



<b>Company</b>	<b>Costa Group Holdings Ltd</b>
<b>Code</b>	<b>CGC</b>
<b>Meeting</b>	<b>6 months GM (*)</b>
<b>Date</b>	<b>30 May 2019</b>
<b>Venue</b>	<b>KPMG Tower 2, 727 Collins Street, Melbourne</b>
<b>Monitor</b>	<b>Henry Stephens</b>

<b>Number attendees at meeting</b>	60 shareholders plus 40 visitors
<b>Number of holdings represented by ASA</b>	72
<b>Value of proxies</b>	\$1.5m
<b>Number of shares represented by ASA</b>	300,000 approx (equivalent to just outside the 20th largest holder)
<b>Market capitalisation</b>	\$1.18 billion
<b>Were proxies voted?</b>	Yes, on a poll
<b>Pre AGM Meeting?</b>	Yes, with chair Neil Chatfield

\*The Board decided to change the financial year reporting to a calendar year, hence the company instituted a six months general meeting after the 2018 Financial Year AGM, which was held in November.

## Fruit fly caused share dive on day of AGM

Costa is a leading grower, exporter and marketer of high quality mushrooms, berries, citrus, glasshouse tomatoes and avocados year around.

The share price plunged 27.6% on the day of the AGM, after the company cut its profit forecast for 2019 due to a series of weather related events and the discovery of a lone female fruit fly in a trap on a citrus orchard. This followed a previous share dive on 10 January of some 38%.

The main issue was the profit downgrade for 2019. It is Costa's second shock downgrade for the year, after it told investors earlier in the year that net profit would be affected by higher costs associated with the company's overseas expansion, weak earnings from citrus with 2018 being an "off year" and poor berry, avocado and tomato prices. It is now expected that net profit after tax and before material items for calendar year (CY) 2019 will be between \$57 and \$66 million (CY18 net profit after tax was \$56 million), down from \$73.6 million forecast.

Beginning in May, the company began facing a deteriorating operating environment on a number

of fronts. In Morocco, berry yields have been variable and price competition from Spain is high. The lower satisfactory yield of raspberry and the unseasonably warm temperatures recently have resulted in weaker demand and price softness for mushrooms. In addition, the fruit fly alert meant that 17% of their citrus crop cannot be packed in the company's Riverland sheds but will have to be sent to third party packers in Sunraysia and cold treated to meet export protocols.

We expressed concern that the managing director is also a non-executive director of Kogan.com Ltd. We felt that he should be putting all of his effort into Costa.

Also we expressed some concern that the non-audit services provided by KPMG, their auditor, represented a third of KPMG's total remuneration from Costa, which is getting to a level which could be seen as compromising auditor's independence.

The ASA voted in favour of the re-election of Janette Kendall and the election of Jane Wilson. However, we voted and spoke against the remuneration report and the approval of options under the long-term incentive plan for the managing director. We voted against the remuneration report because the company's long term incentive plan is not based on a total shareholder return hurdle which is contrary to our Guidelines and the company's LTI scheme is option based whereas the vast majority of ASX100 companies use performance rights for the reward. The ASA is not in favour of options based LTI plans because of the all or nothing nature of the options and the opaqueness around the calculation of the value of the options which only accounting firms seem to be able to understand.