



Livestock Improvement Corporation Limited (LIC) Interim Report

For the six months ended
30 November 2021



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Key results and position

STATEMENT OF RESULTS FOR THE PERIOD For the six months ended 30 November 2021

In thousands of New Zealand dollars

	Note	SIX MONTHS ENDED		YEAR ENDED
		30 Nov 2021 Unaudited	30 Nov 2020 Unaudited	31 May 2021 Audited
Continuing operations				
Revenue	1	169,360	160,690	249,013
Purchased materials		(22,093)	(20,055)	(40,795)
People costs		(61,643)	(58,293)	(103,576)
Depreciation and amortisation		(11,214)	(11,716)	(21,999)
Research and development		(7,746)	(6,428)	(17,124)
Other expenses		(16,709)	(17,516)	(33,615)
Net finance costs		(366)	(1,090)	(1,376)
Bull team revaluation		-	-	(718)
Fair value change in Nil Paid Share receivable		-	-	1,200
Profit/(loss) before tax expense from continuing operations		49,589	45,592	31,010
Tax expense		(14,020)	(12,088)	(7,397)
Profit/(loss) for the period from continuing operations		35,569	33,504	23,613
Discontinued operations				
Profit/(loss) after tax expense from discontinued operations	7	15,191	(67)	(669)
Profit/(loss) for the period		50,760	33,437	22,944
Hedge revaluations		229	(141)	(134)
Investment revaluations		(288)	(681)	(195)
Land and buildings revaluations		-	-	1,443
		(59)	(822)	1,114
Comprehensive income for the period		50,701	32,615	24,058
<i>Profit from continuing operations per Ordinary Share (excl. Treasury stock)</i>		\$ 0.25	\$ 0.24	\$ 0.17
<i>Profit per Ordinary Share (excl. treasury stock)</i>		\$ 0.36	\$ 0.23	\$ 0.16
Supplementary non-GAAP note to the results for the period:				
<i>Profit/(loss) for the period</i>		50,760	33,437	22,944
<i>Less Bull team revaluation</i>		-	-	718
<i>Tax effect on Bull team revaluation</i>		-	-	(201)
<i>Less: Gain on divestment of Automation business</i>		(15,490)	-	-
<i>Less Fair value change in Nil Paid Share receivable</i>		-	-	-
Underlying earnings		35,270	33,437	22,261
<i>Underlying earnings per Ordinary Share (excl. treasury stock)</i>		\$ 0.25	\$ 0.23	\$ 0.16

Key results and position

STATEMENT OF POSITION

As at 30 November 2021

In thousands of New Zealand dollars

	Note	SIX MONTHS ENDED		YEAR ENDED
		30 Nov 2021 Unaudited	30 Nov 2020 Unaudited	31 May 2021 Audited
Cash		48,617	11,691	18,821
Debtors		85,902	87,435	42,973
Assets held for sale		-	-	26,471
Other assets		26,640	26,681	25,042
Nil Paid Shares receivable		9,987	12,353	13,491
Bull team		114,790	115,508	114,790
Land, buildings and equipment - owned & leased	3	99,207	94,727	95,114
Software, goodwill and other intangible assets	3	43,288	65,676	45,303
Total assets		428,431	414,071	382,005
Creditors		30,769	27,136	24,541
Liabilities held for sale		-	-	2,656
Borrowings		-	16,109	-
Deferred tax		31,165	33,359	31,935
Other liabilities		39,221	34,787	28,750
Total liabilities		101,155	111,391	87,882
Net assets		327,276	302,680	294,123
Share capital	2	76,737	76,737	76,737
Retained earnings		208,777	185,658	175,565
Other reserves	2	41,762	40,285	41,821
Total equity		327,276	302,680	294,123

Director

Date: 26 January 2022

Director

Date: 26 January 2022

Key results and position

STATEMENT OF CASH FLOWS FOR THE PERIOD

For the six months ended 30 November 2021

	Note	SIX MONTHS ENDED		YEAR ENDED
		30 Nov 2021 Unaudited	30 Nov 2020 Unaudited	31 May 2021 Audited
<i>In thousands of New Zealand dollars</i>				
Customer receipts		125,215	122,128	254,989
Supplier payments		(103,170)	(100,793)	(200,765)
Tax payments		(69)	(10,294)	(13,477)
Other operating cash flows		(91)	(263)	(291)
Net operating cash flows	5	21,885	10,778	40,456
Software development		(2,567)	(5,338)	(7,658)
Net sales/(purchases) of land, buildings and equipment		(8,162)	(5,462)	(7,845)
Sale of assets held for sale		35,548	-	-
Other investment cash flows		(843)	(612)	(612)
Net investment cash flows		23,976	(11,412)	(16,115)
Payment of principal portion of lease liabilities		(1,696)	(1,614)	(3,460)
Drawdown/(repayment) of bank debt		-	14,500	(1,616)
Investment share repurchases		-	(1,695)	(1,695)
Nil Paid Share payments		312	290	352
Dividends paid		(14,621)	(15,398)	(15,398)
Net financing cash flows		(16,005)	(3,917)	(21,817)
Movement in cash for period		29,856	(4,551)	2,524
Cash at beginning of the year		18,821	16,488	16,488
Currency movement on cash holdings		(60)	(246)	(191)
Cash at end of the period		48,617	11,691	18,821

STATEMENT OF CHANGES IN POSITION FOR THE PERIOD

For the six months ended 30 November 2021

	Share capital	Retained earnings	Other reserves	Total equity
<i>In thousands of New Zealand dollars</i>				
Balance at 1 June 2021	76,737	175,565	41,821	294,123
Profit/(loss) for the period	-	50,760	-	50,760
Dividends paid	-	(17,813)	-	(17,813)
Adjustments on divestment	-	265	-	265
Investment revaluations	-	-	(288)	(288)
Hedge revaluations	-	-	229	229
Balance at 30 November 2021 (Unaudited)	76,737	208,777	41,762	327,276
Balance at 1 June 2020	78,432	170,720	41,090	290,242
Profit/(loss) for the period	-	33,094	343	33,437
Dividends paid	-	(18,156)	(326)	(18,482)
Investment share repurchases	(1,695)	-	-	(1,695)
Hedge revaluations	-	-	(141)	(141)
Investment revaluations	-	-	(681)	(681)
Balance at 30 November 2020 (Unaudited)	76,737	185,658	40,285	302,680
Balance at 1 June 2020	78,432	170,720	41,090	290,242
Profit/(loss) for the year	-	22,944	-	22,944
Dividends paid	-	(18,156)	(326)	(18,482)
Hedge revaluations	-	-	(134)	(134)
Investment revaluations	-	-	(195)	(195)
Land and buildings revaluations	-	-	1,443	1,443
Acquisition of minority interest in subsidiary	-	57	(57)	-
Investment share repurchases	(1,695)	-	-	(1,695)
Balance at 31 May 2021 (Audited)	76,737	175,565	41,821	294,123

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 2021.

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 2021.

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.

(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

The 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 and farm management information services.
- Diagnostics: provides DNA and animal health testing services.

In thousands of New Zealand dollars

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 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 from continuing operations							49,589
SIX MONTHS ENDED 30 Nov 2020 (Unaudited)	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	91,962	14,232	26,066	11,118	17,312	-	160,690
Inter-segment revenue	-	-	-	-	1,070	(1,070)	-
Total revenue	91,962	14,232	26,066	11,118	18,382	(1,070)	160,690
Depreciation & amortisation	(525)	(2,502)	(1,966)	(552)	(6,171)	-	(11,716)
Segment profit before tax	62,901	6,622	18,480	5,333	9,751	-	103,087
Bull team revaluation							-
Unallocated amounts							(57,495)
Profit/(loss) before tax from continuing operations							45,592
Year ended 31 May 2021 (Audited)	NZ market genetics	Herd testing	Farm software	Diagnostics	Other	Eliminations	Total
External revenue	99,256	35,397	50,810	23,331	40,219	-	249,013
Inter-segment revenue	-	-	-	-	4,026	(4,026)	-
Total revenue	99,256	35,397	50,810	23,331	44,245	(4,026)	249,013
Depreciation & amortisation	(1,059)	(5,308)	(3,591)	(1,124)	(10,917)	-	(21,999)
Segment profit before tax	65,720	20,101	36,607	10,597	16,494	-	149,519
Bull team revaluation							(718)
Unallocated amounts							(117,791)
Profit/(loss) before tax from continuing operations							31,010

The Other segment includes international operations, research & development and support services. Unallocated amounts include personnel costs, other expenses and net finance costs. The 2020 segments have been updated to replace Farm automation (discontinued operations) with Diagnostics and to use a consistent measure of segment gross profit before tax.

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

In July 2018 LIC's share structure was simplified and its two classes of shares, Investment Shares and Co-operative Control Shares, were brought together into a single class of 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 (2020: 142,344,836 Ordinary Shares, excluding 5,337,584 shares held as treasury stock).

Other reserves and equity

	Hedge revaluation reserve	Investment revaluation reserve	Land & building revaluation reserve	Non- controlling interest	Other Reserves
<i>In thousands of New Zealand dollars</i>					
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 2020	68	5,058	35,581	383	41,090
Profit/(loss) for the period	-	-	-	343	343
Dividends paid	-	-	-	(326)	(326)
Revaluations	(141)	(681)	-	-	(822)
Balance at 30 November 2020 (Unaudited)	(73)	4,377	35,581	400	40,285
Balance at 1 June 2020	68	5,058	35,581	383	41,090
Profit/(loss) for the year	-	-	-	-	-
Dividends paid	-	-	-	(326)	(326)
Revaluations	(134)	(195)	1,443	-	1,114
Acquisition of minority interest in subsidiary	-	-	-	(57)	(57)
Balance at 31 May 2021 (Audited)	(66)	4,863	37,024	-	41,821

Notes to the Financial Statements

3. Acquisitions and disposals

In thousands of New Zealand dollars

	SIX MONTHS ENDED		YEAR ENDED
	30 Nov 2021 Unaudited	30 Nov 2020 Unaudited	31 May 2021 Audited
<i>(i) Land, buildings and equipment</i>			
Acquisitions *	6,249	2,958	8,496
Disposals	(94)	(238)	(297)
<i>(ii) Software and other intangible assets</i>			
Acquisitions	3,454	4,887	7,750
Disposals/Impairment	(30)	(71)	(3,260)

* Excludes the impact of NZ IFRS 16: Leases, which increased Land, buildings and equipment by \$2.1 million in 2021 (2020: \$1.7 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 term:

	SIX MONTHS ENDED		YEAR ENDED
	30 Nov 2021 Unaudited	30 Nov 2020 Unaudited	31 May 2021 Audited
<i>In thousands of New Zealand dollars</i>			
Remuneration of key Management and Directors	2,803	2,671	4,573
Sale of goods and services to key Management and Directors	293	319	598
Purchases of goods and services from key Management and Directors	60	80	213

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

	SIX MONTHS ENDED		YEAR ENDED
	30 Nov 2021 Unaudited	30 Nov 2020 Unaudited	31 May 2021 Audited
<i>In thousands of New Zealand dollars</i>			
Profit/(loss) for the year	50,760	33,437	22,944
Adjusted for non-cash items:			
Depreciation and amortisation on owned assets	9,518	11,962	22,164
Bull team revaluation	-	-	718
Lease liability principal repayment (classified as financing activity)	(1,696)	(1,614)	(3,460)
Working capital movements and other non-cash items	(36,697)	(33,007)	(1,910)
Net operating cash flows	21,885	10,778	40,456

6. 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.

Notes to the Financial Statements

7. Discontinued operations

On 8 June 2021 LIC announced it had entered into an agreement to divest its automation business for \$38.1 million subject to customary requirements. The transaction was completed on 11 June 2021.

Accordingly, the Farm Automation segment has been reclassified as a discontinued operation and is no longer presented in the business analysis note.

LIC expects gains from the sale of automation assets (being those reported as "Held for Sale" in the 2021 Annual Report) to be approximately \$15.5 million.

Note - in accordance with NZ IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, paragraph 40, prior year balances in the Statement of Position have not been restated to classified amounts related to the automation businesses as at 30 November 2020 as "held for sale".

8. Dividend

In relation to the 2021 financial year LIC declared a dividend of 12.51 cents per Ordinary Share, or \$17.8 million (2020: 12.75 cents per Investment Share, or \$18.2 million).

9. Subsequent events

On the 8th December 2021, LIC declared a special dividend of 10 cents per Ordinary Share, or \$14.2 million, as a result of the divestment of the automation business. The fully imputed dividend was paid on 21 January 2022.