ARENA REIT (ASX CODE: ARF)

ASX ANNOUNCEMENT

15 FEBRUARY 2024

HY2024 RESULTS

FINANCIAL HIGHLIGHTS

- Net operating profit (distributable income) of $31 million, up 3% on prior corresponding period (pcp)
- Statutory net profit of $19 million, down 59% on pcp
- Total Assets of $1.59 billion, up 1% on 30 June 2023
- Net Asset Value (NAV) per security of $3.38, down 1% on 30 June 2023
- Earnings per security (EPS) of 8.72 cents, up 1.5% on pcp
- Distributions per security (DPS) of 8.7 cents, up 3.6% on pcp
- Reaffirm FY2024 full year distribution guidance of 17.4[1] cents, up 3.6% on pcp

Increase in property income supporting earnings and distribution growth

Arena REIT (Arena) has today announced a net operating profit for the half-year ended 31 December 2023 of $31 million, up 3% on the pcp. Key contributors to the result were income growth from contracted annual and market rent reviews, and acquisitions and development projects completed in financial year 2023 (FY2023) and half year 2024 (HY2024).

The HY2024 result equates to EPS of 8.72 cents, up 1.5% on the pcp. Arena has paid DPS of 8.7 cents for the period, an increase of 3.6% on the pcp. Arena reaffirms financial year 2024 (FY2024) distribution guidance of 17.4[1] cents per security (cps), an increase of 3.6% on FY2023.

Statutory net profit for HY2024 was $19 million, a decrease of 59% primarily due to the revaluation of investment properties and derivatives compared with the pcp.

Arena's total assets increased by 1% from 30 June 2023 to $1.59 billion due to the acquisition of ELC development projects and ELC development completions.

NAV decreased by 1% to $3.38 at 31 December 2023; NAV has remained relatively stable as an increase in portfolio capitalisation rate has been largely offset by passing and market rent increases.

[1] 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.

PORTFOLIO HIGHLIGHTS

- Weighted average lease expiry (WALE) of 18.8 years
- 99.7% portfolio occupancy
- Portfolio weighted average passing yield 5.26%
- Continued to progress solar renewable energy program
- Seven ELC development projects acquired[2]
- Three ELC development projects completed
- Development pipeline of 18 ELC projects at a forecast total cost of $117 million[3]
- Average like-for-like rent review increase of 5.4%

Investment proposition and approach drives sustainable and commercial outcomes

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

Sustainability outcomes delivered during FY2024 to date include:

- Zero organisational scope 1 and 2 emissions.
- 13% reduction in emissions intensity of Arena's assets under management (scope 3)[4].
- 6-star rating for organisational NABERS energy co-assessment.
- Certified carbon neutral by Climate Active for business operations in 2022-2023.
- Solar renewable energy systems installed on 88% of Arena's property portfolio.

Key future sustainability goals include:

- Develop a detailed transition plan including an emissions reduction roadmap for our operations and asset portfolio by FY2025.
- Complete alignment of annual reporting with recommendations of the TCFD by FY2025.
- Install solar renewable energy systems on 90% of Arena's property portfolio by FY2027.
- Continue to build on our Modern Slavery response in line with our roadmap.

Development project completions in HY2024

Three ELC development projects were completed at an average net initial yield on total cost of 5.4%, each with an initial lease term of 20 years.

Development pipeline of $117 million[3]

Seven new ELC development projects were added to the development pipeline during HY2024 at a forecast average net initial yield on total cost of 6.3%. As at 31 December 2023 the development pipeline was comprised of 18 ELC projects with a forecast total cost of $117 million; $67 million of

[2] Includes three ELC development projects which were conditionally contracted at 31 December 2023.
[3] Includes one ELC extension project and three ELC development projects which were conditionally contracted at 31 December 2023.
[4] For FY2022 (Scope 3, Category 15) by indoor floor area measured in $kgCO_2e/m2$ in line with supplemental guidance for the financial sector by the TCFD as compared with equivalent restated FY2021 baseline.

forecast capital expenditure remains outstanding. The weighted average initial yield on forecast total cost on completion of the development pipeline is 5.7%.

Long portfolio WALE maintained at 18.8 years

The portfolio WALE is 18.8 years following the ELC developments completed during HY2024.

Portfolio revaluation

As at 31 December 2023 Arena's property portfolio comprised 266 ELC properties and development sites (91% of portfolio value) and nine healthcare properties (9% of portfolio value). 59 ELC properties and three healthcare properties were independently valued as at 31 December 2023, with the remaining ELC and healthcare properties and ELC development projects subject to Directors' valuation.

The portfolio's weighted average passing yield increased by 10 basis points to 5.26%. The weighted average passing yield on the ELC portfolio increased by 11 basis points and healthcare portfolio increased by 13 basis points. A summary is detailed below:

	No. of properties	31 Dec 23 Valuation ($m)	Valuation movement (since 30 June 2023)		Weighted average passing yield	
			$m	%	31-Dec-23 %	Change bps
ELC portfolio	266	1,404	-3.3	-0.2	5.24	+11
Healthcare portfolio	9	138	-0.5	-0.3	5.50	+13
Total Portfolio	**275**	**1,542**	**-3.8**	**-0.2**	**5.26**	**+10**

Average like-for-like rent review increase of 5.4%

Annual rent reviews completed during HY2024 resulted in an average like-for-like rent increase of 5.4%. Nine market rent reviews were completed during the period; all achieved the maximum outcome of +7.5%.

ELC sector update

Strong social and macroeconomic drivers continue to support the Australian ELC sector. Record female workforce participation rate has been driving demand for services and increased long day care participation rates over the medium to long term[5,6].

From July 2023 Australian families have benefitted from the following improved affordability measures introduced by the Federal Government[7]:

- 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.

[5] ABS Labour Force status by Relationship in household, Sex, State and Territory.
[6] Australian Government Department of Education Child Care quarterly reports 2011-2023.
[7] *Labor's Plan for Cheaper Child Care | Policies | Australian Labor Party (alp.org.au)*

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 to stimulate broader economic activity over the medium to long term[8].

Arena's ELC tenant partners reported the following underlying business operating data as at 30 September 2023[9]:

- Average daily fee of $140.63, +10.46% from September 2022 and +8.53% from March 2023;
- Like-for-like operator occupancy remains robust and higher than any prior corresponding period over the past seven years; and
- Net rent to revenue ratio of 10.6%.

Early Childhood Education and Care (ECEC) Policy Reform

The ACCC's final report on its inquiry into childcare was released in late January 2024, relevant key recommendations include[10]:

- The Australian Government reconsider and restate the key objectives and priorities of its ECEC policies.
- Further consideration and consultation on changes to the CCS and hourly rate cap to simplify their operation.
- Governments further consider how the existing regulatory frameworks support and influence the attraction and retention of ECEC educators and workforce.
- Consider a market stewardship role for government, to monitor, regulate and shape childcare markets to ensure they deliver government objectives.
- Further consideration of the benefits and challenges of supply-side subsidies coupled with other more direct forms of market intervention, as appropriate.

The Productivity Commission (PC) released a draft report 'A path to universal early childhood education and care' in late November 2023 which focuses on improvements to ECEC availability, affordability, inclusivity, flexibility and regulation that will help to deliver 30 hours of quality ECEC a week for all children aged 0-5. The draft recommendations are supportive of increased demand for ECEC services, the final report to government is due by 30 June 2024 and will be released publicly after this date[11].

The ACCC and PC reports are consistent with the Australian Federal Government's commitment to improve the Australian childcare system through fundamental economic reform. The development and implementation of a whole of government Early Years Strategy[12] is expected to create a new and integrated approach to the early years and outline a program of action to deliver cheaper childcare, boost workforce participation and drive productivity growth.

[8] *Cheaper childcare: A practical plan to boost female workforce participation (grattan.edu.au)*.
[9] Arena analysis based on operating data provided by Arena's tenant partners.
[10] *Childcare inquiry 2023 | ACCC*
[11] *Early Childhood Education and Care - Public inquiry - Productivity Commission (pc.gov.au)*
[12] *Labor's Plan for Cheaper Child Care | Policies | Australian Labor Party (alp.org.au)*

Arena's healthcare portfolio supported by strong macroeconomic drivers

Strong structural macroeconomic drivers continue to support Australian healthcare accommodation including a growing and ageing population.

Ongoing domestic and international investor interest in Australian healthcare property continued to support price resilience in the sector with healthcare real estate transactions volumes increasing.

CAPITAL MANAGEMENT HIGHLIGHTS

- Gearing[13] 21.7%, increased from 21% at 30 June 2023
- Weighted average cost of debt of 4.1% as at 31 December 2023
- 80% of borrowings hedged for weighted average term of 3.1 years at 2.03%
- Weighted average facility term of 3.2 years with no expiry until March 2026
- Achieved 100% of Sustainability Linked Loan margin discount for the FY2023 sustainability performance targets

Low risk funding profile maintained

Arena's weighted average facility term was 3.2 years as at 31 December 2023 with no near term expiry; the weighted average cost of debt was 4.1% compared with 3.95% as at 30 June 2023. 80% of borrowings were hedged for a weighted average term of 3.1 years at a weighted average rate of 2.03% as at 31 December 2023.

Sustainable finance

In late 2022 Arena agreed terms for an inaugural Sustainability-Linked Loan (SLL) over its existing debt facility totalling $500 million. Arena's Sustainable Finance Framework and SLL are aligned to the Sustainability-Linked Loan Principles.

Arena achieved 100% of the SLL margin discount for the FY2023 sustainability performance targets.

Capacity to fund new investment opportunities

At 31 December 2023, Arena's gearing[13] was 21.7%, increased from 21% at 30 June 2023 with undrawn debt capacity of $144 million to fund the balance of the development pipeline of $67 million, and future growth opportunities. Arena raised $9 million during HY2024 via the DRP, which remains open.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "Arena continues to operate well within its banking covenant requirements. We have maintained our capital management discipline through the cycle with sustained capacity to deploy capital into growth opportunities consistent with strategy."

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

OUTLOOK

FY2024 forecast distribution guidance of 17.4 cents per security[14]

Arena reaffirms FY2024 distribution guidance of 17.4 cps reflecting growth of 3.6% over FY2023.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "Arena's investment proposition and partnership approach are integral to building better communities, together. In a changing investment environment, Arena is well positioned to pursue opportunities that are consistent with our purpose and investment objective."

Teleconference

An investor teleconference will be held to provide an overview of the operating activities and financial results for the half-year to 31 December 2023. Details of the teleconference are as follows:

Title: Arena REIT HY2024 Results

Date: Thursday 15 February 2024

Time: 10.00am AEDT

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 also be made available on the Arena website.

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

– ENDS –

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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.

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