ASX ANNOUNCEMENT

28th October 2019

COSTA GROUP TRADING UPDATE; AND FULLY UNDERWRITTEN $176 MILLION PRO-RATA ENTITLEMENT OFFER

Costa Group Holdings Limited (Costa; ASX: CGC), Australia's leading grower, packer and marketer of fresh fruit and vegetables today announced a CY19 trading update and guidance; CY20 outlook, key themes and assumptions; and a fully underwritten[1] $176 million accelerated renounceable pro-rata entitlement offer, with retail rights trading.

Key Highlights

- Previously foreshadowed challenges facing the company have continued to crystallise. In addition, prolonged extreme dry and hot conditions are now impacting fruit sizing and yield in avocados, blueberries and the late season citrus crop.

- CY19 guidance is reduced to EBITDA-SL of approximately $98 million and NPAT-SL of approximately $28 million, recognising the challenges of forecasting in the current environment.

- The Costa business model and strategy remain robust in order to deliver strong shareholder returns in the medium to long term.

- At this point in time based on current information, Costa expects CY20 EBITDA-SL to be approximately $150 million and NPAT-SL to be approximately in line with CY18 NPAT-SL (which was $56.6 million) prior to taking into account the impact of the equity raising.

- Concern over water security issues has led to a decision to pause the 10-hectare glasshouse expansion at Guyra.

- Costa has invested over $400 million in capex and M&A since its IPO in five expansion programs without any equity injection.

- Costa today announces that it is raising approximately $176 million through a fully underwritten[1] accelerated renounceable pro-rata entitlement offer with retail rights trading ("**Entitlement Offer**").

- The equity raising will strengthen Costa's balance sheet and ensure that Costa has an appropriate capital structure in place to support the continuation of the company's

[1] Subject to the qualifications set out in Note 1 of Slide 7 of the investor presentation issued by Costa dated 28 October 2019

growth strategy in light of recent trading and market conditions, and the prolonged impact of drought conditions.

CY19 trading update and guidance

Costa Group CEO, Harry Debney noted that Costa's 1H CY19 results release contained an outlook statement which listed three challenges facing the company across mushrooms, raspberries and blueberries.

"These factors made it difficult to provide accurate future forecasts with further risks to performance foreshadowed. Unfortunately, the downside risk of these challenges continues. In addition, the prolonged and extreme dry and hot conditions across many of our operations are manifesting in actual and projected deterioration in fruit sizing and yield in citrus, avocados and blueberries exacerbating price declines," said Mr Debney.

The CY19 forecast is for all produce categories apart from tomatoes to deliver below expectation.

- Mushrooms

Although there is significant focus on progress in category development, promotional plans and branding, the difficult mushroom trading conditions have not eased as the year has progressed. Trading remains difficult with little relief in both demand and pricing.

The Monarto mushroom project is on track with the expanded production facility now being commissioned. The new phase 1 compost unit will be operational from January 2020 and the site will progressively achieve full production from Q2 2020.

To take full advantage of this state-of-the-art world class operation, we have accelerated the closure of our aged higher cost mushroom sites in Tasmania and Queensland. Therefore, the company expects to take a significant one-off restructuring and impairment charge of $60 – 70 million in its full year financial statements. The charge will have minimal cashflow impact.

- Citrus

Although the early and mid - season citrus harvest provided confidence for a strong full year outcome, the extended dry and hot conditions impaired fruit growth in late season navel orange and mandarins. This caused significantly lower fruit size and yield with lower pricing outcomes from smaller fruit grades. This has also increased demand for water due to lack of rain with spot prices at high levels.

As result the CY2019 crop volume is now estimated to be circa 90,000 tonnes. Exports continue to achieve a positive result.

- Berries

The financial impact of raspberry crumble continues to build with the season peak still to come. Intensive mitigation work is being carried out, but this is taking longer than expected. Looking forward, the impact for 2020 is expected to moderate.

Industry peak blueberry volumes were anticipated prior to the Costa peak volumes however they remain high resulting in continued price pressure. Even though our premium Arana offering is providing some offset, the full year impact will be material.

Forward strategic berry initiatives, including blueberry shoulder season expansion and raspberry and blackberry long cane programs, should provide positive uplifts in 2020.

- Avocados

The New South Wales avocado crop volumes were impacted by a significant hail event at Comboyne farm in September, however it was a localised event confined to one farm. Fruit sizing in New South Wales was also lower than expected, impacting farm and marketing earnings.

Overall avocado farm production is now circa 900,000 trays (CY19) and still expected to reach circa 2 million trays over the next five years due to on-going tree maturity.

- Tomatoes

The tomato category has continued its solid trading performance over CY19, with prolonged dry weather conditions requiring alternative water solutions to be sourced.

Due to water security concerns, a decision has been taken to pause construction of the 10-hectare (GH4) glasshouse expansion project.

In summary, CY19 has been a challenging and disappointing year, with performance below expectations, due to a combination of cyclical, one-off and structural issues.

“Management is focused on mitigating these unusual impacts and ensuring Costa is well positioned, subject to receiving adequate rainfall in our operating regions, for a return to more balanced portfolio performance from CY20,” said Mr Debney.

CY20 outlook, key themes and assumptions

The financial performance of our produce categories and international segment are expected to improve in CY20, supported by recent and ongoing investment in the business, operational initiatives and (for some categories) more normalised market conditions.

At this point in time based on current information, Costa expects CY20 EBITDA-SL to be approximately $150 million and NPAT-SL to be approximately in line with CY18 NPAT-SL (which was $56.6 million) prior to taking into account the impact of the equity raising[2].

The 2020 forecast contemplates a moderate improvement of dry weather and drought conditions in Australia and more normal season and crop cycles in Australia and Morocco.

"Should the severity of current drought conditions persist or intensify the company will be required to deal with reduced availability of water in some regions, increased water consumption by crops, high water cost, as well as impacts on yield, fruit size and timing dependent on regional variation in heat and dry conditions, and individual crop responses", said Mr Debney.

The new Monarto mushroom capacity will be fully commissioned during Q2 CY20, together with Costa's optimisation of our production network and higher cost sites being closed. The current market pricing dynamic is considered unsustainable with price pressure expected to ease. Higher straw input cost will also be incurred due to the drought impact.

Improvement in Far North Queensland blueberry production is expected with 42 hectares replanted during CY19 and continued expansion of the Arana premium program.

The raspberry crumble issues are substantially mitigated with modest carry over, while blackberries will achieve 52-week coverage and make a modest earnings contribution.

In avocados, continued volume growth from tree maturity at existing farms will see tray volumes increase from circa 0.9 to 1.1 million trays. No significant fruit sizing issues are anticipated with impact on pricing.

Current strong performance is expected to continue from the existing tomato glasshouse production footprint, with additional water security issues addressed through the use of bores and offtake agreements as well as the decision to pause GH4 10-hectare glasshouse expansion project due to water security concerns.

The 2020 citrus year is an 'off season', with yield returning back to average levels, at least 90,000 tonnes. The fruit fly issue should be resolved prior to the 2020 season, providing there are no further incursions. Water pricing will remain elevated, however with a reasonable outlook for allocations.

[2] The after-tax interest saving from repaying debt with net equity raising proceeds is expected to contribute an additional approximate $3m to CY20 NPAT-S

Morocco is assumed to return to a normal year of production, with yield volume and timing consistent with long terms trends and new incremental early season production from Agadir from December 2019.

Finally, in China there is an expectation of continued strong demand for blueberries and production from the Manhong farm will commence. Yield improvement is also expected as a result of actions undertaken to address CY19 challenges, including pollination.

Entitlement offer

Costa has been undertaking a major growth expansion program and has invested over $400 million in capex and M&A since IPO in July 2015.

This investment has:

- Established a substantial and growing business in China.
- Built scale and 52-week supply across blueberries, raspberries and blackberries in Australia.
- Enhanced our mushroom capability through expansion in lowest cost production.
- Continued to build a citrus operation of scale with advanced packing automation.
- Established a new 10 hectare environmentally sustainable tomato snacking glass house facility.
- Established Avocados as the fifth vertically integrated produce pillar.

“Costa has funded this expansion predominantly through cash flow and external debt, as well as some off-balance sheet financing, and while the current financial performance has been impacted by a number of challenges, Costa's footprint is well invested to deliver strong shareholder returns over the medium to long term,” said Mr Debney.

The Costa Group Board has decided to raise $176 million in equity at a price of $2.20 per share through a fully underwritten accelerated renounceable pro-rata entitlement offer, with retail rights trading, resulting in the issuance of approximately 80 million new ordinary shares ("**New Shares**").

The equity raising will strengthen Costa's balance sheet and position the company to deliver on current and future growth initiatives.

Although Costa's strategy is growth oriented, management maintains a prudent and disciplined approach to capital deployment and generally targets a minimum return on

capital of 20% on new investments in three to five years (typically measured as EBITDA divided by capital employed).

Costa targets a long-term leverage range of 1.5 to 2.0x ND / EBITDA. Leverage at 30 June 2019 on a pro forma basis to reflect the Entitlement Offer is 1.14x net debt/EBITDA-SL.

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 1 new Costa share for every 4 existing Costa shares (**Entitlement**) held at 7pm (Sydney time) on Thursday, 31 October 2019 (**Record Date**).

All New Shares offered under the Entitlement Offer will be issued at a price of $2.20 per New Share, which represents a:

- 31.4% discount to theoretical ex-rights price (TERP) of $3.21
- 36.4% discount to the last close price of $3.46 on 21 October 2019

Each New Share issued under the Entitlement Offer will rank equally with existing Costa shares.

Non-Executive Directors have expressed intention to take up their Entitlements.

Timetable

A timetable of key dates in relation to the Entitlement Offer is set out on the following page.

Event	All Dates 2019[1]
Announcement of Entitlement Offer	28 October
Institutional Entitlement Offer opens	28 October
Institutional Entitlement Offer closes	29 October
Institutional bookbuild closes (at 8:00am)	30 October
Costa shares recommence trading	30 October
Retail rights commence trading (on deferred settlement basis)	30 October
Entitlement Offer Record Date (7:00pm AEDT)	31 October
Retail Offer Booklet and Entitlement and Acceptance Forms dispatched to Eligible Retail Shareholders	6 November
Retail Entitlement Offer opens	6 November
Settlement of New Shares issued under Institutional Entitlement Offer	8 November
Allotment and commencement of trading of New Shares issued under the Institutional Entitlement Offer	11 November
Close of retail rights trading	11 November
Retail Entitlement Offer closes (5:00pm AEDT)	18 November
Retail Entitlement Offer shortfall bookbuild	21 November
Settlement of New Shares issued under the Retail Entitlement Offer	26 November
Allotment of New Shares issued under the Retail Entitlement Offer	27 November

[1] All dates and times are indicative and subject to change without notice; AEDT refers to Sydney Australian Eastern Daylight Time.

END.

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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