



Voting Intentions – Costa Group AGM

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| ASX Code | Costa Group |
| Meeting Time/Date | 11.00am, 25 May 2022, Level 27, King & Wood Mallesons, 447 Collins Street, Melbourne |
| Type of Meeting | Hybrid (physical meeting subject to capacity limits) |
| Monitor | Henry Stephens assisted by Mike Muntisov |
| Pre-AGM Meeting? | Yes, with Chair Neil Chatfield |

Proposed Voting Summary

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| 2 | Adoption of the Remuneration Report | For |
| 3 | Re-election of Janette Kendall as a Director | For |
| 4 | Re-election of Dr Jane Wilson AO as a Director | For |
| 5 | Re-election of Harry Debney as a Director | For |
| 6 | Increase in Non-Executive Directors' Fee Pool | For |
| 7 | Grant of Managing Director's calendar year 2022 STI Performance Rights | For |
| 8 | Grant of Managing Director's CY2022 LTI options | For |

Key Financials

| Calendar Years | CY2021 | CY2020 | CY2019 | FY2018 | FY2017 |
|---------------------------------|---------|---------|----------|-----------|---------|
| Statutory NPAT (\$m) | \$41.4 | \$60.8 | (\$33.1) | \$115.2m* | \$57.7m |
| Underlying NPAT (\$m) | 63.9 | 55.1 | \$28.5m | \$76.6m | \$60.7m |
| Statutory EPS (cents) | 9.47 | 15.16 | (10.75) | 36.04 | 18.09 |
| Dividend per Share (cents) | 9.0 | 9.0 | 5.5 | 13.5 | 11.0 |
| Share Price at End of (\$) | \$3.09 | \$4.05 | \$2.43 | \$7.52 | \$4.42 |
| Statutory CEO Remuneration (\$) | \$1.10m | \$1.23m | 1.163m | 1.806m | 1.955m |
| Total Shareholder Return (%) | -21.05 | | | | |

Financials provided by Costa Group and may not correlate with other published sources. Statutory NPAT quoted is NPAT attributable to shareholders because of significant controlling interest/other. Note change in accounting period from Financial Year to Calendar Year means that the period 1/7/18 to 30/12/18 is excluded in this table.

*Inclusive of items relating to the African Blue acquisition. This included a \$48.3m gain from the consolidation of the 49% interest previously held.

Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of Historical ASA Issues with the Company

The ASA voted against the remuneration report in 2018 and 2019 largely due to the use of options in the long term incentives (LTI) plan. Although the remuneration report has a number of aspects that do not meet ASA guidelines, last year we changed our view and supported the remuneration report for the reasons set out under 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 (5 in total out of 7 Board members).
- The Board has two female directors which meet the ASA's minimum 30% female rule.
- Directors and other key management personnel (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 new capital in 2019 via a fully underwritten accelerated renounceable pro-rata entitlement offer with retail rights trading. This is a 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. The current skills matrix gives the number of directors with certain identified skills and fails to put names to the skills. This would be helpful when it comes to election of new directors or re-election of existing directors.
- The ASA does not support a retiring CEO being appointed to the board unless there has been exceptional performance and then it may be considered after a suitable "cooling off period" of at least two years, to allow the new CEO to settle in.
- The ASA would like to see a letter from the Chair of the Remuneration and Human Resources Committee briefly highlighting the differences between the 2021 Remuneration Report and the 2020 Report. Most retail investors do not read the Remuneration Report and a letter would highlight the major changes and make it easier for them to make an assessment. Furthermore, Board fees were increased in October 2021 and this was not adequately disclosed in the 2021 annual report. The increase in fees appears in Note 5 to the Remuneration Report and investors would only know the Chair and directors received a 20% and 10% fee increase respectively by comparing the 2021 and 2020 annual reports and doing the calculation themselves!

Items for Voting

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| Item2 | Adoption of Remuneration Report |
| ASA Vote | For |

The following table shows the CEO remuneration for CY2021. It represents a 2% increase over CY2020.

| CEO rem. framework | Target* (\$m) | % of Total | Max. Opportunity (\$m) | % of Total |
|--------------------|--------------------|-------------|------------------------|-------------|
| Fixed Remuneration | 0.850 | 62% | 0.850 | 49% |
| STI - Cash | 0.255 | 18% | 0.397 | 23% |
| STI - Equity | 0.128 | 9% | 0.198 | 11% |
| LTI options value | 0.149 ¹ | 11% | 0.297 | 17% |
| Total | \$1.381 | 100% | \$1.743 | 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. ¹ At threshold (assumed to be 50% of maximum for growth measure)*

Positives

- The total quantum of the CEO remuneration package does not reasonably exceed the Godfrey Remuneration Group report benchmarks.
- The quantum of board fees does not reasonably exceed the Godfrey Remuneration Group report benchmarks.
- Majority of short term incentives (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, 30% free cash flow and 20% based on individual performance. Individual performance is based on individual key performance indicators (KPIs) which may include safety, project execution, risk management, quality, customer satisfaction and people leadership etc. For CY2021 the CEO received \$247,993 as a STI based on his performance against the company and individual measures. This means that the CEO received 65% of his Target STI of \$382,500.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI hurdles are measured over three years or more after issue.
- LTI hurdles are based on at least two hurdles. (1) 75% of the LTI options are subject to a performance hurdle based on the company's Earnings Per Share compound annual growth rate where no payment is paid if the minimum EPS growth threshold is not met. (2) 25% of the LTI options are subject to a performance hurdle based on various growth target options. The performance targets are considered commercially sensitive and are not disclosed until the end of the Performance Period.
- STI share grants are allocated at market value not fair value.
- Hurdles are not based on statutory Earnings before Interest and Tax (EBIT), the preferred measure by the ASA, but earnings before interest and taxes before Self-Generating and Regenerating Assets (EBIT-SGARA) which in our opinion is a reasonable measure for this company. SGARA is a measure of the fair value movements in biological assets due to the growing and harvesting cycles for fruit and vegetables.

- No retention payment on any awards is subject only to continuing service.
- No termination payments exceed 12 months fixed pay (actual period is 6 months).
- No full vesting in a takeover or “change of control” events.
- Overall, the remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- The CEO’s target STI is 45% of total fixed remuneration (TFR) which is higher than the LTI at 35%. The ASA prefers the LTI component to be higher than STI to encourage management to think and manage the company from a long term point of view.
- Two thirds of the STI is paid in cash after the performance year and one third is payable in the form of performance rights which vest one year after the performance year on 1 March 2023. The ASA’s preferred position is that a maximum of 50% of the STI is paid in cash and that at least 50% of any STI award is paid in performance rights with a 12 month minimum holding lock.
- The ASA prefers that the LTI be over a minimum of four or five years and not three years which the company has adopted.
- 75% of the LTI options granted are subject to a performance hurdle based on the company’s EPS compound annual growth rate 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 reasonable for a large and complex company that operates in a difficult industry and across numerous markets both domestically and internationally. The remuneration is 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 earnings per share (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) was \$4.82 for the 2018 plan year and \$6.58 for the 2019 year which was higher than the 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.

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| Item 3 | Re-election of Janette Kendall as a Director |
| ASA Vote | For |

Janette Kendall has a background in marketing where she has held a number of senior management positions with various companies including Crown Casino, Pacific Brands, Emitch Limited, Clemenger Digital and Galaxy Entertainment Group in Macau, China. The ASA considers this experience as being useful for a consumer oriented company such as Costa Group. Janette has been a director of the company since October 2016 and she is also a director of two other large publicly listed companies namely, Vicinity Centres and Tabcorp Holdings. She is one of two females on the board and is considered independent. Janette has an adequate 'skin in the game' shareholding and for these reasons the ASA supports her re-election to the board.

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| Item 4 | Re-election of Dr Jane Wilson AO as a Director |
| ASA Vote | For |

Dr Jane Wilson has been an independent director of the company since April 2019. She holds a medical degree from the University of Queensland and a Master of Business Administration from Harvard University. Jane is Co-Chair of the Federal Government's Australian Advisory Board on Technology and Healthcare Competitiveness. She is also a director of Rugby Australia, Transurban Ltd and Sonic Healthcare Ltd which means that her workload can be considered as reasonably high, but it is still within the ASA limits of no more than five equivalent non-executive roles. She has adequate 'skin-in-the-game' shareholding. The ASA supports her re-election to the board.

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| Item 5 | Election of Harry Debney as a Director |
| ASA Vote | For |

As a general rule the ASA does not support a retiring CEO being appointed to the board although where there has been exceptional performance this may be considered after a suitable "cooling off period" preferably after at least two years to allow the new CEO to settle in.

Harry Debney was the previous CEO of Costa from 2010 and Managing Director from 2015 until his retirement in March 2021. He has been instrumental in transitioning the business from a private company to a listed vehicle on the Australian Stock Exchange and he has been involved in all aspects of building the business in Australia and overseas. He is knowledgeable on horticulture practice in Australia and is highly regarded in the industry. From our discussions with the Chair, Harry Debney does bring valuable horticultural knowledge to the company. He is a trained horticulturalist while the current CEO has a stronger operational and marketing focus. There is a growing focus in the Company on genetics, protected cropping, robotics and innovation in general. Furthermore, it is our understanding from the Chair that the "CEO was keen for Harry to stay on" and that the board voted unanimously for Harry to join after only a three month cooling off period. For these reasons we will vote for the motion but from a pure governance point of view we understand that a new CEO should have 'clear air' to manage the company.

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| Item 6 | Increase in Non-Executive Director’s Fee Pool |
| ASA Vote | For |

The board has requested that the non-executive director’s fee pool be increased by \$400,000 to \$1.6 million. The Board’s main argument is that the current cost of the director’s fee pool is within 10% of the current limit and as a result there is no scope to appoint any further directors if considered appropriate. The aggregate fee pool was last set at \$1.2 million in 2015 when the company was first listed and since then the business has grown in size and complexity with more overseas operations, different taxation regimes and increased governance and regulatory obligations. Arguments to support this motion include that the market capitalization of Costa has increased from \$448 million at December 2015 to \$1.5 billion at year end 2021. More importantly the quantum of Board fees is in alignment with the Godfrey Group Report for similar sized Australian industrial companies. For these reasons the ASA will support the motion.

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| Item 7 | Grant of Managing Director’s CY 2022 STI Performance Rights |
| ASA Vote | For |

The ASA will support the grant of STI Performance Rights to the Managing Director Mr Sean Hallahan as it is consistent with the previous STI grant in 2020 and is considered fair and reasonable. The STI grant proposed here is no different from the previous year’s STI grant. Please refer to a more detailed assessment under item 2.

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| Item 8 | Grant of Managing Director’s CY 2022 LTI Options |
| ASA Vote | For |

The ASA will support the grant of LTI options to the Managing Director as it is consistent with the previous LTI grant in 2020 and is considered fair and reasonable. The LTI grant proposed here is no different from the previous year’s LTI grant except for different dollar amounts, number of options granted and the exercise price of the options. Please refer to a more detailed assessment under item 2.

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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