



LIC 2020 Annual Meeting | Address

Chair – Murray King

Chief Executive – Wayne McNee

Shareholder Council Chair – Mark Meyer

Chair Address

Financial Overview & Business Highlights

LIC's result has been driven by our innovation-led growth strategy and our ongoing commitment to pushing the technological boundaries to deliver genetic gain and other products and services to our farmers.

It is underpinned by ongoing benefits from our strategic initiatives to transform LIC into a modern, progressive co-op.

Our financial performance for the year:

Total revenue was \$254 million, an increase of 3% (\$7.4 million) from last year.

Underlying earnings were \$22.7 million, also up at an increase of 16.2% from \$19.5 million last year.

R&D Investment was \$16 million, an increase of 17.5% equating to 6.3% of revenue. Wayne McNee will provide more detail on R&D activity later in the meeting.

Full year dividend

- The strong result enabled LIC to deliver a significant dividend to shareholders at a time when every dollar counts on-farm.
- Delivering a dividend of \$18.1 million, equating to 12.75 cents per share, this is 80% of underlying earnings and up from \$15.6 million/10.98 cents last year.

Net profit after tax (NPAT) was \$17.5 million this year, this is down 21.1% from \$22.2 million last year.

- This is mainly due to a \$7.2 million decrease in the bull team valuation. This is primarily because of the ongoing shift from daughter-proven bulls to genomic bulls. This change improves the rate of genetic gain within the dairy industry but has a negative impact on the value of the bull team as genomic bulls are used for a shorter time period than daughter-proven bulls.

Expected future underlying earnings for 2020/21 are \$16-22 million.

This was a strong result that reflects the ongoing strength of our balance sheet.

We are proud to deliver this result to shareholders.

This result was driven by a continued shift towards 'precision farming' with shareholders investing more in genetics and technology solutions that support them to produce more with less and drive further improvements in efficiency and sustainability.

We've seen an increased demand for our premium products, including genomic bulls, sexed semen, and genetics offerings in A2A2, short gestation and Wagyu.

Genomic Semen

- As technology evolves, and our genomic dataset grows, so too does our selection intensity and accuracy, and this ultimately allows farmers to access elite genetics earlier.
- Use of genomic semen increased 65%, from 23% to 38% of LIC semen sold in New Zealand.
- The use of genomics brings the generation interval down from the previous five-year interval to as little as two years, thereby turbo boosting genetic improvement, and ultimately production efficiency, of dairy cows on-farm.
- This year, 111037 Beamer will be the fourth bull to hit a massive milestone – 1 million straws!
- Due to the increasing use of genomics Beamer is likely to be one of the last bulls to reach this achievement in New Zealand.

Sexed Semen

- 163% increase in liquid sexed semen.
- Liquid sexed semen delivers a 90% chance of producing a heifer.
- To meet the increasing demand from farmers for fresh sexed semen around the country, LIC is investing in wider distribution of its fresh sexed semen product across New Zealand this spring.
- Long last liquid sexed semen is being made available to almost all dairy regions – the widest area since it was launched – covering all three major dairy breeds.

A2

- LIC has been providing farmers with A2 genotype testing for more than 17 years, our first A2 bull was made commercially available to farmers for AI in 2002.
- This year there was a 49% increase in A2/A2 inseminations, with more than 650,000 inseminations.
- A2 genetic reporting to identify A2/A2 cows was up 42%.

Impact of COVID-19

The increasing uptake of these products demonstrates the value on-farm of LIC's ongoing investment to enhance our core genetics.

This is good for our dairy industry's profitability, competitiveness and reputation in global markets. It shows our farmers are evolving with the times, and demonstrating careful stewardship of their land, their cows and the resources they need to produce milk.

I wanted to take some time to address the difficulties you have faced on farm this season.

The drought affected many New Zealand farmers for much of the season and the disruption of COVID-19 in Q4 made it a tough season on farm.

Our experience in biosecurity management through M. bovis ensured we were well prepared to implement measures to continue as an essential service under COVID-19 levels 3 and 4.

However, physical distancing requirements and measures to minimise on-farm visits meant LIC's Herd Assist and GeneMark services were suspended for several weeks.

I would like to thank you for your support throughout this time.

Afimilk

In February this year we announced that we were seeking shareholder approval to complete a strategic investment to acquire a 50% stake in leading global agri-tech company Afimilk.

The Board considered this is a compelling strategic proposition for our business which would have further strengthened our co-op.

When we announced this proposal, no one could have foreseen the rapid and unprecedented impacts of COVID-19 that resulted in material impacts on this acquisition.

As the Board has stated, we understand and respect our shareholders' decision, particularly given these impacts and the wider domestic and global economic uncertainty.

However, the strategic drivers behind this acquisition remain for LIC and we will continue to assess other opportunities in the future.

Outlook

LIC is match-fit to play its role in supporting our shareholders as they navigate their farming businesses through the challenges of the 20/21 season. LIC has seasonal debt and a strong balance sheet.

Based on the impacts of Covid-19 on forecast milk price, credit tightening for farmers and increased compliance costs for the next season for New Zealand dairy farmers and LIC, the Board updated its Underlying Earnings forecast for the next financial year. It is still expected to be in the range of \$16 million – \$22 million.

Chief Executive Address

Investment in R&D and Financial Detail

As Murray mentioned investment in R&D increased 17.5% in 2019-20 to \$16.0 million from \$13.6 million last year. This equates to 6.3% of revenue.

Last year, \$97.3 million was spent on R&D by the top 20 New Zealand agritech companies (TIN Agritech Insights 2020 Report).

LIC spends the highest percentage of revenue on R&D of any established primary sector company, with our R&D spend making up about 20 per cent of all agritech R&D spend in New Zealand. Increased investment in R&D will help to secure our leadership in the fast-growing agritech market.

Spending last year was:

- Dairy Sire Proving: Livestock Selection – Bull acquisition/Sire Proving
- Development projects: Enhancing/developing LICA products ILMM work on testing the meter and also developing framework for using the data in Animal Evaluation
- R&D support & delivery
- Hardware & Systems: Space and a range of other products
- Information to Improve decision making: Enhancing and developing Diagnostics products – e.g. Mastitis and Johne's Disease research
- International: Tropical Cow for Dairy Development – we have Slick animals on the ground on research farms that we are measuring for milk production and heat stress
- Genetics Information: LIC's investment in the MBIE & SFFF projects – enhancing genomic selection through the identification of new variations and researching to develop a more sustainable dairy animal.

Our investment in R&D allows us to give farmers a number of tools in the future to further improve genetic gain and address environmental challenges including:

- **World-leading methane research** that aims to ultimately breed more 'climate friendly' cows.
- **The Resilient Dairy programme** to breed cows with improved health, wellbeing and environmental resilience.

- **Next Generation Genomic Selection** building further on the \$78 million already invested.
- **SPACE** further development and a new improved version launched last month.

It's important New Zealand retains its leading dairy reputation at this critical time and investing in new innovations and technology is central to that.

LIC invested \$16 million on R&D last year, but we know we need to look externally too. That's why we recently launched a new agritech start-up investment fund, LIC's AgCelerator™ Fund, to identify and support individuals and entities seeking to develop innovations that will drive improvements in the health and wellbeing of the national herd, aid in more sustainable milk production and ultimately disrupt the dairy industry in a positive way.

Capital Approvals

As described on the slide.

Total Revenue

Record revenue of \$254 million, an increase of \$7.4 million from \$246.5 million last year.

Traditionally our revenue has increased due to an increase in cow numbers, however in recent years cow numbers have reduced, yet we are recording record revenue.

As Murray mentioned earlier, the uplift in demand for premium products and genetics drove revenue up this year.

International genetics revenue was down this year to \$12.1 million from \$12.8 million at full year 19.

- This was impacted by COVID-19-related supply chain issues, including major disruptions to air freight of semen to key markets.

Our international genetics business is the leading supplier of semen globally for grazing systems.

Contribution to Value on Farm

- Reproduction (\$35M)
 - Mastitis and somatic cell (\$3M)
 - Culling of poor producing cows (\$46M)
 - Provision of short gestation length genetics (\$11M)
 - Disease testing - Johne's and Bovine Viral Diarrhoea (BVD) (\$42M)
 - Pasture cover estimation (\$15M)
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- 70 years of artificial breeding for New Zealand's national dairy herd has been game-changing for the value we deliver on farm.
 - Average annual milk solid production per cow 1950 vs 2019
 - LIC first started artificial breeding in 1950 when the average annual milk solid production per cow was 188kg.
 - Nearly 70 years later in 2019 the average annual milk production per cow is 381kg. An increase of 102.7%.
 - Through artificial breeding, New Zealand has built a leading global position in pastoral dairy farming.

Governance and Representation: Chair and Shareholder Council Chair

This year, as well as the business as usual matters, we're seeking shareholder support to update and streamline LIC's governance and representation structure.

This includes changes to the Board and the role of the Shareholder Council.

We started looking at the structure of LIC's governance and representation in 2015.

We then started a comprehensive review after the share simplification in 2018.

It's now the right time to make these changes as the next part of LIC's transformation.

We've had a working group of Directors and Shareholder Councillors, including Mark, who have undertaken the review and recommended the changes we are now seeking support for.

Changes to the Shareholder Council

The Shareholder council currently has 21 members across 21 wards. While the Shareholder Council has contributed significantly to the success of LIC to date, its purpose, which was to oversee the dairy herd database, is no longer relevant.

We're proposing:

- 1.** We streamline the Council to a Shareholder Reference Group of 12 members across four territories.
- 2.** Of these 12 members, eight will be elected by shareholders and four appointed by the members of the group. This will allow us to ensure diversity and a broad range of skills in the group.
- 3.** We're proposing we give the group a clear purpose and agreed annual engagement plan, with clear objectives to report back to the Board.

The purpose of these changes is to ensure the Shareholder Reference Group is promoting shareholder issues that matter to the Board and management team, including product development, service delivery on farm, usability and product enhancement.

The changes will also ensure the group has planned and intentional engagement and is working to a plan with the Board.

Changes to the Board:

The changes we're proposing to the Board are:

- 1.** Reducing the number of Elected Directors to six - balancing the number of Elected Directors between the North and South Islands. Each will have three Elected Directors.
- 2.** All shareholders will get to vote for three farmer Directors for their Island - Directors will be elected by a broader mix of shareholders across an expanded geographic area.
- 3.** Elections will be simplified. All Directors will be elected for approximately three years and all elections will be held at the Annual Meeting.
- 4.** The Board is reducing from ten Directors to nine, with flexibility to appoint a further Appointed Director based the need for specialist expertise in the future.

The Board wants to make sure that we have well planned and intentional engagement with shareholders on issues that matter.

Our Directors will be representative of a broader mix of shareholder views across an expanded geographic area.

And, all shareholders will get to vote for three Farmer Directors, as opposed to currently only one or two depending on your region.

Finally, streamlined processes will reduce the voting burden on shareholders.

We understand that delivery of products and services takes priority over shareholder issues for many of you.

One of the most important outcomes from the recommended changes is to strengthen shareholder input on operational performance, product development and service delivery.

LIC's current structures were put in place almost 20 years ago, over that time LIC has evolved.

We want our legacy to be setting up the right structure for the future, giving shareholders influence over the issues that matter the most.

We believe that the proposed changes to LIC's governance and representation structure will ensure your voice and your views are heard and acted upon as we grow and build our co-op in the years to come.

On behalf of the Board and the Shareholder Council, we recommend a YES vote.

The decision is now over to shareholders.

Appointing a Market Maker: Chair

There is another special resolution for shareholders to vote on.

This resolution is to amend the constitution to enable the Board to appoint a "market maker", subject to the Minister of Agriculture approving this change.

We're proposing to introduce the option to be able to appoint one or more firms to act as a "market maker".

Due to the restrictions on who may hold LIC's shares, its stock is more illiquid than other listed companies.

The aim of the "market maker" is to create price stability and additional liquidity through consistent two-way quotes in LIC shares on the NZX.

The role of the "market maker" is solely to provide additional liquidity in LIC shares for those farmers approved to buy and sell shares without the need to wait for another LIC shareholder to trade with.