

Company: LIC

Title: LIC 2019/2020 Half Year Results Shareholder and Analyst Conference Call

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Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the LIC 2019/2020 half year results shareholder and analyst conference call. At this time all participants are in a listen-only mode. The call will be hosted by Murray King, Board Chair; Wayne McNee, Chief Executive; and David Hazlehurst, Chief Financial Officer, who will speak briefly to the results.

This will be followed by a question and answer session at which time if you wish to ask a question you will need to press star one on your telephone keypad. I must advise you that this conference is being recorded today to enable LIC to share it with other shareholders after this call has concluded from Friday 7 February. I would now like to hand the conference over to your first speaker today, LIC Board Chair Mr Murray King. Thank you, please go ahead, sir.

Murray King: Good afternoon, shareholders and analysts. Thank you for attending and welcome to LIC's first shareholder call. We appreciate you making the time to join us. The purpose of this call is to talk through LIC's half year result up to 30 November 2019 as we announced to the NZX last Wednesday, and to answer any questions that you may have. So, to begin with, our interim results build on the work done to date to transform LIC and drive our innovation-led growth strategy.

The focus as outlined in our strategy remains on keeping LIC and our farmers leading the global - global pastoral dairy system. To deliver this it is important that LIC continues to improve its performance and be profitable. The half year result reflects the value of LIC's ongoing investment in research and development, commercialised high-value genetics, and technology products for our farmers.

Having the ability to develop, commercialise, and roll out farm management products like SPACE satellite pasture management service for example is delivering further business growth for the cooperative and value for our farmers. It's been a positive six months and I look forward to reporting the full year results to you in July. I'll now hand over to our CFO, Dave Hazlehurst, who will talk through at a top line the specifics of LIC's half year results. Over to you, Dave.

Dave Hazlehurst: Thanks very much, Murray, and also good afternoon to everyone on the call as well from myself. As Murray described and as disclosed in the New Zealand Stock Exchange last week, LIC's guidance for underlying earnings at year end is expected to be higher than at the previous year. For LIC underlying earnings - and just for clarity on underlying earnings, it's net profit after tax where we make a couple of adjustments. There was potentially only one needed in this period which was the exclusion of the change of the bull valuation which remained constant against year end, and the revenue are very important to us and useful performance measures.

The underlying earnings for us is a basis on which we determine the dividend that we pay to our farmers and shareholders. It's obviously not the only driver to make that decision, but it's certainly the basis that we determine it. Our underlying earnings range remains forecast to be in the range of \$21 million to \$25 million for year end, which will be up from the \$19.5 million that we had for the 2018 and '19 financial year.

Our interim revenue results for the six months to 30 November 2019 was \$163 million up by 1.4% from \$161 million in the same period last year. The bulk of our revenue continues to stem from the core of LIC and our AB programme, herd testing services, and a growing shift towards precision farming with farmers now investing more in genetics and technology solutions.

LIC continues to operate a strong balance sheet with total assets including cash, software, land and buildings and our bull team of \$425 million, up from \$409 million on the same period last year. With that, I'll now hand over to our Chief Executive Wayne McNee for some closing comments before we take any questions from the group.

Wayne McNee: Thanks, Murray, and thanks, Dave. Welcome to everybody on the call. As highlighted, our half year result was a strong one. Revenue and profitability provide LIC with the ability to further invest in R&D which is currently 5.6% of our revenue compared to the primary industry average of around 1%. We're increasing our R&D investments as part of our programmes we have with government like Brazilian dairy and investing more in new product development. On top of that, we're investing a significant amount of capital into our digital strategy including the MINDA app suite, MINDA LIVE, and our bull farms protect against *M. bovis* and other biosecurity threats. We're also investing capital in automating our herd testing laboratories.

It's been four years now since LIC began its transformation. Since then the business has been turned around. We're now a high performing debt free cooperative and returned \$15.6 million dividend to our shareholders in 2019.

Our premium AB products are delivering increased value of farm including genomic bulls, sexed semen, and genetic offerings in A2 and in short gestation. Demand for animal health and diagnostic testing have increased with more farmers proactively monitoring the health and wellbeing of their herd against diseases to enable early diagnosis and treatment, and to minimise production losses for farmers.

Overall sales have remained strong, but we have seen reduced demand for our farm automation products in New Zealand and offshore. Farmers are facing a period of technological, environmental, and market change at a scale that we haven't seen before. We need to shape our own future and help our co-op members navigate these changes and keep their farm sustainable and profitable. That means continuing to focus on herd improvement gains from genetic gain, herd management, and on-farm technology from things like SPACE through to MINDA. We want our farmers to be the disrupters, not the disrupted. Now I'd like to open this call up to questions. So, operator if you could take questions now, thank you.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Once again, if you wish to ask a question, please press star followed by a one on your telephone and wait for your name to be announced. Your first question comes from the line of Suzanne Brocx from Puketi Farms. Please ask your question.

Suzanne Brocx: (Shareholder) Good afternoon, gentlemen. Murray, you talked about LIC delivering technology solutions [in] February 2020 [for us here all the time] where those of us that continue to use Pro are forced to pay a fee for this. Now, most of us still use Pro because of its - LIVE's suboptimal performance which delivers least in vital areas, for example liveweights and reporting than Pro. Last year we spent 5.6% on R&D and that was spent on genetics and technology solutions as all three of you have said today. I would challenge that most shareholders are being disrupted rather than being disruptors by not having suitable and functional technological solutions. Your comment, please.

Murray King: Yes, thanks, Suzanne, and good afternoon. I know that you are a heavy user of MINDApro, as am I, so - as a customer, a farmer customer. So, I think I'm probably best to hand this over to Wayne, maybe, to make some comments on what's exactly happening with MINDApro and what the urgency is to change over to MINDA LIVE. So, Wayne, if you're happy to carry on, please.

Wayne McNee: Yes, thanks, Murray, and hi, Suzanne. We are investing a lot more above that R&D 5.6% in technology. That doesn't include our investments in MINDA. So, we're investing quite a few millions of dollars in MINDA, both the app suite and in LIVE. Unfortunately, the reality is that the technology that Pro is based on is end of life, and we can't sustain continued development on it or even continuing to maintain it beyond another couple of years. The reality -

we've seen recent examples where the system has gone down because of the Db2 database and we are trying to move off that database.

We're investing a lot into our new digital strategy to enable us to do that. I acknowledge your point that for some farmers like yourself MINDA LIVE doesn't provide the functionality that they would like to see it have. We are continuing to invest in it. You will see ongoing improvements through this year and into next year, but at the moment recognising the fact that there is a significant investment and it's costing us quite a lot of shareholder funds to maintain two systems, that is why we've added on the charge, but I do very much hear your point.

Murray King: Suzanne, I'll just add in addition to Wayne's comments that the way that software is developed these days through [unclear] development means that often there are - there's more functionality added on an ongoing basis. So, you may not see it all at once but there are new functions added on a regular basis.

Suzanne Brocx: (Shareholder) I get that and thank you for your answers. I get that there is development happening on - behind the scenes and I acknowledge that. My concern is that most farmers are now forced to pay for Pro when they synchronise and the reason for that is that we cannot rely on one system that is LIVE which is what we are supposed to be going to. If the two systems were equal, I wouldn't have a problem with that and wouldn't need to synchronise. I think I'm the voice of a lot of shareholders up and down the country who cannot run their business using LIVE alone.

Murray King: Yes, thanks Suzanne. We'll take those comments on board, thank you.

Operator: Once again, if you wish to ask a question please press star one on your telephone and wait for your name to be announced. There are no further questions at this time. I would now like to hand the conference back to today's presenters.

Murray King: Okay, thank you, operator. So, on behalf of the Board and management of LIC I thank you as shareholders for making the time for today's call and your continued interest and support of LIC. This has been somewhat of a trial to see how we might be able to operate this way and whether or not you're aware of it or not, but myself, Wayne, and Dave are all operating from different centres today.

Hopefully we've got good shareholder participation there, only one question is a little bit disappointing; however, I'm really pleased this is just adding another method in which we may be able to communicate with shareholders on a more regular basis. So, thank you for your participation. I will now hand back to the moderator. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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