

Costa Group (ASX: CGC)

Building medium and long term value through strategic initiatives

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Balancing short and long term growth

- We manage Costa for the long term which is key to success in a business operating within agricultural production time cycles, and multi seasonal weather and market influences.
- Whilst there will be annual variances, we are committed to achieving an average annual low double digit earnings growth trajectory with a planning framework centred on a rolling 3-5 year time frame.
- To achieve competitive differentiation as well as business growth, the core focus elements are YIELD, QUALITY and 52 WEEK PRODUCTION within our diversified portfolio. With the drivers being genetics, enhanced agronomic practices, consumer led demand responses, adaptation to climate change and protected cropping.



Strategic Initiatives

Costa currently has a number of strategic initiatives aimed at creating value and driving medium to long term profit growth.

Some specific initiatives include:

- Enlarged blueberry breeding program.
- Trialling of high density/trellised/protected avocado cropping.
- Further automation of citrus packing operations and investigation of protected cropping.
- Increased mushroom production capacity and state of the art composting technology to claim market growth.
- Raspberry and blackberry long cane program to optimise production cycles.
- New tomato nursery for lower cost development and more advanced plants.
- International – China expansion and market optimisation. Morocco season extension including via third party licensing of Costa genetics in Africa/Middle East for extended marketing desk into UK/EU.



Enlarged blueberry breeding program

- Costa enjoys global success from its 25+ year blueberry selection and breeding program which has underpinned our own farming operations in Australia, Morocco and China, as well as licensing programs in the Americas, South Africa and China.
- We claim the current world's leading variety, ARANA, which sells at a price premium in global markets.
- The sub-tropical program at Corindi is focused on further season extension, enhanced yield, flavour, 'crunch' and fruit size to develop the next series of Aranas. A range of advanced selections are currently under evaluation in Australia, US, Mexico, Morocco and China.
- The tropical program at Atherton (Far North Queensland) aims to create a new range of blueberries suited to low latitude environments such as Far North Queensland, southern China, Agadir (Morocco) and central Mexico. Only three years old, the first two selections are undergoing early commercial evaluation. This program is also aimed at providing a wider range of varieties to accommodate climate change challenges.



High density and protected avocado cropping

- Key initiative being trialled involving growing avocados in high density, on trellis under permanent protective netting.
- 3 x 1 hectare trials in second year with a further 2 hectare trial to be planted in May.
- The trials are located in four regions to also evaluate differing climatic and seasonal influences.
- Seeking to change the economic farming model with improvement in crop yield, quality, pollination, per unit water consumption and early cropping.
- Aim is to maximise –
 - Light within the tree canopy.
 - Shade protection to hanging fruit.
 - Yield per hectare.
 - Precision of irrigation and nutrient application.
 - Fruit positioning for ease of harvest.
 - Reduction in tree and fruit damage from weather events, including heat and light stress, wind and hail.
- Improve potential for mechanised harvesting.



Further automation of citrus packing operations

- Continuing to automate our two citrus packing operations in the Riverland.
- A further A\$4.5 million capex currently in progress for doubling the Spectrim vision system line in our Renmark packhouse to 16 lanes, as well as installing robotic carton consolidation and palletising.
- The Spectrim vision system views 240 images of each piece of fruit at high speed, eliminating manual sorting and achieving tighter quality specifications.
- This technology has proved to be very accurate with respect to colour and blemish, and the co-located infra red system grades brix sugar to acid content in the fruit.
- Crucial for markets such as the US, Japan, Korea and China where the appearance and taste of the fruit is a key part of consumer preference.
- Refines the margin of error with respect to grading of fruit, resulting in less fruit being discarded for juicing and improving packing throughput and efficiency by approximately 50%.



Trialling of protected citrus cropping

- Citrus farming has historically been unprotected and we are investigating the potential for large scale adoption of robust permanent netting.
- Installed over 24 hectares of permanent protective net structures covering mandarins and persimmons in the Riverland of South Australia.

Main benefits:

- Reduces water usage by 10% to 20%.
 - Minimises fruit damage from wind, higher percentage of first grade fruit increases average price.
 - Stops bees from pollinating Afourer mandarins, reducing the seed count and increases marketability.
 - Protects trees and crop from hail events, reduces sunburn on the fruit.
- A further 43 hectares of permanent netting is being installed over our early season table grape farm at Mundubbera in QLD. By end of CY20 100% of the table grape crop is expected to be protected.



Increased mushroom capacity

- Monarto mushroom facility is Costa's most modern and lowest-cost mushroom composting and growing facility, adopting world's-best-practice technology.
- Production capacity at the site has been expanded from 120 tonnes of production per week to 240 tonnes. Significant enhancements have been made in the production facility to ensure it remains leading edge.
- First crop from expansion to be harvested beginning of May 2019.
- Installation of new technology phase 1 compost facility to support the entire farm. Will produce 1,200 tonnes of phase 1 compost each week and will have a significant positive impact over the long term. Operational from Q4 2019.
- This new technology was introduced into the capital program as a very late change in scope, as the technology had just become proven.
- Significant long-term profit benefit with more consistent compost, improving both yield and quality. This will be a hit to CY19 earnings as factored into most recent announced guidance, but will provide significant annual benefits over the long term life of the facility.



Optimising raspberry & blackberry production

- Major long cane raspberry and blackberry initiative will enable us to better match supply and demand, and level seasonal peaks from 2020 onwards.
- A long cane is a raspberry or blackberry cane which has been grown in a nursery and then cold stored to fulfil its chilling requirement.
- This cane is then planted in substrate, where fruiting laterals emerge along the length of the cane to produce a consolidated crop of premium fruit.
- Benefits of long cane production:
 - Increased production due to complete chilling and even bud break.
 - Consolidated harvest period.
 - Improved harvest efficiency.
 - Ability to produce superior varieties in non-traditional timings.
 - Increased flexibility in scheduling production timing, 'smoothing' of crop to capitalise on peak demand periods.
- This initiative will enhance our rollout of the new world class blackberry varieties, Elvira and Victoria and enable a 52 week production cycle.



Tomato developments

- Costa has made its reputation in tomatoes by investing in the trialling of new varieties and successfully commercialising them and bringing them to market.
- Construction of a large new nursery for lower-cost and more advanced grafted plants and additional 10 hectare glasshouse capacity is aimed at supporting market growth in selected products, and in-housing some external volume.
- Able to produce on site 100% of the seedlings for our 30 hectares (40 hectares by late 2020) of glasshouse.
- We are engaging in an ongoing evaluation of new snacking and cocktail tomato cultivars with evaluation of over 40 new cultivars each year. The existing nursery will be reconfigured to provide a larger and more effective variety evaluations centre.



China Expansion

- Over the course of approximately five years, work was undertaken to determine the most appropriate locations and berry products to produce for the Chinese market.
- Yunnan Province identified as best opportunity based on the following factors:
 - Climatic conditions in the Province, particularly in the southern regions, and the impact on crop timing.
 - Availability of suitable land and quality water.
 - Importance of agriculture to the local economy in Yunnan, including National and Regional policies to support the initiative.
 - Availability of labour.
 - Opportunity for further development.
- Total hectares - Total plantings of 110 hectares as at Dec 2018:
 - Blueberries: 79 hectares
 - Raspberries: 23 hectares
 - Blackberries: 8 hectares
- A further 65 hectares of blueberries to be completed by May 2019, with a similar area to be planted in 2020.



China Market Optimisation

- All marketing is undertaken by Driscoll's under their brand.
- Demand fuelled by burgeoning middle class, which now numbers 150m+.
- Projected demand growth for blueberries to be in excess of 20% p.a.
- 'Super fruits' gaining market share due to increasing income levels and recognition of nutritional value of berries.
- Ongoing evaluation of current commercial varieties as well as potential new varieties (including from Costa's Variety Improvement Program in Australia).
- Closely working with Driscoll's to understand market needs and conditions that drive strategic and agronomic decision making.
- Overall China rollout tracking to initial 5 year plan. Market acceptance for blueberry remains strong with raspberry/blackberry undergoing further market development.



Costa's vertically integrated business model is strategically designed 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 in FY18)
 - 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

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