ASX ANNOUNCEMENT

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COSTA GROUP FINANCIAL RESULTS FP2018

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 six-month financial period (FP2018) ended 30th December 2018.

FP2018 Key headlines:

- As previously disclosed, Costa is changing its financial year end to calendar year reporting due to the ever increasing proportion of the company's earnings occurring in the first half of the calendar year. Accordingly, earnings for the six-month period to December were expected to be considerably lower than the prior year inclusive of factors relating to consolidation of African Blue as a result of majority ownership, the citrus crop biennial cycle ('off year') and seasonality of production occurring in the January-June period.

- Subdued trading in a number of produce categories occurred during December. This, and the late impact of the citrus 'off year' crop, resulted in NPAT-S earnings being below plan by approximately $3.5m.

- Acquisition of Nangiloc Colignan Farms (NCF) located in the Sunraysia region of north western Victoria was completed in early December 2018 with the initial harvest from January exceeding expectations. This acquisition and location will reduce reliance on any one region in our citrus portfolio, while also opening additional growth opportunities.

- Berry category expansion programs across Australia, China and Morocco are progressing to plan. China plantings are now 110 hectares across three farms.

- Tomato glasshouse expansion announced in August 2018 is in the early stages of supplier negotiations with relevant development approvals having been obtained. Commissioning is expected from late Q1 CY2020.

- Minor delay in commissioning of the Monarto mushroom farm expansion as previously announced in January 2019 with accelerated ramp up to the full incremental 120 tonnes per week production during Q3 CY2019.

- Cash flow and balance sheet position remain robust.

FP2018 Financial results

- Revenue of **$478m** – down 2.4% on the previous corresponding period.
- Statutory NPAT of **$4.3m**.
- EBITDA before SGARA and material items and amortisation (EBITDA-S) **$35.3m** – 42% lower on the prior period.
- NPAT before SGARA and material items and amortisation (NPAT-S) of **$8.5m**.
- Leverage at 1.96x EBITDA-S at December 2018, with net debt of $244.6m
- Dividend of **5.0 cents** per share, fully franked (record date 14th March, payment date 12th April 2019).

Costa CEO Harry Debney said the results reflected the fact earnings for the six-month period July to December 2018 were expected to be considerably lower, while subdued trading in December resulted in earnings below expectations.

"The six-month financial period to December has delivered a lower profit number than expected. There were several contributing factors to this, some of which had been accounted for including bringing African Blue on to our balance sheet as a result of majority ownership, additional pre-harvest farming cost investment through our increased international footprint and an 'off' citrus season in terms of the biennial nature of the crop," said Mr Debney.

Costa remains on target to meet its medium to long term profit growth objectives. These objectives incorporate our five core produce categories and international segment. The focus includes building capacity, opening new markets, both domestic and international, further developing product premiumisation and differentiation and investment in the automation of harvest and post-harvest activities.

"Our growth strategy contains a number of key elements focused on building and further developing our capability to meet various market conditions and to capitalise on opportunities to establish and consolidate our position as a market leader. This includes building new capacity and scale through both greenfield investment and M&A activity, developing varieties that further extend our production and supply period, establishing premium brands that deliver quality and consistency to consumers, further expansion of our Moroccan and China operations and continued investment in automation to drive productivity improvements," said Mr Debney.

Produce segment

The produce segment saw revenue reduce by 4.3% on 1H FY2018 of $425.6m which was largely driven by lower biennial citrus production. Total transacted sales were $615.7m compared to $620.3m in 1H FY2018.

- Mushroom category

The business unit met its financial targets for the period, even though variable compost quality earlier in the period had a negative impact on production volumes.

Prolonged dry weather has increased the cost of straw which will manifest over CY2019 when existing inventory is replenished.

- Berry category

Blueberry performance over the period was mixed, highlighted by strong production volumes from our Corindi New South Wales farm, offset by lower volumes from the end of the Far North Queensland (FNQ) season.

Overall, market realisation was slightly above expectations led by a strong start to the season which reduced as industry volumes peaked. Our Arana premium blueberry was well received, attracting a 23% premium on 200g special packs, and double-digit premium in wholesale.

The contribution of raspberries was disappointing.

- Citrus category

The citrus category's contribution was forecast to be significantly below the prior year due to the 'off-year' biennial fruit production cycle. Lower quality towards the tail end of the harvest affected sales price realisation in November and December.

"Exports for the 2018 calendar season comprised 73% of packed volume, with Japan being the largest market taking 40% of total exports, followed by the United States, New Zealand and China. Exposure to the Korean market is expected to increase in 2019 as tariffs are further reduced under the Australia – Korea Free Trade Agreement," said Mr Debney.

The upgrade of the Murtho packing line has delivered on expected productivity targets, while further major automation works at the Renmark packing facility are scheduled for completion ahead of the 2019 season.

The Mundubbera table grape farm sustained some hail damage. The farm has been progressively covered with permanent netting with the majority of the crop expected to be covered in time for the next harvest due in Q4 CY2019.

- Tomato category

Excellent production of snacking/cocktail varieties was met by weaker retail channel pull through, with more product being sold via wholesale markets, resulting in an overall lower price realisation.

Truss production volumes and pricing were lower; however, we will be growing a new truss variety called 'Endeavour' in 2019 with enhanced yield, shelf life and disease resistance.

- Avocado category

Costa's main avocado production region during the period was Northern New South Wales (NNSW), with some residual volume coming from the Queensland (QLD) farms.

Pricing for the period was challenged due the overlap that occurs between Central QLD at the start of the season, and Western Australia at the end of the season, resulting in higher supply volumes.

Third party volumes marketed by Costa totalled over 1m trays for the period, an increase of 14% on the previous year.

Additional expenditure was undertaken on orchard nutrition and health programs to ensure maximum tree health for future yield.

Exports of avocados to South East Asia were initiated, including product being sold into Hong Kong, Singapore and Malaysia.

CF&L segment

Costa Farms and Logistics delivered a solid trading outcome, with revenue up $2.9m (+3.8%).

Positive interplay between supply and price opportunities saw optimisation of the trading margin across the three wholesale operations in Victoria, South Australia and Queensland.
Logistics contribution was in line with the prior year, with additional income from contract warehousing offset by lower earnings on produce handling.

International segment

Earnings from the international segment, incorporating farming operations in Morocco and China and royalty income from the Americas, are weighted to the first half of the calendar year.

Harvest in Morocco and China will occur in H1 CY2019, with the H2 primarily reflecting pre-harvest cost investment through July - December.

In Morocco, flowering and crop development is demonstrating recovery from the prior season yield shortfall.

In China the raspberry harvest has been in line with expectations, albeit the volume being lower than last year due to the timing of the second harvest cycle.

"There has been a good early start to the blueberry harvest at the main Manlai farm with positive market reception reflected in premium pricing received for our large 'jumbo' berries," said Mr Debney.

Some pest and disease pressure at the smaller 25 hectare Bailang farm has resulted in a reduction in forecast yield.

There was continued revenue growth from Driscoll's US based royalties both plant and fruit based.

Growth plan update

- Berry category

The 2018/2019 berry planting program of 47 hectares has been completed, which included 27 hectares of blackberries.

Volume of the premium Arana blueberry will increase into 2019 with maturity of existing plants and 12 hectares of new plantings.

“Blueberry ‘shoulder season’ production accounts for circa 50% of total Costa blueberry production. Improved yield at our FNQ farms and incremental planted area in Western Australia will drive increased shoulder season production in CY2019, while 14 hectares of temperate substrate plantings in Tasmania will contribute from CY2020,” said Mr. Debney.

A new blackberry premium product is being launched under the Driscoll’s brand, as production volumes of Elvira and Victoria blackberry varieties increase.

The introduction of long cane raspberry plants is intended to smooth the summer raspberry production peak, with Driscoll’s building a new nursery facility to provide capacity for this initiative.

There is also a strong pipeline of new blueberry varieties from our Corindi New South Wales farm and the first early release from our FNQ tropical breeding program.

- Mushroom category

The Monarto mushroom facility is Costa’s most modern and lowest cost mushroom composting and growing facility adopting world’s best practice technology. The expansion of the facility from 120 tonnes of production per week to 240 tonnes has experienced weather related issues causing 5 weeks delay. Acceleration of the subsequent ramp up will partially mitigate this delay.

A new technology Phase 1 compost facility which will support the entire farm (1,200 tonnes compost per week) will have a significant positive impact over the long term and will operate from Q4 2019.

The 2,000-kilowatt solar farm installation has been completed, with half of the capacity already being utilised to power existing production and the remaining half to be commissioned in the coming months.

There is positive engagement with retail and wholesale customers to allocate new volume. Strong latent consumer demand is expected to consume incremental volume.

- Citrus category

The acquisition of Nangiloc Colignan Farms (NCF) located in the Sunraysia region of north western Victoria was completed in early December 2018. The acquisition was undertaken in conjunction with CK Life Sciences, with Costa operating the farm under a 20-year lease.

NCF has a total of 567 hectares of plantings, including 240 hectares of citrus, 204 hectares of table grapes and 123 hectares of wine grapes.

"This acquisition and location in the Sunraysia region will reduce reliance on any one region in our portfolio and will also open up additional growth opportunities. With respect to Afourer mandarins and navel oranges, this will allow us to further take advantage of export market demand," said Mr Debney.

The acquisition will be earnings accretive from CY2019, with some negative impact on FP2018 earnings due to pre-harvest farming costs from completion.

The lease provides 3,800ML of water under permanent licence, in addition to over 100ML of irrigation dam capacity, satisfying approximately 75% of total water requirements.

Water requirements across our seven citrus farms are currently well positioned with circa 57% under permanent licence and circa 15% hedged. Remaining exposure at spot rates is significant but not material and has been factored into current forecast.

Costa's farming footprint incorporating the South Australian Riverland and Sunraysia now comprises 2,996 hectares, spread across seven farms.

- Avocado category

The integration of our avocado assets into the business is well progressed, focusing on brand development, farm optimisation and supply chain.

The Lovacado brand under which we sell our premium Hass and Shepard avocados have seen circa 0.75m branded trays sold since its launch in May 2018, with this figure increasing in 2019 with our own farm production, providing enhanced customer experience and consistent quality.

There has also been a focus on export market development, with 60,000 trays exported in 2018 and plans to increase these volumes in coming years.

Enhancement of supply chain practices has been a priority with an emphasis on improving quality, shelf life and customer experiences.

The Childers packing shed has been expanded to increase storage capacity and improve site productivity and safety.

"Investment in water technology has seen the installation of automated irrigation systems at all Cosa avocado farms using data driven probes (same as those used on our citrus farms). This will enable an appropriate level of watering for each farm block driving both root and canopy development and ultimately maximising tree health and yields," said Mr. Debney.

Across the Tinaroo (FNQ) and Comboyne (NNSW) farms 26 new hectares of avocados were planted.

Rejuvenation of older blocks, including at Gunalda (farm acquired as a turnaround) and Kumbia (hail damage) has also been undertaken. A research and development block is to be planted at Tinaroo post the wet season following small earlier trial blocks of high density, trellised plantings under protective cropping.

Costa's CY2018 own farm avocado production was 0.9m trays, while expecting circa 10% volume growth in CY2019 based on further tree maturity.

- Tomato Category

Costa announced in August 2018 that it will construct a $67m, 10 hectare high tech glasshouse, expanded nursery facility and enhanced packing and post-harvest facilities at Guyra, New South Wales. This will bring Costa's total glasshouse production area in Guyra to 40 hectares.

The additional 10 hectare growing area enables on-going development of the snacking and speciality segment and provides the option to internalise production that is currently outsourced to third party glasshouses.

"The expanded nursery facility will be highly automated and provide the capacity to grow larger seedlings to maximise glasshouse production. The nursery also enables 100% self-sufficiency of seedling supply for improved plant quality and disease management," said Mr Debney.

On-going active program testing and trialling of 40 plus new varieties each year will provide new and enhanced tomato offerings.

Additional land for the nursery has been acquired, Council development approvals have been completed and the tenders for glasshouse construction and other critical items are in progress.

- International

Morocco

The total Morocco footprint at December 2018 is 294 hectares, with a further 45 hectares to be planted H1 CY2019.

The 2018/19 expansion program is focusing on further early season planting in Agadir, on the Moroccan south Atlantic coast, which is 720 kilometres south of our existing farming operations.

Contribution from Agadir will commence from CY2020 due to late planting of the new 21 hectares early season crop last year.

The new packing facility at Larache has been completed, with administration and sales team functions also centralised on this site.

Recent capex includes investment in water purification units at the Baytar farm to remove turbidity and solids in order to improve crop productivity.

A further 1.33% share acquisition (to 87.33%) of African Blue was completed during Q1 CY2019. Over the next two years Costa's overall ownership will increase to 90% in line with Costa's previous announcement regarding the acquisition of African Blue.

China

Total China berry plantings currently stand at 110 hectares, incorporating 79 hectares of blueberries, 23 hectares of raspberries and 8 hectares of blackberries.

The 2019 program will entail planting a further 64 hectares at Manhong (57 blueberry, 7 raspberry), with tunnel works well progressed and planting to commence in February.

Eight hectares of existing raspberry plantings at Bailang will be replanted to blueberries, in recognition of them being better suited to the particular climate of that farm.

Land for the 2020 planting program has been finalized with initial groundworks underway. This development will require the construction of a pipeline to a nearby reservoir. The property is located in Menghai County, Xishuangbanna (far south Yunnan).

"The overall development of our China operations is tracking to our initial five-year plan. Market acceptance for blueberries remains strong with raspberries/blackberries undergoing further market development," said Mr. Debney.

Outlook

Costa has now transitioned to a calendar year reporting period which better reflects planning, revenue generation and reporting cycles.

With later Monarto commissioning and timing of the new citrus season inclusive of the NCF acquisition, there will be more earnings weighted to the second half than previously communicated.

Substantial progress continues to be made for both the near and long term across the five core Australian categories with each presenting value accretive growth prospects. The International business unit has now also become a significant earnings contributor.

During February solid price recovery has been experienced across our categories from the earlier challenging period.

At this early stage, the outlook for market, crop performance and weather conditions are generally positive, and the company expects CY2019 NPAT-SL growth of at least 30%, with further update to be provided at the AGM at the end of May.

Cash flow and balance sheet positions remain strong.

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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