

ASX ANNOUNCEMENT

23rd August 2019

COSTA GROUP FINANCIAL RESULTS 1H CY2019

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 half year ended 30th June 2019 (1H CY2019).

1H CY2019 Key headlines:

- At the half year, the business was tracking broadly in line with the lower end of the revised target range outlined at the company's AGM. 2H CY2019 results will be supported by a strong citrus crop with 75% to be harvested from July to November.
- Adverse conditions during the Moroccan blueberry season, low mushroom demand, raspberry quality and impact of citrus water cost and fruit fly has culminated in a difficult 1H CY2019.
- The trading environment across tomatoes, avocados and berries have been favourable, with the outlook for the 2019 citrus season strong, although later in timing.
- At this time, challenges and uncertainties remain with market conditions in mushrooms and berries in the second half.
- China expansion is on track to achieve the five-year roll-out plan by 2020 with planning underway for further expansion in 2021. 45-hectare expansion at Agadir, Morocco has been completed and will provide for earlier season production.
- Under the company's current long-term growth agenda pre-harvest production costs will continue to increase ahead of future earnings.
- Refinancing of senior debt facilities completed with extension of term to three- and four-year tenors and upsize of facilities to \$500m.

1H CY2019 Financial results

- Revenue of **\$573m** – growth of 11.8% on the prior comparative period.
- Statutory NPAT of **\$41.1m**, inclusive of material items and amortisation of intangibles relating to the African Blue acquisition, and adoption of IFRS16 from January 2019.
- EBITDA before SGARA, leasing and material items (EBITDA-SL) **\$82.4m** – 8.4% lower than the prior comparative period.

- NPAT before SGARA and leasing (NPAT-SL) of **\$40.9m** - \$7.2m lower than the prior comparative period.
- Leverage of 2.59x EBITDA-SL at June 2019.
- Dividend of **3.5 cents** per share, fully franked (record date 12 September 2019, payment date 3 October 2019) recognising major growth initiatives in train.

Costa Group CEO Harry Debney noted that 1H CY2019 had proved challenging for the company.

“We were faced with a number of challenges during 1H CY2019, including adverse conditions during the Moroccan blueberry season, low mushroom demand, varying raspberry quality, and water costs and fruit fly impacting the citrus category. All of these occurrences made for a difficult period,” said Mr Debney.

However, the trading environment across tomatoes, avocados and berries has been favourable, while the outlook for the 2019 citrus season is strong, although later in timing.

“At the half year, the business was tracking broadly in line with the lower end of the revised target range outlined at the company’s 30th May AGM. 2H CY2019 results will be supported by a strong citrus crop with 75% to be harvested from July to November,” said Mr Debney.

Management is concentrating on mitigating the challenges the company has faced in CY2019 and is highly focused on major business initiatives to ensure strong delivery in the 2020-2022 period.

“The company has a number of initiatives across our categories which are very much focused on improving our performance and profitability. This includes expanding our berry varietal breeding program – both sub-tropical and tropical, commercial plantings of new citrus varieties and trialling of high density, trellised and protected avocado cropping,” said Mr Debney.

Produce segment

- Tomato category

The tomato category exceeded financial targets for the period with production across all three glasshouses above expectations.

Truss pricing, which was most affected over early summer, recovered strongly in early February and has since traded within expectations. Snacking and speciality segments have both traded solidly.

- Berry category

Far North Queensland (FNQ) blueberry production and shoulder season contribution continues to improve and ongoing refinement in agronomic practices in addition to new varieties should see continued improvement from this region.

The performance of raspberries was mixed, and the raspberry crumble issue which became apparent over May 2019 adversely impacted Q2, with increased fruit waste and higher production costs, particularly at the Corindi, NSW farm.

There was an increased volume of blackberries from Tasmania, with good market uptake.

- Mushroom category

Category performance for the half year has been challenging, driven by an extended period of unexpected low demand and unfavourable channel mix during the period.

Wholesale pricing has seen the largest impact, with current pricing still lagging behind normal levels.

Delays in the commissioning of the Monarto, South Australia facility expansion also negatively impacted category performance.

- Avocado category

Despite an excellent fruit set, smaller fruit sizing across the FNQ avocado farms has resulted in lower yields from this region. This issue was experienced by all growers across the region, which also impacted our marketing revenue in 1H.

Central Queensland is in harvest through to August and is looking stronger in terms of yield and quality.

Overall farm production is on track to achieve circa 1m trays this year and is expected to reach circa 2m trays over the next 5 years with on-going farm maturity.

- Citrus category

The 2019 citrus season is shaping up well but running a few weeks later than usual with only 25% harvested to the end of June.

The fruit fly situation is now being dealt with using a dipping tank solution. enabling fruit to be treated on site and for it to be packed at Costa's Riverland packing sheds. No further fruit fly incidents have been detected since the original incident in late May.

Table and wine grape yield and profit contribution from the new Colignan citrus/grape farm was ahead of business case expectations.

Costa's table grape marketing program, underpinned by licensed proprietary varieties, is now a meaningful earnings contributor.

Water costs for the citrus category are being actively managed through a number of hedging and pre-purchase instruments, but temporary water pricing is high and future allocation levels are uncertain but improving.

CF&L segment

Solid first half results were delivered with all three wholesale operations in SA, Vic and QLD trading well across the core produce lines.

Contract warehousing activities also continue to improve with further optimisation of facilities.

International segment

- Morocco

The season held initial promise with a good crop set, however low overnight temperatures delayed maturity with the harvest commencing a few weeks late. Initial harvest volumes were low, and these did not ramp up until late April, when the Spanish season was in full swing.

Only one-third of the harvest was completed by the end of April, compared to an average of 50%+ in a normal season.

The 66 hectares of plantings at Agadir (720km south of our northern farms) will commence its first harvest in 2020.

Deeper business integration is proceeding ahead of the full buyout of existing African Blue local shareholders in CY2020.

- China

The 2019 season was the third harvest from our China berry plantings, with market demand continuing to be strong for blueberries, while raspberries also showed some improvement.

Blueberry yield was impacted by some pest pressure, and smaller fruit size. Rapid commercialisation of new varieties better suited to these regions and on-going refinement of agronomic practices is therefore a key focus.

Growth plan update

- Berry category

The 2019 berry program is focusing on further optimisation of the existing footprint, including FNQ replanting.

Expansion of premium plantings is occurring, with a further 30 hectares of Arana planted, taking total plantings to 89 hectares across three regions.

The blackberry program is building in quantum, with the first meaningful harvest and 52 weeks reach to be achieved in CY2020. Progressive soil to substrate conversion of raspberries in Tasmania is occurring with 7.1 hectares converted in 2019.

- International berry expansion - **China**

China plantings currently total 174 hectares, consisting of 144 hectares of blueberries, 22 hectares of raspberries and 8 hectares of blackberries.

The 2020 planting program will involve 62 hectares of blueberries at Guangmen. Ground preparation work is well progressed ahead of the wet season with planting to commence early next year. A pipeline is to be built from a nearby reservoir for water supply, with these works completing Costa's original five-year plan.

Land options for future expansion are currently being assessed, these will be in a new region in order to spread labour supply and climate conditions. A preferred site will be selected later this year to support a planting in 2021. The local/provincial governments have been very supportive of Costa's expansion and have assisted with site selection.

Total China capital investment by the Costa/Driscoll's joint venture will be circa A\$55m by the end of CY2019, with solid returns to date. Expansion is now primarily funded from China cash flow and onshore external debt.

- International berry expansion - **Morocco**

With the 2019 expansion of 45 hectares now completed, the total Moroccan footprint is 314 hectares.

Despite a second challenging season, the outlook for African Blue is positive, with approximately 30-40% of the northern farm production occurring outside of the competing Spanish season.

The total footprint in Agadir is now 66 hectares, this will provide for early season extension, with a further 23 hectares to be planted in Agadir as part of the CY2020 expansion program.

The plant health and productivity of the oldest African Blue plants which are now 12 years old remains excellent. Future replanting will leverage new early season varieties.

The Costa berry VIP program is targeting earlier season varieties, including berries with larger size fruit attributes.

A further 2.67% share acquisition of African Blue is scheduled to occur in late 2019 and 2020, taking Costa's total ownership to 90%.

- Mushroom category

Costa's overall production network has been rebalanced, including the mothballing of the Glen Aplin (QLD) site.

All growing rooms at the expanded Monarto facility are now operational with production to progressively ramp up.

Additional labour is also being brought on progressively, including technical support, with training programs progressing well.

Phase 2 & 3 compost plant, growing rooms and office/staff amenities have been completed, with a certificate of occupancy issued for these areas. The new phase 1 compost bunker construction is progressing with scheduled completion by the end of CY2019.

- **Tomato Category**

A new 10-hectare hi-tech glasshouse project announced in August 2018 includes an expanded nursery facility and enhanced packing and post-harvest facilities.

This additional 10 hectares is required to provide further capacity to grow Costa's snacking/specialty tomato offering. This segment has continued to grow consistently and is now almost the same size as the truss tomato market.

The glasshouse build incorporates new technology for improved yield and energy efficiency and the site will be self-sufficient for water through water capture and recycling, with a backup bore available in the event of dry conditions.

Progress on construction works includes the construction tender having been awarded, the 2.5 - hectare nursery pad and 5-hectare glasshouse pad completed, and the overall program of works is on schedule.

Outlook

Despite current trading challenges, the business fundamentals remain strong.

Challenges and uncertainties remain in light of continued lower than expected pricing of mushrooms, raspberry crumble proving to be more significant and taking time to mitigate, and potential blueberry pricing pressure due to significantly higher than anticipated estimated NSW blueberry industry crop, with some mitigation from Arana premium returns.

Whilst our results to date have broadly been in line with the lower end of the latest guidance, trading and forecasting remains challenging with potential further downside risk, depending on the impact of the above factors.

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About Costa (ASX:CGC)

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 4,500 planted hectares of farmland, 30 hectares of glasshouse facilities and seven mushroom growing facilities across Australia. Costa also has strategic foreign interests, with majority owned joint ventures covering six blueberry farms in Morocco and three berry farms in China.

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