14 August 2023

ASX Announcement

Region Group Announces FY23 Results

Region Group (RGN) today announces its results for the year ended 30 June 2023 (FY23).

Financial Performance highlights

- Statutory net loss after tax of $123.6m, down 125.4% compared to FY22
- AFFO per security of 15.3 cps in line with FY22
- Distributions per security of 15.2 cps representing a payout ratio of 99.7% of AFFO
- $4.9bn of assets under management
- Weighted average market capitalisation rate increase of 42 bps from 5.43% at 30 June 2022 to 5.85% contributing to a $264.1m decrease in property valuations
- Balance Sheet Gearing of 31.3% which is at the lower end of our target range of 30-40%
- Net tangible assets of $2.55 per security, down by 9.2% compared to 30 June 2022

Operational Performance highlights

- Comparable Net Operating Income (NOI) growth of 4.3%
- Leasing spreads of 3.7% across 393 leasing deals
- 82.0% of our tenants retained on lease expiry
- Portfolio occupancy of 97.8% with a stable specialty vacancy rate of 5.0%
- Fixed rent reviews of 3.8% across 88% of our specialty tenants
- Weighted average lease expiry (WALE) of 6.2 years
- 14.9MW of solar PV installed or under construction out of our FY26 target of 25MW resulting in a 17% reduction in greenhouse gas emissions compared to FY20 baseline (calculated on a like for like basis excluding acquisitions and disposals)
- Five convenience-based shopping centres acquired for $180.0m in July 2022 with the divestment of Carrara Shopping Centre in May 2023 for $23.5m (a 2.2% premium above 30 June 2022 carrying value) and our remaining investment in Charter Hall Retail REIT in January 2023 for $26.7m

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regiongroup.au

Region Chief Executive Officer, Anthony Mellowes said: *"The operating performance of our portfolio of convenience-based retail properties remains strong driven by our solid leasing performance and high occupancy.*

We have delivered 4.5% sales growth across all categories with supermarket sales increasing by a steady 3.4% as cost of living pressures and lower consumer sentiment sees Australians prioritising life's essentials with our specialty tenants remaining resilient.

We have continued our sustainability initiatives and are on track to reach our 25MW solar target by FY26 and Net Zero (scope 1 and 2) by FY30.

We maintain a disciplined approach toward transactional activity, with our last acquisitions in July 2022, having a greater focus on allocating capital to enhance the performance of our existing portfolio."

Region Chief Financial Officer, Evan Walsh said: *"We have maintained our AFFO and distribution per security despite the rapid rise in market interest rates which drove a 0.9% increase in our weighted average cost of debt.*

Our approach to capital management reflects current market conditions with a preference to be at the lower end of our target gearing range at this point in the cycle, higher than usual funding liquidity, and fixing 90% of our currently drawn debt."

Financial Performance

Earnings

Funds From Operations (FFO) was $192.5m down 0.1% with Adjusted Funds From Operations (AFFO) of $173.9m up 2.6%, with the result being driven by the 4.3% increase in comparable NOI offset by increased interest expense from the weighted average cost of debt (WACD) rising from 2.5% to 3.4%.

Excluding the increase in the WACD, FFO increased by 6.6% with AFFO increasing by 10.2%.

Capital Management

We had cash and undrawn facilities of $385.7m with liquidity held to fund the expiry of the A$225.0m medium term notes in June 2024. There is no other debt expiring until FY26 and we have an average debt maturity of 4.4 years.

79.7% of debt was either fixed or hedged at 30 June 2023 with an average maturity of 2.3 years. Since 30 June we have entered into additional hedging with 90% of our average FY24 debt drawn now hedged or fixed.

The Distribution Reinvestment Plan (DRP) remained active for the FY23 distributions. In December 2022, the DRP was 50% underwritten with $42.3m raised at $2.61 per security. For the distribution declared in June 2023, $26.8 million is expected to be raised through DRP at $2.27 per security.

Operational Performance

Portfolio occupancy remains resilient at 97.8% with specialty vacancy of 5.0% being in line with 31 December 2022.

Total MAT has grown by 4.5% with a solid 7.5% growth in specialty sales driven by 8.2% increase in sales from our non-discretionary tenants.

Total portfolio	30 June 2023	30 June 2022
Supermarkets	3.4%	2.4%
Discount Department Stores	9.4%	(6.1%)
Mini Majors	2.2%	1.5%
Specialties	7.5%	0.4%
Total	**4.5%**	**1.3%**

Supermarket MAT growth of 3.4% is driving increased anchor turnover rental income with 59 of our anchor tenants contributing $6.3m of turnover rent with an additional $1.4m of turnover rent crystalised into the base rent for 16 of our anchor tenants.

Supporting the growth of the online sales of our supermarket tenants, we spent $6.5m through co-investments and contributions to direct to boot and click and collect bays, with over 81% of our Coles and Woolworths stores now having these facilities and online sales are included in 96% of our supermarket turnover rent calculations.

Our specialty tenants have remained resilient during the period with sales productivity improving from $9,865 to $10,342 per square metre (psm); gross rent increasing from $793 psm to $818 psm; and occupancy costs remaining at 8.7%. Specialty tenant holdovers have reduced to 3.7% of gross property income (from 3.9% at 31 December 2022).

Arrears have reduced to 1.3% of FY23 rental income with only $2.1m of COVID related deferred rent remaining to be billed.

Growth Opportunities

In the near term, we are expecting that there will be minimal acquisition opportunities given current market pricing. However, we will consider disposing of lower value, tighter yielding properties where there is still significant demand from private investors.

To continue to grow our portfolio, we will focus on investing in our properties through improvements such as ambience upgrades and refurbishments, continuing to support our supermarkets drive online sales, developing pad sites and progressing our sustainability initiatives.

In July 2023, we committed to a $31.5 million fund through development on land adjacent to Delacombe Town Centre strategically consolidating the site. The development includes a Woolworths home delivery fulfilment facility that will service the Ballarat region and is complemented by a large format retail precinct.

The Metro Fund (a JV with Singaporean sovereign wealth fund, GIC) continues to offer a platform for growth over the medium to longer term with an initial target fund size of $750m. The Fund acquired Beecroft Place in July 2022 for $65.5m with the fund positioning us to access to metropolitan neighbourhoods in partnership with a high quality and globally recognised partner, while growing asset-light management fee income.

Strategy and Outlook

Our core strategy remains unchanged as we continue to drive defensive, resilient cashflows to support secure and growing long-term distributions to our security holders. Our investors, tenants and shoppers value our focus on creating places that deliver both a practical and positive experience, as we strive to be the first choice for essentials at a place nearby.

With earnings growth being constrained through headwinds created by the increasing cost of debt, we will continue to focus on our generating sustainable NOI from our core business through driving increased rental income, leveraging our scale to maintain controllable property expenses, investing more in enhancing our properties, continuing on our path towards Net Zero (scope 1 and 2) and cementing our "Essentially Local" brand within communities.

Earnings Guidance

Our earnings guidance for FY24 is FFO per security of 15.6 cps and AFFO per security of 13.7 cps with a target distribution payout ratio of approximately 100% of AFFO per security.

This guidance assumes that there are no further acquisitions, disposals or growth in the funds management platform and a 1.0% increase in the WACD to 4.4%.

A link to pre-register for the webcast of the investor briefing will be available at www.regiongroup.au.

This document has been authorised to be given to the ASX by the Board of RGN.

ENDS

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Security holders should contact the RGN Information Line on 1300 318 976 with any queries.

About Region Group

Region Group (RGN) includes two internally managed real estate investment trusts owning a portfolio of convenience-based retail properties located across Australia. Region invests in retail properties predominantly anchored by non-discretionary retailers, with long leases to tenants such as Woolworths Limited, Coles Limited and companies in the Wesfarmers Limited group. Region Group comprises two registered managed investment schemes, Region Management Trust (ARSN 160 612 626) and Region Retail Trust (ARSN 160 612 788). The security in each Trust are stapled to form the stapled listed vehicle, Region Group (ASX: RGN), formerly known as SCA Property Group (ASX: SCP).