

Livestock Improvement Corporation Limited (LIC) Interim Financial Statements

For the six months ended 30 November 2022



There's always room for improvement





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Key results and position

STATEMENT OF RESULTS FOR THE PERIOD For the six months ended 30 November 2022

		SIX MONTHS ENDED		YEAR ENDED
		30 Nov 2022	30 Nov 2021	31 May 2022
<i>In thousands of New Zealand dollars</i>				
Continuing Operations	Note	Unaudited	Unaudited	Audited
Revenue	1	177,199	169,360	263,182
Purchased materials		(24,219)	(22,093)	(44,561)
People costs		(67,138)	(61,643)	(108,969)
Depreciation and amortisation		(11,181)	(11,214)	(22,749)
Research and development		(8,498)	(7,746)	(18,184)
Other expenses		(19,530)	(16,709)	(35,347)
Net finance costs		(508)	(366)	(277)
Bull team revaluation		-	-	(21,674)
Fair value change in Nil Paid Share receivable		233	-	1,202
Profit/(loss) before tax expense from continuing operations		46,358	49,589	12,623
Tax expense		(13,054)	(14,020)	(2,000)
Profit/(loss) for the period from continuing operations		33,304	35,569	10,623
Discontinued operations				
Profit/(loss) after tax expense from discontinued operations		-	15,191	16,100
Profit/(loss) for the period		33,304	50,760	26,723
Hedge revaluations		(446)	229	124
Investment revaluations		1,532	(288)	(5)
Land and buildings revaluations		-	-	4,756
		1,086	(59)	4,875
Comprehensive income for the year		34,390	50,701	31,598
<i>Profit from continuing operations per Ordinary Share (excl. treasury stock)</i>		<i>\$0.23</i>	<i>\$0.25</i>	<i>\$0.07</i>
<i>Profit per Ordinary Share (excl. treasury stock)</i>		<i>\$0.23</i>	<i>\$0.36</i>	<i>\$0.19</i>
Supplementary non-GAAP note to the results for the period:				
Profit/(loss) for the period		33,304	50,760	26,723
Plus: Bull team revaluation		-	-	21,674
Tax effect on Bull team revaluation		-	-	(6,069)
Less: Gain on divestment of Automation business		-	(15,490)	(15,449)
Less: Fair value change in Nil Paid Share receivable		(233)	-	(1,202)
Underlying earnings		33,071	35,270	25,677
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		<i>\$0.23</i>	<i>\$0.25</i>	<i>\$0.18</i>

Key results and position

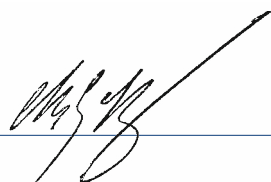
STATEMENT OF POSITION

As at 30 November 2022

		SIX MONTHS ENDED		YEAR ENDED
		30 Nov 2022	30 Nov 2021	31 May 2022
<i>In thousands of New Zealand dollars</i>				
	Note	Unaudited	Unaudited	Audited
Cash	6	45,287	50,448	64,135
Debtors		87,051	85,902	48,190
Other assets		30,554	26,640	26,484
Nil Paid Shares receivable		4,221	9,987	8,651
Bull team		93,116	114,790	93,116
Land, buildings and equipment - owned & leased	3	107,662	99,207	106,426
Software, goodwill and other intangible assets	3	37,759	42,410	38,608
Total assets		405,650	429,384	385,610
Creditors	6	35,904	32,600	28,612
Borrowings		-	-	-
Deferred tax		25,350	31,165	26,262
Other liabilities		43,183	39,221	37,679
Total liabilities		104,437	102,986	92,553
Net assets		301,213	326,398	293,057
Share capital	2	76,737	76,737	76,737
Retained earnings		176,694	207,899	169,624
Other reserves	2	47,782	41,762	46,696
Total equity		301,213	326,398	293,057

Director

Date: 25 January 2023



Director

Date: 25 January 2023



Key results and position

STATEMENT OF CASHFLOWS FOR THE PERIOD

For the six months ended 30 November 2022

<i>In thousands of New Zealand dollars</i>	SIX MONTHS ENDED		YEAR ENDED	
	30 Nov 2022	30 Nov 2021	31 May 2022	
	Note	Unaudited	Unaudited	
			Audited	
Customer receipts		131,313	125,215	261,249
Supplier payments		(114,903)	(101,339)	(206,181)
Tax payments		(2,318)	(69)	2,125
Other operating cash flows		197	(91)	(63)
Net operating cash flows	5	14,289	23,716	57,130
Software development		(3,992)	(2,567)	(6,580)
Net sales/(purchases) of land, buildings and equipment		(5,596)	(8,162)	(10,570)
Sale of net assets held for sale		-	35,548	35,571
Other investment cash flows		-	(843)	(739)
Net investment cash flows		(9,588)	23,976	17,682
Payment of principal portion of lease liabilities		(1,879)	(1,696)	(3,597)
Nil Paid Share payments		311	312	352
Dividends paid		(21,881)	(14,621)	(26,363)
Net financing cash flows		(23,449)	(16,005)	(29,608)
Movement in cash for the period		(18,748)	31,687	45,204
Cash at beginning of the year		64,135	18,821	18,821
Currency movement on cash holdings		(100)	(60)	110
Cash at end of the period		45,287	50,448	64,135

Key results and position

STATEMENT OF CHANGES IN POSITION FOR THE PERIOD

For the six months ended 30 November 2022

<i>In thousands of New Zealand dollars</i>	Note	Share capital	Retained earnings	Other reserves	Total equity
Balance at 1 June 2022		76,737	169,624	46,696	293,057
Profit/(loss) for the period		-	33,304	-	33,304
Dividends paid		-	(26,234)	-	(26,234)
Hedge revaluations		-	-	(446)	(446)
Investment revaluations		-	-	1,532	1,532
Balance at 30 November 2022 (Unaudited)		76,737	176,694	47,782	301,213
Balance at 1 June 2021 as previously reported		76,737	175,565	41,821	294,123
Impact of SAAS accounting policy change	Accounting policies (v)	-	(878)	-	(878)
Restated balance at 1 June 2021		76,737	174,687	41,821	293,245
Profit/(loss) for the period		-	50,760	-	50,760
Dividends paid		-	(17,813)	-	(17,813)
Hedge revaluations		-	-	229	229
Investment revaluations		-	-	(288)	(288)
Adjustments on divestment		-	265	-	265
Balance at 30 November 2021 (Unaudited)		76,737	207,899	41,762	326,398
Restated balance at 1 June 2021		76,737	174,687	41,821	293,245
Profit/(loss) for the year		-	26,723	-	26,723
Dividends paid		-	(32,052)	-	(32,052)
Hedge revaluations		-	-	124	124
Investment revaluations		-	-	(5)	(5)
Land and buildings revaluations		-	-	4,756	4,756
Adjustments on divestment		-	266	-	266
Balance at 31 May 2022 (Audited)		76,737	169,624	46,696	293,057

Accounting policies

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 six months ended 30 November 2022.

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 the New Zealand Stock.

Exchange Limited ("NZX"). LIC is an FMC Reporting Entity for the purposes of the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

These financial statements should be read in conjunction with the annual report for the year ended 31 May 2022.

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

Consistent with the annual report for the year ended 31 May 2022, these financial statements reflect the impact of the IFRS Interpretation Committee's decisions on accounting for software-as-a-service (SAAS) arrangements, which reduced retained earnings and software intangible assets by \$0.878 million as at 1 June 2020 and 31 May 2021. In all other respects, accounting policies have been applied consistently with prior periods.

Notes to the Financial Statements

1. Business analysis

The Group operates in four key operating segments as set out below, and across four key geographies. 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 and animal recording for pastoral 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

SIX MONTHS ENDED 30 NOV 2022 (Unaudited)	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	102,947	15,738	26,191	12,983	19,340	-	177,199
Inter-segment revenue	-	-	-	-	1,723	(1,723)	-
Total revenue	102,947	15,738	26,191	12,983	21,063	(1,723)	177,199
Depreciation & amortisation	(706)	(2,726)	(708)	(2,726)	(4,315)	-	(11,181)
Segment gross profit before tax	68,527	6,706	19,530	4,599	12,952	-	112,314
Bull team revaluation							-
Unallocated amounts							(65,956)
Profit/(loss) before tax expense from continuing operations							46,358

SIX MONTHS ENDED 30 NOV 2021 (Unaudited)	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	97,503	14,686	26,316	11,688	19,167	-	169,360
Inter-segment revenue	-	-	-	-	1,210	(1,210)	-
Total revenue	97,503	14,686	26,316	11,688	20,377	(1,210)	169,360
Depreciation & amortisation	(561)	(2,722)	(1,282)	(1,545)	(5,104)	-	(11,214)
Segment gross profit before tax	66,131	6,530	19,507	4,872	12,169	-	109,209
Bull team revaluation							-
Unallocated amounts							(59,620)
Profit/(loss) before tax expense from continuing operations							49,589

Notes to the Financial Statements

1. Business analysis (cont.)

In thousands of New Zealand dollars

YEAR ENDED 31 MAY 2022 (Audited)	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	104,621	36,803	51,548	26,881	43,329	-	263,182
Inter-segment revenue	-	-	-	-	4,281	(4,281)	-
Total revenue	104,621	36,803	51,548	26,881	47,610	(4,281)	263,182
Depreciation & amortisation	(1,228)	(5,606)	(2,279)	(3,297)	(10,339)	-	(22,749)
Segment gross profit before tax	69,091	19,874	38,439	10,682	18,542	-	156,628
Bull team revaluation							(21,674)
Unallocated amounts							(122,331)
Profit/(loss) before tax expense from continuing operations							12,623

The Other segment includes international operations, research & development and support services. Unallocated amounts include personnel costs, other expenses and net finance costs.

LIC's business, particularly the Parent's artificial breeding business, is highly seasonal. November results, since they incorporate the majority of the artificial breeding revenues but not a similar proportion of total costs, are not indicative of the second half result nor, therefore, the full year result.

Notes to the Financial Statements

2. Equity

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 (2021: 142,344,836 Ordinary Shares, excluding 5,337,584 shares held as treasury stock).

Other reserves and equity

<i>In thousands of New Zealand dollars</i>	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Non-controlling interests	Other Reserves
Balance at 1 June 2022	58	4,858	41,780	-	46,696
Profit/(loss) for the period	-	-	-	-	-
Dividends paid	-	-	-	-	-
Revaluations	(446)	1,532	-	-	1,086
Balance at 30 November 2022 (Unaudited)	(388)	6,390	41,780	-	47,782
Balance at 1 June 2021	(66)	4,863	37,024	-	41,821
Profit/(loss) for the period	-	-	-	-	-
Dividends paid	-	-	-	-	-
Revaluations	229	(288)	-	-	(59)
Balance at 30 November 2021 (Unaudited)	163	4,575	37,024	-	41,762
Balance at 1 June 2021	(66)	4,863	37,024	-	41,821
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	-	-
Revaluations	124	(5)	4,756	-	4,875
Balance at 31 May 2022 (Audited)	58	4,858	41,780	-	46,696

Notes to the Financial Statements

3. Acquisitions and disposals

<i>In thousands of New Zealand dollars</i>	SIX MONTHS ENDED		YEAR ENDED
	30 Nov 2022	30 Nov 2021	31 May 2022
	Unaudited	Unaudited	Audited
(i) Land, buildings and equipment			
Acquisitions *	6,318	6,249	10,588
Disposals	(237)	(94)	(152)
(ii) Software and other intangible assets			
Acquisitions	4,064	3,454	6,501
Disposals/Impairment	-	(30)	(2,278)

*Excludes the impact of NZ IFRS 16: Leases, which increased Land, buildings and equipment by \$2.0 million in 2022 (November 2021: \$2.1 million, May 2022: \$7.2 million).

4. Transactions with Related Parties, Directors and Management

The Group has had the following short term transactions with key Management and Directors during the period, noting sale of goods and services were under normal trade terms:

<i>In thousands of New Zealand dollars</i>	SIX MONTHS ENDED		YEAR ENDED
	30 Nov 2022	30 Nov 2021	31 May 2022
	Unaudited	Unaudited	Audited
Remuneration of key Management and Directors	1,710	2,803	5,280
Sale of goods and services to key Management and Directors	404	293	512
Purchases of goods and services from key Management and Directors	75	60	274

5. Reconciliation of the Profit/(loss) for the period to Net operating cash flows

<i>In thousands of New Zealand dollars</i>	SIX MONTHS ENDED		YEAR ENDED
	30 Nov 2022	30 Nov 2021	31 May 2022
	Unaudited	Unaudited	Audited
Profit for the period	33,304	50,760	26,723
Adjusted for non-cash items:			
Depreciation and amortisation	11,181	11,214	22,749
Bull team revaluation	-	-	21,674
Deferred tax expense	(912)	(770)	(6,612)
Working capital movements and other non-cash items	(29,284)	(37,488)	(7,404)
Net operating cash flows	14,289	23,716	57,130

Notes to the Financial Statements

6. Discontinued operations

Cash and Creditors in the November 2022 Statement of Position include \$7.173 million (November 2021: \$1.831 million, May 2022: \$3.005 million) for balances held in LIC bank accounts on behalf of the purchaser of LIC's Automation business.

On 8 June 2021, LIC announced the divestment of its Automation business, with settlement completed on 11 June 2021. All proceeds from the sale were paid in cash, with the exception of \$3.8 million held in escrow. LIC continues to provide transitional services to the purchaser until they fully establish operations.

7. Audit

In accordance with the Financial Reporting Act 2013 these interim financial statements are not required to be audited and therefore, in line with previous years, have not been audited.

8. Dividend

In relation to the 2022 financial year LIC declared a dividend of 18.43 cents per Ordinary Share, or \$26.232 million (2021: 12.51 cents per Ordinary Share, or \$17.808 million). The fully imputed dividend was paid on 19 August 2022.

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