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Costa Group calendar year is now financial year

Company/ASX Code	Costa Group/CGC
AGM date	30 May 2019
Time and location	2pm Level 36 Collins Square 727 Collins Street Melbourne
Registry	Link Market Services
Webcast	TBA
Poll or show of hands	Poll
Monitor	Henry Stephens and assisted by Mike Robey
Pre AGM Meeting	Scheduled for week of AGM

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Costa is Australia's largest grower, packer and marketer of fresh fruit and vegetables. The business is fully integrated in five produce categories namely, berries, mushrooms, citrus, glasshouse tomatoes and avocados. The company's operations include 4,000 planted hectares of farmland, 30 hectares of glasshouse facilities and seven mushroom facilities across Australia as well as six blueberry farms in Morocco and three berry farms in China.

Key events

From 1 January 2019, the company's financial year will be based on calendar years in contrast to fiscal years which the company has had since listing in 2015. The Board has made this change because the company's earnings profile has become dramatically skewed to the January-June half year reporting period and this trend will become further pronounced with on-going expansions, amplified by additional farming cost investment required over July-December.

Financial performance

For the 2018 financial year, Costa Group increased net profit after tax (before material items) 26.3% to $76.6m on a 10.2% increase in revenues to $1 billion. Dividends increased from 11 cents per share to 13.5 cents, a strong 22.7% increase. The increased profit reflects a standout performance from the citrus category due to the strong export market, higher tomato sales resulting from increased focus on snacking varieties and a solid performance from mushrooms. Avocadoes contributed for the first time due to farm acquisitions in Queensland. The company's blueberry farms in Morocco were materially below plan due to very cold weather in spring which delayed the crop from maturing.

For the six months ending 31 December 2019 revenues declined 2.3% to $489.3m and net profit after tax declined 20.1% to $8.5m. The company issued a revised guidance to earnings in early January 2019, six weeks after issuing a business as usual earnings guidance in November 2018 which resulted in a 25% in decline in the stock price. Earnings declined because of the inclusion of 6 months of operating costs associated with the African Blue acquisition, pre harvest farming costs in China and Morocco due to footprint expansion, higher charges reflecting capex investment and lower citrus volumes and prices in an "off year." In addition, the company experienced price deflation for the tomato, berry and avocado produce categories during December and into January which dampened earnings.

Key Board or senior management changes

Tiffany Fuller resigned from the Board as a Non-Executive Director effective 1 September 2018. Tiffany was the Chair of the Audit and Risk Committee and she joined the Board shortly after the the IPO in 2015. Tiffany's experience in capital markets as well as finance, accounting and risk management contributed greatly to the development of the company. Tiffany has been replaced by Tim Goldsmith effective 1 September 2018. Tim has over three decades of corporate experience. He has facilitated Chinese foreign investment into Australian mining assets and he was a Director of the Australia China Business Council.

Summary

FYE (2018* is 6 months)	**2018***	**2018**	**2017**	**2016**	**2015**
NPAT ($m, before material items)	$7.10	$76.55	$60.71	$44.23	$34.35
Share price ($)	$7.42	$8.08	$4.95	$2.82	$2.05
Dividend (cents)	8.50	13.50	11.00	9.00	Nil
TSR (%) Morningstar	-9.0		83.6	0	
EPS (cents) Morningstar	2.7	22.0	20.2	8.0	2.35
CEO total remuneration (actual $m)	$0.775	$1.81	$1.96	$1.55	$1.25

2018*Financial year end has been changed from 30 June to 31 December following the significant skew of earnings profile to the January-June half year period. Note the 2018* year is a six month period.

Item 2	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

Costa's total remuneration package for the CEO is made up of fixed remuneration and a target of 45% short-term incentive (STI) and 35% target long-term incentive (LTI). Both the CFO and the COO remuneration packages are very similar and the targets are slightly lower. The fixed remuneration comprises salary, superannuation and other non-monetary benefits such as car leasing arrangements. The STI comprises a cash component of 66% in the first year and the balance in performance rights is deferred for 6 months. No dividends or voting rights are attached to the performance rights prior to vesting. A cash payment in lieu of dividends accumulates after the vesting date. For the six months to 31 December 2018 no STI will be paid because the metrics cannot be calculated until the 2019 calendar year is over.

The ASA has some concerns with the long term incentive scheme which is options based. The target LTI is notionally 35% of the CEO's fixed remuneration (COO 30%). However, this requires the calculation of a fair value in order to determine the number of options granted, to which we are opposed. Under the Costa LTI scheme 75% of the options granted will be subject to a performance hurdle based on the company's earnings per share compound annual growth rate over the performance period (3 years). The ASA strongly prefers a TSR measure as the principal measure for executive performance. The balance of 25% of the options is based on an unstated geographic and category diversification which is not described clearly in the annual remuneration report. In addition, the Board also retains discretion to adjust the calculation of the EPS (for example, by excluding the effect of significant events that may occur during the performance period). This further complicates and makes the whole process very opaque in our opinion and is not acceptable to the ASA. The ASA will advocate for a simplification of the incentive schemes to a more shareholder focused remuneration structure.

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

Summary of ASA Position

Janette is a member of the Audit and Risk Committee and the Nomination Committee. She joined the company in October 2016. Currently Janette is a Non-Executive Director of the Wellcom Group, Vicinity Centres and Placer Property. Her professional experience has been largely in marketing where she has held senior positions with Galaxy Entertainment Group in Macau, Crown Casino in Melbourne, Pacific Brands and emitch Limited.

The ASA regards Janette as being independent and we support her re-election to the Board. Based on information in the annual report, Janette has sufficient skin in the game in shareholdings in the company.

Item 4	**Election of Dr Jane Wilson as a Director**
ASA Vote	**For**

Summary of ASA Position

Jane joined the Board after the last AGM and in accordance with the Company's constitution she must be elected by the shareholders. Jane is currently a non-executive director of Transurban Ltd and Sonic Healthcare Ltd. She holds a medical degree from the University of Queensland and an MBA from Harvard Business School. She is currently Co-Chair of the Federal Government's Australian Advisory Board on Technology and Healthcare Competitiveness and a director of the General Sir John Monash Foundation.

Assuming Dr Jane Wilson is elected to the board there will be two women on the Costa Board and four independent directors out of a total of eight directors. The ASA supports the election of Dr Jane Wilson to the Board of Costa Group.

Item 5	**Approval of options under the calendar year 2019 long term incentive plan to the Managing Director Mr Harry Debney**
ASA Vote	**Against**

Summary of ASA Position

We are opposed to the remuneration report because of the opacity, complexity and lack of shareholder focus of the LTI scheme, and therefore, the ASA opposes the issue of options to the managing director.

The individuals involved in the preparation of this voting intention do not have a shareholding in this company.