

# ASX ANNOUNCEMENT

22 February 2021

## COSTA GROUP FINANCIAL RESULTS CY20

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 27<sup>th</sup> December 2020 (CY20). Presentation materials for the investor and analyst webcast and conference call to be hosted by Costa commencing at 10:00am AEST today (22 February) 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/6946/>.

### Key Headlines

- Revenue of **\$1.164bn** – growth of **11.2%** on CY19.
- EBITDA – SL - **\$144.8m** compared to **\$98.3m** CY19. Improvement of **47.2%**.
- NPAT –SL - **\$59.4m** increase of **108.4%** on CY19.
- Strong full year result -
  - Recovered from drought challenges.
  - International segment performance well up on previous year.
  - Sustained Australian category momentum through 2HCY20 driving increased earnings.
  - Balance sheet strength and strong cash flow position, highlighting resilience.
- Successful execution of business fundamentals including yields, quality, cost and COVID -19 management.
- Favourable market conditions were supported by positive demand and pricing, especially in the citrus, berry, and avocado categories.
- Leveraged market leading position by realising benefits of fully vertically integrated produce categories, diversified portfolio, and Costa blueberry IP (Arana variety), which delivered clear product differentiation and premium pricing during peak periods.
- Acquisition of quality citrus assets a priority, building on category scale, growth and export opportunities.
- Focus on improving yield and realising production efficiencies with commencement in CY21 of commercialisation of avocado protected, substrate/trellised growing.

- COVID-19 – supplied quality produce without disruption during lockdowns and did not claim any JobKeeper funds. Labour supply is an ongoing risk but has been managed to date.
- Leverage at 0.99x, this is ahead of plan, demonstrating company's deleveraging ability over the short term.
- Continuing to manage for the long term which is key to success in a business operating within agricultural production time cycles, and multi seasonal weather and market influences.

### **Financial Headlines**

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- EBITDA – SL - **\$144.8m** compared to **\$98.3m** CY19. Improvement of **47.2%**.
- NPAT –SL - **\$59.4m** increase of **108.4%** on CY19.
- Statutory NPAT of **\$60.8m**.
- Net debt of **\$143.9m** and leverage of **0.99x**.
- CY20 directly attributable COVID-19 costs of \$5.4m. COVID-19 Morocco market disruption earnings impact of circa \$5m for the year.
- Dividend of **5.0 cents** per share, fully franked (record date 11 March 2021, payment date 8 April 2021).

### **Quotes from Costa Group CEO, Harry Debney**

“The company has delivered a strong result for CY20, in which we recovered from the drought, successfully managed our way through COVID-19 without any major disruption to our crop yields and supply, and once again demonstrated the benefits of being a market leader, operating fully vertically integrated produce categories, a 52-week production footprint and a diversified portfolio”.

“There were favourable market conditions in CY20 supported by positive demand and pricing across a number of our produce categories, including citrus, berry, and avocado. Our superior blueberry IP, in particular our premium Arana variety, meant we were able to sell increased volumes while also receiving a significant price premium.”

“Today the company announces it is actively engaged in a citrus acquisition program to increase its Sunraysia citrus footprint to at least 700 hectares over CY21. To support this expansion, we have also commenced planning for development of a large-scale packing facility to be sited in Mildura (Vic), signalling how much of priority the Sunraysia region is with respect to our citrus growth plans”.

“The company is committed to investing in new crop growing methods to achieve improved yields, reduce production costs, and address climate related risks. This is why in CY21 we will commence a commercialisation program for the planting of 40 hectares of protected, trellised high density substrate avocado trees, across a number of regions aligned to our existing avocado plantings. A small trial undertaken over the past three years has already delivered global leading results, including faster tree maturity, higher yield, better fruit quality and greater efficiency of water use versus conventional plantings.”

### **Produce Segment**

- Mushroom

Retail sales volumes remained relatively strong over 2HCY20, with pricing firm over the period. Prepack sales continued to perform well versus bulk product, reflective of continuing consumer preferences during COVID-19.

Volumes were down versus the previous year, reflecting a number of factors, namely the closure of multiple production sites at the end Q4 CY19, short term compost issues at our Mernda (Vic) farm and although our Monarto (SA) expansion is now fully commissioned, there has been ongoing challenges in consistently achieving desired production levels.

In October '20 a new mushroom mince prepack product was launched exclusively with a retailer, with continued roll out of this product in CY21. A new brand 'Mush-Boom' was launched in non-retail channels in December '20, with branding displayed on all bulk boxes and a dedicated online presence - <https://mushboom.com.au/>

- Berry

There was favourable blueberry pricing which was particularly supported by premium pricing received for our Arana variety through the blueberry main growing season (July – December).

In CY20 Arana production volume doubled versus CY19 to circa 1,700 tonnes, with 90% of this total volume sold at a price premium.

The new long cane raspberry and blackberry crops saw improved seasonal volume and packed fruit quality and reduced harvest costs, leading to improved returns.

The Tasmania blueberry harvest commenced in early CY21 with strong quality and volume in line with maturing substrate crop expectations. Our Blackberry crop volume and quality were also well ahead of the previous year.

- Citrus

Citrus pricing remained strong throughout the season, the result of higher export and domestic demand. There was particularly strong export and domestic demand for navel oranges and mandarins.

As the season progressed there was some further improvement in our Riverland yield, with volume totalling circa 86,000 tonnes for the CY20 season.

It should be noted that China trade tensions are having a minimal impact on our citrus exports, with less than 5% of our total citrus exports going to China.

A New Year's Day '21 hail storm at our Colignan (Vic) farm caused damage to table and wine grape crops, with our early season grape variety protected by rain covers. The Colignan farm makes only a minor citrus contribution to the overall citrus category.

The Mundubbera (QLD) table grape harvest was completed in early January '21. There was strong quality in the crop, benefiting from 100% of the crop being covered by permanent netting. There were large volumes in all regions resulting in price deflation compared to budget and versus prior seasons.

- Tomato

Truss pricing for the 2HCY20 was above expectations, with cocktail tomato pricing weaker than forecast.

Although there was some improved pricing for snacking varieties, this was not sustained, being ultimately impacted by higher market volumes and continued impact through the year of COVID-19 on demand, being mostly reflective of school, café and restaurant closures.

Poor light conditions over 2HCY20 impacted yields, however our water security situation improved significantly, with the glasshouse dams now at 100% capacity and additional storage infrastructure being developed.

- Avocado

Higher avocado pricing contributed to positive performance versus budget, with both retail and wholesale pricing over 2HCY20 well up on the prior year. Fruit sizing from Costa operated farms was also better than the industry average contributing to positive pricing.

There were increased volumes from Costa operated farms, particularly in FNQ and NNSW, with third party volumes significantly lower in line with industry production expectations, contributing to a strong pricing benefit to Costa's own farming operations.

Key CY20 production data included 1.3m trays of Lovocado brand marketed, 37,000 avocado trays exported and 2.8m marketed trays in total.

### **International Segment**

- Morocco

The African Blue (Morocco) CY20 performance was greatly improved on CY19, although there was some impact from lower volumes and pricing due to COVID-19 volatility in the UK and Europe in particular. This pared back the final outcome.

Initial commercial volumes in CY20 from our blueberry variety program partner growers in South Africa and Zimbabwe were marketed by African Blue.

The 2020/21 Agadir crop is producing a good size and tasting product, with small volumes sold into Asia from November.

- China

Although the early CY20 harvest was affected by supply chain restrictions and demand due to COVID-19, the full year volumes were exceptionally positive versus budget and contributed to another enhanced performance.

Ahead of the CY21 harvest there has been a focus on maintaining effective pest and disease control and climate management. The CY21 crop is expected to be slightly later, however initial market conditions are strong.

### **Growth Plan Update**

- Citrus - Acquisitions

The company is actively engaged in a citrus acquisition program to increase its Sunraysia citrus footprint to at least 700 hectares over CY21. To support this, planning has also commenced for the development of a large-scale packing facility to be sited in Mildura (Vic).

New sites have also been acquired in the Riverland to undertake extensive high density netted citrus plantings during CY21. These properties will host the most progressive citrus growing techniques across the citrus category.

We also continue to plant proprietary table grape genetics in Sunraysia. Our partner grower network is expected to plant circa 110 hectares in CY21 and Costa 40 hectares (at Colignan).

- Avocado – Commercialisation of protected, high density substrate plantings

The Costa Board has approved a commercialisation program for the planting of 40 hectares of protected, trellised high density substrate avocado trees, across a number of regions aligned to existing avocado plantings. This commercialisation will represent a springboard to further expansion in 2023/24.

This decision is a result of the success of our protected high density substrate avocado trial results from original small plantings undertaken in late 2017. This has delivered global leading results, including faster tree maturity, higher yield, better fruit quality and greater efficiency of water use versus conventional plantings.

The high-density commercial plantings will encompass a minimum of 1,000 trees per hectare (at least 4x greater than conventional avocado tree plantings), planted in substrate, protected with permanent netting cover and trellised.

- Tomato – Glasshouse 4 and nursery construction

As announced in late May '20, due to improved ongoing water security including plans to build further water capture capacity, the decision was made to recommence the new Glasshouse 4 (10 hectares) build and the 2.5-hectares nursery project.

In addition to \$75m capital expenditure, there will be \$7.5m extra expenditure on increasing water capacity and \$2.5m restarting costs for recommencement of construction.

Works are proceeding to the revised schedule, with commissioning of the glasshouse and nursery anticipated to be completed by end August '21, whilst acknowledging sub optimal scheduling due to COVID-19 issues impacting availability of international contractors.

First production is expected prior to the start of CY22.

## **International**

- Morocco

Land is being sought for a further 14 hectares to be planted at Agadir (southern farms) in CY21, taking total southern region plantings to circa 102 hectares.

Benchmarking and deep dive analysis into farm fertigation programs has identified improvement opportunity for CY21, and this should drive better yield and timing performance.

There is a focus on continuous improvement and redevelopment of northern farms through in soil and substrate plantings. Commencing as of CY21, the northern farms will be progressively replanted with Costa VIP purpose bred, superior genetics blueberry varieties.

- China

An additional 7.2 hectares of blueberry plantings has been completed at the Guangmen farm bringing total planted hectares at that farm to 69.

The Baoshan development of an initial circa 50 hectares is progressing well, with the first plantings to start early January '21 with completion scheduled by end of March. The inaugural harvest is on target for CY22.

Joint Venture partner Driscoll's Inc has plans to expand and improve fruit handling capacity as total farm production increases. They have also commenced servicing South West China in CY20, including large population centres of Chongqing, Chengdu, Kunming and Guiyang (total population of this region is circa 220 million people).

### **Outlook**

Demand and pricing across produce categories generally remains strong into CY21. There is continued focus on our competitive advantages in yield, geographical spread, quality and cost of production.

Favourable conditions in Riverland over summer months, and early to mid-season navel crops are looking promising at this stage with CY21 season an 'on year'. The New Year's day '21 hailstorm damaged the Colignan grape crop, while citrus contribution to overall category from this farm is minor.

Early season performance from the International segment has been positive, including strong pricing in China. There is uncertainty as to the extent of COVID-19 impacts, particularly given the UK/Europe situation.

Translation of International segment results are likely to be impacted by the recent strengthening in AUD.

Strong balance sheet and operating cashflow provides opportunity to continue to invest in quality bolt-on opportunities, international expansion and domestic innovation projects to drive growth.

This release is authorised by the Costa Group Holdings Limited Board.

**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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