



Livestock Improvement Corporation Limited (LIC) Interim Financial Statements

For the six months ended
30 November 2019



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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 2019.

LIC is domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and as of 1 July 2019 is listed on the Main Board of the New Zealand Stock Exchange Limited ("NZX"). 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 2019. The accounting policies applied are consistent with those used in the comparative period (the six months to 30 November 2018) and in the audited annual report for the year ended 31 May 2019 - with the exception of NZ IFRS 16: Leases, which was adopted at the beginning of the current period: 1 June 2019. The adoption of NZ IFRS 16 increased assets and liabilities by \$13.8m and \$14.5m respectively at 1 June 2019 with the difference recognised directly in retained earnings.

The functional currency of the Company and the presentation currency of the financial statements is New Zealand Dollars ("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; the impairment testing of software and other intangible assets; and the valuation of an Ordinary Share in relation to the July 2018 share structure simplification. There has been no significant changes to these estimations and judgements for the six month period to 30 November 2019.

Key results and position

STATEMENT OF RESULTS FOR THE PERIOD

		2019	2018	Year to 31 May 2019
	Note	Unaudited	Unaudited	Audited
Revenue	1	163,420	161,089	246,541
Purchased materials		(20,053)	(18,104)	(36,447)
People costs		(57,842)	(58,180)	(100,749)
Depreciation and amortisation		(15,287)	(13,169)	(26,804)
Research and development		(5,245)	(5,058)	(13,624)
Other expenses		(21,844)	(20,449)	(41,653)
Net finance costs		(557)	(403)	(336)
Bull team revaluation		-	-	1,920
Fair value change in Nil Paid Share receivable		-	-	1,258
Profit/(loss) before tax expense		42,592	45,726	30,106
Tax expense		(12,308)	(12,960)	(7,936)
Profit/(loss) for the period		30,284	32,766	22,170
Hedge revaluations		(59)	-	146
Investment revaluations		(3,078)	(62)	3,707
Land & buildings revaluations		-	-	542
		(3,137)	(62)	4,395
Comprehensive income for the period		27,147	32,704	26,565
<i>Profit per Ordinary Share (excl. treasury stock)</i>		<i>\$ 0.21</i>	<i>\$ 0.23</i>	<i>\$ 0.16</i>
Supplementary non-GAAP note to the results for the period:				
<i>Profit/(loss) for the period</i>		<i>30,284</i>	<i>32,766</i>	<i>22,170</i>
<i>Less Bull team revaluation</i>		<i>-</i>	<i>-</i>	<i>(1,920)</i>
<i>Less Fair value change in Nil Paid Share receivable</i>		<i>-</i>	<i>-</i>	<i>(1,258)</i>
<i>Tax effect on Bull team revaluation</i>		<i>-</i>	<i>-</i>	<i>538</i>
Underlying earnings		30,284	32,766	19,530
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		<i>\$ 0.21</i>	<i>\$ 0.23</i>	<i>\$ 0.14</i>

STATEMENT OF POSITION AT PERIOD END

		2019	2018	Year to 31 May 2019
		Unaudited	Unaudited	Audited
Cash		8,517	7,723	4,529
Debtors		80,199	83,823	45,254
Bull team		122,728	120,808	122,728
Land, buildings and equipment	4	94,824	76,243	81,034
Software, goodwill and other intangible assets		72,099	74,154	73,781
Nil Paid Shares Receivable		15,779	15,479	18,690
Other assets		30,562	30,814	34,719
Total assets		424,708	409,044	380,735
Creditors		39,559	26,220	28,590
Borrowings		22,121	25,628	4,661
Deferred tax		39,457	39,710	40,838
Other liabilities		21,383	21,902	15,209
Total liabilities		122,520	113,460	89,298
Share capital	2	78,432	76,441	78,432
Retained earnings	2	183,468	180,207	169,765
Other reserves	2	40,288	38,936	43,240
Total equity		302,188	295,584	291,437

Director

Date: 29 January 2020

Director

Date: 29 January 2020

Key results and position

STATEMENT OF CASH FLOWS FOR THE PERIOD

		2019	2018	Year to 31 May 2019
	Note	Unaudited	Unaudited	Audited
Customer receipts		125,760	121,932	247,470
Supplier payments		(103,095)	(100,619)	(190,454)
Tax payments		(7,882)	(1,719)	(2,565)
Other operating cash flows		(403)	(243)	294
Net operating cash flows	6	14,380	19,351	54,745
Software development		(8,278)	(9,746)	(18,994)
Net sales/(purchases) of land, buildings and equipment		(5,498)	(7,724)	(16,177)
Other investment cash flows		(1,350)	(1,689)	(1,639)
Net investment cash flows		(15,126)	(19,159)	(36,810)
Drawdown/(repayment) of bank debt		17,500	6,000	(15,000)
Issue of Co-operative Control Shares		-	1,130	1,130
Nil Paid Share payments		329	20	60
Dividends paid		(13,112)	(2,113)	(2,113)
Net financing cash flows		4,717	5,037	(15,923)
Movement in cash for period		3,971	5,229	2,012
Cash at beginning of the year		4,529	2,521	2,521
Currency movement on cash holdings		17	(27)	(4)
Cash at end of the period		8,517	7,723	4,529

STATEMENT OF CHANGES IN POSITION FOR THE PERIOD

	Share capital	Retained earnings	Other reserves	Total equity
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
Balance at 1 June 2018	53,126	150,141	38,834	242,101
Profit/(loss) for the year	-	22,067	103	22,170
Dividends paid	-	(2,443)	(92)	(2,535)
Hedge revaluations	-	-	146	146
Investment revaluations	-	-	3,707	3,707
Land & buildings revaluations	-	-	542	542
Transfer of asset revaluations on sale	7,392	-	-	7,392
Investment Share repurchases	17,914	-	-	17,914
Balance at 31 May 2019 (Audited)	78,432	169,765	43,240	291,437
Balance at 1 June 2019	78,432	169,765	43,240	291,437
Adjustments on adoption of NZ IFRS 16	-	(702)	-	(702)
Profit/(loss) for the period	-	30,028	256	30,284
Dividends paid	-	(15,623)	(71)	(15,694)
Hedge revaluations	-	-	(59)	(59)
Investment revaluations	-	-	(3,078)	(3,078)
Balance at 30 November 2019 (Unaudited)	78,432	183,468	40,288	302,188

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

2019	NZ market		Farm	Farm			
(Unaudited)	genetics	Herd testing	software	automation	Other	Eliminations	Total
External revenue	88,222	13,772	25,621	10,052	25,753	-	163,420
Inter-segment revenue	-	-	-	1,575	841	(2,416)	-
Total revenue	88,222	13,772	25,621	11,627	26,594	(2,416)	163,420
Depreciation & amortisation	(542)	(2,189)	(3,783)	(2,104)	(6,669)	-	(15,287)
Segment profit before tax	61,398	6,564	15,667	3,509	16,139	-	103,277
Bull team revaluation							-
Unallocated amounts							(60,685)
Profit/(loss) before tax							42,592

2018	NZ market		Farm	Farm			
(Unaudited)	genetics	Herd testing	software	automation	Other	Eliminations	Total
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							-
Unallocated amounts							(57,683)
Profit/(loss) before tax							45,726

Year to 31 May 2019	NZ market		Farm	Farm			
(Audited)	genetics	Herd testing	software	automation	Other	Eliminations	Total
External revenue	97,876	32,815	45,127	19,675	51,048	-	246,541
Inter-segment revenue	-	-	-	2,354	820	(3,174)	-
Total revenue	97,876	32,815	45,127	22,029	51,868	(3,174)	246,541
Depreciation & amortisation	(731)	(3,138)	(7,625)	(3,816)	(11,494)	-	(26,804)
Segment profit before tax	66,744	11,406	28,025	6,591	35,262	-	148,028
Bull team revaluation							1,920
Unallocated amounts							(119,842)
Profit/(loss) before tax							30,106

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	Total
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)
Balance at 30 November 2018 (Unaudited)	(49)	4,704	33,879	402	38,936
Balance at 1 June 2018	(49)	4,766	33,879	238	38,834
Profit/(loss) for the year	-	-	-	103	103
Dividends paid	-	-	-	(92)	(92)
Revaluations	146	3,707	542	-	4,395
Balance at 31 May 2019 (Audited)	97	8,473	34,421	249	43,240
Balance at 1 June 2019	97	8,473	34,421	249	43,240
Profit/(loss) for the period	-	-	-	256	256
Dividends paid	-	-	-	(71)	(71)
Revaluations	(59)	(3,078)	-	-	(3,137)
Balance at 30 November 2019 (Unaudited)	38	5,395	34,421	434	40,288

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. The shares are held by LIC 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

	2019	2018	Year to 31 May 2019
	Unaudited	Unaudited	Audited
<i>(i) Land, buildings and equipment</i>			
Acquisitions *	5,238	7,718	16,292
Disposals	8	51	451
<i>(ii) Software and other intangible assets</i>			
Acquisitions	8,093	8,790	19,204
Disposals	-	-	82

* Excludes the impact of NZ IFRS 16: Leases which increased Land, buildings and equipment by \$15.8m in 2019.

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:

	2019	2018	Year to 31 May 2019
	Unaudited	Unaudited	Audited
Remuneration of key management and directors	2,437	2,276	4,319
Sale of goods and services to key management and directors	366	440	597

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

	2019	2018	Year to 31 May 2019
	Unaudited	Unaudited	Audited
Profit for the period	30,284	32,766	22,170
Adjusted for non-cash items:			
Depreciation and amortisation	15,287	13,169	26,804
Fair value change in Nil Paid Share receivable	-	-	(1,920)
Working capital movements and other non-cash items	(31,191)	(26,584)	8,113
Net operating cash flows	14,380	19,351	55,167

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 2019 financial year LIC declared a dividend of 10.98c per Ordinary Share, or \$15.6 million (2018: 1.71 cents per Investment Share, or \$2.4 million).