

Costa Group Holdings Ltd (ASX:CGC)

1HCY20 Results Presentation

28th August 2020



Tomato Glasshouses 3 & 4, Guyra, New South Wales

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- **Non-IFRS measures:** Throughout this presentation, Costa has included reference to certain non-IFRS measures. Non-IFRS measures have not been subject to audit. A further explanation of these measures is provided in the Appendix.



- ❖ Australian operations now recovered from weather and drought challenges of late CY19 and 1HCY20.
- ❖ Strong performance from International segment.
- ❖ Broad based forward momentum in Australian portfolio into 2HCY20 with market conditions showing sizable improvement driving increased earnings.
- ❖ Improved leverage with strong balance sheet and cashflow generation.
- ❖ Strategy and investment profile supports business resilience, sustained growth and long term shareholder returns.





Monarto Mushroom Production and Compost Facility - Phase 1 , 2 and 3 compost plant in foreground



Building momentum for a strong 2HCY20

Momentum has built through 1HCY20, with many of the challenges encountered now behind us.

Strong earnings contribution from both Morocco and China operations despite COVID-19.

Continued recovery from drought with high water security achieved across all sites.

1HCY20 financial impact from drought estimated at circa \$15m EBITDA-SL in Tomato and Berry categories.

Tomato and berry 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.

Focus on staff and customers throughout COVID-19 - ensuring well-being of workforce and delivery of essential, quality fresh produce in all our markets.

EBITDA - SL: \$93.7m* +13.7% on 1HCY19.

NPAT - SL: \$45.8m* +12.0% on 1HCY19.

* 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.



Building momentum for a strong 2HCY20

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 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.



1HCY20 Financial Headlines

Revenue
\$612.4m

EBITDA-SL*
\$93.7M

NPAT-SL*
\$45.8M

Leverage
1.66x

Dividend
4.0 cps



Revenue of \$612.4m – growth of **6.8%** on 1HCY19.



NPAT –SL **\$45.8m** – growth of **12.0%** on 1HCY19.



EBITDA – SL - **\$93.7m** compared to \$82.4m
1HCY19. Improvement of **+13.7%**.

Net debt of \$181.7m and leverage of **1.66x** –
ahead of plan.

Interim dividend of 4.0 cents per share, fully franked. Statutory NPAT of **\$43.4m**.

* 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.



Health & Safety

- Maintaining an intense focus on supporting well-being of our people. Comprehensive COVID-19 action plan in place across our entire business.
- All sites have 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.

Australia

- 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.
- Relatively minor exposure to food service shutdown/slowdown.

International

- Some early season challenges in our China operations with respect to labour and supply chain, however these were largely resolved before the main season.
- 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

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

Costs

- Significant direct COVID-19 related costs have been incurred, circa \$3m as at end 1HCY20.
- Estimated COVID-19 Morocco market disruption earnings impact circa \$5m.



Sustainable Commercial Farming

Costa's vertically integrated business model continues to achieve competitive advantage and manage agricultural risk

Diversification

- Diversified category **portfolio** with scale and market share
- **Vertically integrated** produce operations
- **Geographic spread** of production
 - National Australian footprint across the 6 states
 - International berry footprint (Morocco, China)
- Royalty income streams
- Multiple sales channels (domestic & export)

IP, technology and people

- **Superior product genetics**, both developed internally and through external partnering arrangements
- Costa adopts a 'lowest cost' mindset
- Efficient production techniques
 - Modern farming, harvesting and irrigation
- Post-harvest and product quality discipline
- Product innovation and branding

Protected cropping

- Costa's core produce categories have the potential for protected cropping to mitigate environmental risk
- **Protected cropping** techniques across a number of key categories (~65% of produce related earnings)
 - Growing indoors, in glasshouses, under tunnels & permanent netting, and in substrate manages risk and **improves yield & quality**

Year-round production

- Costa has invested in produce categories that are large scale and have the potential for year-round supply
- **52-week supply** removes seasonality, maintains consumer reach and smooths cash flow
- Achieved by production methods, varietal selection and geographic spread
- Marketing programs aligned to supply patterns



Segment Performance

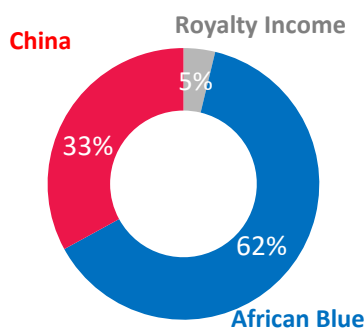
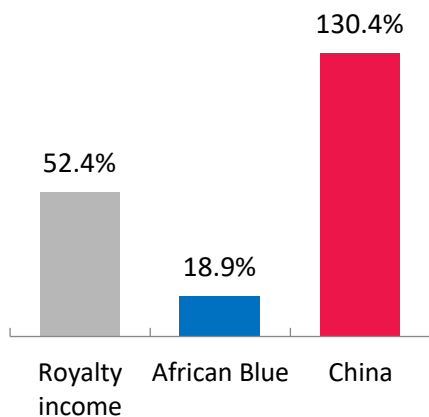


Segment financial and operating metrics for the half year to June

A\$'m	Pre-IFRS16			Post-IFRS16
	H1 CY20	H1 CY19	Var	H1 CY20
Revenue	119.5	83.5	36.0	119.5
EBITDA-S, EBITDA-SL	62.1	31.4	30.7	64.1
EBITDA margin	51.9%	38.0%	13.9pts	53.6%
Transacted Sales	118.9	83.5	35.4	118.9

Revenue growth: +43.2%

H1 CY20 share of revenue



Key Highlights

EBITDA-SL growth of 98% versus pcp.

China

- Higher yields in Bailang and Banna farms drove significantly higher volume.
- Pricing negatively impacted by COVID-19 in early months of CY20 and higher supply levels in market, however quickly recovered as we headed into main season.
- Overall, significant improvement in EBITDA-SL.

Morocco

- Favourable yields and quality led an improvement in sales of 18.9% over pcp. This was achieved despite pricing being negatively impacted by COVID-19.
- First year of contribution from the Agadir southern region farm.



Morocco



- First Agadir harvest of 90 hectare footprint has been very promising in terms of timing and price realisation. Continue to expand plantings in this region.
- Major northern harvest cycle returned to normal timing. COVID-19 impact in the UK, Europe & Morocco adversely impacted the main season. However good yields and quality resulted in financial performance well ahead of CY19.



Agadir blueberry farm

China



- Early harvest in China affected by supply chain restrictions and poor demand from the intensive COVID-19 restrictions. This normalised for the main cropping period with positive results.
- Yield from all farms exceptional due to combination of improving agronomic interventions and favourable weather conditions. Contributed to financial results being significantly up on CY19.
- Planting of 62 hectares at new Guangmen farm completed in April 2020.



Menghai County Mayor visiting Manle farm



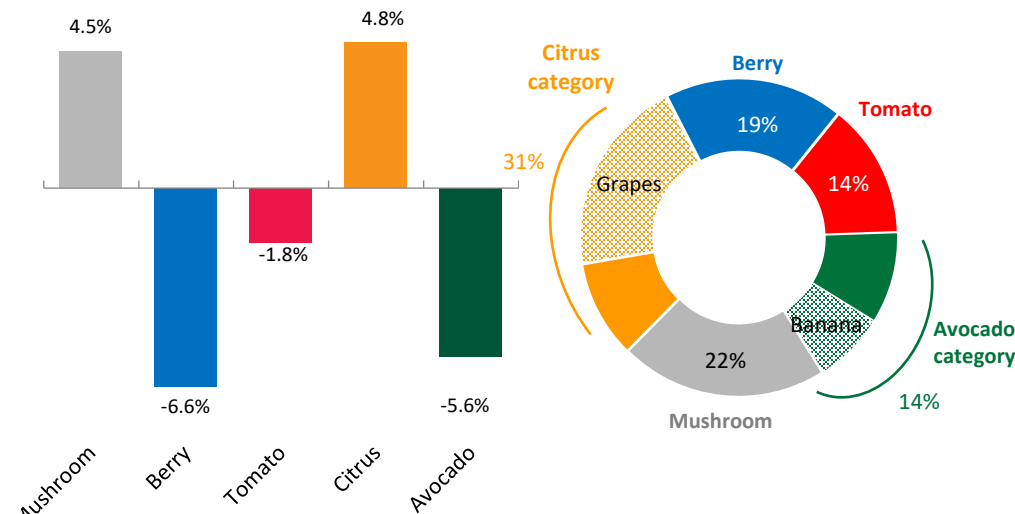
Produce Segment

Segment financial and operating metrics for the half year to June

A\$'m	Pre-IFRS16			Post-IFRS16
	H1 CY20	H1 CY19	Var	H1 CY20
Revenue	443.7	443.9	(0.2)	443.7
EBITDA-S, EBITDA-SL	28.6	48.1	(19.5)	47.8
EBITDA margin	6.4%	10.8%	-4.4pts	10.8%
Transacted Sales	642.2	629.1	13.1	642.2

Revenue growth: 0.0%

H1 CY20 share of revenue



Key Highlights

Mixed performance impacted by drought, delayed Monarto ramp up and Tumbarumba bushfire, these are now mitigated. Also COVID-19 costs and later start to citrus season.

Broad based forward momentum in demand and pricing leading into 2HCY20.

Revenue – consistent with pcp. EBITDA-SL – down \$19.5m, -40.5%

- As previously advised to the market, prolonged drought conditions in prior periods significantly impacted yields & volumes in 1HCY20. Estimated \$15m EBITDA-SL impact.
- Water security preventative actions included removal of circa 80 hectares of raspberry crop in Corindi and whitewash of tomato glasshouses at Guyra farm.
- 200 tonne blueberry crop loss due to Tumbarumba bushfire led to reduced sales in January/February.
- Hail and fruit sizing had negative impact on Citrus, together with later start to season.
- Heavy rainfall post January has alleviated our water security concerns.
- Mushroom category incurred costs in Monarto ramp up with yield and cost efficiencies achieved in July.



Mushroom



- Consistent strong mushroom retail demand throughout the half. Reflective of consumers doing more home cooking and cooler Autumn and Winter compared to pcp. Wholesale market demand has also seen a recovery.
- COVID-19 has had positive effect on pre pack demand with consumers favouring packaged product. Increase YTD up to 8% higher than pcp.
- Monarto expansion completed resulting in production ramp up. Full production volumes to be achieved in Q3.
- Network optimisation via the closure of high cost facilities combined with the introduction of lower cost Monarto volume has positioned us well for CY20 and beyond.



Flat mushrooms from Monarto, South Australia

Berry



- Completed a satisfactory Tasmanian berry season with some challenges from weather offset by good harvest rates and a reduction in operational costs.
- Far North Queensland berry season had an earlier start (last week of February) than expected, followed by a dip in May, but good harvest volume in June.



Arana premium 200gm punnets



Berry



- Significant increase in Arana volume year on year with improved price premium.
- Main blueberry season at Corindi commenced in July, with significant industry volume coming on earlier over July/August period.



Citrus



- Industry wide harvest volumes impacted due to previous heat events experienced during flowering and fruit set.
- Significantly offsetting this has been strong export and domestic demand, with price appreciation over previous year and as the season has progressed there has been some improvement in yield and sizing over earlier estimates.
- Impact from November hail storm was on quality as opposed to yield. As previously reported the full year financial impact from hail is expected to be circa \$8m EBITDA-SL.
- Impressed with relative performance of orchards given the circumstances - in terms of fruit size and yield.



Afourer seedless mandarins



Citrus



- Also benefited from favourable FX and reduced water costs. Demand across all navel and mandarin varieties has been very strong both internationally and domestically.
- Grape volume started strong but softened by end of the season. Share of markets and customers met, but some significant quality issues toward end of the season.



100 hectare Mundubbera grape farm is now fully covered by permanent netting

Tomato



- The severe drought required whitewashing of glasshouses in January to conserve water. In conjunction with poor water quality from supplementary bores, this caused yield reductions through to the end of April.
- COVID-19 restrictions on restaurants and cafes saw a slowing in sales in providore and wholesale markets. Also resulted in a higher than normal supply of field tomato volumes into retail with resultant lower pricing.



Produce Segment

Tomato



- Snacking demand impacted throughout the half which was reflective of school closures.
- Both truss and snacking demand have rebounded strongly since June with pricing meeting expectations.



Costa Perino snacking tomatoes

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.
- Expect to exceed 1 million trays of our Lovacado brand marketed in CY20.
- Good fruit sizing, quality and yield compared to others in the industry from our FNQ and Central Queensland farms resulted in strong trading outcomes.



Costa Lovacado brand

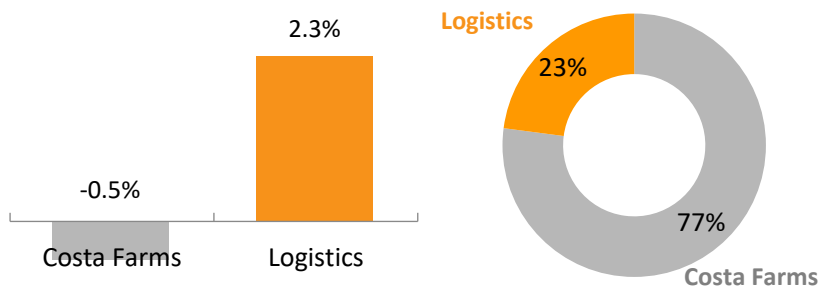


Segment financial and operating metrics for the half year to June

A\$'m	Pre-IFRS16			Post-IFRS16
	H1 CY20	H1 CY19	Var	H1 CY20
Revenue	73.0	72.9	0.1	73.0
EBITDA-S, EBITDA-SL	3.1	2.9	0.2	7.4
EBITDA margin	4.2%	3.9%	0.3pts	10.1%
Transacted Sales	70.8	70.4	0.4	70.8

Revenue growth: +0.1%

CY20 share of revenue



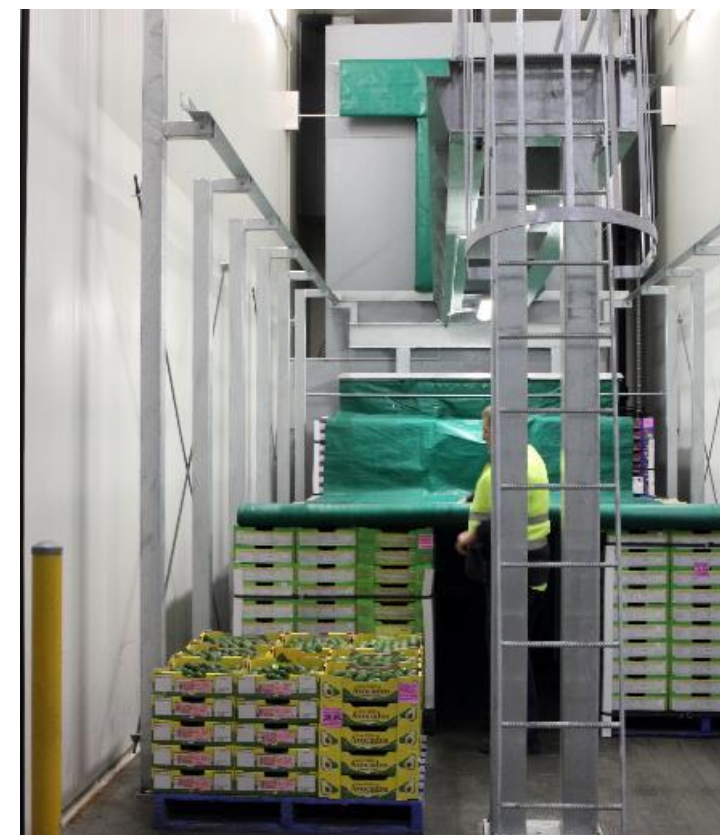
Key Highlights

Revenue – consistent with pcp.

- Total volumes down 1.7%, offset by slightly higher average unit pricing across all categories and improvement in Logistics revenue.

EBITDA- SL – improvement of 1.4%

- CF&L margin shortfalls offset by tight cost control across the category.



CF&L avocado ripening





Costa's premium Arana blueberry variety



Financial Results

Comparison of results for the half year to June

A\$m	Pre-IFRS16			Post-IFRS16
	1HCY20	1HCY19	Var	1HCY20
Revenue	612.4	573.3	39.1	612.4
EBITDA-SL, EBITDA-S	93.7	82.4	11.3	119.3
Fair value mvmt in bio. assets	1.1	10.2	(9.1)	1.1
EBITDA	94.8	92.5	2.3	120.4
Depreciation & amortisation	(29.0)	(23.0)	(6.0)	(49.2)
EBIT	65.8	70.8	(5.0)	71.1
Interest expense	(4.7)	(4.9)	0.2	(13.8)
Tax expense	(8.0)	(15.7)	8.7	(7.0)
NPAT (before material items & amortn)	53.1	50.2	3.9	50.3
Material/pro forma items, post tax	-	(4.5)	4.5	-
Non-controlling interest	(7.1)	(1.9)	(5.2)	(7.0)
NPAT attributable to shareholders	46.1	43.8	2.3	43.4
NPAT-SL, NPAT-S	45.8	40.9	4.9	43.1
Transacted Sales	808.0	756.2	51.8	808.0

Key Highlights

Revenue +6.8%

- Increase over pcg driven by growth in International segment. China +130%, Morocco +18.9%.

EBITDA-SL +13.7%

- Significant improvement in International partially offset by Produce segment that was hampered by events of 2019 including water security.

NPAT-SL +12.0%

- Increased depreciation and amortisation reflects impacts of recent major capital expansions projects.
- Lower effective tax rate reflects improved International result which benefits from tax concessions for agricultural industries in China, and export concessions in Morocco.



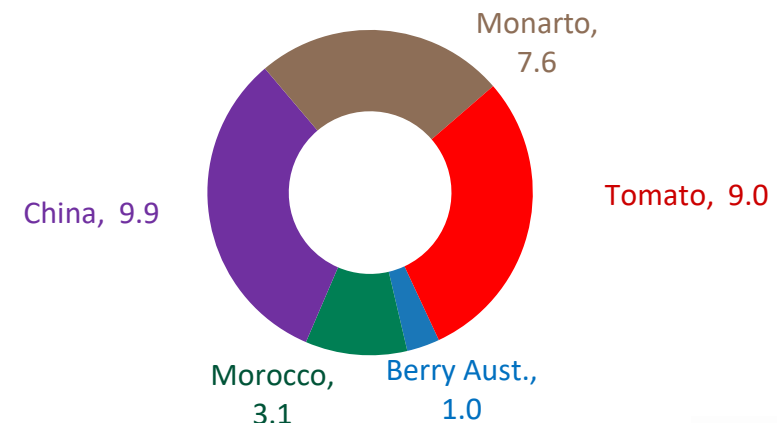
A\$m	H1 CY20	H1 CY19 As restated	Var
EBITDA-S	119.3	106.4	12.9
Payment for leases	(26.5)	(25.0)	(1.5)
EBITDA-S, less payment for leases	92.8	81.4	11.4
Less: share of JVs profit	(3.9)	(3.6)	(0.3)
Dividends from JVs	0.8	1.1	(0.3)
Movement in working capital / non-cash items	(31.4)	(44.5)	13.1
Operating capex	(11.5)	(12.4)	0.9
Free cash flow	46.8	22.0	24.8
Productivity & growth capex	(30.6)	(53.5)	22.9
Payment for acquisition of subsidiary	-	(0.4)	0.4
Other	0.2	(1.7)	1.9
Net cash flow before financing, tax, dividends & material items	16.4	(33.6)	50.0
Cash conversion ratio *	50%	27%	23pts

*Cash conversion ratio is Free Cash Flow/EBITDA-SL

Key Highlights

- Improvement in Free Cash Flow conversion from pcp.
- Working capital increases in 1HCY20 consistent with prior periods and reflects:
 - Seasonality of sales in African Blue
 - Citrus export season commenced mid-May
- Operating CAPEX of \$11.5m consistent with prior periods.
- Continuing investment in growth including GH4, Monarto, China expansion and African Blue Agadir farm.

Growth Capex Initiatives \$30.6m

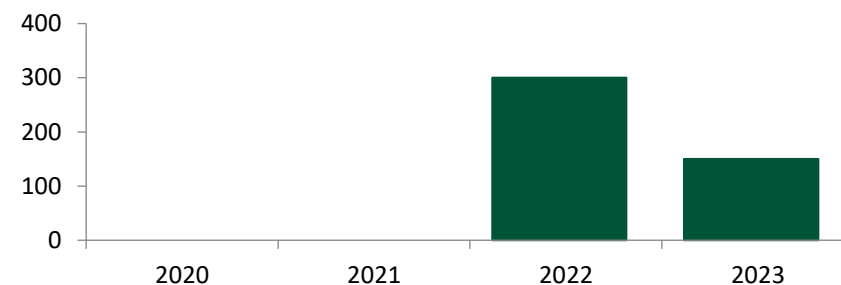


Balance Sheet and Net Debt

A\$'m	Jun-20	Dec-19 As restated	Var
Cash & cash equivalents	83.0	36.0	47.0
Receivables	132.3	92.4	39.9
Inventories	23.6	24.4	(0.8)
Biological assets	50.5	49.2	1.3
Equity accounted investments	19.7	16.7	3.0
Intangibles	213.4	213.4	-
Property, plant & equipment	509.9	498.9	11.0
Right of use asset	318.4	323.9	(5.5)
Other assets	44.0	33.8	10.4
Total Assets	1,394.8	1,288.7	106.1
Payables	126.4	113.5	12.9
Borrowings	264.8	214.8	50.0
Provisions	31.5	31.6	(0.1)
Lease liabilities	330.8	333.4	(2.6)
Other liabilities	25.2	18.6	6.6
Total Liabilities	778.7	711.9	66.8
Net Assets	616.1	576.8	39.3

	Jun-20	Dec-19	Var
Net debt (A\$'m)	181.7	178.8	(2.9)
Net debt / LTM EBITDA-SL	1.66x	1.82x	(0.16x)

Australian senior debt facility maturity profile



- Average 2.5 years tenure remaining on main corporate facilities. Over **\$200m** of unused capacity.
- Solid improvement in leverage ratio since December-19.
- Net debt stable at \$181.7m despite investment in working capital relating to revenue growth and sales mix, and investment in growth activities. Total CAPEX \$42.1m.
- Approximately \$42m of growth projects in 2HCY20 including GH4 recommencement and China expansion.





Brown mushrooms growing on Monarto farm



Major Initiatives 2020 and beyond

Berry



- Blueberry shoulder period development
- Premiumization for enhanced margins
- Raspberry & blackberry 'long cane' program to optimize production cycles

Citrus



- Build on 'best in class' reputation in export markets
- Further automation of packing operations
- Continued scale build (M&A and greenfield)
- Rapid growth of 'Sun World' proprietary grape program

Avocado



- Costa harvest span now 10 months, extend to 12
- Trial high density protected cropping
- Optimize yield/production cost
- Build 'Lovacado' brand – consistent quality paradigm
- Develop export opportunities for 'Lovacado'

International



- Expand varietal breeding program – both sub-tropical and tropical
- Moroccan season extension partner grower expansion through Africa
- Continued expansion of Agadir footprint
- China expansion and market optimization
- Development of global farming and marketing footprint

Tomato



- Ongoing R&D evaluation of new snacking & cocktail cultivars
- Construct large new nursery for lower cost & more advanced plants
- Add glasshouse capacity for market growth & in-housing external volume
- Develop new sales channels

Mushroom



- Build new capacity to claim market growth (ongoing)
- Implement new lower cost technologies
- Expand brown mushroom subcategory



Tomato



- As announced in late May, due to improved ongoing water security including plans to build further water capture capacity, decision to recommence new (GH4) 10 hectares build and 2.5 hectare nursery project.
- In addition to \$75m capex, \$7.5 million extra expenditure on increasing water capacity. \$2.5m restarting costs for GH4 recommencement of construction. \$49.6m capex spent to date.



Tomato Glasshouse 3 & 4, Guyra, New South Wales

Mushroom



- Monarto expansion fully commissioned in July with only auxiliary works remaining to be completed. Production at full capacity over recent weeks.
- Retail demand has been strong in the current COVID-19 environment, especially for pre-pack product. This can be further met through additional Monarto volumes and optimisation of our growing network.
- Colder winter months compared to CY19 suggests incremental consumer adoption of mushrooms has occurred even without retail discounting.



Monarto mushroom and compost production facility South Australia

Berry



- Variety Improvement Program update - Planting to occur of purpose bred tropical variety '051' as from CY21 in FNQ with other new varieties to follow.
- Arana premiumization strategy performing well in FNQ, Corindi and WA.
- Long cane raspberry and blackberry program has commenced in Corindi. Intention is to target more profitable production windows, increasing yield per hectare and providing a step change in harvest efficiencies. Results from earlier stored canes have been mixed, but the new crops from latest storage are showing significant promise.
- Long cane for blackberries enables use of the Driscoll's Victoria variety, and ability to supply the market 52-weeks. Long cane for raspberries has enabled targeting production at our farms that most suit seasonal production (northern farms in winter and spring, southern farms in summer and autumn).
- Long cane production offers the opportunity to produce multiple crops in each year, significantly improving yield per hectare.
- Raspberry redevelopment project in Tasmania commenced. Converting 15 hectares of in soil plantings to substrate. Includes upgrading irrigation and trellis systems with existing tunnel structures to remain in place.



Driscoll's variety blackberries



Arana blueberry punnet line, Corindi, New South Wales



Morocco



- Planted hectares now total 345. Additional 23 hectares at Agadir completed (circa 720kms from northern farms).
- Costa genetics to drive toward goal of 52 week supply, with initial licensing of genetics to growers in South Africa and Zimbabwe. Aim to supply product from June through December into our key UK and European markets.
- New Costa plant genetics on track for introduction to Morocco in 2021.
- Reverse Osmosis water treatment installed on Rouif (northern) farm which is expected to generate yield and quality improvement for CY21.
- Farm and variety analysis has been conducted to support a 5-year redevelopment program, underpinning future improvement in varieties and yields over the next 10 year phase.



Agadir blueberry farm, Morocco



China



- New farm at Guangmen (62 hectares) has been completed on time, with planting to support goal of achieving maximum first year yield realisation in CY21.
- Pollination project and a focus on more intensive management of hives has supported yield improvement. Harvest management initiatives also identified as a major contributor to positive yield results.
- Establishment of initial circa 50 hectares Baoshan/Pupiao development is progressing as planned, with primary earthworks completed and early drainage work also commenced. First harvest expected CY22.



Guangmen Farm, Menghai County, Yunnan China



- ❖ 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 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.
- ❖ 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.



Avocado/Banana

1,033 hectares

Avocado* 756 hectares

Bananas 277 hectares

*includes 113 hectares in Riverland

Citrus – 2,941 hectares

Citrus 2,420 hectares

Persimmons 25 hectares

Wine grapes 209 hectares

Table grapes 288 hectares

China – 237 hectares

Blueberries 206 hectares

Raspberries 22 hectares

Blackberries 9 hectares

Morocco – 345 hectares

All blueberries

Berry – 730 hectares

Berry type	Hectares	Soil	Substrate
Blueberry	468	256	212
Raspberry	173	72	101
Blackberry	64	8	56
Strawberry	25	0	25

Tomato – 30 hectares

All glasshouse

A\$m		H1 CY20	H1 CY19
African Blue transaction & integration costs	1	-	1.7
Amortisation of intangibles	2	-	3.9
Total material items & amortisation (before tax)		-	5.7
Tax effect on material items & amortisation		-	(1.1)
Total material items & amortisation (after tax)		-	4.5

- 1. African Blue transaction & integration costs:**
comprised of stamp duty, due diligence, legal and integration expenses associated with the acquisition of African Blue
- 2. Amortisation of acquired intangibles:** comprises amortisation of customer contracts and re-acquired rights arising from the African Blue acquisition. These amounts are fully written off at December 2019



Term	Definition
Transacted Sales	<p>Transacted Sales is used by management as a key measure to assess Costa's sales and marketing performance and market share. Transacted Sales represent the aggregate volume of sales in which Costa is involved in various capacities (including sales of third party-grown produce marketed by Costa under agency arrangements), as well as royalty income. Transacted Sales are not considered by Costa to be a revenue measure. There are material differences between the calculation of Transacted Sales and the way in which revenue is determined under AAS.</p> <p>Transacted Sales comprise:</p> <ul style="list-style-type: none"> ○ statutory revenue; ○ gross invoiced value of agency sales of third party produce; ○ 100% of Driscoll's Australia Partnership sales after eliminating Costa produce sales to the Driscoll's Australia Partnership. Prior to the formation of Driscoll's Australia in 2010, all of Costa's domestic sales and marketing activities for the berry category were managed by Costa.
EBITDA before SGARA (EBITDA-SL)	Earnings before Interest, Tax, Depreciation & Amortisation, Material Items & Amortisation (refer Slide 31) and fair value movements in biological assets (SGARA) and adoption of AASB16.
NPAT-SL	Net profit after tax attributable to shareholders, but excluding material items & amortisation and SGARA and adoption of AASB16



Costa Group Holdings Ltd (ASX:CGC)

1HCY20 Results Presentation

28th August 2020



Tomato Glasshouses 3 & 4, Guyra, New South Wales