



Private Bag 3016  
Hamilton 3240  
New Zealand

0800 651 156  
[www.lic.co.nz](http://www.lic.co.nz)

## Market statement

24 January 2018

### LIC business transformation, sales upturn drives improved trading half-year result

#### Performance Highlights H1 FY17-18:

- \$153 million total revenue, 16.6% up on the same period last year.
- \$57.5 million earnings before interest, tax, depreciation and amortisation (EBITDA) excluding one-off transformation costs<sup>[1]</sup>, up 36.6% on the same period last year. Reported EBITDA of \$36.8 million was 12.6% down on the same period last year.
- \$43.2 million earnings before interest and tax (EBIT) excluding one-off transformation costs<sup>[1]</sup>, up 52.3% on last year. Reported EBIT of \$22.5 million, 20.6% down on same period last year due to one-off transformation costs.
- \$15.1 million net profit after tax (NPAT), 21.9% down on the same period last year due to one-off transformation costs.

\*Notes about the financial information are set out at the end of this market statement, including information about the non-GAAP financial information.

Livestock Improvement Corporation (NZX: LIC) announces its half-year financial results for the six months to 30 November 2017.

Board chair Murray King said the half-year result reflects the co-op's work to transform its business, to deliver cost efficiencies and deliver more value to its farmers.

Total revenue was up on the same period as last year; the EBIT and NPAT was also up substantially, excluding the one-off implementation costs from the transformation programme. Reported EBIT and NPAT were down as a result of one-off transformation costs.

Cash flows from operations were positive \$5.4 million, compared to negative \$0.4 million last year. This is reflective of the increased sales and the seasonal nature of LIC's business, particularly artificial breeding (AB).

LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of \$371 million.

Half year results incorporate the majority of AB revenues but not a similar proportion of total costs, and are therefore not indicative of the second half, nor the full year, result. No dividend is therefore declared at half year.

#### Success of transformation programme

"The milk price is always a factor in farmer spend and this has partly driven an upturn in sales as farmers continue to invest in herd improvement services and solutions which deliver long term value and build a more sustainable farming business.

"At the same time, we are also seeing the success of our transformation programme flowing through to the bottom line.

"The cost efficiencies and business growth delivered through the programme were key contributors toward a better year-end result in 2016-17, and now this half-year result.

"In its first year, the programme has delivered a combination of significant recurring benefits and one-off cash benefits.

"We expect this will continue to deliver significant improvement in earnings in future years," he said.

An example of improved efficiencies and recurring benefits is from the work the co-op has done to better manage the travel undertaken by their team of 840+ AB technicians each spring.

"As a result of this work, over the last two spring AB seasons, the team saved up to one million kilometres in travel distance. This means less time on the road and more time on farm with customers and their herds. It saves time, fuel and on-road costs for the business, while also reducing driving time therefore improving safety," King said.

"We also introduced a new herd testing cancellation policy, to help us operate a more efficient service, and I am pleased to report that this contributed to a reduction in cancellations or changes at short notice by up to 50%."

Examples of business growth driven by the transformation include the Wagyu beef programme, which provides farmers with an alternative to bobby calves and an additional income source, and the recently launched SPACE™ service which delivers pasture management data from satellites.

As part of the programme, LIC also sold its Otago-based Deer Improvement subsidiary business to concentrate on its dairy business and its herd testing and diagnostics laboratory facilities in Riverlea, Hamilton which included a leaseback arrangement to allow continued operation of LIC services at the site.

### **Becoming more agile and responsive**

LIC embarked on the transformation after recording its first ever loss in 2015-16, aimed at protecting the fundamentals of the co-operative while making sufficient profits to enable LIC to reinvest for the future, and be more responsive to and prepared for disruptive threats.

"LIC is vulnerable to the same disruption that other industries have experienced in recent years from new technology and innovation, environmental challenges, regulation and alternative milk products.

"Standing still is not an option. We have to constantly be improving and adapting the way we do business.

"The transformation programme is one of two key initiatives underway to ensure LIC can meet future challenges and deliver on its strategic goals.

### **Share simplification**

"The next step is to simplify LIC's share structure to address concerns around the growing disparity between LIC's two share classes.

"The Board has almost completed its consideration of the options and will provide an update on next steps for shareholders in the coming weeks."

### **Outlook**

Underlying Earnings (NPAT excluding bull valuation)<sup>[2]</sup> at year-end are forecast to be in line with the 2016-17 result of \$3 million despite LIC incurring and accounting for approximately \$15m of one-off transformation costs on an after tax-basis within Underlying Earnings.

The increased revenue position was driven by the success of the transformation programme, but this has also translated in reported EBIT being lower as it includes the one-off implementation costs of the programme. These costs will not be incurred in second half or years ahead, so a stronger reported EBITDA and reported EBIT is expected next financial year.

With ongoing and recurring benefits from the transformation programme and no further one-off costs to be incurred, LIC expects Underlying Earnings<sup>[2]</sup> for the 2018-19 year to be in the range of \$18-\$26 million, assuming no significant climate event or milk price drop takes place between now and then.

ENDS

Media contact: Ashleigh Sattler, [asattler@lic.co.nz](mailto:asattler@lic.co.nz), 027 617 1942  
For any shareholder enquiries please phone 0800 264 632

### **Notes to Financial Information**

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 2017 have not been audited.

Notes: [1] One-off transformation costs pre-tax of \$20.7 million were incurred in the period. EBITDA and EBIT numbers, excluding one-off transformation costs, are presented as they are considered useful to investors to provide an indication of the change in business performance. The numbers presented are non-GAAP financial information.

[2] Underlying Earnings is the company's NPAT excluding bull valuation but, for the avoidance of doubt, including one-off transformation costs. Underlying Earnings 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.

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)