



ARF.ASX

Arena REIT

FY16 Annual Results

Delivering predictable and growing income

25 August 2016



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1

Highlights

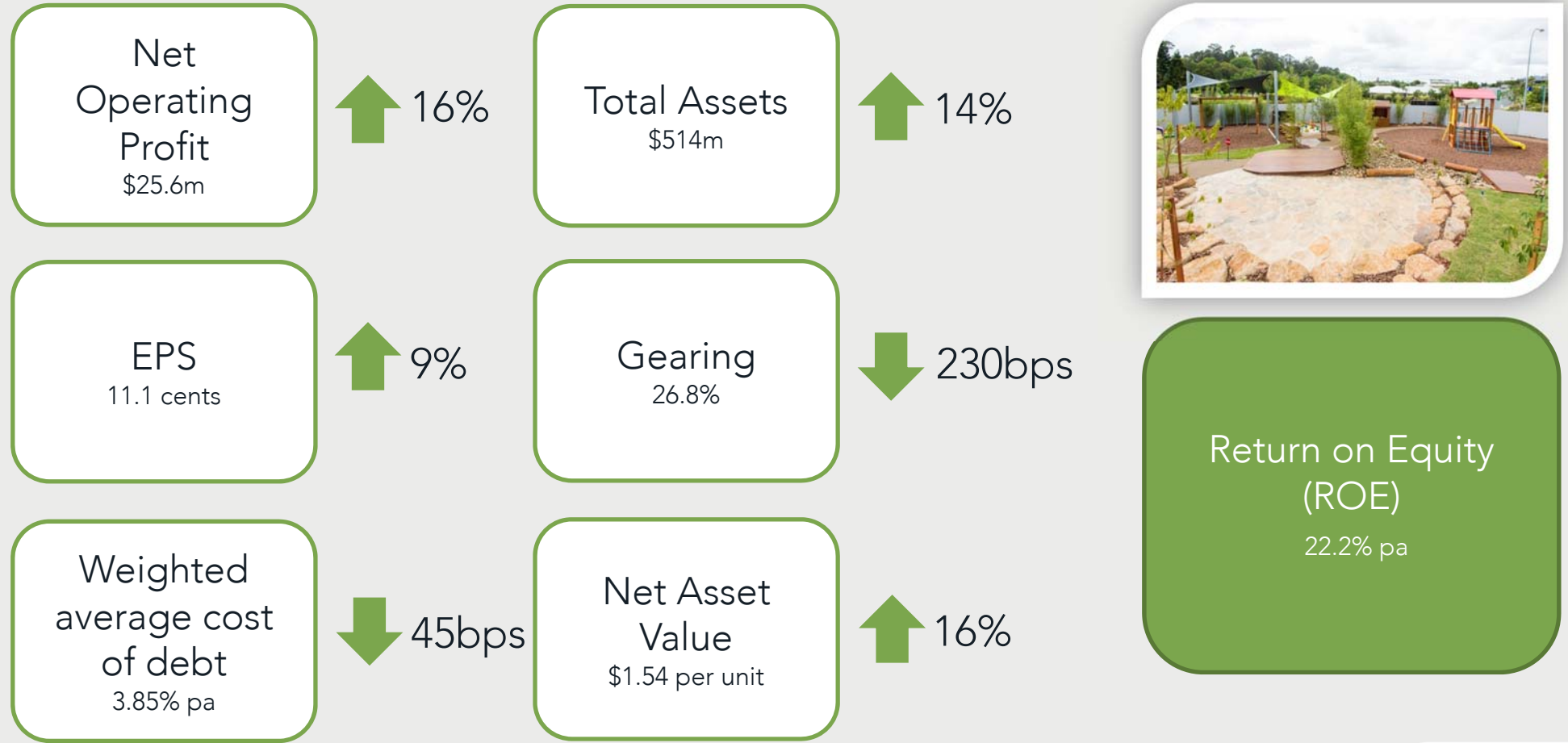
Bryce Mitchelson, Managing Director

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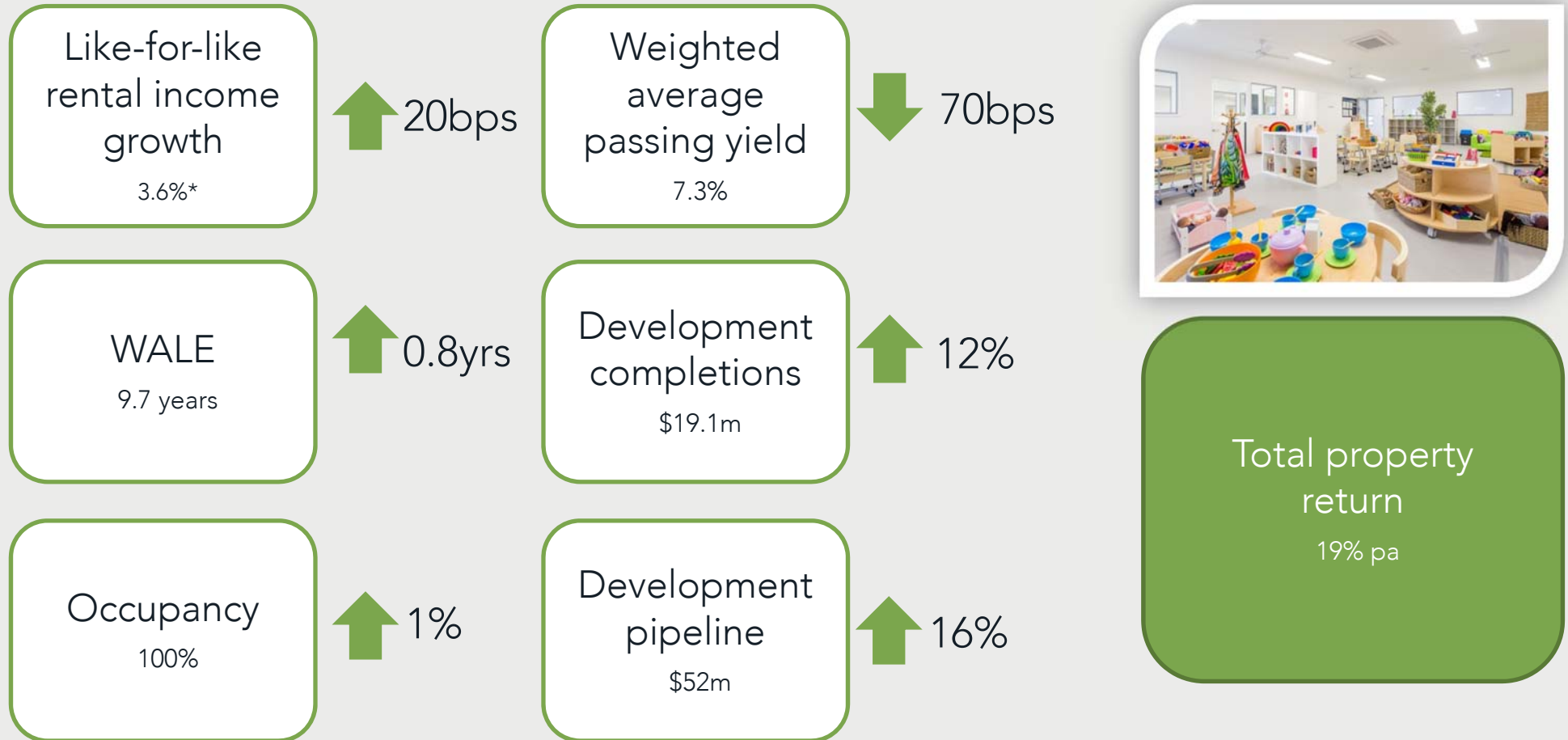
1.1 Financial highlights

Strong underlying performance and strengthened financial position



1.2 Portfolio highlights

Solid property portfolio performance



1.3 Consistent strategy to deliver securityholder value

Attractive investment characteristics in a low inflation environment

Income predictability

- > Net lease structure with minimal landlord capex
- > Long leases, with weighted average lease expiry 9.7 years
- > Access to underlying childcare business operating data

Defensive portfolio characteristics

- > Portfolio diversified by location, asset, sector and tenant
- > Serving an important local community need
- > Value of tenants' business linked to length of lease and profitability

Sustainable earnings growth

- > Structured rental growth currently providing real growth
- > Development pipeline delivering earnings accretion and quality investments

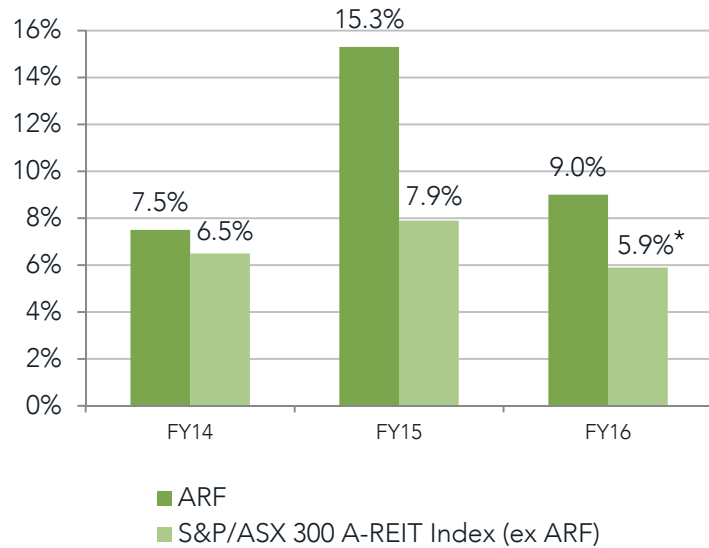
Favourable macro demand drivers

- > Favourable long-term socio-economic trends
- > Supportive government policy due to broader community benefit
- > Improving service quality benefiting children

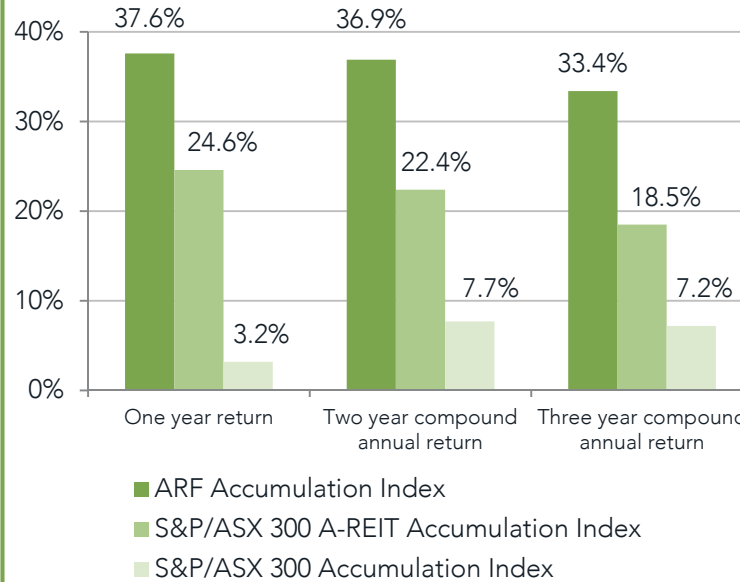
1.4 Delivering superior performance

Strong track record since ASX listing

Earnings per security (EPS) growth*



Total securityholder return (TSR)**



Compound annual 3 year EPS growth
11% pa

Compound annual 3 year total return
33.4% pa

FY17 Distribution guidance of 11.7 cents per security^ (+7.4%)

* Average annual EPS growth for S&P/ASX 300 A-REIT constituents (excluding ARF). FY16 EPS forecast based on consensus forecasts as at July 2016.

** Source: UBS June 2016 Monthly Report.

^ Refer FY17 distribution guidance assumptions detailed on page 25.





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Financial results

Gareth Winter, Chief Financial Officer

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2.1 Financial performance

Enhanced profitability through revenue growth and cost control

	FY16 (\$'000)	FY15 (\$'000)	%
Rental income	33,316	31,196	+7%
Other income	638	480	+33%
Total operating income	33,954	31,676	+7%
Direct property expenses	(1,003)	(1,306)	-23%
Operating expenses	(3,249)	(3,228)	+1%
Finance costs	(4,131)	(5,048)	-18%
Net operating profit	25,571	22,094	+16%
Earnings per security (EPS) (cents)	11.1	10.2	+9%
Distribution per security (DPS) (cents)	10.9	10.0	+9%

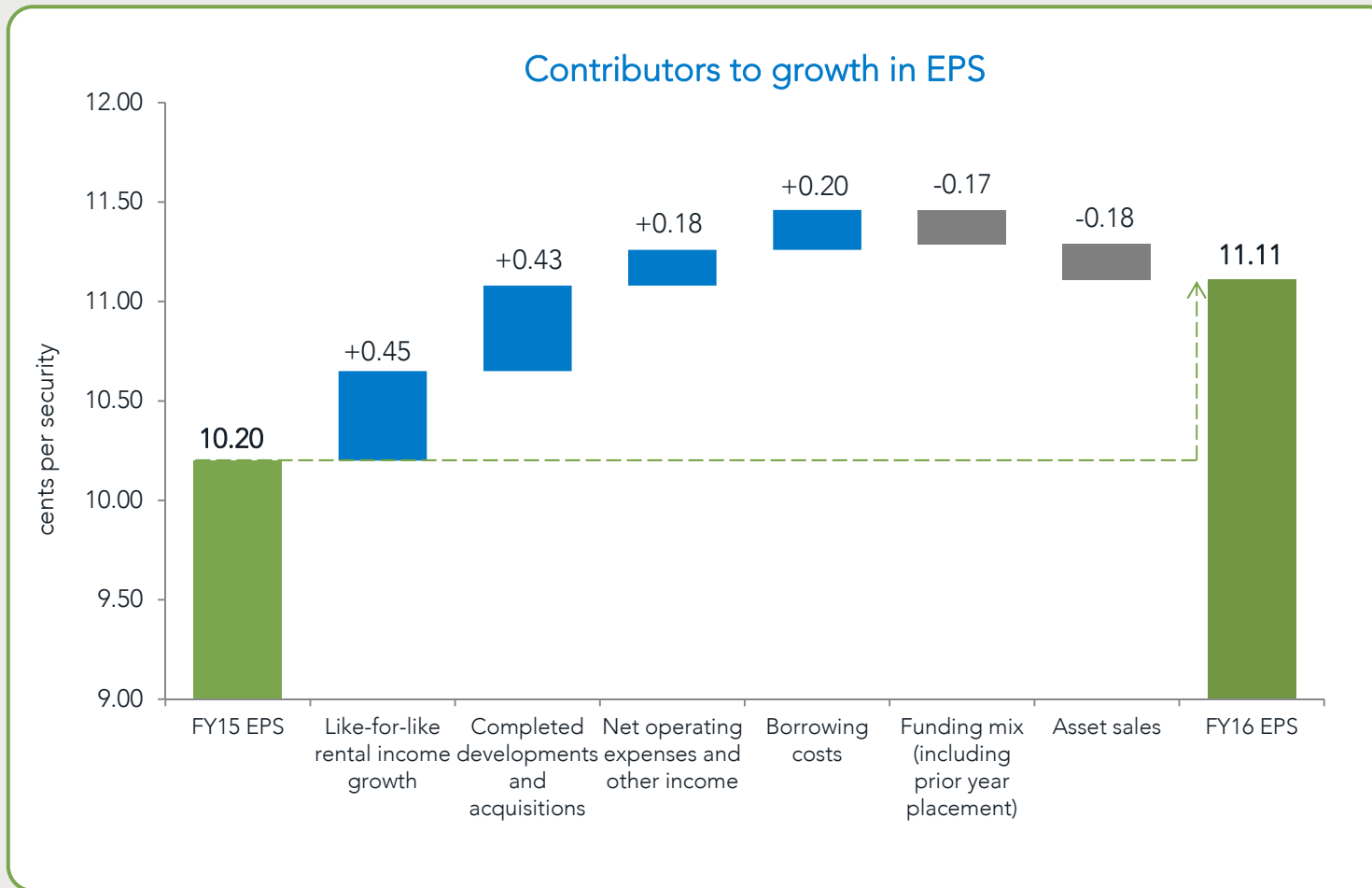
- > Increase in rental income due from completed developments, lease renegotiations and rent reviews
- > Other income increased due to full year of funds management fee income
- > Lower direct property expenses due to internalisation of property management and accounting function
- > Operating expenses – stable despite 30% increase in total assets since internalisation in December 2014
- > Reduced borrowing costs due to full year effect of FY15 institutional placement, reduced borrowing costs from refinance completed in December 2015 and market rates
- > Payout ratio stable at 98%

Net
operating
profit
+16%

Earnings per
security (EPS)
+9%

2.2 Earnings growth drivers

Growth in rental income drives EPS increase of 9%



Like-for-like rental income growth
+3.6%

Borrowing costs reduced
-18%

2.3 Financial position and capital management

Capacity to fund development commitments and growth opportunities

	30 June 2016	30 June 2015	Change (%)
Total assets (\$m)	514.0	450.6	+14%
Borrowings (\$m)	138.0	131.0	+5%
Gearing (%)	26.8%	29.1%	-230bps
Net asset value (NAV) (\$m)	357.5	303.5	+18%
NAV per security (\$)	1.54	1.33	+16%
Debt facility limit (\$m)	175.0	175.0	-
Average facility term (years)	3.5	3.0	+0.5yrs
Weighted average cost of debt (%)	3.85%	4.30%	-45bps
Interest cover ratio (x)	6.2x	4.5x	+38%
Interest rate hedging cover (%)	72%	69%	+3%
Weighted average hedge term (years)	4.0	3.5	+0.5yrs
Weighted average swap rate (%)	2.48%	2.62%	-14bps

Reduced
gearing

26.8%

Average
facility term
extended

3.5 years

- > Syndicated debt facility proactively renegotiated in December 2015 to diversify lenders and extend term
- > \$37 million in undrawn debt capacity; DRP active: \$6.2 million in new equity in FY16



3

Portfolio update

Rob de Vos, Head of Property

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3.1 Intensive portfolio management delivers strong results

Driven by disciplined approach

Growth in rental income

- > Like-for-like rental income increased by 3.6%*
- > Completed 13 FY16 market rent reviews at 5.7% average increase
- > Rent review structure provides real growth in a low inflation environment

Uplift in portfolio value

- > \$51.1 million revaluation increase in FY16
- > Valuation weighted average passing yield firmed 70bps to 7.3%
- > Direct market transaction evidence supports scope for further yield compression

Accretion from development program

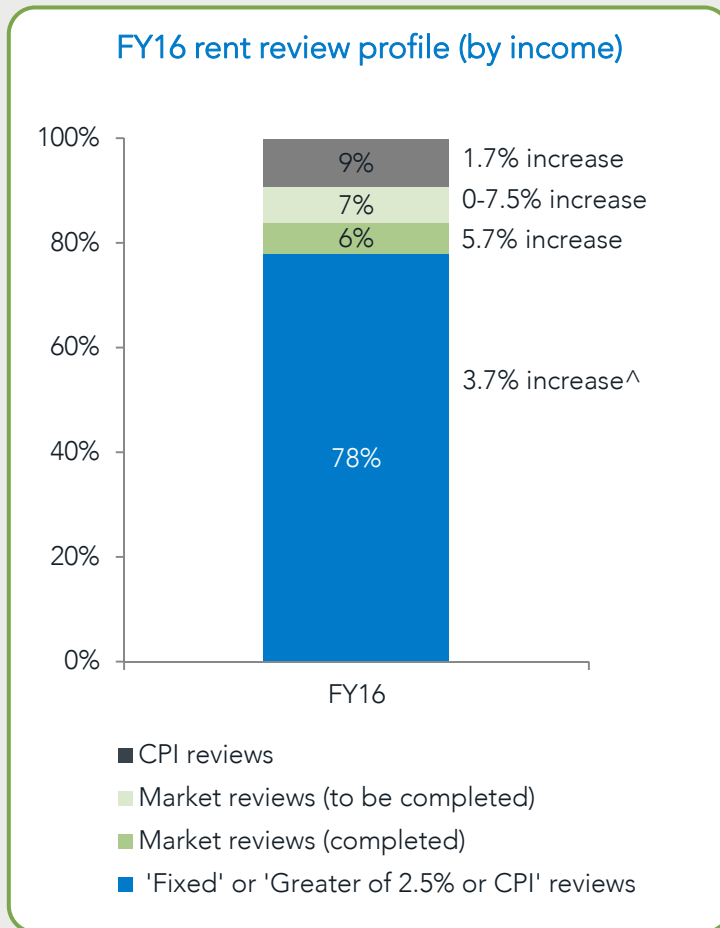
- > Four development projects completed at total net cost of \$19.1 million and weighted average initial yield on cost of 8.7%
- > Attractive development margins achieved
- > Development pipeline of \$52 million for completion in FY17-18

Future portfolio income de-risked

- > One childcare centre acquired and two vacant childcare centres sold
- > 100% of 32 lease options renewed and 12 leases renegotiated, extending weighted average lease expiry to 9.7 years
- > Over 75% of income does not expire until FY24+

3.2 Rent review structure provides real income growth

Income growth protected from impact of low inflation environment



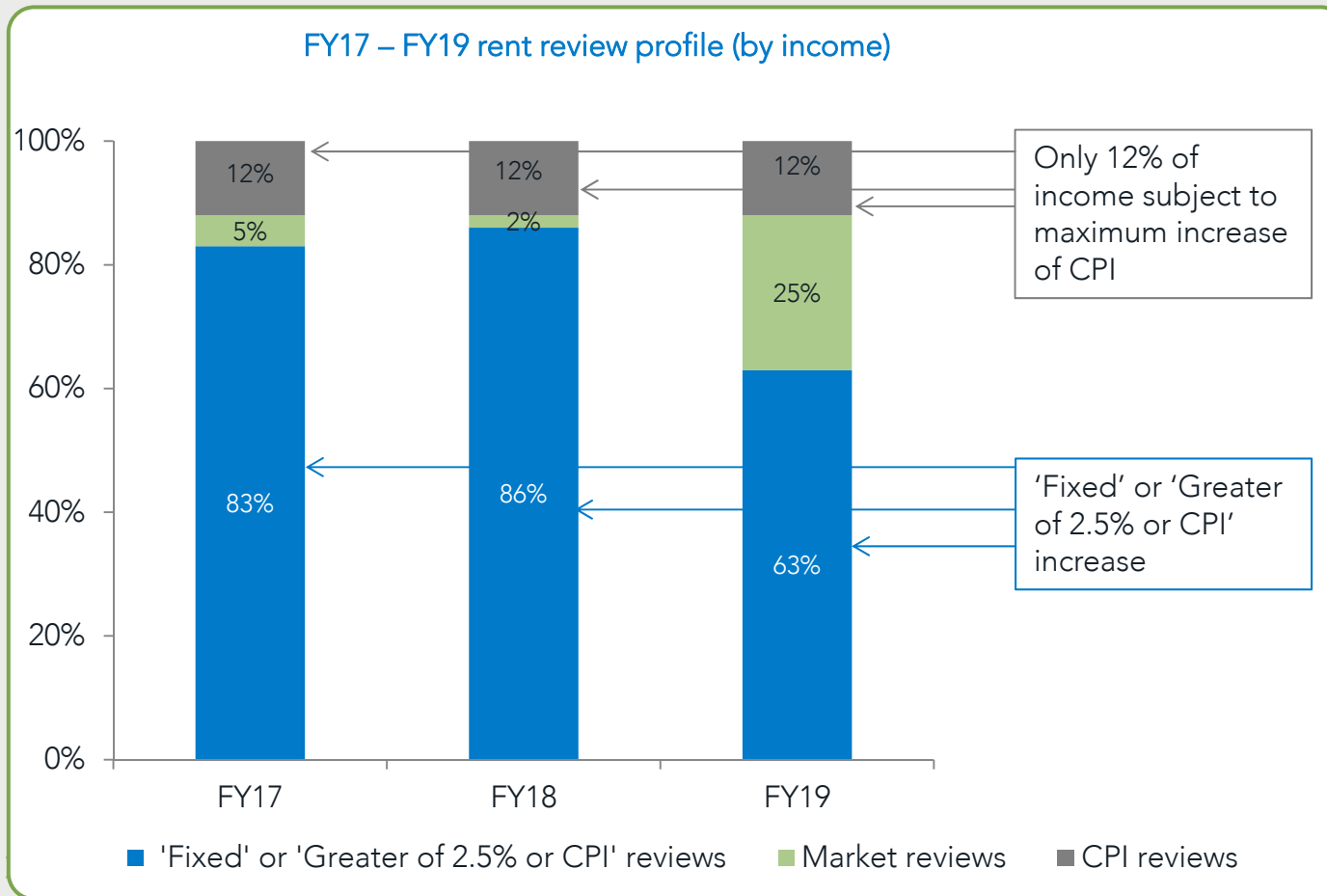
- > FY16 like-for-like rental income growth 3.6%*
- > 78% of income subject to 'Fixed' or 'Greater of 2.5% or CPI'
 - > 3.7% increase achieved
 - > Includes rental increase on 12 renegotiated leases which comprise 5% of portfolio income
- > 13% income subject to market review
 - > 13 market reviews (6% portfolio income) completed with 5.7% average increase
 - > 18 market reviews (7% portfolio income) outstanding with collar and cap of 0-7.5%
- > Market reviews support under-renting thesis
 - > Childcare portfolio operator profitability continues to improve year on year
 - > Ratio of net rent to gross revenue stable at low end of sustainable range

Like-for-like
rental income
growth
3.6%*

Underpinned
by relative
low exposure
to CPI
reviews
9%

3.3 Rent review profile provides future income predictability

Well positioned for rental growth in low inflation environment

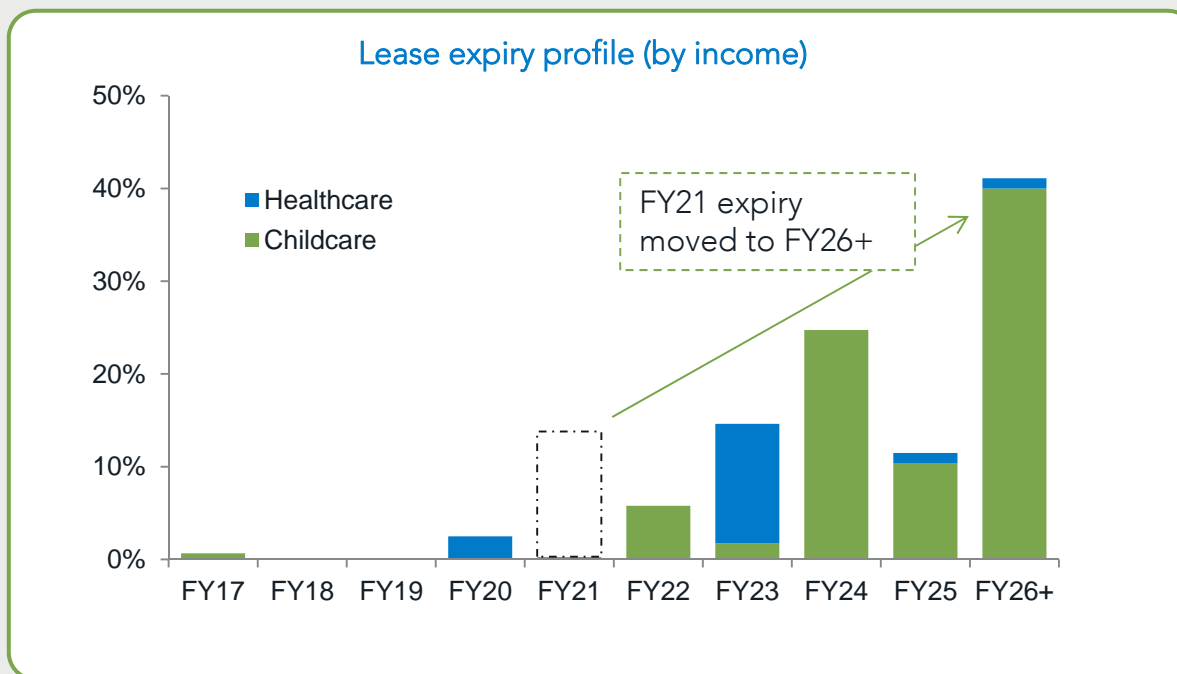


FY17 – portfolio income subject to 'Fixed' or 'Greater of 2.5% or CPI' annual increase
83%

FY17 – FY19 portfolio income subject to annual CPI review
12%

3.4 Weighted average lease expiry extended to 9.7 years

High lease renewal rate reflects quality of properties



Lease options renewed
100%

Portfolio income subject to expiry in next five years
3.5%

- > 32 of 32 lease options renewed, moving FY21 expiry of 14% of portfolio income to FY26+
- > 12 leases renegotiated with increase in rent and extension for new 20 year terms
- > No significant expiries in medium term
- > 14 leases up for renewal in FY17

3.5 Portfolio revaluation uplift

Driven by growing appreciation of long and attractive lease structures

	Number of assets	Value (\$m)	Valuation movement (\$m)	Valuation movement (%)
Childcare Portfolio	196	413.2	40.5	10.8
Healthcare Portfolio	7	78.2	10.6	15.6
Total Portfolio	203	491.4	51.1	11.5

Weighted average passing yield (%)	June 2016	June 2015	Change (bps)
Childcare Portfolio	7.31	8.00	(69)
Healthcare Portfolio	7.25	8.20	(95)
Total Portfolio	7.30	8.00	(70)

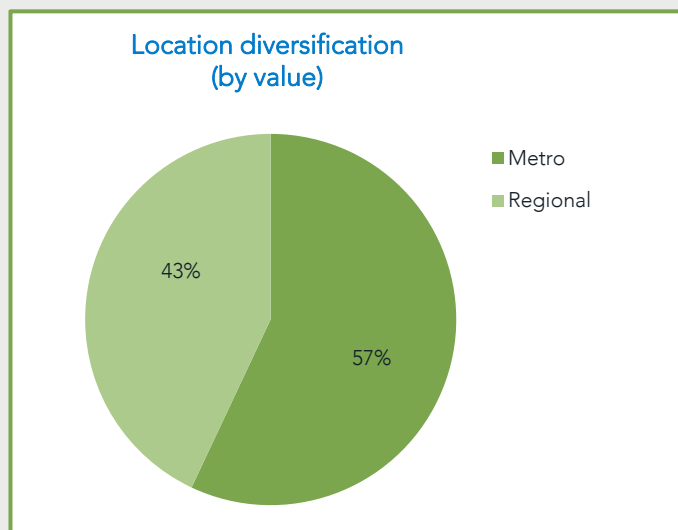
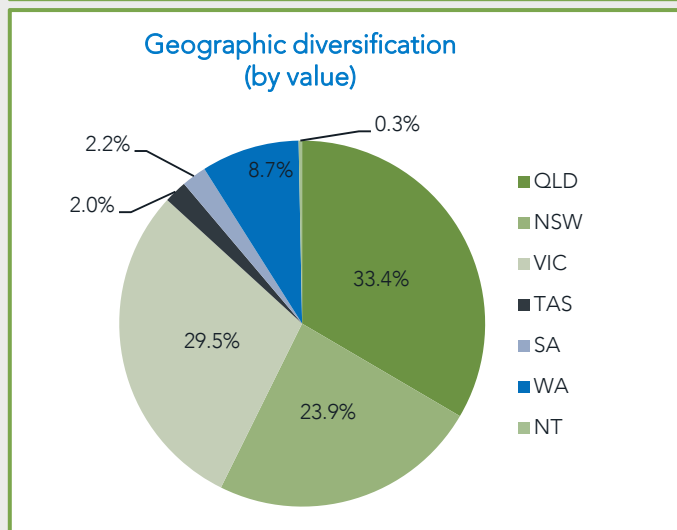
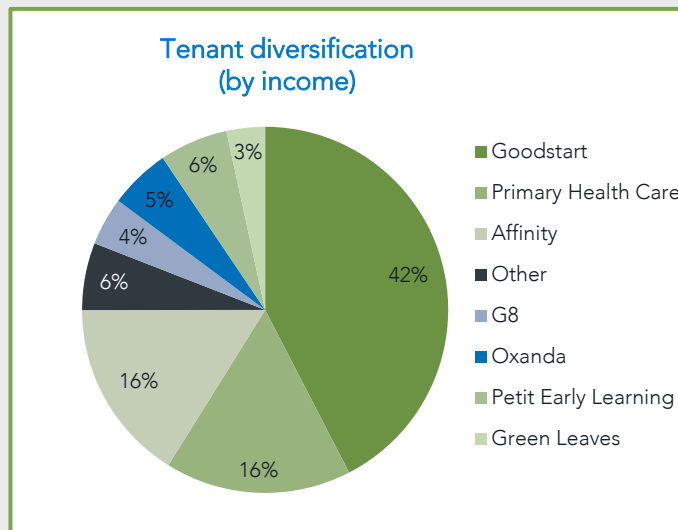
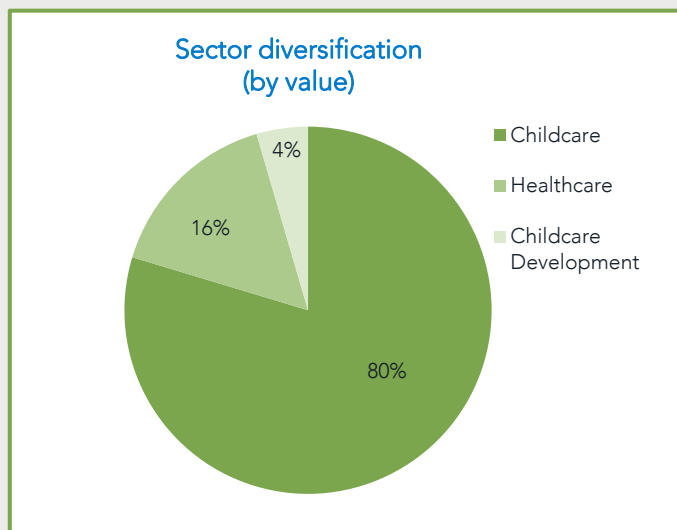
- > 39% of the portfolio independently valued in FY16*
- > Direct market evidence suggests further scope for firming in yields

FY16
valuation
uplift
11.5%

Attractive
average
passing yield
7.3%

3.6 Portfolio diversification benefits

Diversification mitigates concentration risk



Developments have enhanced geographic and tenant diversification

Partnering with new operators opens up future opportunities

3.7 Completed four childcare developments

High initial yield on cost drives earnings growth and margins

Location	Total cost* (\$m)	Initial yield on cost (%)	Yield on completion value (%)	Lease term (years)	Lease start date
Murwillumbah, NSW	2.4	9.5	7.0	15	Nov 2015
Kawana, QLD	3.2	9.0	7.0	15	Nov 2015
Clifton Hill, VIC	6.6	8.5	6.0	20	Feb 2016
Richmond, VIC	6.9	8.5	6.0	20	Apr 2016
Total	19.1	8.7[^]	6.3[^]	17.5[^]	

Weighted average initial yield on cost
8.7%

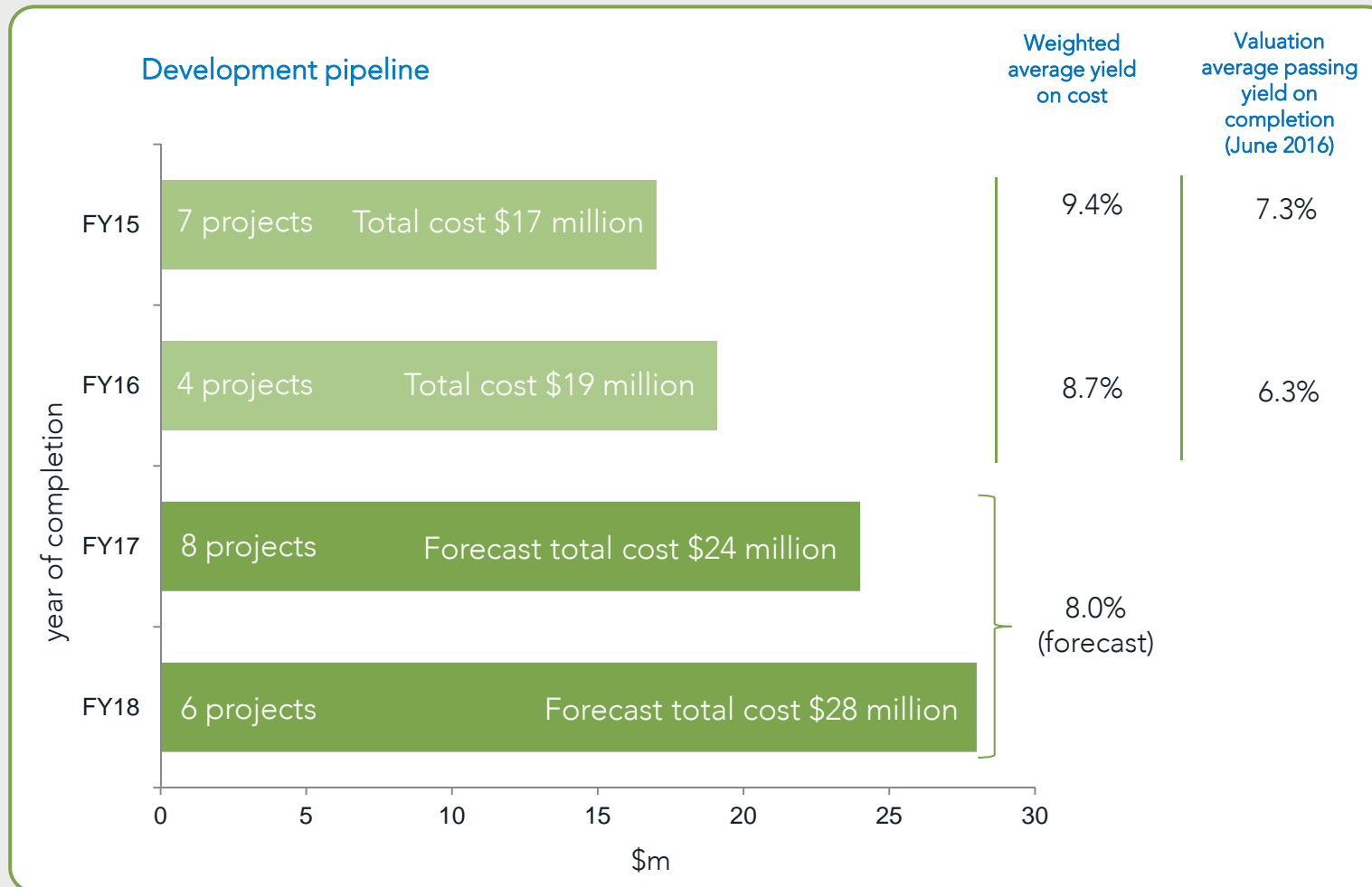
Weighted average yield on completion value
6.3%



* Total cost includes acquisition costs, holding costs, and construction costs less tenant contributions.
^ Weighted average.

3.8 Development pipeline

Arena originated projects with long-term tenant pre-commitments



Projects enhancing portfolio income and capital value

FY17-18 projects forecast weighted average yield on cost 8%

3.9 Projects underway and due for FY17 completion

New childcare centres have comparative advantage in local markets

State of
Victoria PPP
program
(tranche 1)
5 projects

- > Innovative delivery structure that rewards Arena's origination expertise
- > Projects progressing on time and on budget with completion due in January 2017
- > All projects situated adjacent to new primary schools
- > Enhanced tenant diversification with addition of YMCA to portfolio



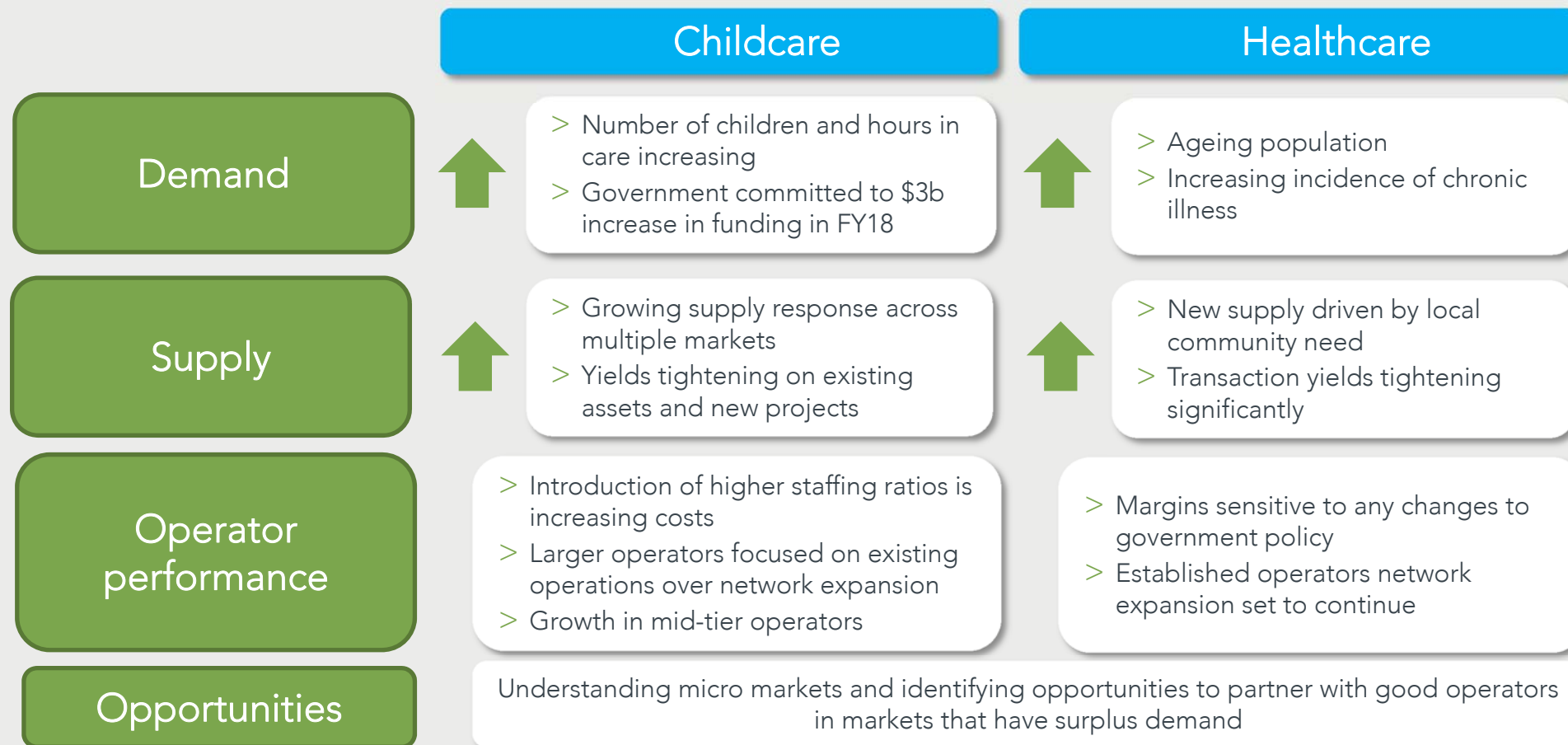
3 projects

- > Mix of metropolitan and regional projects
- > Each project has favourable demographics and comparative advantage in its local market
- > All pre-committed to established childcare operators
- > Arena's preferred lease structures with 15-20 year initial terms and annual reviews at greater of 2.5-3.0% or CPI



3.10 Market outlook

Opportunities to partner with established operators to provide real estate capital





4

Outlook

Bryce Mitchelson, Managing Director

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FY17 outlook positive

Underpinned by contracted rental growth and development completions

Structured rental growth

- > All properties are subject to annual rent review
- > FY17 – 83% of portfolio income subject to rent review at 'Fixed' or 'Greater of 2.5% or CPI' – providing real income growth in forecast low inflation environment

Development completions

- > Upside from full year of income from four developments completed in FY16
- > On schedule to complete eight projects in FY17 at a forecast cost of \$24 million

Quality portfolio

- > Attractive portfolio passing yield of 7.3%
- > Further opportunity for revaluation growth in FY17

Capital management

- > Low cost of debt 3.85% pa; 72% of drawn debt hedged
- > Borrowing capacity available to fund development pipeline and new opportunities
- > DRP in operation

Efficient cost base

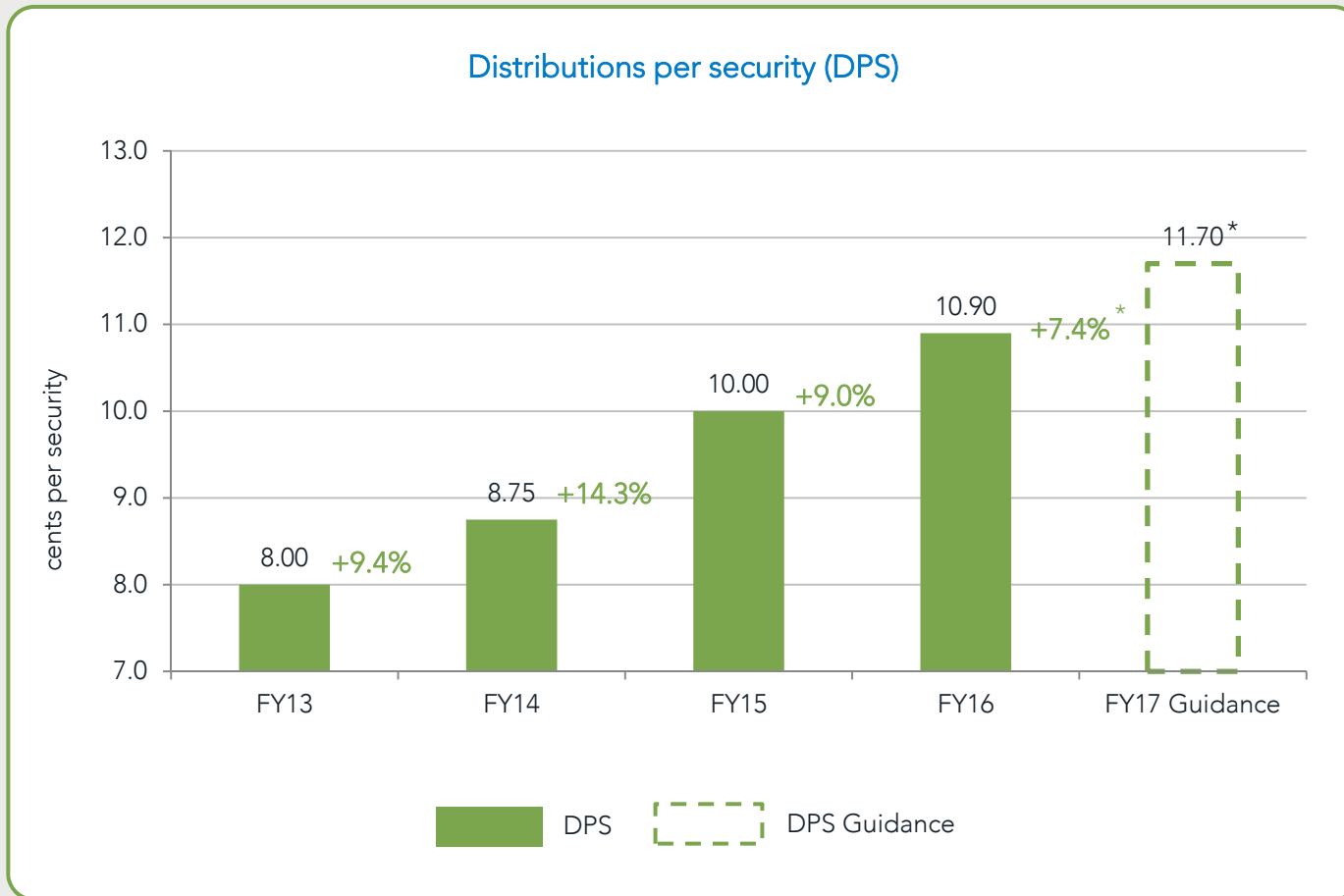
- > Business model allows for efficient allocation of resources and low overheads

Favourable investment environment

- > Low interest rate environment
- > Australian real estate attractive to global investors

4.2 Consistent track record of annual distribution growth

Forecast growth in distribution of 7.4% for FY17*



FY17
Distribution
guidance of
11.7 cents
per security*

* On a status quo basis assuming no new acquisitions or disposals, developments in progress are completed in line with budget assumptions and tenants comply with lease obligations.



5

Questions?

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6

Appendices: Additional information

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6.1 Income statement

Statutory net profit \$72.6 million, up 19%

\$ '000	30 June 2016	30 June 2015	Change	
			\$'000	(%)
<i>Income</i>				
Rental income	33,316	31,196	2,120	7%
Other income	638	480	158	33%
Total Operating Income	33,954	31,676	2,278	7%
Direct property expenses	(1,003)	(1,306)	303	(23%)
Operating expenses	(3,249)	(3,228)	(21)	1%
Finance costs	(4,131)	(5,048)	917	(18%)
Net Operating Profit / Distributable Income	25,571	22,094	3,477	16%
Straight-line rental income	(327)	23	(350)	(1522%)
Revaluation gain on investment properties	51,062	39,828	11,234	28%
Change in fair value of derivatives	(2,915)	(1,781)	(1,134)	64%
Profit/(loss) on sale of investment properties	(121)	2,232	(2,353)	(504%)
Stapling and other transaction costs	(242)	(1,438)	1,196	(83%)
Amortisation of security-based payments (non-cash)	(365)	(112)	(253)	(226%)
Other	(42)	120	(162)	(135%)
Statutory Profit	72,621	60,966	11,655	19%
Distributable Income per security (EPS) (cents)	11.11	10.20	0.91	9%
Distributions per security (DPS) (cents)	10.90	10.00	0.90	9%

- > Increase in rental income due to completed developments, lease renegotiations and rent reviews
- > Other income increased due to full year of funds management fee income
- > Lower direct property expenses due to internalisation of property management and accounting function
- > Cash operating expenses stable despite 30% increase in total assets since internalisation in December 2014
- > Lower borrowing costs following refinancing in December 2015, lower rates and full year effect of FY15 capital raising
- > Return on Equity (ROE) 22.2% pa

6.2 Balance sheet

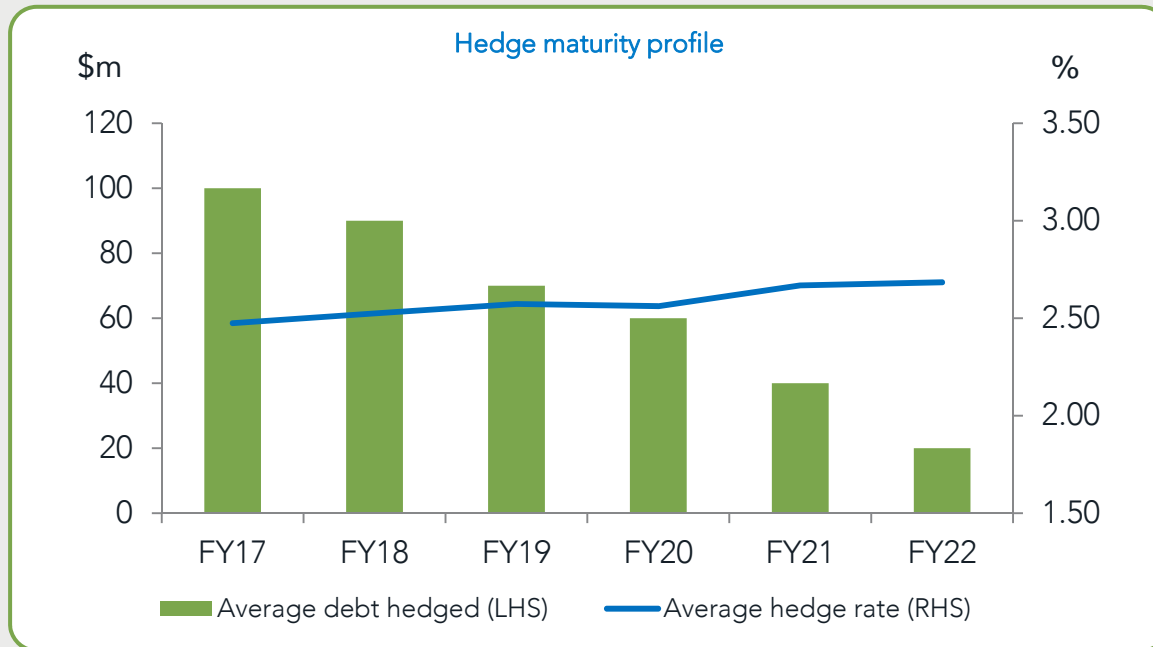
Net assets \$357.5 million, up 18%

\$'000	30 June 2016	30 June 2015	Change	
			\$'000	%
Cash	9,446	10,888	(1,442)	(13%)
Receivables and other assets	2,250	8,473	(6,223)	(73%)
Investment properties	491,439	420,532	70,907	17%
Intangibles	10,816	10,730	86	-
Total assets	513,951	450,623	63,328	14%
Payables and other liabilities	15,841	15,960	119	-
Borrowings	137,587	130,774	(6,813)	5%
Derivatives	3,030	398	(2,632)	661%
Total liabilities	156,458	147,132	(9,326)	6%
Net assets	357,493	303,491	54,002	18%
Number of securities on issue (m)	232.0	228.3	3.7	2%
Net asset value per security (\$)	1.54	1.33	0.21	16%
Gearing*	26.8%	29.1%	(2.3%)	(230bps)

- > Gearing reduced to 26.8% and NAV per security up \$0.21 to \$1.54 following a revaluation uplift of \$51 million
- > Strong liquidity
- > \$37 million available in existing debt facility
- > Securities on issue increased through DRP issuance
- > Receivables higher at 30 June 2015 due to asset sales not yet settled

6.3 Interest rate management

Hedge term duration extended



	30 June 2016	30 June 2015
Hedge cover	72%	69%
Weighted average hedge interest rate	2.48%	2.62%
Weighted average hedge term	4.0 years	3.5 years

6.4 Portfolio valuations at 30 June 2016

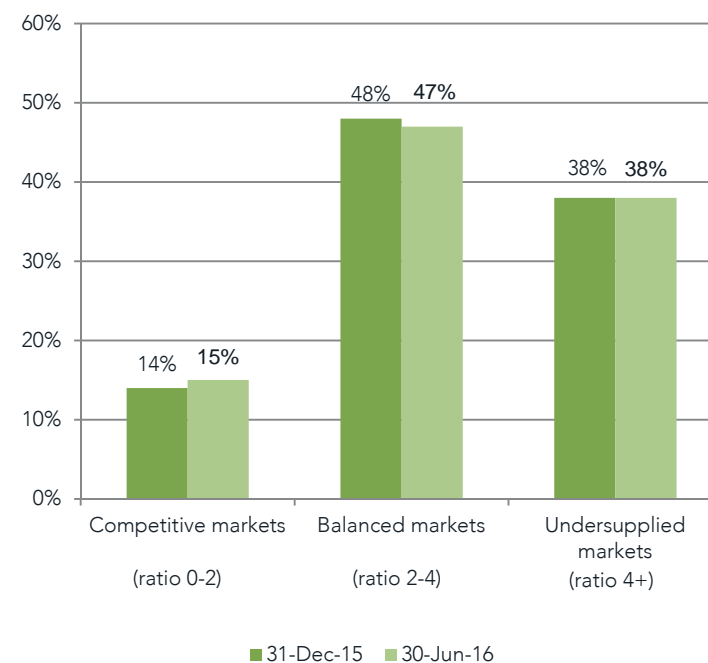
	Number of assets	Value (\$m)	Passing Yield (%)
Childcare - Independent Valuations			
Queensland	8	23.4	7.57
New South Wales	4	9.0	7.25
Northern Territory	1	1.5	8.01
Victoria	17	49.5	6.29
Development sites	1	0.2	-
Total	31	83.6	6.77
Childcare – Director Valuations			
Queensland	63	134.7	7.80
New South Wales	22	36.1	7.25
Western Australia	22	42.5	7.51
Victoria	34	73.5	6.80
Tasmania	6	10.0	8.01
South Australia	5	10.8	7.69
Development sites	13	22.0	-
Total	165	329.6	7.45
Total Childcare portfolio	196	413.2	7.31
Healthcare – Director Valuations			
Total	7	78.2	7.25
Total portfolio	203	491.4	7.30

6.5 Childcare portfolio metrics

Active portfolio management has improved key ratios

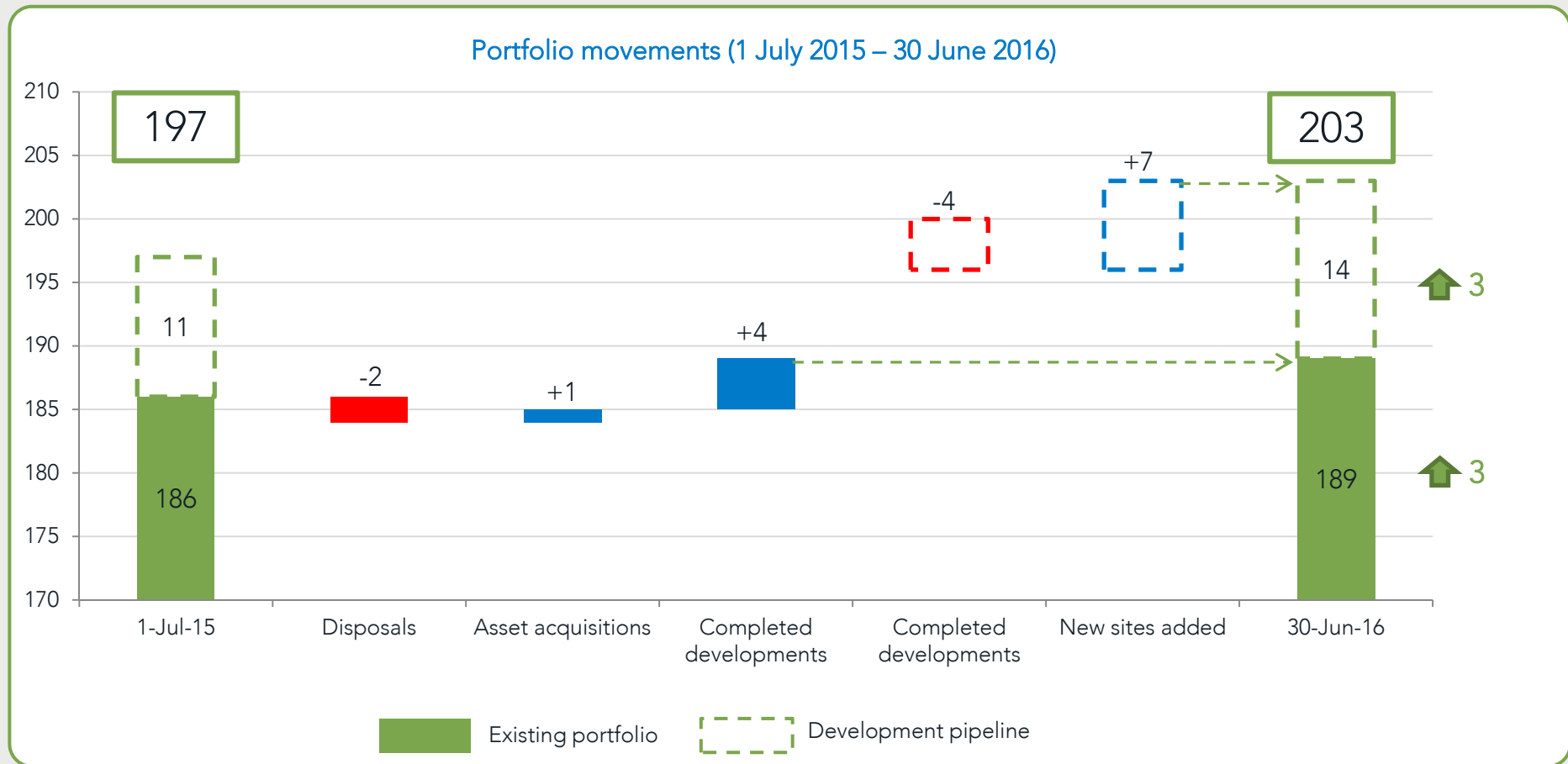
Childcare portfolio	30 Jun 2016	30 Jun 2015	Change
Leased childcare centres	182	177	2.8%
Development sites	14	11	27.3%
Total childcare properties	196	190	3.2%
WALE (by income) (years)	10.4	9.3	1.1yrs
Tenanted occupancy (%)	100	99	1%
Average passing yield (%)	7.31	8.0	(69bps)
Property portfolio (\$m)	413.2	350.0	18.1%
Rental growth (like-for-like) (%) *	3.8	3.5	30bps
Portfolio composition			
Metropolitan (by value) (%)	54	52	3.8%
Regional (by value) (%)	46	48	(4.2%)
Purpose Built (by value) (%)	96	95	1%

Arena childcare portfolio – market analysis
(Ratio of children 0-4 years to available childcare places, by local catchment area)



6.6 Portfolio composition and movement

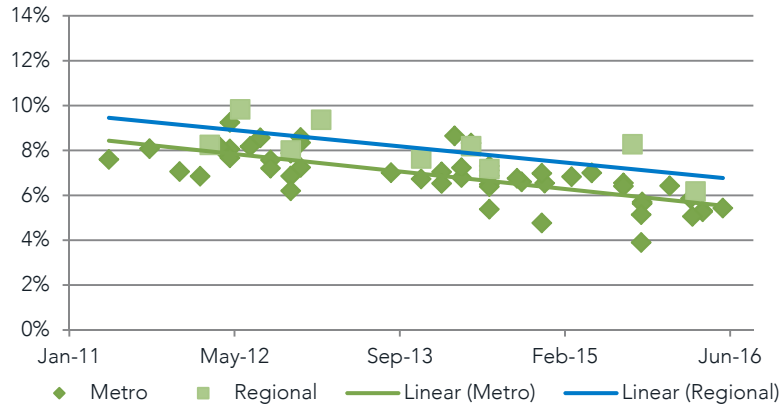
Development pipeline replenished



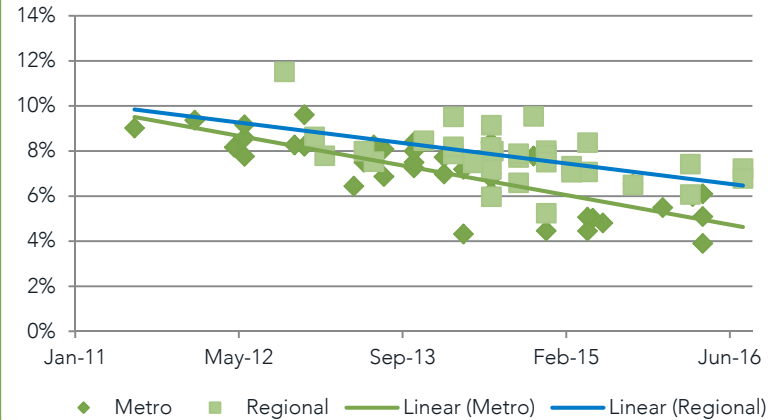
6.7 Childcare property market sales evidence (2011 – 2016)

Transactions show childcare centre yields continuing to firm

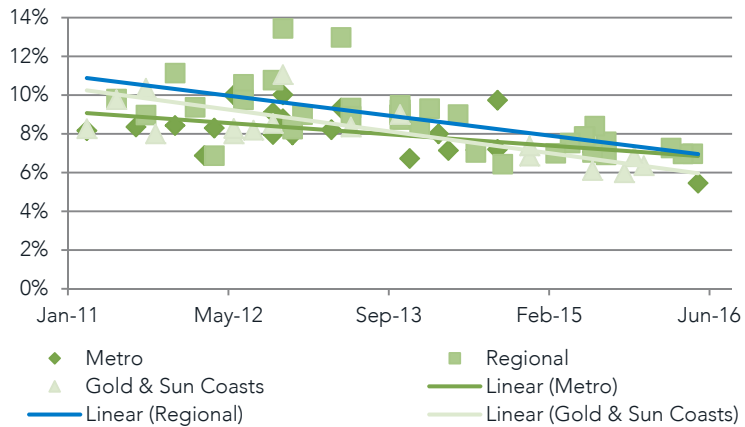
VIC Childcare transaction yields



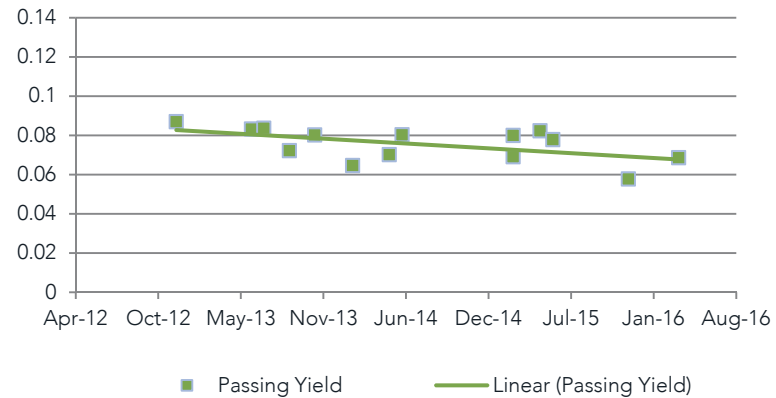
NSW Childcare transaction yields



QLD Childcare transaction yields

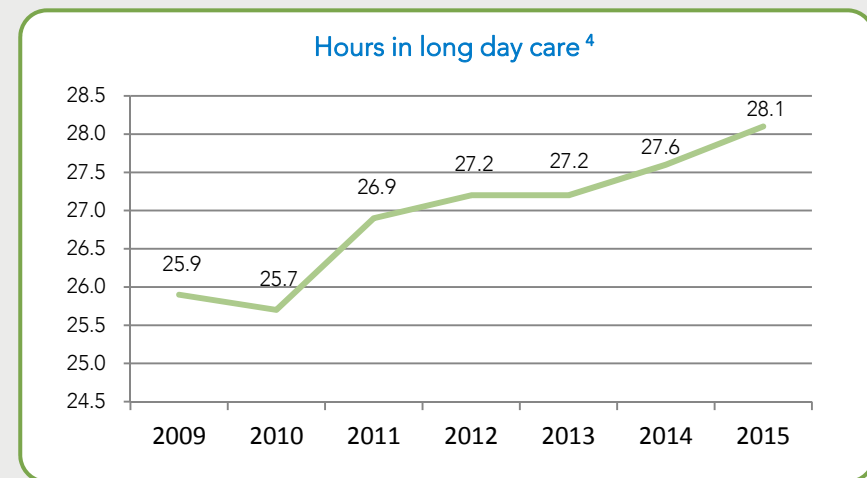
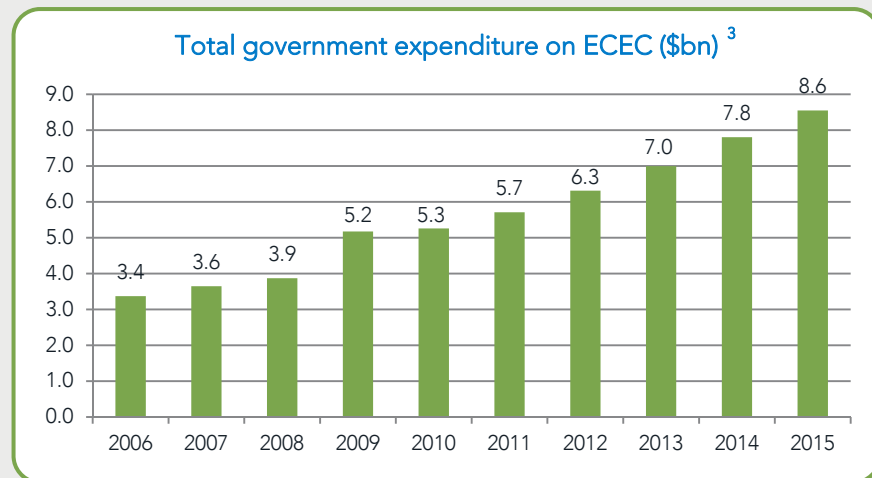
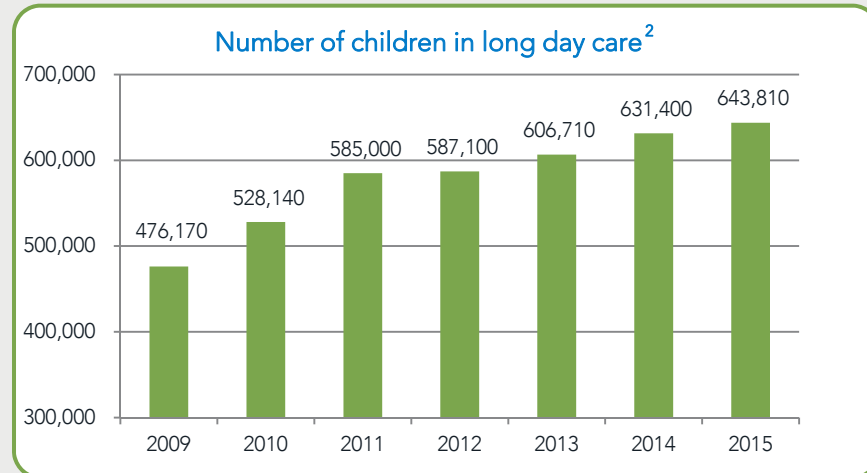
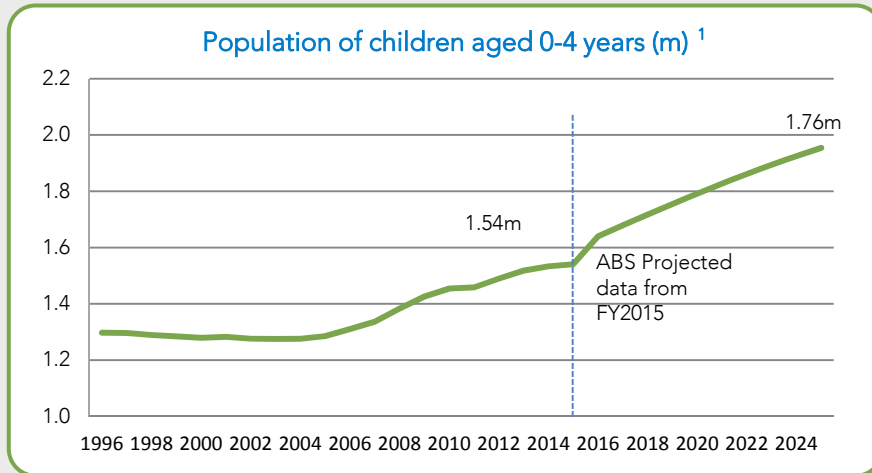


Other States Childcare transaction yields



6.8 Childcare market data

Demand supported by demographic and macroeconomic trends



Sources:

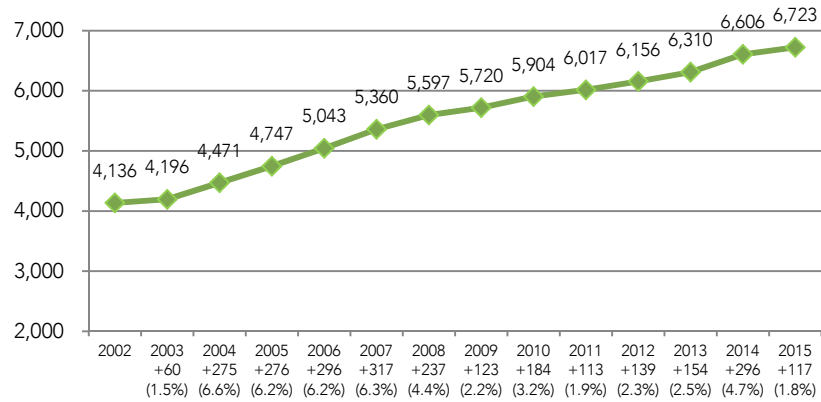
1. ABS Statistical Reports No. 3105, No. 3101, No. 3222.
2. Australian Government 'Early Childhood and Child Care in Summary' Reports 2010-2016.
3. Australian Government 'Report on Government Services 2016'.
4. Australian Government 'Early Childhood and Child Care in Summary' Reports 2010-2016.



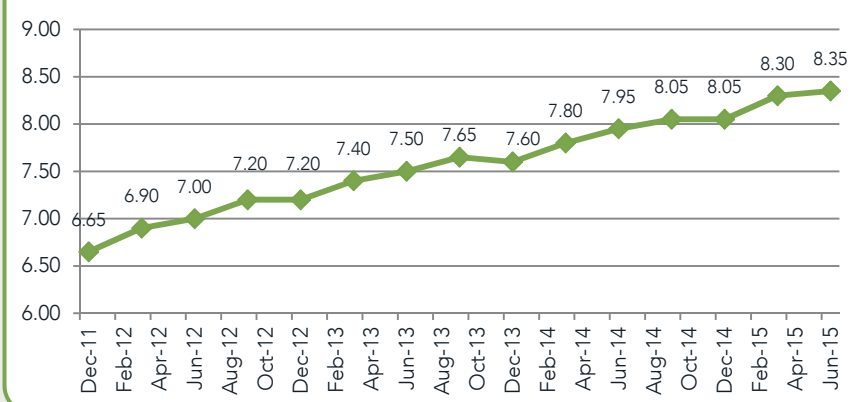
6.9 Childcare market data

Childcare operator analysis

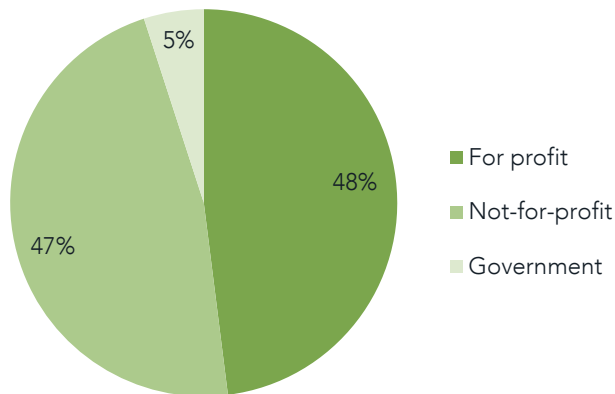
Number of long day care services in Australia ¹



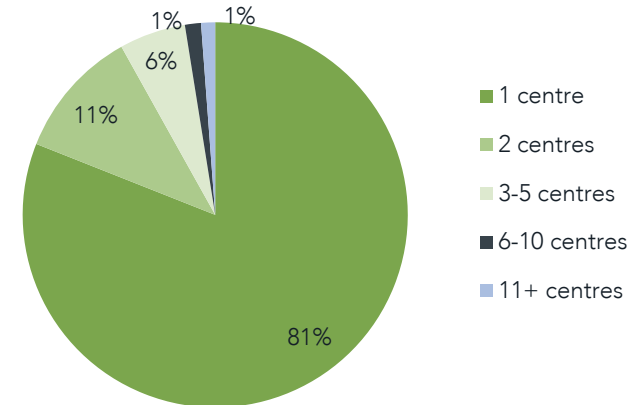
Average hourly fees ²



Top 20 operators by operator type ³



Operators by number of centres operated ⁴



Sources:

1. Australian Government 'Early Childhood and Child Care in Summary' Reports, Arena analysis.
2. Australian Government 'Early Childhood and Child Care in Summary' Reports 2011-2016.
3. Arena analysis.
4. Arena analysis.

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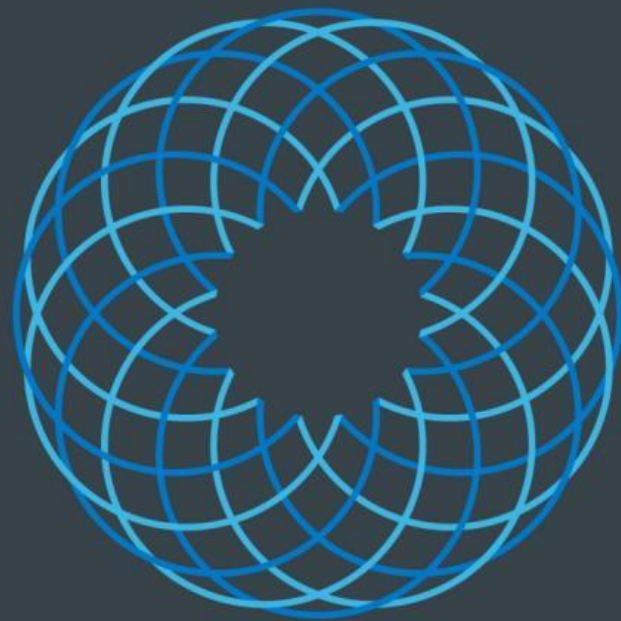
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