

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

NMR, the leading UK supplier of dairy and livestock services, announces its unaudited results for the six months ended 31 December 2018.

Highlights

- Turnover substantially increased to £11.7 million (“M”) (2017: £10.5M)
 - One-off and seasonal activity provided 48% of this growth
- Profit on ordinary activities, before taxation, of £1.130M (2016: £0.957M)
- EBITDA increased by £0.2M to £1.4M
- Increased overhead costs represents inflation and investment in training and Information Technology systems
- EBITDA percentage increased from 11.2% to 11.7%
- Net Debt reduced to £2.064M after paying a dividend of £0.5M
- Cash generation from operations of £0.9M and capital investment of £0.3M
- Net assets of £2.8M, up from £1.0M last year

Managing Director, Andy Warne, commented:

“We are delighted to announce this strong set of interim results which are supported by a number of one-off projects carried out during the period. Additionally, almost half of our revenue growth can be attributed to new revenue streams; however, NMR remains focused on its core business and is encouraged that it is delivering positive results from both new revenue streams and core business areas. It is also very satisfying to note that within the six-month period we have paid a dividend and continued to reduce debt.

We are continuing our strategic planning, which is beginning to paint an exciting vision for our future development and, to help support this ambition, we are continuing to invest in our internal systems and the training and development of our people.

With regard to the British Dairy industry, we believe both our farming and corporate customers will continue to feel margin pressure for the next six months due to higher feed prices and general over supply in the global market. However, we remain positive that UK dairy is a good place to do business and look forward to a successful second half of the 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 the UK dairy supply chain. Through a team of self-employed milk-recorders, it collects and tests milk samples for approximately 50% 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 interim results for NMR show strong development when compared to the same period last year. Turnover for the six-month period has increased by more than 11%, now standing at £11.7M, and EBITDA has increased by more than 15% to £1.4M for the same period.

As reported in the quarterly update in November 2018, the first quarter of the financial year was boosted by a one-off contract for genomic tests of a bovine tuberculosis index, as well as some grant activity supporting the sale of heat detection systems. Within NMR's cornerstone revenue streams, revenues for testing of payment samples for bulk milk have increased by 1.8%, whilst milk recording revenue for farmers is flat, with a modest fall in the number of cows on the database being offset by inflation. Underlying revenues have been enhanced by the continuing growth in testing for Johne's disease, which has increased by 22% when compared to the same period last year, now standing at £2.1M for the first six months of the year. New testing services, notably for antibiotic detection and analysis, are also showing a positive development in the first half and whilst revenues from these other testing services are still modest, comprising approximately 2.6% of total sales, revenues from this sector have grown by approximately 36% year on year.

Growth in revenue and margins has been partially diluted in the first half of the year by additional costs; some inflationary, some investment in revenue items, and some additional costs to support outgoing legacy systems. The sum of these effects has pushed costs up by 6.6% in the period, with approximately half of this increase due to inflation and additional spend. Additional investment sees NMR growing its training budget together with documentation and mapping of Information Technology infrastructure as it prepares for its digital transformation project.

Additionally, it is important to note that NMR has changed the segmental analysis of its turnover to more closely represent its internal management of revenue streams.

Investment

NMR has increased its capital investment in the first half of the financial year, increasing investment from £0.198M in the six months ended 31 December 2017 to £0.319M for the six months ended 31 December 2018. This comprises investment in laboratories, including a deposit being paid on a third analyser which is expected to be fully operational by the end of February, investment in software development to support new services, and the early phase of investment for the implementation of Dynamics365 from Microsoft, to replace the existing finance and CRM systems. The second half of the year will also see the deployment of three new robotic liquid handlers, two in the Wolverhampton laboratory and one in the Hillington laboratory in Glasgow.

NMR is also focussing on measured revenue investment in training and Information Technology to support its growth ambitions.

Cash flow and Debt

NMR's cash position at the end of December 2018 was just under £1.3M, having paid a dividend of £0.521M in November 2018. Net debt, including lease finance of motor vehicles, was £2.064M at 31 December 2018, compared to £3.311M a year earlier, despite having paid suppliers before 31 December this year, rather than just after. Net Debt at 0.7 times EBITDA is well within the Group's target covenant ratio of 2.0, leaving the Group with headroom for debt financing if required.

Dividend

A final dividend of 2.5 pence per share for the financial year ended 30 June 2018 was paid on 23 November 2018 (2017 = Nil). Although the first six months of the year has been positive with regards to development in balance sheet value and decreasing net debt, the Directors continue to prioritise investment in business development and efficiencies and capabilities and therefore propose no interim dividend at this time (2017: nil).

Outlook

Dairy Farmer milk volumes are forecast to be strong for the remainder of NMR's financial year. This is a product of a projected 1.8% decline in the national herd, offset by increases in yields combined with more normal weather conditions following the "*Beast from the East*" and the summer drought conditions in 2018. Milk prices are already tightening with recent announcements from dairy buyers of reduced prices for March collections. This, coupled with increasing costs of production, notably in feed, where forage costs are up 25% year on year, has meant that there is a squeeze on raw-milk margins. Therefore, NMR anticipates a growing difference between the top and bottom of the milk price league-tables, which highlights the need for NMR's services and the greater information for management of British dairy herds.

At the time of this announcement, there is still no certainty as to the terms of Brexit, particularly, the solution for the movement of raw-milk and dairy commodities across the Irish border, which, in NMR's view, needs to be realistic and practical. There may be an initial period of uncertainty after 29 March 2019, however, following much analysis, NMR continues to believe that the impact of Brexit on the UK dairy sector will be mildly positive in the medium term.

As such, against this backdrop of mixed-confidence, NMR anticipates that it will see modest growth in its key services and associated revenues and profit in the coming year.

NMR plc - Consolidated Statement of Comprehensive Income

	6 months ended 31-Dec-18	6 months ended 31-Dec-17	12 months ended 30-Jun-18
	£'000	£'000	£'000
Turnover			
Milk recording and genomics services	5,167	4,969	10,020
Disease testing services	2,551	2,164	4,495
Payment testing services	2,230	2,156	4,353
Other testing services	311	229	507
Non-testing revenues	1,475	1,015	2,030
	11,734	10,532	21,405
Costs of sales	(4,407)	(3,766)	(10,125)
Administrative Expenses	(6,166)	(5,839)	(9,387)
	1,161	927	1,893
Share of operating profit in joint ventures	47	91	243
Operating Profit	1,208	1,019	2,136
Loss on Disposal of Fixed Asset Investments	-	-	3
Net Finance Cost	(78)	(61)	(145)
Profit on Ordinary Activities Before Tax	1,130	957	1,994
Tax on Ordinary Activities	(220)	(180)	(167)
Profit on Ordinary Activities After Tax	910	777	1,827
Earnings Per Share			
Basic EPS (pence)	4.3	3.7	8.7
Diluted EPS (pence)	4.2	3.6	8.6
Other Comprehensive Income			
Exchange Rate difference			4
Total comprehensive income for the year	910	777	1,831

NMR plc – Consolidated Balance Sheet

	as at 31-Dec-18	as at 31-Dec-17	as at 30-Jun-18
	£'000	£'000	£'000
Fixed assets			
Intangible fixed assets	476	-	358
Tangible fixed assets	2,507	2,703	2,524
Investments	909	714	862
Other Investments	-	44	-
	<u>3,892</u>	<u>3,461</u>	<u>3,744</u>
Current assets			
Stock	197	125	222
Debtors	2,254	2,563	2,896
Debtors > 1 year	1,761	1,920	1,761
Cash at bank and in hand	1,282	764	1,551
	<u>5,494</u>	<u>5,372</u>	<u>6,430</u>
Creditors: less than one year	(3,593)	(4,219)	(4,507)
	<u>1,901</u>	<u>1,152</u>	<u>1,923</u>
Net current assets			
	<u>5,793</u>	<u>4,614</u>	<u>5,667</u>
Total assets less current liabilities			
Creditors: more than one year	(2,705)	(3,364)	(2,968)
Provision for liabilities	(256)	(207)	(256)
	<u>2,832</u>	<u>1,043</u>	<u>2,443</u>
Net assets			
Capital and reserves			
Called-up share capital	53	2,124	53
Share premium	-	7,426	-
Share option reserve	-	22	-
Own shares reserve	(195)	(195)	(195)
Profit and loss account	2,974	(8,334)	2,585
	<u>2,832</u>	<u>1,043</u>	<u>2,443</u>
Shareholders' funds			

NMR plc - Group Statement of Cash Flows

	6 months ended 31-Dec-18 £'000	6 months ended 31-Dec-17 £'000	12 months ended 30-Jun-18 £'000
Cash flows from operating activities			
Operating Profit (before share of JV operations)	1,161	927	1,893
add back Depreciation and Amortisation	218	260	653
Share option vesting expense	-	-	13
Profits on disposal of tangible assets		(16)	(23)
Release of warranty provision			45
(Increase)/decrease in trade and other debtors	529	79	(140)
(Increase)/decrease in stocks	25	59	(38)
Increase/(decrease) in creditors	(1,215)	(224)	392
	(443)	157	902
Income taxes refunded	188	-	-
Cash from operations	906	1,085	2,795
Cash flows from investing activities			
Dividends received	-	-	52
Purchase of fixed assets	(319)	(198)	(801)
Proceeds from sale of tangible assets & investments	-	-	47
Proceeds on exercise of share options	-	-	52
	(319)	(198)	(650)
Cash flows from financing activities			
Dividends paid	(521)	-	-
New loans raised	65	252	251
Repayments of borrowings	(256)	(696)	(986)
Repayments of obligations under finance leases	(66)	(93)	(173)
Interest paid	(78)	(44)	(145)
	(856)	(582)	(1,053)
Net increase in cash and cash equivalents	(269)	305	1,092
Cash and cash equivalents at beginning of period	1,551	459	459
Cash and cash equivalents at end of period	1,282	764	1,551

ENDS

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.