

Results for announcement to the market

24 July 2019

LIC result reflects performance, profitability turnaround

Performance Highlights

- NPAT: \$22.2 million, up 139% from \$9.3 million last year**
- Underlying earnings¹: \$19.5 million, up 541% from \$3.0 million last year**
- Total revenue: \$246.5 million, up 4% from \$236.4 million last year.
- Dividend: \$15.6 million /10.98c fully imputed per share (80% of underlying earnings), up from \$2.4 million/1.71c last year.

***refer notes on page 3*

Livestock Improvement Corporation (NZX: LIC) (**LIC**) announces its financial results for the year ending 31 May 2019.

Reporting a significant increase in profitability, as well as new records in strength of balance sheet, operating cash flow, and total revenue, the co-op will return \$15.6 million in dividend to shareholders. This fully imputed dividend equates to 10.98 cents per share and represents a yield of 12.2% based on the current share price of 90 cents. This dividend is up from 1.71 cents last year and is the largest dividend the co-op has paid since 2013.

Board chair Murray King said the result was in line with expectations and reflects a turnaround in the co-operative's performance and profitability.

"This result is further evidence LIC is in great financial shape. It means we are not only able to deliver a solid dividend to shareholders, but the business can also continue its significant investment in R&D and our digital transformation, and consider new options and opportunities to deliver innovation-led growth."

King described the turnaround as a success story after reporting a loss in 2016.

"Our focus has been on delivering what we said we would do to improve the company's performance. This is important at a time when dairy farmers need certainty and trusted partners to help them navigate the rapidly changing domestic and global industry.

"LIC is the DNA of New Zealand's dairy industry, providing farmers with superior genetics and agri-tech solutions to continually improve the productivity and profitability of their farms. We have to make sure that in the data-driven future of global dairy, LIC and our farmers are in a position to be the disruptors, not the disrupted. That takes financial strength, high-performance and a clear focus on the innovations needed to keep our farmers ahead of the game.

"The major strategic projects we have completed since 2016 to shape LIC into a modern, progressive co-op have enabled this year's strong results. Importantly, we believe these results are sustainable and we are confident that we will continue to build on them in the coming years."

Innovation-led growth

While 2017-18 was a year of transformation for the co-op, including capital restructure, and a strategy refresh, 2018-19 was about embedding its new innovation-led growth strategy with an ongoing focus on the core NZ dairy industry.

LIC's investment in R&D remained high in 2018-19 at \$13.6M, which equates to 5.5% of revenue and is well above the primary sector average of around 1%. The co-op also received additional funding from MBIE and MPI to boost two key R&D projects aimed at driving improvements in the health and wellbeing of the national herd and more sustainable milk production.

Protecting the national herd from Mycoplasma bovis (M. bovis)

More than \$800,000 was invested in new measures to protect its customers from the M. bovis cattle disease, including a world-leading daily testing regime for its bulls and significant changes to its herd testing operations. The co-op absorbed these costs to avoid additional price increases in 2018-19. LIC also purchased 64ha of farm land in the Waikato to increase its biosecurity quarantine facilities.

Other business highlights

Sales from core products including artificial breeding (AB) and herd testing were strong, with 5.68 million AB straws sold and 10.96 million milk samples processed. Demand for animal health testing was also high, particularly Johne's disease testing, and international business sales of genetics and automation technology continued to grow, particularly in the United Kingdom and Ireland.

Genetics sales in New Zealand saw farmers seeking to add further value to their herd by extending their AB period and with increased uptake of A2A2 genetics and genomic bull teams which provides access to elite new genetics earlier. LIC's 'A2 bull team', introduced in 2018 to meet the growing demand of A2 milk, accounted for 10% of AB sales in its debut season, as more farmers look to breed towards an A2A2 herd.

During the year LIC continued to improve its SPACE service and make it available to more farmers around the country. The satellite pasture management service, which offers farmers a free trial period, now has more than 1000 customers registered for the annual subscription.

Previous strategic investments - in farm financial management software provider, Figured (2014), Australian heat detection aid manufacturer, Beacon (2015), and UK-based NMR (2017) - also made good gains in 2018-19 and this is reflected in the result.

Outlook

LIC's expects underlying earnings to increase to \$21-25 million in 2019-20, assuming no significant climate event or milk price drop takes place between now and then nor any major impacts from biosecurity threats such as M. bovis.

Ends

For more information, visit www.ayearinreview.lic.co.nz

Please refer to notes about financial information over page.

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Notes to Financial Information

LIC's annual results for 2018-19 include the annual non-cash revaluations of its major biological asset, the bull team, and the outstanding Nil Paid Ordinary Shares receivable, which are both required to reflect "fair value" under accounting standards. Figures have been audited.

Nil Paid Ordinary Shares

These were issued to shareholders as a result of the share simplification in 2018, which brought together LIC's two previous classes of shares into one Ordinary Share. For each co-operative share held, one Fully Paid Ordinary Share and three Nil Paid Ordinary Shares were issued.

Nil Paid Ordinary Shares carry the same rights to dividends and voting as Ordinary Shares but cannot be traded on the NZX until they are fully paid up. Over time, shareholders are obliged to pay-up each Nil Paid Ordinary Share and once fully paid (up to \$1) they become subject to market pricing.

The Nil Paid Ordinary Shares are repaid by way of retention of dividends paid on any of those shares, and any repayments of the shares required to satisfy LIC's Share Standard. LIC records an estimate of the fair value of the outstanding Nil Paid Ordinary Shares receivable at balance date.

Bull team

The bull team valuation 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.

Underlying Earnings*

This is considered useful to investors as it is the basis on which LIC makes its determination of dividends. These numbers are non-GAAP financial information, which does not have a standardised meaning prescribed by GAAP (Generally Accepted Accounting Principles) and therefore may not be comparable to similar financial information presented by other entities.

Reconciliation of NPAT to Underlying Earnings	2019	2018
Profit/(loss) after tax for the year	22,170	9,265
Less Bull team revaluation	(1,920)	(8,634)
Less Fair value change in Nil Paid Share receivable	(1,258)	-
Tax effect	538	2,418
Underlying earnings	19,530	3,049

One-off transformation costs**

These were incurred in 2018 (\$20.7 million pre-tax), affecting NPAT and Underlying Earnings. The costs were not incurred in 2019.

About LIC

LIC is an agri-tech and herd improvement co-operative which empowers livestock farmers through the delivery of superior genetics and technology, to improve their productivity and prosperity. With origins dating back to 1909, LIC has a long history of providing world-leading innovations for the dairy industry. This commitment to R&D and new product development continues today with LIC's strategy to deliver innovation-led growth, with an ongoing focus on the core NZ dairy industry.

Headquartered in Hamilton, New Zealand, LIC employs more than 700 permanent staff, swelling to 2000 during the NZ peak dairy mating and herd testing season through spring. LIC also has offices in the United Kingdom, Ireland and Australia.

As a farmer-owned co-operative, all LIC profit is returned to its farmer owners/shareholders in dividends, or reinvested for new solutions, research and development.

More info: www.lic.co.nz; [NZX](#).