



Livestock Improvement Corporation Limited (LIC)
Interim Financial Statements
For the six months ended 30 November 2018



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Introduction

These financial statements set out the performance, position and cash flows of Livestock Improvement Corporation Limited ("LIC" or the "Company") and its subsidiaries (the "Group") for the six months ended 30 November 2018.

LIC is domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and listed on the Alternative Board of the New Zealand Stock Exchange Limited ("NZAX"). LIC is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

These financial statements comply with NZ GAAP as appropriate for Tier 1, for-profit entities, which comply with NZ IAS 34. The Interim Financial Statements should be read in conjunction with the annual report for the year ended 31 May 2018. The accounting policies applied are consistent with those used in the comparative period (the six months to 30 November 2017) and in the audited annual report for the year ended 31 May 2018. NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue were adopted in the current period, however the impact of these standards is immaterial.

The functional currency of the Company and the presentation currency of the financial statements is NZD.

The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and trade payables, which are reported inclusive of GST.

The key estimations and judgements made in preparing these financial statements are the valuation of the Bull team and the impairment testing of software and other intangible assets. There has been no significant changes to these estimations and judgements for the six month period to 30 November 2018.

Accounting standards relevant to the Group that have been issued but are not yet effective, and have not been early adopted, include:

- NZ IFRS 16 Leases: effective January 2019, impact assessed to be immaterial.

Key results and position

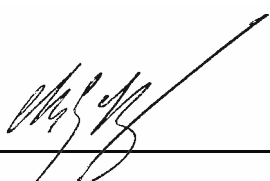
STATEMENT OF RESULTS FOR THE PERIOD

	Note	2018 Unaudited	2017 Unaudited	Year to 31 May 2018 Audited
Revenue	1	161,089	152,815	236,420
Purchased materials		(18,104)	(16,064)	(35,140)
People costs		(58,180)	(56,471)	(98,943)
Depreciation and amortisation		(13,169)	(14,302)	(28,295)
Research and development		(5,058)	(5,608)	(13,246)
One-off transformation costs		-	(20,665)	(20,665)
Other expenses		(20,449)	(17,219)	(33,816)
Net finance costs		(403)	(884)	(1,297)
Bull team revaluation		-	-	8,634
Profit/(loss) before tax expense		45,726	21,602	13,652
Tax expense		(12,960)	(6,535)	(4,387)
Profit/(loss) for the period		32,766	15,067	9,265
Hedge revaluations		-	-	216
Investment revaluations		(62)	2,362	3,138
Land & buildings revaluations		-	-	3,450
		(62)	2,362	6,804
Comprehensive income for the period		32,704	17,429	16,069
<i>Profit per Ordinary Share (excl. treasury stock)</i>		<i>\$ 0.23</i>	<i>\$ 0.11</i>	<i>\$ 0.07</i>
Supplementary note to the results for the period:				
<i>Profit/(loss) for the period</i>		<i>32,766</i>	<i>15,067</i>	<i>9,265</i>
<i>Less Bull team revaluation</i>		<i>-</i>	<i>-</i>	<i>(8,634)</i>
<i>Tax effect</i>		<i>-</i>	<i>-</i>	<i>2,418</i>
Underlying earnings under LIC Constitution		32,766	15,067	3,049
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		<i>\$ 0.23</i>	<i>\$ 0.11</i>	<i>\$ 0.02</i>

STATEMENT OF POSITION AT PERIOD END

		2018 Unaudited	2017 Unaudited	Year to 31 May 2018 Audited
Cash		7,723	7,561	2,521
Debtors		83,823	79,490	45,090
Bull team		120,808	112,174	120,808
Land, buildings and equipment	4	76,243	69,342	72,030
Software, goodwill and other intangible assets		74,154	74,750	74,011
Nil paid shares receivable		15,479	-	-
Other assets		30,814	27,351	27,265
Total assets		409,044	370,668	341,725
Creditors		26,220	21,806	24,253
Borrowings		25,628	39,166	19,636
Co-operative Control Shares		-	6,309	6,262
Deferred tax		39,710	39,716	40,945
Other liabilities		21,902	14,729	8,528
Total liabilities		113,460	121,726	99,624
Share capital	2	76,441	58,464	53,126
Retained earnings	2	180,207	155,884	150,141
Other reserves	2	38,936	34,594	38,834
Total equity		295,584	248,942	242,101

Director
Date: 8 February 2019



Director
Date: 8 February 2019



Key results and position

STATEMENT OF CASH FLOWS FOR THE PERIOD

	Note	2018 Unaudited	2017 Unaudited	Year to 31 May 2018 Audited
Customer receipts		121,932	108,530	227,082
Supplier payments		(100,619)	(102,891)	(188,855)
Tax payments		(1,719)	(614)	(2,231)
Other operating cash flows		(243)	383	1,834
Net operating cash flows	6	19,351	5,408	37,830
Software development		(9,746)	(11,888)	(21,214)
Net sales/(purchases) of land, buildings and equipment		(7,724)	12,025	8,958
Other investment cash flows		(1,689)	(6,225)	(6,162)
Net investment cash flows		(19,159)	(6,088)	(18,418)
Drawdown/(repayment) of bank debt		6,000	7,000	(12,500)
Issue of Co-operative Control Shares		1,130	914	914
Repurchase of Co-operative Control Shares		-	(842)	(889)
Interest paid on Co-operative Control Shares		-	(543)	(543)
Investment Share repurchases		-	-	(5,338)
Nil Paid Share payments		443	-	-
Dividends paid		(2,536)	(1,900)	(2,043)
Net financing cash flows		5,037	4,629	(20,399)
Movement in cash for period		5,229	3,949	(987)
Cash at beginning of the year		2,521	3,458	3,458
Currency movement on cash holdings		(27)	154	50
Cash at end of the period		7,723	7,561	2,521

STATEMENT OF CHANGES IN POSITION FOR THE PERIOD

	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2017	58,464	141,285	33,664	233,413
Profit/(loss) for the period	-	14,854	213	15,067
Dividends paid	-	(1,900)	-	(1,900)
Hedge revaluations	-	-	-	-
Investment revaluations	-	-	2,362	2,362
Transfer of asset revaluations on sale	-	1,645	(1,645)	-
Balance at 30 November 2017 (Unaudited)	58,464	155,884	34,594	248,942
Balance at 1 June 2017	58,464	141,285	33,664	233,413
Profit/(loss) for the year	-	9,111	154	9,265
Dividends paid	-	(1,900)	(143)	(2,043)
Hedge revaluations	-	-	216	216
Investment revaluations	-	-	3,138	3,138
Land & buildings revaluations	-	-	3,450	3,450
Transfer of asset revaluations on sale	-	1,645	(1,645)	-
Investment Share repurchases	(5,338)	-	-	(5,338)
Balance at 31 May 2018 (Audited)	53,126	150,141	38,834	242,101
Balance at 1 June 2018	53,126	150,141	38,834	242,101
Profit/(loss) for the period	-	32,510	256	32,766
Dividends paid	-	(2,444)	(92)	(2,536)
Hedge revaluations	-	-	-	-
Investment revaluations	-	-	(62)	(62)
Co-operative Control Shares converted to Ordinary Shares	7,392	-	-	7,392
Nil Paid Shares issued	15,923	-	-	15,923
Balance at 30 November 2018 (Unaudited)	76,441	180,207	38,936	295,584

More details

1. Business analysis

The Group operates in four key operating segments as set out below. Figures in the following tables reflect information regularly reported to the Chief Executive on those key operating segments:

- NZ market genetics: provides bovine genetic breeding material and related services, predominately to dairy farmers
- Herd testing: herd testing and animal recording for pastoral farmers
- Farm software: data recording and farm management information services
- Farm automation: provides dairy automated equipment and technology

2018 (Unaudited)	NZ market		Farm		Other	Eliminations	Total
	genetics	Herd testing	software	automation			
External revenue	89,045	13,283	23,190	13,396	22,175	-	161,089
Inter-segment revenue	-	-	-	1,821	693	(2,514)	-
Total revenue	89,045	13,283	23,190	15,217	22,868	(2,514)	161,089
Depreciation & amortisation	(347)	(1,365)	(3,747)	(1,835)	(5,875)	-	(13,169)
Segment profit before tax	61,262	6,238	14,341	5,270	16,298	-	103,409
Bull team revaluation							-
One-off transformation costs							-
Unallocated amounts							(57,683)
Profit/(loss) before tax							45,726

2017 (Unaudited)	NZ market		Farm		Other	Eliminations	Total
	genetics	Herd testing	software	automation			
External revenue	85,457	12,629	21,502	12,869	20,358	-	152,815
Inter-segment revenue	-	-	-	1,368	-	(1,368)	-
Total revenue	85,457	12,629	21,502	14,237	20,358	(1,368)	152,815
Depreciation & amortisation	(557)	(1,377)	(3,459)	(1,327)	(7,582)	-	(14,302)
Segment profit before tax	60,065	6,208	13,055	5,998	11,884	-	97,210
Bull team revaluation							-
One-off transformation costs							(20,665)
Unallocated amounts							(54,943)
Profit/(loss) before tax							21,602

Year to 31 May 2018 (Audited)	NZ market		Farm		Other	Eliminations	Total
	genetics	Herd testing	software	automation			
External revenue	92,943	31,369	43,924	20,177	48,007	-	236,420
Inter-segment revenue	-	-	-	2,217	1,520	(3,737)	-
Total revenue	92,943	31,369	43,924	22,394	49,527	(3,737)	236,420
Depreciation & amortisation	(1,033)	(2,828)	(7,060)	(2,893)	(14,481)	-	(28,295)
Segment profit before tax	62,360	12,005	26,822	8,937	28,922	-	139,046
Bull team revaluation							8,634
One-off transformation costs							(20,665)
Unallocated amounts							(113,363)
Profit/(loss) before tax							13,652

The Other segment includes international operations, diagnostics, animal health, research & development and support services. Unallocated amounts include personnel costs, administrative and other fixed costs and net finance costs.

LIC's business, particularly the Parent's artificial breeding business, is highly seasonal. November results, since they incorporate the majority of the artificial breeding revenues but not a similar proportion of total costs, are not indicative of the second half result nor, therefore, the full year result.

More details

2. Equity

During July 2018, LIC's share capital was reorganised and its constitution amended to reflect the share simplification approvals obtained at LIC's Special Meeting of Shareholders held on 14 March 2018. As part of the reorganisation LIC's two classes of shares were bought together into a single class of Ordinary Shares. Ordinary Shares have both voting rights and the right to receive dividends based on the profits of the Company.

<i>Other reserves and equity</i>	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Non- controlling interests	Other reserves
Balance at 1 June 2017	(265)	1,628	32,074	227	33,664
Profit/(loss) for the period	-	-	-	213	213
Revaluations	-	2,362	-	-	2,362
Non-controlling interest movement	-	-	(1,645)	-	(1,645)
Balance at 30 November 2017 (Unaudited)	(265)	3,990	30,429	440	34,594
Balance at 1 June 2017	(265)	1,628	32,074	227	33,664
Profit/(loss) for the year	-	-	-	154	154
Dividends paid	-	-	-	(143)	(143)
Revaluations	216	3,138	3,450	-	6,804
Transfer of asset revaluations on sale	-	-	(1,645)	-	(1,645)
Non-controlling interest movement	-	-	-	-	-
Balance at 31 May 2018 (Audited)	(49)	4,766	33,879	238	38,834
Balance at 1 June 2018	(49)	4,766	33,879	238	38,834
Profit/(loss) for the period	-	-	-	256	256
Dividends paid	-	-	-	(92)	(92)
Revaluations	-	(62)	-	-	(62)
Transfer of asset revaluations on sale	-	-	-	-	-
Non-controlling interest movement	-	-	-	-	-
Balance at 30 November 2018 (Unaudited)	(49)	4,704	33,879	402	38,936

3. Contingencies

Following the approval by shareholders of the share simplification described above, a small number of shareholders elected to exercise their minority buy-out rights arising from the proposal under the Companies Act 1993 ("Act"). On 19 April 2018 LIC bought back 1,334,396 Investment Shares as a result of the shareholders exercising their rights. LIC holds these shares as treasury stock. Those shareholders that exercised their minority buy-out rights have objected to the price proposed by LIC, being \$4.00 per share, and the final purchase price to be paid by LIC for the affected shares will therefore be determined in an arbitration. The \$4.00 price was the relative value attributed to each investment share under the share simplification proposal accepted by shareholders. Each investment share was reclassified into four fully paid ordinary shares with a relative value of \$1.00 per share. No provision has been made for any additional payments in these financial statements as LIC believes the price paid was fair and reasonable and is supported by independent valuations.

More details

4. Acquisitions and disposals

	2018	2017	Year to 31 May
	Unaudited	Unaudited	2018
			Audited
<i>(i) Land, buildings and equipment</i>			
Acquisitions	7,718	4,583	7,671
Disposals	51	4,582	9,658
<i>(ii) Software and other intangible assets</i>			
Acquisitions	8,790	10,809	21,146
Disposals	-	-	129

5. Transactions with related parties, directors and management

The Group has had the following short term transactions with key management and directors during the period, noting sale of goods and services were under normal trade terms:

	2018	2017	Year to 31 May
	Unaudited	Unaudited	2018
			Audited
Remuneration of key management and directors	2,276	2,056	4,249
Sale of goods and services to key management and directors	440	567	669

6. Reconciliation of the Profit/(loss) for the period to Net operating cashflows

	2018	2017	Year to 31 May
	Unaudited	Unaudited	2018
			Audited
Profit for the period	32,766	15,067	9,265
Adjusted for non-cash items:			
Depreciation and amortisation	13,169	14,302	28,295
Bull team revaluation	-	-	(8,634)
Working capital movements and other non-cash items	(26,584)	(23,961)	8,904
Net operating cash flows	19,351	5,408	37,830

7. Audit

In accordance with the Financial Reporting Act 2013 these interim financial statements are not required to be audited and therefore, in line with previous years, have not been audited.

8. Dividend

In relation to the 2018 financial year LIC declared a dividend of 1.71c per Ordinary Share, or \$2.4 million (2017: 6.44 cents per Investment Share, or \$1.9 million).