LIC Annual Meeting
Thursday 20 October 2022
Chairman's and Chief Executive's Address

Address by the Chair, Murray King

Good afternoon everyone and welcome to LIC's annual meeting. I'm Murray King, Chair of LIC.

Thank you for attending today's meeting. I'd like to acknowledge that this is a busy time for our farmers – both this time of year and this time of the day - so I'd like to thank you for being here, we really appreciate your attendance.

Before we start the proceedings, I have a small number of housekeeping matters to cover.

There are eight resolutions to be considered today - a poll will be held on each one. Resolutions four and six are elections for the Board of Directors and Shareholder Reference Group. Shareholders in the South Island can vote on resolution four. Shareholders in the Upper North Island can vote on resolution six. We use the First Past the Post system for Board of Directors and Shareholder Reference Group elections, this means that candidates receiving the highest number of votes will be appointed.

All shareholders can vote on all other resolutions - one, two, three, five, seven and eight. These are ordinary resolutions and require 50 per cent approval. Results will be announced soon after the conclusion of the meeting.

If anyone joining online has any items of general business or questions they would like to ask, please send them via the "ask a question" button at any time throughout the meeting. These will be collated by the team and answered in the general business section towards the end of the meeting. For those in the room, please raise your hand to ask a question during the general business section. We may take a few minutes to collate and review these before general business.

We have designed the procedures for today's meeting so that those online have the same opportunity to participate as those in the room with us. I understand that these meeting formats can cause some complications with voting and asking questions so before we officially begin the meeting, I would like to cover a few points regarding using the online platform.

To vote you will need your shareholder number provided by Link Market Services. You can vote using the online platform, please click on the "Get a Voting Card" button and enter your shareholder number. Voting remains fully confidential, no one on the call will see your vote. To ask questions using the online platform, please click on the "Ask a Question" button. You will then need to enter your shareholder number. We may take a few minutes to collate and review these before general business. It's worth noting that your questions will only be visible to myself and the team who will be moderating and answering the questions.

The Notice of Meeting has been circulated to all shareholders and is taken as read. With a quorum present, I now declare the meeting open.

Firstly, I'd like to extend a warm welcome to fellow shareholders, LIC staff, The Shareholder Reference Group, Ian Brown from the Honoraria Committee as well as LIC's auditors, lawyers, bankers and advisors.

Also joining us today is LIC's CE David Chin, our CFO David Hazlehurst and LIC's eight Directors - Ben Dickie, Dr Alison Watters, Gray Baldwin, Matt Ross, Sophie Haslem, Tim Gibson, Candace Kinser and Ken Hames.

I'd like to take a moment to thank long serving board member Gray Baldwin, who is stepping down from his role after 10 years serving the co-op. Gray has been an asset on the Board, helping to guide us soundly over the last 10 years, providing a wealth of knowledge and expertise in the sector. Gray has always kept farmers and their animals at the forefront of everything he did and he leaves a strong legacy for years to come.

I'd also like to take this opportunity to thank former Chief Executive Wayne McNee. David inherits a strong financial foundation from his predecessor, and I'd like to acknowledge that the strength of this result is partly attributable to Wayne and his dedication to the business.

I have apologies from the following Shareholder Reference Group members - Mark Benns, Jared Clarke, Phil Lowe, Christine Macbeth and Johan van Ras.

Here's the agenda for today's meeting, which I will run you through briefly. I will cover our business highlights and outlook for the year ahead. David Chin and I will then recap on strategy and present how we are tracking when it comes to delivering on these commitments.

I'll then hand over to CFO David Hazlehurst who will present a financial overview and outline our spend on research and development.

Our CE David Chin will then talk to his priorities, including herd improvement, the results some farmers are achieving and LIC's focus on future solutions.

From there Ian Brown, Honoraria Committee Chair will present the Honoraria Report and we will then move to Voting Resolutions. Finally, we will cover General Business where there will be an opportunity for Q&A.

I will now give an overview of the business highlights for the year.

Business Highlights

Key highlights for us this year are the uptake of premium genetics and the results they are delivering on farm, a continued focus on animal health testing and the appointment of our new CE David Chin.

Premium AB products

This year, our result was driven by increased farmer spend on premium genetics and herd improvement services.

Farmer shareholders know that all cows aren't created equal and they are investing in solutions to breed the best cows, faster. During the year, 71 per cent of fresh semen straws used for breeding replacements were from LIC's premium bull teams, that's 2.1 million straws, up from 60 per cent the year prior (1.8 million straws). Orders for sexed semen almost doubled from the previous year, exceeding 200,000 straws for the first time.

These breeding decisions will serve farmers well into the future to build a more profitable and sustainable dairy sector to help the industry reach its climate goals.

Animal health testing

It's also pleasing to see that farmers are investing more heavily in some of the non-genetics products we offer, such as milk pregnancy testing and the Johne's test. LIC commercialised the Johne's Disease test in the 2015/2016 season and it's now one of our most popular animal health tests with close to one million samples tested, up 28 per cent from last year. Overall animal health tests were up 21 per cent. We're proud of the significant growth we have seen in this area of the business, it has grown to account for $10 million in revenue.

Chief Executive Appointment

David Chin's appointment as CE in January was an exciting milestone for us. David's appointment continues a legacy of passionate and experienced people leading our business. David has a natural empathy for people, knows our farmers well and knows the business having led several key strategic initiatives including the recent transformation programme.

Importantly, David was heavily involved in the refinement of LIC's strategy. The implementation of this strategy has been a key focus for the co-op under David's leadership, and will continue for years to come. I am confident that David's leadership, combined with his deep operational knowledge and passion for delivering value for our farmers will serve the co-op very well.

The year ahead

Over the next 12 months we will continue to focus on new and existing research projects with an aim to deliver sustainable advantage to our dairy industry.

We expect underlying earnings in 2022-23 to be in the range of $20-26 million.

Delivering on our commitments to farmer shareholders remains a key focus for 2022/23. We will give a quick recap on strategy and then present to you delivery against those commitments.

Strategy and Commitments

Creating value for our farmers is at the heart of everything we do. Our refined strategy, announced last year, focuses us on building a strong sustainable co-operative, leading the world in our field and delivering outstanding value for our customers, shareholders and industry, this year, in 5 years and for another 100 years.

We will create value through a focus on four key areas - Our farmers, Animal, Data & digital and Innovation.

We would quickly like to cover a few examples from the past year that show our strategy in action. Sitting in the Data & Digital and Partnership segments, we have partnered with six leading cow wearable technology suppliers to integrate our MINDA herd management system with their systems meaning farmers no longer have to double-handle data. MINDA continues to evolve we will cover this shortly when speaking about measuring our commitments.

Sitting across a number of segments in the strategy, including Innovation, Animal and Partnerships is the methane research programme which has confirmed that bulls' genetics play a role in how much methane they emit. We are in the second year of the programme and this year methane emissions are being measured from approximately 300 young bulls from LIC and CRV's 2022 Sire Proving Scheme.

Genomics, which also aligns to several sections in the strategy, remains a key focus which will enable us to continue delivering value for our farmers. The Board remains 100% committed to genomics and this is reflected in our investment in the technology over the past 12 months.

We continue to focus on delivering on the three commitments made in our strategy, these include Operational excellence, Faster genetic improvement and Software reliability and performance.

Our farmers rightly ask how they can hold us accountable for delivering on the commitments – this has been a priority for us this year. Internal governance groups were formed to develop measures and targets for each commitment and to monitor progress. The measurements provide our business with clear goals and expectations for what delivering on our commitments looks like. They are not about perfection, they are the improvement we are aiming for.

We're pleased to report that we have achieved the majority of our targets this year – and exceeded our targets in some areas. We remain focused on meeting the targets that we have not yet achieved and will continue to work towards achieving those in the coming year.

In the interest of time, we won't run through all the results today, but we will share an example from each commitment. The full suite of commitments and our progress against them is outlined in our latest Sustainability report and on the website.

For operational excellence we committed to getting the basics right and delivering for you, on time, every time. One of the measurements of this commitment is for Herd Testing and providing a result for 99.9% of all cows within 72 hours, we're pleased to report that we have achieved this target. Another measurement of this commitment was to achieve a 5-week turnaround time for GeneMark tests (from booking week), we have achieved 70% of this goal, we recognise we must improve on this number to deliver on this commitment.

For faster genetic improvement we committed to having your back when it comes to helping you meet the environmental challenges you face, in particular animal efficiency, and nitrogen and methane mitigation. One of the measurements of this commitment is to achieve a 15 BW increase per annum for our premier sires bull team, we achieved 20 BW.

For software performance and reliability we committed to being better at delivering our software to you and renewed our commitment to continuous improvement and transparency around delivery of new features. One of the measurements of this commitment is to deliver all features in the MINDA roadmap, we released 98% of these, meaning we have not fully achieved our target, this will be a focus for the year ahead.

That is just a snapshot of the progress we have made this year. We encourage you to head to the LIC website to view the measurements and achievements in their entirety.

While these metrics have been recognised as important to farmers and these targets are where we believe we can improve and make a difference, we know that the needs of farmers can change. Based on how we're tracking and the needs of our farmer shareholders, the measurements and targets will be reviewed and updated in the future.

We will now pass on to David Hazlehurst to reflect on our performance in Financial Year 2021/22.

Financial Overview, CFO, David Hazlehurst

Thank you. We are proud to report another strong financial result this year. Delivering value for our farmers is at the centre of everything we do and it's results like this that enable us to do just that - through herd improvement products and services, a solid dividend and importantly, the right R&D investment to keep their herds profitable and sustainable into the future.

This year we reported:

- Net Profit After Tax (NPAT) was $26.7 million, this was up 16.5% last year
- A dividend of $26.2 million, or 18.43 cents per share
- Underlying Earnings of $25.7 million, this was up 15.3% last year
- Expected Underlying Earnings in the range of $20-26 million
- A strong balance sheet with no debt at year-end and total assets $385.6 million - up 1.2%
- Total Revenue from Continuing Operations was $263.2 million - up 5.7%.

Several key on-farm drivers are impacting the revenue uplift demonstrating continued farmer confidence in LIC's products and services. Some of these products and services include LIC's premium genetics, Herd Testing, GeneMark and Johnes and other animal health testing.

Capital Approvals

Capital approvals demonstrate the areas where we are reinvesting into the business. 37 per cent of our spend went towards data and digital. This includes investment into technology and data, including MINDA projects, and software and server upgrades. We will continue to drive investment in this category into the future.

33 per cent of our spend covered buildings, including improvements and fit outs. Some noteworthy investments here include scoping upgrades to the Shannon Building where majority of our semen processing and despatch takes place as well as an upgrade of the Invercargill Herd Testing depot. These are both projects that will continue to deliver value to our farmer shareholders.

24 per cent of our spend went towards vehicles and other property, plant, and equipment. This includes investment into our Herd Testing fleet and the ongoing transition of our vehicle fleet to electric vehicles wherever practical. We are replacing approximately 10 fuel-based vehicles with EVs each year and currently approximately 26 per cent of our vehicle fleet is either hybrid or full EV.

This also includes a significant investment in new equipment to increase our herd testing capacity in the South Island.

Research and development

Investment in R&D was $18.2 million (6.9 per cent of revenue), up from $17.1 million the year prior maintaining our position as one of the largest private investors in R&D in the primary sector.

Murray has touched on some of the current R&D programmes, including animal health and genomics, and David will cover some of the future focused solutions too, including the slick breeding programme and methane research programme.

But I wanted to touch on some of the R&D projects that we have commercialised that are delivering value on farm. Over the last ten years, we have invested $156.4 million into R&D projects, and this past year has seen some particularly exciting findings. Four key projects are highlighted here and I will give you an update on a couple of them.

GeneMark

Knowing which cow gave birth to which calf in peak calving can be difficult and prone to error. So through R&D LIC scientists developed a solution.

Using a small tissue sample from an animal's ear, our GeneMark service uses DNA technology to match calves to their parents, ensuring farmers retain their best calves that will grow into highly efficient milk producers. Approximately 550,000 animals were tested for parentage this past year, and 3.88 million since 2012. In 2021 LIC scientists discovered six genetic variants that impact animal health. We estimate that these variants could be worth up to $10 million in lost production each year across the national dairy herd. GeneMark allows farmers to screen for those variants free of charge so they can be informed of such affected animals in their herd.

Genomics

Having access to young, genetically superior bulls to breed the next generation of dairy cows is the key to increasing a herd's production efficiency, but traditionally it has been difficult to get an accurate prediction of their performance at a young age.

LIC scientists developed a process utilising genomic technology, adding a young bull's DNA into its evaluation to provide a much earlier, reliable prediction of the offspring it'll produce. This ultimately gives farmers access to the latest elite bulls for artificial breeding at two years of age, instead of five. We've genotyped 250,000 animals for genomic evaluation.

We are achieving high rates of genetic gain contributing significantly to the industry each year - David Chin will cover these rates and more on the impact of genomics in his address.

Address by the CE, David Chin

Thanks David, it is great to speak with you all today, having been fortunate to get to know many of you here over the past 15 years.

I came into this role excited to lead a company with a critical role in New Zealand's dairy industry, and a great team of dedicated people. Today, it is a pleasure to reflect on what we have achieved this year and to look ahead to what is next for the co-op.

We have made commitments to our farmers in areas that deliver value to them - as CE a key focus of mine will be making sure we are meeting those commitments. I believe that breeding the best cows faster is key to helping farmers meet the challenges of both today and tomorrow, to ensure our industry is both profitable and sustainable.

Herd improvement is what we do at LIC and we've already heard today that farmers are making solid progress – I'm committed to helping farmers breed the best cows faster.

Herd Improvement

Farmers know that all cows aren't created equal.

The dairy industry needs to continue to evolve – for climate change and because of it. The production efficiency of our national herd is key to this. Consumers expect a more sustainable approach to farming, so we must continue to improve our environmental credentials – and we're proud to be part of the solution.

We provide farmers with the precision genetics and technology tools they need to improve their herds and we're amplifying this through genomic science to deliver results for farmers at a faster rate.

Our full suite of LIC products is supporting farmers to be more profitable and sustainable, and the 1:1 support they receive via our nationwide team ensures they have access to the best combination of tools for their situation.

Our tools work and farmers value them, but we are continuously working to see how we can improve the performance of the national herd.

If you'd like more detail on our herd improvement tools and our progress on them this year, you can read more in our sustainability report. At the heart of this is our commitment to delivering faster genetic improvement.

As part of our commitment to faster genetic gain, this year our team of scientists investigated the full spectrum of MINDA herds in search of the 'best cows' and whether a clear correlation existed between breeding worth (BW) and milk production efficiency.

The research reaffirms that the best cows (with high BW) are more efficient at turning feed into milk, they produce more and are more emissions efficient. The best cows are generating 502 kgMS, this is the weighted average of the top quartile from each breed.

If we're going to help our sector meet its environmental goals, New Zealand farmers must breed more of those highly efficient cows that sit at the top, and fewer of those who sit at the bottom.
We've made good progress over the years but to continue this trajectory we need to sharpen our focus on breeding the best cows.

Today's best cows are producing 502 kgMS, compared with an average of 188kgMS in 1950. Considering that progress, supercharged by the introduction of genomics, it is incredible to think the kinds of genetic gains we could achieve by 2030. If we accelerate the rate of genetic gain and only breed the best cows we can increase cow production relative to liveweight, maintain total milk production from fewer cows and reduce agricultural emissions.

Of course at an individual farm level there can be many variable factors, but we can dare to believe that by 2030 your whole herd could be performing at the level of your top 25% of cows today
Farmers who utilise the cooperative's breeding programme have almost doubled the speed of improvement in their herds over the last decade. They're breeding better cows faster, and genomics is the key contributor.

Over the past 30 years we have invested significantly in genomics, and alongside farmers' herd management decisions, it has played a key role in the faster rates of genetic improvement we've seen.

The increased utilisation of genomics in our breeding programme and increased farmer uptake of young genomically selected sires has gone hand-in-hand with higher rates of increased genetic gain in farmers' herds.

The second part of the equation is getting the best from the best cows. We do this with sexed semen, herd testing, parentage verification and genomic evaluation. These tools enable farmers to confidently select their highest genetic merit animals, adding precision to farmer's breeding programmes and breeding high quality replacement animals.

We're focused on future solutions too. As David mentioned earlier we invest heavily into R&D, this is so we can continue to deliver for farmer's with better genetics. I would like to talk through some of the projects that we're currently working on – we're pleased with the results these projects are achieving.

Methane Research
LIC is in its second year of our methane research programme investigating the link between a bull's genetics and its methane emissions.

The research measures methane emissions from the burps of young bulls set to father the next generation of New Zealand's dairy cows with an aim of providing Kiwi dairy farmers with the ability to breed low methane-emitting cows from low methane-emitting artificial breeding bulls.

Over the first year of our trial in which scientists measured burps from 281 bulls set to father the next generation we have found that bulls genetics do indeed play a role in how much methane a bull emits. This is promising for our animal's impact on the environment, but we are equally focussed on ensuring our animals are resilient to a changing climate.

Slick gene research and trial
We are one step closer to enabling farmers to breed more heat tolerant cows after the trial found that dairy cows with the 'slick' gene are less affected by heat stress compared to their non-slick counterparts.

The research tells us that if the breeding programme continues to progress as expected, Kiwi farmers will be able to breed heat tolerant cows by 2029.

This slick gene research is complemented by our genomics works, as instead of requiring years of back-crossing and progeny testing, with genomics we can generate animals on the ground, evaluate them quickly and utilise them once they reach maturity.

The updates this year demonstrate how all of LIC's products, services and R&D investment work together to ensure we are breeding world class dairy cows. Farmers, industry and the New Zealand Government are aligned on the importance of improving the efficiency of the national dairy herd.

The results some farmers are achieving show that if we sharpen our focus on herd improvement, we can continue to have the world's most efficient dairy herd.

High producing, more emissions efficient cows aren't just a hope for the future - they exist in the national herd today and are well within reach for every dairy farmer. We simply need more of them.

I'd like to take this opportunity to thank you all for attending and for all you do for LIC. These results are made possible by our team who are committed to maintaining New Zealand's position as the world's most efficient dairy herd. I'd also like to thank Murray and the board for their hard work and support. Finally, thank you to our staff for their hard work over the past year, we look forward to working together and delivering another great result next year.

I'll now hand over to Ian Brown, Chair of the Honoraria Committee to present the Honoraria Report.