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## LIC Half-Year Result – Genomics Investment Delivering For Farmers and Co-op

### Performance Highlights H1 2020-21:

- \$169.7 million total revenue, up 3.8% from \$163.4 million in the same period last year.
- \$33.4 million net profit after tax (NPAT), up 10.4% from \$30.3 million.
- \$60.0 million earnings before interest, tax, depreciation and amortisation (EBITDA), up 2.7%.
- \$46.4 million earnings before interest and tax (EBIT), up 7.6%.
- Underlying earnings (NPAT excl bull valuation change)\* range is forecast to be \$19-23 million for year-end, up from \$16-22 million, compared to \$22.7 million in 2019-20.

Livestock Improvement Corporation (NZX: LIC) (**LIC**) announces its half-year financial results for the six months to 30 November 2020, which show continued strength in the cooperative's financial performance with increased revenue and underlying earnings.

Net profit was up 10.4%, primarily due to a strong growth in sales of LIC's premium artificial breeding options and animal health and diagnostics testing, as farmers invest to optimise the value of their dairy herds. The cooperative also continued investment in Research & Development (R&D) and the MINDA<sup>®</sup> farm management software, and made capital investments in new facilities on the cooperative's farms.

Board Chair Murray King said the cooperative is balancing profit with focussed R&D and technology investment for the long term.

"We are investing in the areas where LIC has unique capability to maximise the value LIC's customers generate from their livestock and their product; providing technology and services to make farmers' lives easier.

"This includes investment in key areas such as genetics and R&D, through to updating and enhancing LIC's MINDA farm management software given its critical importance to LIC's farmer shareholders and their businesses."

King said the highlight of the result was farmers' growing confidence in LIC's genomic selection with around 1.4 million inseminations from genomic sires this year, up from just under 400,000 in 2017.

"Genomic science and genome sequencing technology is generating markedly increased productivity and health traits for dairy cows and better returns for dairy farmers.

"LIC is now a world leader in pastoral dairy genomic science thanks to the foresight of LIC's Board and shareholders. The cooperative has invested \$78 million into genomic science over the last three decades to speed up valuable genetic gain in dairy herds, enabling our customers to produce the most sustainable and efficient animals and the highest value product."

Genomic sires feature in premium artificial breeding offerings, including Premier Sires Forward Pack, A2/A2, Alpha genomic and liquid sexed semen.

Growth in the interest of sexed semen has seen inseminations move from 30,000 in 2019 to over 100,000 nationally in 2020. King said this has been achieved through the expansion of regional availability and making all liquid sexed semen AB replacement breeds available for delivery this year.

"Delivery has been daily and we have pulled out all the stops to get product to farm including chartering flights for weekend delivery to ensure supply. Farmers are seeing the value of mating their best animals to high genetic merit sires, while using a beef sire on their lower performing animals."

King said ongoing R&D and innovation focussed on herd sustainability, health and efficiency were continuing with LIC launching the HoofPrint<sup>®</sup> index, a new tool giving farmers accurate insights on bulls born since 1 January 2009 that

have the potential to breed progeny for dairy herds with a lighter environmental footprint – cows that produce less methane and nitrogen per kilogram of milksolids. LIC is also leading a world first pilot trial seeking to identify a possible link between the methane cows produce and their genetics.

During the period the cooperative also launched the **AgCelerator™** fund to grow and scale innovations of value to the dairy industry. The first two investments made through the fund were an Auckland-based blockchain agriculture solution Trackback and Dunedin-based mastitis detection company Mastaplex. Further investments are being considered on an ongoing basis.

Murray King said the half-year result was pleasing considering the disruption of the second COVID-19 lockdown and he paid tribute to the cooperative's management and staff.

"To ensure business security and continuity, the majority of our staff at LIC's Newstead campus worked remotely between August and December. Our farm, laboratory and scientific staff worked at Newstead, Riverlea Road (both are located in Hamilton) and Christchurch through this period under heightened protocols wearing PPE equipment.

"Our people have had to overcome significant challenges to ensure business continuity and uninterrupted service for LIC's 10,000 New Zealand customers and their dedication, resilience and effort is very much appreciated."

During the period Shareholders voted to update and streamline the governance of the cooperative, including changes to the Board and replacing the Shareholder Council with a smaller, more focussed Shareholder Reference Group.

LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of \$414 million, down from \$425 million on the same period as last year, primarily due to a reduction in the valuation of the Bull team in the second half of the prior year. Cash flows from operations were \$10.8 million, down from \$15.8 million for the same period last year, mainly due to differences in timing of tax payments and customer receipts. LIC has not utilised the Government COVID-19 wage subsidy in either the current or prior period.

Half-year results incorporate the majority of revenues from the farmer owned cooperative's core artificial breeding (AB) and herd testing services, but not a similar proportion of total costs so are not indicative of the second half, nor the full year, result. Revenue from international and technology products is also spread through the year. No dividend is declared at half-year.

## Outlook

We will continue to prioritise a sharper, deeper focus on investment in the areas where LIC is uniquely placed to drive value, innovate and deliver positive impacts for our customers and shareholders.

Underlying earnings (NPAT excl bull valuation change)\* at year-end is now forecast to be in the range of \$19-23 million, assuming no significant climate event or milk price drop takes place between now and then, nor any major impacts from M. bovis or COVID-19.

LIC expects underlying earnings\* in 2021-22 to be in the range of \$19-25 million.

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For more information and commentary about the result, visit [www.halfyearinreview.lic.co.nz](http://www.halfyearinreview.lic.co.nz).

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**\*Notes to Financial Information:** Underlying Earnings is the company's NPAT excluding bull valuation and nil paid share valuation movements and is considered useful to investors as it is the basis on which LIC has historically reported and it is the basis 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. As this is a half-year update, the numbers relating to November 2020 have not been audited. These numbers should be all read in conjunction with the interim financial accounts.

**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 reinvested for new solutions, research and development. [www.lic.co.nz](http://www.lic.co.nz)