

## **2017 Shareholder Council Report to the AGM, Invercargill, 25<sup>th</sup> October 2017-09-17**

Kia Ora,

Mr Chairman, members of the Board, Chief Executive, members of staff, Shareholders and Shareholder councillors. It is my pleasure to present to you the Shareholder Council report for 2017.

### **Changes within the Council.**

The Shareholder Council is made up of 21 farmers regionally elected from throughout the country. These councillors range from 50:50 sharemilkers, owner operators, equity partnership through to large multi farm owners and cover the full range of farm systems, from Once a Day to System 5 operations.

At the AGM in Hamilton last year the Shareholder Council elected a new deputy chair. I would like to acknowledge Nathan Keoghan as our new deputy chair who replaced David Beuth. I would like to thank David for the time and support he provided both myself and the previous chair Jenny Morrison during his time as deputy chair. Thank you David and welcome Nathan.

This year Rosalind Simpson retired from Ward 1 in the far North after serving on the Shareholder Council for 3 years. I would like to thank Rosalind for the time and effort she has put in to Ward 1. Rosalind has been replaced by Lyna Beehre. Lyna is well known through the breeding circles as the owner of the successful Okura Stud. I would like to welcome Lyna to the Shareholder Council.

### **Key Performance Indicators.**

At last year's AGM I mentioned to you that the Shareholder Council had reviewed its 4 main Key Performance Indicators (KPI's). These are linked to the 4 strategic themes of the co-operative.

(Put up slide on KPI's)

The Shareholder Council has been receiving information relating to these KPI's. This year was about establishing current performance so we can identify trends that might be and/or are occurring within the co-operative.

### **Purpose Statement.**

The Shareholder Council met with representatives of the Board and consultants to help devise a new Purpose Statement for the company.

The Shareholder Council was pleased on behalf of shareholders to stand firm on some aspects of the new Purpose Statement by having the key words of co-operative and delivery included in the new Purpose Statement.

The Shareholder Council felt that these words are part of our co-operatives key values.

The New Purpose Statement reads:

“Our co-operative empowers livestock farmers through the delivery of superior genetics and technology”

### **Appointed Directors.**

Section 24 of the LIC constitution requires that the Shareholder Council consider any proposal for an appointed director and approve such an appointment if the Shareholder Council so decides.

The Shareholder Council met with Mr Tim Gibson and after consideration the Shareholder Council decided to ratify the appointment of Mr Tim Gibson for a period of 2 years.

The Shareholder Council also decided to ratify the re appointment of Mrs Abbey Foote for a further term of 3 years.

The Shareholder Council would like to acknowledge the 15 years of service that retiring Appointed Director Mr Phil Lough gave to the co-operative and wish him well with his retirement.

### **Elected Directors.**

Whilst the Shareholder Council does not have to ratify the shareholder elected Directors, the Shareholder Council would like to welcome the newly elected director for the Southern Region Mr Matt Ross. Welcome Matt.

With Matt being elected it see's the end of a 19 year term as a board member of LIC for Alvin Reid.

The Shareholder council would like to acknowledge and thank Alvin for all the time and effort that he has provided the co-operative and shareholders with over the last 19 years.

Thank you Alvin, and the Shareholder Council wish you all the very best for the future.

### **Financial Performance.**

The Shareholder Council have been closely monitoring the financial performance of the co-operative and has been provided with a detailed analysis of the LIC accounts over the last 10 years.

While the Shareholder Council acknowledge the tight times that the shareholders and co-operative have had over the last 12 to 24 months, we as the Shareholder Council and fellow shareholders are still waiting to see all the benefits of these cost saving initiatives and potential profitability gains that have occurred over the last 12 to 18 months.

The Shareholder Council were pleased to see the debt to equity ratio of the co-operative improve from 65% to 68% with the reduction of \$11 million in bank loans.

The Shareholder Council noted a positive revaluation of the biological bull team of \$17.7 million, reflecting the uptake of our services due to a buoyant outlook for our industry. To note this revaluation is included in the co-operatives Net Profit After Tax.

The Shareholder Council were also please to see a large amount of money being invested in Research and Development to provide shareholders with innovative products and services. However an area of concern was a decline in Research and Development investment. The spend over the last 3 years has been:

14/15 \$16.9 million, 7.4% of revenue

15/16 \$16.9 million, 8% of revenue

16/17 \$13.9 million, 6.85% of revenue.

Of interesting note is whilst spend on Research and Development is down \$3 million from the previous year the co-operative is still able to pay a full year dividend of \$2.43 million.

The Shareholder Council has expressed its concerns to the Board and Management over the last 2 years that while we don't have any problem with "trimming the excess fat off the co-operative" we are extremely concerned when the muscle of the co-operative is also being trimmed.

We have expressed concern at what were customer service issues with some of our core products like Protrack, Customer Experience Centre and Herd Testing in the past season. We also note the focus on improving efficiencies through the transformation program has the potential for LIC to lose some focus on customer satisfaction and service level. Consistent shareholder feedback has been that they value service over dividend.

The Shareholder Council has always expressed its concerns to Board and Management about investing shareholders money into organisations and entities off shore. The Shareholder Council believes that the co-operative needs to ensure that it has it's foundations here in New Zealand as strong as possible.

The Shareholder Council would like to see these foundations of the co-operative strengthened and shareholders here in New Zealand serviced promptly and efficiently before investments and acquisitions are made off-shore.

The Shareholder Council acknowledges that our co-operative always needs to respond to a changing environment, and that LIC has faced these challenges head on. However these changes need to be communicated to shareholders in a timely and efficient manner. Connection has become a key word. Following the significant turnover of staff at all levels of LIC we are now looking forward to consistency and opportunities for LIC to strengthen relationships with shareholders.

In conclusion, the Shareholder Council would like to thank the generous time and information that the Senior Leadership Team has provided the Council with over the last 12 months. It certainly hasn't been easy dealing with all the change that has occurred within LIC. The Shareholder Council have always been provided with quick responses to any queries or concerns by shareholders from the Senior Leadership Team. Thank you.

The Board and Shareholder Council have gained a better understanding of the differences between our roles. The Shareholder Council and Board must continue to work together in taking this company forward in its governance and representative roles.

Finally as shareholders we must be proud of the achievement that 3 out of 4 cows here in New Zealand come from this co-operatives bulls. As farmers we are always striving for the best possible outcome, let's not forget the fact that LIC are always striving for the best possible outcome too.

Thank you.