

NMR plc
(‘NMR’, the ‘Company’, or, together with its subsidiaries, the ‘Group’)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

NMR, the leading UK supplier of dairy and livestock services, announces its unaudited results for the six months ended 30 September 2016.

Business Highlights

- Turnover steady at £9.9M (2015: £10.1M)
- Profit on ordinary activities before taxation of £505k (2015: £599k)
- Reduction in core milk recording as farms trade down or leave dairy sector altogether
- Continued growth in new revenue streams, including health and genetics
- Resilient business model generating profits and operating cash flows against a backdrop of continued falling milk prices, and lower frequency and uptake of milk recording services
- Cash from operations in the first half of the year was £0.6M (2015: £0.3M)
- Increased burden of recovery payment for Milk Pension Fund £418k (£359k)
- Immediate post-Brexit vote impact on inflation and bond yields has led to estimated re-measurement of pension deficit to £6.25M (2015: £3.5M), reducing net assets by £2.1M net of related deferred tax
- Net Assets now showing a credit balance of £82k

Managing Director Andy Warne commented:

“I am personally disappointed with the financial results for this 6 month period but I remain confident the NMR Group is positioned to regain better financial performance as overall market conditions in the UK and Irish dairy sectors recover. Even in this depressed market, we are seeing success in the new revenue stream projects and we are confident of a recovery in existing service revenues. Improvements in the milk price paid to farmers are already underway, although there is a lag between a higher milk price and available cash in farmers’ balance sheets. NMR’s relationship with the Milk Pension Fund has been the focus of great deal of management time and resource. This dialogue is expected to remain a key focus of the NMR management team which has been bolstered by our appointment of Mark Frankcom as Finance Director”

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This announcement is available on the NMR website at www.nmr.co.uk

About NMR

NMR is the leading supplier of management information to UK dairy farmers. Through a team of self-employed milk-recorders, we collect and test milk samples for approximately 50% of the UK's 2 million cows. In addition, our laboratories provide payment testing and disease testing services for Britain's milk processors. We have a joint-venture laboratory in the Republic of Ireland providing similar services to farmers and processors across the whole of Ireland. In the Group we also have a small livestock traceability business, Nordic Star, which services the UK dairy and beef sectors, and a genetics business, Inimex Genetics Ltd, which provides semen for UK and Northern Ireland.

Group Results

Group turnover of £9.9M is £0.2M down on the same period last year.

Growth in three of our four trading areas i.e. laboratory services, livestock surveillance and genetics, has helped to partially offset shortfalls in core milk recording which has again been under pressure this year.

Milk recording is a vital component for measuring herd performance and maximising the farm balance sheet. In the first half of this year, we have seen a further squeeze on dairy farm profitability and cash flows with milk prices seeing a drop of 1.14 pence per litre in September 2016 compared to the same period a year earlier, and this has led to some farms dramatically cutting back on costs. Ultimately, this has hit our recording revenues with farms either trading-down to a less regular recording option, or some resigning altogether. Encouragingly, though, we continue to see enrolments onto milk recording contracts, and in particular Herdwise, NMR's screening service for management of Johne's disease, which is becoming an increasingly important criteria to our milk processor customers.

The demand from milk processors for ever increasing due-diligence has boosted revenues in laboratory services, led by companies such as Arla moving to daily testing for milk samples and testing of milk in tankers for validation purposes. In livestock surveillance, NMR has increased sales by optimising cross-selling and innovation across the Group, introducing red ID tags, for instance, as an element of the Johne's screening programme, and delivering new sales channels via an Android and iOS Nordic Star app. NMR's genetics and genomics business has seen a slow increase in the year, with revenues in the new technologies of Heat Detection and Genomic testing supporting the underlying genetics business of selling straws of semen. Again, on-farm spending reductions have hampered development of the Group here: Farmers can see clear benefits of introducing new technology, but with their higher price point some customers see the new services as desirable but not essential in times of tight farm margins.

Operating costs for the period are proportionally down with primary variable costs, such as the costs of our third-party milk recorders, managed in line with volume. Corporate costs are exacerbated by some investment in our overhead lines, not least as the fallout from the Brexit vote has compelled us to seek more advice on the Milk Pension Fund.

Investment

Capital investment has been modest in the first half of the year. We have, however, committed to a substantial rejuvenation programme for our laboratory equipment in our blue-riband site at Four Ashes. This will see one new sample-analyser arrive before Christmas, with another scheduled later this financial year. Also, we are investing in our core laboratory systems this year, introducing a laboratory information management system or LIMS, and replacing our finance and business ERP (Enterprise Resource Planning) systems, starting in the second half of the financial year. These investments in our core capability will further strengthen our market leading position by significantly enhancing the provision of business intelligence.

Cash flow and Debt

Cash in bank at the end of September was c. £2,835k, a quarterly peak in our cash flows ahead of payment for VAT. The group finances its fleet of motor vehicles through finance leases, with £613k owing at the half year (2015: £647k). Net cash is therefore £2.2M. Net cash will reduce in the second half of the year, as our investment programme gathers pace.

Milk Pension Fund

In a letter dated 19 August 2016, the Trustee of the Milk Pension Fund ('MPF') advised that the total deficit of the fund is likely to be in the region of £100M, compared to £61.6M at the last valuation date. The NMR Board has made a proportional estimate on the impact of this change to our interim accounts. This increases the MPF pension deficit for NMR from £3.5M to an estimated £6.25M before any account of deferred taxation. Following last years' £5.1M credit as a result of the switch advised by the Trustee from RPI to CPI, we now include both changes within Other Comprehensive Income. More recently, following the reduction in the value of sterling and fears of increased inflation, the Board notes that 10-year bond yields are beginning to return to pre-Brexit levels. Our audited accounts to 31 March 2017 will include a comprehensive actuarial assessment of our pension deficit and we anticipate a full revaluation exercise by the Trustee of the Milk Pension Fund in March 2017.

UK GOVERNMENT BOND 10Y



SOURCE: WWW.TRADINGECONOMICS.COM | DEPARTMENT OF TREASURY, UK

Dividend

Against the backdrop of significant variability in our balance sheet, the Directors consider it prudent to pay no dividend at this time (2015: nil).

Outlook

Milk prices are, at last, on the rise with many milk buyers having increased prices in September and again in October 2016. It may take a while, however, for on-farm confidence to recover, and NMR is cautious about forecasting an immediate recovery in the second half of the year. The weak pound is also a cause for concern for genetics as most of our product is sourced in the US and Europe. We remain focused on careful management of our costs, and targeting our resources at the right opportunities as the market turns after a decline that has lasted since the summer of 2014. The Board is pleased that our strategy to innovate and modestly diversify has assured revenues and profits in a depressed market. We are confident that with continued focus on the three pillars of service, innovation, and cost control, NMR, by playing a lead role in driving-up profitability for UK Dairy farmers, will itself make increasing returns on capital. However, the Board does not expect any significant improvement until the next financial year.

NMR plc - Consolidated Statement of Comprehensive Income

£'000	Unaudited 6 months ended			Audited
	Sep-16	Sep-15	var	Year ended Mar-16
Turnover				
NMR	7,510	7,794	-284	15,634
NML	4,220	4,075	145	8,321
NLR	491	438	53	939
Inimex Genetics	397	373	24	1,095
Interco	-2,329	-2,260	-69	-4,587
	10,290	10,420	-130	21,402
less share of Joint Venture Turnover	-374	-347	-27	-789
Turnover	9,915	10,073	-158	20,613
Operating profit/(loss) before other comprehensive income/amortisation				
NMR	-119	71	-190	142
NML	637	664	-27	1,448
NLR	82	94	-12	205
Inimex Genetics	-90	-113	23	-163
Share of Joint Ventures' OP	130	117	13	55
Operating Profit	641	833	-192	1,687
Goodwill amortisation	-114	-210	96	-528
Interest and Finance Income	-22	-24	2	-295
Profit on Ordinary Activities Before Tax	505	599	-94	864
Tax on Ordinary Activities	-101	-120	19	-153
Profit on Ordinary Activities After Tax	404	479	-90	711
Earnings Per Share				
Basic EPS (pence)	5.63	6.69	-1.06	9.92
Diluted EPS (pence)	5.42	6.45	-1.02	9.56
Other Comprehensive Income				
Re-measurement of net defined benefit pension liability	-3,167	-1,158	-2,009	5,158
Tax on Other Comprehensive Income	633	232	402	-1,032
Total Comprehensive Income	-2,130	-447	-90	4,837

NMR plc – Statement of Financial Position

£'000	Unaudited 6 months ended			Audited Year ended
	Sep-16	Sep-15	var	Mar-16
Fixed Assets				
Intangible fixed assets	658	1,671	-1,013	772
Tangible fixed assets	2,096	2,465	-369	2,295
Investments	618	548	70	488
	<u>3,371</u>	<u>4,684</u>	<u>-1,313</u>	<u>3,555</u>
Current Assets				
Stock	398	411	-13	408
Debtors	2,704	2,114	590	2,625
Cash at bank and in hand	2,835	2,083	752	2,405
	<u>5,938</u>	<u>4,608</u>	<u>1,330</u>	<u>5,438</u>
Creditors: less than one year	-3,815	-3,079	-736	-3,537
	<u>2,123</u>	<u>1,529</u>	<u>594</u>	<u>1,901</u>
Net current assets				
	<u>5,494</u>	<u>6,213</u>	<u>-719</u>	<u>5,456</u>
Creditors: more than one year	-383	-1,025	642	-388
Provision for liabilities	-193	-309	116	-220
Pension liability	-6,250	-10,500	4,250	-3,500
Related Deferred Tax	1,250	2,100	-850	700
	<u>-82</u>	<u>-3,521</u>	<u>3,439</u>	<u>2,048</u>
Net assets				
Capital and Reserves				
Called-up Share capital	754	754	0	754
Share Premium	76	76	0	76
Share option reserve	22	22	-0	22
Profit and loss account	-934	-4,373	3,439	1,196
	<u>-82</u>	<u>-3,521</u>	<u>3,439</u>	<u>2,048</u>
Shareholders' funds				

NMR plc Group Statement of Cash Flows

£'000	Unaudited 6 months ended			Audited
	Sep-16	Sep-15	var	Year ended Mar-16
Operating Activities				
Operating Profit excl JV	397	506	-109	6,262
Depreciation and Amortisation	414	531	-117	948
Impairment of fixed assets	0	0	0	240
Defined Benefit Pension Charge / (Credit)	0	0	0	-4,958
Loss/(Profit) on disposal of fixed assets	-15	-12	-3	-29
(Increase)/Decrease in stock	10	86	-76	89
(Increase)/Decrease in debtors	-79	28	-107	-483
Increase/(Decrease) in creditors	278	-481	759	-121
Operating Cash flow	1,004	658	346	1,948
Defined Benefit Pension Recovery Payments	-418	-359	-60	-733
UK Corporation tax (paid)/repaid	13	0	13	-438
Net cash inflow from operating activities	599	300	299	777
Investing Activities				
Purchase of fixed assets	-55	-132	77	-270
Sale of fixed assets	16	25	-9	118
	-39	-107	68	-152
Financing Activities				
Share capital issued in the year	0	12	-12	12
Repayment of Borrowings	0	0	0	0
Payment of finance lease obligations	-130	-96	-34	-211
Interest received	0	0	0	5
	-130	-84	-46	-194
			0	
Net cash inflow/(outflow)	430	109	322	431
Opening cash balance	2,405	1,974	431	1,974
Closing cash balance	2,835	2,083	752	2,405
Increase in cash	430	109	321	431

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