

ASX ANNOUNCEMENT

24th August 2017

COSTA GROUP FINANCIAL RESULTS FY2017

Costa Group Holdings Limited (Costa; ASX: CGC), Australia's leading grower, packer and marketer of fresh fruit and vegetables today announced its financial results for the full-year ended 25th June 2017 (FY2017).

FY2017 Key headlines:

- Strong trading outcome underpinned by all produce categories exceeding targets.
- Domestic and international berry growth, excellent citrus performance and recovery in the tomato market all contributing to year on year earnings growth.
- China operations achieved a modest profit ahead of expectations.
- Cash flow generation and balance sheet position remains robust.
- Refinancing of debt facilities completed, with increase of facility size to \$350 million to support future growth.

FY2017 Financial results

- Revenue of **\$909.1m** – a **10.7%** increase on FY2016
- EBITDA before SGARA and material items **\$115.2m** – up **29.4%** on FY2016
- NPAT before SGARA and material items of **\$60.7m** – **37.3%** growth on FY2016
- Statutory NPAT of **\$57.7m**, compared to **\$25.3m** in FY2016
- Net leverage decreased to **0.7x** EBITDA-S at June 2017
- Final dividend of **7.0** cents per share (record date 14 September 2017, payment date 5 October 2017). Full year FY2017 dividend of **11.0** cents per share, representing 22% growth on FY2016

Costa Group CEO Harry Debney said the results were underpinned by the strength in the diversity of Costa's produce portfolio.

"Our core produce categories have delivered solid performances for the year having all exceeded their targets. It is yet further evidence of the strength in diversity of our portfolio, which is now also being reinforced by our strategic avocado acquisitions," said Mr Debney.

Produce segment

With all categories performing, the produce segment delivered a solid result. Revenue of \$786.2 million was up 9.4% on FY2016. Total transacted sales were in excess of \$1 billion.

Berry category growth remains high with a 55% increase in blueberry production on FY2016, for which the Corindi New South Wales farm accounted for a significant portion of the increase, reflecting recovery from prior year hail events and a longer growing season.

New volume came from the expansion of plantings in Western Australia and Far North Queensland, and the Lebrina, Tasmania farm, acquired in August 2016.

“Although average blueberry pricing was marginally lower than FY2016, it was a pleasing outcome, given the significant additional volume which is also reflective of the contribution that our shoulder seasons (which occur between November and June) are now making to our overall performance by enabling 52 week production,” said Mr Debney.

Raspberry production was impacted by cooler weather in Tasmania, delaying the crop and reducing overall yield and quality. Far North Queensland volumes came in below expectation due to crop timing and some pest pressure.

Demand for mushrooms remains positive with sales principally constrained by production operating at full capacity. The Monarto facility expansion will provide new capacity to service this demand. Overall sales mix has continued to shift to the retail segment with available volume being diverted from wholesale towards retail where Costa supplies approximately 80% of its product.

The citrus category performed strongly due to a positive combination of yield, price and quality. Although the 2016 season crop was light, navel oranges were at optimal count size and mandarin values were strong. The 2017 calendar season crop is expected to produce a record 100,000 plus tonnes.

In June 2017 a \$3.3 million upgrade was completed to the Murtho navel orange packing facility which installed world’s best practice technology for the sorting and packing of our citrus crop. This will deliver expected production savings over the 2017 season.

“We have continued to build our market leading position in citrus export markets, including Japan, the United States and New Zealand. This is illustrated by the fact Costa supplied 47% and 40% respectively of total Australian citrus exports to the Japan and United States markets during the 2016 season,” said Mr Debney.

Tomato pricing recovered from the challenging market conditions during FY2016 with average market pricing up 21%. Truss prices tracked higher during the fourth quarter due to a shortage of field tomatoes resulting from the impact of Cyclone Debbie on the main Queensland field growing regions. Demand for snacking and cocktail tomatoes also benefited, with this segment now making up circa 70% of Costa’s production area.

With the acquisition of Avocado Ridge (Childers, QLD) in January 2017, Costa's avocado category now includes production and trading activity. The Childers harvest period runs from March through to September, and season 2017 yields in the region have been below expectations. Avocados are a biennial bearing crop with alternate heavy/light crop years, so season 2018 is expected to be a heavier crop.

"During FY2017 we began to execute our strategy to become the market leader in avocados with the acquisition of avocado farms in Queensland. In parallel, Costa has also expanded its avocado marketing volumes by circa 36% which has further enhanced our offering in this category," said Mr Debney.

CF&L segment

CF&L revenue growth was up 2.4% on FY2016 with the segment comprising both the wholesale market and logistics operations. The Coles Jandakot Western Australia Distribution Centre contract was renewed through to September 2023. The Polar Fresh JV wind down is in progress with the final site at Laverton, Victoria to be completed in Q2 FY2018.

The CF&L FY2017 segment operating result was impacted by an onerous lease provision for the Eastern Creek Distribution Centre. The segment is currently being repositioned to pursue further non-retail produce sales channels.

International segment

The international segment saw a 47.2% increase on transacted sales compared to FY2016.

"The international segment which now encompasses operations in Morocco (African Blue), China and royalty income from the licensing of our blueberry genetics used across the Americas and Africa is becoming an important part of our business and growth plans," said Mr Debney.

The first full year of berry farming operations in China has been positive, achieving a modest profit. Yield and market reception to the initial blueberry crop has been favourable, with strong demand for the high quality larger sized fruit. The third raspberry harvest has been completed and was in line with expectations.

African Blue had another productive year, strong yield performance and positive market reception delivered increased sales volume of circa 50% and another robust result, despite hot weather at the end of the season impacting quality.

Royalty income growth trajectory was maintained from both African Blue and Driscoll's USA.

Growth plan update

- *Berries*

The Australian berry expansion programme proceeded to plan during FY2017. This included initiating the first plantings of new blackberry varieties, with 5 hectares to be followed by 10.7 hectares in FY2018.

Dam capacity at the Corindi farm will increase to 1,165ML (a 47% increase) and will be operational from September 2017, with planned progressive expansion for a further 450ML to future proof the site for water requirements.

The major expansion and upgrade of the Devonport Tasmania Berry Distribution Centre is well progressed and will be completed for the summer season. A doubling in capacity of the Modified Atmosphere facility has already been completed, allowing for the storage of up to 450 tonnes of blueberries.

- *Avocados*

The acquisition of the Lankester avocado orchard completed in July 2017 has added 130 hectares of production with a further 60 hectares of plantings to occur on a greenfield site.

Approximately 50% of the plantings are less than five years old, with current production of 200,000 trays projected to increase to 400,000 over five years.

The acquisition will be accretive to FY2018 earnings and brings Costa's total avocado footprint to circa 500 hectares.

As with the Avocado Ridge acquisition, the Lankester deal was completed in conjunction with Macquarie Agricultural Funds Management with Costa operating the farm under a 20 year lease.

"The strategic acquisition of the Lankester farms was another step in executing our strategy to build avocados into our fifth vertically integrated core produce pillar. Our production and supply period now spans from February to August, bringing us closer to achieving 52 week supply and our ultimate goal to be the number one grower, packer and marketer of avocados," said Mr Debney.

- *Mushrooms*

The expansion of the Monarto South Australia mushroom facility was covered in the 1HFY2017 results announcement. The expansion will double current production capacity from 120 tonnes to 240 tonnes per week at an estimated cost of \$65 million. Additional capacity is expected to commence from December 2018, reaching the full incremental 120 tonnes from July 2019.

Preparation works that have been completed to date include site and geotechnical surveys, The development approval application has also been submitted to the local Council.

The contract for the construction works has been awarded to Christiaens who built the existing facility, and earthworks are expected to commence early October 2017.

- *International growth projects*

Local organisational capability in China continues to be bolstered through the addition of technical, farm management, safety and project management roles. An office in Jinghong, Yunnan has also been established.

As at June 2017 there are 50 planted hectares between the two farms located at Bailing and Manlai, consisting of 37 hectares of blueberries, 10.5 hectares of raspberries and 2.5 hectares of

blackberries. A further 58 hectares is to be planted in FY2018 at a cost of approximately A\$20 million.

African Blue (Morocco) has 253 hectares of blueberries planted across five farms as at June 2017. A further 63 hectare expansion is planned for FY2018. A new packing facility will be completed in time for the next season which will accommodate new production from the northern farms.

Yield outcomes from African Blue continue to achieve best practice results. Substrate plantings have also been undertaken at existing farms, with 29 hectares of substrate established in areas that were previously poor performing or unsuitable for soil production.

Outlook

The Company is focused on executing domestic and international growth programmes, including building avocados into a significant business.

Taking into account FY2017 results which have exceeded expectations, the Company currently expects to generate around a 10% NPAT pre SGARA and material items growth in FY2018.

The company aims to drive future performance focused on generating long term superior shareholder returns through targeting early double digit annual earnings growth across a 3 to 5 year horizon.

FY2018 will see a number of the produce categories consolidate their positions and establish a longer term growth platform ahead of further growth. This includes blueberry substrate production at Corindi and mushroom capacity expansion.

Due to the seasonality of avocados and further expansion in China and Morocco, earnings will be further weighted towards the second half of FY2018.

The Company's balance sheet is robust and capable of supporting organic growth and a disciplined M&A programme. Further growth can also be funded through Costa's strategic relationship with Macquarie, when considered appropriate.

Future dividends will continue to be balanced against the Company's need to fund growth opportunities.

END.

About Costa

Costa is Australia's leading grower, packer and marketer of fresh fruit & vegetables and operates principally in five core categories: berries, mushrooms, glasshouse tomatoes, citrus and avocados. Operations include approximately 3,500 planted hectares of farmland, 30 hectares of glasshouse facilities and seven mushroom growing facilities across Australia. Costa also has strategic foreign interests, with joint ventures covering five blueberry farms in Morocco and two berry farms in China.

For further information contact:

Michael Toby –

Corporate Affairs Manager T: +613 8363 9071