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Results for announcement to the market

29 January 2020

LIC Half-Year Revenue Up As Farmers Invest In 'Precision Farming'

Performance Highlights H1 2019-20:

- \$163 million total revenue, up 1.4% from \$161 million in the same period last year.
- \$30.3 million net profit after tax (NPAT), down 7.6% from \$32.8 million in the same period last year.
- \$58.4 million earnings before interest, tax, depreciation and amortisation (EBITDA), down 1.5%.
- \$43.1 million earnings before interest and tax (EBIT), down 6.5%.
- Underlying earnings (NPAT excl bull valuation change)* range remains forecast to be \$21-25 million for year-end, up from \$19.5 million in 2018-19.

Livestock Improvement Corporation (NZX: LIC) (**LIC**) announces its half-year financial results for the six months to 30 November 2019.

Total revenue was up on the same period as last year and, while NPAT, EBIT and EBITDA were down due to timing of expenses incurred within the period, the co-op's guidance for underlying earnings* at year-end is still expected to be above the prior year.

LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and bull teams of \$425 million, up from \$409 million on the same period as last year. Cash flows from operations were \$14.4 million, down from \$19.4 million for the same period last year.

Half year results incorporate the majority of revenues from the farmer owned co-operative'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.

Board Chair Murray King said the result was in line with market guidance reported in July and is underpinned by the co-op achieving the milestones on its strategic roadmap, which have shaped LIC into a modern, progressive and high performing co-op.

"This is another solid result which builds on all the work we have done in recent years to transform the business and drive an innovation-led growth strategy to keep LIC and our farmers leading the global pastoral dairy system.

"LIC's strategy is built off a global understanding of the factors driving change in global dairy markets and here in New Zealand. This is important at a time when dairy farmers need certainty and trusted partners to help them navigate the change. It requires financial strength, high-performance and a clear focus on the innovations needed on-farm to keep our customers' farms competitive, profitable, sustainable and efficient.

"Data is the fuel to drive this strategy forward and we will continue to drive our access to and use of data. It provides the insights for LIC's herd improvement and technology innovations and to enable real-time decision making on-farm. It also improves our ability to make the right decisions about where to invest and where to focus our critical R&D spend," King said.

Precision Farming Solutions Boost Sales

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

Sales in New Zealand during the half-year period reflected increased demand for LIC's premium AB products to deliver increased value on-farm, including genomic bulls, sexed semen, and genetics offerings in A2A2, short gestation and Wagyu.

Demand for animal health and diagnostics testing also increased, with more farmers proactively monitoring the health and wellbeing of their herd against diseases such as BVD and Johne's, to enable early diagnosis, treatment and to minimise production loss.

More farmers are also adopting LIC's technology solutions including satellite pasture management service SPACE, which continues to grow in popularity, and more farmers are making the switch to LIC's web-based MINDA LIVE system and MINDA app for animal recording and insights.

International markets continued to perform strongly, King said, particularly Australia, South America and South Africa. However, the automation subsidiary business was challenged by a shortage of capital in the market with revenue down 23% from the same period as last year.

"New Zealand dairy farmers are becoming world leaders in precision farming - they are using cost-effective, innovative solutions to get more value on-farm and ultimately do more with less. This was also evident in the 2018-19 Dairy Statistics with farmers achieving record milk production while cow numbers continue to decline.

"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.

"We're proud of the role we play to help ensure cows around the country are year-on-year healthier and more efficient at converting grass into milk, in turn enabling farmers to reduce their environmental footprint, and we work hard to develop and deliver solutions that make this easy for them.

"LIC has one of the highest rates of investment in Research and Development in the primary sector (5.6% of revenue in 2018-19) and our investment decisions are critical to ensuring New Zealand dairy farmers and our co-op can continue to lead the global pastoral dairy system into the future."

Outlook

Underlying earnings (NPAT excl bull valuation change)* at year-end remains forecast to be in range of \$21-25 million, assuming no significant climate event or milk price drop takes place between now and then nor any major impacts from M. bovis.

LIC expects underlying earnings* in 2020-21 to be in the range of \$21-27 million.

ENDS

For more information and commentary about the result, visit www.halfyearinreview.lic.co.nz.