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ASX ANNOUNCEMENT

23 June 2021

ACQUISITION OF CITRUS GROWER 2PH FARMS BUSINESS AND CAPITAL RAISING

Costa Group Holdings Limited (Costa; ASX: CGC), Australia's leading grower, packer and marketer of fresh fruits and vegetables, advises that it has entered into binding agreements (subject to the satisfaction of customary conditions) with a group of companies (Pressler entities) to acquire the business and assets of 2PH Farms Pty Ltd and its related entities ("2PH"), a Central Queensland based citrus grower for an upfront consideration of approximately $200 million in cash[1].

Costa will pay an additional $31 million in July 2023 for the purchase of the 'Conaghans' property, where a new citrus crop is currently being planted by 2PH, subject to certain conditions.

An investor presentation webcast will be hosted by Costa commencing at 10:30am AEST today (23 June). The webcast can be accessed at: http://investors.costagroup.com.au/Investor-Centre/.

Craig Pressler, owner of 2PH farms, said "2PH has a long and successful history, having been started by my parents John and Pam Pressler, uncle Geoffrey Pressler and Darryl Hess some 51 years ago. We have invested a lot of hard work and effort into becoming the successful business we are today, which is an industry leader, with an established reputation as a breeder and grower of high-quality citrus and an iconic brand both domestically and internationally. 2PH has had a close relationship with Costa for over a decade through our successful domestic marketing alliance with Bindi Pressler having performed the role of 2PH Marketing Manager, of both the citrus and grape crops. I know and trust Costa, and I am happy that the business will be owned and run by an Australian company which is not only an industry leader, but also has a genuine commitment to continuing to build on 2PH's reputation for the growing and export of high-quality citrus".

Costa has an established relationship with 2PH, having successfully marketed 2PH citrus for over 10 years in the Australian domestic market and both the domestic and export markets this calendar year 2021.

The total upfront funding requirement is approximately $219 million (including stamp duty and transaction costs) and is to be funded with the proceeds of a fully underwritten pro rata accelerated renounceable entitlement offer ("PAITREO") with retail rights trading to raise $190 million and existing debt facilities.

Costa expects to maintain a strong balance sheet post Acquisition to support growth opportunities (pro forma net debt / EBITDA-SL as at 30 June 2021 estimated to be approximately 1.4x[2]).

[1] Excludes stamp duty and transaction costs of $19 million.
[2] Presented on a pre-AASB 16 basis and assumes 2PH CY21 earnings on a pro forma basis

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Acquisition rationale and strategic alignment

- **Greater export supply to key Asian markets** – 2PH has an established brand presence in Asia. Enhances Costa's ability to also capitalise on market access drivers, including quality and proximity to Asia.

- **Increased citrus category revenue contribution** – total citrus category revenue contribution expected to increase from approximately 30% to approximately 35% post transaction.

- **Exclusive rights to selected proprietary varieties** – access to a proven 30-year proprietary breeding program.

- **Larger production scale and expanded geographical diversity** – Costa's total citrus plantings will increase by 60% to 4,513 hectares[3]. Growing regions increase from two to three, to include Riverland (South Australia), Sunraysia (Victoria and New South Wales) and Emerald (Central Queensland). Farming locations will increase to 11.

- **Extended variety and early season timing** – 2PH season commences in mid-March, the earliest citrus season in Australia. Future opportunity to achieve 52-week supply into key Asian markets.

As the largest citrus grower in northern Australia, 2PH has farming operations in Central Queensland, with a main growing location at Emerald and a smaller location at Dimbulah.

In addition to 2PH's current 1,474 planted hectares of citrus, and 240 planted hectares of table grapes, a further 210 hectares will be planted by 2PH at the Conaghans property/farm[4] (at Emerald) by 2023.

The 2PH tree age profile consists of a majority of plantings which are yet to reach maturity (8 years) while half of the plantings are under 5 years old. Based on this maturity annual yield is forecast to increase from an expected circa 30,000 tonnes in CY21 to circa 60,000 plus tonnes by CY25.

The 2PH farms are supported by large holdings of high and medium permanent water allocations (11,000ML+) from Fairbairn Dam in the Nogoa Mackenzie scheme and on farm water storage capacity of 4,000ML. Excess water requirements are sourced from purchases on the temporary water market.

2PH financial profile and impact

- 2PH is expected to generate circa $29 million in EBITDA-S in CY21 on a pro forma basis[5].
- Relatively young citrus orchards still in growth phase with yield forecast to more than double by orchard maturity.
- Expected to be around 10% EPS accretive[6] on a pro forma basis in CY21 excluding future plantings at Conaghans and potential synergy benefits.
- Pro forma net debt / EBITDA-SL estimated to be 1.4x[7] at 30 June 2021.
- Anticipated revenue and cost synergies not currently included in the business case.

[3] Includes 210 hectares expected to be planted by 2023.
[4] Costa will pay an additional $31 million payment in July 2023 for the purchase of the Conaghans property, subject to certain conditions.
[5] Costa management assessment of key financials.
[6] Comparative earnings per share for the Company takes into account a theoretical ex-rights price adjusted for the entitlement offer and excludes one-off costs and any impact of acquisition accounting. Assumes a full year contribution from 2PH assuming the transaction completed at the start of the CY21 calendar year.
[7] Presented on a pre-AASB 16 basis and assumes 2PH CY21 earnings on a pro forma basis

Transaction funding and completion

- Total upfront funding requirement of approximately $219 million (including stamp duty and transaction costs).
- Transaction to be funded by existing debt facilities and the proceeds from a fully underwritten $190 million 1 for 6.33 pro rata accelerated renounceable entitlement offer ("PAITREO")
- Transaction expected to be completed by late July 2021, subject to satisfaction of customary conditions

Costa Group CEO, Sean Hallahan noted a number of strategic benefits for Costa from the acquisition, with 2PH recognised as a premium citrus grower and exporter throughout Asia, having an established reputation as a market leader.

"There are a number of strategic benefits and alignments that will result from what is a financially compelling acquisition, which include greater export supply to key Asian export markets, production scale, increased variety offering, including rights to commercialise varieties with Plant Breeder Rights (PBRs) in certain jurisdictions[8], access to a proven 30-year proprietary breeding program, expanded geographic footprint and extended season timing," said Sean Hallahan, Costa Group CEO.

"Costa has been actively engaged in the acquisition of high-quality citrus assets, including our recent acquisition of KW Orchards (Sunraysia) in March 2021. 2PH is not only a high-quality asset, but it will also complement and enhance our production footprint, our variety offering and market opportunities, both export and domestic. We are delighted with this acquisition and look forward to successfully integrating 2PH into the Costa business and further growing our citrus category and its world-renowned reputation," said Mr Hallahan.

1HCY21 trading update and CY21 outlook

First half CY21 performance is expected to be marginally ahead of the prior comparable period, with a strong performance from the international segment and mixed performance from the produce segment.

Berry category performance saw favourable pricing with lower volumes. There were associated impacts from higher industry supply of avocados, resulting in lower pricing in the category. Monarto mushroom volumes continued below expectation although retail demand in particular supported mushroom pricing throughout the half. Tomato yields progressively improved, matching steady demand, and short-term pricing pressure eased towards the end of the half. Damage from the Colignan hailstorm on 1 January 2021 progressively impacted over the half as initial grape crop damage estimates deteriorated. In addition, our third-party network suffered from industry wide poor quality resulting in poor export returns.

Based on unaudited management estimates, forecast first half results are revenue of $627 million, EBITDA-S $124 million and NPAT-S $44 million.

[8] Plant Breeder Rights are exclusive commercial rights for a registered variety of plant. The rights are a form of intellectual property.

International segment

Both Morocco and China seasons have largely been completed, with overall performance very positive versus previous year.

China will finish with net positive volumes. There was strong pricing and demand over the season, particularly for our premium blueberry varieties, and as previously advised performance was also helped by lower imports of South American fruit into the market earlier in the year.

Morocco will deliver a solid performance, with volumes in line with budget, driven by favourable timing of earlier fruit and stronger pricing. The season also benefited from delayed timing of the main Spanish blueberry crop.

As previously advised, whilst International results are well ahead of the prior comparative period (pcp) reported results for this segment have been negatively impacted by the higher Australian dollar.

Produce segment

The domestic produce categories are delivering a mixed performance for the first half.

Berry category - There was generally favourable pricing across the four main berry varieties and ultimately in line with expectations. Blueberry pricing was impacted in part by some quality issues in Tasmania.

There was a stronger than usual finish to the Tasmanian season with positive tonnage over the later part of the season, however overall volumes were down due to climatic conditions versus pcp and a shortage of labour during peak harvest periods.

Mushroom category – As previously advised short term labour constraints at Monarto contributed to lower than average production volumes over the half. Overall mushroom conditions remain strong going into the cooler months.

Avocado category – As previously noted sustained higher volumes contributed to significantly lower pricing and category performance. Export activity has been positive year to date with volumes already surpassing CY20 but coming off a low base, and this continues to be a focus into the future.

Tomato category - Increased field tomato supply impacted short term pricing, particularly truss varieties and to a lesser extent snacking and cocktail. Volumes were down due to poorer growing conditions. Retail and wholesale pricing improved over May and June heading into the second half.

Citrus category – The impact of the previously advised hail damage to our Colignan (Vic) table grape crop resulted in significantly lower production volumes from this farm and a subsequent earnings impact.

The early citrus harvest through May and June delivered tonnage ahead of forecast due primarily to early timing of the mandarin harvest. As previously advised fruit fly restrictions has impacted performance adding additional cost.

Capex, Debt and growth update

Acquisitions undertaken during the half included the Sunraysia located KW Orchards citrus farm and associated packing operations (acquired March 2021). The KW acquisition increases our citrus footprint in Sunraysia to 700 planted hectares.

The company also signed an agreement to acquire the assets of Select Fresh, a leading Western Australian based wholesale distribution business specialising in the supply of fresh produce to foodservice and independent supermarkets.

The acquisition is expected to be completed in July 2021 and will be run under the Costa Farms and Logistics (CF&L) business unit. It expands our CF&L offering into Western Australia, increases our supplier grower base and provides a strong platform to extend our supply relationship with National customers particularly in the catering & meal kit segments. Further updates on existing growth projects will be reported at the half year results release in August 2021.

Debt levels continued to be consistent with the company's target gearing range of between 1.5 to 2 times EBITDA-SL. The Company expects net debt (excluding lease liabilities) at 30 June 2021 to be approximately $211 million, which represents an approximate leverage ratio of 1.4x. The increase in net debt from $143.9 million at 27 December 2020 reflects the previously announced acquisition of KW Orchards, maintenance capex back to pre COVID levels, seasonality of working capital and execution of previously announced growth projects including tomato glasshouse four and China berry plant development.

Outlook 2HCY21

The citrus season is an 'on year' with resultant higher yields, which are overall currently tracking to forecast, noting the Riverland will deliver a likely more favourable than forecast yield. Fruit quality is ahead of expectations, with volume of first grade product up on the previous year at the same time.

Fruit fly treatment costs will apply for the entire season (restrictions in place to December '21) and supply chain impacts are likely ongoing in some export markets as differing levels of restrictions remain. Export pricing is expected to remain consistent with previous years, noting the higher Australian dollar. Labour has been guaranteed for the season, but with additional quarantine cost.

It is anticipated that Western Australian crops will be strong, further contributing to higher avocado supply and lower prices continuing over the second half and resulting in a performance well below expectations.

Early tonnages of Arana blueberry variety have attracted a price premium in FNQ, however initial indications are challenging with respect to meeting expected overall yield target. The main Corindi New South Wales crop is yet to commence, but current volumes and pricing are forecast to be in line with expectations

Mushroom production levels are stabilising and are anticipated to progressively improve over the second half as the work continues on addressing yield and labour challenges.

Tomato pricing for truss varieties continues to return to more normal levels and the expectation is this will continue over the second half, including more positive snacking and cocktail pricing. Planting will begin on schedule in July 2021 in the new glasshouse four.

Apart from the labour challenge at the Monarto mushroom facility, the company expects to have sufficient labour to harvest its crops over the second half.

At this point in time, based on current information, Costa expects CY21 EBITDA-S and NPAT-S to be marginally ahead of CY20 (which were $197.2 million and $55.1 million respectively) prior to taking into account the impacts of the acquisition and the equity raising.

The CY21 forecast contemplates normal crop cycles in Australia for the remainder of the calendar year, no extreme weather events, and crop yields in line with historic averages.

Specific outlook risks include:

- Berry yield and pricing, particularly for main Corindi (NSW) season.
- Timing of Tumbarumba (NSW) blueberry harvest.
- 80% of citrus crop yet to have confirmed pricing.
- FX impact on export earnings.
- Bowen (QLD) tomato field crop volumes.
- Potential major disruption from COVID.

Capital Raising

The capital raising has been structured as a fully underwritten pro rata accelerated renounceable entitlement offer with retail rights trading; which is consistent with Costa's 2019 equity raising structure. The "PAITREO" structure provides all eligible shareholders a pro rata opportunity to participate and the potential to realise value for their entitlement.

Under the Entitlement Offer, eligible shareholders are invited to subscribe for 1 New Share for every 6.33 existing shares held on the record date of 7.00pm on Monday, 28 June 2021, at a price of $3.00 per New Share (the "Offer Price").

The Offer Price represents a 10.3% discount to the theoretical ex rights price ("TERP") of $3.35.

The total number of New Shares to be issued under the Entitlement Offer is estimated to be approximately 63 million, representing 15.8% of existing shares on issue.

The Entitlement Offer includes two components, an Institutional Entitlement Offer and Retail Entitlement Offer. The key dates of each component of the Entitlement Offer are set out in the below timetable.

New Shares issued will rank pari passu with existing shares on issue.

All directors have expressed their intention to take-up their entitlements.

Key Dates

A timetable of key dates in relation to the Entitlement Offer is set out as below.

Event	Date[1]
Trading halt and announcement of Offer, Institutional Entitlement Offer Opens	Wednesday, 23 June 2021
Institutional Entitlement Offer closes	Thursday, 24 June 2021
Institutional Entitlement Offer shortfall bookbuild	Friday, 25 June 2021
Announce results of Institutional Entitlement Offer	Monday, 28 June 2021
Trading halt is lifted and Costa shares recommence trading on an "ex-entitlement" basis	Monday, 28 June 2021
Record date for the Entitlement Offer (7:00pm Sydney time)	Monday, 28 June 2021
Retail rights commence trading on the ASX (on a deferred settlement basis)	Monday, 28 June 2021
Retail Entitlement Offer opens and Retail Entitlement Offer Booklet dispatched	Friday, 2 July 2021
Settlement of New Shares issued under the Institutional Entitlement Offer	Tuesday, 6 July 2021
Allotment and normal trading of New Shares issued under the Institutional Entitlement Offer	Wednesday, 7 July 2021
Close of retail rights trading on the ASX	Monday, 12 July 2021
Retail Entitlement Offer closes (5:00pm Sydney time)	Monday, 19 July 2021
Announce results of Retail Entitlement Offer (Aftermarket)	Thursday, 22 July 2021
Retail Entitlement Offer shortfall bookbuild (Aftermarket)	Thursday, 22 July 2021
Announce results of Retail shortfall bookbuild	Friday, 23 July 2021
Settlement of Retail Entitlement Offer	Tuesday, 27 July 2021
Allotment of New Shares issued under the Retail Entitlement Offer	Wednesday, 28 July 2021
Normal trading of New Shares issued under the Retail Entitlement Offer	Thursday, 29 July 2021
Despatch of holding statements in respect of New Shares issued under the Retail Entitlement Offer	Friday, 30 July 2021

[1] All dates and times are indicative and subject to change without notice; AEST refers to Sydney Australian Eastern Standard Time.

Additional information

Further details of the 2PH acquisition and Entitlement Offer are set out in the accompanying Investor Presentation also provided to the ASX today. The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Entitlement Offer.

UBS acted as financial adviser and King & Wood Mallesons acted as legal adviser to Costa in relation to the transaction.

Release authorised by the Costa Group Holdings Limited Board.

About Costa (ASX:CGC)
Costa is Australia's leading grower, packer and marketer of fresh fruit & vegetables and operates principally in five core categories: berries, mushrooms, glasshouse tomatoes, citrus and avocados. Operations include approximately 5,000 planted hectares of farmland, 30 hectares of glasshouse facilities and three mushroom growing facilities across Australia. Costa also has strategic foreign interests, with majority owned joint ventures covering six blueberry farms in Morocco and four berry farms in China, covering approximately 600 planted hectares.

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FORWARD LOOKING INFORMATION
This document contains forward looking statements. Forward looking statements are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors ,many of which are beyond the control of Costa, its directors and management, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. Investors are cautioned not to place undue reliance on any forward looking statements.

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