Cobram
Estate Olives
Limited™

ASX Announcement
11 August 2021

<u>Cobram Estate Olives Limited encourages assessment of performance on the rolling average of two years' EBITDA results</u>

Olive trees naturally bear fruit in biennial cycles, with a higher yielding crop one year typically followed by a lower yielding crop in the next year. Under the relevant accounting standards, the profit for each year of harvest is adjusted by the difference between the cost of production and the net realisable value of the oil produced in that year. This means that profit is recorded in the year of production, rather than the year of sale. **<u>This causes material but expected statutory profit variability in two-year cycles</u>** depending on if we are in a higher or lower yielding crop year.

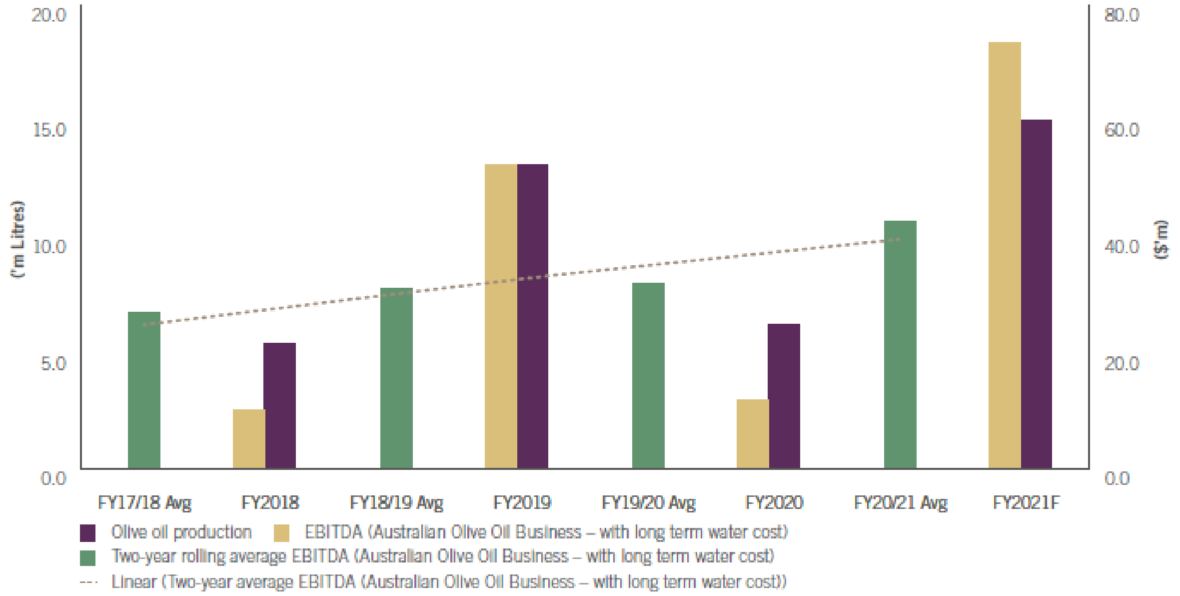
We believe that the application of the accounting standard tends to overstate our performance in high yielding crop years and understates our performance in lower yielding crop years. **The true cost of production and performance of the business should be judged on two-year rolling average results**.

Importantly, the volatility in reported profit is not reflective of the consistency in the Company's sales to customers, which are relatively stable and predictable over the course of any given year. This is achieved by the Company apportioning its olive oil to customers based on a two-year production cycle, to ensure we maintain consistent and reliable supply. Given there is a larger volume of olive oil produced in a higher yielding year, such larger volumes are typically deployed by the Company to supply customers over 14-16 months crossing over three separate financial years (e.g. April 2021 to July 2022). Conversely, the smaller volume of olive oil which will be produced in a lower yielding crop year is typically only used to supply customers across a period of 8-10 months (e.g. July 2020 to April 2021). The ability to maintain steady supply while accounting for lower yielding years helps to overcome some of the variability and risk of olive oil production.

The Company expects that production quantities for both higher yielding years and lower yielding years will increase materially over time, as 39% of our olive groves are recently planted and therefore have not reached fruit-bearing maturity. Over the medium term we expect to continue increasing all business performance metrics in line with increasing production from our maturing groves, combined with continued growth in our USA business and the growing strength of our iconic consumer brands.

The chart on the following page shows the performance of the Company's core business, being the Australian olive oil business, and illustrates the following:

1. The **biennial nature of olive oil production** (in purple, showing annual olive oil production);
2. How the biennial nature of our olive oil **production cycle impacts our reported profit** (in gold); and
3. IMPORTANTLY, that the two-year rolling **Average EBITDA (in green) is increasing and in the opinion of management is the most reliable way to assess business performance.**



The Company would like all shareholders and prospective shareholders to understand that a true gauge of actual business performance is to average profit across two years (considering both a higher yielding crop year and a lower yielding crop year). 2021 is a high yielding crop year and the forecasted strong profit for 2021 reflects this high harvest. Investors should therefore make allowance in their investment decision making for the fact that the **2022 crop yield will be lower,** and the **resulting financial figures will be materially lower than the forecast 2021 results**.

The two-year rolling Average EBITDA for the Company's Australian olive oil business is forecast to be $42.4 million (average of FY2020 and FY2021) adjusted for long-term Temporary Water costs. Looking forward to FY2022 and beyond, we expect average two-year rolling EBITDA and operating cashflow surplus to increase for the Company's Australian olive oil business due to organic increases in production from maturing trees (subject to all the risks associated with business and farming). At the same time, due to FY2022 being a lower yielding crop year for our Australian olive groves, our statutory EBITDA is expected to decrease substantially for FY2022 due to the smaller predicted production and the compulsory non-cash adjustment under the accounting standard.

Yours sincerely,

Rob McGavin

Chair, Cobram Estate Olives

Approved by the board of Cobram Estate Olives Limited.