Strictly Embargoed until 07.00, 17th November 2020

Focusrite plc
("the Company" or "the Group")
Final Results for the Year Ended 31 August 2020

Focusrite plc (AIM: TUNE), the global music and audio products company, announces Final Results for the year ended 31 August 2020.

Phil Dudderidge, Founder and Executive Chairman commented:

"2020 will be remembered as the year of the COVID-19 pandemic. The Group has benefited in many respects by the growth in demand for our music and recording products, no doubt because so many people, professional musicians and amateurs alike, are having to work at home or having more time to enjoy their passion for music creation.

Focusrite and ADAM Audio, in particular, have generated exceptional growth in the reported year and the new financial year has started well. The use of Focusrite audio interfaces has expanded with the growth of podcasting and the use of Zoom and other platforms for creative applications in music, as well as film and TV dubbing and radio entertainment where actors voice productions from home.".

Financial and Operational Highlights

	FY20	**FY19**
Revenue (£ million)	130.1	84.7
EBITDA[2] (£ million)	28.6	17.2
Adjusted[3] operating profit (£ million)	23.0	13.5
Adjusted[3] diluted earnings per share (p)	32.8	21.4
Total dividend per share (p)	4.2	3.8
Net cash (£ million)	3.3	14.9
Statutory results		
Operating profit (£ million)	7.9	12.8
Basic earnings per share (p)	7.1	20.4

Highlights

- Group revenue, including acquisitions, grew by 53.7% (constant currency[1]: 57.1%) to £130.1 million (FY19: £84.7 million).
- Revenue within the core Focusrite business grew by 21.5% to £100.7 million (FY19: £82.9 million).
- Strong growth across geographic regions: North America was up by 39.9%; Europe, Middle East and Africa by 65.9%; and the Rest of World by 59.7%.
- EBITDA[2] grew by 66.1% to £28.6 million (FY19: £17.2 million).
- Adjusted[3] operating profit grew 70.0% to £23.0 million (FY19: £13.5 million).
- Acquisition of Martin Audio completed in December 2019 for £35.3 million net of acquired cash.
- The effects of the acquired depreciation and amortisation, the non-underlying costs and a £10.2 million goodwill write down taken on Martin Audio following the effects of the COVID-19 pandemic, contributed to reported operating profit declining 38.1% to £7.9 million (FY19: £12.8 million).
- Adjusted[3] diluted earnings per share grew 53.3% to 32.8p (FY19: 21.4p).
- Year-end net cash balance of £3.3 million after the purchase of Martin Audio for £35.3 million (FY19: £14.9 million).
- The Group has repaid the net debt taken to buy Martin Audio in less than eight months.
- Final dividend of 2.9p recommended, resulting in 4.2p for the year, up 10.5% on prior year.

1 Constant currency revenue growth is calculated by taking the sterling value of FY20 revenue, converting to FY19 annual average exchange rates and comparing with the reported revenue for FY19. In addition, all foreign exchange movements disclosed in revenue are excluded from both years.

2 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, goodwill impairment and non-underlying items.

3 Adjusted for amortisation of acquired intangible assets, goodwill impairment and non-underlying items. See Financial Review for more information.

Commenting on the results Tim Carroll CEO, said:

"*The Group has achieved another record-breaking year of financial metrics, driven by organic growth and expansion in our traditional product lines along with a full year of ADAM Audio revenue and a partial year of Martin Audio.*

FY20 was a year that required us to remain focused on our key growth objectives while carefully watching all the numerous macroeconomic issues, including COVID-19, and ensuring we were taking the correct steps to mitigate risk and, where applicable, maximise opportunity. This past year saw increased investment in people, technology and tools to ensure our roadmap plans were achievable and to help us make key decisions across the Group, driving further growth."

Commenting on the outlook he added:

"Since the year end, demand for most of our Group products has remained high and revenue is substantially ahead of the level achieved in the similar, pre-COVID-19, period of the prior year, helped by the acquisition of Martin Audio. We remain conscious of global factors that could adversely impact our operations such as COVID-19, Brexit, and US tariffs and will continue to monitor these and other obstacles, reacting accordingly.

We are also aware that changes in technology and new customer requirements can emerge quickly, and many of the macroeconomic issues can impact our distribution channel and end users. We have shown over the past years that we are capable of navigating successfully through these risk factors, reacting in a measured and methodical way to protect our revenue, gross margin and cash generation.

I am extremely proud of our accomplishments this past year and remain impressed by the attitude and performance of our employees through some very uncertain times. We look forward to another year of product innovation with many new products and solutions coming to market across all three of our business groups."

Availability of Annual Report and Notice of AGM

The Annual Report and Accounts for the financial year ended 31 August 2020 and notice of the Annual General Meeting ("AGM") of Focusrite will be posted to shareholders by 24 November 2020 and will be available on Focusrite's website at www.focusriteplc.com.

Dividend timetable

The final dividend is subject to shareholder approval, which is being sought at Focusrite's AGM to be held on 17 December 2020.

The timetable for the final dividend is as follows:

17 December 2020	AGM to approve the recommended final dividend
7 January 2021	Ex-dividend Date
8 January 2021	Record Date
29 January 2021	Dividend payment date

- ends -

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 (MAR)

Notes to Editors

Focusrite plc is a global audio and music products group that develops and markets proprietary hardware and software products. Used by audio professionals and musicians, its solutions facilitate the high-quality production of recorded and live performance sound. The Focusrite Group trades under six established brands: Focusrite, Focusrite Pro, Novation, Ampify, ADAM Audio and Martin Audio.

With a high-quality reputation and a rich heritage spanning decades, its brands are category leaders in the music-electronic music making and audio music recording industries. Focusrite and Focusrite Pro offer audio interfaces and other products for recording musicians, producers and professional audio facilities. Novation and Ampify products are used in the creation of electronic music, from synthesisers and grooveboxes to industry-shaping music software controllers and inspirational music-making apps. ADAM Audio studio monitors have earned a worldwide reputation based on technological innovation in the field of studio loudspeaker technology. Martin Audio designs and manufactures performance-ready systems across the spectrum of live and installed sound applications.

The Focusrite Group has a global customer base with a distribution network covering approximately 160 territories. Focusrite is headquartered in High Wycombe, UK, with marketing offices in Los Angeles and Hong Kong. ADAM Audio has offices in Berlin, Nashville and Dongguan, China. Martin Audio is also based in High Wycombe with a subsidiary in the USA.

Focusrite plc is traded on the AIM market, London Stock Exchange.

Chairman's Statement

I am very proud to introduce the final results for Focusrite plc for the year ended 31 August 2020, the sixth Report and Accounts since the Company joined AIM in December 2014. I am extremely pleased that once again the Company has made substantial financial and operational progress.

2020 will be remembered as the year of the COVID-19 pandemic. The Group has benefited in many respects by the growth in demand for our music and recording products, no doubt because so many people, professional musicians and amateurs alike, are having to work at home or having more time to enjoy their passion for music creation.

Our Group consists of three main businesses: Focusrite Audio Engineering, which incorporates the Focusrite, Focusrite Pro, Novation and Ampify brands; ADAM Audio, the Berlin-based studio monitor loudspeaker company acquired in July 2019, whose first full year's results as part of the Group are included in this report; and Martin Audio, acquired in December 2019, contributing eight months of revenue and EBITDA to the Group results.

Focusrite and ADAM Audio, in particular, have generated exceptional growth in the reported year and the new financial year has started well. The use of Focusrite audio interfaces has expanded with the growth of podcasting and the use of Zoom and other platforms for creative applications in music, as well as film and TV dubbing and radio entertainment where actors voice productions from home.

Martin Audio performed ahead of our internal expectations in the first three months of the calendar year before being adversely affected by the closure of the live music performance industry globally due to COVID-19, and the resulting postponement of investment by the service companies and venues that support live music. Martin Audio has nevertheless turned in a profit in FY20. It is maintaining a level of business in the installation market globally and remains ready to meet the demands of the live music industry as and when it returns to life when COVID-19 restrictions end.

COVID-19 precautions caused the companies in the Group, including their UK and overseas offices and personnel, to work from home with almost no notice. The Group proved remarkably ready to meet this challenge having invested in VoiP telephony and Zoom, as well as Netsuite ERP and other cloud-based solutions that allowed for total connectivity between the business and our people, our supply chain partners and our customers, globally. We hardly missed a beat or a moment of business activity. A large part of our workforce is involved in product development and this has continued 'at home' very successfully and effectively managed, with 11 new products being released by the Focusrite business since the March 2020 lockdown.

I would like to commend CEO Tim Carroll and CFO Jeremy Wilson for their outstanding efforts as well as that of the management teams and staff of all three Group companies, who delivered such outstanding results in the face of many challenges caused by COVID-19. I would also like to commend and thank our contract manufacturers, our logistics partners, and our distribution and retail partners for their part in meeting these challenges and opportunities this past year.

This will be the last Annual Report to have been overseen by CFO Jeremy Wilson who leaves us soon, to be replaced by Sally McKone, as announced previously. Sally trained at Grant Thornton before carrying out several senior finance roles at Electrocomponents plc and IMI plc. Sally brings valuable international experience from her career at these two highly regarded FTSE250 electronics and precision engineering groups. Sally is due to start in Q1 2021 and we are thrilled that she is joining us. Jeremy will stay until Sally arrives.

I would like to take this opportunity to thank Jeremy, who joined us in 2014 and was a key member of the team that brought the Group to the AIM market. His leadership and stewardship of the finance team, as well as his contribution to the achievement of our continued growth, profitability and cash generation has been exemplary and we shall miss him.

Finally, thank you to all our shareholders, those who have been with us since flotation and those who have joined the register more recently, for your continued confidence in our business model and investment proposition. We look forward to having the opportunity to meet you again in person, once the restrictions imposed as a result of COVID-19 are lifted.

Phil Dudderidge
Founder and Executive Chairman

Chief Executive's Statement

Introduction

I am extremely pleased to share with you our results for the financial year ended 31 August 2020. The Group has achieved another record-breaking year of financial metrics, driven by organic growth and expansion in our traditional product lines along with a full year of ADAM Audio revenue and a partial year of Martin Audio.

FY20 was a year that required us to remain focused on our key growth objectives while carefully watching all the numerous macroeconomic issues, including COVID-19, and ensuring we were taking the correct steps to mitigate risk and, where applicable, maximise opportunity. This past year saw increased investment in people, technology and tools to ensure our roadmap plans were achievable and to help us make key decisions across the Group, driving further growth.

Our employee base has now grown to over 400 strong across the enlarged Group and we continue to invest in our people, promoting from within as well as seeking out new top talent in all divisions across the Group. Our offices now span much of the world with key locations in the UK (High Wycombe and London), Germany (Berlin), the US (Los Angeles and Nashville), as well as Hong Kong, Mexico and Australia. Our employee base is comprised of a highly passionate group of individuals, many of whom are also accomplished DJs, musicians, audio engineers, live sound specialists and podcasters in their own right. We are very fortunate to have so many people who are passionate about music making and audio production and who bring to work real life experiences and feedback. This experience is invaluable.

COVID-19 brought many unique challenges to the Group and our individual employees. Employee wellbeing has always been a top priority and the Group rose to the challenges that COVID-19 presented: providing the tools, support and flexibility to allow all employees to work at home effectively in a short amount of time. Additionally, all office sites were re-worked to ensure proper social distancing and hygiene for the employees that have spent some time in the various offices. We are confident that we can carry on with most employees working at home and are prepared to begin bringing more employees back into the office environment when the local government guidance permits.

Our operations

The Group's products are sold in approximately 160 territories all over the world. Our routes to market continue to be refined as macroeconomic conditions change as well as end user buying behaviours. We utilise a mix of retailers (online as well as traditional brick and mortar shops); distributors in selected countries where localisation, local support and supply to the local channel are factors; and direct to end user via our own e-commerce platform and in-app software purchases.

Last year we sold over 1.2 million physical products and had over 1.2 million downloads of our various software titles. Our manufacturing approach varies by business units. FAEL (Focusrite, Focusrite Pro, Novation and Ampify) hardware and software products are all designed in the UK and assembled in China and Malaysia. ADAM Audio products are all designed in Berlin. ADAM Audio manufactures some of their high-end products in Berlin and utilises Chinese contract manufacturing for the rest of its portfolio. Martin Audio's products are all designed in the UK, where they build a portion of their range, as well as using Chinese contract manufacturing for the remainder.

Our market

The Group's portfolio of products and solutions service a vast spectrum of customers who have a need for high-quality audio. Our core business, up until December 2019, was focused on solutions for music and audio content creation, servicing the needs of beginners, hobbyists, and both aspiring and seasoned professionals. With the acquisition of Martin Audio, the Group added professional audio reproduction solutions that scale from portable solutions for a small band to the largest professional tours, and for permanent installations for bars, clubs, corporate, houses of worship, theatres and performance halls. Having a stake in both the production of music and audio content as well as the reproduction gives the Group a well differentiated story in that our solutions help artists through their entire journey of creating, recording and performing.

The Group is consistently seeking out ways to expand our core business and enter adjacent categories where our products and solutions are viable options for customers. To accomplish this, we continue to drive innovation organically with our in-house R&D teams, finding new routes to market and carefully considering acquisitions that are aligned with our existing activities and market segments and can help us accelerate our growth

We actively seek out updated market research in our sectors, collating the vast amount of data from our internal efforts as well as outside resources to categorise our customers into five personae that encompass the majority of our potential customers. These personae are:

- The 'New Creator' is a customer who might have little or no music or audio recording knowledge.
- The 'Passionate Maker' is someone who may or may not play a traditional instrument but has a desire to make high-quality music or audio content, such as podcasting.
- The 'Serious Aspiring Producer' is someone for whom music and audio production is more than just a hobby and is considered a potential career path; and finally
- The 'Master' and 'Facility' personae: highly skilled musicians, audio engineers, or business entities focused on the production or reproduction of music and audio.

The art of music/audio creation and live sound production are constantly evolving crafts, with new technologies enabling workflows and enhancements that are quickly adopted and become part of the normal process. Due to this, it is imperative that the Group ensures we have our finger on the pulse of all new applicable technologies and that we understand how and where they can benefit our customers.

Operating review of another record year

The Group has delivered another successful year of increased revenues, as well as managing our cost base closely and remaining focused on cash generation.

Revenue for the Group grew by 54%, which comprised 22% growth for the FAEL brands, plus a full year of ADAM Audio, and eight months of Martin Audio. Adjusted EBITDA increased 66% over the FY19 result.

There are many factors that contributed to this successful outcome: new product introductions; refined targeted marketing initiatives; the evolution in our routes to market approach; and continued success for both legacy products and products released in the previous fiscal year.

For FAEL, this included new products in the Novation category, refreshing the Launchpad and Launchkey ranges, continuing to expand our direct e-commerce efforts globally and material growth of our 3rd generation Scarlett interfaces that were released in late 2019.

ADAM Audio had several product introductions to round out their monitor loudspeaker offerings, moved several strategic regions to the same distribution partner as FAEL for scale, and initiated their own e-store for direct sales in targeted regions. Martin Audio launched the ADORN series, designed for installed sound markets and launched a number of new marketing initiatives, both in-house and virtual as COVID-19 became a factor, to educate and train live and installed sound engineers worldwide.

Throughout this year we have encountered a number of events, such as ongoing Brexit negotiations, US-China tariffs, and the COVID-19 pandemic, that have required careful consideration and actions to mitigate risk and where possible, maximise opportunity. While all of these events are ongoing, the Group is confident in our level of preparedness and ability to adapt where necessary.

Purchase of Martin Audio

In late December 2019, the Group announced completion of the acquisition of Martin Audio, our second acquisition in the 2019 calendar year, for a total consideration of £39.6 million (£35.3 million net of cash acquired). This was funded partially by existing cash and partially by debt. Martin Audio was a well-known entity to the Group, with a highly regarded management team. Additionally, Martin Audio's headquarters is located approximately one mile from FAEL in High Wycombe.

Martin Audio is a developer of both live sound and installed sound systems which are used for some of the largest live events, tours, festivals, and installed sound applications such as houses of worship, clubs and corporate audio visual. The company was founded in 1971 and since that time has earned a reputation for world class audio solutions, rallied around the mission that every member of an audience should have an exceptional sonic experience, whether that is at a concert, nightclub, house of worship or club. The Group identified Martin Audio as a strong candidate for acquisition based on its brand equity, growth, culture, roadmap and executive management team. In the first three months following the acquisition, performance for Martin Audio was very strong, beating forecasts set during the due diligence phase. However, COVID-19 has impacted the Martin Audio business negatively but, as we described in our most recent trading update, we are now seeing modest signs of recovery, specifically in the installed sound business which is the largest component of Martin Audio's revenue contribution. We remain confident of the longer term prospects for Martin Audio once COVID-19 abates.

Impact of COVID-19

As for most companies, 2020 has proved to be a very unusual year that has witnessed dramatic impacts on many peoples' lives, as well as on many of our core solutions. Pre-COVID-19, the market was experiencing healthy growth in the various sectors in which we participate. Live and installed sound was having a very good year and there was a robust pipeline of tours, festivals, and installed sound business for the second half. Home recording was strong with many new customers purchasing Novation, Focusrite and ADAM Audio products for their music making, podcasting and streaming workflows. Professional audio and content creation were still tracking at record levels to keep up with all of the new content providers and demand from the many different music streaming services.

COVID-19 first became an issue for the Group in late January in China, when workers did not return to the contract manufacturers and warehouses as planned post-Chinese New Year. This impacted production schedules and our ability to get finished products out of the Chinese warehouses. This impact was mitigated by our second manufacturing unit in Malaysia, as the two countries were not simultaneously in lockdown. Therefore, when one unit was closed, the other was operational. Fortunately, the Chinese warehouses came back online after a short amount of time and production began to return to normal shortly after.

It was around this time when we began to see two different scenarios playing out for our businesses. Within FAEL and ADAM Audio, we witnessed a marked increase in demand for our home recording solutions. As countries went into lockdown, many people looked to music creation, podcasting, and streaming solutions for remote working and much of the FAEL and ADAM Audio portfolio caters to these workflows. The lockdown environment shifted the purchasing balance for consumers from bricks and mortar stores towards e-commerce offerings. To an extent, the damage that this caused to the brick and mortar network in many countries continues to this day. For Martin Audio, many live events such as tours and festivals began to be postponed. This was followed by many installed sound projects being delayed as well. The individual businesses responded to these unique challenges in an admirable way. For FAEL and ADAM Audio, this involved ramping up production, leveraging routes to market that had strong e-commerce capabilities, pivoting on marketing plans as trade shows closed, and focusing primarily on at home production workflows. Martin Audio's executive team acted swiftly to cut costs and focus sales and marketing energy on their installed sound portfolio, where business remained active at various levels.

Throughout all of that, the various businesses had to react to new work-at-home rules enforced by local governments; transitioning many of the employee base to remote working across most departments. Because of the leadership team's swift reaction to the changing environment combined with numerous investments we have made over the past few years in IT, enhanced systems, and new processes, the Group were able to react rapidly and effectively. Additionally, with only a few small exceptions, the committed new products for the second half were launched inside their expected time frames.

Segmental review

Focusrite

The Focusrite branded product family, which includes Scarlett and Clarett audio interfaces, had a tremendously strong year, achieving a 32% year-on-year increase in revenue. Demand for the ability to create high-quality music and audio content, such as podcasting in home/remote locations, was strong, especially during the COVID-19 lockdowns. Additionally, the desire by many to have high fidelity audio for streaming services and video conferencing continued to grow and peaked during the lockdown period. Despite lockdowns having abated in most areas, we have continued to see higher than normal growth and demand for Focusrite interfaces. We will wait and see what impact the new lockdowns will have on demand in the next financial year, but at this stage it is too early to draw any conclusions.

Focusrite Pro

Focusrite Pro represents a suite of professional products that provide professional, exceptional quality audio and scalability for any audio workflow. The Red series, our premium line of audio interfaces, offers a multitude of connectivity options to meet the needs of any audio professional. Likewise, RedNet is the Group's AoIP set of solutions that allows large scale audio connectivity and routing over standard ethernet networks to meet any production needs. The portfolio, primarily designed for enterprise level customers and facilities across the live sound, broadcast, installed sound and post-production market, had a challenging year. As many live events were postponed or cancelled, as well as many production facilities, theatres, universities closed, a large portion of Pro's pipeline projects were delayed or in some cases, cancelled. As with Martin Audio, the Group is starting to see signs of recovery in some sectors. Additionally, the Focusrite Pro team has a number of new products shipping in the first half of this financial year which are expected to add incremental value.

Novation

The Novation brand and portfolio is all about the creation and production of electronic music. Electronic music (and its many genres) continues to grow and is democratising the art of music creation. Novation offers a wide range of solutions to address these genres for everyone from the absolute beginner through to professionals. The Novation brand enjoyed several major product launches over the year, resulting in revenue growth of 9% for the year.

The Novation family of products can be segmented into controllers, grooveboxes and synthesisers. Novation controllers, which are comprised of Launchpad, our grid-based controller for both creating and performing music, and Launchkey, our family of keyboard controllers, had a strong year with 21% growth. This was fuelled primarily by new product introductions as well as some COVID-19 boost as some customers added these components to their home studios. The Novation family of synthesisers has been core to the brand since inception and have developed a reputation with electronic musicians as cutting edge, creative and versatile instruments. Our flagship synth, Summit, introduced at the end of last year, has won many accolades in the industry. The other products in the portfolio, which include Peak and Bass Station, continue to enjoy strong customer attraction and industry appreciation.

Ampify

Our Ampify software division, based in London, develops powerful but brilliantly simple music creation apps for iOS, Mac and Windows platforms. To date, while the revenue is modest, the Ampify apps have been downloaded more than 12.5 million times, which has proven to be a highly effective marketing net to attract new customers. Inside this year, Ampify apps were downloaded 1.2 million times, resulting in approximately 900,000 purchases of content from our in-app commerce engine. Additionally, this year marked the introduction of Ampify's first cross-platform music creation application for Mac and Windows, Ampify Studio. With a simple yet powerful user interface and a large library of content in many styles of music, Ampify Studio is the perfect music creation application for beginners and those that want to create music without a steep tech learning curve. The application is free, but also offers a subscription to the content library, which has over 10,000 samples of drums, bass, guitar, vocals, beats and effects. The library offers fresh new content every month, developed by up and coming artists in a multitude of styles and genres. Ampify Studio will continue to see feature development to address the needs of our core music making customers across the Novation and Focusrite brands.

ADAM Audio

The Group acquired ADAM Audio in July 2019 and started to leverage Focusrite's more advanced distribution network to improve the sales of ADAM Audio products. In the first half, revenue increased 13% over the prior year, signalling the early success of this strategy. Upon the arrival of COVID-19, ADAM Audio's products experienced a substantial boost in demand, similar to that experienced for Focusrite products with the result that, for the full year, revenue has increased by 42% compared to the twelve months to August 2019, most of which was pre-acquisition. This is comfortably ahead of the plans made at the time of the acquisition. ADAM Audio and Focusrite continue to use their individual areas of expertise to benefit the other. Now ADAM Audio is the distributor of Focusrite and Novation products in Germany and Focusrite is the distributor of ADAM Audio in the UK. This uses the local network of sales, marketing and operations to serve each market. It also provides a natural means of combating potential Brexit upheaval should it arise.

In parallel with these developments, ADAM Audio continues to develop its product range with some exciting new products planned for the coming year and we are as excited as ever for them to be a part of the Focusrite plc family.

Martin Audio

The Group acquired Martin Audio in December 2019. Martin Audio was founded in 1971 by the innovative loudspeaker designer David Martin and the company enjoys an international reputation for supplying award-winning, patent-protected, professional audio systems across live sound and installation applications.

At the half year, revenue was up 22% year-on-year, however as explained above, it was then affected by COVID-19 with the widespread government enforced lockdowns, resulting in the cancellation of concert tours and festivals, thereby curtailing the demand for these new systems. Overall, revenue for the full year is down 26% on the prior year. However, the management team of Martin Audio has controlled costs tightly and Martin Audio has made a contribution of £1.0 million at EBITDA level.

At the same time, Martin Audio has announced 12 new products including ceiling speakers in its commercial series, ADORN, and a dedicated series for the Chinese market, DDX. In addition, it launched the company's first ever Apple iOS app for the control of its powered portable series, BlacklineX Powered. It also installed new systems around the globe including the high-profile new hotel and restaurant Nobu complex in Chicago, the multiplex Armagh Planetarium in Northern Ireland and CÉ LA VI - a new luxury dining, bar and club lounge complex in Shibuya, Tokyo.

Despite challenging circumstances during COVID-19, the company, which includes a manufacturing facility in the UK, operated safely throughout. Ultimately the Group believes that COVID-19 has caused a hiatus rather than a permanent change; the public appreciate live music and we believe that events will make a steady return, so Martin Audio has continued to invest in research and development to ensure a strong programme of new product introduction for the years ahead, tailored to changing circumstances.

Routes to market

I am once again pleased to report that our success this year was global, with all major sales and regions experiencing growth year-on-year. A big part of our success was certainly our investment in people in the local regions and a big emphasis on localised marketing content and demand generation. Additionally, our own e-commerce store experienced record growth of 152% year over year, albeit from a relatively small base. Our direct e-commerce strategy continues to evolve as a larger part of our overall business, especially as we add more software and content offerings to our customer base.

Regional review

North America

The US market, which accounts for approximately 39% of total Group revenue, grew by approximately 40% year-on-year. This includes 16% growth for FAEL brands, a full year of ADAM Audio revenue and eight months of Martin Audio. With the inclusion of the Martin Audio team, we now have an expanded team of sales and marketing professionals representing various parts of the Group's portfolio. These efforts are supplemented with a world class support team which is over 20 strong. Our offices in the USA are based in Los Angeles and Nashville with remote workers living in various states across the country.

EMEA

Europe, Middle East and Africa (EMEA), which represents approximately 43% of the Group's revenue, also had a successful year growing 66%. This comprised 30% growth in FAEL brands, and a full year of ADAM Audio and eight months of Martin Audio. Two-tiered distribution has traditionally been the majority of the Group's route to market for FAEL and ADAM Audio. However, this year saw a dramatic shift to direct online resellers that have continent-wide reach. This was mainly caused by many brick and mortar stores (and consequently regional distributors) closing during the various regional COVID-19 lockdowns. As more regions have come out of lockdown, the Group has seen the local brick and mortar and regional distribution business come back to normal levels.

ROW

The rest of the world (ROW) region comprises Asia Pacific (APAC) and Latin America (LATAM). Overall, ROW represents approximately 18% of the Group's revenue and grew 60% year over year. This included 15% organic growth for FAEL, a full year of ADAM Audio and eight months of Martin Audio.

Within APAC, the success was primarily driven by more FAEL sales and marketing professionals employed and residing in the region, more localisation efforts and some new product introductions from Martin Audio that are designed for the Chinese market.

LATAM continues to be an area of investment for the Group. This year, we added to our management team with hires in Brazil and Mexico. This team focused on local events, marketing collateral and leveraging the scale of the FAEL and ADAM Audio portfolio. The result was strong growth year-on-year for the Group's products. We recognise the region as an area of strong growth potential, through improved distribution routes to market as well as through our own e-store.

Growth drivers

The Group remains passionately focused on being a great place for our employees to work and collectively execute on our growth strategy: growing our core base; increasing the lifetime value for our customers; and expanding into new market segments. By focusing on our employees and our customers, we will continue to innovate and grow our audience of customers across the globe. Last year saw the introduction of over 13 new products across the Focusrite business and numerous software/firmware upgrades to existing products to enable new workflows and enhance our customer's experience. For FAEL and ADAM Audio specifically, lots of emphasis is placed on the out-of-box experience and customer support systems that are in place to help customers across the globe with any challenges or questions. Inside FAEL, our new onboarding journey for Focusrite Scarlett, Novation Launchpad and Launchkey was well received by new customers, raising our Net Promoter Score (NPS) score from an already prestigious 69% to 74% this year.

As discussed previously, the development of our routes to market is an ever-evolving process and we continually look to invest in channels with higher gross margin, and initiatives that allow us to transact in local markets around the world in a way that resonates with the local end user. Our investment in Latin America is a perfect example of this: over the last year we have invested in local sales and marketing professionals across Mexico and Brazil which has netted the Group an increase of 32% in our FAEL business year-on-year. An important aspect of our growth is risk mitigation, helped greatly by the diversification of the manufacturing of the Focusrite products, and the diversification of markets in which we trade helped by the acquisition of Martin Audio.

Summary and outlook

Our roadmap remains strong, with a number of new, innovative releases coming across this year from the various business units. Additionally, we will continue to refine and support existing products to grow our share in those spaces and enhance customer loyalty. With two acquisitions under our belt and the debt funding the Martin Audio acquisition repaid, we will also be looking for other complementary brands that we believe would be an ideal fit with the Group's strategy. Overall, even as we expand the Group and face unprecedented challenges like COVID-19, Brexit and other macroeconomic issues, our growth strategy continues to prove to be the right course for the Group.

Since the year end, demand for most of our Group products has remained high and revenue is substantially ahead of the level achieved in the similar, pre-COVID-19, period of the prior year, helped by the acquisition of Martin Audio. We remain conscious of global factors that could adversely impact our operations such as COVID-19, Brexit, and US tariffs and will continue to monitor these and other obstacles, reacting accordingly.

We are also aware that changes in technology and new customer requirements can emerge quickly, and many of the macroeconomic issues can impact our distribution channel and end users. We have shown over the past years that we are capable of navigating successfully through these risk factors, reacting in a measured and methodical way to protect our revenue, gross margin and cash generation.

I am extremely proud of our accomplishments this past year and remain impressed by the attitude and performance of our employees through some very uncertain times. We look forward to another year of product innovation with many new products and solutions coming to market across all three of our business groups.

Tim Carroll
Chief Executive Officer

Financial Review

Overview

Overall the Group has had a highly successful year, delivering organic and acquisition related growth totalling 53.7% in revenue, 66.1% in adjusted EBITDA and 53.3% in adjusted diluted earnings per share (EPS).

Income statement

	2020 £m Adjusted	**2020 £m Non-underlying**	**2020 £m Reported**	2019 £m Adjusted	2019 £m Non-underlying	2019 £m Reported
Revenue	**130.1**	**-**	**130.1**	84.7	-	84.7
Cost of sales	**(70.2)**	**-**	**(70.2)**	(48.9)	-	(48.9)
Gross profit	**59.9**	**-**	**59.9**	35.8	-	35.8
Administrative expenses	**(36.9)**	**(15.1)** [1]	**(52.0)**	(22.3)	(0.7)	(23.0)
Operating profit	**23.0**	**(15.1)** [1]	**7.9**	13.5	(0.7)	12.8
Net finance income	**(0.9)**	**-**	**(0.9)**	0.2	-	0.2
Profit before tax	**22.1**	**(15.1)** [1]	**7.0**	13.7	(0.7)	13.0
Income tax expense	**(2.9)**	**-**	**(2.9)**	(1.3)	-	(1.3)
Profit for the period	**19.2**	**(15.1)** [1]	**4.1**	12.4	(0.7)	11.7

[1] See Note 5 for more detail on Non-underlying costs

Revenue

Revenue for the Group grew 53.7% from £84.7 million to £130.1 million. This included several complexities: ADAM Audio was acquired in July 2019 so FY20 includes a full year of trade compared with only six weeks in FY19. Martin Audio was acquired in December 2019, and so was included for eight months. Aside from these businesses, the core business of FAEL grew by 21.5% to £100.7 million (FY19: £82.9 million). At constant exchange rates, FAEL grew by 23.5%. The following table summarises the revenue for each year:

	2020 £m	2019 £m
Focusrite	**76.2**	57.7
Focusrite Pro	**3.5**	4.7
Novation	**19.3**	17.7
Distribution	**1.7**	2.8
FAEL	**100.7**	82.9
ADAM Audio	**17.4**	1.8
Martin Audio	**12.0**	-
Total	**130.1**	84.7

An additional factor in the revenue changes was the effect of the COVID-19 pandemic and the measures to manage this that were adopted by different countries. Lockdowns prevailed, thereby requiring people to remain at home, in some degree of isolation. The consequence was that people's creation of music increased substantially, leading to much higher demand for the products made by FAEL and ADAM Audio. On the other hand, live events went into hibernation and installed sound demand lessened, both of which reduced revenue in Martin Audio. While demand for Martin Audio products lessened as a result of the impact of the pandemic, we believe the product diversification that Martin Audio brings will increase the resilience of the Group in the future.

The Focusrite segment comprises the products used in the recording and broadcasting of music or voice. The primary ranges are Scarlett and Clarett. In this segment, revenue increased by 32.2% to £76.2 million, driven primarily by demand for the new, third generation of the Scarlett range.

Focusrite Pro supports 'master music makers' who produce music for a living and commercial operations such as post-production houses, live and broadcast stages and education establishments. These were also adversely affected by the COVID-19 problems and revenue decreased by 25.8% to £3.5 million.

Novation products, including Ampify, support all musicians wishing to create music with technology. The primary ranges are Launchpad, Launchkey, Circuit and the Peak and Summit synthesisers. Overall, revenue increased by 9.4% helped by the new generations of Launchpad grid controllers and Launchkey keyboard controllers.

ADAM Audio, which was acquired in July 2019, makes studio monitors of the type used by many of the Group's customers. The demand for ADAM Audio products has similar drivers to that of Focusrite and it enjoyed a marked COVID-19 boost. Revenue in FY20 was £17.4 million (FY19 (six weeks): £1.8 million). Following the acquisition of ADAM Audio, the Board decided to end the contract for the distribution of KRK monitors in the UK, as announced in the half year results, with the consequence that this distribution revenue declined from £2.8 million in FY19 to £1.7 million in FY20.

Martin Audio was acquired in December 2019 and had revenue in the period of £12.0 million.

All the major geographic regions grew for each of the major product categories. North America represents 39% of the Group's revenue and grew at 39.9% (constant currency: 40.4%) to £50.9 million. Organic (FAEL) growth was 16.4%, primarily for the Scarlett range of interfaces.

EMEA represents 43% of Group revenue. EMEA grew by 65.9% (constant currency: 69.8%) to £56.4 million. The organic (FAEL) growth was 29.6% despite the decline in the distribution revenue. Again, Scarlett was important.

The ROW comprises mainly Asia and South America and represents the remaining 18% of Group revenue. Revenue in ROW grew by 59.7% (constant currency: 64.1%). Organic (FAEL) growth was 15.2% signalling the relative strength of ADAM Audio and Martin Audio in ROW. Within Martin Audio, ROW has been the first region to show signs of recovery.

Exchange rates have been largely stable this year. The Euro average exchange rate was €1.14 (FY19: €1.13). The USD has strengthened slightly from $1.29 in FY19 to $1.27 in FY20. This improves revenue but has little effect on gross profit because the majority of the cost of sales are also charged in USD.

Segment profit

Segment profit is disclosed in more detail in note 3 'Business Segments'. The only major change has been the inclusion of Martin Audio upon acquisition. The revenue is compared with the directly attributable costs to create a segment profit.

Gross profit

In FY20, the gross margin was 46.0%, up from 42.2% in FY19. This marks a continuation of the trend of improvement from the level of approximately 39% at the time of the IPO in 2014. There are several reasons for this strong improvement in gross margin: business mix (with the higher margin ADAM Audio growing and the lower margin Distribution segment declining); routes to market (with more products being sold either directly to the consumer or directly to dealers rather than via distributors); reducing discounts given to some dealers and distributors; reducing duty costs; and reducing royalties. The management of margin to get the best value out of discounts to the reseller channel remains a consistent priority.

Administrative expenses

Administrative expenses consist of sales, marketing, operations, the uncapitalised element of research and development and central functions such as legal, finance and the Group Board. These expenses were £52.0 million, up from £23.0 million last year. This included costs relating to the acquisitions including depreciation and amortisation of acquired intangible assets, £3.0 million (FY19: nil); goodwill impairment, £10.2 million (FY19: nil) and non-underlying items, £1.9 million (FY19: £0.7 million). The goodwill impairment is explained further below. Excluding these items, administrative costs were £36.9 million (FY19: £22.3 million), a rise of 65.9% driven largely by the acquisitions of ADAM Audio and Martin Audio.

The Group's first application of IFRS 16 had a significant impact on administrative expenses. However, it had only a marginal impact on profit before tax. Rent within administrative expenses reduced and the depreciation on right-of-use assets made up for this reduction. This resulted in a £1.0m increase to EBITDA.

EBITDA

EBITDA is a non-GAAP measure but it is widely recognised in the financial markets and it is used within the Group as the basis for some of the incentivisation of senior management within the Group. The other major metric used for the incentivisation of management is cash generation. EBITDA increased from £17.2 million in FY19 to £28.6 million in FY20, an increase of 66.1% (see table below).

	2020 £m Adjusted	**2020 £m Non-underlying**	**2020 £m Reported**	2019 £m Adjusted	2019 £m Non-underlying	2019 £m Reported
Operating profit	**23.0**	**(15.1)**	**7.9**	13.5	(0.7)	12.8
Add – amortisation of intangible assets	**3.7**	**3.0**	**6.7**	2.9	-	2.9
Add – depreciation of tangible assets	**1.9**	**-**	**1.9**	0.8	-	0.8
Add – goodwill impairment	**-**	**10.2**	**10.2**	-	-	-
EBITDA[1]	**28.6**	**(1.9)**	**26.7**	17.2	(0.7)	16.5

Depreciation and amortisation

Depreciation is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives. Amortisation is mainly charged on capitalised development costs, writing-off the development cost over the life of the resultant product. It has always been intended that the costs are capitalised in line with IAS 38 and amortised in line with the life of the product, with all development costs related to an individual product written-off over a period up to three years for Focusrite and Novation, up to eight years for ADAM Audio and up to eleven years for Martin Audio, reflecting the different lifespans of the products. Normally, the capitalised development costs are slightly greater than the amortisation, reflecting the continued investment in product development in a growing group of companies. During FY20, the capitalised development costs were £4.6 million (FY19: £3.8 million), compared with the amortisation of £3.0 million (FY19: £2.2 million).

Non-underlying items

In FY19, the Group acquired ADAM Audio and the costs associated with the acquisition were £0.7 million. In FY20, the Group acquired Martin Audio with associated acquisition costs totalling £1.8 million. These costs exclude the loan arrangement fee which is required to be shown within net debt and written back to the income statement over the life of the loan facility. In addition to these acquisition costs, the Group incurred costs of acquisition-related employee changes totalling £0.1 million. Non-underlying items also include amortisation of the intangible assets acquired from ADAM Audio and Martin Audio (£3.0 million). See note 5.

At the time of the acquisition of Martin Audio, the goodwill was assessed at £12.6 million. Since then the COVID-19 pandemic has materially affected the revenue of Martin Audio. The Board has considered the impact of the consequential lockdowns on the industry and, despite a clear belief that the live sound market will recover in the foreseeable future, this will take time and there is uncertainty over the impact on future margins and hence an increased forecasting risk following COVID-19. Consequently, the Board, based on management's estimate of recoverability, have recognised an impairment of £10.2 million. Notwithstanding this impairment, Martin Audio has been profitable in the eight months since acquisition and the wider Group has already repaid the net debt incurred to buy the Martin Audio business, nearly two years ahead of schedule.

Foreign exchange and hedging

The exchange rates have been more consistent in the last financial year.

Exchange rates	**2020**	2019
Average		
USD:GBP	**1.27**	1.29
EUR:GBP	**1.14**	1.13
Year end		
USD:GBP	**1.34**	1.22
EUR:GBP	**1.12**	1.11

[1] EBITDA is defined as earnings before tax, interest, depreciation, amortisation and goodwill impairment. The items treated as non-underlying are explained in note 5.

The average USD rate has strengthened slightly from $1.29 to $1.27. The USD accounts for over 50% of Group revenue but over 80% of cost of sales so this increases the revenue but makes little difference to the absolute gross profit.

The Euro comprises approximately a quarter of revenue but little cost. Since the acquisition of ADAM Audio and Martin Audio, these currency movements have been reassessed. There is no material change, so the Group has continued entering into forward contracts to convert Euro to GBP. The policy adopted by the Group is to hedge approximately 75% of the Euro flows for the current financial year (year ending August 2021) and approximately 50% of the Euro flows for the following financial year (FY22). In FY19, approximately three-quarters of Euro flows were hedged at €1.10, and the average transaction rate was €1.13, thereby creating a blended exchange rate of approximately €1.11. In FY20, the equivalent hedging contracts were at €1.11, again close to the transactional rate of €1.14 and so creating a blended exchange rate of €1.12.

Hedge accounting is used, meaning that the hedging contracts have been matched to income flows and, providing the hedging contracts remain effective, movements in fair value are shown in a hedging reserve in the balance sheet, until the hedge transaction occurs.

Elsewhere, within Finance Income and Finance Costs, there is the interest paid on the revolving credit facility taken out to fund the acquisition of Martin Audio.

Corporation tax
Historically the effective corporation tax rate as a proportion of profit before tax has been 10-12% due largely to enhanced tax relief on development costs. In FY19, the corporation tax charge was £1.3 million on reported profit before tax of £13.0 million.

In FY20, the corporation tax charge totals £2.9 million on reported profit before tax of £7.0 million. This substantial increase in effective tax rate is due to the assumed disallowance of goodwill impairment, amortisation of acquired intangible assets and the non-underlying acquisition costs. Excluding these, the adjusted profit before tax was £22.1 million, therefore the tax charge as a proportion of the underlying profit before tax is 13.3%.

The Group has long been considered a small or medium-sized enterprise ('SME') for the purposes of research and development relief in UK. From FY21, this is expected to change to the Research and Development Expenditure Credit ('RDEC') basis of relief in which the Group receives smaller credit to operating costs and the profit is then taxed at the headline rate (19% in UK). Therefore, the effective tax rate is expected to rise to approximately 19% in the next financial year.

Earnings per share
The basic EPS for the year was 7.1 pence, down 65.2% from 20.4 pence in FY19. This decrease has been caused by the goodwill impairment, the amortisation of acquired intangible assets and non-underlying costs. The more comparable measure of the growth of the trading profits including the dilutive effect of share options, is the adjusted diluted EPS. This grew to 32.8 pence, up 53.3% from 21.4 pence in FY19.

	2020 pence	2019 pence	Growth %
Basic	**7.1**	20.4	(65.2)%
Diluted	**7.0**	20.1	(65.2)%
Adjusted basic	**33.2**	21.7	53.0%
Adjusted diluted	**32.8**	21.4	53.3%

Balance sheet

	2020 £m	2019 £m
Non-current assets	**52.3**	25.7
Current assets		
Inventories	**19.4**	15.2
Trade and other receivables	**18.0**	18.2
Cash	**15.0**	15.5
Current liabilities	**(26.0)**	(16.9)

Non-current liabilities	**(21.8)**	(4.3)
Net assets	**56.9**	53.4

Non-current assets

The non-current assets comprise: goodwill (£7.9 million); other intangible assets (£40.4 million) and property, plant and equipment (£4.0 million). The goodwill of £7.9 million (FY19: £5.3 million) relates to acquisitions as follows: £0.4 million for Novation purchased in 2004, £5.1 million for ADAM Audio purchased in July 2019 and £2.4 million for Martin Audio purchased in December 2019.

The other intangible assets (£40.4 million) consist mainly of capitalised research and development costs and acquired intangible assets relating to product development and brand. The capitalised development costs have a carrying value of £26.0 million (FY19: £10.7 million). This increase of £15.3 million comprises the excess during the year of capitalised development costs over the amortisation (£1.6 million) and acquired capitalised development costs (consisting of acquired designs and designs in development with a year end net book value of £13.8 million). Approximately 66% of development costs are capitalised and it is intended that they are amortised over the life of the relevant products.

In addition, the remaining intangible assets, totalling £14.4 million, include brands acquired as part of the acquisitions of ADAM Audio and Martin Audio with a carrying value at 31 August 2020 at £13.2 million (to be amortised over ten years for ADAM Audio and 20 years for Martin Audio).

Working capital

At the end of the year, working capital was 8.8% of revenue (FY19: 20.2%). This is much lower than the historic norm of approximately 20%. The reason for this was primarily that stock at the year-end was very low as a result of the substantial increase in demand, over and above what could be manufactured quickly. Manufacturing capacity has been increased substantially and it is expected that this stock will be replenished during FY21. In addition, the Group, in this period of particular uncertainty, placed great emphasis on the timely collection of debts. Consequently, overdue debtors, especially within FAEL, have been very low. Creditors continue to be paid on time.

The working capital at ADAM Audio has consisted largely of stock with relatively low debtors. Over time it is expected that the Group will allow higher working capital in ADAM Audio to help facilitate further revenue growth.

Within Martin Audio the stock and debtors have been higher and management are considering how this could be reduced in future.

Cash flow

	2020	2019
	£m	£m
Cash and cash equivalents at beginning of year	14.9	22.8
Cash and cash equivalents at end of year	15.0	14.9
Net increase/(decrease) in cash and cash equivalents (per Cash Flow Statement)	**0.1**	**(7.9)**
Add - equity dividends paid	2.3	2.0
Free cash flow[1]	**2.4**	**(5.9)**
Add – non-underlying cash outflows:		
Acquisition of subsidiary (net of cash acquired)	35.3	15.3
Bank loan (net of arrangement fee)	(11.6)	-
Non-underlying items (cash outflow)	2.1	0.8
Underlying free cash flow	**28.2**	**10.2**

[1] Defined as net cash from operating activities less net cash used in investing activities less the amount of the revolving credit facility utilised.

In FY19, the net cash balance at the year-end was £14.9 million. In December 2019, the Group bought Martin Audio for £35.3 million plus £4.3 million of acquired cash and £1.8 million of acquisition costs. This was funded by a £40 million revolving credit facility lasting up to five years. The facility was provided by HSBC and NatWest. Consequently, at 29 February 2020, there was a net debt balance of £19.9 million.

During the second half, the strong increase in revenue contributed to both higher profits and lower stock. Therefore the underlying free cash flow for the full year was £28.2 million (FY19: £10.2 million) leading to a year end net cash position of £3.3 million. Within this, the movement in working capital was an inflow of £13.7 million (FY19: outflow of £2.2 million). With the intended rebuilding of stock within the Group in the next financial year, and further business growth, there will be a marked outflow of working capital.

Dividend

The Board is proposing a final dividend of 2.9 pence per share (FY19 final dividend: 2.6 pence), which would result in a total of 4.2 pence per share for the year (FY19: 3.8 pence). This represents an adjusted earnings dividend cover of 7.8 times (FY19: 5.6 times).

Summary

In my final Annual Report, I wish to thank the Board, advisers, shareholders and, above all, colleagues for a thrilling and rewarding six years at Focusrite during which we have undertaken an IPO and then grown the Group substantially from an initial market capitalisation of £73 million.

The Group has had a year with several significant achievements in a uniquely challenging environment: the acquisition of Martin Audio in December 2019 and repayment of the acquisition cost in only eight months; the increased alignment of ADAM Audio (bought in July 2019) leading to growth at a greater rate than was planned upon acquisition; and substantial growth in FAEL as lockdowns increased the audience for Focusrite and Novation products. I am confident that the Group will continue to grow from strength to strength in FY21 and beyond under the continued leadership of Tim Carroll and chairmanship of Phil Dudderidge. I wish them and my successor, Sally McKone, continued success in the future.

Jeremy Wilson
Chief Financial Officer

Principal Risks and Uncertainties

Effective risk management is a priority for Group in order to sustain the future success of the business. Therefore the Board has overall responsibility for the Group's risk management process but has delegated responsibility for its implementation, the system of internal controls which reduce risk and for reviewing their effectiveness to the business leaders best qualified in each area of the business.

The risks and uncertainties that the Group faces evolve over time, therefore the business leaders review the risk register in order to monitor key risks, identify emerging risks and update mitigation efforts. The results are reported to the Board.

Risk identification and assessment

Risk management is a continuous process that is coordinated by the legal team which reports its findings to the Audit Committee and Board regularly. Each business leader is responsible for updating the risk register and for identifying, analysing, evaluating, managing and monitoring the risks and emerging risks in their respective areas.

The risk register reflects the significant Group-level key risks identified and is prepared using consistent risk factors and an impact and likelihood evaluation.

The risk register includes key controls, mitigating activities and/or controls and action plans in respect of the principal risks which form the basis of the principal risks and uncertainties disclosed in this report.

Review, challenge and control

The Group operates a half yearly cycle of risk and control assessments. During this review, the business leaders consider and report on any emerging risks in the near future and in the longer term.

The risk register is considered by the Board at least annually. At that time they also review the principal risks of the business and evaluate the effectiveness of the risk management and internal controls systems.

Risk appetite

Where a risk cannot be eliminated the Group's risk management framework is designed to identify and manage the risk of failure to achieve business objectives.

In determining its appetite for risk, the Group ensures that risks are consistent with its financial objectives and values. For example, the Group's financial disciplines ensure that each brand makes net margins which are sufficient to provide for the vagaries of a consumer facing business.

Board review

During the year, the Board carried out a detailed evaluation of the effectiveness of the risk management and internal controls systems for all parts of the business. This covered all material controls including financial, operational and compliance controls, and the Board is satisfied that they have been operating effectively for the financial year to 31 August 2020 and up to and including the date of this report. The business will continue to review opportunities to mature, strengthen and improve the effectiveness of these systems. No significant failings of internal control were identified during these reviews.

During this financial year there have been two major challenges that have dominated the Group's consideration of risk: Brexit and COVID-19.

Brexit

Following the UK's departure from the EU on 31 January 2020, the UK entered a transition period which is scheduled to end on 31 December 2020. Until that date, the UK will effectively remain in the EU's customs union and single market, therefore there will be no impact on the Group during this period.

The Group had established a Brexit working group in 2019 to analyse Brexit-related risks and operational challenges to our business and their potential impact. A large proportion of product is shipped directly from the manufacturer to the distributors, particularly in the USA and Asia. Product destined for continental Europe travels via the UK. The Group is positioning itself to be able to continue to supply products from the UK to continental Europe in the period following the exit. The Group is well placed for all the necessary arrangements to be in place by 31 December 2020 if no new trade deal is agreed. Provided that the Group's logistics partners can continue to operate, the Group does not believe that the risks of a no-deal Brexit pose a material threat to the ongoing operations and profitability of the business.

COVID-19

Unsurprisingly, a summary of the risks that COVID-19 poses to the business and the actions being taken feature highly in this risk report. When the pandemic first occurred in China, the initial threat was to the Group's manufacturing operations and Asian supply chain. Whilst this remains a key risk, it is now clear that currently by far the greatest challenge the Group faces is the risk to demand. As the pandemic is unprecedented there is no way of predicting the extent of the effect COVID-19 will have on our customers' retail and online sales, and what the short, medium and long-term effect of the pandemic will be on consumer behaviour.

The evidence we have seen from sales to date is that:

- Demand will be the biggest issue. Whereas the Martin Audio group has seen a significant drop in sales due to the cancellation of live sound events, the ADAM Audio and Focusrite businesses are enjoying record demand and therefore the availability of components is key to those groups' ability to satisfy demand.
- Some products are likely to fare better than others: to date, home audio equipment has grown substantially while the pro audio equipment ranges have declined.

The Group's working practices have been challenged as the pandemic has developed. Measures to protect our employees, comply with differing levels of governmental restrictions and cope with illness throughout the business have been designed to ensure vital operations and projects remained on track. Trade shows where the Group would previously have exhibited its new products have been cancelled and so the Group has had to increase its marketing activities, use of video conferencing and online inspiration in order to reach its audiences.

As in all sectors, the music industry continues to experience profound and lasting structural changes. The Group expects the pandemic to accelerate the transition away from brick and mortar retail to online shopping therefore our efforts to learn new ways to serve customers, collaborate with partners and create value for our shareholders continue.

Assessment of principal risks and uncertainties

In addition to the more detailed consideration of Brexit and COVID-19, the business leaders have carried out a robust assessment of the principal risks and uncertainties facing the Group, including any emerging risks, and those that would threaten its business model, future performance, solvency or liquidity. Certain changes have been made to the principal risks and uncertainties reported in the previous year as a result of this assessment.

- 'Economic environment' has been augmented to 'business strategy development and implementation' to reflect the Group's continued growth in an uncertain world.
- 'Customer concentration' and 'channels to market' have been merged into 'Customer facing systems' so as to cover the risk that the Group fails to adopt and make effective use of new technologies which will enable the Group to reach and serve its customers well.
- Following the Group's statement that it has taken steps to mitigate the risk of a no-deal exit from the EU and its subsequent assessment that the risk is not significant in last year's Annual Report, 'Brexit' has been removed from the principal risks.
- 'US import tariffs' have been removed from the principal risks as the Group has established an alternative manufacturing plant from which products manufactured do not attract import tariffs.
- Within the risks associated with product supply, there remains a risk of component shortages which could disrupt, or increase the cost of, the manufacture of the Group's products
- The principal risk of 'Information security' has been expanded to incorporate data privacy, business continuity and cyber risk.

- The Group has made considerable progress in strengthening its talent pipeline and succession plans so the 'People' risk relating to the dependency on attracting, retaining and motivating highly skilled and experienced personnel is a decreasing risk in the list of principal risks.
- Whilst the Group remains exposed to currency and exchange rate fluctuations which may affect revenue and costs when reported in GBP, it has taken steps to mitigate this as a risk, as reported in the previous year's Annual Report, therefore currency fluctuations has been removed as a principal risk.
- Climate change has not been assessed as a principal risk as business interruption insurance is in place, and our suppliers are deemed to have adequate experience in dealing with typhoons and other natural disasters.
- Reputational risk is not in itself a principal risk but is a key factor in evaluating all principal risks.

Principal risk/uncertainty	**Mitigation**
Business strategy development and implementation In these uncertain times, adopting the wrong business strategy or ineffectively implementing a strategy may result in the business suffering. Therefore the Group needs to understand and properly manage strategic risk, taking into account sector specific risk factors (which differ between the different brands in the business), in order to deliver long-term growth for the benefit of the Group's stakeholders.	• The Group reviews its business strategy on a regular basis (through virtual off-site meetings) to determine how sales and profit can be maximised, and business operations made more efficient. • The Executive Directors provide regular updates at Board meetings, which are challenged by the Non-executive directors, relating to initiatives and their progress. • The varying brands within the business provide geographic and product diversity • A disciplined approach to sales, budgeting and cost control is taken in order to ensure the Company can generate strong profits and cash flow • Business leaders consider strategic risk factors, wider economic and industry specific trends that affect the competitive position of its products • The Group has a detailed plan for the business going forward
Product innovation The market for the Group's products remains characterised by continued evolution in technology, evolving industry standards, changes in customer needs and frequent new competitive product introduction therefore the Group's success depends on designing and selecting products that customers want to buy, at appropriate price points and stocked in the right quantities. Failure to meet the design, quality and value expectations of customers, in the short term, will result in surplus stocks that cannot be sold/sell slowly/are sold for less profit and in the longer term will adversely affect the Group's brand reputation.	• Research and development continues to be one of the Group's largest investments • The Group continually reviews: (i) the design and performance of its product ranges; and (ii) trends within the industry and from influencers • Innovation has been bolstered by the appointment of a Head of Product and teams dedicated to product refreshes • Product owners approve quality standards, with in-house quality control and testing teams in place across all brands
Product Supply The Group relies on a small supplier base, concentrated in China and Malaysia, to deliver products on time and to the Group's required quality and ethical standards. Failure to supply could result in an inability to service customer demand or adversely affect the Group's reputation. These suppliers depend on a reliable supply of components and there remains a risk of component shortages which could disrupt, or increase the cost of, the manufacture of the Group's products.	• Stock availability is reviewed on an ongoing basis and appropriate action taken where service or delivery to customers may be negatively impacted • Management continually seeks ways to solidify the relationships with our suppliers to ensure their focused attention and maintain the quality of products • Management review component supply and maintain close relationships with the component manufacturers. The Group also reviews single source components and, where possible, designs in multiple compatibility

	• Employees are trained and communications sent to suppliers regarding our expectations in relation to anti-bribery and modern slavery • The Audit Committee receives an annual report into modern slavery and anti-bribery training and a whistleblowing report at each meeting. Significant matters are reported to the Board
Customer facing systems By customers, the Group refers to the resellers and distributors with whom it works to take our products to the markets. The Group's performance depends on the engagement, recruitment and retention of those customers, and on their ability to drive and service customer demand, particularly in markets where the Group operates via a single distributor or has large individual reseller customers. There is a risk that the business fails to adopt and/or make effective and efficient use of new software, hardware and mechanisation to provide its customers with service levels that allow them to meet or exceed end users' expectations. These systems, software and platforms are ever changing, as technology evolves. A failure of or breakdown in the relationship with a key reseller or distributor, or even the failure of a major customer of a distributor, could significantly and adversely affect the Group's business.	• The Group has documented arrangements with its resellers and distributors to ensure they are holding sufficient stock levels and are motivated to promote the brands. Relationships are long-lasting and strong • Resellers are expected to be able to offer in-store as well as online experiences for users • The Group has increased its direct to market offering and plans for further expansion in the coming year • Continued investment in technology which supports the Group's e-commerce store has led to growth in the Group's direct to consumer offering • There is also continual development and monitoring of performance of the Group's Net Promoter Score, with a particular focus by the customer support team on improving the user experience • The Group also works with influencers to promote its brands throughout the industry
Information security, data privacy, business continuity and cyber risk The unencumbered availability and integrity of the Group's IT systems is ever critical to successful trading. The Group continues to invest heavily in order to ensure a system that can record and process substantial volumes of data, prevent obsolescence and maintain responsiveness. The threat of a cyber security breach or an unauthorised or malicious attack is an ongoing and increasingly sophisticated risk that the Group believes would negatively impact its reputation. Similarly, the inadvertent processing of customer or employee data in a manner deemed unethical or unlawful could result in significant financial penalties, remediation costs, reputational damage and/or restrictions on our ability to operate. The Group is noticing: • a changing attitude by global users towards their data and how it is used • increasingly complex and fast-evolving data protection laws and regulation • rapid technological advances delivering an enhanced ability to gather, draw insight from and monetise personal data	• The Group has a Privacy Council to operationalise privacy protection in key risk areas. Its main activities include raising awareness of data protection as well as monitoring key risks, activities and incidents • The Group has made significant investment into its systems' development and security programmes throughout the year and strengthened its in-house information and security resources • Systems vulnerability and penetration testing is carried out regularly by both internal and external resources to ensure that data is protected from corruption or unauthorised access or use • Critical systems backup facilities and business continuity plans are reviewed and updated regularly • Major incident simulations and business continuity tests are carried out periodically • IT risks are managed through the application of internal policies and change management procedures as well as enshrining security requirements and service level agreements on third-party suppliers in contractual documentation • The Group's data protection and information security policies are mandatory reading and are kept under regular review • The Group has prepared a roadmap to address gaps between current and target risk exposures

Intellectual property The Group relies on intellectual property and other proprietary rights which may not be always be adequately protected under current laws or which may be subject to unauthorised use.	• The Group has an ongoing programme to support appropriate protections of all intellectual property and other proprietary rights • The Group takes action against all known infringements and documents the terms on which it will allow the use of its registered rights • The Group has also hired an experienced intellectual property lawyer who is designing an active programme to protect our intellectual property rights
People People are critical to the Group's ability to meet the needs of its customers and end users and achieve its goals as a business. This requires the continued service of senior managers and technical personnel as well as our ability to attract, motivate and retain highly qualified people. There is an increased risk of short and long-term staff absence due to illness during the COVID pandemic.	• Making Focusrite a great place to work is central to the Group's strategy • The Group champions diversity and inclusion and is building ways in which to develop talent through a number of activities, including apprenticeships and a leadership programme • The Group has well established recruitment channels and procedures to recruit and retain people • The Board considers the development of senior management to ensure there are opportunities for career development and promotion • The Remuneration Committee reviews Executive Director and senior management remuneration at least annually and formulates packages to retain and motivate these employees, including long-term incentive schemes • The Nomination Committee considers and reviews the skills, diversity, experience and succession planning of the Board. There is also detailed work on broader succession planning which includes wherever possible named short-term cover for key roles • Extensive efforts have been made to cater for individual staff needs during the pandemic, including enabling people to work from home, and to work safely on Group premises if they need to

FORWARD LOOKING STATEMENTS

Certain statements in this full year report are forward looking, in particular the detailed going concern analysis included in the Notes to the Final Results. Although the Directors believe that their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Consolidated Income Statement

For the year ended 31 August 2020

	Note	2020	2019
		£'000	£'000
Revenue	2	**130,141**	84,665
Cost of sales		**(70,248)**	(48,899)
Gross profit		**59,893**	35,766
Administrative expenses		**(51,485)**	(22,994)
Impairment (loss)/gain on trade and other receivables		**(474)**	40
Adjusted EBITDA (non-GAAP measure)		**28,565**	17,197
Depreciation and amortisation		**(5,530)**	(3,648)
Non-underlying items for Adjusted EBITDA:			
Amortisation of acquired intangible assets		**(3,013)**	-
Impairment of goodwill on acquisition	9	**(10,200)**	-
Non-underlying items	5	**(1,888)**	(737)
Operating profit		**7,934**	12,812
Finance income		**36**	246
Finance costs		**(945)**	(45)
Profit before tax		**7,025**	13,013
Income tax expense	6	**(2,934)**	(1,349)
Profit for the period from continuing operations		**4,091**	11,664
Earnings per share			
From continuing operations			
Basic (pence per share)	8	**7.1**	20.4
Diluted (pence per share)	8	**7.0**	20.1

Consolidated Statement of Comprehensive Income

For the year ended 31 August 2020

	2020	2019
	£'000	£'000
Profit for the period (attributable to equity holders of the Company)	**4,091**	11,664
Items that may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	**105**	42
Profit/(loss) on forward foreign exchange contracts designated and effective as a hedging instrument	**459**	(245)
Tax on hedging instrument	**(87)**	47
Total comprehensive income for the period	**4,568**	11,508
Total comprehensive income attributable to:		
Equity holders of the Company	**4,568**	11,508
	4,568	11,508

Consolidated Statement of Financial Position

As at 31 August 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Goodwill	9	**7,882**	5,271
Other intangible assets		**40,374**	18,832
Property, plant and equipment		**4,082**	1,602
Total non-current assets		**52,338**	25,705
Current assets			
Inventories		**19,372**	15,182
Trade and other receivables		**17,744**	18,188
Cash and cash equivalents		**14,975**	15,505
Derivative financial instruments		**271**	-
Total current assets		**52,362**	48,875
Total assets		**104,700**	74,580
Equity and liabilities			
Capital and reserves			
Share capital		**58**	58
Share premium		**115**	115
Merger reserve		**14,595**	14,595
Merger difference reserve		**(13,147)**	(13,147)
Translation reserve		**197**	92
Hedging reserve		**220**	(152)
EBT reserve		**(1)**	(1)
Retained earnings		**54,861**	51,827
Equity attributable to owners of the Company		**56,898**	53,387
Total equity		**56,898**	53,387
Current liabilities			
Trade and other payables		**23,417**	15,664
Other liabilities		**1,018**	-
Current tax liabilities		**452**	430
Derivative financial instruments		**-**	188
Provisions		**1,094**	-
Bank overdraft		**-**	627
Total current liabilities		**25,981**	16,909
Non-current liabilities			
Deferred tax		**7,772**	4,284
Other liabilities		**889**	-
Provisions		**1,519**	-
Bank loan		**11,641**	-
Total liabilities		**47,802**	21,193
Total equity and liabilities		**104,700**	74,580

The financial statements were approved by the Board of Directors and authorised for issue on 17 November 2020. They were signed on its behalf by:

Tim Carroll
Chief Executive Officer

Jeremy Wilson
Chief Financial Officer

The notes form part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 August 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Merger difference reserve £'000	Translation reserve £'000	Hedging reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 September 2018	58	115	14,595	(13,147)	50	46	(1)	41,731	43,447
Profit for the period	-	-	-	-	-	-	-	11,664	11,664
Other comprehensive income for the period	-	-	-	-	42	(198)	-	-	(156)
Total comprehensive income for the period	-	-	-	-	42	(198)	-	11,664	11,508
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	(238)	(238)
Share-based payment current tax deduction in excess of remuneration expense	-	-	-	-	-	-	-	310	310
Shares from EBT exercised	-	-	-	-	-	-	-	46	46
Share-based payments	-	-	-	-	-	-	-	348	348
Shares withheld to settle employees' tax obligations	-	-	-	-	-	-	-	(204)	(204)
Premium on shares issued in lieu of bonuses	-	-	-	-	-	-	-	175	175
Dividends paid	-	-	-	-	-	-	-	(2,005)	(2,005)
Balance at 1 September 2019	**58**	**115**	**14,595**	**(13,147)**	**92**	**(152)**	**(1)**	**51,827**	**53,387**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,091**	**4,091**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**105**	**372**	**-**	**-**	**477**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**105**	**372**	**-**	**4,091**	**4,568**
Transactions with owners of the Company:									
Share-based payment deferred tax deduction in excess of remuneration expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**162**	**162**
Share-based payment current tax deduction in excess of remuneration expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**457**	**457**
Shares from EBT exercised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**252**	**252**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**537**	**537**
Shares withheld to settle employees' tax obligations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(192)**	**(192)**
Premium on shares issued in lieu of bonuses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22)**	**(22)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,251)**	**(2,251)**
Balance at 31 August 2020	**58**	**115**	**14,595**	**(13,147)**	**197**	**220**	**(1)**	**54,861**	**56,898**

Consolidated Cash Flow Statement

For the year ended 31 August 2020

	Note	2020 £'000	2019 £'000
Operating activities			
Profit for the financial year		**4,091**	11,664
Adjustments for:			
Income tax expense	6	**2,934**	1,349
Net interest		**909**	(201)
Loss/(profit) on disposal of property, plant and equipment		**-**	3
Amortisation of intangibles		**6,780**	2,936
Impairment of goodwill		**10,200**	-
Depreciation of property, plant and equipment		**1,777**	712
Share-based payments charge		**537**	348
Operating cash flows before movements in working capital		**27,228**	16,811
(Increase)/decrease in trade and other receivables		**3,839**	(4,203)
(Increase)/decrease in inventories		**1,914**	(696)
Increase/(decrease) in trade and other payables		**7,932**	2,681
Operating cash flows before interest and tax paid		**40,913**	14,593
Net interest received/(paid)		**(441)**	58
Income taxes paid		**(3,539)**	(825)
Cash generated by operations		**36,933**	13,826
Net foreign exchange movements		**(322)**	185
Net cash from operating activities		**36,611**	14,011
Investing activities			
Purchases of property, plant and equipment		**(3,966)**	(808)
Purchases of intangible assets		**(5,649)**	(4,210)
Proceeds from disposal of property, plant and equipment		**-**	25
Proceeds from disposal of other intangible assets		**-**	50
Acquisition of subsidiary, net of cash acquired		**(35,309)**	(14,996)
Net cash used in investing activities		**(44,924)**	(19,939)
Financing activities			
Proceeds from loans and borrowings		**36,000**	-
Repayments of loans and borrowings		**(24,000)**	-
Loan arrangement fee		**(359)**	-
Payment of right-of-use liabilities		**(939)**	-
Payment of interest on right-of-use liabilities		**(41)**	-
Equity dividends paid		**(2,251)**	(2,005)
Net cash used in financing activities		**8,410**	(2,005)
Net increase/(decrease) in cash and cash equivalents		**97**	(7,933)
Cash and cash equivalents at beginning of year		**14,878**	22,811
Cash and cash equivalents at end of year		**14,975**	14,878

Notes to the Final Results

For the year ended 31 August 2020

These condensed preliminary financial statements of the Company and its subsidiaries ("the Group") for the year ended 31 August 2020 have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs).

The information contained within this announcement has been extracted from the audited financial statements which have been prepared in accordance with IFRS as adopted by the European Union ('adopted IFRS'), and with those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. They have been prepared using the historical cost convention except where the measurement of balances at fair value is required.

The Board of Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The group meets its day to day working capital requirements from cash balances and a revolving credit facility of £40.0 million is due for renewal in December 2024. As further described below, the availability of the revolving credit facility is subject to continued compliance with certain covenants

The COVID-19 virus has caused upheaval worldwide with many businesses experiencing a significant decline in revenue. The Directors have prepared projected cash flow forecasts for the period ending 12 months from the date of their approval of this financial statement. These forecasts include a severe but plausible downside scenario, which include potential impacts from the continued uncertainty of COVID-19 (see below).

The base case covers the period to December 2021 and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's three-year plan. Key assumptions include;

- Future growth assumptions consistent with those recently achieved by the business excluding an estimate of the impact of COVID-19, but including the Group's expectation of Martin Audio recovery from the pandemic, and annualisation of Martin Audio results.
- Free cash flow as a percentage of revenue held steady compared to previous years.
- Continued investment in research and development in all areas of the Group.
- Dividends consistent with the Group's dividend policy
- No additional investment in acquisitions in the forecast period.

Throughout the period the forecast cash flow information indicates that the Group will have sufficient cash reserves and comply with the leverage and interest cover covenants contained within the facility.

The Directors' view is that a severe yet plausible downside assumption against their base case forecasts is estimated to be a revenue shortfall of 30% for a six-month period commencing November 2020. This model assumes that purchases of stock would, in time, reduce to reflect reduced sales, if they occurred, and the Group would respond to a revenue shortfall by taking reasonable steps to reduce overheads within its control. Even at that level, the Group would be expected to remain well within the terms of its loan facility with the leverage covenant (net debt to adjusted EBITDA) in the period not exceeding 0.2x compared to the maximum of 2.5x. The Group's net debt position under this severe plausible downside scenario would still be expected to improve at the end of the 12-month period.

Separately, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 90% for six months, debt and leverage could rise to the upper limits allowed by the banking covenants by April 21. This scenario includes consequential reductions in the purchases of stock and overheads. As an additional measure, the Directors could also cancel the dividend. However, the Directors view is that any scenario of a revenue shortfall of greater than 30% is not plausible.

In reality, the Group is still experiencing record levels of consumer registrations and customer demand, partially as a result of the COVID-19 restrictions on people's movement, and therefore the high levels of revenue have been maintained since year end. This is evidenced by improvements in the Group's net cash position which has increased from the £3.3 million reported at year end to approximately £8 million at 31 October 2020. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The statutory accounts for the year ended 31 August 2019 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The statutory accounts for the year ended 31 August 2020 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts. Their report was unqualified, did not include references to any matter to which the auditors drew attention by way of an 'emphasis of matter' without qualifying their report, and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Availability of audited accounts:
Copies of the 31 August 2020 audited accounts will be available on 17 November 2020 on the Company's website (www.focusriteplc.com/investors) for the purposes of AIM Rule 26 and will be posted to shareholders in due course.

1 ACQUISITION OF A SUBSIDIARY

On 30 December 2019, the Group acquired 100% of the shares and voting interests in Optimal Audio Group Limited (hereafter referred to as Martin Audio), comprising subsidiaries Martin Audio Limited and Martin Audio US LLC and 18 shares (10%) of associated company Martin Audio Japan Inc. The total consideration paid was £39,610,000 of which £33,000,000 was funded through use of the Group's revolving credit facility and the remainder was satisfied in cash. The Group paid £372,000 to arrange the credit facility. There was no deferred consideration.

Martin Audio, designs, manufactures and distributes premium professional sound systems across the globe. It employs some 74 people worldwide, with the vast majority based at its head office and co-located manufacturing facilities. Martin Audio is recognised as a market leader and places great emphasis on product design and innovation to sustain and drive growth with a strong product roadmap in place.

By extending the Group's business into new products and markets, which complement its existing offerings, the acquisition is strategically aligned with the Company's previously communicated aims to grow the core customer base, expand into new markets and increase lifetime value for customers.

For the eight-month period between the acquisition and 31 August 2020 Martin Audio contributed revenue of £12,014,000 and a loss before tax of £254,000 to the Group. If the acquisition had occurred on 1 September 2019, management estimates that Martin Audio's revenue would have been £20,893,000 and profit before tax for the year would have been £946,000. In determining these amounts management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 September 2019.

Acquisition-related costs

The Group incurred acquisition-related costs of £1,737,000 on legal fees and due diligence costs. These have been included in non-underlying costs.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition:

Recognised fair values on acquisition	**£'000**
Brand	**6,800**
Patent designs	**11,300**
Patent designs in development	**4,600**
Intangible assets	**22,700**
Property, plant and equipment	**290**
Computer software	**224**
Cash	**4,345**
Inventories	**5,986**
Trade and other receivables	**3,783**
Deferred tax	**(4,107)**
Trade and other payables	**(6,175)**
Net identifiable assets and liabilities at fair value	**27,046**

Goodwill recognised on acquisition	**12,564**
Consideration paid	**39,610**

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Property, plant and equipment	Cost approach
Intangible assets- Product design and development	Market approach (cost to replace)
Intangible assets- Brand	Income approach (multi-period excess earnings method)
Inventories	Cost approach

The trade receivables amounts included within 'Trade and other receivables' comprise gross contractual amounts due of £3,390,000, of which £455,000 was expected to be uncollectable at the date of acquisition.

Fair values measure on a provisional basis

Martin Audio was acquired eight months prior to the end of this reporting period. If new information is obtained within one year of the date of acquisition about the facts and circumstances that existed at the date of acquisition that identifies adjustments to the above amounts or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Goodwill

The goodwill is attributable to:

- the skills and technical talent of the Martin Audio workforce;
- worldwide reputation based on patent design and technological innovation;
- alignment to the Group's existing customer base; and
- strong strategic fit to grow the core customer base; and expand into new markets and increase lifetime value for customers.

Intangible assets sensitivity analysis

In assessing the estimated useful life of the intangible assets, management considered the sensitivity in the estimated life of the brand and patent development. The following table details the sensitivity to a one-year increase and decrease in the amortisation period, and ultimately reflecting the impact on the net profit (or loss).

Amortisation is calculated based on the constant that brand is recognised at cost of £6,800,000, patented design at £11,300,000 and patented design in development at £4,600,000.

		Brand			**Patent designs**			**Patent designs in development**	
	19 years	**20 years**	21 years	7 years	**8 years**	9 years	10 years	**11 years**	12 years
	£'000	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**	£'000
Annual amortisation	358	**341**	324	1,614	**1,413**	1,256	460	**418**	383
Impact on profit	(17)	-	17	(201)	-	157	(42)	-	35

The following table assesses the impact of differing estimated useful lives of products on the valuation of the intangible assets.

	Brand			Patent designs			Patent designs in development		
	19 years	**20 years**	21 years	7 years	**8 years**	9 years	10 years	**11 years**	12 years
	£'000	**£'000**	£'000	£'000	**£'000**	£'000	£'000	**£'000**	£'000
Fair value	-	**6,800**	-	-	**11,300**	-	-	**4,600**	-
Impact on valuation	(116)	**-**	143	(274)	**-**	143	(130)	**-**	74

Based on the above, we concluded that the impact would not be material, and therefore a more detailed sensitivity analysis has not been done.

2 REVENUE

An analysis of the Group's revenue is as follows:

	Year ended 31 August 2020				Year ended 31 August 2019			
	EMEA	**North America**	**Rest of World**	**Total**	EMEA	North America	Rest of World	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Focusrite	**32,128**	**32,782**	**11,268**	**76,178**	22,059	26,366	9,219	57,644
Focusrite Pro	**1,071**	**1,625**	**796**	**3,492**	1,316	2,537	851	4,704
Focusrite combined	**33,199**	**34,407**	**12,064**	**79,670**	23,375	28,903	10,070	62,348
Novation	**8,290**	**7,013**	**4,080**	**19,383**	7,096	6,684	3,939	17,719
ADAM Audio	**8,784**	**6,352**	**2,245**	**17,381**	714	758	278	1,750
Martin Audio	**4,493**	**3,089**	**4,432**	**12,014**	-	-	-	-
Distribution	**1,693**	**-**	**-**	**1,693**	2,848	-	-	2,848
Total	**56,459**	**50,861**	**22,821**	**130,141**	34,033	36,345	14,287	84,665

3 BUSINESS SEGMENTS

Information reported to the Board of Directors for the purposes of resource allocation and assessment of segment performance is focused on the main product groups which the Group sells. Similarly, the results of Novation and Ampify also meet the aggregation criteria set out in IFRS 8 Segmental Reporting. The Group's reportable segments under IFRS 8 are therefore as follows:

Focusrite	–	Sales of Focusrite branded products
Focusrite Pro	–	Sales of Focusrite Pro branded products
Novation	–	Sales of Novation or Ampify branded products
ADAM Audio	–	Sales of ADAM Audio branded products
Martin Audio	-	Sales of Martin Audio branded products
Distribution	–	Distribution of third-party brands including KRK, Stanton, Cerwin-Vega, and sE Electronics

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3 of the full Annual Report. Segment profit represents the profit earned by each segment without allocation of the share of central administration costs including Directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Board of Directors for the purpose of resource allocation and assessment of segment performance.

Central administration costs comprise principally the employment-related costs and other overheads incurred by the Group. Also included within central administration costs is the charge relating to the share option scheme of £537,000 for the year ended 31 August 2020 (2019: £348,000).

Year ended 31 August

	2020 £'000	2019 £'000
Revenue from external customers		
Focusrite	**76,178**	57,644
Focusrite Pro	**3,492**	4,704
Novation	**19,383**	17,719
ADAM Audio	**17,381**	1,750
Martin Audio	**12,014**	-
Distribution	**1,693**	2,848
Total	**130,141**	84,665
Segment profit		
Focusrite	**35,602**	28,785
Focusrite Pro	**1,916**	2,908
Novation	**8,458**	8,680
ADAM Audio	**8,828**	159
Martin Audio	**5,032**	-
Distribution	**57**	807
	59,893	41,339
Central distribution costs and administrative expenses	**(39,871)**	(27,790)
Goodwill impairment	**(10,200)**	-
Non-underlying items (note 5)	**(1,888)**	(737)
Operating profit	**7,934**	12,812
Finance income	**36**	246
Finance costs	**(945)**	(45)
Profit before tax	**7,025**	13,013
Tax	**(2,934)**	(1,349)
Profit after tax	**4,091**	11,664

The Group's non-current assets, analysed by geographical location were as follows:

	2020 £'000	2019 £'000
Non-current assets		
North America	**760**	124
Europe, Middle East and Africa	**49,611**	24,900
Rest of the World	**1,967**	681
Total non-current assets	**52,338**	25,705

Information about major customers

Included in revenues shown for 2020 is £35.4 million (2019: £33.4 million) attributed to the Group's largest customer, which is located in the USA. Amounts owed at the year end were £6.4 million (2019: £8.5 million).

4 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging/(crediting):

	Year ended 31 August	
	2020	2019
	£'000	£'000
Net foreign exchange (gains)/losses	**427**	(103)
Research and development costs (excluding costs capitalised)	**2,441**	1,939
Depreciation and impairment of property, plant and equipment	**1,777**	714
Profit on disposal of property, plant and equipment	**-**	3
Amortisation of intangibles	**6,690**	2,936
Impairment of goodwill on acquisition	**10,200**	-
Operating lease rental expense	**-**	466
Cost of inventories recognised as an expense	**61,419**	41,805
Staff costs (excluding share-based payments)	**17,737**	10,339

Movement in expected credit loss	**474**	(40)
Share-based payments charged to profit and loss	**537**	348

Due to the adoption of IFRS 16 Leases, there is no longer a charge to profit for operating lease rental. Instead a charge to profit is made for the depreciation of the right of use asset.

5 NON-UNDERLYING ITEMS

The following non-underlying costs have been declared in the period

	Year ended 31 August	
	2020	2019
	£'000	£'000
Acquisition Costs	**1,737**	737
Restructuring	**151**	-
Non-underlying costs	**1,888**	737
Amortisation of acquired intangible assets	**3,013**	-
Impairment of goodwill on acquisition	**10,200**	-
Total non-underlying costs for adjusted EBITDA	**15,101**	737

Acquisition costs in the 12 months to 31 August 2020 included costs of £1,644,000 relating to Martin Audio. Restructuring costs relate to the costs of people changes following the ADAM Audio acquisition. The impairment of goodwill on acquisition is detailed in note 9.

6 TAX

	Year ended 31 August	
	2020	2019
	£'000	£'000
Corporation tax charges:		
Under/(over) provision in prior year	**75**	(127)
Current year	**3,362**	1,242
	3,437	1,115
Deferred taxation		
Current year	**(503)**	234
	2,934	1,349

Corporation tax is calculated at 19% (2019: 19%) of the estimated taxable profit for the year. Taxation for the US and Germany subsidiaries are calculated at the rates prevailing in the respective jurisdiction.

The tax charge for each year can be reconciled to the profit per the income statement as follows:

	Year ended 31 August	
	2020	2019
	£'000	£'000
Current taxation		
Profit before tax on continuing operations	**7,025**	13,013
Tax at the UK corporation tax rate of 19% (2019: 19%)	**1,335**	2,472
Effects of:		
Expenses not deductible for tax purposes	**2,582**	133
R&D tax credit	**(1,219)**	(1,093)
Prior period adjustment - current tax	**75**	(127)
Effect of change in standard rate of deferred tax	**-**	-
Overseas tax	**161**	(36)
Tax charge for year	**2,934**	1,349

Expenses not deductible relate to impairment costs, the costs of acquiring Martin Audio and residual costs of acquiring ADAM Audio.

The prior period adjustment arose as a result of an over-accrual of the tax provision. This was due to the changes in capital allowances not being fully incorporated into the prior year estimate.

Tax credited directly to equity
In addition to the amount charged to the income statement and other comprehensive income, the following amounts of tax have been recognised in equity:

	2020	2019
	£'000	£'000
Share-based payment deferred tax deduction in excess of remuneration expense	**162**	(238)
Share-based payment current tax deduction in excess of remuneration expense	**457**	310
	619	72

Currently for research and development tax credits, Martin Audio is under the RDEC scheme whereas all other members of the Group are under the SME scheme. Under the SME scheme the credit is treated as a taxable deduction within the corporation tax calculation. The whole Group will be moving to RDEC from the SME scheme for the next financial year.

The Finance Act 2020 enacted legislation to maintain the current rate of corporation tax at 19%, up until at least the end of tax year ended 31 March 2022.

7 DIVIDENDS

The following equity dividends have been declared:

	Year to 31 August 2020	Year to 31 August 2019
Dividend per qualifying ordinary share	**4.2p**	3.8p

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2020 of 1.3 pence per share.

On 17 November 2020, the Directors recommended a final dividend of 2.9 pence per share (2019: 2.6 pence per share), making a total of 4.2 pence per share for the year (2019: 3.8 pence per share).

8 EARNINGS PER SHARE ('EPS')

The calculation of the basic and diluted EPS is based on the following data:

	Year ended 31 August	
Earnings	**2020**	2019
	£'000	£'000
Earnings for the purposes of basic and diluted EPS, being net profit for the period	**4,091**	11,664
Non-underlying items (Note 5)	**15,101**	737
Tax on non-underlying items	**(26)**	-
Total underlying profit for adjusted EPS calculation	**19,166**	12,401

	Year ended 31 August	
	2020	2019
	Number '000	Number '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic EPS calculation	**57,680**	57,221
Effect of dilutive potential ordinary shares:		
Share option plans	**812**	824
Weighted average number of ordinary shares for the purposes of diluted EPS calculation	**58,492**	58,045
EPS	**Pence**	Pence
Basic EPS	**7.1**	20.4

Diluted EPS	**7.0**	20.1
Adjusted basic EPS	**33.2**	21.7
Adjusted diluted EPS	**32.8**	21.4

At 31 August 2020, the total number of ordinary shares issued and fully paid was 58,111,639. This included 359,483 (2019: 782,652) shares held by the EBT to satisfy options vesting in future years. The operation of this EBT is funded by the Group so the EBT is required to be consolidated, with the result that the weighted average number of ordinary shares for the purpose of the basic EPS calculation is the net of the weighted average number of shares in issue (58,111,639) less the weighted average number of shares held by the EBT (431,920). It should be noted that the only right relinquished by the Trustees of the EBT is the right to receive dividends. In all other respects, the shares held by the EBT have full voting rights.

The effect of dilutive potential ordinary share issues is calculated in accordance with IAS 33 and arises from the employee share options currently outstanding, adjusted by the profit element as a proportion of the average share price during the period.

9 GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE

	Martin Audio £'000	**ADAM Audio £'000**	**Novation Digital Music Systems £'000**	**Total £'000**
Cost				
At 1 September 2018	-	-	419	**419**
Additional goodwill recognised on business combinations	-	4,852	-	**4,852**
At 31 August 2019	-	4,852	419	**5,271**
Additional goodwill recognised on business combinations	12,564	247	-	**12,811**
At 31 August 2020	**12,564**	**5,099**	**419**	**18,082**

The additional goodwill recognised in ADAM Audio was a fair value adjustment recognised within the twelve-month provisional period allowed.

An impairment of £10,200,000 has been recognised against the goodwill acquired on Martin Audio.

	Martin Audio £'000	**ADAM Audio £'000**	**Novation Digital Music Systems £'000**	**Total £'000**
Carrying amount				
At 1 September 2018	-	-	419	**419**
Additional goodwill recognised on business combinations	-	4,852	-	**4,852**
At 31 August 2019	-	4,852	419	5,271
Additional goodwill recognised on business combinations	12,564	247	-	12,811
Loss on impairment	(10,200)	-	-	(10,200)
At 31 August 2020	**2,364**	**5,099**	**419**	**7,882**

In note 19 'other intangible assets', there are £1,825,000 of development costs which have not started amortisation. These are projects in development and are considered to be intangible assets that have not yet started amortisation.

The goodwill shown in the table above and intangible assets with indefinite useful life are allocated to the CGUs per the schedule below:

	Goodwill	**Intangible assets with indefinite useful life**

CGUs	£'000	£'000
Focusrite	419	299
Focusrite Pro	-	688
Novation	-	838
ADAM Audio	5,099	-
Martin Audio	2,364	-
Total	**7,882**	**1,825**

Key assumptions for assessment of impairment

The discount rate applied against future cash flows has been calculated with reference to a WACC calculated by reference to an industry peer group relevant to each of the operating entities. Inputs include 20-year nominal risk-free rate and market risk premium.

The assumed growth rate for Martin Audio in the initial five-year period is 15.8% compound annual growth ('CAGR').

All CGU's have applied a perpetual 2% growth rate based on international monetary fund ('IMF') estimates of long-term inflation.

Focusrite, Focusrite Pro and Novation

An impairment assessment in relation to each of these CGUs was performed by management. The recoverable amounts of these CGUs have been determined based on the value in use method. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.1% (2019: 13.1%). Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate (FY19: 2%) based on IMF estimates of long-term inflation. These assumptions have been applied against Focusrite, Focusrite Pro and Novation CGUs.

Management believes that any reasonably possible change in the key assumptions on which these three CGUs' recoverable amounts are based would not cause the carrying amount to exceed their respective recoverable amounts. Also, it is noted that there is sufficient headroom for the Focusrite, Focusrite Pro and Novation CGUs.

ADAM Audio

The recoverable amount of ADAM Audio has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.8%. The discount rate applied in FY19 was 16.8%, the reduction in discount rate is due to updated assumptions based on technical and current market conditions, in particular, due to ADAM's strong performance since acquisition risk has reduced therefore the discount rate has reduced.

Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate (FY19: 2%) based on IMF estimates of long-term inflation. Management believes that any reasonably possible change in the key assumptions on which ADAM Audio's recoverable amount is based would not cause ADAM Audio's carrying amount to exceed its recoverable amount.

Martin Audio

The recoverable amount of Martin Audio has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a pre-tax discount rate of 13.8%. The discount rate has been calculated with reference to a WACC calculated by reference to an industry peer group (including ADAM Audio). Inputs include 20-year nominal risk free rate and market risk premium. Any uncertainty risks are reflected within the base cash flows and not the discount rate.

Cash flows beyond that five-year period have been extrapolated using a perpetual 2% growth rate based on IMF estimates of long-term inflation. Based on these assumptions an impairment of £10.2 million has been identified an applied against goodwill held on the balance sheet against Martin Audio.

To the extent possible, cash flows incorporate the effects of COVID-19, though as these effects are considered to be constrained to the short and medium-term no adjustment has been made to discount rates or long-term growth rates.

While the impact of COVID-19 is deemed to be restricted to the short/medium term, the initial valuation of Martin Audio was based on strong immediate growth within the first two to three years post acquisition. However, these forecasts have now been downgraded to represent a slower growth than first anticipated in the first three years, applied against a lower base year (as first-year revenues have been impacted by COVID-19). The growth forecast in years four to five is expected to be the same, however again applied against a lower base. This results in a reduction to forecast cash of £8.0 million from initial valuation. This subsequently affects the forecasted cashflows taken into perpetuity, although the perpetual growth rate applied remains the same at 2%.

The impact of changes in the primary assumptions in isolation is set out below for the CGU where detailed testing was carried out due to indicators of impairment.

Change in estimate	**(Increase)/decrease in impairment risk £m**
Discount rate – increase of 2.2%	(5.0)
Discount rate – decrease of 1.8%	5.8
Five-year CAGR growth rate – increase of 1%	2.4
Five-year CAGR growth rate – decrease of 1%	(2.8)
Terminal growth rate – increase of 1%	2.1
Terminal growth rate – decrease of 1%	(1.8)