



Private Bag 3016
Hamilton 3240
New Zealand

0800 651 156
www.lic.co.nz

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Dear Shareholder

LIC® Full Year Result 2015-2016

LIC revenue from ordinary activities was \$205 million and including other income from grants, totalled \$211 million in 2015-2016. This is 9% down on the total revenue of \$232 million achieved in 2014-2015.

Net Profit After Tax (NPAT) was a loss of \$4 million, down from a profit of \$13.7 million the previous year. This decrease reflects the reduced spend on-farm in the current dairy downturn and LIC's continued investment on core technology, R&D and new product development.

NPAT includes the annual revaluation required under accounting standards to "fair value" of the biological elite bull team which, this year, resulted in a decrease net of tax of \$3.7 million to a value of \$87.5 million in 2015-16 compared to a value of \$92.6 million in 2014-15. LIC also reports an Underlying Net Earnings (NPAT excluding the increase or decrease on fair value of elite biological assets and the related tax effect) which was a small loss of \$300,000 this year (\$11 million profit 2014-2015).

LIC will not pay a dividend this year as the company did not produce positive Underlying Net Earnings during the year. The result is in line with forecasts made to the market (NZX) of a break-even position for the full 2015-2016 year, reflecting the expected impact of the lower milk payout and the co-operative's long-term capital investment programme. Lower milk prices have impacted on-farm buying decisions as many farmers look to reduce costs, going into survival mode through these difficult times.

Our balance sheet remains strong with total assets including cash, software, land and buildings and bull teams of \$323 million, an increase of \$21 million over the previous year, with a strong equity ratio of 65%. Bank loans were \$41 million at year-end.

The LIC Board views this result as reflective of the current dairy downturn. The downturn is now expected to last longer than analysts had predicted and is putting our farmers under major cash constraints. All suppliers to dairy farmers face challenging times but we remain committed to our vision to improve dairy farmers' prosperity and productivity, and we remain committed to our strategy.

LIC's genetics, based on competitive grass-based farming systems, are more important than ever in these tough times – as New Zealand dairy farmers look for effective opportunities to increase their efficiency.

During the 2015-2016 year, LIC continued to experience steady demand for our core artificial breeding products and services. More discretionary areas of spending on-farm saw a decline in LIC sales, mainly in Herd Testing and big ticket automation products. Herd Testing sales are now increasing as farmers are reminded of the value of the information provided through Herd Testing and realise they can't go another season without it. Some farmers continued to invest in new technologies from LIC in 2015-2016 to improve their prosperity and productivity. Animal Health products and LIC's GeneMark® DNA parentage testing service performed well and achieved budgeted levels.

Despite the tough environment, it was another strong year of innovation for LIC. A large investment was made in taking MINDA® into a new world with the introduction of MINDA LIVE at Fieldays 2016. MINDA LIVE

is the new online version of the herd management system that 95% of New Zealand farmers use. The new version operates in real-time and multiple users can enter data at the same time wherever they are on-farm. Access is available via broadband, fixed or mobile, on any computer, tablet, or mobile devices.

Investment will continue in this new product to enhance it further in the year ahead. Other new products include an automated Body Condition Score camera system developed and launched by LIC Automation™ in conjunction with DeLaval; prototyping of full farm performance systems; commercialisation of a new milk pregnancy test; and the launch of EZ Heat® Herringbone (following the success of EZ Heat Rotary).

LIC's ongoing commitment to research and development (R&D) is also reflected in the year-end result, with expenditure totaling \$16.9 million (8% of revenue). This compares to total R&D expenditure in 2014-15 of \$16.9 million (7.4% of revenue). Work in 2015-2016 included continued research to improve the accuracy of genomic predictions, finalising the Body Condition Score system and research into further animal health diagnostic tools.

LIC also continues to invest in its business for the long-term, to improve service delivery, to ensure high quality bulls and enable more R&D and new product development. Capital investment in 2015-2016 totalled \$34 million.

LIC, like farmers, has also focused on areas we can become more efficient and we continue to review all aspects of our business to identify opportunities for cost efficiency and elimination, and potential new revenue opportunities. We remain committed to delivering an excellent on-farm operational service but during the last year made substantial reductions in costs. We have been reducing costs such as travel and training, focusing capital IT investments on key areas only, extending working life of assets and recruiting only essential personnel.

We have started work with external consultants to identify other areas of opportunity to both increase revenue, and to reduce costs through identifying further efficiency gains.

LIC growth strategy

During the 2015-2016 year, LIC continued to work with a range of partners and also acquired Beacon Heat Detection Ltd in Australia. The acquisition supports LIC's core business of artificial breeding and its strategy to deliver genetics and information to create superior livestock.

A roadshow was held with shareholders in June 2016 as we took your advice from the 2015 roadshow and "talked out loud" about potential plans to change the structure of the business. These plans involve splitting the company into two parts, a herd improvement co-operative focused on genetic gain at affordable prices; and an agritech company focused on developing new software, hardware and sensing systems for New Zealand and international farmers. The Board is now considering shareholder feedback and will update shareholders at the AGM in October. Any proposal for external equity in the agritech company would have to go to a shareholder vote, possibly in 2017.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Murray King', is written over a light grey rectangular background.

Murray King
Chairman