ASX ANNOUNCEMENT

27th February 2018

COSTA GROUP FINANCIAL RESULTS 1H FY2018

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 31st December 2017 (1H FY2018).

1H FY2018 Key headlines:

- Strong first half performance with citrus and tomato categories being the standouts.
- Acquisition of a further 37% of African Blue completed in November 2017, taking Costa ownership to 86% with options to increase to 90% over the next three years.
- Conditional agreement for the acquisition of Coastal Avocados on Mid-North Coast of New South Wales, expanding avocado growing regions to a total of four. Acquisitions of a further two small avocado farms to complement the existing hubs in Atherton and Childers (QLD) have also been completed.
- Ongoing successful execution of domestic berry growth program.
- China expansion on track, including securing of land for FY2019 plantings.
- Balance sheet and cashflow positions are robust

1H FY2018 Financial results

- Revenue of **$489.4m** – 9.8**%** growth on 1H FY2017
- Statutory NPAT of **$66.2m**, inclusive of a $40.1m non-cash gain arising from the revaluation of the Group's 49% interest previously held in African Blue.
- EBITDA before SGARA and material items **$60.9m** – up 24.2**%** on 1H FY2017
- NPAT before SGARA and material items of **$28.6m** –14.5**%** growth on 1H FY2017
- Leverage increased to 1.4x EBITDA-S due to the acquisition of African Blue and growth projects as at December 2017
- Interim dividend of **5.0 cents** per share, an increase of 25% on 1H FY2017, fully franked (record date 15th March, payment date 5th April 2018).

Costa Group CEO Harry Debney said the results reflected a strong first half, with the citrus and tomato categories delivering standout performances.

“These results are indicative of a strong 1H FY2018, with our citrus category continuing to make a standout contribution, fuelled by growing export demand across our key markets including Japan, USA and China. Tomatoes also made an excellent contribution boosted by the snacking segment’s performance”, said Mr Debney.

The Company’s growth program is also on track, including the majority share acquisition of African Blue, ongoing execution of the domestic berry program, the acquisition of further avocado farms and the securing of additional land for future plantings in China.

“We continue to make solid progress on our growth program. Conditional agreement has been reached to acquire Coastal Avocados located on the New South Wales Mid–North coast, which will expand our total avocado growing regions to four. We have also completed two further bolt-on acquisitions to complement our existing farms on the Atherton Tablelands and in Central Queensland,” said Mr Debney.

African Blue acquisition update

The acquisition of an additional 37% of African Blue was completed in late November 2017, with an option to acquire a further 4% over the next three years.

Consideration for the initial 37% was $68.5m, with the value of the remaining 4% based on the business meeting earnings thresholds over the next three years at an estimated fair value of $9.1 million.

Acquisition related costs were $2.9m, predominantly made up of stamp duty.

African Blue which was previously accounted for as an equity accounted investment will be consolidated into Group accounts from December 2017. As the transaction is a step up acquisition under Accounting Standard AASB 3, the Group’s original 49% interest in African Blue has been revalued as if it was disposed of and repurchased at the transaction value, adjusted for the control premium paid. This resulted in a gain of $40.1m which has been included in Other Income and reported as a material item.

In accordance with accounting standards, the Group has adopted provisional accounting estimates in relation to the assets and liabilities acquired. It is expected that the acquisition accounting will be finalised by 30 June 2018.

Produce segment

The produce segment delivered revenue growth of 14.2% on 1H FY2017 of $444.8m. Total transacted sales were $620.3m compared to $514.7m in 1H FY2017, a 20.5% increase.

- Mushrooms

The mushroom category is on target, with performance continuing to be constrained by supply, and available production favouring prepack retail sales reflecting strong demand in this segment.

Over the half year industry value growth of 4.4% was largely driven by price.

- Berries

The contribution from blueberries was in line with the prior year. A later harvest at Corindi adversely affected price outcomes, however, significant cost improvement initiatives, predominantly around productivity and labour, were able to mitigate the impact of lower prices.

As previously advised, Corindi volumes were reduced due to the major late season replanting program. Despite this, overall volume was marginally higher than last year and ahead of expectations due to heavy production late in the season.

Raspberries recovered from the poor growing conditions in 2016, with December peak production supporting the high demand Christmas period.

Industry blueberry and raspberry sector value growth was 22.1% and 20.3% respectively.

- Citrus

The 2017 citrus season was exceptional, with a total yield of 98,000 tonnes.

Export market demand absorbed all incremental volume, with strong sales growth across key markets including Japan, USA and China.

Navel oranges in particular performed strongly, and coupled with excellent quality, farming returns per tonne were in line with the prior season despite a less favourable SKU sizing mix due to the larger crop. The 2018 season is expected to be a lighter crop, reflecting the normal biennial bearing cycle.

"Costa maintains an active interest in M&A opportunities in the citrus industry, highlighted by the acquisition of Impi Orchards completed in December 2017. Impi contains 77 hectares of quality citrus plantings and a further 65 hectares of development land, producing a mix of oranges, mandarins, grapefruit and lemons. This now brings Costa's total citrus plantings to circa 2,240 hectares which are all located in the Riverland region", said Mr Debney.

Our early season table grape farm at Mundubbera in Queensland performed well and in line with the prior year.

- Tomatoes

An excellent first half performance from the tomato category was underpinned by the reconfiguration of the glasshouses and a change in planting schedules which has smoothed volume away from the traditional peak summer production to a more consistent yield over the full year.

The snacking segment continues to perform well, with excellent production from the new 10 hectare glasshouse and strong market uptake.

“Our upgraded nursery has now fully integrated all of our tomato seedling requirements, ensuring improved quality and flexibility. Our team carefully selects varieties to trial and test within the glasshouse from which they identify those which are suitable for the current market based on improved yield, quality and taste, pest and disease resistance, improved shelf life and demonstrated efficiencies in crop work, picking and packing”, said Mr Debney.

Average industry sector value growth was -9.1%, with truss -14.8%, snacking +9.5% and field -17.9%.

- Avocados

Third party avocado sales growth was primarily due to higher pricing on lower volumes marketed, with overall industry volumes down 22%

The Central Queensland production season was circa 40% below expectations across the industry and the West Australian crop was also lighter.

The category’s contribution is aligned to second half harvests with the 2018 harvest at our Atherton Tablelands farms commencing in February and Central Queensland to follow in March.

Hail at our 38 hectare Kumbia farm in Central Queensland in late December stripped the young trees of leaves, with a small loss of trees. It will take approximately two years to regain full tree health and structure on that farm, with some minor financial impact on 1H FY19.

Our banana farming and marketing activities have made a beneficial contribution to our results with an early burst of warm spring weather driving up volumes by 34%.

CF&L segment

Berry services income increased over the half due to a higher volume of early summer berries, however overall trading flow across the wholesale trading stands was constrained by lower available avocado and mushroom supply consistent with supply constraints across those sectors.

The logistics contract with Coles for our distribution centre in Devonport, Tasmania was renewed for two years.

Expansion of the Jandakot site was completed in December, with these works catering for the expected growth in the Coles operation in Western Australia.

Exit from the Polar Fresh joint venture was completed in October 2017, with the wind down of the partnership activities underway.

International segment

Earnings from both the China and Morocco operations are weighted towards the second half of the financial year, with crop farming costs recognised through 1H FY2018.

A small volume of blueberries was harvested from both China farms leading into December, with the main harvest expected between March and May, which is in line with expectations.

There has been a significant increase in year to date raspberry volumes in China due to the summer crop peaking three weeks earlier than usual. The first harvests of blackberries occurred from November.

"Conditions in China over the past summer were challenging, with wet weather hampering growth project development and requiring more focused pest and disease management from our very experienced management team on the ground who are able to address these issues as soon as they occur", said Mr Debney.

In Morocco the crop forecast for the 2018 season is positive. Timing is slightly delayed due to the cold northern hemisphere winter however it is expected that harvest will commence in volume from late February and finish in June.

Royalty income for the international segment is tracking well noting that fruit based royalties will accrue with harvests over the second half.

Growth plan update

- Berries

Scheduled FY2018 expansion of 95 hectares has been completed on time, including 31 hectares of new blueberry plantings, 31 hectares of substrate conversion to Arana blueberry variety at Corindi, 10 hectares of new blackberries and 23 hectares of raspberries.

New blackberry plantings are establishing well, with a small harvest of the new Elvira variety from Tasmania expected this year.

A new premium 200 gram blueberry punnet was launched during the main season backed by Costa's premium Arana variety grown at Corindi. Further volume will be available in FY2019 following the 31 hectare substrate conversion during FY2018.

The expansion of the Tasmanian Berry Distribution Centre was completed on schedule, enabling handling of peak December volumes and greater storage capacity for blueberries in the Modified Atmosphere Facility.

- Avocados

Costa announces today the conditional agreement to acquire Coastal Avocados farms and packing operations located on the New South Wales Mid-North coast, which will bring the number of Costa avocado growing regions to four.

Two further avocado acquisitions have also been completed as of January 2018, including the Gunalda avocado farm in Central Queensland and the Burness avocado farm in Far North Queensland.

"As a result of these acquisitions Costa will, on completion of the Coastal Avocados acquisition, have a production and supply footprint stretching from February through to December. We are now well under way to executing our strategy to build avocados into our fifth core vertically integrated produce pillar and to ultimately achieve 52 week supply.", said Costa CEO Mr Harry Debney.

Coastal Avocados is a grower of high quality avocados with farms located at Fishermans Reach and Comboyne on the Northern and Central New South Wales Coast. The business also undertakes significant third party packing activity for a number of other quality growers in the area. Coastal Avocados currently supplies the Australian retail market from July to December.

There are total plantings of 79 hectares across the farms and a further 24 hectares of greenfield development land next to the existing site at Comboyne. The farms currently produce around 200,000 avocado trays per annum with production expected to increase to 300,000 trays per annum at maturity. A further 300,000 trays from third party growers are currently processed through the newly upgraded packing facility.

The acquisition is expected to be completed in the first half of calendar 2018. The acquisition price will not be publicly disclosed at the request of the parties.

The Gunalda farm consists of 92 hectares of which 36 hectares are currently planted, with plans to plant another 15 hectares on this property. Once fully planted the annual tray production capacity will be 100,000 plus at maturity.

The Burness farm is located at Mareeba (on the Atherton Tablelands) and adjoins one of Costa's existing farms. With circa 23 hectares of plantings, it contains a mix of mature and young trees, producing early season Shepard avocados.

"The location of the Gunalda farm 1.5 hours from our existing Childers farm offers considerable synergies with respect to Costa's existing packing infrastructure at our Avocado Ridge farm in Childers, likewise the Burness farm, which is located directly next to Costa's Paddy's Green orchard", said Mr Debney.

The Coastal and Burness acquisition agreements were entered into in conjunction with Macquarie Agricultural Funds Management (MAFM). Under the agreements, MAFM will own the farms and Costa will enter into a 20-year lease to operate them. These are the third and fourth acquisitions under an arrangement between the two parties (announced in December 2016) to jointly consider M&A projects. The Gunalda acquisition was funded by Costa.

"Costa believes there are considerable growth opportunities in the avocado segment and it is one that we have set a three year goal in which to become the market leader", said Mr Debney.

With the previously announced current circa 500 hectares of avocados Costa has in central Queensland, Far North Queensland and the South Australian Riverland, these acquisitions and recent additional plantings will bring the Company's total plantings to circa 679 hectares and establish a production presence across four regions and three states with first class packing facilities in each location.

Inclusive of the Coastal Avocado acquisition, in conjunction with MAFM, total capital of $110m has been deployed in the avocado category to date.

- Mushrooms

Construction works on the expansion of the Monarto South Australia facility have commenced. The works will now also incorporate new enhanced compost preparation technology which will also be retrofitted to service the existing site. This will provide improved yield and quality and result in a revised project capital expenditure of $70.7 million, up from the previously advised $65 million.

Production capacity at the site will double from 120 tonnes to 240 tonnes per week, with this additional capacity now expected to commence from February 2019, reaching the full incremental 120 tonnes from November 2019.

The expansion will further enhance Costa's competitive cost position with scale and new technology, and equip Costa with additional prepack and brown mushroom market development capability.

- International

China FY2018 plantings will be completed to schedule despite wet weather hindering development work.

Learnings from these occurrences have been applied to the FY2019 planting plan with the result being that preparatory groundworks are being undertaken at the new Manhong site for a 65 hectare expansion in advance of the next wet season. The first pick from the second blueberry farm (Manlai) has already commenced.

There has also been a significant focus on further developing team capability and safety culture, with the engagement of a safety specialist to align Chinese operational safety standards with best practice Australian standards.

HR practitioners have also been employed with a brief to develop succession plans that replicate the Group's people capability and development programs so as to ensure key talent is matched to key roles.

In Morocco planting in higher density substrate has enabled the full planting program to be achieved over a smaller area.

The FY2018 plantings of 46 hectares includes 20 hectares at a new site in Agadir further south from existing locations, which will enable an early season crop extension. The entire 46 hectares will be substrate plantings.

The Costa R&D breeding program has also been extended into Morocco to enable future selection of varieties bred specifically for Morocco.

The new packing shed facility will be operational from mid-season, supporting volume growth from the northern farms.

Outlook

Trading over January/February continues to be solid with the portfolio performing well.

Full year earnings will be more heavily weighted to the second half due to the timing of the avocado harvests and further growth of the international operations including the consolidation of African Blue.

Inclusive of the African Blue acquisition, the company is projecting NPAT (pre-SGARA and material items) growth of approximately [25% for the full year, up from previous guidance of at least 20%].

Costa continues to be well positioned to execute further organic growth alongside a disciplined value accretive M&A program.

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 3,500 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 two berry farms in China.

For further information contact:
Michael Toby –
Group Corporate Affairs Manager T: +613 8363 9071