Australian Shareholders' Association

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Voting Intentions – Costa Group 2021 AGM

ASX Code	CGC
Meeting Time/Date	11.00am AEST, 27 May 2021
Type of Meeting	Physical (webcast) / Hybrid
Monitor	Henry Stephens assisted by Mike Muntisov
Pre AGM Meeting?	Yes, with Neil Chatfield (Chairman)

Proposed Voting Summary

2	Adoption of Remuneration Report	For
3	Re-election of Peter Margin as a Director	For
4	Re-election of Tim Goldsmith as a Director	For
5	Approval of STI Performance Rights to the Managing Director Mr. Sean Hallahan	For
6	Approval of LTI Options to the Managing Director Mr. Sean Hallahan	For

Summary of Historical ASA Issues with the Company

The ASA has voted against the remuneration report in the last two years. This was primarily because of the use of options in the LTI plan. This year we looked more closely at the details of the plan and supported it. The reasons are set out in Item 2.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The Board has an independent Non-Executive Chair and a majority of independent directors.
- The Board has two female directors out of a total of 6 directors which meets the ASA's minimum 30% female rule.
- Directors and other KMP have invested at least one year's worth of base cash fees in company shares within 3 to 5 years.
- The company meaningfully discloses ESG issues or risks facing the business and the processes to manage them.
- The company raised $176 million of new capital in October 2019 via a fully underwritten accelerated renounceable pro-rata entitlement offer with retail rights trading. This is a very fair way of raising equity capital and the ASA fully supports the company's approach.

Areas for Improvement

- The skills matrix for the board could be improved by disclosing which directors have the nominated skills as identified in the matrix. This would be helpful when it comes to election of new directors or re-election of existing directors. The chairman undertook to consider this improved disclosure.
- The Annual Report does not disclose the take home pay of the CEO.

Items for Voting

Item 2	Adoption of Remuneration Report
ASA Vote	For

The table below shows the target remuneration and the maximum stretch targets for the CEO for the CY2020 year.

CEO rem. framework	Target* ($m)	% of Total	Max. Opportunity ($m)	% of Total
Fixed Remuneration	1.022	56%	1.022	49%
STI - Cash	0.308	17%	0.479	23%
STI - Equity	0.152	8%	0.236	11%
LTI - options	0.358	19%	0.358	17%
Total	1.840	100%	2.095	100%

*The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.*

Positives

- The total quantum of the CEO remuneration package is within the Godfrey Group report benchmarks.
- The quantum of Board fees is within the Godfrey Group report benchmarks.
- At least 50% of CEO's pay is genuinely at risk, with STIs less than fixed remuneration.
- Majority of STIs are based on quantifiable and disclosed performance metrics. The STI is weighted 50% based on Group Earnings Before Interest and Tax and before movements in biological assets and the effects of the new lease accounting standard AASB 16 ("EBIT-SL"), 30% free cash flow and 20% based on individual performance. Individual performance is based on individual KPI's which may include safety, project execution, risk management, quality, customer satisfaction and people leadership etc.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive. For example, for the CEO, the target STI is 45% of fixed remuneration with a maximum opportunity of 70% for achieving stretch targets. The stretch hurdle is based on overachievement of group EBIT-SL so for every 1% of actual EBIT-SL achieved over budget the incentive increases by 2.5% and the stretch opportunity is capped at 25% of total fixed remuneration.
- No retesting of performance hurdles is allowed.
- LTI hurdles are based on at least two hurdles, one of which is EPS compound annual growth over the three year performance period and the second is a performance hurdle based on various commercially sensitive growth target options set by the board and not released until the end of the three year performance period.
- STI share grants are allocated at market value not fair value.
- Hurdles are not based on statutory EBIT earnings, the preferred measure by the ASA, but EBIT-SL which in our opinion is a reasonable measure for this company.
- No full vesting in a takeover or "change of control" events.
- Overall, the Remuneration report is readable with a logical relationship between rewards and financial performance.

Areas for Improvement

- With respect to the STI, the ASA's preferred position is that a maximum of 50% of the STI is paid in cash (compared to 66% for Costa) and that at least 50% of any STI award is paid in performance rights (Costa: 33%) with a 12 month minimum holding lock.
- The LTI is an options based scheme. The ASA prefers performance rights because they are more easily understood and less opaque than an options based scheme.
- The LTI performance period is over three years from 31 December 2019 to 31 December 2022. The ASA prefers a 4 or 5 year performance period.
- 75% of the LTI options granted are subject to a performance hurdle based on the company's Earnings per Share compound annual growth rate ("CAGR") over the performance period. The ASA prefers a Total Shareholder Return measure which reflects the share price performance plus dividends paid over the performance period.
- The company does not disclose the take home remuneration of the CEO in the Annual Report.

Conclusion on Remuneration

Although the Remuneration Report has a number of aspects that do not meet our guidelines, on balance we will support the Remuneration Report this year for the following reasons.

First, a major positive is that the quantum of remuneration that the CEO receives is very reasonable for a large and complex company that operates in a difficult industry and across numerous markets both domestically and internationally. The remuneration is well within the Godfrey Remuneration Group benchmarks for ASX companies of similar market capitalisation.

Second, in the past we have voted against the use of options but upon closer examination the use of options in this case has clearly aligned with shareholders' interests. For example, for both the FY2018 and the FY2019 LTI plans, all of the options subject to the EPS hurdle lapsed because the EPS hurdle of 10% and 13% growth respectively were not met. For the balance of the options (25%) for both LTI years, only 40% vested because not all the growth performance hurdles were met. This demonstrates that the STI and LTI performance hurdles can be and have been very challenging and that there are no guarantees that the STI or LTI options will vest. Further, there is no guarantee that the vested options will be exercised as the exercise price (based on the then share price) is $4.82 for the 2018 plan year and $6.58 for the 2019 year which is higher than the current stock price. Just because the options vest does not mean they will be exercised and that the executive will profit from the exercise. If the absolute TSR (excl dividends) over the performance period is not positive then the options will expire worthless, whereas plans using relative TSR could still provide a healthy payout.

The important point to note about the use of options in the Costa plan is that there is alignment to shareholders interests and the company strategy, and they appear to work.

Therefore we conclude that on balance the way the remuneration package is structured is both fair and reasonable.

Item 3	Re-election of Peter Margin as a Director
ASA Vote	For

Peter Margin was appointed to the board in 2015 and is regarded by the company as an independent director. Mr Margin has outstanding business experience, largely in the food industry, including stints as Executive Chairman of Asahi Beverages, CEO of Goodman Fielder and Chief Operating Officer of National Foods as well as senior positions with Simplot Australia, Pacific

Brands and HJ Heinz. He is currently a non-executive director of Nufarm and Deputy Chair of Bega Cheese. He has adequate skin in the game (i.e. a shareholding equivalent to 105% of total remuneration) and his workload is within the ASA's guidelines. For these reasons the ASA supports the re-election of Peter Margin.

Item 4	Re-election of Tim Goldsmith as a Director
ASA Vote	For

Tim Goldsmith is a recent addition to the board of Costa Group. He joined in 2018 and previously worked for Pricewaterhouse Coopers for over 20 years as a partner. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Tim is currently President and CEO of Rincan Mining Pty Ltd an unlisted mine development company and non executive Chairman of Hazer Group Ltd and Angel Seafood Holdings Ltd. These are small companies and the ASA does not believe he has too many directorships.

Item 5	Approval of STI Performance Rights to the Managing Director Mr. Sean Hallahan
ASA Vote	For

The terms of the 2021 STI for the Managing Director are largely the same as the previous year's STI scheme. Please see our discussion above under Item 2 on why we support the Remuneration Report.

Item 6	Approval of LTI Options to the Managing Director Mr. Sean Hallahan
ASA Vote	For

The terms of the 2021 LTI for the Managing Director are largely the same as the previous year's LTI scheme. Please see our discussion above under Item 2 on why we support the Remuneration Report.

Monitor Shareholding

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.