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ARSN 093 193 438  
**Ardent Leisure Limited**  
ABN 22 104 529 106  
**Ardent Leisure Management Limited**  
ABN 36 079 630 676  
(AFS Licence No. 247010)



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**ASX RELEASE**

12 July 2017

**COMMUNICATION TO ARDENT LEISURE SECURITYHOLDERS**

Ardent Leisure Group (ASX:AAD) today advises that its securityholders will shortly receive the enclosed letter regarding the communications they have received from Ariadne Australia Limited and its subsidiaries in relation to the General Meeting of securityholders scheduled for 4 September 2017.

**For further information:**

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12 July 2017

Dear Ardent securityholder

**ARDENT RECOMMENDS THAT SECURITYHOLDERS TAKE NO ACTION IN RELATION TO THE COMMUNICATIONS FROM ARIADNE**

You will by now have received a notice of a general meeting of Ardent Leisure Limited (**Ardent**) securityholders which is scheduled for Monday 4 September 2017 (**Notice**) together with a supplementary letter dated 6 July 2017 (**Ariadne Communication**).

***What is Ariadne trying to do?***

The Notice and the Ariadne Communication were sent to you by two Ardent securityholders (referred to as **Ariadne**) who each respectively hold 3.94% (together, less than 8.00%) of Ardent securities<sup>1</sup>. Because Ariadne holds more than 5.00% of Ardent securities, it is entitled to convene the general meeting without any input from the Ardent Board.

At the general meeting, you will be asked by Ariadne to approve resolutions which will result in the appointment of **FOUR** directors that Ariadne has nominated to the Ardent Board, as well as the removal of any directors that are appointed to the Board since 15 June 2017 (if any).

If all of the resolutions are approved, Ariadne, Kayaal and associates<sup>2</sup>, who collectively hold less than 10% of Ardent securities, will have nominated 40% of the directors on the Ardent Board, which is disproportionate to both their individual and combined securityholdings. This would represent an even greater percentage if, following the general meeting, the Board was reduced to more appropriately reflect Ardent's size and complexity.

***Why are you receiving this letter?***

The Notice and the Ariadne Communication were **NOT** sent by Ardent and they do **NOT** reflect the views of the Ardent Board. The general meeting was **NOT** called by the Ardent Board.

This letter is being sent to make you aware of the Ardent Board's view that the Notice and the Ariadne Communication contain statements that are misleading and which are intended to encourage you to vote in favour of the resolutions.

**It is very important that you vote with the benefit of all material information. You will receive the Ardent Board's detailed response in the coming weeks.**

The Board recommends that you **TAKE NO ACTION** in relation to the proxy forms provided to you in the Ariadne Communication and the Notice until you have received the Board's detailed response, which will be sent to Ardent securityholders well in advance of the general meeting and which will ensure that you have all the information that you need to make an informed vote on the resolutions.

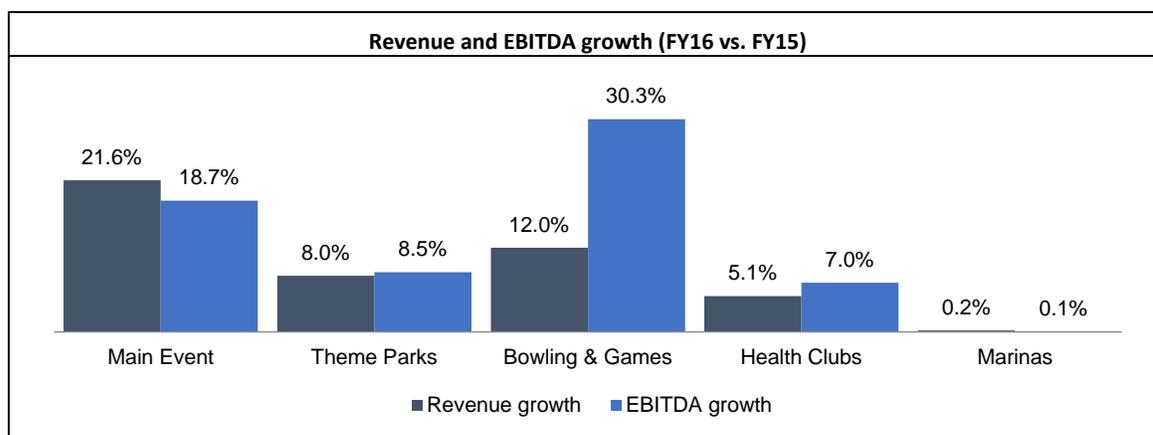
<sup>1</sup> The Notice and the Ariadne Communication were sent by Ariadne Australia Ltd's subsidiary Portfolio Services Pty Limited and Kayaal Pty Limited. To get to their expressed ownership figure of 9.86% you need to add their associates, Viburnum Funds Pty Ltd (who own 1.92%) and Investec Australia Limited (**IAL**) (who own 0.07%). However, IAL stated in their notice of initial substantial holder that 'there is no agreement, arrangement or undertaking between IAL and Ariadne regarding the exercise of rights (including voting rights) attached to any securities held in Ardent by IAL'.

<sup>2</sup> Ariadne, Kayaal and associates mean Ariadne Australia Ltd's subsidiary Portfolio Services Pty Limited and Kayaal Pty Limited. Together with their associates, Viburnum Funds Pty Ltd and IAL.

In advance of sending a detailed response the Board believes it is important to immediately correct what it considers, for the reasons set out in more detail below, to be some of the factual inaccuracies and misleading statements made in the Ariadne Communication.

**1. Ariadne’s emergence on the Ardent register is opportunistic and the statement that Ardent’s security price performance has ‘more than halved over the last three years’ ignores the strong financial, operational and security price performance prior to the Dreamworld incident**

Prior to the Dreamworld incident, Ardent had delivered strong financial and operational performance, with FY16 revenue and EBITDA growth across all divisions, as demonstrated in the chart below:



Ariadne refers to the price of Ardent’s securities as having “more than halved over the last three years” but has selectively chosen a period to assess Ardent’s performance which includes the impact of the incident that occurred at Dreamworld on 25 October 2016.

Ariadne also makes a number of claims regarding the impact that poor operating and financial performance, coupled with issues relating to overall corporate governance, have had on ‘market standing’. To support this claim, they identify various changes in management appointments. **However, from the time of Ariadne’s first identified management change in March 2015 up until the Dreamworld incident, Ardent delivered total securityholder return of 14.1%<sup>3</sup>, materially outperforming S&P / ASX 200, which was down 7.1%<sup>4</sup> over the same period.** This security price outperformance was due to a range of achievements and strategic initiatives by the Board and management, including:

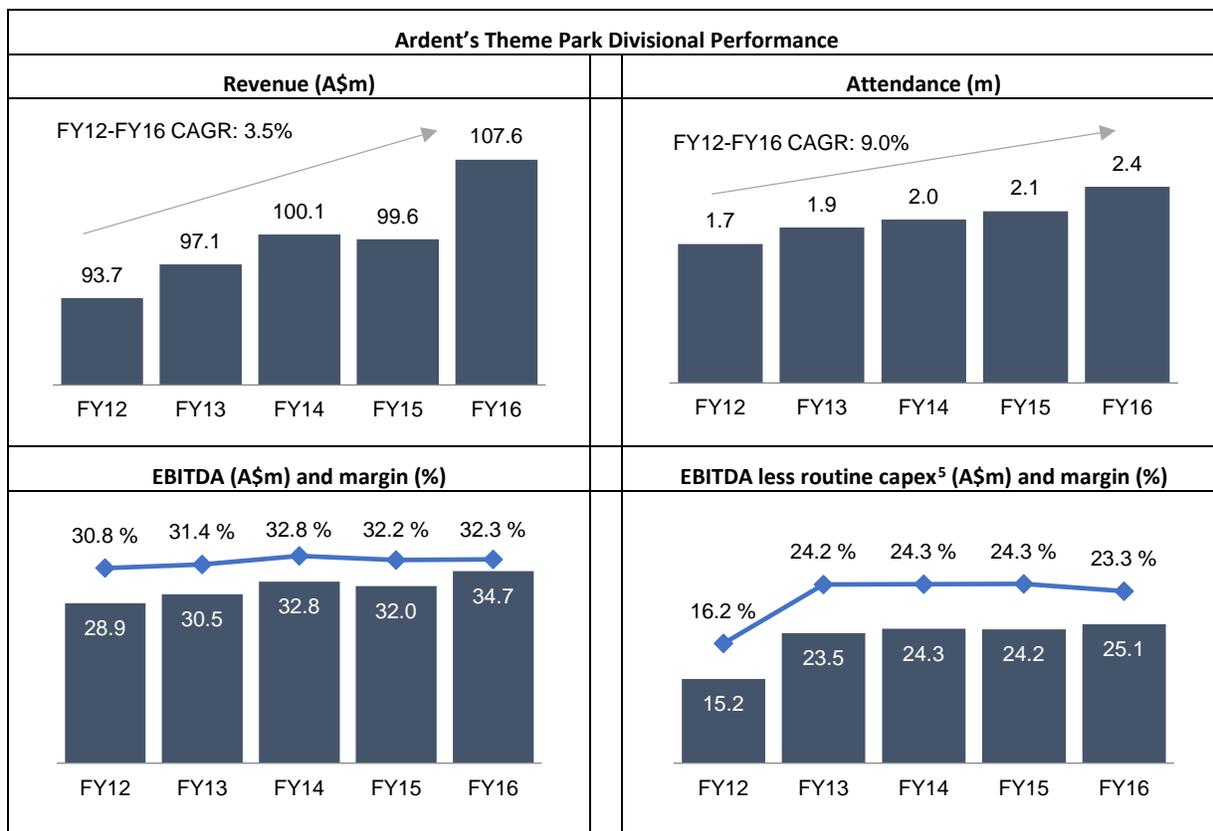
- Strong FY16 full year results (as outlined in the above chart);
- The sale of Health Clubs at a significant premium to book value and analyst valuations; and
- Announced strategy to redeploy proceeds from sale of Health Clubs and Marinas into higher returning opportunities, including the Main Event roll-out.

**2. It is inaccurate to state Ardent’s Theme Parks underperform relative to a local key competitor because its revenue per patron is lower**

Ariadne states that Ardent’s Theme Park division has underperformed its local competitor because its revenue per patron is lower. This measure, which is calculated as revenue divided by attendance, is inaccurate because attendance includes return visitation on multi-day ticket and season passes, and an entry fee is only paid on the initial visit. Ardent has been successful in driving increasing return visitation, which has underpinned growth in total revenue, notwithstanding a dilution in revenue per patron. As a result EBITDA and operating cash flow (as measured by EBITDA less routine capex) grew between FY12 and FY16 prior to the Dreamworld incident, as shown in the charts below:

<sup>3</sup> Total securityholder return combined security price performance and distributions paid.

<sup>4</sup> Over the period 10 March 2015 to 24 October 2016, the day prior to the Dreamworld incident.



Revenue per patron comparisons between Ardent and its local competitor are also impacted by their different product mixes. For example, the local competitor's revenue includes non-Theme Park revenue (i.e. resort revenue), for which Ardent does not have an equivalent offering and Ardent's revenue includes SkyPoint, which charges a lower entry fee relative to Dreamworld.

**3. Ariadne's statement that the Board's goal is to establish 200 Main Event centres over the next seven years is incorrect**

Ardent has clearly stated in multiple recent communications that the appropriate pace of new builds is to be determined based on an ongoing review of the business' performance<sup>6</sup>. This was further confirmed in CEO Simon Kelly's most recent statement on 23 June 2017 that it is "important that we get [the] balance between running our business really well...and responsibly growing the business from a footprint perspective".<sup>7</sup>

Ariadne's further assertion that any roll-out will likely require the incurring of significant debt obligations and material additional securityholder contributions to fund this growth is inaccurate. Ardent has consistently demonstrated a disciplined approach to investment and divestment and ensuring appropriate leverage levels are maintained across its portfolio.

As Main Event delivers significantly higher returns on investment than Health Clubs and Marinas, the Ardent Board made a decision to divest these businesses in order to redeploy the capital to fund the Main Event roll-out, while also retaining financial flexibility to fund future growth across all business divisions.

<sup>5</sup> Excludes development capex.

<sup>6</sup> Q3 FY17 Trading Update.

<sup>7</sup> 23 June 2017 earnings call.

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**4. Ariadne's comparison to Dave & Buster's is inappropriate and its assessment of the Main Event EBITDA opportunity is unsubstantiated**

The Ardent Board believes that any comparisons between Main Event and Dave & Buster's should recognise the significant variances in the businesses and business models. This includes differences in the stage of development, size, scale, entertainment offering (including mix of high and low margin products) and geographic diversity of the respective portfolios, for example:

	Dave & Buster's	Main Event
Revenue (US\$m)	1,047 <sup>8</sup>	Unaudited revenues of 224 <sup>9</sup>
Date first store opened	1982	1998 Ardent ownership: 2006
Date commenced operating across multiple states	1992	2013
Total number of stores <sup>10</sup>	99	37
Number of US states	34 <sup>11</sup>	14 <sup>12</sup>
Number of constant centre stores	66 <sup>13</sup>	19

The Board notes that the underlying Main Event proposition remains positive across most measures with new stores continuing to outperform return benchmarks, with average first year EBITDA return on investment exceeding 30%, well in excess of the group's weighted average cost of capital.

In assessing the potential value opportunity, the Ariadne Communication asserts that A\$15 million per annum in additional EBITDA could be generated. However the "initiatives" outlined do not contain any substantiation that adequately supports this quantification.

The Ardent Board and management are focussed on improving the performance of Main Event and a review of the growth opportunity is ongoing, including with the assistance of an external consulting firm. Securityholders should await Ardent's formal response before drawing any conclusions about the Main Event opportunity.

**5. It is misleading to state that there has been a corporate cost 'blow out'**

At the time of Ardent's separation from Macquarie Group in 2009, Ardent had a market capitalisation of A\$407m<sup>14</sup> and divisional EBITDA of A\$88m<sup>15</sup>. As at 11 July 2017 Ardent had a market capitalisation of A\$971m<sup>16</sup> and delivered FY16 divisional EBITDA of A\$152m<sup>17</sup>. The increase in corporate costs reflects the increase in scale, geographic diversity and complexity of the business, as well as inflation.

The Ariadne Communication refers to broker consensus forecasts of corporate costs in FY17 and FY18 but do not reflect the outcome of the current management review of the cost structure following the recent divestments of Health Clubs and Marinas.

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<sup>8</sup> Dave & Buster's LTM revenue as at 5 June 2017.

<sup>9</sup> Ardent revenue based on 1H17 Half Year Results Presentation, Q3 FY17 Trading Update and 23 June 2017 Full Year Result Update.

<sup>10</sup> Total number of Dave & Buster's stores as at 5 June 2017 and Ardent as at 30 June 2017.

<sup>11</sup> Additional store located in Canada.

<sup>12</sup> 15 of the total 37 as at 30 June 2017 Main Event centres are located in Texas.

<sup>13</sup> As at 29 January 2017.

<sup>14</sup> Based on Appendix 3B as at 24 August 2009 and share price as per IRESS as at 1 September 2009.

<sup>15</sup> FY09 Annual Report.

<sup>16</sup> Based on Appendix 3B as at 9 June 2017 and share price as per IRESS as at 11 July 2017.

<sup>17</sup> FY16 Annual Report.

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**6. It is misleading to state that the Board's decision to appoint US based Directors is a 'recognition that the Board does not have the appropriate skills and experience in the US to oversee Main Event [and] that deficiency was only belatedly acknowledged in April 2017'**

The Ardent Board's decision to appoint US-based Directors was made following the announcement of the sale of Marinas in December 2016, and within two months of the completion of the sale of Health Clubs. This was prior to Ariadne becoming a substantial securityholder and before any proposal was made by Ariadne to make their Director appointments.

As announced on 24 May 2017, the decision to consider appointing one or potentially two, US-based Non-Executive Directors was made in recognition of the significant rebalance of earnings from the Main Event business to group earnings given the divestitures of Health Clubs<sup>18</sup> and Marinas<sup>19</sup>. Following these divestitures as well as the impact of the Dreamworld incident, Main Event's divisional EBITDA contribution will increase from 39% in FY16 to approximately 66% in FY17F<sup>20</sup>. As the geographic mix of revenue has now changed the need has arisen for greater representation on the Board from US-based persons with relevant experience in that market.

**7. Ariadne does not represent the largest securityholder in Ardent and is seeking Board representation that is wholly disproportionate to its ownership**

Ariadne's subsidiary Portfolio Services Pty Limited and Kayaal Pty Limited, being the securityholders who have convened the General Meeting, each represent 3.94%, respectively, of Ardent securities. To get to their expressed ownership figure of 9.86% you need to add their associates, Viburnum Funds Pty Ltd (who own 1.92%) and Investec Australia Limited<sup>21</sup> (who own 0.07%). The largest securityholder is a global fund manager with a combined securityholding of 9.9%<sup>22</sup>.

Should all of the resolutions be approved, Ariadne, Kayaal and associates, who collectively hold less than 10% of Ardent securities, will have nominated 40% of the directors on the Board of Ardent, which is disproportionate to both their individual and combined securityholdings. This would represent an even greater percentage if, following the general meeting, the Board was reduced to more appropriately reflect Ardent's size and complexity.

**8. The statement that two of Ariadne's nominees will be considered Independent is questionable**

Ariadne states that two of their nominees, Mr Richmond and Mr Hedges "will be considered independent according to ASX guidelines".

The ASX principles state that a person associated with a substantial securityholder is in a relationship that may cause doubt on their independence.<sup>23</sup> Relationships that may "reasonably be *perceived* to influence" a person's capacity to bring independent judgement also compromise their independence (regardless of whether, in fact, their relationship actually does influence their decision making)<sup>24</sup>.

Mr Richmond and Mr Hedges have been nominated by the securityholders convening the general meeting which creates a *perception* that their relationship may affect their independence (even after assuming, as Ariadne requires you to do, that they have no agreement, arrangement or understanding with Ariadne or with Dr Weiss or Mr Seymour in relation to the affairs of Ardent).

The benefit of a director being independent is that they are free to make decisions concerning the company without the influence of relationships or interests that may otherwise affect their judgement or ability to act in the best interests of securityholders generally. Understandably, the ASX principles caution that a decision to designate a director as independent should not be taken lightly. In this case, the question takes on even greater importance because Ariadne is asking securityholders to accept that two persons nominated by them are

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<sup>18</sup> Completed 25 October 2016.

<sup>19</sup> On track for completion in July 2017.

<sup>20</sup> Management estimates.

<sup>21</sup> See note 1 above.

<sup>22</sup> Ardent sharetrack report dated 5 July 2017. Funds aggregated by parent company.

<sup>23</sup> ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* (3<sup>rd</sup> edition) at page 16.

<sup>24</sup> As above.

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independent and in so doing, distracting securityholders from the fact that holders of less than 10% of securities are seeking four Board nominees.

Notwithstanding the above, the Ardent Board have invited both Mr Richmond (as a US-based person) and Mr Hedges (who is not a US-based person) to be candidates in the current search of US-based directors with requisite experience. Should they elect to accept that invitation, they will be assessed against all participants in good faith.

#### **9. Ariadne has omitted to disclose their broader intentions**

Given the statement to the press made by two of Ariadne's nominees, Dr Weiss and Mr Seymour, on 14 June 2017 (after notifying Ardent of Ariadne's intention to convene the general meeting) that "[w]e see this requisition [of the general meeting] as the beginning of a process of Board renewal, with further changes to Board composition in due course",<sup>25</sup> one would have expected the Notice and the Ariadne Communication to provide details of Ariadne's broader intentions for the Board.

Instead, the Ariadne Communication talks only about the nominees being 4 of a Board of 10 directors. Ardent securityholders are entitled to ask what Dr Weiss and Mr Seymour meant by their public statement and what Ariadne thinks "Board renewal" will involve.

**This letter does not seek to respond to all of the claims and arguments made in the Ariadne Communication. Further details will be included in Ardent's formal response.**

***Should I be concerned about what Ariadne is doing given they are causing Ardent to incur additional costs and have not substantiated any real strategic alternative?***

Yes.

Since late April 2017, the Ardent Board and its senior management have spent considerable time addressing both Ariadne's request for Board representation and various questions and allegations made both directly by Ariadne and its associates. These questions and allegations have been made by email, in letters and also indirectly through what the Board considers to be a sustained media campaign. This has even included threats of legal action against the Board by Ariadne's lawyers when the Board sought to question the accuracy of some of the statements attributed to Ariadne in the media.

Ardent has had to incur costs – both in management and Board members' time and in legal and other fees – in responding to these various communications and threats that have been made by Ariadne and its representatives.

At no stage has Ariadne or its representatives offered any substantiated proposals for adding value to Ardent's business that are different to what Ardent is already doing or were already considering (despite being given ample opportunity to do so, both in writing and at face to face meetings).

These distractions only serve to undermine the Board's and management's ongoing focus on implementing their strategic initiatives and maximising the value of Ardent for the benefit of all securityholders.

***What should I do now?***

**Nothing.**

The meeting of Ardent securityholders called by Ariadne is scheduled for 4 September 2017 and so there is no urgency for Ardent securityholders to vote.

The Ardent Board of Directors strongly urge you **NOT TO VOTE** using the pre-filled proxy card sent to you in the Ariadne Communication and to wait for a response from the Ardent Directors so that you can make a fully informed decision. That response will also include new proxy forms, including a recommendation from the Ardent Directors as to how to complete those in order to reject the resolutions.

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<sup>25</sup> The Australian, 'Ardent Leisure battle heats up as Ariadne and Kevin Seymour flag calling EGM' (14 June 2017).

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The Ardent Board do not consider that approving the resolutions would be in the best interests of securityholders, will be recommending that securityholders vote **AGAINST** the resolutions proposed by Ariadne and will provide a detailed explanation of the reasons for that recommendation in its formal response.

In the meantime, the Ardent Board and management are focussed on maximising value for all securityholders and will continue to progress the initiatives that were advised to the market on 24 May 2017.

George Venardos  
*Chairman*  
*Ardent*

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