



Costa Group 2020 AGM Report

ASX Code	CGC
Meeting Time/Date	11.00am Thursday 27 May 2021
Type of Meeting	Virtual
Monitor	Henry Stephens assisted by Mike Muntisov
Pre AGM Meeting?	Yes, with Chair Neil Chatfield

What the Company Does

Costa is the largest grower, packer and marketer of premium quality fresh fruit and vegetables in Australia. The company has farms located in 30 regions across all the Australian states plus majority owned ventures covering six blueberry farms in Morocco and four berry farms in China. The company's main products are mushrooms, citrus, blueberries, table grapes, tomatoes and most recently avocados.

Developments during the 2020 calendar year

Financial results for the 2020 year were much improved over the extremely difficult 2019 year when the company issued four profit downgrades due to the drought, fruit fly, crumbly raspberry fruit and low yields. Net profit after tax before SGARA (a particular accounting standard for agricultural products, self-generating and renewable assets, to deal with assets which increase in value over time) and the effects of the new leasing regulation more than doubled to \$59.4 million on an 11.2% increase in sales revenues to \$1.1 billion. The annual dividend increased strongly from 5.5 cents in 2019 to 9 cents per share fully franked.

As of 31 March 2021, the company's Chief Operating Officer Sean Hallahan, has been promoted to the role of Chief Executive Officer. Sean has over twenty years senior management experience in FMCG including a background with growth oriented organisations. He replaces Harry Debney who has done an outstanding job as the CEO during the last ten years. The company also appointed a new Chief Financial Officer in 2020, Wayne Johnston, who has several decades of commercial experience a cross corporate Australia in senior financial management and reporting roles.

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 decided to support it. 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.

Debate and Voting at the AGM

The highlight of the AGM was the fact that earnings for the first half of 2021 are expected to be only "marginally ahead" of the year earlier period. The new CEO said that the group's large mushroom operation at Monarto in South Australia was suffering from labour shortages and that

labour shortages could stretch into 2022. In addition, there were concerns about the outbreak of fruit fly in the Riverland region, and the negative impact of the Australian dollar on earnings. As a result of these disappointing disclosures, the stock price tumbled 23% on the day.

Apart from the disclosures above, the AGM was largely uneventful. There were questions on plastics, cyber threats, dividends, frozen foods and China. The company is committed to sustainable packaging and will phase out all plastic labels by 2025. All labels after 2025 will be 100% recyclable and compostable.

The Australian Shareholders Association asked three questions. The first was on the Remuneration Report and addressed the issue of why there is no “take home” pay or realised pay table in the annual report. We do not accept the Chairman’s rather inadequate answer that it is difficult to assess the equity risk component of an executive’s compensation and that it is not appropriate to make estimates. Such a table we believe would tell shareholders if any options or performance rights were exercised during the period and they are an important part of an executive’s total remuneration. We asked a question about whether the company had taken any dividends out of China and the answer was no as they retain the cash flow in the business. We thought the company may have taken money out of China given the increased tensions between Australia and China at the present time. Our third question concerned cyber threats. The company has a detailed, robust plan to combat cyber-attack and there is a formal process of escalating any such issue from senior management to the board if necessary.

As explained in the ASA Voting Intentions document, the ASA voted for all the resolutions and all the resolutions were passed by substantial margins.

Outlook Statements from the Company

The first half performance is expected to be marginally ahead of the previous corresponding period in CY2020, with strong international operations offset by challengers in the domestic side of the business.

Both China and Morocco harvests for the calendar year to date are progressing well. Although volumes in China were initially slightly down due to some late flowering, the yield is expected to finish in with expectations and there has been strong pricing and demand over the season.

In Morocco, early season plantings as well as higher volumes and generally strong pricing has seen the business perform well although ongoing supply chain and Covid related costs have had an impact. In addition, reported results will be affected by the strong A\$.

The domestic produce sector performance has been mixed. The berry category has been strong and avocados have also been strong although pricing pressure has increased due to increased Hass variety production which has reduced prices compared to last year.

Production at Monarto mushroom facility has been affected by short term labour constraints. Overall mushroom demand conditions remain strong going into the cooler months.

The company advised of a number of important capital projects in progress:

- The acquisition of KW Citrus orchards in March. Located in the Sunraysia region, this high-quality asset increases Costa’s capacity to supply citrus into premium exports markets, including Japan
- The recommencement of the construction of tomato glasshouse 4 and new nursery at Costa’s New England Highway site in Guyra, northern New South Wales, and
- As an outcome of Costa’s successful world-leading trials, the planting of 40 hectares of protected, trellised high-density substrate avocado trees, across a number of regions, at a

minimum of 1,000 trees per hectare — more than four times the density of conventional plantings.

Meeting Statistics

Number of Holdings Represented by ASA	81
Number of Shares represented by ASA	472,000 open proxies
Value of Shares represented by ASA	\$2.1 million at stock price prior to AGM
Number Attending Meeting	137
Market capitalisation	\$1.77 billion on day of meeting
Were proxies voted?	Yes, on a poll

Monitor Shareholding

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

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