

ASX ANNOUNCEMENT

28 August 2020

COSTA GROUP FINANCIAL RESULTS 1HCY20

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 28th June 2020 (1HCY20). Presentation materials for the investor and analyst webcast and conference call to be hosted by Costa commencing at 10:00am today have been lodged with ASX. These materials can also be accessed at <http://investors.costagroup.com.au/Investor-Centre/>

The webcast can be accessed at <https://webcast.openbriefing.com/6235/>

Key Headlines

- Australian operations now recovered from weather and drought challenges of late CY19 and 1HCY20.
- Strong performance from International segment. EBITDA-SL growth of 98% versus 1HCY19.
- Broad based forward momentum in Australian portfolio into 2HCY20 with market conditions showing sizable improvement driving increased earnings.
- High water security achieved across all sites.
- 1HCY20 financial impact from drought estimated at circa \$15m EBITDA-SL in Tomato and Berry categories. Crops recovered to full yield by May, with new Corindi (NSW) raspberry crops coming on stream from mid – August and blackberry crop from mid – October.
- Strong retail mushroom demand throughout half, complemented by Monarto facility expansion fully commissioned in July and meeting production targets.
- As previously flagged, citrus season volume lower than normal plus quality impact from hail storm of late CY19.
- Strong citrus export and domestic demand and pricing with encouraging expectations for balance of season.
- Aggregate market conditions favourable across our core product portfolio versus prior period. Supports our view of positive financial outcomes in 2HCY20.
- Improved leverage of 1.66x, with strong balance sheet and cashflow generation.
- Strategy and investment profile supports business resilience, sustained growth and long term shareholder returns.

Financial Headlines

- Revenue of **\$612.4m** – growth of **6.8%** on 1HCY19
- EBITDA – SL* - **\$93.7m** compared to \$82.4m 1HCY19. Improvement of **+13.7%**.
- NPAT –SL* - **\$45.8m** increase of **12.0%** on 1HCY19.
- Statutory NPAT of **\$43.4m**.
- Net debt of \$181.7m and leverage of **1.66x** – ahead of plan.
- Dividend of **4.0 cents** per share, fully franked (record date 17 September 2020, payment date 8 October 2020).

Quotes from Costa Group CEO, Harry Debney

“Our international segment performed strongly over the half, with significant improvement in EBITDA-SL, reflected in growth of 98% compared to the first half CY19. The major northern Morocco harvest cycle returned to normal timing and yield from all of our China farms was exceptional.”

“The continued impact of CY19 adverse weather and drought conditions affected our first half CY20 results for our Australian operations. However, these historical conditions should have no material impact in 2HCY20 or beyond and there is broad based forward momentum in demand and pricing over our Australian portfolio leading into the second half of CY20.”

“We have been impressed with the relative performance of our citrus orchards in terms of fruit size and yield, especially given the circumstances where industry harvest volumes have been impacted due to previous heat events. Also, strong export and domestic demand, together with improved pricing levels are expected to continue to season end”.

International Segment

The major northern Morocco harvest cycle returned to normal timing. The impact of COVID-19 in the UK, Europe & Morocco adversely impacted the main season, however good yields and quality resulted in financial performance well ahead of CY19.

The first harvest from our southern Morocco 90-hectare footprint at Agadir was very promising in terms of timing and price realisation.

The early harvest in China was affected by supply chain restrictions and poor demand from the intensive COVID-19 restrictions. This normalised for the main cropping period with positive results.

* Before SGARA, pre-IFRS16, material items & amortisation of acquired intangibles. Refer to the Appendix for further details on non-IFRS measures and details of material items & amortisation of acquired intangibles.

Yield from all of our China farms was exceptional due to a combination of improving agronomic interventions and favourable weather conditions.

Produce Segment

Produce saw mixed performance impacted by drought, delayed Monarto mushroom ramp up, Tumbaramba (NSW) bushfire, with these now mitigated. There were also COVID-19 costs and a later start to citrus season.

There is broad based forward momentum in demand and pricing leading into 2HCY20.

- Mushroom

There was consistent strong mushroom retail demand throughout the half. This was reflective of consumers cooking more at home and a cooler Autumn and Winter compared to CY19. COVID-19 has also had a positive effect on pre-pack demand with consumers favouring packaged product.

- Citrus

Industry wide citrus harvest volumes have been impacted due to previous heat events however this has been significantly offset by strong export and domestic demand, with price appreciation over the previous year. On a further positive note as the season has progressed there has also been some improvement in yield and sizing over earlier estimates.

The impact from November 2019 hail storm was on quality as opposed to yield and as previously reported the financial impact from this is expected to be circa \$8m EBITDA-SL.

- Berry

A satisfactory Tasmanian berry season was completed with some challenges from weather offset by good harvest rates and a reduction in operational costs. The Far North Queensland berry season had an earlier start (last week of February) than expected, although followed by a dip in May there was good harvest volumes in June.

- Avocado

Costa will be the largest avocado grower and marketer in Australia in CY20. This achieves our goal of being the number one player in the category and comes after only having established avocados as our fifth vertically integrated core produce pillar in 2017.

We also expect to exceed 1 million trays of our Lovacado brand marketed in CY20.

Good avocado sizing, quality and yield compared to others in the industry from our FNQ and Central Queensland farms resulted in strong trading outcomes.

- Tomato

Demand for snacking tomatoes was impacted throughout the half which was reflective of school closures due to COVID-19. Both truss and snacking demand have rebounded strongly since June with pricing meeting expectations.

COVID – 19

Costa is maintaining an intense focus on supporting the well-being of our people. All sites have in place a temperature testing regime, observance of strict social distancing measures, enhanced emphasis on hygiene, and contingency plans in the event of a case impacting a site.

Operations have continued without material interruptions and no direct impact on yield and supply.

Our market leading position with major retailers saw benefit from COVID -19 generated buying patterns. There was relatively minor exposure to food service shutdown/slowdown.

There were some early season challenges in our China operations with respect to labour and supply chain, however these were largely resolved before the main season. Our Moroccan operations faced a more volatile environment with the situation in Europe and the UK resulting in higher freight costs and some demand/pricing challenges.

Labour needs have been met to date, including visa extensions for seasonal workers already in Australia. We expect to also meet labour needs in second half of CY20, assisted by restarting of Seasonal Worker Programme.

Significant direct COVID-19 related costs have been incurred, circa \$3m as at end 1HCY20. Earnings impact from COVID-19 market disruption for Morocco was estimated at circa \$5m for 1HCY20.

Growth Plan Update

The company continues to implement our Australian and international growth plan initiatives. Work is now under way to recommence construction of the new 10 hectares of glasshouse and nursery at Guyra.

The long cane raspberry and blackberry program has commenced at Corindi, in which we are seeking to capitalise on the opportunity to produce multiple crops in each year and significantly improve yield per hectare.

The Monarto mushroom facility expansion was fully commissioned in July with only auxiliary works remaining to be completed. Production has also been at full capacity over recent weeks.

In Morocco, an additional 23 hectares have been planted at our southern farm in Agadir, with the plan to undertake further plantings at this location to take advantage of early season crop timing.

Costa genetics are being used to drive toward our goal of 52-week supply in Africa, with initial licensing of genetics to growers in South Africa and Zimbabwe. The aim is to supply product from June through December into our key UK and European markets.

Our new farm in China at Guangmen (62 hectares) has been completed on time, with plantings to support our goal of achieving maximum first year yield realisation in CY21.

Establishment of an initial circa 50 hectares at our Baoshan/Pupiao development is progressing as planned, with primary earthworks completed and early drainage work also commenced. First harvest expected in CY22.

Outlook

Broad based forward momentum with Australian market conditions across our portfolio showing sizable improvement driving increased earnings into 2HCY20.

Strong export & domestic demand and pricing in citrus, together with increased second half harvest timing supports improved outcome.

Excellent forward water security across the regions in which we operate.

Over the next three years given all major capex will be in place, this along with continued innovation will be the platform to drive quality, yield growth and shareholder returns.

This is supported by strong balance sheet and cashflow generation, placing the company in a position to continue growth as a low cost producer, while capitalising on opportunities as they arise.

END.

Release authorised by David Thomas, Company Secretary, Costa Group Holdings Limited.

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 4,700 planted hectares of farmland, 30 hectares of glasshouse facilities and three mushroom growing facilities across Australia. Costa also has strategic foreign interests, with majority owned joint ventures covering six blueberry farms in Morocco and four berry farms in China.

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