

NZX Release

29 August 2016

VIL Preliminary results announcement for FY16

Veritas Investments Limited (NZX: VIL) reports an unaudited net loss of \$(4,591,622) for the year ended 30 June 2016 (FY15: profit of \$3,335,968), after significant items net of tax of \$(5,598,063) and losses from operations held for sale and discontinued operations of \$(2,153,228), which comprise trading losses and closure costs.

This result is a slight improvement to that reported on 27 January 2016 for the six months to 31 December 2015 of an unaudited net loss of \$(4,815,958), after significant items net of tax of \$(4,249,397) and losses from operations held for sale and discontinued operations of \$(1,530,085).

As advised previously, the Board assessed the carrying value of assets and recognised impairments and other write-offs of \$(5,598,063), net of tax, made up of \$(2,900,000) for the carrying value of Kiwi Pacific Foods Ltd (KPF) following the decision to close this company; a loss of \$(339,692) on the sale of three underperforming bars in Hamilton; and write-offs relating to the Mad Butcher business and other restructuring costs of \$(2,358,371).

Of the total losses from significant items, operations held for sale and discontinued operations of \$(7,751,291) included in the net loss of \$(4,591,622) above, it should be noted that \$(5,779,482) was recognised in the half year ended 31 December 2015.

Veritas' underlying net profit after tax for continued operations¹ is \$3.16 million for FY16 which is in line with the guidance range provided to the market of \$3.0 million - \$3.5 million. Operating cash flow improved significantly over the previous year.

A reconciliation of the Group's reported result complying with generally accepted accounting practice (GAAP) to our underlying NPAT is as follows.

¹ Underlying NPAT for continued operations is net profit after tax from continuing operations excluding significant items. Please refer to the Appendix to this announcement.

| GAAP to non-GAAP profit reconciliation | Year ended | | Half year ended | |
|--|--------------|--------------|-----------------|--------------|
| | 30 June 2016 | 30 June 2015 | 31 Dec. 2015 | 31 Dec. 2014 |
| | \$000 | \$000 | \$000 | \$000 |
| Reported profit / (loss) for the year/period (after tax) | (4,592) | 3,336 | (4,816) | 1,708 |
| Significant items (net of tax): | | | | |
| Gain on Nosh acquisition | - | (446) | - | (600) |
| Transaction costs | - | 938 | - | 776 |
| Loss on closure of warehouse | 33 | - | 26 | - |
| Restructuring costs | 159 | - | - | - |
| Litigation costs in respect of Kiwi Pacific Foods arbitration | 227 | - | 280 | - |
| Impairment of carrying value of Kiwi Pacific Foods | 2,900 | - | 2,750 | - |
| Impairment of carrying value of accounts receivable | 1,567 | - | 858 | - |
| Loss on disposal of Hamilton bars | 340 | - | 336 | - |
| Gain on disposal of Constellation Drive net of transaction costs | (200) | - | (176) | - |
| Impairment of discontinued stores | 1,117 | - | 1,219 | - |
| Total comprehensive loss from discontinued operations | 1,236 | 470 | 487 | 45 |
| Tax expense in respect of prior year | 373 | - | - | - |
| Underlying NPAT | 3,160 | 4,298 | 964 | 1,929 |

Commentary on Veritas' individual businesses is detailed below:

Mad Butcher

The market has been very competitive with supply shortages creating challenges around product choice and pricing. The Board's focus is on ensuring profitability within each store and we are working closely with franchisees to support and maximise their performance. During the second half of FY16, we closed three Veritas owned stores which, in spite of extensive support from the franchisor, were consistently unprofitable.

Despite the challenging environment, the majority of Mad Butcher stores are trading profitably and the brand still continues to be a major contributor to Veritas' profitability generating EBITDA² of \$4,574,720 in the year, (FY15: \$6,358,682). The Mad Butcher business will continue to seek opportunities to grow its network.

² EBITDA is earnings before interest, tax, depreciation, amortisation and significant items.

There are currently 33 Mad Butcher stores in the Group, 31 of which are franchised and two are owned. The Board is considering a range of options for these Veritas owned stores.

The Better Bar Company

Following the divestment of three unprofitable Hamilton bars in December 2015, all remaining outlets are now trading profitably and The Better Bar Company exceeded its forecast for the year. Some redevelopment of existing sites is taking place, including the creation of additional space in the two high profile Viaduct Harbour outlets in Auckland, Danny Doolans and O'Hagan's. We may consider acquisition opportunities to enhance the existing portfolio.

A focus on improving the customer experience through enhanced menu and entertainment options has led to improved results with the bars earning EBITDA of \$5,509,085 in the year compared to \$2,954,174 for the previous part year.

Nosh

FY16 has been disappointing for Nosh. As reported in Veritas' half year report in March 2016 the Nosh business lost EBITDA of \$(1,019,779) for the six months to 31 December 2015. The loss in the second half of FY16 was \$(866,414), which, although an improvement, fell short of budget. The full EBITDA loss of \$(1,886,193) for the year compares to \$(1,193,186) for the previous part year.

A substantial effort from the Board and management continues to focus on gross margins, stock levels and operational improvements to bring the business into profitability.

In April 2016 Veritas announced the commencement of a programme to franchise the existing Nosh stores to appropriately qualified people. A franchise strategy for Nosh has always been part of our vision since we acquired the business nearly two years ago. As at 30 June 2016, we were working through a short list of potential franchise operators. In addition to franchising, the Board are exploring a number of options relating to the future of Nosh.

Kiwi Pacific Foods

As previously announced to the market, the joint venture partners of KPF agreed to close the KPF business in March 2016 and are working to complete this process by 30 November 2016. A sell down of KPF's assets, including land and buildings, has taken place and all of its debt to ANZ Bank has been repaid in full. As previously advised to the market, we have written down the value of KPF to its recoverable value.

**No dividend**

The Board has resolved that no dividend will be declared for the year ended 30 June 2016.

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About Veritas Investments Limited

Veritas Investments is an NZX Main Board-listed investment company focusing in the Food and Beverage, Franchise and Hospitality sectors. The shell company was formed in December 2011 and made its first acquisition of the Mad Butcher franchisor business in May 2013 through a reverse acquisition transaction. A further investment was made in December 2013 for 50% of Kiwi Pacific Foods Limited. In September 2014 Veritas acquired the Nosh Food Market business. In November 2014 Veritas acquired The Better Bar Company group business.

www.veritasinvestments.co.nz

APPENDIX

Non-GAAP profit measures

Veritas' standard profit measure under New Zealand GAAP is net profit. Veritas has used non-GAAP profit measures when discussing financial performance in this document. The Directors and management believe that these measures provide useful information as they are used internally to evaluate performance of business units, establish operational goals and allocate resources.

Non-GAAP profit measures are not prepared in accordance with NZ IFRS (New Zealand International Financial Reporting Standards) and are not uniformly defined, therefore the non-GAAP profit measures reported in this document may not be comparable with those that other companies report and should not be viewed in isolation or considered as a substitute for measures reported by Veritas in accordance with NZ IFRS.

Definitions:

Underlying NPAT:

Net profit after tax from continuing operations, excluding significant items.