

ASX ANNOUNCEMENT

26 August 2021

COSTA GROUP FINANCIAL RESULTS 1HCY21

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 27th June 2021 (1HCY21). Presentation materials for the investor and analyst webcast and conference call to be hosted by Costa commencing at 10:00am AEST today (26 August) 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/7576/>

Key Headlines

- Half year forecast earnings achieved.
- Record international result - **+25% revenue growth on pcp**, with positive pricing, yield and demand maintained over the entire China season and favourable earlier fruit timing and stronger pricing in Morocco.
- Mixed domestic performance – generally favourable pricing across the four berry varieties, avocado impacted by sustained higher industry volumes, and New Year's day '21 Colignan (Sunraysia) hail storm progressively impacted over the half on table grape yield and reduced citrus yield.
- Balance Sheet remains strong.
- Maintaining relentless focus on COVID-19 response - Continue to effectively deal with border closures and ongoing travel restrictions. Labour requirements are being met.
- Ongoing momentum in Sustainable Commercial Farming (ESG) strategy.
- Post balance date completed 2PH citrus business acquisition supported by successful \$190m capital raising.

Financial Headlines

- Revenue of **\$612.4m**.
- EBITDA – S¹ - **\$124.4m. +4.3%** on 1HCY20.

¹ Earnings before Interest, Tax, Depreciation & Amortisation, the fair value movements in biological assets (SGARA) and Material Items.

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- NPAT –S² - **\$44.4m. +3.0%** on 1HCY20.
- Statutory NPAT of **\$37.5m.**
- Net debt of \$208.0m and leverage of **1.40x.**
- Directly attributable COVID-19 costs of \$2.5m.
- Dividend of **4.0 cents** per share, fully franked (record date 16 September 2021, payment date 7 October 2021).

Quotes from Costa Group CEO, Sean Hallahan

- 1HCY21 performance

“Our international segment through our operations in China and Morocco continues to make an ever-increasing contribution to our overall performance and has delivered record results. This has not only occurred because of increased berry plantings but is also an endorsement of our world leading blueberry genetics, which continue to be well received by consumers across Asia and Europe and are attracting a price premium”.

“Domestic produce performance was mixed for the half, with avocado performance impacted by high volumes and resultant pricing below forecasts. Our berry category delivered a positive performance with generally favourable pricing across our four main berry varieties. Table grape and first half citrus yields from the Sunraysia (Vic) region were unfortunately impacted by a New Year’s Day hail storm. While there were relatively positive demand and pricing conditions for mushrooms our ability to fully benefit was not able to be realised due to lower production volumes.”

- 2HCY21 Outlook

“We have confirmed our full year forecast which is in line with that disclosed at the 2PH acquisition and capital raise, which includes CY21 EBITDA-S and NPAT-S being marginally ahead of CY20. There is still a significant amount of domestic activity to occur over the second half, with positive momentum driving the remainder of the citrus season, especially with strong export into Japan, China and Korea, and the main berry season expected to deliver healthy growth versus previous comparable period.”

² Net profit after tax attributable to shareholders but excluding the after-tax impact of the fair value movements in biological assets (SGARA) and Material Items.

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International Segment

- China

Higher volumes from increased plantings and lower imports of South American fruit into the market especially earlier in the year supported strong pricing and demand over the season. Production volumes were +1,093 tonnes versus pcp.

The overall China yield finished in line with expectations, with jumbo (Arana) blueberry variety volumes higher than budgeted toward the end of the season.

Our premium varieties, including Arana have gained positive further market recognition and continue to attract a significant price premium. This supports the company's continuing development of our China farming footprint across multiple locations in Yunnan Province.

- Morocco

Early season plantings in Agadir (south) as well as earlier season higher volumes across our northern farms, together with strong pricing over the season contributed to a positive result.

Total production volume increased by 1,456³tonnes versus pcp, with performance also benefiting from the delayed timing (three weeks) of the main Spanish blueberry season.

There will be an accelerated focus on scheduled replanting at our northern farms in CY22, involving the replacement of legacy varieties with new premium Costa varieties.

- Emerging regions (genetics licensing)

Third party grower tonnage from Africa⁴ increased by 148 tonnes versus pcp. There was a positive early start to the Zimbabwe and South Africa licensed third-party grower season. Planted hectares in these regions are continuing to increase year on year and building on 52-week supply volumes.

A new long term exclusive agreement with Driscoll's was signed in late CY20 for the licensing of Costa blueberry genetics in the Americas, which highlights the growing importance of our international licensing program, including expanding geographical reach across Africa, China and the Americas. This is in recognition of our superior blueberry genetics and consumer demand for premium quality fresh produce.

³ Includes own production and third-party growers in Morocco and Southern Africa

⁴ Morocco and Southern Africa third-party growers

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Produce Segment

- Mushroom

As previously advised short term labour constraints at the Monarto (SA) facility contributed to inconsistent volumes from this site over the half.

Demand conditions were overall strong, particularly going into the cooler months as reflected in favourable retail and wholesale pricing. However, due to inconsistent production volumes the full benefit was not able to be realised

The mushroom retail sales mix over the period at circa 80%+ was in line with budget, with pre pack product continuing to drive this segment.

Sourcing and retention of labour continues to be a key priority. Monarto harvest worker numbers have increased over recent weeks, and this has contributed to higher harvested volumes.

- Berry

Over the half the Corindi raspberry crop returned to normal after the late CY19/early CY20 drought impact. Blueberry pricing was impacted by some quality issues, but there was generally favourable pricing across the four main berry varieties, and this was ultimately in line with expectations.

Although there was a stronger than usual finish to the Tasmanian season, overall volumes were down due to climatic conditions versus prior period and shortage of labour during peak harvest periods.

The early Far North Queensland (FNQ) Arana volumes attracted a +23% price premium on average compared to other FNQ blueberry product. However overall yield was lower than forecast (circa 155 tonnes vs 237 tonnes), including impact from pest pressures.

The Western Australian crop was impacted by weather, resulting in a 64 tonne shortfall against forecast and there has been a relatively slow start to the main Corindi (NSW) season due to poor weather, with the majority of crop to be completed over the second half.

- Avocado

As noted earlier in the first half, sustained higher avocado volumes contributed to significantly lower pricing and category performance. COVID-19 also contributed to foodservice sector contraction.

Total trays produced were circa +92,000 (+15.2%) versus pcp. Industry volumes are up circa 50% versus pcp and third party marketed trays were +11.4% versus pcp.

Western Australian (WA) avocado crop volumes are strong, further contributing to higher avocado supply and lower prices, with estimated WA production of circa 9 million trays over the season.

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Export activity has been positive year to date (circa 86,000 as at end August) with volumes already exceeding CY20 export volumes but coming off a low base (CY20 total exported trays 37,000).

- Tomato

Increased field tomato and truss supply impacted short term pricing across all varieties, particularly truss and to a lesser extent snacking and cocktail. This resulted in a negative pricing impact in the range of 30% – 60%.

Volumes were down due to poorer growing conditions, caused mainly by lower-than-normal light over the summer months and shortfall in sourcing quality truss from external growers. This resulted in a circa 4% reduction in yield (own and third party) versus pcp.

On a positive note, retail and wholesale pricing improved over May and June heading into the second half, with forecasted yield improvements and anticipation of reduced reliance on external grower volumes going forward once the new glasshouse fully comes online.

- Citrus

The impact of the previously advised New Year's day '21 hailstorm damage to our Colignan (Vic) table grape crop progressively increased, resulting in significantly lower production volumes from this farm and a subsequent earnings impact, with citrus yields also impacted.

The early citrus harvest through May and June delivered tonnage ahead of forecast due primarily to early timing of the mandarin harvest. The Riverland (SA) yield has been tracking close to forecast, with fruit quality above expectations and percentage of first grade fruit being packed ahead of same time versus pcp.

Fruit fly restrictions in the Riverland have impacted performance adding additional cost. Restrictions will remain in place for the remainder of the season, which involves cold treatment for the majority of our export markets. This is being well managed and expected cost over the season is between \$6m to \$8m.

The 2PH season is progressing positively, with favourable pricing in all export markets, especially China. Product is attracting a price premium in Guangzhou and Shanghai wholesale markets above that of competing citrus brands.

CF&L

Although sales volume was ultimately lower than budget over the half for the farms segment, servicing revenue was strong, especially for grapes, tomatoes and third-party avocado ripening resulting in a marginal increase in revenue versus pcp.

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In the Logistics segment, Eastern Creek DC performed ahead of budget due to strong volume for third party customers. There was reduced revenue overall versus pcp due to completion of retailer ripening contract and banana handling services.

During the half the acquisition of Select Fresh Group (SFG) was completed. SFG is a leading Western Australian based wholesale distribution business, supplying fresh produce to foodservice channels, and independent retail channel (Metcash, IGA stores) for resale to the public. The acquisition is a key part of our strategy to develop and expand our footprint in the fresh foodservice sector.

Growth Plan Update

- Citrus – Acquisitions completed over the period

2PH

Key highlights

- Greater export supply to key Asian markets - 2PH has an established brand presence in Asia. Enhances Costa's ability to also capitalise on market access drivers, including quality and proximity to Asia.
- Increased citrus category revenue contribution - total citrus group revenue contribution increases from approximately 30% to approximately 35% post transaction.
- Exclusive rights to selected proprietary varieties - access to proven 30-year proprietary breeding program. Proprietary mandarins include AC41114^{PBR} (AmoretteTM) and 66-75^{PBR} (PhoenixTM).
- Extended variety and early season timing - 2PH season commences in mid-March, the earliest citrus season in Australia. Future opportunity to achieve 52-week supply into key Asian markets.
- Tree maturity - 50% of plantings under 5 years old, 63% of plantings yet to reach maturity (8 years).
- Consideration – total final capital cost of \$220m⁵. Partially funded by successful capital raise of \$190m completed end July. Initial cost was above that which was previously announced due to timing on working capital at settlement and to earlier completion than expected.
- CY21 –sale agreement includes economic and cashflow benefit of CY21 season to Costa although majority of earnings accounted for as balance sheet rather than CY21 P&L. Proforma CY21 EBITDA-S contribution would have been \$29m if 2PH asset had been owned for full year CY21.

⁵ Excludes transaction costs

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- Season update – forecast volume is circa 30,000 tonnes. Season largely performing as expected. Main Murcott season progressing as planned, export pricing in line with expectations and no disruptions in access to Chinese market to date.
- US market access – As of August '21, the United States has given market access to the export of citrus grown in Central Queensland, further opening up potential markets for our 2PH volumes.

KW Orchards

Key highlights

- Expanded Sunraysia (Vic) footprint - circa 600 hectares of land, with current citrus plantings of 312 hectares, 45 hectares of wine grapes. At maturity it is forecast annual citrus production will be +30,000 tonnes per annum.
- Attractive varietal mix - suited to the export market and will play an important role in our capacity to take further advantage of strong citrus export demand. Tree maturity profile has a majority of plantings less than 4 years old, and circa one quarter of plantings 10+ years.

Cufari acquisition

Key highlights

- Location and plantings - Colignan (Sunraysia Vic) 45 hectares of planted citrus across two main blocks. Producing circa 1,500 tonnes per annum.
- Tree maturity - Circa 90% of trees aged between 1 to 5 years. Also 5 hectares of mature avocado plantings. Well established orchard, including river access and irrigation.
- Tomato

New 10-hectare glasshouse 4 (GH4) and 2.5-hectare nursery project at Guyra, NSW proceeding to schedule. As previously advised additional \$7.5m expenditure on increasing water capacity and \$2.5m restarting costs for recommencement of construction after pausing due to water security concerns in late 2019.

Full commissioning of glasshouse and nursery will be completed on schedule by end August '21.

Nursery build completed as at end of July. Planting has commenced across five hectares, first initial production prior to the start of CY22 with volumes ramping up in 1HCY22.

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- Avocado

As announced at CY20 full year, Board approval was received for commercialisation program to plant 40 hectares of protected, trellised high density substrate avocado trees, across a number of regions aligned to existing avocado plantings.

Benefits include production costs significantly less than standard orchard plantings, faster tree maturity, higher yield, better fruit quality and greater efficiency of water use versus conventional plantings.

Export opportunities continue to be developed and pursued in order to expand offering beyond domestic markets.

The first harvested crop is expected from CY23/24 and forecast harvest from 40 hectares at full maturity is circa 300,000 trays compared to 115,000 trays from a conventional in soil avocado, unprotected crop.

International

- Morocco

A further 14 hectares will be planted at Agadir (southern farms) in November '21 taking total plantings in this region to circa 102 hectares.

Progressive replanting program of northern farms is scheduled to commence 2HCY21, with planting of Costa VIP purpose bred, superior genetics blueberry varieties. This will result in reduced yield impact in CY22 of circa -430 tonnes.

- China

The Baoshan CY21 development of 50 hectares (all blueberries) has been completed together with protective tunnel and plastic installation. The new dam is now operational with main drainage and road system works also completed.

Packing facility and training room construction are also nearing completion, with the site on schedule to deliver first crop in CY22.

Works on the Baoshan CY22 development of 100 hectares has commenced. Ground works and fencing have been completed, with work commenced on installation of protective tunnels. Irrigation and substrate materials have been ordered and plant supply is also confirmed for CY22 planting.

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Outlook – CY21

Full year forecast is confirmed in line with 2PH capital raise disclosure. CY21 EBITDA-S and NPAT-S to be marginally ahead of CY20, excluding any contribution from 2PH.

Significant domestic activity still to occur over the second half, with positive momentum driving the remainder of the citrus season and the main berry season expected to deliver healthy growth versus pcp.

Citrus yields and quality are in line with expectations across our growing regions. Demand from North Asia export markets (Japan, China and Korea) is strong going into the second half. Some COVID-19 supply chain issues are contributing to likely challenging demand situation for remainder of season into South East Asian markets.

- There has been positive berry pricing due to fluctuating blueberry industry volumes as a result of poor weather causing delays to Corindi (NSW) crop timing, including Arana. However, the overall berry crop is expected to meet expectations.
- Expect continuing favourable mushroom demand and pricing presenting a positive opportunity once volume consistency improves. Short term labour supply challenges have been addressed at the Monarto mushroom facility.
- New glasshouse planting continuing to proceed as scheduled with no expected delay. Light issues that have affected growing conditions will improve over the second half as we move into the spring/summer months with improving volumes.
- As previously flagged the high Western Australian avocado season volumes will contribute to continued depressed pricing over second half.

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

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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 6,000+ 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, covering approximately 600 planted hectares.

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