

# ASX ANNOUNCEMENT

27 February 2020

## COSTA GROUP FINANCIAL RESULTS CY2019

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 full year ended 29<sup>th</sup> December 2019 (CY2019).

### Key headlines:

- At the full year the business achieved earnings guidance as provided in October 2019. EBITDA – SL result of \$98.3m and NPAT – SL of \$28.4m.
- There was solid revenue growth of 5.8%.
- Statutory NPAT of \$33.8m loss. This includes material items which are primarily non-cash in relation to the mushroom category rationalisation and African Blue acquisition.
- Net debt was \$178.8m, with leverage of 1.82x EBITDA-SL, which was better than forecast.
- Impact of multi-year drought and weather conditions on tomato and berry categories became more pronounced in the second half of the year. Intensive focus on external water sourcing at both Guyra tomato glasshouses enabled maintenance of the crop cycles. At Corindi, as previously reported, the annual raspberry crop was removed to protect the perennial blueberry footprint.
- Both the Guyra and Corindi areas received heavy rainfall in late January with continued falls into February. This has restored a high level of water security to these locations. Corindi replanting schedule is now being implemented for raspberries as well as the new blackberry program.
- During the extensive bush fire emergency in early January one of our two small Tumbarumba (New South Wales) blueberry farms suffered fire damage to the insured packing and machinery infrastructure. Significant loss of this season's harvest from this farm also occurred, however damage to plants is limited.
- The impact from the November 2019 hailstorm on our citrus crop is expected to be at the higher end of previous estimates. In addition, early season yield estimates suggest a lighter crop, due to both density and sizing, the extent of which will become apparent as the season unfolds.
- Pricing levels improved considerably during January in most categories, particularly berries and mushrooms.

- In Morocco, there are positive early signs for fruit yield, quality and harvest timing, indicating promising prospects for the season. The China production outlook is positive, and the Coronavirus has not had any material impact to date on harvest activities. There have been distribution and logistics challenges caused by the restrictions on the movement of people and goods, however the challenges are currently manageable, noting the peak harvest period of March to May is approaching. The company is intensely focused on supporting the well-being of our people in China.
- In addition to the situation in China, the company is monitoring the global supply chain and market impacts to determine the extent of on-going risk to the broader operations.

### **CY2019 Financial results**

- Revenue of **\$1,048m** – an increase of 5.8 % on the prior comparative period (CY2018). Growth in revenue was led by the new Colignan citrus farm sales and increased table grape marketing volume.
- EBITDA before SGARA, leasing and material items (EBITDA-SL) **\$98.3m** – a reduction of 21.5% on the prior year.
- NPAT before SGARA and leasing (NPAT-SL) of **\$28.4m**.
- Statutory NPAT including material items which are primarily non cash was a **\$33.8m** loss.
- Net debt of \$178.8m with leverage of 1.82.x EBITDA-SL at December 2019.
- Final dividend of **2.0** cents per share, fully franked (record date 13<sup>th</sup> March 2020), (payment date 8<sup>th</sup> April 2020), bringing the total dividend payment for CY2019 to **5.5** cents, fully franked.

Costa Group CEO Harry Debney noted the company had faced significant challenges in CY2019, relating to drought and weather events in the second half of the year.

“The second half of the year was particularly challenging, which impacted fruit sizing and yield in our late season citrus, berry and avocado crops. We also had to take action to remove part of our berry crop at Corindi (New South Wales) due to a lack of rain in order to conserve our perennial blueberry footprint.

Although our key berry and tomato growing locations at Corindi and Guyra have received heavy rainfall over January and into February, improving our overall and ongoing water security across the business will continue to be a key priority in recognition of the risks associated with weather and climate cycles.

The company is committed to making our operations sustainable so they can both better withstand environmental risk including unforeseen and extreme weather events, and maximise opportunities with respect to improving our economic efficiency and profitability over the medium to long term”, said Mr Debney.

## **Produce segment**

- Drought impact

Drought conditions reduced fruit sizing and yield in the late season citrus, berry and avocado crops over the second half of the year.

A higher water expense was incurred with increased usage and spot pricing across the citrus farms, and alternative water sourcing arrangements were deployed at Guyra (tomatoes) and Corindi (berries).

- Market

There continues to be strong reception for citrus and table grape exports into core export regions. Over 70% of the citrus crop was exported for the year, with Japan continuing to be the priority market.

There was earlier blueberry industry peak volume over the late August/September period with resultant pricing pressure, however this eased by year end.

Mushroom retail channel demand remained subdued for most of 2019, resulting in an unfavourable sales mix and low wholesale market pricing.

The closure of old, high cost mushroom growing facilities in Queensland and Tasmania was completed in November/December retiring circa 65 tonne per week of production ahead of the new Monarto volume coming on line.

Tomato pricing was solid across both truss and snacking lines. Revenue growth was underpinned by consistent quality and production growth across all key segments.

Reduced avocado pricing was due to strong industry supply volumes.

- One off issues

The raspberry crumble issue was more costly than initially anticipated with steps having been taken to limit future impact.

Citrus fruit fly costs were contained against the initial estimate of \$4m.

## **CF&L segment**

The segment delivered a solid performance throughout the year, with revenue growth in logistics due to additional Sydney services leveraging the Eastern Creek facility.

## **International segment**

- Morocco

The delay in timing of the 2019 crop due to colder temperatures at the start of the season meant the majority of the crop had to compete with peak Spanish production, resulting in lower pricing.

The 2020 season has started strongly with better than expected volumes harvested from Agadir in December and the northern farms are on track to meet positive yield and crop timing.

- China

Our China operation delivered another solid year with our third commercial harvest completed.

Market demand for blueberries has remained strong, particularly for the 'Jumbo' product.

Blueberry yield for the 2019 season was impacted by some pest pressure and smaller sized fruit. On-going refinement of agronomic practices has seen a much stronger start to the 2020 season.

Royalties have seen continued growth of non-US licensing income.

## **Responding to climate change**

The recent drought has highlighted that weather cycles are becoming shorter and more extreme. Costa has actively adapted its business model to meet climate change challenges within our Sustainable Commercial Farming objectives. Over the past few years the business has identified water as a key issue to be addressed, with a full review of water security having been undertaken across the business.

This review included dam capacity versus rainfall, which led to the construction of the largest dam at Corindi two and half years ago of 900ML.

Future long-term water security at Guyra is now being assessed at lower than average rainfall, with arrangements for access to contingency bores in place.

There has also been increased activity with respect to water rights, hedging and pre-purchases.

Our energy use and security are focused on increased use of renewable energy, with solar power now operational at our Monarto mushroom facility.

Other key investments to address extreme and variable climate conditions have included protecting our Mundubbera Queensland table grape farm with netting, with 100% of the early season crop to be permanently covered by the end of 2020; investment in early stage technology to improve yield forecasting utilising climatic data and ongoing R&D developing blueberry varieties for more challenging growing climates.

## **Weather and climate update - water**

Costa's key exposure areas to the current drought are:

- Corindi

The Corindi berry farm is entirely self-reliant on water capture through a network of on-site dams. In late December 2019 we announced drought mitigation strategies including removal of most of the current annual raspberry crop and early pruning of low value blueberries. This was to ensure available water was directed to conserve the priority crop, including our VIP breeding program.

Since that time, there has been excellent rainfall across the farms, with storages at near capacity, inclusive of the 900ML dam. Plantings scheduled for late Q1 2020 will now proceed as planned.

- Riverland

The citrus farms have circa 55% of their total water requirements (circa 27,000ML pa) under permanent water rights, with a further 15% hedged.

Water allocations for the FY20 water year are expected to be near 100% for South Australian water and 57% for Victorian water, however there is a risk that allocations for the FY21+ water year are reduced subject to rainfall.

Costa has forward purchased further spot requirements of circa 9,600ML which, subject to allocations for the FY21 water year, provides full coverage of water requirements for CY20.

- Guyra

There was an active water sourcing and management process adopted to manage water resources for our glasshouse tomato crops in Guyra, northern New South Wales, which included establishing and trucking water from new bores.

Recent consistent rainfall has alleviated immediate concerns with full storages at both sites. However, long term resolution at glasshouses 1 and 2 requires restoration of access to water sourced from the Malpas dam.

The roof on the new nursery and part of the new glasshouse has been completed to enable water capture.

## **Weather and climate update - climate**

- Citrus crop

It is still too early to make a definitive assessment of the current year's citrus crop. The impact from last year's hail storm is currently expected to be at the higher end of previous estimates.

Early season 2020 industry crop forecasts indicate fruit sizing for this 'off year' is unusually slow to develop. Rain events and moderating temperatures should improve the situation, but at this point we are anticipating a lighter crop, the extent of which will become apparent as the season unfolds.

- Tumbarumba fire

Costa has two berry farms (Taradale and Rosewood) in Tumbarumba New South Wales totalling 44 hectares.

The Taradale farm was impacted by fire on 1<sup>st</sup> January 2020 with loss of the packaging shed, equipment and damage to irrigation infrastructure. Restarting irrigation was the critical priority in order to re-establish plants and prevent mortality.

Approximately 10% of plants on the farm were directly impacted by the fire, with limited indirect damage observed on the remaining plants. Approximately 25% of the crop was harvested prior to the fire with the balance of the crop unrecoverable.

There was no direct damage to the Rosewood farm.

#### **Growth program - Produce**

- Mushroom

The Monarto compost bunker construction is nearing completion, with ramp up occurring over Q2 2020.

The recent site closures in Queensland and Tasmania have enabled optimisation of the overall category production base and sales planning.

Market demand and pricing has improved during early 2020, with stronger retail demand and a tightening of industry supply.

- Berry

Raspberry and blackberry long cane program will be ramped up over 2020.

Our premium Arana blueberry variety will reach circa 30% of Costa blueberry production during 2020.

The blueberry Variety Improvement Program remains focussed on the development of low-latitude tropical varieties for deployment into Far North Queensland (FNQ), China, Morocco and US (licensing).

- Tomato

As announced in late October 2019, further construction on the new 10-hectare glasshouse has been paused pending improved long-term water security.

## Growth program - International

- China

Our China production footprint is currently 237 hectares, inclusive of the new development at Guangmen (fourth farm) which is currently being planted.

A new region has been selected for further expansion beyond the initial five-year plan. Land selection is being finalised, with a likely production footprint of 50 hectares.

Varietal selection and improvement in agronomic practices for local conditions will continue in order to optimise existing operations.

- Morocco

Our total Morocco footprint is 314 hectares with development of a further 23 hectares planned for Agadir in CY20, taking the total Agadir footprint to 89 hectares.

The first early season production from Agadir has been promising with strong yields and good timing. Crop timing will be the key to delivering on the main season crop.

Customer interest and support for Costa varieties from the EU and UK remains positive, with the CY20 marketing program agreed and in place.

## Outlook

Despite recent challenges, the business fundamentals remain strong and initial trading into CY2020 has been positive.

Pricing levels have improved considerably across most categories, particularly berries and mushrooms and the outlook for the upcoming Far North Queensland berry season is favourable.

Early season performance from the International segment has also been positive.

The impact from last year's citrus hailstorm is expected to be at the higher end of previous estimates. In addition, early season yield estimates suggest a lighter crop, due to both density and sizing, however rainfall and moderating climate over the next few months may improve the situation.

The impact from the Coronavirus outbreak is currently unknown with peak volumes in China to be harvested from March.

Subject to any impacts from the Coronavirus, and allowing for the above impact from Citrus, the balance of the portfolio is expected to perform in line with previous guidance for CY2020.\*

*\* CY2020 EBITDA-SL to be approximately \$150 million and NPAT-SL to be approximately in line with CY18 NPAT-SL (which was \$56.6 million) prior to taking into account the expected after-tax interest saving post equity raise of approximately \$3m.*

The company remains focussed on delivering value accretive growth, however given the industry's inherent forecasting challenges, the company intends to transition to qualitative earnings guidance for future earnings periods commencing CY2021.

END.

Authorised by David Thomas, Company Secretary, Costa Group Holdings Limited.

***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 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.*

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