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## **Market Announcement**

**19 February 2020**

### **LIC seeks shareholder support to acquire 50% stake in leading global agri-tech company**

- **LIC to seek shareholder approval to acquire 50% stake for \$108.7 million in Israeli agri-tech company Afimilk.**
- **The investment will strengthen LIC's ability to deliver superior herd improvement services and agri-tech to its farmers.**
- **The proposed 50% stake in Afimilk will help LIC keep its world-leading edge in pastoral dairy farming data while broadening access to new information to meet future needs and challenges.**
- **Afimilk is profitable, has no debt and has historically paid dividends to its shareholders.**
- **Afimilk is a leader in its field, and has been of real interest to LIC for a number of years.**
- **\$108.7 million purchase price will be funded primarily through new debt under LIC's current facilities, with the investment intended to be self-funding via projected dividend streams (in the absence of significant adverse economic events and unforeseen expenditure requirements).**
- **50% stake will ensure an equal say in governance and strategy.**

Herd improvement and agri-tech co-op, Livestock Improvement Corporation Limited (NZX: LIC) (LIC), has signed a conditional deal to acquire a stake in leading global agri-tech company Afimilk which develops and commercialises dairy farm technology and farm automation systems.

Under the proposed deal, LIC will acquire a 50% stake in Afimilk for \$108.7 million.

The company, based in Israel, has a global presence across all its products and solutions, with particular success in regions of intensive dairy farming. Afimilk is widely regarded as one of the industry leading producers of milk meters, behaviour sensors, and farm management software, with particular strength in having strong distribution across Europe and North America.

LIC Chair Murray King says the investment will help give LIC access to the data it needs to deliver superior herd improvement services and agri-tech for New Zealand farmers into the future and will improve access to on-farm technology solutions.

"To do that, it's vital we keep our world-leading edge in pastoral dairy farming data, while broadening access to new information to meet future needs and challenges. The proposed investment in Afimilk will do both.

"It will help ensure LIC's on-going access to pastoral dairy farming data through the increased use of in-line milk meters and animal monitoring systems (such as collars).

"We believe there are likely to be further development opportunities for in-line milk meters, to increase LIC's resilience to the threat of disruption to access to pastoral dairy farming data posed as a result of the move away from traditional herd-testing services.

"The investment will also help to drive future growth by opening LIC's access to data on other farming methods beyond pastoral held by Afimilk.

"Access to Afimilk's resources and information on other farming methods will assist LIC to develop genetic programmes for the farming systems of the future."

The investment is proposed to be funded primarily through debt provided under LIC's existing banking facilities, with the balance paid out of its cash reserves. Subject to Afimilk's performance being in line with current expectations, LIC anticipates that the dividends received from Afimilk will be sufficient to meet all interest costs, while also likely funding a portion of principal repayment, and therefore the proposed investment is not expected to negatively affect future dividends to LIC shareholders.

King says LIC has built a strong platform for growth over the past four years with solid financial results. This includes ensuring the co-operative has the financial headroom to achieve innovation-led growth.

While the proposed investment will be subject to Afimilk's performance and the associated business and investment risks, Afimilk has been a profitable operation over the years.

Murray King says the LIC Board has endorsed the investment, which now requires shareholder approval in accordance with the NZX Listing Rules.

"This is a sound strategic proposition for our business which will further strengthen and grow our co-op. Afimilk is a leader in its field and has been on our radar for a number of years.

"We have undertaken a comprehensive and independently assessed due diligence process before deciding to proceed to a shareholder vote. We believe this is a good deal for our farmers but now is their chance to assess this proposal for themselves and vote.

"Afimilk is looking for a long-term strategic investor with a shared mission to improve the profitability and performance of dairy farmers through its innovation and technology – so LIC is the right fit. We also have shared values being two agricultural co-operatives."

King says that, importantly, the investment stacks up financially as well as strategically.

"Afimilk has been profitable over the years, has no debt, and has historically paid dividends to its shareholders.

"The 50% stake will give us shared governance and an equal say in the strategic direction of the business.

"Finally, the investment in Afimilk positions LIC and our farmers to benefit from Afimilk's expertise in advanced technology solutions such as cow wearables and on-farm management systems.

"If the investment proceeds, we will look to integrate these solutions with LIC offerings to make access to the technology easy for our shareholders and farmers.

"LIC and Afimilk have also commenced good faith discussions to determine whether Afimilk will acquire the parts of LIC's automation business that are complementary to Afimilk's business, in anticipation of greater scale for R&D and greater synergies. However, there is no certainty that terms for that transaction will be concluded.

"For more than 100 years, LIC has been delivering value to the New Zealand dairy industry through innovation and gains in genetics and animal performance, achieved by transforming data into insightful information.

"The proposed investment in Afimilk will help ensure that we retain our world-leading edge in pastoral farming data, and speed up the development of new technologies, products and services for LIC and our farmers."

The LIC Board considers that using Afimilk's advanced sensors and actionable analysis, is expected to deliver short, medium and long-term strategic value to New Zealand dairy farmers.

The deal is subject to approval by LIC's 10,000+ farmer shareholders. The shareholder vote will be held on Tuesday 7 April 2020. Shareholders will be sent a Notice of Meeting containing important information about Afimilk and the proposed transaction. Shareholders should carefully read and consider the information contained in it, including the strategic rationale and risks associated with the proposed investment.

## Ends

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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 700 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 dividends or re-invested for new solutions and research and development. [www.lic.co.nz](http://www.lic.co.nz)

## About Afimilk

Afimilk is an Israeli company, which develops, manufactures and markets advanced systems to manage dairy farms. It has a global reputation for its innovations and ability to commercialise new products for the dairy industry. Its key products include farm management software, cow wearables, in-line milk meters and automation technology. Afimilk's revenue for 2018 was US\$53.4 million (NZ\$83 million) from an asset base of US\$36.5 million (NZ\$56.7 million).

In the financial year ending 31 December 2019, Afimilk's revenue was US\$57.4 million (NZ\$89.1 million), with an EBITDA of US\$14.2 million (NZ\$22.1 million) from its core operations. These numbers reflect unaudited management accounts as, at the time of preparation, audited accounts for the 2019 financial year were unavailable.

Afimilk sells through a dealership model with access to 250 dealers in over 50 countries. Target customers are those with a large farming production and multi farm owners who operate a barn style farming model.

Afimilk's current shareholders are Kibbutz Afikim and Fortissimo.

Fortissimo is a private equity firm based in Israel, which invests primarily in technology and industrial companies. As a private equity firm, its strategy has been to develop Afimilk with the intention of providing a return to its investors at an appropriate time.

Kibbutz Afikim is one of the largest kibbutzim in Israel. "Kibbutzim" is a type of collective economic grouping, not dissimilar to a co-operative. Afikim recognises the importance of a partnership approach with LIC, requiring an equal shareholding, and so it has agreed to sell its stake in 19.23% of the Afimilk shares to LIC to achieve that.

LIC is proposing to acquire 50% of the shares in Afimilk from its current shareholders (30.77% from Fortissimo and 19.23% from Kibbutz Afikim).