

# ASX ANNOUNCEMENT

11 AUGUST 2021

## 2021 FULL YEAR RESULTS

### FINANCIAL HIGHLIGHTS

- Statutory net profit \$165.4 million, up 116% on prior year
- Net operating profit (distributable income) of \$51.9 million, up 18.5% on prior year
- Earnings per security<sup>1</sup> (EPS) of 15.2 cents, up 4.5% on prior year
- Distributions per security (DPS) of 14.8 cents, up 6% on prior year
- Total Assets of \$1,151.5 million, up 14% on 30 June 2020
- Net Asset Value (NAV) per security of \$2.56, up 15% on 30 June 2020
- Gearing 19.9%, increased from 14.8% at 30 June 2020
- 100% of contracted rent collected in FY21
- FY22 DPS guidance of 15.8 cents per security<sup>2</sup>, reflecting growth of 6.8% on FY21

### Continuing strong portfolio, investment and community outcomes

Arena REIT (Arena) announces a net operating profit for FY21 of \$51.9 million, an increase of 18.5% on the prior year. Key contributors to higher operating income include growth in contracted annual rental growth and market rent reviews, acquisition of operating early learning centre (ELC) properties and development projects completed during FY20 and FY21. The result represents EPS<sup>1</sup> of 15.2 cents, an increase of 4.5% over the prior year. Arena has paid a full-year distribution of 14.8 cents per security, up 6% on the prior year. Statutory net profit for the year was \$165.4 million, an increase of 116% on the prior year.

Arena's total assets increased by 14% to \$1,151.5 million as a result of acquisitions, development capital expenditure and the positive revaluation of the portfolio. The revaluation uplift was the primary contributor to the 15% increase in NAV per security to \$2.56 at 30 June 2021.

Commenting in respect of today's announcement, Arena's Managing Director Mr Rob de Vos said "Despite a challenging external environment, Arena has achieved strong portfolio and investment outcomes in FY21. Our portfolio of social infrastructure property has also facilitated positive outcomes for the Australian communities that access our properties to utilise the essential services provided by our tenant partners."

<sup>1</sup> Earnings per security (EPS) is calculated as net operating profit over weighted average number of securities.

<sup>2</sup> FY22 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, 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.



## PORTFOLIO HIGHLIGHTS

- 100% occupancy maintained
- Average like-for-like rent review increase of 3.3%
- Weighted average lease expiry (WALE) increased to 20.1 years<sup>3</sup>
- Portfolio revaluation uplift of \$107.6 million
- Portfolio weighted average passing yield of 5.77%
- Acquired seven operating ELC properties at an average net initial yield of 6.1% on total cost
- Acquired nine new ELC development projects with forecast total cost of \$54 million<sup>4</sup>
- 14 ELC developments completed at an average net initial yield on total cost of 6.6%

### Like-for-like rent review increase of 3.3%

Rent reviews during the year resulted in an average like-for-like rent increase of 3.3%. Contributing to this result were 25 market rent reviews from FY20 and 11 from 1H21 which were all resolved during FY21 at an average increase of 6.5%.

### COVID-19 update

100% of contracted rent has been receipted for the period 1 July 2020 to 30 June 2021 and Arena's origination and development programs remain largely unaffected by COVID-19.

Arena's medical centre properties are assisting in the national COVID-19 vaccination program and there is precedent for a 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<sup>5</sup> over the last 12 months.

### Existing long WALE further increased to 20.1<sup>3</sup> years

Occupancy was maintained at 100% and the portfolio's existing long WALE was further increased to 20.1 years following the acquisition of seven operating ELC properties with initial weighted average lease expiry of 27.3 years, the completion of 14 ELC developments with an initial weighted average lease expiry of 20.8 years and a post balance date portfolio lease renegotiation with Goodstart which included an increase of 25 years of term on 87 ELC properties.

### Investment proposition and approach drives sustainability and commercial outcomes

Arena develops, owns and manages social infrastructure property which facilitates access to essential educational and healthcare services provided by our current tenant partners across multiple local communities. We have a 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 and our disciplined investment process has delivered ongoing EPS, DPS and NAV growth.

Arena's partnership approach delivers mutually beneficial outcomes for our team, tenant partners and ultimately our investors. We continue to work with our tenant partners to install solar renewable energy systems which reduce operating costs and carbon emissions, with the cost of installation

<sup>3</sup> Post balance date portfolio lease renegotiation with Goodstart included an increase of 25 years of term on 87 ELC properties.

<sup>4</sup> Excludes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

<sup>5</sup> <https://www.dese.gov.au/covid-19/childcare>; <https://ministers.dese.gov.au/>.

rentalised over the life of lease or offset by increased valuation upside and predictability of income through lease extensions:

- Over 21% of Arena's properties are currently using solar renewable energy; and
- An additional 45% of properties are in the process of installing.

### Asset recycling underpins ongoing quality of portfolio

Six ELC properties were divested during FY21 at an average premium of 16% to book value with proceeds reinvested into the development pipeline.

### Acquisitions and development project completions in FY21

Seven operating ELC properties were acquired at an average net initial yield of 6.1% on total cost, with an initial weighted average lease expiry of 27.3 years. 14 ELC developments were completed at an average net initial yield on total cost of 6.6%, with an initial weighted average lease expiry of 20.8 years.

### Portfolio valuation uplift of \$107.6 million

At 30 June 2021, Arena's portfolio comprised 226 ELC properties, 12<sup>6</sup> ELC development sites (86% of portfolio by value) and 11 healthcare properties (14% of portfolio by value). 84 ELC properties and seven healthcare properties were independently valued and the balance of the portfolio was subject to directors valuations during FY21. A revaluation uplift of \$107.6 million was recorded for the period, equivalent to an increase of 11.8%.

The portfolio's weighted average passing yield firmed 45 basis points to 5.77%. The weighted average passing yield on the ELC portfolio firmed 40 basis points to 5.84% and the healthcare portfolio firmed 78 basis points to 5.34%. A summary is detailed below:

	No. of Properties	30 Jun 2021 Valuation	Revaluation movement (since 30 June 2020)		Weighted average passing yield	
		\$m	\$m	%	30 June 2021 %	Change bps
ELC portfolio	238	959	92.0	11.8	5.84	(40)
Healthcare portfolio	11	153	15.6	11.4	5.34	(78)
<b>Total Portfolio</b>	<b>249</b>	<b>1,112</b>	<b>107.6</b>	<b>11.8</b>	<b>5.77</b>	<b>(45)</b>

### ELC sector and portfolio update

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<sup>7</sup> over the last 12 months.

The Federal Government has recently committed a further investment of \$1.7 billion<sup>8</sup> to the sector to:

- Support ongoing economic recovery in the short term; and

<sup>6</sup> Excludes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

<sup>7</sup> <https://www.dese.gov.au/covid-19/childcare>; <https://ministers.dese.gov.au/>.

<sup>8</sup> <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/making-child-care-more-affordable-and-boosting>

- Improve workforce participation, gender equality, women's financial security and economic activity over the medium to long term<sup>9</sup>.

Strong structural demand for services and a record female workforce participation rate continue to drive increased long day care (LDC) participation rates over the medium to long term<sup>10,11</sup>.

### **Arena's healthcare portfolio continues to perform well**

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

Healthcare properties remain strongly sought after, with increased domestic and international interest in Australian healthcare property and increasing interest in social infrastructure property more generally.

### **Development pipeline of \$91 million<sup>12</sup>**

The development pipeline comprises 15<sup>12</sup> ELC projects with a forecast total cost of \$91 million, with \$57 million of capital expenditure outstanding as at balance date. The forecast weighted average initial yield on total anticipated cost for the development pipeline is 6.2%.

### **CAPITAL MANAGEMENT HIGHLIGHTS**

- Borrowing facility of \$330 million, weighted average remaining facility term of 3.7 years
- Post balance date extension of \$130 million facility tranche from 31 March 2023 to 31 March 2026
- Gearing 19.9%<sup>13</sup>, increased from 14.8% at 30 June 2020
- Weighted average cost of debt was 2.65% at 30 June 2020 compared with 3.15% as at 30 June 2020
- 81% of borrowings hedged for an average term of 4.4 years at 1.67% p.a. incorporating interest rate hedging completed post 30 June 2021

### **Extension of facility tranche**

Post balance date, Arena extended a \$130 million facility tranche from 31 March 2023 to 31 March 2026, increasing the weighted average remaining facility term to 3.7 years at 30 June 2021 with no debt expiry until March 2024. Arena's weighted average cost of debt fell to 2.65% as at 30 June 2021 compared with 3.15% as at 30 June 2020.

### **Capacity to fund new opportunities**

At 30 June 2021, Arena's gearing was 19.9%<sup>13</sup> with \$90 million of undrawn debt capacity as at balance date to fund the balance of the development capital expenditure of \$57 million and future growth opportunities.

<sup>9</sup> <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>

<sup>10</sup> ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

<sup>11</sup> Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2020.

<sup>12</sup> Includes two ELC projects that were conditionally contracted prior to, and one ELC project that was unconditionally contracted post, 30 June 2021.

<sup>13</sup> Gearing calculated as ratio of net borrowings over total assets less cash.

Commenting on Arena's financial position, Chief Financial Officer Mr Gareth Winter said "Arena continues to operate well within our banking covenant requirements with sustained capacity to pursue social infrastructure property investments consistent with strategy, while extending debt term and reducing the cost of funding."

## OUTLOOK

### FY22 distribution guidance of 15.8 cents per security<sup>14</sup>

Arena provides FY22 DPS guidance of 15.8<sup>14</sup> cents per security reflecting growth of 6.8% over FY21.

Mr de Vos said "Early learning and healthcare services are integral to economic recovery and improving community outcomes. Arena remains well positioned to navigate the ongoing and emerging challenges arising from COVID-19, including potential changes in economic conditions. We also remain well positioned to consider new opportunities that are consistent with strategy and deliver on Arena's investment objective."

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

– ENDS –

### INVESTOR CONFERENCE CALL

Arena will be hosting a conference call at 9.30am AEST today (11 August 2021) to present the FY21 Annual Results. A copy of the annual results presentation has also been lodged with the ASX and is available on Arena's website ([www.arena.com.au](http://www.arena.com.au)). To participate in the investor teleconference, please [click here](#) to register.

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### About Arena REIT

Arena REIT is an ASX300 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](http://www.arena.com.au).

<sup>14</sup> FY22 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, 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.

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