



30 August 2019

Vitalharvest FY19 Financial Results

Vitalharvest Freehold Trust (VTH) today reported its results for the financial year ending 30 June 2019.

Key highlights:

- VTH listed on the ASX on 1 August 2018 - the FY19 results are based on the 11-month period since the IPO and restructure
- VTH generated a Statutory Loss After Tax of \$5.5m for the FY19 11-month period since the IPO and restructure
- VTH's FY19 Statutory Result was negatively impacted by a number of abnormal items:
 - One-off items totalling \$8.8 million in the 11-month period
 - A shorter than normal period - Statutory rental revenue was \$15.4m for the 11-month period
 - Rental revenue would have been \$17.1m on a 12-month comparable basis¹
- Excluding one-off items of \$8.8m and adjusting the 11-month period for a normal 12-month period (as will be the case moving forward), would have delivered an Adjusted Net Profit After Tax of \$1.9m
- **Funds From Operations (FFO) of \$10.5m for the 11 months from IPO, representing 5.66 cents per unit**
- FY19 distributions totalling 5.65 cents/unit:
 - Interim distribution 4.00 cents/unit – paid 28 March 2019
 - Final distribution of 1.65 cents/unit – Payment Date 30 September 2019
- Total assets of \$280.3m which includes cash balances of \$7.2m
- Net Asset Value (NAV) of \$0.90 per unit
- Gearing of 36.7% (target of 40%)

Financial Performance

VTH recorded a total comprehensive loss for FY19 largely due to significant items occurring during the period, including transaction costs associated with the IPO and restructure (\$7.2m) and a loss on disposal of non-current assets due to water foregone in return for Government grants (\$1.6m).

Rent (comprising Base Rent and Variable Rent components) for the 11-month period was \$15.4m – adjusted for a pro forma 12-month period to 30 June 2019 totalled \$17.1m.

Base Rent for the 11-month period was \$8.5m – adjusted for a pro forma 12-month period to 30 June 2019 totalled \$9.3m.

¹ Actual Base Rent and Variable Rent figures for July 2018 have been used to calculate the pro forma 12-month comparable basis.

Variable Rent for the 11-month period was \$6.9m – adjusted for a pro forma 12-month period to 30 June 2019 totalled \$7.7m.

There were nil contributions to Variable Rent from the Citrus and Berry properties during the January to June period, noting the Variable Rent is calculated and paid on a 12-month basis with revenue historically weighted towards the July to December period.

Variable Rent payable under the Leases is calculated as 25% of the Earnings Before Tax (EBT) from the Tenant's operations at VTH's Berry and Citrus properties per annum, noting that the Tenant reports on the basis of a calendar year. The Variable Rent is paid in 2 tranches:

1. The first payment (**First Payment**) is due in or about September each year and is calculated as 50% of the actual Variable Rent for the period January to June plus 50% of the forecast Variable Rent for the period July to December; and
2. The second payment (**Second Payment**) is payable the following year in or about March and is calculated as the actual Variable Rent for the previous calendar year less the amount received for the First Payment.

NAV per unit has decreased from \$0.93 per unit at 31 December 2018 to \$0.90 per unit as at 30 June 2019, predominantly due to an increased liability for the mark to market of interest rate swaps of \$4.2m since 31 December 2018.

Distribution

VTH will pay a total distribution of 5.65 cent per unit for the FY19 year, declaring a final distribution of 1.65 cents per unit for the period ending 30 June 2019 (Record Date - 2 July 2019 and Payment Date - 30 September 2019). This follows the interim distribution of 4.00 cents per unit paid on 28 March 2019 and represents ~100% of the FFO for the 11-month period to 30 June 2019.

Citrus Performance

The Citrus properties did not contribute to Variable Rent for the six-month period ending 30 June 2019, which is consistent with prior comparable periods due to the timing of the Citrus harvest predominately falling in the following financial year. The Variable Rent for FY19 has been impacted by:

- Crop size - Citrus crops experiencing an 'off year' for the 2018 crop due to their biennial bearing nature, which resulted in lower Variable Rent contributions for FY19;
- Timing - the 2019 crop experiencing a delayed harvest due to seasonal conditions with approximately 75% of the crop remaining to be harvested impacting the amount of the Variable Rent payable in FY19; and
- Costs - higher water costs due to ongoing drought conditions across the southern Murray Darling Basin. A fruit fly event has resulted in additional costs being incurred to treat fruit from a portion of Kangara.

The Tenant, wholly owned subsidiary of Costa Group Limited (ASX:CGC), has previously advised that the outlook for Citrus is positive with strong volumes and good quality expected for the 2019 crop.

Berry Performance

The Berry properties did not contribute to the Variable Rent for the six-month period ending 30 June 2019. This is inconsistent with prior comparable periods having always contributed to Variable Rent in the past.

The Tenant has previously informed the market of the following events impacting Berry performance:

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- higher wastage and higher labour costs in raspberries due to a condition known as “crumbly fruit”, and
- potential pricing pressure in blueberries due to increased supply in northern NSW.

Portfolio Growth - Capital Expenditure

Since FY12, Vitalharvest has funded \$37.3m of capital expenditure investment on the Berry and Citrus properties. Capital expenditure investment demonstrates a commitment by the landlord and Tenant to investing in the long-term productivity and profitability of the properties. Capital expenditure contributed by VTH delivers a return of 8% per annum to unitholders via the Base Rent and may contribute to an increase in Variable Rent returns as a result of any productivity gains.

VTH funded \$1.4m of pre-IPO approved capital expenditure on the Citrus and Berry properties during FY19. There are ongoing approved capital expenditure investments at the Citrus and Berry properties including developing premium Arana plantings at Corindi.

VTH recently purchased a 5.3ha Berry property at Corindi that has 3.3ha of raspberry plantings. The property has historically been leased by the former owner to VTH’s current Tenant (CGC) and will be leased to CGC under the same terms as the existing Berry Leases.

Portfolio Growth – Acquisitions

The managers of VTH are active in the search for mature, investment grade assets that possess the following attributes:

- aligned with global trends towards healthy and nutritious food, sustainable production, and growth of plant-based diets,
- strategically located in productive farming regions in Australia and New Zealand,
- leased to quality operators/managers,
- diversified in terms of crop type, geography, water source and Tenant, and
- subject to attractive long-term leases.

Notices of Dispute

Over the past months, representatives of VTH have been in discussions with the Tenant in relation to the content, detail and format of information that the Tenant is required to provide under the terms of the Citrus and Berry Leases, in order to ensure that VTH is in a position to verify the calculation of the profit payable under the Leases and to be able to adequately manage VTH’s underlying assets including plantings and water.

Regrettably, the negotiations have to date not been successful. Accordingly, VTH has served Dispute Notices on the Tenants, pursuant the terms of the Leases. The Dispute Notices broadly cover 2 areas of contention, that:

1. VTH has received insufficient information from the Tenant in order to verify the calculation of the Forecast Variable Rent as required under the terms of the Leases. From information that has been provided to date VTH disputes the amount of certain components of the Variable Rent constituting the First Payment, in particular shared service costs that the Tenant appears to have apportioned across its operations. Notwithstanding the service of this Notice of Dispute, the Tenant is required under the terms of the Leases to make payment of the undisputed portion of the Variable Rent constituting the First Payment; and

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2. the budget and other financial information which have been provided by the Tenant to VTH, do not comply with the requirements of the Leases.

In accordance with the dispute mechanism under the Leases, VTH will seek mediation in order to resolve these issues. VTH does not intend to make any further public announcements in relation to the disputes whilst any mediation is proposed or underway.

Summary and Outlook

The Tenant has advised that the upcoming Citrus harvest appears favourable with strong volumes and good quality expected. There is future growth projected in the Citrus properties as ~20% of the trees are yet to reach full maturity.

Significant recent investment in new varieties and more productive growing methods at the Berry properties are resulting in strong production volumes, particularly at Corindi. VTH is contributing to capital expenditure to develop premium Arana plantings at Corindi. Demand and consumption of berries continues to grow as consumers increasingly favour healthy, nutritious food.

Ongoing capital expenditure investments contributed by VTH will increase the capital base for Base Rent income generation, while productivity projects may lead to increased Variable Rent.

Results Webcast

VTH will conduct a webcast of its FY2019 results presentation at **11.00am on Friday 30 August 2019** (Australian Eastern Standard Time).

Participants can access the webcast via the following link: <https://webcast.openbriefing.com/5408/>

Participants should log on at least 15 minutes before the scheduled commencement time.

An archived version will be available to download shortly after conclusion of the briefing.

END.

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About Vitalharvest

Vitalharvest owns one of the largest aggregations of berry and citrus farms in Australia. These are located in prime growing locations in New South Wales, South Australia and Tasmania and are leased to Costa Group (ASX:CGC).

Vitalharvest provides investors with exposure to agricultural property assets whose earnings profile and underlying value are exposed to the growing global agricultural demand for healthy, nutritious food. These assets provide agricultural diversification by way of crop type, climatic region, water source and product end markets.

Vitalharvest is an agricultural real estate investment trust managed by goFARM Asset Management (ACN 625 505 455) AR No. 001264243.

The Trust Company (RE Services) Limited (ABN 45 003 278 831) (Responsible Entity), part of Perpetual Limited (ASX:PPT), is the responsible entity for the Vitalharvest Freehold Trust ARSN 626 537 362.

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