

National Milk Records plc
(“NMR”, the “Company”, or, together with its subsidiaries, the “Group”)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

NMR, the leading UK supplier of dairy and livestock services, announces its unaudited results for the six months ended 31 December 2017.

Highlights

- Turnover for continuing operations substantially increased to £10.5 million (“M”) (2016: £9.4M)
- Profit on ordinary activities, before taxation, of £957,000 (2016: £442,000)
- Adjusted EBITDA increased by £342,000 to £1.187M (adjusted to remove Inimex from comparator)
- Adjusted EBITDA percentage increased from 9.0 per cent to 11.3 per cent
- Net assets just over £1.0M, recovering from £270,000 at 30 June 2017
- Cash generation from operations of £1.1M
- Net Debt decreased to £3.3M, or 1.4 times EBITDA

Managing Director Andy Warne commented:

“This is the first set of results following our exit from the Milk Pension Fund in June 2017 and I am pleased to report a period of strong financial performance. The six months ended 31 December reported turnover and EBITDA improvements on the same period last year although the 2016/17 financial year was a particularly difficult trading period for the UK dairy market.

“Our focus in the second half of the year is to continue to provide exceptional service to our core milk recording customers whilst driving the market for improved testing for health and provenance and we expect continued growth in testing for Johne’s disease and BVD.

“NMR must also work to promote the research and development for longer term growth projects and we continue to work with our customers and partners in areas including heat detection, genomics and anti-microbial resistance.

“We recognise that milk prices are beginning to reduce as we enter 2018, but, despite this, we are well positioned to carry our performance into the second half of the financial year.”

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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, it collects and tests milk samples for approximately 50 per cent of the UK's two million cows. In addition, its laboratories provide payment testing and disease testing services for Britain's milk processors. NMR has a joint-venture laboratory in the Republic of Ireland providing similar services to farmers and processors across the whole of Ireland. Another division of the Group is a livestock traceability business, Nordic Star, which services the UK dairy and beef sectors.

Group Results

The Group reported a turnover of £10.5M, an increase of £0.7M compared to the same period last year. Inimex Genetics Ltd was sold, in June 2017, as part of the Company's exit from the Milk Pension Fund ("MPF") and, excluding Inimex from the comparator period, provides a turnover from continuing operations for the six months ended December 2017 of £10.5M, an increase from £9.4M for the same period last year.

The recovery in milk prices in the second half of 2016 continued throughout 2017 and gave NMR the opportunity to recover cost pressures through an inflationary price increase in May 2017, its first increase in three years. This boosted revenues in the six month trading period which showed little downside in lost volumes. In fact, the number of cows on the Company's milk recording database has increased from 698,000 in December 2016 to 763,000 in 2017.

The principal driver for revenue growth year on year is in Herdwise, NMRs screening service for the management of Johne's disease. This wasting disease is increasingly being monitored by forward looking farmers and processors and NMR now has 1,660 farms regularly testing their milk for Johne's disease, compared to 1,450 a year ago, an increase of 14.5 per cent.

Revenue development, year on year, has also been boosted by innovation in new testing and services. Three new areas in particular are beginning to have a bearing on the Group's numbers; testing for thermotolerant bacteria, which helps processors and retailers improve shelf-life; the sale of automatic heat detection systems, to improve fertility and also health; and the internal development of NMR's Fusion software, which matches sample payment testing results to tanker volumes, and therefore facilitates milk payment parameters and more regular testing.

Complementing NMR's core service with new innovation is central to its strategic development in the near term, and the Company continues to work with its partners, up and down the supply chain, to focus these efforts on the most relevant developments.

Overhead costs for continuing operations increased slightly in the period. Inflationary pressure, notably in people costs, has been mitigated by careful cost management including travel and expenses, and, in particular, keeping more of NMR's recruitment costs in house. Encouragingly, NMR's ability to convert revenues into cash profit is improving, with the Company's EBITDA percentage improving to 11.3 per cent in the period.

Investment

NMR has seen modest capital investment in the first half of the year. It continues to progress with its rejuvenation programme for its laboratory equipment at the blue-riband site at Four Ashes. The Group's second new sample-analyser arrived before Christmas, which will be commissioned in the spring, and another analyser is scheduled to arrive later this calendar year. The comparator period included the upfront investment in NMR's core laboratory systems; this project is in final testing and will go live in May this year. In addition, the replacement of the Group's finance systems with Epicor ERP v10 is in progress and is set to go live at the start of the Company's new financial year.

NMR is also focussing on revenue investment to support its growth ambitions. This is highlighted by the appointment of a new marketing manager, announced in January. Additionally, NMR is actively investing in genomics testing and genetic management, and the Company is seeking to drive the market for this breakthrough technology in the UK.

Cash flow and Debt

NMR's cash position at the end of December 2017 was approximately £764,000. Net debt, including lease finance of motor vehicles, was £3.311M for the period, compared to £4.130M at 30 June 2017. The balance at 31 December 16 was before NMR exited the MPF and contained little debt. Net Debt at 1.4 times EBITDA is well within the Group's target covenant ratio of 2.0. The banking facilities organised in June 2016 have proved to be ample, with the Company's headroom increasing each quarter, when peak requirements at VAT payment dates are hit. The latest VAT payment is 12 February 2018 and the facilities' headroom stood at more than £1.2M.

Dividend

Net Assets, at 30 June 2017, stood at £270,000 which was funded by a large surplus in the share premium account, but also a large deficit in profit and loss following the exit from the MPF. However, this profit and loss deficit will gradually improve in line with profitability, which is already beginning to become apparent with an improvement of £0.78M in this six month period.

It is NMR's intention to implement a capital reduction in due course and, therefore, accelerate the Company's ability to hold distributable reserves. Meanwhile, with no distributable reserves and, whilst in the early stages of the Company's development post MPF exit, the Directors are proposing no dividend at this time (2016: nil).

Outlook

The general outlook for UK dairy is one of softening milk prices during 2018 caused by increasing milk supply. Higher prices have reduced the number of cull cows and recent feed profiles have encouraged higher production. However, forecasts for 2019 show a projected shortfall in heifers in the UK and across the continent due to cheaper beef inseminations used during the down turn in milk prices in 2015 and 2016. This shortfall may therefore mean a tightening in milk supply and a recovery of milk price. Against some uncertainty in the market, our market intelligence tells us that UK farmers are becoming more measured in their response to market pricing; less bullish when prices are up, and more sanguine when they are cooling. In addition, UK farmers have an increasing awareness, supported by the milk processors, of the growing consumer demand for greater traceability of health, hygiene and animal welfare in their food chain. As such the Group projects a gradual increase in revenues as farmers continue to invest in NMRs provision of testing and assurance services.

NMR plc - Consolidated Statement of Comprehensive Income

	6 months ended 31-Dec-17 £'000	6 months ended 31-Dec-16 £'000	15 months ended 30-Jun-17 £'000
Turnover			
Farm services including milk recording	7,730	6,792	17,585
Payment testing services	1,959	1,962	5,056
Traceability services	524	454	1,265
Reproduction services	319	668	1,418
	10,532	9,875	25,324
less discontinued operations	-	(480)	(993)
Turnover - Continuing operations	10,532	9,396	24,331
Costs of sales	(3,766)	(3,143)	(10,639)
Administrative Expenses	(5,839)	(5,690)	(12,297)
Loss on Milk Pension Fund Exit	-	-	(12,460)
	927	563	(11,065)
Share of operating profit in joint ventures	91	74	266
Operating Profit - Continuing operations	1,019	637	(10,799)
Discontinued Operations	-	(197)	(948)
Operating Profit	1,019	440	(11,747)
Loss on Disposal of Fixed Asset Investments	-	-	(58)
Net Finance Cost	(61)	1	(140)
Profit on Ordinary Activities Before Tax	957	441	(11,945)
Tax on Ordinary Activities	(180)	(69)	1,413
Profit on Ordinary Activities After Tax	777	372	(10,532)
Earnings Per Share			
Basic EPS (pence)	3.7	4.9	(140.9)
Diluted EPS (pence)	3.6	4.8	(137.5)
Other Comprehensive Income			
Actuarial gains/(loss) on pension scheme			150
Movement on deferred tax relating to pension scheme			(29)
Exchange Rate difference			107
Total comprehensive income for the year	777	372	(10,304)

NMR plc – Consolidated Balance Sheet

	as at 31-Dec-17 £'000	as at 31-Dec-16 £'000	as at 30-Jun-17 £'000
Fixed Assets			
Intangible fixed assets	-	601	-
Tangible fixed assets	2,703	2,318	2,760
Investments	714	713	623
Other Investments	44	54	44
	<u>3,461</u>	<u>3,686</u>	<u>3,427</u>
Current Assets			
Stock	125	248	184
Debtors	2,563	2,386	2,618
Debtors > 1 year	1,920	714	2,120
Cash at bank and in hand	764	2,383	459
	<u>5,372</u>	<u>5,731</u>	<u>5,381</u>
Creditors: less than one year	<u>(4,219)</u>	<u>(3,497)</u>	<u>(4,934)</u>
Net current assets	<u>1,152</u>	<u>2,234</u>	<u>447</u>
Total assets less current liabilities	<u>4,614</u>	<u>5,920</u>	<u>3,874</u>
Creditors: more than one year	(3,364)	(315)	(3,397)
Milk Pension Fund Liability	0	(2,840)	-
Provision for liabilities	(207)	(207)	(207)
	<u>(3,571)</u>	<u>(3,362)</u>	<u>(3,804)</u>
Net assets	<u>1,043</u>	<u>2,558</u>	<u>270</u>
Capital and Reserves			
Called-up Share capital	2,124	754	2,124
Share Premium	7,426	76	7,426
Share option reserve	(195)	-	22
Own Shares reserve	22	22	(195)
Profit and loss account	(8,334)	1,706	(9,107)
	<u>(8,334)</u>	<u>1,706</u>	<u>(9,107)</u>
Shareholders' funds	<u>1,043</u>	<u>2,558</u>	<u>270</u>

NMR plc - Group Statement of Cash Flows

	6 months ended	6 months ended	15 months ended
	31-Dec-17	31-Dec-16	30-Jun-17
	£'000	£'000	£'000
Cash flows from operating activities			
Operating Profit (before share of JV operations)	927	366	(12,013)
add back Depreciation and Amortisation	260	332	1,025
Profits on disposal of tangible assets	(16)	(7)	(46)
Release of warranty provision			(20)
(Increase)/decrease in trade and other debtors	79	377	(100)
(Increase)/decrease in stocks	59	56	112
Increase/(decrease) in creditors	(224)	(421)	930
Loss on disposal of Inimex			682
Milk Pension Fund payments / settlements	-	(457)	(3,500)
	157	(120)	(917)
Income taxes paid	-	(103)	(151)
Cash from operations	1,085	143	(13,081)
Cash flows from investing activities			
Dividends received			281
Purchase of tangible assets	(198)	(308)	(1,265)
Proceeds from sale of tangible assets & investments	-	13	73
Acquisition of subsidiary			(65)
	(198)	(295)	(977)
Cash flows from financing activities			
Share Capital Issued			8,709
Share issue costs			(185)
New bank loans raised	252	-	4,019
Transaction costs in respect of the bank loan			(87)
Repayments of borrowings	(696)	-	
Repayments of obligations under finance leases	(93)	(110)	(297)
Interest paid	(44)	-	(48)
	(582)	(110)	12,112
Net increase in cash and cash equivalents	305	(263)	(1,946)
Cash and cash equivalents at beginning of period	459	2,645	2,405
Cash and cash equivalents at end of period	764	2,383	459

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