

# Livestock Improvement Corporation Limited (LIC) **Financial Statements**

For the year ended 31 May 2024



There's always room for improvement





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## Key Metrics



**71.7%**  
Net Profit After  
Tax (NPAT)

\$7.7m vs  
\$27.4m last year



**3.3%**  
Total revenue

\$267.3m vs  
\$276.5m last year



**41.6%**  
Underlying  
Earnings\*

\$13.9m vs  
\$23.7m last year



**6.2%**  
Total assets

\$358.6m vs  
\$382.3m last year



**Full year  
dividend**

Final \$8.3m -  
5.84 cents per share  
and Special \$18.5m -  
13 cents per share  
vs \$23.3m - 16.38  
cents last year



**Return  
on equity**

2.8%  
vs 9.2% last year



**Earnings  
per share**

NPAT 5 cents  
and Underlying  
Earnings\* 10 cents  
vs NPAT 19 cents and  
Underlying Earnings\*  
17 cents last year



**R&D, IT & capital  
investment**

\$48.9m up 24.8%  
(excluding sale of  
National Milk Records  
plc shares) from  
\$39.2m last year

\*Non-GAAP financial information



## Directors' Report 2023 -24

### LIC ends the year with lower profit following challenging conditions

The LIC Board announces its financial result for the 2023-24 financial year, ending the year with no debt and a modest profit and dividend for shareholders while continuing to invest in innovations for shareholders.

The Board has declared a dividend of 5.84 cents per share, returning \$8.3 million to owners of the co-operative. The dividend will be paid on 16 August 2024.

#### Summary of financials

- Total Revenue: \$267.3 million, down 3.3% from \$276.5 million last year.
- Net Profit After Tax (NPAT): \$7.7 million, down 71.7% from \$27.4 million last year.
- Underlying Earnings: \$13.9 million, down 41.6% from \$23.7 million last year.
- Dividend: \$8.3 million - 5.84 cents per share, representing 60% of Underlying Earnings. This is in addition to the \$18.5 million Special Dividend paid earlier this year of 13 cents per share.
- Total assets: \$358.6 million, down 6.2% from \$382.3 million last year.
- Strong balance sheet with no debt at year-end.

The Board notes that the 2023-24 financial year has produced some difficult conditions for the co-operative with a reduced milk price environment, a subsequent reduction in activity driving a lower bull valuation, ongoing cost inflation, tax changes, and a semen quality issue that resulted in over \$2 million worth of credits paid to farmers.

However, despite some very challenging conditions, the Board is pleased to present a positive result to our farmer shareholders, for the seventh successive year.

Farmer shareholders are the heart of our co-operative and it has been a particularly difficult year for them with a lower milk price environment alongside continuing high input and debt servicing costs. The impacts of the lower milk price were felt across New Zealand and are reflected in the 3.3% reduction in revenue.

LIC is committed to our farmer shareholders and we have continued to invest in research and development, quality improvements in our semen laboratories and technology innovation that will benefit their businesses and the sector's needs now and into the future.

Throughout the 2023-24 financial year the organisation has identified cost savings to offset reduced revenue and this has allowed the co-op to still post a profit and pay out a dividend to its shareholders, which is in addition to the \$18.5m Special Dividend paid earlier this year of 13 cents per share.

Tax legislation enacted in March 2024 removed the ability to depreciate commercial buildings for tax purposes from the 2024-25 income tax year. The application of this tax change created a one-off, non-cash accounting adjustment to tax expense at year end of approximately \$4 million, with a corresponding increase in LIC's deferred tax liability balance.

Research and development investments increased by 14.2% to \$21.2 million, representing 7.9% of revenue. Investments include a methane research trial focused on investigating the potential to breed low methane-emitting cows in the future, as well as a heat tolerance research programme which involves breeding high genetic merit dairy cows with improved heat tolerance.

The proportion of fresh semen straws used for breeding replacement daughters on farm from the premium bull teams increased to 79.4% and target turnaround times were achieved across GeneMark®, Johne's Disease, and milk pregnancy testing. Johne's Disease testing saw a 10% increase, with 1.18 million animals tested during 2023-24.

LIC's herd management system MINDA® saw notable improvements during the period, integrating with milk processors such as Fonterra and Open Country as well as integrations with wearable providers and OSPRI. This enables seamless data-sharing and integration across multiple applications used on farm. MINDA® is now used by 90% of dairy farmers in New Zealand.

## Outlook

The coming year still presents a difficult economic environment with ongoing cost pressures on farm, however LIC will continue to be firmly guided by its primary focus of delivering on our three commitments to farmer shareholders - operational excellence, faster genetic improvement and software reliability and performance. The co-operative's performance against these commitments during the 2023-24 year will be reported on at its Annual Meeting in September.

The co-op expects underlying earnings for 2024-25 to be in the range of \$16-22 million, assuming no significant events, including climate events, or milk price change takes place between now and then.



# Key Results and Position

## STATEMENT OF RESULTS FOR THE YEAR For the year ended 31 May 2024

<i>In thousands of New Zealand dollars</i>	<b>Note</b>	<b>2024</b>	<b>2023</b>
Revenue	1	267,288	276,506
Purchased materials		(41,255)	(46,585)
People costs		(119,758)	(118,995)
Depreciation and amortisation	3,4,5	(24,047)	(23,116)
Other expenses	10	(60,516)	(56,855)
Net finance costs		647	157
Bull team revaluation	2	(8,768)	4,524
Fair value change in Nil Paid Share receivable	6	191	363
<b>Profit/(loss) before tax expense</b>		<b>13,782</b>	<b>35,999</b>
Tax expense	9	(6,048)	(8,647)
<b>Profit/(loss) for the year</b>		<b>7,734</b>	<b>27,352</b>
<i>Profit per Ordinary Share (excl. treasury stock)</i>		<i>\$0.05</i>	<i>\$0.19</i>
Hedge revaluations	6	(251)	113
Foreign currency translation movements	6	25	(85)
Investment revaluations	6	8,805	1,711
Land and buildings revaluations	3,6	3,715	2,246
Tax effect of buildings revaluations	9	(784)	(666)
		<b>11,510</b>	<b>3,319</b>
<b>Comprehensive income for the year</b>		<b>19,244</b>	<b>30,671</b>
<b>Supplementary non-GAAP note to the results for the year:</b>			
Profit/(loss) for the year		7,734	27,352
Plus/(less): Bull team revaluation		8,768	(4,524)
Tax effect on Bull team revaluation		(2,455)	1,267
Less: Fair value change in Nil Paid Share receivable		(191)	(363)
<b>Underlying earnings</b>		<b>13,856</b>	<b>23,732</b>
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		<i>\$0.10</i>	<i>\$0.17</i>

## Key results and position

### STATEMENT OF POSITION FOR THE YEAR

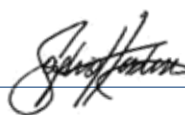
As at 31 May 2024

<i>In thousands of New Zealand dollars</i>	<b>Note</b>	<b>2024</b>	<b>2023</b>
Cash		42,341	54,596
Debtors	8	34,952	37,628
Other assets	8	26,557	35,892
Nil Paid Shares receivable	6	972	4,327
Bull team	2	88,872	97,640
Land, buildings and equipment - owned & leased	3,5	118,997	113,547
Software, goodwill and other intangible assets	4	45,917	38,661
<b>Total assets</b>		<b>358,608</b>	<b>382,291</b>
Creditors	7	23,831	23,505
Borrowings	7	-	-
Deferred tax	9	30,645	27,732
Other liabilities	11	29,221	33,560
<b>Total liabilities</b>		<b>83,697</b>	<b>84,797</b>
<b>Net assets</b>		<b>274,911</b>	<b>297,494</b>
Share capital	6	76,737	76,737
Retained earnings	6	150,567	170,742
Other reserves	6	47,607	50,015
<b>Total equity</b>		<b>274,911</b>	<b>297,494</b>



Director

Date: 18 July 2024



Director

Date: 18 July 2024



## Key results and position

### STATEMENT OF CASH FLOWS FOR THE YEAR

For the year ended 31 May 2024

<i>In thousands of New Zealand dollars</i>	<b>Note</b>	<b>2024</b>	<b>2023</b>
Customer receipts		264,919	276,609
Supplier payments		(223,940)	(236,542)
Net tax payments		(2,189)	(3,983)
Other operating cash flows		1,262	707
<b>Net operating cash flows</b>	<b>13</b>	<b>40,052</b>	<b>36,791</b>
Software development		(16,097)	(9,611)
Net sales/(purchases) of land, buildings and equipment		(11,570)	(10,966)
Sale / (purchase) of investments	8	19,030	(4)
<b>Net investment cash flows</b>		<b>(8,637)</b>	<b>(20,581)</b>
Payment of principal portion of lease liabilities		(5,408)	(4,319)
Drawdown/(repayment) of borrowings		-	-
Nil Paid Share receipts		165	334
Dividends paid		(38,446)	(21,881)
<b>Net financing cash flows</b>		<b>(43,689)</b>	<b>(25,866)</b>
<b>Movement in cash for year</b>		<b>(12,274)</b>	<b>(9,656)</b>
Cash at beginning of the year		54,596	64,135
Currency movement on cash holdings		19	117
<b>Cash at end of the year</b>		<b>42,341</b>	<b>54,596</b>

## Key results and position

### STATEMENT OF CHANGES IN POSITION FOR THE YEAR

For the year ended 31 May 2024

<i>In thousands of New Zealand dollars</i>	Note	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2023		76,737	170,742	50,015	<b>297,494</b>
Profit/(loss) for the year		-	7,734	-	<b>7,734</b>
Dividends paid		-	(41,827)	-	<b>(41,827)</b>
Hedge revaluations		-	-	(251)	<b>(251)</b>
Foreign currency translation movements		-	-	25	<b>25</b>
Investment revaluations		-	-	8,805	<b>8,805</b>
Land and buildings revaluations	3,6	-	-	2,931	<b>2,931</b>
Reclassification of investment revaluations on divestment	6	-	13,918	(13,918)	-
<b>Balance at 31 May 2024</b>		<b>76,737</b>	<b>150,567</b>	<b>47,607</b>	<b>274,911</b>
Balance at 1 June 2022		76,737	169,624	46,696	<b>293,057</b>
Profit/(loss) for the year		-	27,352	-	<b>27,352</b>
Dividends paid		-	(26,234)	-	<b>(26,234)</b>
Hedge revaluations		-	-	113	<b>113</b>
Foreign currency translation movements		-	-	(85)	<b>(85)</b>
Investment revaluations		-	-	1,711	<b>1,711</b>
Land and buildings revaluations	3,6	-	-	1,580	<b>1,580</b>
<b>Balance at 31 May 2023</b>		<b>76,737</b>	<b>170,742</b>	<b>50,015</b>	<b>297,494</b>



## More Details

### Accounting policies

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#### Accounting entity

These financial statements set out the performance, position and cash flows of Livestock Improvement Corporation Limited ("LIC" or the "Company") and its subsidiaries (the "Group") for the year ended 31 May 2024.

LIC is domiciled in New Zealand, registered under the Companies Act 1993 and the Co-operative Companies Act 1996, and listed on the Main Board of NZX Ltd. LIC is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

#### Basis of Preparation

**i. Statement of compliance**

These financial statements comply with NZ GAAP as appropriate for Tier 1, for-profit entities, NZIFRS and IFRS.

**ii. Basis of measurement**

The financial statements have been prepared on a GST exclusive basis, with the exception of trade receivables and trade payables, which are reported inclusive of GST.

The majority of the Group's business does not follow a clearly identifiable operating cycle, therefore the balance sheet is presented in order of liquidity as it is more relevant to the users of the financial statements.

**iii. Functional and presentation currency**

The functional currency of the Company and the presentation currency of the financial statements is New Zealand Dollars ("NZD"), with amounts rounded to the nearest thousand.

**iv. Use of estimates and judgements**

The key estimations and judgements made in preparing these financial statements are the valuation of the Bull team and the impairment testing of software and other intangible assets.

**v. New or amended standards adopted in current year and standards issued but not yet effective**

Accounting policies have been applied consistently with prior periods.

**vi. Climate risk**

Climate change and how farmer shareholders, regulators and others respond may have an impact on the Group's future revenue and the recognised amounts of assets and liabilities. While the effects of climate change are a continuing source of uncertainty, climate-related risks have been assessed as not having a material impact on these financial statements. Reviews of accounting estimates (including the valuation of the bull team in Note 2, and the valuation of land and buildings in Note 3), judgements and impairment testing assumptions (refer to note 4) have considered potential future impacts of climate change.

## Notes to the Financial Statements

### 1. Business analysis

#### (i) Operating segments

The Group operates in four key operating segments and across four key geographies as set out below. Figures in the following tables reflect information regularly reported to the Chief Executive on those key operating segments:

- NZ market genetics: provides bovine genetic breeding material and related services, predominately to dairy farmers.
- Herd testing: herd testing, animal recording and on-farm support for dairy farmers.
- Farm software: data recording, tags and farm management information services.
- Diagnostics: provides DNA and animal health testing services.

NZ Market Genetics revenue is primarily recognised at a point in time, upon delivery of product to the customer. All other revenue lines are primarily recognised over time, as the service to the customer is provided.

*In thousands of New Zealand dollars*

2024	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	110,689	39,831	54,187	29,314	33,267	-	<b>276,288</b>
Inter-segment revenue	-	-	-	-	7,830	(7,830)	-
<b>Total revenue</b>	<b>110,689</b>	<b>39,831</b>	<b>54,187</b>	<b>29,314</b>	<b>41,097</b>	<b>(7,830)</b>	<b>276,288</b>
Depreciation & amortisation	(1,922)	(5,790)	(1,336)	(3,548)	(11,451)	-	<b>(24,047)</b>
<b>Segment gross profit before tax</b>	<b>70,686</b>	<b>19,877</b>	<b>41,422</b>	<b>13,193</b>	<b>11,164</b>	-	<b>156,342</b>
Bull team revaluation							(8,768)
Unallocated amounts							(133,792)
<b>Profit/(loss) before tax expense</b>							<b>13,782</b>

2023	NZ market genetics	Herd testing*	Farm software*	Diagnostics	Other*	Eliminations	Total
External revenue	113,467	40,009	52,622	29,067	41,251	-	<b>276,506</b>
Inter-segment revenue	-	-	-	-	5,706	(5,706)	-
<b>Total revenue</b>	<b>113,467</b>	<b>40,009</b>	<b>52,622</b>	<b>29,067</b>	<b>46,957</b>	<b>(5,706)</b>	<b>276,506</b>
Depreciation & amortisation	(1,540)	(5,835)	(1,293)	(3,528)	(10,920)	-	<b>(23,116)</b>
<b>Segment gross profit before tax</b>	<b>72,815</b>	<b>20,575</b>	<b>39,416</b>	<b>13,208</b>	<b>17,263</b>	-	<b>163,277</b>
Bull team revaluation							4,524
Unallocated amounts							(131,802)
<b>Profit/(loss) before tax expense</b>							<b>35,999</b>

*\*During the current year an internal reorganisation transferred on-farm support between operating segments, 2023 numbers have been restated to present comparatives on a consistent basis.*

The Other segment includes international operations, research & development and support services. Unallocated amounts include personnel costs, other expenses and net finance costs and are unallocated because the effort and cost involved to accurately allocate these amounts to individual business segments would outweigh the benefit.

# Notes to the Financial Statements

## 1. Business analysis (cont.)

### (ii) Geographic analysis

In thousands of New Zealand dollars

2024	New Zealand	Australia	Ireland	UK	Other	Total
Revenues	248,420	8,999	3,545	2,337	3,987	<b>267,288</b>
Non-current assets	254,087	4,397	1,157	59	-	<b>259,700</b>
2023						
Revenues	254,001	10,186	3,605	2,724	5,990	<b>276,506</b>
Non-current assets	253,959	4,756	1,060	9,425	-	<b>269,200</b>

Non-current assets includes the Bull team, Land, buildings & equipment, Software, goodwill and other intangible assets, Nil Paid Share receivable and investments. During the period, LIC's United Kingdom subsidiary sold its shareholding in National Milk Records Plc, which significantly reduced Non-current assets for the United Kingdom region.

The Group's significant subsidiaries are:

- **New Zealand:** LIC Agritechnology Company Limited (100%)
- **Australia:** Livestock Improvement Pty Ltd (100%), Beacon Automation Pty Ltd (100%)
- **Ireland:** LIC Ireland Limited (100%)
- **United Kingdom:** Livestock Improvement Corporation (UK) Ltd (100%)

The Group is not dependent on any one major customer in any of its reportable segments. New Zealand revenues include government grants and R&D tax incentive income of \$8.179 million (2023: \$8.477 million).

## 2. Bull Team

The bull team is the cornerstone asset of LIC's genetics business. The 810 total bulls (2023: 915 bulls) from which the bull team are selected are carried at their fair value, which is based on LIC's modelling of future cash flows from the bulls (a "Level 3 valuation"). Changes in their fair value are reported in profit/(loss) for the year. The fair value from the bulls is partly dependent on the future sales mix of LIC's genetics products, which is historically strongly correlated to the Farmgate Milk Price paid by Fonterra Co-operative Group. The valuation is also sensitive to a change in the WACC rate used to discount future cash flows and the run-off profile of bulls (revenue attributable) that make up the bull team.

In thousands of New Zealand dollars	2024	2023
Opening balance	97,640	93,116
Bull team revaluation	(8,768)	4,524
<b>Closing balance</b>	<b>88,872</b>	<b>97,640</b>

### Key drivers of the model:

Forecasted Fonterra Farmgate Milk Price*	\$8.25 - \$8.85	\$8.25 - \$9.00
WACC annualised post tax rate	8.11% - 8.76%	7.75% - 8.78%
Number of bulls in the team	124	128
Average % of run-off profile (years 2-5)	42%	43%

\*This is the long term to short term Milk Price outlook.

### The impact on the fair value of a change to these key drivers is summarised below:

Genomic run-off profile	\$5.6m - average of 5% shift across years 2-5	
Impact on demand incorporating effect of changing the 2024 forecast Farmgate Milk Price \$2.75 decrease in the long term (2023: Impact on demand incorporating effect of reducing the 2023 forecast Farmgate Milk Price by \$2.00 in the long term)	\$14.1m	\$17.9m
WACC moves 100 basis points	\$2.5m	\$2.9m

## Notes to the Financial Statements

### 3. Land, buildings and equipment

Land and buildings are carried at fair value, determined by an independent valuer as at April 2024. Fair value is based on comparable sales for land and based on depreciated replacement cost for buildings. Revaluations are reflected in the revaluation reserve. Equipment includes plant, vehicles, furniture and fittings and IT hardware, and is carried at depreciated cost. Buildings and equipment are depreciated on a straight-line basis over their estimated useful lives, and are reviewed annually for any indications of impairment.

In thousands of New Zealand dollars	2024				2023			
	Land	Buildings	Equipment	Total	Land	Buildings	Equipment	Total
Opening balance	37,990	51,500	24,057	<b>113,547</b>	38,092	45,901	22,433	<b>106,426</b>
Additions	-	4,852	7,331	<b>12,183</b>	35	4,484	7,574	<b>12,093</b>
Disposals	-	-	(126)	<b>(126)</b>	-	(663)	(424)	<b>(1,087)</b>
Depreciation	-	(3,048)	(6,906)	<b>(9,954)</b>	-	(2,503)	(6,733)	<b>(9,236)</b>
Revaluation	743	2,650	-	<b>3,393</b>	(137)	2,460	-	<b>2,323</b>
Foreign exchange	-	-	(2)	<b>(2)</b>	-	(3)	(25)	<b>(28)</b>
Leased assets movement - note 5	-	(253)	209	<b>(44)</b>	-	1,824	1,232	<b>3,056</b>
<b>Closing balance</b>	<b>38,733</b>	<b>55,701</b>	<b>24,563</b>	<b>118,997</b>	<b>37,990</b>	<b>51,500</b>	<b>24,057</b>	<b>113,547</b>
Value if carried at cost	11,726	23,135	N/A		11,726	21,331	N/A	
Estimated useful lives	N/A	10-60 years	3-10 years		N/A	10-60 years	3-10 years	

### 4. Software and other intangibles

#### (i) Software and other intangible asset balances

Software development expenditure is capitalised only where costs are directly attributable, and once the product or process is commercially feasible, the benefits are probable, and the Group intends to sell or use the completed software.

Software assets are amortised over their useful lives of up to seven years on a straight line basis, and are reviewed annually for indicators of impairment.

Intellectual property (IP) assets are amortised over their estimated useful lives of up to 13 years.

The genetic data in the LIC database increases with each successive generation. Both goodwill and the LIC database have indefinite useful lives. They are recognised at cost and are not amortised, are allocated to a cash generating unit ("CGU") and tested for impairment annually.

In thousands of New Zealand dollars	2024				2023			
	Software & IP	Goodwill	Database	Total	Software & IP	Goodwill	Database	Total
Opening balance	25,798	2,363	10,500	<b>38,661</b>	25,760	2,348	10,500	<b>38,608</b>
Additions	16,081	-	-	<b>16,081</b>	9,646	-	-	<b>9,646</b>
Disposals/impairment	-	-	-	<b>-</b>	-	-	-	<b>-</b>
Amortisation	(8,842)	-	-	<b>(8,842)</b>	(9,557)	-	-	<b>(9,557)</b>
Foreign exchange	9	8	-	<b>17</b>	(51)	15	-	<b>(36)</b>
<b>Closing balance</b>	<b>33,046</b>	<b>2,371</b>	<b>10,500</b>	<b>45,917</b>	<b>25,798</b>	<b>2,363</b>	<b>10,500</b>	<b>38,661</b>

## Notes to the Financial Statements

### 4. Software and other intangibles (cont.)

At reporting date, software includes \$11.595 million (2023: \$8.994 million) of work in progress, which is not being amortised until it is ready for use.

#### (ii) Impairment testing of intangible assets

Allocation of Goodwill and the LIC Database to CGUs:

*In thousands of New Zealand dollars*

	2024			2023		
	NZ Market Genetics, Farm software and herd testing CGU	Other CGU	Total	NZ Market Genetics, Farm software and herd testing CGU	Other CGU	Total
LIC database	10,500	-	10,500	10,500	-	10,500
Goodwill	-	2,371	2,371	-	2,363	2,363
	10,500	2,371	12,871	10,500	2,363	12,863

The LIC database and Other CGU Goodwill recoverable amounts have been determined using value in use.

For the LIC database and Other CGU Goodwill, a discounted cash flow model is used for impairment testing based on expected results and capital expenditure from the current year forecast, Board approved budgets and a projection for further periods using a terminal growth rate. A five year cash flow projection period is used. The terminal growth rate used is 1.5% (2023: 1.0-2.0%) for the LIC database and Other CGU Goodwill. The discount rate applied is reviewed and updated annually for movements in published Treasury risk-free rates and is 8.7-10.9% for the LIC database and Other CGU Goodwill (2023: 8.3-10.4% for the LIC database and Other CGU Goodwill).

### 5. Leases

#### (i) LIC as a lessee

The Group has lease contracts for buildings, equipment and vehicles used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Several lease contracts include extension and termination options. The Group's discount or incremental borrowing rate applicable to leases is 5.1% (2023: 4.9%).

The Group also has certain leases of machinery with lease terms of 12-months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

## Notes to the Financial Statements

### 5. Leases (cont.)

#### (ii) Lease balances in the Statement of Position

##### Right of use assets

Set out below are the carrying amounts of right-of-use assets recognised (under Land, buildings and equipment) and the movements during the period:

In thousands of New Zealand dollars	2024				2023			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Opening Balance	12,652	180	7,323	<b>20,155</b>	10,829	273	5,997	<b>17,099</b>
Depreciation	(1,471)	(142)	(3,638)	<b>(5,251)</b>	(1,402)	(96)	(2,825)	<b>(4,323)</b>
Additions	1,420	347	3,871	<b>5,638</b>	3,322	3	4,389	<b>7,714</b>
Disposals/modifications	(202)	-	(229)	<b>(431)</b>	(97)	-	(238)	<b>(335)</b>
<b>Closing balance</b>	<b>12,399</b>	<b>385</b>	<b>7,327</b>	<b>20,111</b>	<b>12,652</b>	<b>180</b>	<b>7,323</b>	<b>20,155</b>
<i>Lease terms</i>	<i>2-28 years</i>	<i>2-5 years</i>	<i>2-8 years</i>		<i>2-28 years</i>	<i>2-5 years</i>	<i>2-7 years</i>	

##### Lease liabilities

Set out below are the carrying amounts of lease liabilities recognised at 31 May (included in Other liabilities):

In thousands of New Zealand dollars	2024				2023			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Within 1 year	1,341	72	3,549	<b>4,962</b>	1,208	23	3,013	<b>4,244</b>
Between 1 to 5 years	4,612	161	4,301	<b>9,074</b>	4,466	-	4,754	<b>9,220</b>
More than 5 years	7,662	-	-	<b>7,662</b>	8,004	-	-	<b>8,004</b>
<b>Closing balance</b>	<b>13,615</b>	<b>233</b>	<b>7,850</b>	<b>21,698</b>	<b>13,678</b>	<b>23</b>	<b>7,767</b>	<b>21,468</b>

#### (iii) Lease related amounts in the Statement of Results

In thousands of New Zealand dollars	2024				2023			
	Buildings	Equipment	Vehicles	Total	Buildings	Equipment	Vehicles	Total
Depreciation	1,471	142	3,638	<b>5,251</b>	1,402	96	2,825	<b>4,323</b>
Interest expense	621	17	479	<b>1,117</b>	478	4	370	<b>852</b>
Variable lease payments	-	-	980	<b>980</b>	-	-	1,123	<b>1,123</b>
Short-term and low-value leases	-	1	-	<b>1</b>	-	9	-	<b>9</b>
<b>Total amount</b>	<b>2,092</b>	<b>160</b>	<b>5,097</b>	<b>7,349</b>	<b>1,880</b>	<b>109</b>	<b>4,318</b>	<b>6,307</b>

The Group had total non-variable cash outflows for leases of \$6.086 million in 2024 (\$4.868 million in 2023).



## Notes to the Financial Statements

### 6. Funding

The Group's funding comes from Share Capital, Retained earnings, Other reserves and Borrowings.

#### (i) Ordinary Shares

All Ordinary Shares have voting rights and the right to receive dividends based on the profits of the Company.

At reporting date there were 142,344,836 Ordinary Shares on issue, excluding 5,337,584 shares held as treasury stock (2023: 142,344,836 Ordinary Shares, excluding 5,337,584 shares held as treasury stock).

#### (ii) Nil Paid Shares

Ordinary Shares includes both fully paid shares and shares on which full payment has not yet been made. These Nil Paid Shares must be paid up over time by Shareholders via a combination of dividend payments forgone, voluntary payments and payments made on exit as a Shareholder. At year-end the outstanding amount on Nil Paid Shares has been recorded in the Statement of Position as a receivable, valued at \$0.972 million (2023: \$4.327 million) using a discounted cash flow model. The model uses assumptions on expected future dividends, voluntary and compulsory payments and applies a discount rate of 8.6% (2023: 8.0%).

#### (iii) Other reserves and equity

<i>In thousands of New Zealand dollars</i>	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Foreign currency translation reserve	Other reserves
Balance at 1 June 2023	171	6,569	43,360	(85)	<b>50,015</b>
Revaluations	(251)	8,805	2,931	25	<b>11,510</b>
Reclassification of investment revaluations on divestment*	-	(13,918)	-	-	<b>(13,918)</b>
<b>Balance at 31 May 2024</b>	<b>(80)</b>	<b>1,456</b>	<b>46,291</b>	<b>(60)</b>	<b>47,607</b>
Balance at 1 June 2022	58	4,858	41,780	-	<b>46,696</b>
Revaluations	113	1,711	1,580	(85)	<b>3,319</b>
<b>Balance at 31 May 2023</b>	<b>171</b>	<b>6,569</b>	<b>43,360</b>	<b>(85)</b>	<b>50,015</b>

\*During the period, LIC sold its shareholding in National Milk Records Plc for £9.019 million (NZD \$18.963 million). Associated accumulated revaluations have been reclassified from Other reserves to Retained earnings on divestment.

#### (iv) Market capitalisation

As at 31 May 2024, the Group's market capitalisation of \$172.365 million was below the carrying value of net assets of \$274.911 million. The share price is not considered an accurate reflection of the fair value of the Group's net assets for a number of reasons, including the nature of the co-operative and its restricted capital structure. Accounting standards consider market capitalisation below net assets to be an indicator of possible impairment and an impairment test has therefore been performed. The Group recoverable amount has been determined using a value in use method similar to the impairment tests in Note 4. A discounted cash flow model has been used based on Board approved budgets and a projection covering five years using a terminal growth rate of 1.5%. The discount rate applied is reviewed and updated annually for movements in published Treasury risk-free rates and is 8.7%. The calculated recoverable amount of the group was higher than the carrying value of the net assets, and therefore no impairment was recognised.

#### (v) Bank debt

Bank loans for seasonal funding requirements are secured by a Negative Pledge granted to Westpac and Rabobank over certain New Zealand-based subsidiaries.

## Notes to the Financial Statements

### 7. Liquidity and interest rate risk

#### (i) Liquidity risk

Liquidity risk is the risk of having insufficient liquid assets to pay the Group's debts as they fall due. The Group manages the risk by monitoring forecast cash flows and holding sufficient bank facilities to meet the Group's needs. The contractual maturity of the Group's funding is shown below.

<i>In thousands of New Zealand dollars</i>	2024				2023			
	Demand to 6 months	6 months to 1 year	1 year plus	Total	Demand to 6 months	6 months to 1 year	1 year plus	Total
Borrowings	-	-	-	-	-	-	-	-
Creditors	23,831	-	-	23,831	23,505	-	-	23,505
	23,831	-	-	23,831	23,505	-	-	23,505

The Group has bank funding facilities in place until February 2025 and expects to be able to meet any obligations which fall due.

#### (ii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will impact the Group's results or position. The weighted average effective interest rate paid on borrowings in 2024 was 7.3% (2023: 5.3%). A 1.0% increase in interest rates would increase interest paid and reduce profit after tax by approximately \$0.001 million (2023: \$0.003 million).

### 8. Debtors and other assets

#### (i) Debtors

Bad debts of \$0.020 million have been expensed during the year (2023: \$0.007 million), and 87.8% of trade receivables are not past due (2023: 90.3%).

#### (ii) Other assets

<i>In thousands of New Zealand dollars</i>	2024	2023
Inventories	20,808	19,923
Investments	4,941	15,027
Derivatives used for hedging	-	164
Other livestock	808	778
	26,557	35,892

Inventories utilised and expensed during the period amounted to \$29.176 million (2023: \$33.113 million). Inventories written off in 2024 totalled \$0.095 million (2023: \$0.038 million).

Investments are non-current assets and are held at fair values based on available share prices and other market information. Gains and losses are recognised in other comprehensive income, as investments are not held for trading. Investments include Figured Limited \$3.358 million (2023: \$4.207 million) and, in 2023, National Milk Records PLC which was sold during the period (2023: \$9.319 million).

## Notes to the Financial Statements

### 9. Tax

Tax expense is recognised for items arising this year that are either taxable this year (current tax) or in other years (deferred tax). The main items giving rise to deferred tax are revaluations of the Bull team and Buildings.

#### (i) Tax expense

<i>In thousands of New Zealand dollars</i>	2024	2023
Profit/(loss) for the year	7,734	27,352
Tax expense	6,048	8,647
<b>Profit/(loss) before tax expense</b>	<b>13,782</b>	<b>35,999</b>
Tax at 28% NZ company tax rate	3,859	10,080
Effect of overseas income	(34)	(683)
Non-deductible items	(521)	(774)
Adjustments from prior periods	(899)	24
Impact of changes to building depreciation	3,643	-
<b>Tax expense</b>	<b>6,048</b>	<b>8,647</b>
Current tax expense	3,919	7,843
Deferred tax expense	2,129	804
Imputation credits available	9,468	19,006

In March 2024, legislation was enacted which removed the deductibility of depreciation on long-life commercial buildings for tax purposes. At 31 May 2024, the impact of this change decreases the tax base for these assets, giving rise to an increased temporary difference between the carrying cost and tax base and results in a one-off, non-cash, increase in both deferred tax liability and tax expense of \$3.643 million.

Given the Group's current turnover, and the lack of significant operations in foreign jurisdictions with tax rates below 15%, it does not expect to be impacted by Pillar II tax reforms and the move towards global minimum tax rates of 15%.

LIC claims credits under the R&D Tax Incentive scheme. Claims include eligible core research expenditure and technology development, as well as expenses that support R&D, and the credits are recorded as non-taxable revenue.

#### (ii) Deferred tax liability

<i>In thousands of New Zealand dollars</i>	As at 31 May 2024	Through Profit/(loss)	Through Other reserves	As at 31 May 2023	Through Profit/(loss)	Through Other reserves	As at 31 May 2022
Bull team & livestock	24,421	(2,414)	-	26,835	1,168	-	25,667
Buildings & equipment	5,850	3,304	784	1,762	(212)	666	1,308
Intangible assets	2,940	1,480	-	1,460	-	-	1,460
Other	(2,566)	(241)	-	(2,325)	(152)	-	(2,173)
<b>Total</b>	<b>30,645</b>	<b>2,129</b>	<b>784</b>	<b>27,732</b>	<b>804</b>	<b>666</b>	<b>26,262</b>

## Notes to the Financial Statements

### 10. Other expenses

Other expenses includes the following amounts paid to the Group's auditors, KPMG:

<i>In thousands of New Zealand dollars</i>	<b>2024</b>	<b>2023</b>
Audit of the financial statements	222	210
Tax - compliance services for R&D Tax Incentive scheme	-	17
Agreed upon procedures*	24	24
Compilation of dataset of metrics	-	11
<b>Total</b>	<b>246</b>	<b>262</b>

\*Agreed upon procedures related to the R & D Tax Incentive scheme and disclosure of historical financial data in a sustainability report.

As part of business activities, LIC incurs research and development expenses while working on a number of projects. Research and Development expenses were previously disclosed separately on the face of the 'Statement of Results', however are now presented here.

<i>In thousands of New Zealand dollars</i>	<b>2024</b>	<b>2023</b>
Research & Development Expenses	21,215	18,577

### 11. Other liabilities

<i>In thousands of New Zealand dollars</i>	<b>2024</b>	<b>2023</b>
Provisions for employee entitlements	7,596	9,340
Provision for sire proving rebate	2,522	2,547
Derivatives used for hedging	87	-
Provision for tax	(3,259)	(327)
Lease liabilities - current	4,962	4,244
Lease liabilities - non-current	16,736	17,224
Other	577	532
	<b>29,221</b>	<b>33,560</b>

The provision for sire proving rebate represents a rolling three years of expected rebate payments, with approximately \$1 million due to be paid in each of the next three years, discounted to 31 May 2024.

## Notes to the Financial Statements

### 12. Transactions with Related Parties - Directors and Management

The Group has had the following short-term transactions with key Management and Directors during the year:

<i>In thousands of New Zealand dollars</i>	<b>2024</b>	<b>2023</b>
Remuneration of key Management and Directors	4,960	4,197
Sale of goods and services to key Management and Directors	468	597
Purchases of goods and services from key Management and Directors	3	166

Directors of the Company and their related entities hold 378,001 Ordinary Shares, representing 0.26% of shares on issue (2023: 375,359 Ordinary Shares, representing 0.25%).

There are no loans or deposits with related entities outside of the consolidated Group.

### 13. Reconciliation of the Profit/(loss) for the year to Net operating cash flows

<i>In thousands of New Zealand dollars</i>	<b>2024</b>	<b>2023</b>
<b>Profit/(loss) for the year</b>	<b>7,734</b>	<b>27,352</b>
<i>Adjusted for:</i>		
Depreciation and amortisation on all assets	24,047	23,116
Bull team revaluation	8,768	(4,524)
Deferred tax expense	2,129	804
Working capital movements and other non-cash items	(2,626)	(9,957)
<b>Net operating cash flows</b>	<b>40,052</b>	<b>36,791</b>

### 14. Subsequent events

After 31 May 2024, a dividend of 5.84 cents per Ordinary Share was proposed by the Directors in relation to the 2024 year, or \$8.314 million (2023: 16.38 cents per Ordinary Share, or \$23.323 million).



# Independent Auditor's Report

To the shareholders of Livestock Improvement Corporation

## Report on the audit of the consolidated financial statements

### Opinion

In our opinion, the consolidated financial statements of Livestock Improvement Corporation Limited (the 'company') and its subsidiaries (the 'group') on pages 7 to 21 present fairly, in all material respects:

- i. the Group's financial position as at 31 May 2024 and its financial performance and cash flows for the year ended on that date;

in accordance with New Zealand Equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board and International Financial Reporting Standards issued by the International Accounting Standards Board.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of position as at 31 May 2024;
- the consolidated statements of results, changes in position and cash flows for the year ended; and
- notes, including material accounting policy information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Our firm has also provided other services to the Group comprising agreed upon procedure engagements over the research and development tax credit and the disclosure of historical financial data in a sustainability report. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$1,490,000 determined with reference to a benchmark of profit/(loss) for the year before tax (excluding bull team revaluation movements). We chose the benchmark because, in our view, this is a key measure of the Group's performance.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
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### Valuation of the Bull Team

*Refer to Note 2 to the Financial Statements.*

Determining the valuation of the bull team, which is the core asset to both the domestic and international genetics operations of the Group, is a highly judgemental and complex area. Management prepares a model that projects the number and types of straws that the current team can produce and will be sold over the useful life of the bulls. The valuation model factors the cost of rearing, animal and farm management costs, and forecasts of processing costs to make sales. The calculated surplus is discounted to reflect the time value of money

Our audit procedures included challenge of management's significant assumptions such as:

- Projected sales volumes and pricing;
- Discount rates applied; and
- Runoff Profile of the bulls.

We compared sales and costs growth, and inflation rates to historical data and published market forecast data where available.

We utilised our valuation specialists to review market and industry data to assess management's discount rate applied to the valuation model.

We assessed the runoff profile of the bulls against historical data and found the inputs to be comparable.

We considered the adequacy of the related financial statement disclosures.

We had no matters to report as a result of our procedures

### Carrying Value of Intangible Assets

*Refer to Note 4 to the Financial Statements*

The Group has two categories of intangible assets with indefinite useful lives:

- Goodwill of \$2.3m, arising from a number of acquisitions; and
- The LIC Animal Database of \$10.5m.

The two significant cash generating units (CGUs) holding these assets are tested twice a year for impairment using discounted cashflow models to determine the recoverable amount.

The market capitalisation deficit that exists at balance date is an indicator of impairment at a Group level and has therefore been tested for impairment using a discounted

We challenged management on the reasonableness of the assumptions included in the cashflow forecast models, with particular attention paid to the following:

- Assessing management's future sales and growth assumptions compared to external market and industry data and historical performance of each of the CGU's and the Group. We used our own valuation specialists to assist us with the consideration of the discount rates;
- Comparing management's previous forecasts to actual results achieved in each CGU and the Group; and
- Performing sensitivity analysis around the key assumptions used in the model.

Our testing supported management's conclusion that there is no impairment.



## The key audit matter

## How the matter was addressed in our audit

cashflow model to determine the recoverable amount of the Group.

The annual impairment tests performed by the Group were significant to our audit due to the magnitude of the intangible assets and because the discounted cashflow models involve judgement about the future performance of the CGU's and the Group, including considering future economic and market conditions.

## Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Financial statements. Other information includes the Key Metrics and the Directors Report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



## Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards issued by the New Zealand Accounting Standards Board;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is free from material misstatement, whether due to fraud or error; and





- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

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## Auditor's responsibilities for the audit of the company and group financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is **Trevor Newland**

For and on behalf of

KPMG  
Hamilton  
18<sup>th</sup> July 2024

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