

How Livestock Improvement is responding to a changing world

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Structure of my talk today ...

- NZ dairy and herd improvement history.
- Some key achievements in LIC over the last 5 years.
- LIC has moved from being a 'not for profit' to a profit generating business.
- The ownership structure of the co-op has changed as the strategy has changed.



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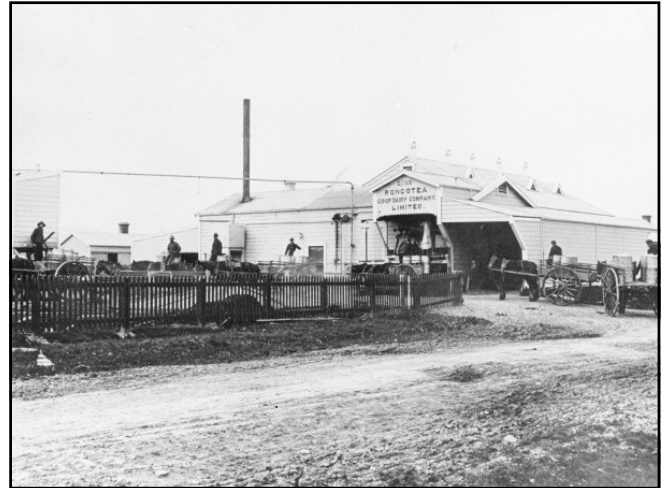
- NZ dairy and herd improvement history.



NZ Dairy Industry History


- First dairy cows arrived in NZ in 1814.
- Exports to Australia and Europe from mid-1800's.
- Co-operative industry – then and now.










NZ Dairy Herd Improvement History

- Danish visit in early 1900's stimulated formal herd recording in NZ.
 - Initially government and industry schemes
 - Industry run since 1930's
 - No government involvement or influence since 1980's
- Very high participation rates
 - > 90% of cows have ID and parentage recorded
 - > 90% of cows use AI
 - >75% of cows are herd tested














NZ Herd Improvement Players

Herd Records	Milk Records	Genetics/AI
		
		




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- A co-operative owned by NZ dairy farmers.
- Integrated herd improvement organisation.
 - Herd recording and genetics
 - Genetic evaluation (on contract to dairy industry)
- Small amount of international activity.
 - Genetics into Australia, Ireland via subsidiaries and other markets via agencies



Herd Recording

- Development of innovative recording software for data entry and information reporting.
 - Almost 80% of NZ cows now recorded electronically



Milk Recording

- Development of new tools to simplify DIY milk recording.
 - Tru-test electronic milk meter
 - EZ-Link handheld barcode scanner



Genetics

- Annually progeny test 300 bulls.
 - 150 Friesian, 90 Jersey, 60 KiwiCross™
- Developing new options to meet emerging market needs.
 - KiwiCross™, short gestation, OAD



501038 Scotts NORTHSEA BW 271 92% Rel



DNA Testing





- GeneMark established in late '90s.
 - DNA testing is complementary to milk recording
- Parentage testing is the 'bread and butter'.
 - > 25% of NZ dairy herds have done some DNA testing in the last 3 years.
 - > 100 herds are using DNA testing as their means of recording calf parentage



RFID

- RFID systems make it easier to do herd and milk recording, and make the information more useful.
- LIC integrates other people's technology, to deliver an on-farm solution to animal ID and handling.
 - Most useful for large herds > 500 cows
 - Sorting, alerts, feeding, weighing, in-line meters








AUTOMATED DRAFTING CAN BE THIS EASY TODAY

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LIC Profitability


- Historically, LIC has been 'not for profit'.
- From 2002 a strategic decision was made to grow profits.
 - Deliver a fair return on investment to shareholders
 - Generate funds that can be invested in innovation
 - Encourage efficiency in the business
- With this came a move to fair value pricing.



LEADING THE WORLD WITH GENETICS AND KNOWLEDGE TO CREATE WEALTH FOR PASTORAL DAIRY FARMERS

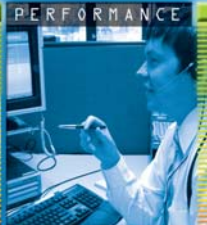
DRIVE TO 2005

INNOVATION



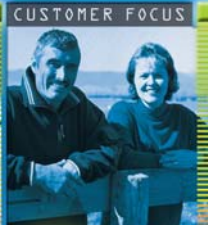
■ INCREASE PROFIT TO \$30m BY 05/06 FINANCIAL YEAR

PERFORMANCE




■ RETURN ON CAPITAL OF 30% AFTER TAX

CUSTOMER FOCUS

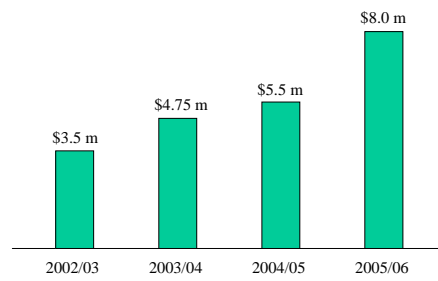


■ SILVER BUSINESS EXCELLENCE AWARDS


OUR VISION: LEADERSHIP IN PASTORAL LIVESTOCK SOLUTIONS



LIC Net Profits – 2003 to 2006



Financial Year	Net Profit (\$m)
2002/03	\$3.5 m
2003/04	\$4.75 m
2004/05	\$5.5 m
2005/06	\$8.0 m



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Strategy Impacts On Structure

- Co-op shareholders have different objectives.
 - Control over co-op assets
 - Use of products and services
 - Opportunity to invest, and earn a return on investment
- Greater profit focus brings a higher risk.
 - LIC Board wanted to give shareholders the choice about their level of investment in the co-op



2 Classes Of Share

Co-op Control Share

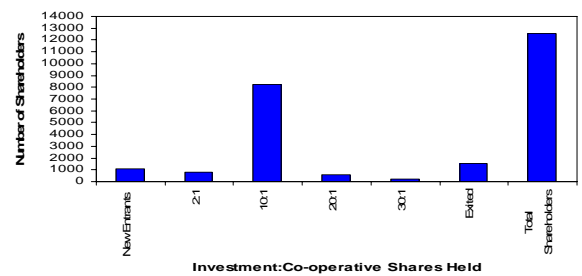
- Value of \$1 each.
- All dairy farmer users **MUST** own these shares – 4 shares for every \$100 spent.
- Voting rights.
- Annual 'dividend' based on bank lending rates.

Investment Share

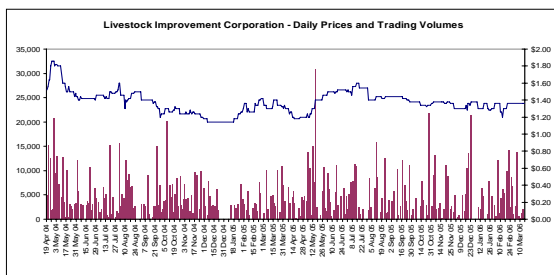
- Value determined by the market (listed on NZAX).
- All Co-op shareholders **MUST** own some – minimum 2:1 and maximum 30:1.
- No voting rights.
- Attract most of the dividend (after Co-op share payment) – currently > 10% return.



Shareholding Trend



Share Price Trend



Conclusion

- NZ is a young dairy industry in world terms.
 - LIC has been helping improve dairy cows in NZ for 100 years
- LIC has invested heavily in innovation in the last 5 years, made possible in part because of a change in focus to generating profits.
- The structure of the co-op has changed as the strategy has changed.



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LIC Net Profits – 1995 to 2006

Consolidated Net Profit

