Meeting the growth and profit challenge in horticulture

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Costa’s transformation

Costa is Australia’s largest horticultural group, with annual transacted sales of ~$900m.

Costa embarked on a transformative journey 6 years ago…..

- Previously in 14 different Categories with farming, marketing and logistics interests
- Uncertain strategy and opportunistic approach to growth
- Lack of focus – capital and management splatter
- Some excellent categories and some units chasing ‘profitless prosperity’
- Stretched balance sheet inhibiting growth
- Excellent cultural values, but not performance managed

Three key steps in Costa’s transformation……
Step 1: Adopt a new business model

- Integrated farming – packing – marketing business
- Portfolio of attractive categories with #1 position
- Scale to achieve low cost production and platform for R&D development
- Reduce agricultural volatility via protected cropping
- Owned or exclusive IP to provide growth and superior margins
- Business design and capabilities geared to retail model with aim of being #1 supplier to each retailer
Step 2: Overhaul personnel

- Professional leadership executive team installed
- Business unit management teams reviewed and upgraded
- Strong operating disciplines & sense of urgency introduced
- Retention of values – determination, passion, accountability, sincerity and respect
Step 3: Fix the balance sheet to permit growth

- Adopt strong fiscal disciplines on P&L, cashflow & investment
- Profit accountability anchored at business unit level
- Divested non-core assets and businesses
- Introduced new investor (50%) to recapitalise for growth
- New lender group who believed in, and supported, the company

These steps were all executed by end 2011.

Since then, Costa has embarked on a series of initiatives to achieve the potential of the company.
Diversification of produce categories and geographies is a fundamental element of Costa’s business model.
Mushroom

- #1 market share
- 26,000 tonnes pa
- Integrated spawn-composting-growing operation
- Six production sites in 5 states
- 52 week production
- Protected cropping
- Superior IP in brown mushrooms
- Innovation in new products, pre-packaging and post-harvest quality optimisation
Berry

- #1 market share in blueberries and raspberries
- 28M blueberry punnets and 16M raspberry punnets produced annually on our farms
- 50% owned Driscoll Australia is the overall berry market leader
- Will achieve 52 week production in 2015
- Approx. 50% under protected cropping
- Superior varietal IP in blueberry, raspberry, strawberry and blackberry
- Innovation in varieties, hydroponic production, and yield optimisation
- 8 growth projects in progress
- International operations in Morocco and [China]
Glasshouse tomatoes

- #1 market share own and contracted high tech glasshouse production
- 11,000 tonnes total pa.
- 52 week production
- Protected cropping
- Superior IP in snacking tomatoes
- New 10ha glasshouse under construction
- Innovation in integrated pest management, varietal evaluation and hydroponics
Citrus

- # 1 market share
- 76,000 tonnes pa
- Eight months in production
- Extensive range of seedless orange, mandarin and lemon varieties
- 55% crop exported with Japan largest market
- Innovation in optimised irrigation practices
Own or exclusive IP

- Leading blueberry varieties
- Superior raspberry, strawberry & blackberry varieties
- Snacking tomatoes
- Mushroom spawn
Value proposition to the retail channel

- Large scale, direct farming representing significant production share
- Unique IP portfolio and consumer recognised brands
- 52 week supply, maintaining consumer reach
- Product quality & consistency
- Post-harvest capability
- Production certification and protocols
Protected Cropping

30% 2010

Produce earnings

75% 2015
Managing agricultural risk

Diversification

- Diversified category portfolio
  - No single category representing more than ~25% of sales
- Geographic spread of production
  - National Australian footprint (NSW, SA, Vic, QLD, WA, Tas)
  - Morocco

IP and technology know-how

- Superior product genetics
- Efficient production techniques
  - Modern farming, hydroponics and irrigation technology
- Post-harvest discipline

Protected cropping

- Protected cropping techniques reduce crop volatility in key categories, representing over 75% of produce EBITDA
  - Growing in factories, glasshouses, tunnels and hydroponics
    - Active program to adapt to climate change in farming activities

Year-round supply

- Costa has invested in produce categories that have the potential for year-round supply
  - Achieved by production methods, varietal selection and geographic spread
  - 52 week supply removes seasonality, maintains consumer reach and smoothes cash flows in business

Risk management is at the core of Costa’s strategy