ARENA REIT (ASX CODE: ARF)

ASX ANNOUNCEMENT

10 AUGUST 2023

2023 FULL YEAR RESULTS

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $60 million, up 6% on prior year
- Statutory net profit $74 million, down 78% on prior year
- Earnings per security[1] (EPS) of 17.1 cents, up 5% on prior year
- Distributions per security (DPS) of 16.8 cents, up 5% on prior year
- Total Assets of $1.57 billion, up 3% on 30 June 2022
- Net Asset Value (NAV) per security of $3.42, up 1% on 30 June 2022
- Gearing 21%, increased from 20.2% at 30 June 2022
- FY2024 DPS guidance of 17.4 cents per security[2], reflecting growth of 3.6% on FY2023

Increase in property income supporting earnings and distribution growth

Arena REIT (Arena) has today announced a net operating profit of $60 million for the full year ended 30 June 2023, an increase of 6% on the prior corresponding period (pcp).

Key contributors to the result were income growth from contracted annual and market rent reviews, acquisitions and development projects completed in financial year 2022 (FY2022) and financial year 2023 (FY2023).

This result equated to EPS of 17.1 cents, an increase of 5% on the pcp. Arena has paid DPS of 16.8 cents for the full year, an increase of 5% on the pcp. Arena provides financial year 2024 (FY2024) distribution guidance of 17.4 cents per security[2] (cps), an increase of 3.6% on FY2023.

Statutory net profit for the year was $74 million, a decrease of 78% on pcp primarily due to a lower revaluation gain on investment properties and derivatives.

Arena's total assets increased by 3% from 30 June 2022 to $1.57 billion as a result of acquisitions, development capital expenditure and positive portfolio revaluation. The valuation uplift contributed to a 1% increase in NAV of 5 cents per security to $3.42 at 30 June 2023.

[1] Earnings per security (EPS) is calculated as net operating profit over weighted average number of securities.
[2] FY2024 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.

Arena REIT Limited (ACN 602 365 186)
Arena REIT Management Limited ACN 600 069 761 AFSL No. 465754 as responsible entity of
Arena REIT No. 1 (ARSN 106 891 641) and Arena REIT No. 2 (ARSN 101 067 878)

Level 32, 8 Exhibition Street
Melbourne VIC 3000
www.arena.com.au

Locked Bag 32002 Collins Street East
Melbourne VIC 8003
info@arena.com.au

T +61 3 9093 9000
Freecall 1800 008 494

PORTFOLIO HIGHLIGHTS

- Weighted average lease expiry (WALE) of 19.3 years
- 99.7% portfolio occupancy
- Portfolio valuation uplift of $17 million
- Portfolio weighted average passing yield 5.16%
- Continued to progress solar renewable energy program
- Two operating early learning centres (ELC) and nine ELC development projects acquired
- Ten ELC development projects completed
- Two healthcare properties divested at an average premium of 2.4% to 30 June 2022 book value
- Development pipeline of 16 ELC projects at a forecast total cost of $112 million[3]
- Average like-for-like rent review increase of 6.8%

Investment proposition and partnership approach drives sustainable and commercial outcomes

Sustainability is integral to Arena's investment approach and best positions Arena to achieve positive long term commercial and community outcomes.

Arena's portfolio facilitates access to essential community services with positive social impact:

- ELCs provide early childhood education and care which allows parents and carers the opportunity to remain in, join or re-join the workforce.
- Medical centres provide local, community-based primary health care services.
- Specialist disability accommodation is designed to provide a better quality of life for residents with high physical support needs.

Sustainability outcomes delivered during FY2023

- Zero organisational scope 1 and 2 emissions.
- 5.5-star rating for organisational NABERS energy co-assessment.
- Certified carbon neutral by Climate Active for business operations in 2021-2022.
- Achieved gender balance for the Arena board using the 40:40:20 model.
- Ongoing active collaboration with tenant partners on sustainability initiatives.
- Solar renewable energy systems installed on 83% of Arena's property portfolio.
- 14% reduction in emissions intensity of Arena's assets under management[4].
- Measured inventory of Arena's FY2022 (year one) embodied emissions.
- Completed inaugural Physical Climate Risk Assessment.
- Completed first year of Arena's Modern Slavery roadmap.

More detailed information will be provided in Arena's FY2023 Sustainability Report scheduled to be released in September 2023.

---

[3] Includes two ELC development projects which were conditionally contracted at 30 June 2023.

[4] For FY2022 (Scope 3, Category 15) by indoor floor area measured in $kgCO_2e/m^2$ in line with supplemental guidance for the financial sector by the TCFD as compared with equivalent restated FY2021 baseline.

Acquisitions and development project completions in FY2023

Two operating ELC properties were acquired for $7.8 million at a net initial yield on total cost of 6.0% with an initial average lease term of 25 years and ten ELC development projects were completed for $65 million at a net initial yield on cost of 5.8%, each with an initial average lease term of 20 years. Nine new ELC development projects were acquired.

Development pipeline of $112 million[5]

The development pipeline now comprises 16 ELC projects with a forecast total cost of $112 million; $66 million of forecast capital expenditure remains outstanding. The weighted average net initial yield on forecast total cost on completion of the development pipeline is 5.4%.

Long portfolio WALE maintained at 19.3 years

The portfolio WALE is 19.3 years following the ELC acquisitions and developments completed during FY2023.

Average like-for-like rent review increase of 6.8%

Annual rent reviews completed during FY2023 resulted in an average like-for-like rent increase of 6.8%. Approximately 95% of FY2024, FY2025, FY2026 and FY2027 rent reviews are contracted at CPI, the higher of CPI or an 'agreed fixed amount', or market rent reviews.

Asset recycling underpins ongoing quality of portfolio

Two healthcare properties at Caboolture, QLD and Bondi, NSW were divested at an average premium of 2.4% to 30 June 2022 book value.

Portfolio valuation uplift of $17 million

At 30 June 2023, Arena's property portfolio comprised 263 ELC properties and development sites (91% of portfolio value) and 9 healthcare properties (9% of portfolio value). 99 properties were independently valued throughout FY2023 with the balance of the portfolio subject to directors' valuations. A valuation uplift of $17 million was recorded, an increase of 1% from FY2022.

The portfolio's weighted average passing yield widened by 25 basis points to 5.16%. The weighted average passing yield on the ELC portfolio widened by 23 basis points and healthcare portfolio widened by 35 basis points. A summary is detailed below:

	No. of Properties	30 June 2023 Valuation	Revaluation movement (since 30 June 2022)		Weighted average passing yield 30 June 2023	Change
		$m	$m	%	%	bps
ELC portfolio	263	1,377	+21	+1.6	5.13	+23
Healthcare portfolio	9	139	-4	-2.1	5.37	+35
Total Portfolio	**272**	**1,516**	**+17**	**+1.2**	**5.16**	**+25**

[5] Includes two ELC development projects which were conditionally contracted at 30 June 2023.

ELC sector and portfolio update

Strong macroeconomic drivers continue to support the Australian ELC sector. Rising female workforce participation rate continues to drive demand for ELC services and long day care participation rates over the medium to long term[6, 7].

From July 2023 Australian families benefit from the following improved affordability measures[8]:

- Increasing the maximum Childcare Subsidy (CCS) rate to 90% for the first child in care;
- Retaining the increased CCS rate at a maximum of 95% for subsequent children in care; and
- Increasing the CCS for every family earning less than $530,000 in annual household income with one child in care.

These measures have been 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[9].

Arena's ELC tenant partners reported the following underlying business operating data as at 31 March 2023[10]:

- Average daily fee of $129.57, +7.1% from March 2022;
- Like-for-like operator occupancy is above the same period last year and higher than any prior corresponding period over the past ten years; and
- Net rent to revenue ratio of 10.5%[11].

Arena's healthcare portfolio continues to perform well

Strong structural macro-economic drivers continue to support Australian healthcare accommodation, including a growing and ageing population and increased prevalence of chronic health conditions. Strong occupancy has been maintained across the specialist disability accommodation portfolio.

CAPITAL MANAGEMENT HIGHLIGHTS

- $70 million increase in syndicated borrowing facility to $500 million
- $150 million extension of facility tranche from 31 March 2024 to 31 March 2028
- $500 million Sustainability Linked Loan issued over existing debt facility
- Weighted average facility term of 3.7 years with no expiry until March 2026
- Weighted average cost of debt of 3.95% as at 30 June 2023
- Gearing[12] 21%, increased from 20.2% at 30 June 2022
- 88% of borrowings hedged for weighted average term of 3.5 years at 2.03%

[6] ABS Labour Force status by Relationship in household, Sex, State and Territory.
[7] Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2023.
[8] Labor's Plan for Cheaper Child Care | Policies | Australian Labor Party (alp.org.au)
[9] Cheaper childcare: A practical plan to boost female workforce participation (grattan.edu.au)
[10] Arena analysis based on operating data provided by Arena's tenant partners as at 31 March 2023.
[11] Assumes CCS fully covers a daily fee of approximately $151.03 based on CCS capped hourly fee of $13.73 per hour over an 11 hour day.
[12] Gearing calculated as ratio of net borrowings over total assets less cash.

Increase in borrowing facility and extension of facility tranche

During FY2023 Arena increased its syndicated borrowing facility by $70 million to $500 million and extended a $150 million facility tranche from 31 March 2024 to 31 March 2028. As at 30 June 2023 the weighted average remaining facility term was 3.7 years with no debt expiry before 31 March 2026.

Arena's weighted average cost of debt was 3.95% as at 30 June 2023 compared with 2.9% as at 30 June 2022. Contributors to this increase were floating rate +44bps, hedge swaps +31bps and facility expansion and term extension +30bps. As at 30 June 2023, 88% of borrowings were hedged for a weighted average term of 3.5 years at a weighted average rate of 2.03%.

Sustainable finance

An inaugural Sustainability-Linked Loan (SLL) was issued over Arena's existing debt facility of $500 million during FY2023. Arena's Sustainable Finance Framework and SLL are aligned to the Sustainability-Linked Loan Principles.

Under the SLL, Arena is incentivised to accelerate our existing sustainability program, with key performance indicators and associated sustainability performance targets based on the following material sustainability areas:

- Maintaining organisational carbon neutrality, delivering a detailed emissions reduction plan for operations and assets under management and reducing scope 1 and 2 greenhouse gas emissions from operations and assets under management;
- Further increasing the rollout of solar renewable energy systems on Arena's property portfolio; and
- Issuing our inaugural and ongoing annual Voluntary Modern Slavery Statement and refining Arena's Modern Slavery response in line with our roadmap.

Capacity to fund new investment opportunities

At 30 June 2023, Arena's gearing[13] was 21%, an increase from 20.2% as at 30 June 2022 with undrawn debt capacity of $158 million to fund the balance of the development pipeline of $66 million, and future growth opportunities. Arena raised $13 million during FY2023 via the DRP, which remains open.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "Arena has maintained its capital management discipline through the period and continues to operate well within its banking covenant requirements. Our balance sheet gearing and expanded debt facilities fully fund the development pipeline with capacity to deploy capital into further growth opportunities."

[13] Gearing calculated as ratio of net borrowings over total assets less cash.

OUTLOOK

FY2024 distribution guidance of 17.4 cents per security[14]

Arena provides FY2024 DPS guidance of 17.4[14] cents per security reflecting growth of 3.6% over FY2023.

Mr de Vos said "Arena's investment proposition and partnership approach are integral to building better communities, together. We remain well positioned to patiently deploy capital into quality assets that support Arena's investment objective - to generate an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term."

Teleconference

An investor teleconference will be held to provide an overview of the operating activities and financial results for the full year to 30 June 2023. Details of the teleconference are as follows:

Title: Arena REIT FY2023 Results

Date: Thursday 10 August 2023

Time: 10.00am AEST

Registration: Investors wishing to participate in the teleconference must register click here to register. Upon registration, investors will be emailed the teleconference dial-in number, the conference passcode and a unique access PIN for the call; this information will also be emailed to you as a calendar invitation.

A recording of the investor teleconference will be made available on the Arena website.

This announcement is authorised to be given to ASX by Gareth Winter, Company Secretary.

– ENDS –

For further information, please contact:

Rob de Vos
Managing Director
+61 3 9093 9000
rob.devos@arena.com.au

Samantha Rist
Chief of Investor Relations and Sustainability
+61 3 9093 9000
samantha.rist@arena.com.au

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.

---

[14] FY2024 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.

Important Notice

This document has been prepared by Arena, comprising Arena REIT Limited (ACN 602 365 186) and Arena REIT Management Limited (ACN 600 069 761 AFSL No. 465754) as responsible entity of Arena REIT No.1 (ARSN 106 891 641) and Arena REIT No.2 (ARSN 101 067 878). The information contained in this document is current only as at the date of this document or as otherwise stated herein. This document may not be reproduced or distributed without Arena's prior written consent. The information contained in this document is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Arena has not considered the investment objectives, financial circumstances or particular needs of any particular recipient. You should consider your own financial situation, objectives and needs, conduct an independent investigation of, and if necessary obtain professional advice in relation to, this document. Past performance is not an indicator or guarantee of future performance.

Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions, or as to the reasonableness of any assumption, contained in this document. By receiving this document and to the extent permitted by law, you release Arena and its directors, officers, employees, agents, advisers and associates from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or any loss or damage arising from negligence) arising as a result of the reliance by you or any other person on anything contained in or omitted from this document.

This document is for information purposes only and should not be considered as a solicitation, offer or invitation for subscription, purchase or sale of securities in any jurisdiction, or to any person to whom it would not be lawful to make such an offer or invitation.

This document contains forward-looking statements including certain forecast financial information. The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "outlook", "upside", "likely", "intend", "should", "could", "may", "target", "plan", and other similar expressions are intended to identify forward-looking statements. The forward-looking statements are made only as at the date of this announcement and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of Arena and its directors. Such statements are not guarantees of future performance and actual results may differ materially from anticipated result, performance or achievements expressed or implied by the forward-looking statements. Other than as required by law, although they believe there is a reasonable basis for the forward-looking statements, neither Arena nor any other person (including any director, officer, or employee of Arena or any related body corporate) gives any representation, assurance or guarantee (express or implied) as to the accuracy or completeness of each forward-looking statement or that the occurrence of any event, result, performance or achievement will actually occur. You should not place undue reliance on any of the forward-looking statement.