

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

NMR, the leading UK supplier of dairy and livestock services, announces its unaudited results for the six months ended 31 December 2019.

Highlights

- Turnover for the period of £10.7 million (“m”) (2018: £11.7m)
 - Previously disclosed one-off and seasonal activity in 2018 accounted for 59% turnover disparity
- The cyber-attack reported on 13 September interrupted services in the first half
- Profit on ordinary activities, before taxation, of £0.4m (2018: £1.1m)
- EBITDA for the period of £0.6m (2018: £1.3m)
- Net Debt up slightly at £2.4m (2018: £2.1m) after paying a dividend of £0.3m
- Investment in tangible and intangible assets up significantly at £0.7m (2018: £0.3m)
- Net assets increased to £4.1m (2018: £2.8m)

Managing Director, Andy Warne, commented:

“We are pleased to report that despite an interruption to our services following the previously reported cyber-attack, NMR has emerged stronger having protected our revenue streams and substantially reinforced our cyber protection and restoration capability. We are particularly pleased to note that revenues from our Disease Testing services have grown by 4% year on year as we pursue our strategy of focusing on our core customers and greater penetration of our milk testing services.

We are also pleased that we have continued our accelerated investment programme having invested significantly in the first half of the year in both laboratory equipment and digital transformation. We also paid another dividend in the first half of the 2020 financial year.

The financial impact of the cyber-attack has been via additional credit to customers for interrupted services, the over-provision of testing in the labs to protect revenue streams, and additional costs for system protection and cyber-consultancy services. Whilst the quantum has been greater than previously envisaged, the direct financial impact is fully contained in the first half of the year. During the second half of FY20 we expect to trade broadly in line with our prevailing growth expectations for this period, albeit some initiatives having been delayed by the cyber-attack. Taken together, this updates our previous guidance.

“We continue to focus on the delivery of our strategic objectives, and I am confident that our earnings exit rate for the year ended June 2020 will be broadly in line with our expectations pre-cyber-attack. That being said, we’re not the company we were; at every turn NMR is seeking to achieve a more robust IT infrastructure and greater resilience of our service platforms to ensure we are always improving our customer experience and therefore supporting our growth objectives in our core markets.

“With regards to the British Dairy industry, calendar year 2019 saw the highest level of milk produced in Great Britain for 27 years. There is some consequent downward pressure on milk prices which may reduce milk volumes to a small extent, however we remain positive that the UK dairy market offers strong opportunities and look forward to a successful second half of the year and beyond.”

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

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014.

The Directors of the Company are responsible for the contents of this announcement.

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 a period impacted by the cyber-attack and the Company is now recovering to the previously established trajectory of growth. Overall EBITDA fell to £0.644m, just below half of the figure posted last year.

The financial impact of the cyber-attack can be summarised under three areas, which in order of value, are credit to customers, over provision of testing and provision of cyber support services. From the beginning, NMR was clear that the restoration of critical services and protection of revenue streams was paramount. Consequently, affected customers were immediately given general credit due to the interruption of service, followed by further specific credit adjustments where any additional interruption was judged to be material. Within the laboratory operations, the suspension of key systems led to substantial manual working and workarounds and, when systems were restored, a period of catch-up that had a knock-on impact on labour costs. Additionally, without scheduling systems to accurately

determine the testing requirements, paper-based systems were introduced along with a margin of safety to test more samples. Finally, there were costs within technology where additional system-logging and AI virus protection methodologies were overlaid and specialist cyber-response and recovery services accessed from third party experts.

The exceptional trading in H1 2019 also make for tough year on year comparisons as had been announced at the time, NMR enjoyed a one-off boost in trading in the prior period for a genomics contract to support AHDB, and grant-aided purchases of Heat Detection systems. Of the c.£1.0m reduction in revenue, c.£575,000 lies in the Heat Detection and Genomics revenue categories and was declared as one-off and seasonal activity in last year's interim announcement.

Overhead costs in the first half show an increase of 1% compared to 2018, primarily due to wage inflation and increased working in the labs, however these have been offset by reduced travel costs and lower plant and equipment maintenance costs as NMR gradually replaces the laboratory analyser estate. The quid pro quo here is an increased charge for depreciation and amortisation reflecting greater investment in laboratory equipment and software development.

There is no single simple action to fully remediate cyber risk. Instead NMR must pursue, and is pursuing, a holistic approach examining, testing and hardening all areas. NMR's response to the cyber-attack has focused on six key project areas: Controls; Detection; Legacy; Critical Response; People; Partner Support. Recent improvements include deployment of Microsoft SIEM tools (Security Information and Event Management), device monitoring and back-end monitoring SOC (Security Operations Centre), improved back-up/restore protocols, Office 365 email deployed across business and Cyber training via e-learning platform.

Investment

NMR increased its capital investment in the first half of the financial year, increasing investment from £319,000 in the six months ended 31 December 2018 to £651,000 for the six months ended 31 December 2019. This comprises investment in laboratories, including an investment in an automation platform in the ELISA lab expected to be commissioned in the coming weeks, continued development of the Finance and CRM systems in Microsoft Dynamics 365, and improvements to our IT infrastructure. NMR continues to invest in growth, efficiency and resilience projects despite the financial impact of the cyber-attack. The second half of the year will see further investment in IT and the next cycle of laboratory analyser replacement however investment is expected to be lower than in the first half.

Dividend

A final dividend of 1.25 pence per share for the financial year ended 30 June 2019 was paid on 21 November 2019 (2018: 2.5 pence). NMR recommended the reduced dividend to support the greater levels of investment described above and is pleased to report that the strategic development and investment was uninterrupted by the cyber-attack. Consistent with all prior interim periods, the Directors propose no interim dividend (2018: nil).

Cash flow and Debt

NMR's cash position has carried the cyber-attack and its impact on earnings, whilst still investing in the future of the business and paying a dividend. Cash at the end of December 2019 was £0.3M, having paid a dividend of £262,000 in November 2019. Net debt, including lease finance of motor vehicles, was £2.422m at 31 December, compared to £2.064m a year earlier. Working capital has increased slightly since the year end, and the Company expects this to unwind, particularly as debtors are collected. The directors remain assured that the company has sufficient liquid funds and access to debt facilities to support its growth ambitions and working capital requirements for the remainder of the financial year and the foreseeable period beyond.

Outlook

The UK milk processing sector shows encouraging levels of inward investment and the milk price being paid to UK dairy farmers is sustainable. Chris Gooderham from AHDB reported "Despite the uncertainty in 2019, the market value of milk in the UK was the most stable it's been for a decade. Our milk production forecast for 2019/20 is the highest for 29 years".

The vegan lobby provides a useful challenge to the UK dairy sector to focus on sustainability and the environment. Milk processors such as Arla have adopted corporate deadlines to achieve a carbon neutral status and NMR has a role to play in providing tools to manage and measure progress in this emerging sector. Since 1990, Arla farmers have already collectively reduced CO2 emissions per kilo of milk by 24%.

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. A period of uncertainty as the transition period ends at the end of 2020 is inevitable however NMR continues to believe that the impact of Brexit on the UK dairy sector will be mildly positive in the medium term as evidenced by a limited transition of beef farming enterprises into dairy.

As with all markets there are headwinds particularly in the squeeze on processor margins in the retail liquid milk sector. The Coronavirus is already affecting domestic dairy consumption in China which is likely to have an impact on global dairy commodity markets however the direct exposure of the UK dairy sector to global markets is relatively limited.

NMR plc - Consolidated Statement of Comprehensive Income

	6 months ended 31-Dec-19	6 months ended 31-Dec-18	12 months ended 30-Jun-19
	£'000	£'000	£'000
Turnover			
Milk recording and genomics services	4,719	5,167	10,214
Disease testing services	2,641	2,551	5,212
Payment testing services	2,173	2,230	4,687
Other testing services	208	311	499
Non-testing revenues	917	1,475	2,187
	10,658	11,734	22,798
Costs of sales	(6,407)	(6,818)	(13,066)
Administrative Expenses	(3,904)	(3,756)	(7,463)
	347	1,161	2,269
Share of operating profit in joint ventures	75	47	265
Operating Profit	422	1,208	2,534
Net Finance Cost	(47)	(78)	(126)
Profit on Ordinary Activities Before Tax	375	1,130	2,408
Tax on Ordinary Activities	(72)	(220)	(420)
Profit on Ordinary Activities After Tax	303	910	1,988
Earnings Per Share			
weighted average no shares	21,239,702	21,239,702	
Basic EPS (pence)	1.4	4.3	9.5
share options	300,000	300,000	
Diluted EPS (pence)	1.4	4.2	9.4
Other Comprehensive Income			
Exchange Rate difference			4
Total comprehensive income for the year	303	910	1,992

NMR plc – Consolidated Balance Sheet

	as at 31-Dec-19 £'000	as at 31-Dec-18 £'000	as at 30-Jun-19 £'000
Fixed Assets			
Intangible fixed assets	929	476	803
Tangible fixed assets	3,075	2,507	2,849
Investments	1,156	909	1,081
Other Investments	-	-	-
	<u>5,160</u>	<u>3,892</u>	<u>4,733</u>
Current Assets			
Stock	512	197	417
Debtors	3,172	2,254	2,878
Debtors > 1 year	1,316	1,761	1,316
Cash at bank and in hand	308	1,282	1,412
	<u>5,308</u>	<u>5,494</u>	<u>6,023</u>
Creditors: less than one year	<u>(4,046)</u>	<u>(3,593)</u>	<u>(4,026)</u>
Net current assets	<u>1,262</u>	<u>1,901</u>	<u>1,997</u>
Total assets less current liabilities	<u>6,422</u>	<u>5,793</u>	<u>6,730</u>
Creditors: more than one year	(2,079)	(2,705)	(2,416)
Provision for liabilities	(269)	(256)	(281)
Net assets	<u>4,075</u>	<u>2,832</u>	<u>4,033</u>
Capital and Reserves			
Called-up Share capital	53	53	53
Own Shares reserve	(195)	(195)	(195)
Profit and loss account	4,217	2,974	4,175
Shareholders' funds	<u>4,075</u>	<u>2,832</u>	<u>4,033</u>

NMR plc - Group Statement of Cash Flows

	6 months ended 31-Dec-19 £'000	6 months ended 31-Dec-18 £'000	12 months ended 30-Jun-19 £'000
Cash flows from operating activities			
Operating Profit (before share of JV operations)	347	1,161	2,269
add back Depreciation and Amortisation	298	218	503
(Increase)/decrease in trade and other debtors	(294)	529	(97)
(Increase)/decrease in stocks	(95)	25	(195)
(Decrease) in creditors	(207)	(1,215)	(403)
	(298)	(443)	(192)
Income taxes refunded	144	188	188
Cash from operations	193	906	2,265
Cash flows from investing activities			
Dividends received	-	-	53
Purchase of fixed assets	(651)	(319)	(1,262)
Proceeds from sale of tangible assets & investments	-	-	-
	(651)	(319)	(1,209)
Cash flows from financing activities			
Dividends paid	(262)	(521)	(521)
New loans raised	-	65	-
Repayments of borrowings	(249)	(256)	(513)
Repayments of obligations under finance leases	(88)	(66)	(148)
Proceeds on exercise of share options	-	-	116
Interest paid	(47)	(78)	(129)
	(646)	(856)	(1,195)
Net increase in cash and cash equivalents	(1,104)	(269)	(139)
Cash and cash equivalents at beginning of period	1,412	1,551	1,551
Cash and cash equivalents at end of period	308	1,282	1,412

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