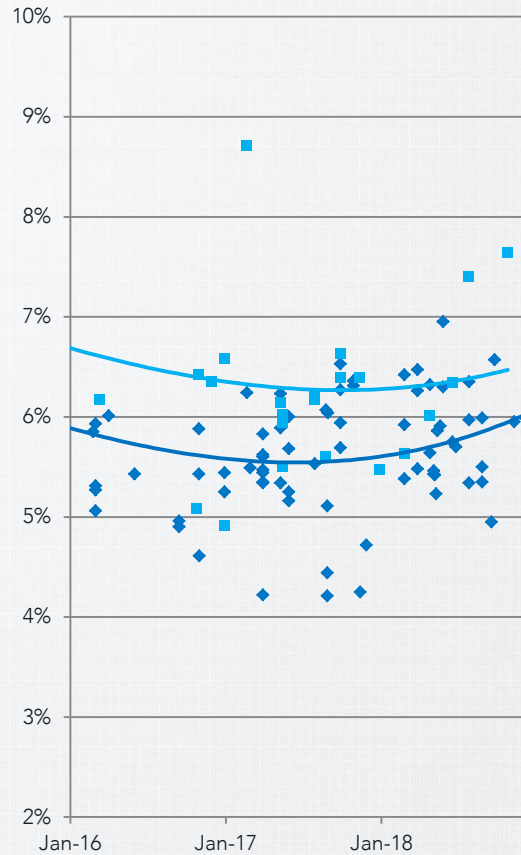
ELC market transactions

QLD passing yields



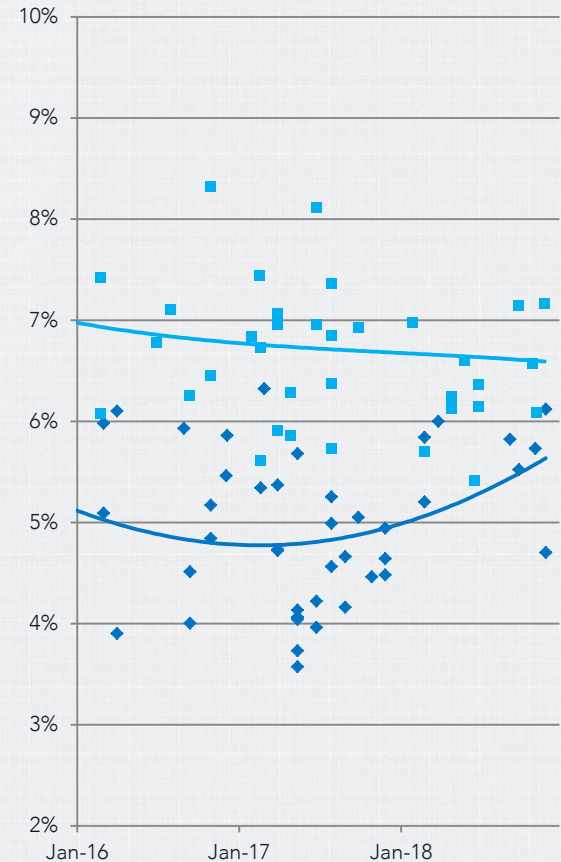
— Metro trend line — Other trend line
◆ Brisbane ■ Other QLD

VIC passing yields



— Metro trend line — Other trend line
◆ Melbourne ■ Other VIC

NSW passing yields



— Metro trend line — Other trend line
◆ Sydney ■ Other NSW



Source: Market data compiled by Arena; not all market transactions may be included.

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