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2019 REVIEW

The Directors present the Annual Report of Ariadne Australia Ltd (“Ariadne”) for the period ended 30 June 2019.

For the 2019 financial year Ariadne reported a net profit before tax attributable to members of \$4.6 million, but this morphed into a net loss after tax attributable to members of \$2.9 million (2018: \$15.3 million profit) after providing for income tax of \$7.5 million.

This tax expense is a non-cash item and reflects the application of accounting standards in the treatment of Ariadne’s recorded deferred tax asset and deferred tax liability respectively arising from our carried forward tax losses as discussed in the FY19 Half-Year Review.

In addition, a negative contribution (net of deferred tax) attributable to members of \$23.8 million (2018: \$5.1 million negative contribution) was reported through the Statement of Comprehensive Income, resulting in a total comprehensive loss attributable to members of \$26.7 million (2018: \$10.2 million profit).

The net tangible assets per share decreased during the period from 88.25 cents per share to 73.29 cents per share at balance date, after taking account of the payments of a 1.00 cent final dividend and a 0.70 cent interim dividend during the period.

The total comprehensive loss per share was 13.48 cents compared to earnings of 5.10 cents for the previous corresponding period.

The increased net operating cash flow during the period of \$21.3 million (2018: \$0.6 million) is predominantly due to distributions received from associates following the sale of the commercial property located at 40 Tank Street, Brisbane (“Tank Street”) which settled in August 2018.

The result for FY19 is particularly disappointing in light of more recent positive reported results for Ariadne: over the last two financial years, Ariadne has achieved **realised gains** of over \$85.0 million.

In this context, it is to be noted that included in the FY19 results are other significant non-cash items (totalling \$31.4 million) relating to mark-to-market losses on our listed share portfolio, particularly our holdings in Ardent Leisure Group Limited (“Ardent”) and ClearView Wealth

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Limited (“ClearView”). These mark-to-market losses are unrealised and Ariadne anticipates that the respective share prices of these holdings will recover to reflect their intrinsic value over time.

Investments

The Investment division recorded a net profit before tax of \$7.2 million (2018: \$3.6 million).

The division’s result is derived from interest on cash reserves, share of profits from the Group’s investments in associates, dividend and trading income from the trading portfolio.

During the period, Ariadne invested US\$1 million in Next Science Ltd (NXS), prior to its public listing on the ASX. The NXS share price has performed well since listing in April 2019. Our investment in NXS generated a profit of \$4.2 million during the period, of which \$2.8 million was realised by balance date.

Also during the period, Ariadne received its first dividend from its associate, Hillgrove Resources Ltd, which reflects the initial success of Hillgrove’s strategy of accumulating cash from mining operations, with further distributions likely to follow over the next 18 months.

Ariadne’s 53% interest in Freshxtend International Pty Ltd (“FXT”), with its 17% investment in the NatureSeal group, again contributed positively during the period.

Our investment in FXT has been rewarding over time, notwithstanding some initial setbacks. Ariadne originally invested approximately \$4.9 million in acquiring its initial holding in FXT during a period when FXT was a listed company. By the time of the merger between FXT and the NatureSeal group in 2008, the carrying value of the investment in FXT had been reduced to \$1.6 million. Since that time, the carrying value of that investment has increased to \$6.9 million and Ariadne has received over \$9.1 million in dividends.

Despite the expiration of some of its key patents some 12 months ago, NatureSeal continues to be well-placed to capitalise on the desire of consumers for organic and sustainable fresh cut foods. NatureSeal’s success with sliced apples product has opened up the opportunity to expand into other pre-prepared, pre-sliced products such as lettuce, avocados and potatoes.

Ariadne’s investment in Foundation Life NZ Ltd continues to perform in line with expectations.

Ardent Leisure Group (“Ardent”)

During the financial year Ariadne, in conjunction with associated parties, added to its security holding in Ardent increasing the combined relevant interest to 14.71%.

Our direct holding (22.6 million shares - representing 4.73% of Ardent’s issued capital) declined in value by \$21.0 million during FY19.

Ardent remains in the early stages of its remediation program, with some promising signs that both of its remaining businesses have started to turn around.

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Since Ariadne obtained board representation in September 2017,

- the Board has undergone substantial renewal (5 resignations, 4 new appointments);
- highly experienced senior leadership teams have been recruited and installed at Ardent's two businesses;
- growth strategies have been put in place for both businesses following extensive reviews;
- the Australian bowling division was sold for \$160 million, with the proceeds of sale being applied to reduce bank debt;
- the Group's legal structure has been simplified; and
- debt funding has been secured (US\$225 million facility) to execute on the growth strategies.

We maintain our belief in the ability of both of Ardent's businesses to deliver much improved performance over the medium term.

ClearView Wealth Ltd ("ClearView")

Our ClearView holding declined in value by \$14.3 million during FY19, reflecting the disappearance of a potential takeover premium in the share price, adverse publicity pertaining to the Financial Services Royal Commission and the general uncertainty surrounding the financial services sector in Australia in the wake of the Hayne Royal Commission.

The disruption underway in the financial services sector in Australia, coupled with the exit from the local life insurance industry of a number of major players, should see ClearView well placed to continue to grow its life insurance book, increase market share and deliver good performance over the longer-term.

ClearView is trading at a material discount to expected Embedded Value at 30 June 2019 of approximately \$671.5 million (c \$1 per share). In light of the current share price, ClearView has announced that it is actively considering a share buyback program.

King River Capital ("King River")

Ariadne has recently formed a strategic relationship with a new venture capital fund that is being managed by King River. One of the founding partners is Chris Barter, an Ariadne non-executive director, who has had many of years of success as a global technology investor in some very prominent companies such as Palantir, Didi, Wish and Ola.

King River will be focusing on digital healthcare, artificial intelligence, fintech and other software investments. Chris and his partners have very strong links into Silicon Valley, sourcing attractive investment opportunities, and will also be deploying capital, knowledge, relationships and expertise for Australian tech start-ups seeking to go global.

King River recently launched its first fund and has already made several investments in Australia and the United States. Ariadne has invested in the fund and has made some co-investments in a number of the King River portfolio companies, including:

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- FinClear (<https://finclear.com.au/>): a fintech platform delivering execution, back and middle-office technology solutions to financial institutions in Australia across the financial planning, wealth and stockbroking industries.
- Cover Genius (<https://www.covergenius.com/>): a global insurtech company, based in Sydney, providing a “full stack” platform for large e-commerce companies to sell insurance to their customers.
- Lark Technologies (<https://www.lark.com/>): based in the USA, the leading chronic disease prevention and management platform using clinically proven A.I. health coaching.

Property

The Group’s property division recorded a profit before tax of \$1.8 million (2018: \$17.8 million).

The division’s result is derived from Ariadne’s 50% share of profits from Orams Marine Village (“Orams”) located in Auckland, New Zealand, the interest received on its secured loan to Orams and 50% share of net rental income from Tank Street before its sale.

The Group’s share of profit from Orams during the period was \$1.6 million, which includes interest on the loan to Orams of \$0.4 million. The prior year result also included \$1.0 million representing the Group’s share of the uplift in valuation of the marina.

In February 2019, Ariadne announced that Orams, together with Orams Marine Services Ltd, had entered into a non-binding development agreement with Auckland city’s regeneration agency, Panuku Development Auckland, to develop a new marine refit facility on the property known as Site 18 adjoining Orams (“Development Agreement”). The proposed development will feature a marine haul out and refit facility, commercial buildings and a residential component on the northern end. The facility will target marine vessels (including superyachts) up to 820 tonnes. The development will also provide increased maintenance facilities for Auckland’s ferries, fishing vessels and commercial vessels.

The Development Agreement received the approval of the New Zealand Overseas Investment Office in June 2019. Although the Development Agreement is still subject to satisfaction of a number of further conditions precedent, we believe that the development has the potential to create significant value for Ariadne over time.

Car Parking

The Group’s car parking division recorded a profit before tax of \$0.7 million (2018: \$2.8 million).

The division’s result reflects the trading performance of its leased car park and the reversal of a provision relating to the sale of Secure Parking in 2017. The 2018 result also included the trading performance of the Tank Street car park lease which was surrendered in June 2018.

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Simplified Balance Sheet

Ariadne is in a sound financial position as shown in the following presentation of the Group's assets and liabilities as at 30 June 2019.

Assets	\$M	\$M	Liabilities	\$M
Cash		42.0	Payables and Provisions	1.0
<u>Investments</u>			Debt	4.8
Ardent	23.8		Minority Interests	6.2
ClearView	18.9		Total Liabilities	12.0
Orams	17.5			
Freshxtend	13.0			
Other Strategic Assets	12.2		Shareholders' Funds	144.3
Hillgrove	10.3			
Foundation Life	6.4			
Trading Portfolio	5.1			
Mercantile Investment	2.3			
Law Finance	2.0			
<u>Total Investments</u>		111.5		
Fixed Assets and Other Receivables		2.8	Total Liabilities &	
Total Assets		156.3	Shareholders' Funds	156.3

Tax

Ariadne has substantial carry forward revenue and capital losses available to offset future taxable profits. At 30 June 2019 these are estimated to be \$82.9 million (30 June 2018: \$77.6 million) and \$78.4 million (30 June 2018: \$92.8 million) respectively. As at balance date, Ariadne has a deferred tax asset of \$44.4 million which is not recognised in Ariadne's accounts.

Dividends and Capital Management

A final dividend of 1.0 cent per share has been declared by the directors, bringing the total dividends for FY19 to 1.7 cents per share (FY18: 2.0 cents per share).

On 24 January 2019, Ariadne announced the extension of its on-market share buy-back facility as part of ongoing capital management initiatives. During the period Ariadne repurchased and cancelled 2.8 million shares at a cost of \$1.9 million.

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For further information please contact:

Gary Weiss

Executive Director

+61 2 8227 5500