

ASX ANNOUNCEMENT

19 NOVEMBER 2020

2020 AGM CHAIR AND MANAGING DIRECTOR ADDRESSES

Chair's address

Highlights for 2020 financial year

We acknowledge the impact and challenges COVID-19 has brought to many communities and on behalf of Arena I would like to express our gratitude to our tenant partners and the front line workers in each of our early learning and health care properties. Despite ongoing uncertainty, we remain confident in Arena's strategy, the strength of our portfolio and the important contribution the services we accommodate will make in aiding economic recovery and improving future community outcomes.

In a challenging environment, Arena has produced earnings and capital growth, successfully delivered development completions, replenished the development pipeline, reduced gearing and maintained the long duration of its leases with our tenant partners during FY20.

These positive outcomes are a result of the quality of Arena's property portfolio, the proactive approach of Arena's management team and the strong macroeconomic themes that support investment in social infrastructure property. It is also an endorsement of Arena's disciplined strategy and ability to deliver against our investment objective.

Arena's net operating profit increased by 16% to \$43.8 million in financial year 2020.

Key contributors to the result were rental income growth from annual rent reviews and income from acquisitions and development projects completed in financial year 2019 (FY19) and FY20. The result represents earnings per security, or EPS, of 14.55 cents, an increase of 5% over the prior year. Arena has paid a full-year distribution of 14.0 cents per security, an increase of 4% on the prior year. Statutory net profit for the year was \$76.6 million, 29% higher than the prior year.

Arena's total assets increased by 23% to \$1,012.6 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 6% increase in net asset value, or NAV, per security to \$2.22 at 30 June 2020.

Arena raised \$60 million via a fully underwritten institutional placement in June 2020 and a further \$25 million via a security purchase plan in July 2020. An additional \$8 million was raised via the dividend and distribution reinvestment plan during FY20, which remains open.

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Arena increased its total debt facility limit by \$50 million to \$330 million during FY20; the weighted average remaining facility term was 3.5 years at 30 June 2020 with no debt expiry until March 2023. Arena's weighted average cost of debt fell to 3.15% as at 30 June 2020 compared with 3.65% as at 30 June 2019.

Arena's gearing¹ was 14.8% as at 30 June 2020 with \$76 million of cash reserves and \$115 million of undrawn debt capacity as at balance date to fund development capital expenditure (forecast at \$57 million) and new investment opportunities.

Arena is operating well within our banking covenant requirements and the new equity raised provides capacity to pursue future social infrastructure property investments consistent with strategy while also improving liquidity and reducing gearing.

Finally, Arena commenced its renewable energy program during FY20; the program is currently focused on working with tenant partners to invest in sustainability initiatives; with a multi-site solar installation project completed during FY20.

Strategy

Strong macroeconomic drivers continue to support the Australian Early Learning Centre (ELC) sector including:

- Provision of early learning services integral to assisting Australians to get back to work in the short term and improving workplace productivity over the medium to long term.
- Strong structural demand for services and record female workforce participation rate which drove increased long day care (LDC) participation rates pre COVID-19^{2,3}.
- Government support improved through introduction of CCS in July 2018 and ongoing COVID-19 related funding commitments.

Strong macro-economic factors continue to support Australian healthcare accommodation. Medical centre visitation, imaging and pathology services were reduced up to May 2020 due to COVID-19 but have been improving in-line with the broader economy opening up.

Arena's management team has specialist asset management and development expertise and a strong track record that includes the successful delivery of 40 development projects over the past eight years at a total cost of \$187 million.

Arena continues to differentiate its brand in the marketplace through a partnership approach, working collaboratively with our tenants and business partners.

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

² ABS Female Labour Force Participation Rate (aged 20-74 at least one dependent child of ELC age).

³ Australian Government 'Early Childhood and Child Care in Summary' Reports 2012-2019.

Arena is well placed to continue to deliver on its investment objective – to generate attractive and predictable distributions to investors with earnings growth prospects over the medium to long term.

Remuneration

The Board considered the guidance issued by the Australian Securities and Investment Commission in relation to Board oversight of executive variable pay decisions during the COVID-19 pandemic when assessing FY20 STI and LTI outcomes.

In considering variable pay decisions in respect of FY20, the Board noted:

- the actions taken by the executive KMP throughout the year;
- the underlying earnings growth of 5.4% and 3.7% growth in distributions per security during the period notwithstanding COVID-19; and
- the reduction in the distribution payout ratio in direct response to rent deferred under COVID-19 rent relief arrangements.

The Board exercised its discretion to award the Executive KMP 94% of their total FY20 STI opportunity based on the strong underlying performance of the Arena business, the assessment of financial targets and individual performance against non-financial KPIs throughout FY20. 50% of the STI awarded to executive KMP is deferred for one year with payment delivered in the form of Arena securities.

With regard to the LTI outcomes for executive KMP for FY20, 84% of the FY18 LTI vested based on:

- Arena's FY20 Distributable Income per Security (DIS) per Security of 14.55 cents exceeding the performance hurdle range; and
- Arena's 3 year TSR of 21% ranked at the 59th percentile of the comparator group.

The key performance objectives have been reset for FY21 with the LTI DIS performance hurdle measure outlined in the Remuneration Report section of Arena's 2020 Annual Report. The objectives have been designed to enable Arena to continue to attract and retain a high quality, committed and dynamic management team, align the interests of the management team with securityholders while challenging and appropriately incentivising management to achieve not only relatively strong EPS growth performance, but also take into consideration the level of risk undertaken to achieve that growth in the prevailing market conditions.

Governance

Arena's strong culture enables us to deliver positive outcomes to our stakeholders. A clearly defined, positive and well-communicated culture ensures that Arena is able to live by its values and

retain team members who are engaged and productive, resulting in better outcomes for Arena, our tenant partners and our investors.

Arena is pleased to have separately issued our inaugural sustainability report for FY20. This marks Arena's commitment to progress and disclose strategies to address sustainability challenges and opportunities faced by our business and stakeholders.

The main purpose of Arena's FY20 Sustainability Report is to consolidate and communicate the plans, activities and initiatives that are already embedded in the way Arena is managed. The reporting process has provided an opportunity to identify areas where performance can be improved, and these opportunities are reflected in the commitments included in the report. In future years, where possible, we intend to include additional quantitative data to further enhance our disclosures. We welcome feedback from all stakeholders to ensure that we can build upon our disclosures moving forward.

Outlook

Arena remains well positioned to navigate the ongoing and emerging challenges arising from COVID-19 and to consider new opportunities that are consistent with strategy and Arena's investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

As in previous years, I am pleased to advise that we are forecasting distribution growth for FY21 and distribution guidance for FY21 was issued in August 2020 in a range of 14.4-14.6 cents per security⁴ reflecting 3-4% growth over FY20.

Conclusion

Before handing over to Rob I would like to take the opportunity on behalf of the Board and the management team to thank our investors, tenants and business partners for their ongoing support.

On behalf of the Board I would also like to acknowledge and express our appreciation to the Arena management team for their ongoing commitment and contribution to Arena's performance.

We will continue to work hard for our Securityholders and look forward to reporting to you in 2021.

Thank you.

⁴ FY21 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.

Managing Director's report

Thank you David.

I too would like to offer a warm welcome to Arena REIT's 2020, Annual General Meeting.

I would like to commence my presentation today by reflecting on the challenges COVID-19 has brought to many communities, including, of course, the Australian communities in which Arena invests.

Community well-being is at the very core of the services that our tenant partners provide from within Arena's property portfolio. The last nine months have been an uncertain and challenging period for our tenant partners and their staff, who played a vital role in ensuring that the essential community services they provide remained open to support community well-being during the COVID-19 pandemic.

I join David in offering our gratitude for their tenacity and resolve over this period; which combined with community need and government support, enabled every one of Arena's property investments to remain open and trading throughout FY20.

Looking forward, we anticipate that the community need for the services that Arena accommodates will continue to increase. The services that Arena accommodates are fundamental to well performing communities and in relation to early learning services, integral to allowing working families get back to work and assist broader economic recovery.

These factors will of course drive demand for the types of assets that Arena owns and develops; and as such will assist Arena's investment objective of delivering an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term.

COVID-19 Update

Whilst each of Arena's properties remained open and operational, the lockdowns in response to COVID-19 significantly impacted attendances at our early learning centres.

With the exception of eight centres in South Australia, that as of this morning will only be accepting children of permitted workers for the next six days, there has been a strong rebound in early learning attendances post the easing of lockdown restrictions, with centres now generally trading at pre-COVID-19 attendance levels, including early learning centres in Greater Metropolitan Melbourne.

In relation to other parts of our portfolio over this time:

- medical centre services reduced up to May 2020 but again have improved in-line with the broader economy opening up;

- For personal use only
- Arena's SDA portfolio was unaffected outside the introduction of increased sanitation, resident security and well-being programs; and
 - progress on our development programs has largely been unaffected.

I am incredibly proud of the work that the Arena team undertook to:

- implement measures to support the safety and wellbeing of each other; and
- increase engagement we had with our tenant partners and all of Arena's stakeholders, including of course our investors.

We undertook capital management initiatives to provide capacity to:

- pursue future social infrastructure property investments consistent with strategy while also improving liquidity and reducing gearing; and
- quickly reached agreement for rent relief with our tenant partners where justified. The impact of those agreements for the period 1 July 2019 to 30 June 2020 was:
 - 96% of contracted rent was receipted;
 - 3.5% of contracted rent was deferred, of which 71% is scheduled to be received in FY21; and
 - 0.5% of contracted rent was abated.

I am pleased to report that as at today, all of Arena's tenant partners are in compliance with their lease rental obligations and rent relief agreements.

Portfolio Performance

Despite the broad challenges FY20 has presented our stakeholders, Arena's disciplined strategy has supported overall positive operational and financial outcomes.

Lease management:

We have maintained 100% occupancy across the portfolio; and achieved average rental growth of 3.4%.

We have again had success in executing on our investment and development activities – with:

- Four operating centres acquired at a net initial yield of 6.3%;
- The completion of three high quality early learning centre development projects at a total cost of \$17 million and an average net initial yield on all costs of 6.7%; and

- Replenishment of our development pipeline with a further 17 exciting new development sites that will support future earnings growth.

We have worked in partnership with our tenants and completed multi-site solar installations as part of our renewable energy program as well as early learning centre rejuvenation programs with four of our tenant partners.

We acted decisively in reaching agreements with our tenant partners on rent relief programs that were justified to 30 June as a result of the impact of COVID-19.

Portfolio management:

- Our Weighted Average Lease Expiry has been maintained at 14 years.
- We have seen further net valuation growth across the portfolio of about \$39m – the passing yield for the portfolio at June was 6.2%. Recent direct property transactions point to the potential of further reduction in yields which may give rise to further increases in valuations at 31 December.

Our portfolio metrics are in great shape:

- We have achieved strong rental growth;
- The portfolio has no vacancies;
- We have long contracted lease duration of 14 years; and
- Portfolio value was up 4.6% for the 12 month period.

Contributors to EPS Growth

As a result of proactive management activities and ongoing prudent capital management, our earnings per security was up 5% and distributions for the year were 14 cents per security.

I acknowledge the disappointment of some investors in our decision to delay our March distribution for a few months as we assessed the risks of the escalation of the pandemic on our tenant partners at that time. Notwithstanding that delay, overall distributions to investors were up 4% from the previous year.

You can see on this slide the growth from our rent roll – from those annual rent escalations and market rent reviews along with the impact of our development completions and acquisitions are the drivers of that growth in earnings.

Pleasingly we also reduced gearing over the period to just under 15%, as a result of the capital raising undertaken in June and continued net valuation growth across the portfolio.

So in summary, an increase in net earnings; an increase in net assets; and a reduction in gearing over the 12 month period.

Portfolio Overview

As at 30 June, Arena's portfolio consisted of 239 social infrastructure properties occupying over 65 hectares of land. All operating assets were independently valued at 30 June which provided for a total value of the portfolio of \$914 million.

In terms of portfolio diversification, we have grown both our early learning and healthcare investments proportionately over the 12 months to June – so no change in overall sector diversification.

Geographically – you can see in that middle graph - if you tally QLD, VIC and NSW we now have 82% of the portfolio in the high population, eastern seaboard states.

We continue to improve our spread of tenant partners with four new healthcare and early learning centre operators joining the portfolio over the last 12 months.

Outlook

Looking forward, Arena is well positioned, and despite broader economic uncertainty, our outlook remains positive.

We have provided distribution guidance for the current financial year of between 14.4 and 14.6 cents per security⁵ - an increase of between 3 and 4% on FY20.

Our positive outlook is underpinned by our long contracted leases with earnings growth from annual rent reviews as well as ongoing selective development and acquisition activity.

Early learning and healthcare services are integral to economic recovery and improving community outcomes – these important themes support Arena's portfolio value and will continue to provide opportunities for further disciplined growth.

We have increased our funding capacity; and as at June our gearing was 14.8% with no debt expiry until March 2023.

We have a highly engaged and dedicated management team with strong relationships with our tenant partners and a proven ability to secure and execute on high quality new investment opportunities. I would like to thank our Board members and our executive team, our contractors and service providers for their dedication and hard work through the period and take the opportunity to assure investors that we will continue working hard to achieve positive outcomes.

⁵ FY21 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.

In closing, I am pleased to advise that we are well placed to continue delivering benefits to our tenant partners and the communities that use our assets - and on our investment objective of providing long term predictable distributions to our investors with the prospect for growth.

Thank you for your interest and ongoing support of Arena.

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 ASX300 listed property group that owns, manages and develops 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.