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Market statement

LIC full year results announcement

Farmer-owned co-operative, Livestock Improvement Corporation Limited (NZX: LIC), announces its financial results for the year ending 31 May 2017.

As forecast in the half year result in February, LIC has returned to a modest level of profitability in the 2016-2017 year.

Strong performance in its core services of artificial breeding and herd testing, and a reduction in operating costs across the business all contributed to a positive result and a return in value to all shareholders.

Chairman Murray King said the co-operative is back on track with farmers continuing to invest in LIC's services and solutions.

"Our increase in underlying net earnings reflects our strong commitment to farmers, and the increasing importance of on-farm products and services that improve efficiency, productivity and profitability.

"With continued volatility in milk prices and environmental constraints, farmers are more aware of the need to optimise production in a sustainable way.

"While we are very pleased to be back in the black, we are still actively working to minimise our operating costs so that we can weather future challenges that may arise.

"With better cost efficiencies and continued investment in R&D, technology and on-farm solutions I'm confident that we're heading in the right direction and towards a stronger co-operative," said Mr King.

During the financial year, LIC made substantial reductions in costs by reducing expenses and making the best use of existing resources. This includes focusing capital IT investments on key areas only, and extending the working life of assets.

"Our bull teams get better every year and their presence on the industry's Ranking of Active Sires (RAS) list remains very strong across all breeds. The genetic gain they deliver to our farmers is highly valuable and calculated (by DairyNZ subsidiary NZAEL) to be worth more than \$250,000 to an average sized herd over 10 years, and deliver about \$300 million annually to the national economy. For our farmers, genetic gain is cumulative and permanent.

“This contribution was celebrated in December when we tagged the 10,000th bull for the Sire Proving Scheme since it started in the 1950s. The vast majority of dairy cows grazing on New Zealand pastures today are from the LIC bloodlines reared through the scheme,” said Mr King.

LIC’s annual result includes the annual non-cash revaluation of the biological bull team, required under accounting standards to “fair value”. The valuation of the bull team is based on a model designed independently of LIC that looks at future revenue streams and costs associated with the current bulls owned, discounted back to current value.

The revaluation of the team was relatively significant this year, reflecting increased confidence for future year’s milk price and resulting sales, reduced costs and a more rigorous approach to forecasting developed alongside consultants.

During the year the co-op also launched and continued its investment in MINDA LIVE, the online version of its farm management system used by over 90% of New Zealand dairy farmers. A number of new features have been added since its launch in June 2016, as well as enhancements to improve speed.

“We’ve had good take-up of MINDA LIVE in its first year in market, and we are continually working on the programme to make it more powerful and intuitive.

“We are committed to that investment and continuing our work to make the system even better with feedback from our farmers,” said Mr King.

Sales in discretionary areas of on-farm spending, including GeneMark DNA parentage and LIC Automation systems were still well below 2015 levels but LIC’s international markets had a good year with strong genetics sales in the UK and Ireland.

Other business highlights for the year included the launch in February of the online tool Agrigate, a joint venture with Fonterra Farm Source. Agrigate will combine a range of key farm data in one place, including information from MINDA as well as weather conditions, animal health, milk production, financials, pasture cover and fertiliser applications.

On 1 December 2016 LIC separated into two businesses, a herd improvement company (LIC) and an agritechnology subsidiary (LIC Agritechnology Company Limited). LIC’s core products, MINDA, AB and herd testing remain with the co-operative. MINDA is owned by the co-operative but operated by the subsidiary.

“Forming an agri-tech company allows us to pursue opportunities for growth, which flow to LIC’s 10,500 livestock farmer shareholders in the form of continually improved products and services.

“The LIC board is also making progress with consideration of options for addressing the disparity between the two classes of LIC shares to find a fairer way of dealing with all shareholders’ interests,” said Mr King.

The LIC board plan to seek shareholder approval on a preferred option in early 2018.

Key points:

- Net Profit After Tax (NPAT) was \$20.8 million, compared to the previous year loss of \$4 million. This includes the annual revaluation post tax of the biological bull team of \$17.7 million profit, compared to a write down of \$3.7 million the prior year.
- Underlying Net earnings (NPAT), excluding the increase on fair value of the biological assets and related tax effect) were \$3.0 million, up \$3.3 million on the previous year loss of \$0.3 million.
- Revenue from ordinary activities including other income from grants was \$203.5 million, down \$7.2 million (-3.4%) on the previous year.
- Sales from core products including artificial breeding (AB) and herd testing were up on the previous year, with 5 million AB straws sold and 9.2 million milk samples processed for analysis.
- A full year dividend of \$2.43 million will be paid on 18 August to co-operative and investment shareholders, representing 80% of underlying earnings.
- LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of \$341 million, an increase of \$18 million over the previous year with an equity ratio of 68%. Bank loans were \$32 million at year end, down from \$41 million the previous year.
- Cash flows from operations despite lower sales reflected both stronger on-farm cash position and lower costs of the business to be \$25.4 million for 2016/2017, compared to \$14.4 million in 2015/2016.
- Research and Development continued to be strong with a spend of \$13.9 million being 6.85% of revenue this year (\$16.9 million and 8% prior year).
- In conjunction with improved industry conditions, a more positive milk price and LIC's ongoing transformation programme, further improvements are expected in the 2017-18 financial year.

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About LIC

LIC is a farmer-owned co-operative that provides a range of services and solutions to improve the productivity and prosperity of farmers. This includes dairy genetics, information technology, herd testing, DNA parentage verification and farm advisory services through FarmWise.

Subsidiary business LIC Automation also provides integrated automation systems and unique milk testing sensors that present real-time data while a cow is being milked. With origins dating back to 1909, LIC has a long history of world-leading innovations for the dairy industry.

Today the New Zealand-based co-operative employs more than 600 permanent staff, swelling to 2000 during the peak dairy mating season. LIC also has offices in the United Kingdom, Ireland and Australia.

All LIC profit is returned to its farmer owners/shareholders in new solutions, research and development or dividends.

More information: www.lic.co.nz