



## ASX ANNOUNCEMENT

29 October 2019

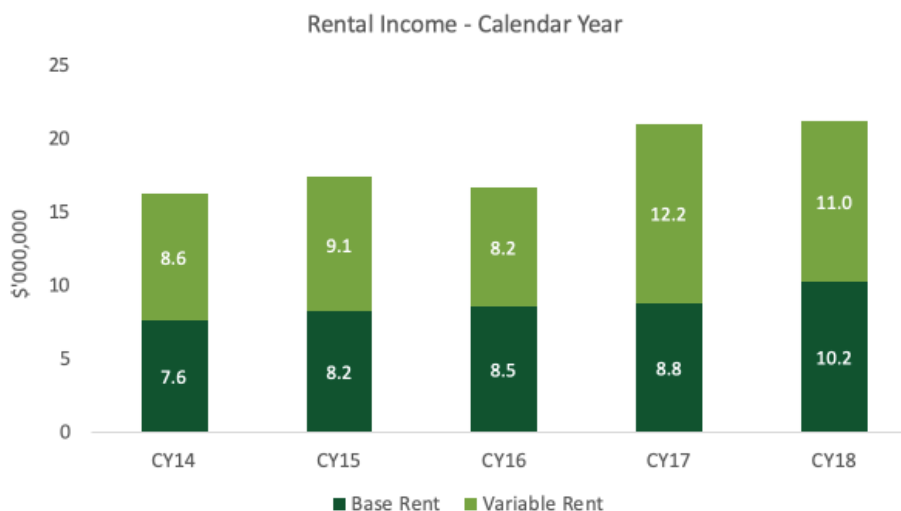
### Response to Costa Group Trading Update

Vitalharvest Freehold Trust (ASX:VTH) owns Australia's largest citrus and berry portfolio and leases these assets exclusively to Costa Group Holdings Ltd (ASX:CGC).

On 28 October 2019, CGC provided to the market a trading update and guidance. Included in that update are references to issues that may impact both the citrus and berry performance. This is relevant to VTH's revenue, as rent from VTH citrus and berry properties is generated from two key components:

1. Fixed Rent - calculated as 8% per annum of historical acquisition costs plus other capital expenditure during the term of the Leases, and paid by equal monthly instalments in advance; and
2. Variable Rent - a profit share, calculated as 25% of earnings before tax for each of CGC's citrus and berry divisions operated from the VTH properties. Variable rent is calculated on the basis of a calendar year and paid twice per year. Variable Rent amounts for each of the citrus and berry Leases are calculated independently and are not set off against one another. The landlord is not exposed to losses by the tenant's operations as under the terms of the Leases, the Variable Rent cannot be less than zero.

By way of explanation, in order to align with CGC's financial year period and to remove the impact on a 30 June financial year end of the citrus harvest season, the graph below depicts the historical total Base Rent and Variable Rent in each calendar year since 2014.



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Of relevance to VTH from the CGC 28 October 2019 trading update is:

- Citrus – “Hot dry conditions impaired fruit growth in late season navel orange and mandarins. This caused significantly lower fruit size and yield with lower pricing outcomes from small fruit grades. This has also increased demand for water due to lack of rain with spot prices at high levels”. However, on a positive note “Exports continue to achieve a positive result” and “The fruit fly issue should be resolved prior to the 2020 season, providing there are no further incursions”.
- Raspberries – “The financial impact of raspberry crumble continues to build with the season peak still to come. Intensive mitigation work is being carried out, but this is taking longer than expected. Looking forward, the impact for 2020 is expected to moderate”.
- Blueberries – “Industry peak blueberry volumes were anticipated prior to the Costa peak volumes however they remain high resulting in continued price pressure. Even though our premium Arana offering is providing some offset, the full year impact will be material”.
- Berry category – “Forward strategic berry initiatives, including blueberry shoulder season expansion<sup>1</sup> and raspberry and blackberry long cane programs, should provide positive uplifts in 2020”.
- Impact of Drought - “Should the severity of current drought conditions persist or intensify [CGC] will be required to deal with reduced availability of water in some regions, increased water consumption by crops, high water cost, as well as impacts on yield, fruit size and timing dependent on regional variation in heat and dry conditions, and individual crop responses”

As previously disclosed to the market<sup>2</sup>, VTH has served Dispute Notices on its Tenants in relation to the content, detail and format of information that the Tenants are required to provide under the terms of the Leases. Given this and that VTH is at the end of the first quarter of its financial year (ending 30 June 2020), the extent, impact and implication of the issues relating to citrus and berry performance raised in the CGC trading outlook, is at this time difficult for VTH to determine.

However in order to provide some context, VTH notes from historical data, that **for the 9 month period January to September 2019:**

- Variable Rent for citrus is down 33%, compared to the prior three-year average;
- Berries Variable Rent is yet to contribute to overall Variable Rent;
- total Variable Rent is down 52% on the prior three-year average for that same period; and
- Base Rent continues to increase as result continued investment in capital expenditure.

### **Summary and Outlook**

Vitalharvest Managing Director Liam Lenaghan, commented “The climatic, market and operating conditions are obviously very difficult for our tenant (CGC). VTH as the landlord and recipient of Variable Rent component we have in part, exposure to these conditions. Whilst we are only 3 months into the VTH financial year (as opposed to 9 months for CGC), in the interest of transparency, we are communicating these developments to the market as we ourselves receive them. It is disappointing

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<sup>1</sup> This expansion is on CGC’s Far North Queensland properties and not VTH berry farms.

<sup>2</sup> VTH Market Announcement FY19 Results dated 30 August 2019.

that the previously communicated favourable Citrus harvest outlook hasn't materialised and the berry category has deteriorated.

Notwithstanding these 2020 impacts, VTH has significant future growth projected in the Citrus properties with approximately 20% of the trees yet to reach full maturity, VTH's South Australian high security entitlements are forecast to reach 100% allocation for the 2020 water year while with investment in new varieties and more productive growing methods at the Berry properties we expect will deliver strong production volumes."

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 Holdings Limited (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 Pty Ltd (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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