



MEDIA RELEASE **20 July 2022**

LIC to deliver strong dividend to farmer shareholders as co-op continues to drive value on-farm

LIC has today announced its financial result for the 2021-22 year, driven by increased farmer spend on premium genetics and herd improvement services to breed more efficient cows with a lighter environmental footprint.

Reporting a 15.3% increase in underlying earnings*, the farmer-owned co-operative will return \$26.2 million in dividend* to shareholders. This equates to 18.43 cents per share with a 18.5% gross yield on the current share price. It will be paid on 19 August.

“The Board is pleased to present this result for our farmers, particularly after a year hampered by Covid-19, inflationary pressures and supply challenges,” said Murray King, Board Chair.

“I want to thank our farmer shareholders for their ongoing support, many of whom faced similar challenges as us. 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 our 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.”

Summary of financials*

- Total Revenue from Continuing Operations: \$263.2 million (up 5.7%)
- Net Profit After Tax (NPAT): \$26.7 million (up 16.5%)
- Underlying Earnings: \$25.7 million (up 15.3%)
- Strong balance sheet, no debt at year-end and total assets \$385.6 million (up 1.2%)
- Dividend: \$26.2 million, or 18.43 cents per share
- R&D investment: \$18.2 million or 6.9% of revenue (up 6.2% from \$17.1 million)

**Refer notes to financial information*

King said the result was driven by more farmers opting for the co-op’s premium bull teams to breed high genetic merit cows which produce more milk, more efficiently – resulting in a lower environmental footprint per kilogram of milk solid produced.

“The dairy industry needs to keep evolving to meet the challenges posed by climate change. Consumers expect a more sustainable approach to farming and this result reaffirms our farmers are well dialled into this.

“The production efficiency of every cow in our national dairy herd has never been more important; farmers know that all cows aren’t created equal and they are investing in solutions to breed the best cows, faster.

“These breeding decisions will serve them well into the future to build a more profitable and sustainable dairy sector and meet climate goals.”

During the 2021-22 year, 71% of fresh semen straws used for breeding replacements were from LIC’s premium bull teams (2.1 million straws), up from 60% the year prior (1.8 million straws). These teams utilise younger bulls, selected using genomic DNA technology so they can be made available to farmers earlier and fast track the rate of genetic gain on-farm.

King said the co-op has invested heavily into genomics over the last 30 years and new research has confirmed farmers are reaping the rewards of this now.

“Long term users of LIC genetics have almost doubled the speed of improvement in their herds over the last decade. They are not only breeding genetically superior cows which are more emissions efficient, they’re also breeding them at a much faster rate and genomics is the key contributor to this.

“We don’t need to milk more cows, we just need to milk the best cows and we’re really pleased that our farmers are making solid progress in this space.”

In other business activity, orders for sexed semen almost doubled from the previous year, exceeding 200,000 straws for the first time. International exports also saw an increased demand for sexed semen, while overall straws numbers sent offshore remained steady on the year prior.

DNA verification tests increased (up 15%), as did LIC’s range of animal health tests (up 21%), with a notable increase in Johne’s disease testing with close to one million samples tested (up 28%). The number of animals recorded in MINDA, LIC’s herd management system, also remained steady, as did herd testing with a modest increase in total samples processed, however more farmers are using the co-op’s EZ Link devices to help simplify and speed up the herd testing process (up 4%).

During the year the co-op invested \$18.2 million into R&D, up from \$17.1 million the year prior, maintaining its position as one of the largest private investors in R&D at 6.9% of revenue.

A large proportion of this investment was directed to the co-op’s large-scale methane trial, with CRV and funding support from the New Zealand Agricultural Greenhouse Gas Research Centre, which is aimed at discovering a genetic link for methane production to ultimately enable farmers to breed cows that emit less methane.

King said the trial has been measuring feed intake and methane emissions from 300 young bulls and results from this phase are expected to be released later this year.

Other key events during the year included the completion of the sale of the automation business to MSD Animal Health, which then resulted in the co-op’s first special dividend payment to partially distribute the sale funds, and the appointment of a new Chief Executive, David Chin, who took over the reins in January.

Outlook

The co-op expects underlying earnings* in 2022-23 to be in the range of \$20-26 million, assuming no significant climate event or milk price change takes place between now and then, nor any major impacts from M. bovis or Covid-19.

King said a key focus for the year ahead remains on delivering to the three commitments in the co-op’s strategy - operational excellence, faster genetic improvement and software reliability and performance. The co-op’s performance against these commitments during the 2021-22 year will be reported on at its Annual Meeting in October.

Ends

This statement has been authorised for release by the Board of Directors.

Contact:

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Notes to financial information*

These annual results include the annual non-cash revaluations of LIC’s major biological asset, the bull team, and the outstanding Nil Paid Ordinary Shares receivable, which are both required to reflect “fair value” under accounting standards. Figures have been audited. These numbers should be all read in conjunction with the financial accounts.

- **Underlying Earnings:** This is LIC’s NPAT excluding bull valuation, nil paid share valuation movements and the one-off gain on divestment of Automation and is considered useful to investors as it is the basis on which LIC has historically reported and determination of dividends. Non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.
- **Discontinued operations:** LIC completed the divestment of its automation business in 2021-22. Accounting standards require profits from the Automation business results to be separately disclosed as Discontinued Operations.
- **Nil Paid Ordinary Shares:** These were issued to shareholders in 2018 as part of the share simplification process which brought together LIC’s two previous classes of shares into one Ordinary Share. For each co-operative share held, one Fully Paid Ordinary Share and three Nil Paid Ordinary Shares were issued. Nil Paid Ordinary Shares carry the same rights to dividends and voting as Ordinary Shares but cannot be traded on the NZX until they are fully paid up. Dividends paid on remaining Nil Paid Shares are automatically retained by LIC to pay down the remaining unpaid shares. LIC records an estimate of the fair value of the outstanding Nil Paid Ordinary Shares receivable at balance date.
- **Bull team valuation:** The annual non-cash revaluation of the co-op’s largest biological asset was \$93.1 million. This is down from \$114.8 million the previous year, mainly due to the increasing number of the younger, genomically-selected bulls which are superseded earlier so used for a shorter period and therefore have a reduced value, as well as the impact of increasing interest rates on the value of future revenue and costs. The valuation is based on an independent model that looks at future revenue streams and costs associated with the current bulls owned, discounted back to current value.
- **Dividend:** The fully imputed dividend represents 80% of underlying earnings, consistent with previous years, but also includes an additional \$5.7m to recognise the portion of cash dividends on Nil Paid Shares in 2021-22 that had been retained to pay down unpaid shares.