

## Market Announcement

21 July 2021

### LIC Annual Results 2020-21

#### Farmers investing in high value genetics to help meet sector's climate goals

##### Performance highlights

- Net Profit After Tax (NPAT): \$22.9 million, up 31% from \$17.5 million last year
- Total revenue from continuing operations (excl automation\*): \$249.0 million, up 3.4% from \$240.9 million last year
- Underlying Earnings\*: \$22.3 million, down 1.9% from \$22.7 million last year after a one-off tax benefit in prior year
- Strong balance sheet with no debt at year end: Total assets \$382 million, 0.5% increase \$379.9 million last year
- Dividend: \$17.8 million - 12.51 c per share, representing 80% of Underlying Earnings

\*Refer notes to financial information on last page of statement

Livestock Improvement Corporation (NZX: LIC) announces its financial results for the year ending 31 May 2021, reporting increased revenue, profit and a strong balance sheet with no debt at year end.

The farmer-owned co-operative will return \$17.8 million in dividend to shareholders, which equates to 12.51 cents per share. The fully imputed dividend represents a 14.4% gross yield based on the current share price of \$1.21. The dividend will be distributed on 20 August.

"The LIC Board is proud to present another strong result to our farmer shareholders for the fourth consecutive year," said Murray King, LIC Board Chair.

"This result is in line with our market guidance and a credit to our shareholders for their support of significant initiatives in the last five years to transform LIC into a modern, progressive co-op. These initiatives have delivered the benefits we said they would, including focussed investment in the business and a better return for our farmers.

"We've seen good growth across core business areas this year but particularly in our premium genetics range where young, genomically-selected bulls are used to fast track genetic gain and deliver more value on-farm through increased productivity and efficiency, including improved environmental efficiency.

"That value combined with a solid dividend makes this result a win-win for our farmers. It also means we can continue our work to invest in products, services and technology that drive long term and sustainable customer value."

LIC's premium genetics range accounted for almost half of the co-op's total artificial breeding (AB) inseminations (41.3% or 1.79 of 4.3 million semen straws), more than double three years ago. This is predominantly from the Forward Pack and A2/A2 bull teams (1.6 million straws combined).

It also includes sexed semen, which experienced significant growth with triple the number of straws sold on the previous year (110,125 vs 33,804).

"This growth will have a significant impact on-farm this spring and deliver a huge amount of value to our farmers, with more high quality heifer replacements and fewer bobby calves. We're expecting this to be even greater next year with sexed semen orders likely to almost double again," King said.

Meanwhile, the number of traditionally daughter proven bulls used for AB continued to decline, now down 40% from three years ago (1.2M straws in 20-21 vs 2.02M in 17-18).

King said this shift reflects farmers' growing confidence in LIC's proprietary genomic work and a willingness to adopt new tools and solutions to help them meet sustainability goals.

"LIC exists to deliver superior genetics and technological innovation to help our shareholders sustainably farm a profitable animal. We have a fundamental role in helping New Zealand's dairy farmers reduce their environmental footprint and we are committed to providing solutions to help them meet climate targets.

"We've invested heavily into genomics for our farmers because the DNA of our dairy herd can do a lot of the heavy lifting to help meet our sectors' climate goals.

"World leading pastoral dairy genetics and genomics are a much more precise tool for farmers than the blunt instrument of reduced cow numbers. Farmers are adopting these tools now to get ahead of the curve."

The co-op is continuing its work with NZAEL (subsidiary of DairyNZ) to include genomics in future animal evaluations to support the national breeding objective.

In other core business activity, herd testing was up 7.3% and animal health testing up 23.9% primarily for Johnes disease and milk pregnancy testing. International exports were also up 23% by value after some initial challenges getting product to market due to COVID-19.

The co-op invested \$17.1 million in R&D, up 15.4% from the previous year (or up 11.5% including automation\*), reaffirming its position as one of the biggest investors for the primary sector. LIC also spent \$3.0 million to improve its MINDA LIVE herd management system, with 66 new features added based on farmer feedback.

King said the co-op also refined its business strategy earlier in the year to put value for farmer shareholders at its heart.

"We've listened to our shareholders. They want us to focus on doing what we're good at and play to our strengths in pastoral dairy genetics and herd improvement. Our strategy is focussed on ensuring our farmers optimise value from their livestock and this result means we are strongly positioned to deliver on that."

During the year, the co-op negotiated divestment of its automation\* business to MSD Animal Health, a division of Merck & Co., Inc., Kenilworth, N.J., USA (NYSE:MRK) for NZ\$38.1 million (NZX, 8.6.2021). The sale was completed on 11 June 2021 and net assets of \$23.8 million have been recorded as held for sale on the balance sheet. The Board is considering options for the use of these funds.

## Outlook

King says recruitment of a new chief executive is a priority for the Board over the coming months, following Wayne McNee's decision to step down at the end of November 2021 (NZX, 14.6.2021).

The co-op will also be firmly guided by its primary focus of delivering value for farmer shareholders and three commitments in its refined strategy, he said, with operational excellence, faster genetic improvement and software reliability and performance.

LIC expects Underlying Earnings\* in 2021-22 to be in the range of \$19-25 million, assuming no significant climate event or milk price change takes place between now and then, nor any major impacts from M. bovis or COVID-19.

## ENDS

Visit [ayearinreview.lic.co.nz](http://ayearinreview.lic.co.nz) for more information and commentary from Murray King (Board Chair) and Wayne McNee (Chief Executive).

## Contact

- For shareholder enquiries, phone 0800 264 632
- For media enquiries, contact [Ashleigh Sattler](mailto:Ashleigh.Sattler@lic.co.nz) (LIC Communications Manager) 0276171942.

## **\*Notes to Financial Information**

These annual results 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.

### **Divestment of LIC Automation – discontinued operations**

Accounting standards require profits from the Automation business results for both 2019-20 and 2020-21 to be separately disclosed as Discontinued Operations. This has resulted in restatement of all results for 2019-20 to exclude Automation (including revenue and R&D), therefore some 2019-20 figures used in this statement for comparison to 2020-21 will differ from the 2019-20 Annual Results disclosure.

### **Underlying Earnings**

This is the company's NPAT (excluding bull valuation, nil paid share valuation movements and any gain from the automation business divestment) and is considered useful to investors as it is the basis on which LIC has historically reported and on which LIC makes its determination of dividends. Non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. There was a one-off tax benefit in 2019-20 from the reinstatement of tax depreciation on commercial buildings as part of the Government's COVID-19 response package. LIC has not utilised the Government COVID-19 wage subsidy in either the current or prior period.

### **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. The recent downward trend of the bull team value is a result of the increasing number of genomic bulls on the team, which deliver more value on-farm but have a negative impact on the calculation model as they are used for a shorter period.

### **About LIC**

LIC is a farmer-owned co-operative and world leader in pasture based dairy genetics and herd management. LIC exists to deliver superior genetics and technological innovation to help its shareholders sustainably farm a profitable animal.

With origins dating back to 1909, LIC has a long history of developing and delivering world-leading innovations for the dairy industry. The co-op continues to be one of the sector's biggest private investors in research and development.

Today the New Zealand-based co-op employs more than 700 permanent staff, swelling to 2000 during the spring 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 reinvested for new solutions, research and development. [www.lic.co.nz](http://www.lic.co.nz)