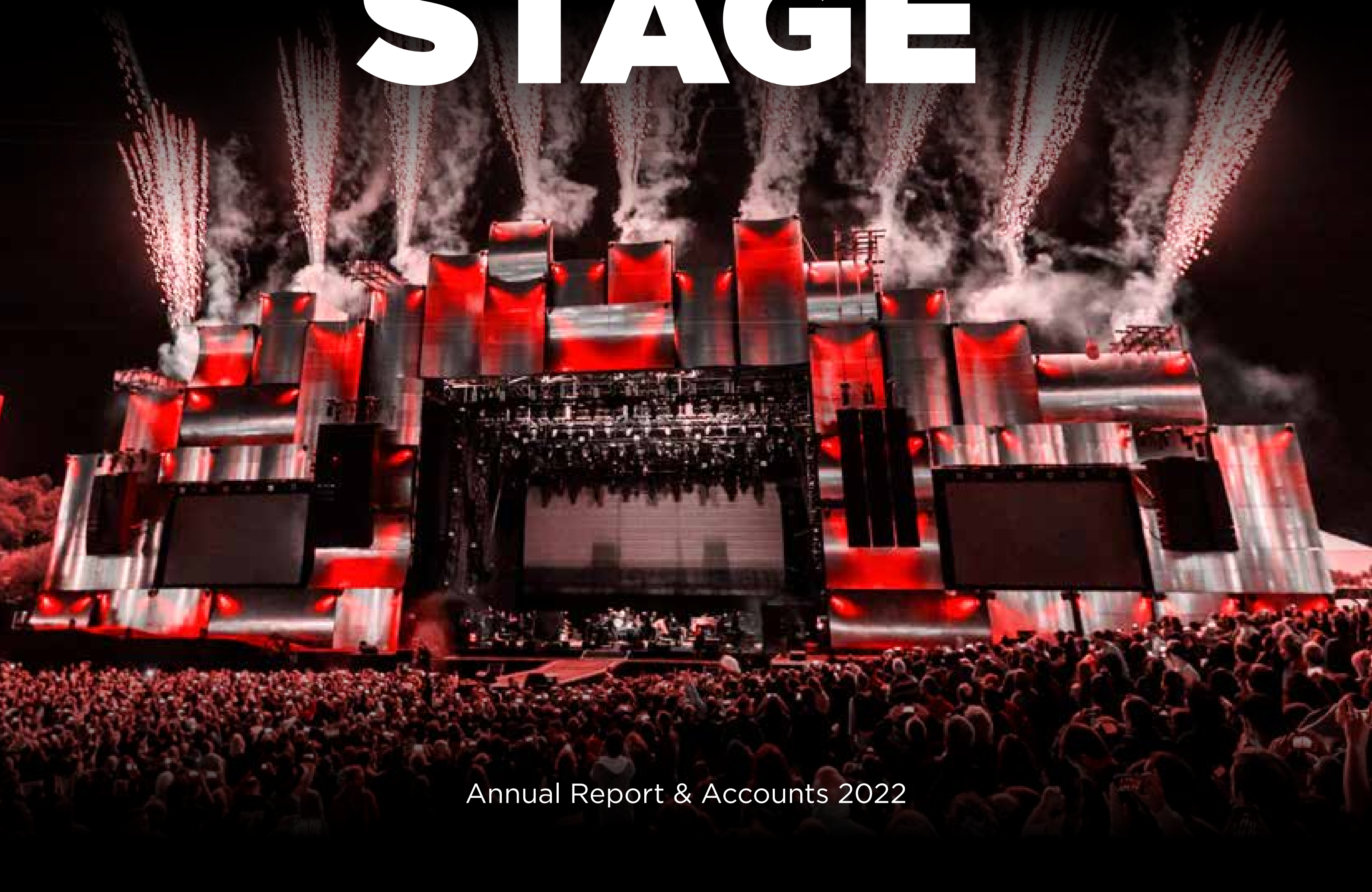
Focusrite plc

FROM THE STUDIO TO THE STAGE



Annual Report & Accounts 2022

Focusrite plc is a global audio technology group that develops and markets proprietary hardware and software solutions.

Our portfolio is used for both the creation and reproduction of high-quality audio by the beginner and hobbyist all the way through to the professional user and commercial facility.

www.focusriteplc.com

Our family of brands stand united behind a single purpose: to remove barriers to creativity, allowing anyone to create great-sounding audio. At the heart of our brands are our people; an eclectic family brought together by a common passion to help others on that journey. There are many barriers, technical and otherwise, that stop people from realising their own creativity. As a team we work together to remove them, one by one.

For more info, **see pages 2 to 3**

SUPPORTING YOUR MUSIC-MAKING JOURNEY

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Highlights
Financial highlights

Revenue
£183.7m
FY21: £173.9m
5.6%

Net debt/cash[1]
£(0.3)m
FY21: £17.6m
£(17.9)m

Gross margin
45.3%
FY21: 48.4%
(3.1)% pts

Total dividend per share
6.0p
FY21: 5.2p
15.4%

EBITDA[2]
£40.8m
FY21: £45.9m
(11.1)%

Adjusted[1] EBITDA[2]
£41.7m
FY21: £47.5m
(12.2)%

Operating profit
£28.7m
FY21: £35.8m
(19.8)%

Adjusted[3] operating profit
£34.7m
FY21: £41.4m
(16.2)%

Basic earnings per share
42.5p
FY21: 48.8p
(12.9)%

Adjusted[3] diluted earnings per share
52.0p
FY21: 57.5p
(9.6)%

1 Net debt defined as cash and cash equivalents, overdrafts and amounts drawn against the RCF including the costs of arranging the RCF.
2 Comprising earnings adjusted for interest, taxation, depreciation, amortisation, (see table reconciliation on page 102).
3 Adjusted for amortisation of acquired intangible assets and other adjusting items (see note 15, note 20).

Company Overview

A worldwide leader in music and audio technology for the creation and delivery of world-class sound.

The Focusrite plc group is comprised of four business units which create hardware and software solutions for **Content Creation**, allowing music and audio to be created, performed, recorded, and edited, or **Audio Reproduction**, delivering the best possible sound to audiences, from coffee shops to concert stadia.

All four business units transact globally through a system of distributors, retailers, system integrators, and direct-to-customer platforms. Our products are designed in the headquarters of each of our individual business units, namely High Wycombe, London, Berlin and San Francisco.

The manufacturing process is a mixture of contract manufacturers in China, San Francisco and Malaysia, and in-house manufacturing. This past year, we sold over 1.5 million physical products and had our various music creation apps downloaded 1.3 million times. We utilise third-party logistics support. We employ over 500 people across the UK, Germany, the US, Hong Kong, Latin America and Australia.

Focusrite®

Focusrite Audio Engineering Limited ('FAEL') comprises the Focusrite, Focusrite Pro, Novation and Ampify brands. Focusrite's legacy came from a request by the Beatles producer Sir George Martin, ultimately resulting in the highly acclaimed Focusrite console. Soon, digital systems replaced analogue and affordable computers became the centrepiece of recording. Focusrite leveraged its experience to create high-quality audio interfaces for computers. Focusrite-branded Scarlett, Vocaster and Clarett ranges address the home recording/hobbyist market and Focusrite Pro targets audio professionals and commercial facilities — and is a leading provider of audio over IP ('AOIP'). As electronic music flourished, the Group acquired Novation, known for its revolutionary Launchpad, keyboard controllers, grooveboxes and synthesizers. Ampify develops acclaimed IOS music creation apps and has since expanded with Ampify Studio for desktops, designed for users of all levels, and to work seamlessly alongside Novation hardware.

ADAM AUDIO

Founded in 1999, ADAM Audio quickly made their mark on the high-end reference market with its ribbon tweeter technology. Based in Berlin, ADAM Audio is a leader in the field of electroacoustics with the ADAM Audio A Series and S Series loudspeakers as standard in many professional recording studios across the globe. More recently, the company introduced a more affordable line of studio monitors, the T Series, that addresses the home recording customer. ADAM Audio and Focusrite solutions are perfectly aligned, with a shared mission to create the most holistic creative experience for all audio creatives and remove technical barriers to the art of recording. ADAM Audio was acquired by the Group in July 2019.

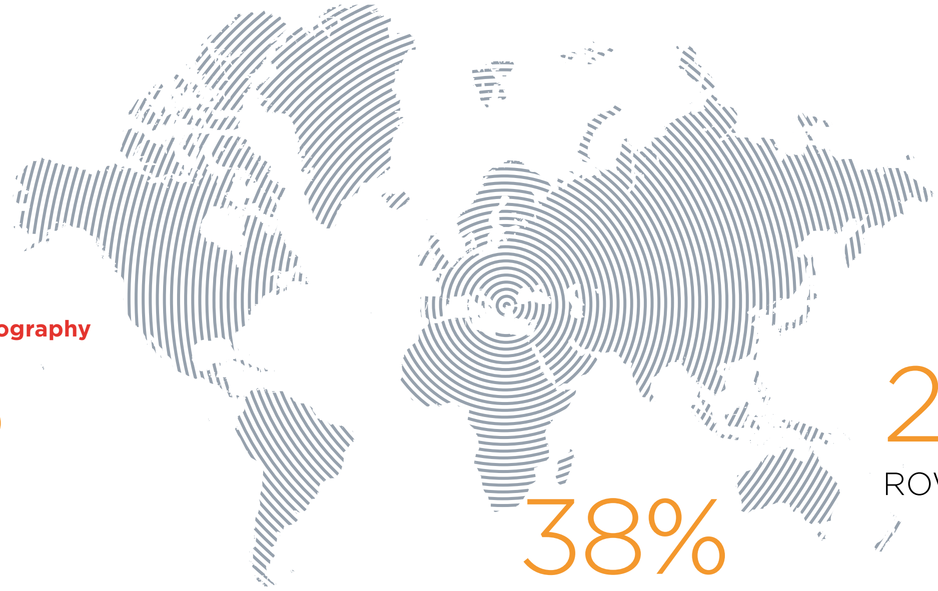
Our history

Brand formation	Focusrite acquired by our Chairman Phil Dudderidge	Acquisition of Novation brand	IPO on Alternative Investment Market ('AIM')	ADAM Audio acquisition	Martin Audio acquisition
1985	March 1989	2004	2014	July 2019	December 2019

£41.0m

Pre-IPO FY14 revenue

Revenue by geography



41%
USA

38%
EMEA

21%
ROW

SEQUENTIAL

Sequential was founded by legendary instrument designer and Grammy winner Dave Smith as Sequential Circuits in 1974. In 1977 Dave designed the Prophet-5, the world's first fully programmable polyphonic synth, and the first instrument with an embedded microprocessor. Sequential released many innovative instruments over the next decade. Additionally, Dave was known as the pioneer behind the 1981 MIDI specification — Dave coined the acronym. In 1987 he was named Fellow of the Audio Engineering Society for his continuing work with music synthesis. Today, Sequential hosts several best-in-class analogue synthesizers, including updated versions of the Prophet-5 and OB-6. Sequential joined the Group in April 2021 and in May 2022 acquired the rights to another legendary synthesizer brand, Oberheim, and released their first new product in almost 40 years, the OB-X8.

Martin Audio is internationally renowned for supplying award-winning, patent-protected professional audio systems and is the recognised global leader in optimised line array technology. The company was founded in 1971 by engineering maestro David Martin and its blossoming reputation meant it was soon producing touring systems for supergroups Pink Floyd, The Who and Supertramp. The audience experience has remained key – Martin Audio believes every audience member should enjoy exceptional sound. Today, Martin Audio continues providing solutions for large tour sound shows and installed sound outlets, while expanding into state-of-the-art audio solutions for smaller installations. Martin Audio was acquired by the Group in December 2019 and in 2021 launched Optimal Audio, addressing the need for high-quality audio in commercial installations. Under the management of Martin Audio, the Group more recently acquired Linea Research, providers of ground-breaking amplifiers and Digital Signal Processors — a move that will enable greater integration of loudspeaker and amplifier technology within their products.

Sequential acquisition
April 2021

Optimal Audio creation
April 2021

Linea Research acquired
March 2022

Oberheim rights purchased
May 2022

£173.9m
FY21 Group revenue

£183.7m
FY22 Group revenue

Our Products
Content Creation

At Focusrite we believe in supporting our customers throughout their music-making journey, by removing barriers to creativity and delivering everything they need to make music. We provide solutions from studio to stage.

1. Audio interfaces
Audio interfaces convert analogue signals from microphones and instruments into a digital format, allowing customers to make music or podcasts on their computers. Focusrite audio interfaces ensure studio-quality sound is available to home studio creators and professionals alike.

2. Synthesizers
Synthesizers are electronic musical instruments that produce a wide variety of sounds for performance and recording. Novation, Sequential and Oberheim offer synthesizers to suit all tastes, levels of experience and budgets.

3. Audio software
Audio software allows users to easily create, edit and perform their music. Ampify, Novation and Focusrite create software that complements our hardware and enables our customers to quickly achieve their goals.

AMPIFY Focusrite ADAM AUDIO Oberheim
novation Focusrite PRO SEQUENTIAL

4. Keyboard and pad controllers

Keyboard and pad controllers connect to and control other devices that make sound, such as computers and synthesizers. At Novation we provide intuitive controllers that remove technical hurdles for our customers.

5. Grooveboxes

Grooveboxes are self-contained instruments for making electronic music – and the Novation range of grooveboxes are fun, flexible and customisable.

6. Monitor speakers

Monitor speakers allow you to hear a truly accurate representation of your recordings. ADAM Audio offers a range of monitors which deliver transparent, high-definition audio.

Our Products
Audio Reproduction

Professional sound reproduction systems deliver music and other content to audiences, from coffee shops to concert stadia – and Martin Audio, Optimal Audio and Linea Research have solutions that ensure their signature sound will reach every listener.

Point source speakers – for up to 15 metres of throw

Point source loudspeakers can be either a single speaker, or multiple speakers placed apart from one another, broadcasting a full range of sound from a single point. They project sound comfortably up to 15m and come in either a portable format suitable for small gigs or permanently installed into venues such as bars and restaurants.

Constant curvature arrays – for 15 to 30 metres of throw

Constant curvature arrays are identical loudspeaker elements connected directly to one another. Constant curvature loudspeakers will be used in both portable format for small concerts and gatherings as well as permanently installed into venues like houses of worship.

Line arrays – for over 30 metres of throw

Line arrays are identical loudspeaker elements connected in a line but with a splay angle between each loudspeaker cabinet. These loudspeakers combine in such a way to project sound further and more evenly than is possible with a traditional point source loudspeaker or constant curvature array. Once again, line arrays can be portable and used for major concerts and festivals or can be permanently installed into stadiums or large auditoriums.

Digital Signal Processors

Digital Signal Processors ('DSP') take digital audio signals and mathematically manipulate them to optimise sound through the signal chain for a better listening experience for the audience.

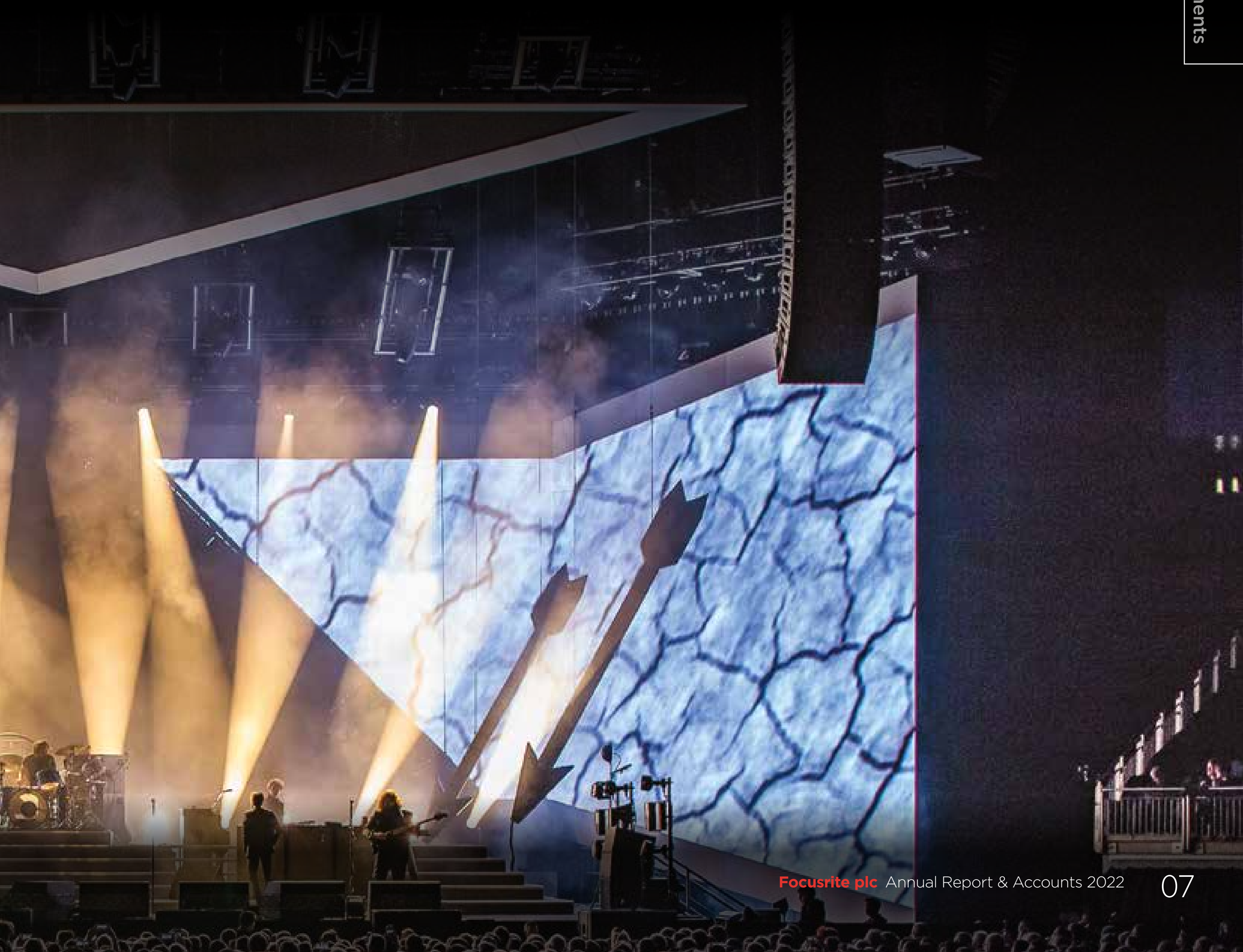
Amplifiers

Amplifiers combine with a loudspeaker to increase the volume of the sound produced by source material or musical instruments.

MARTIN AUDIO

Optimal Audio

LINEA RESEARCH

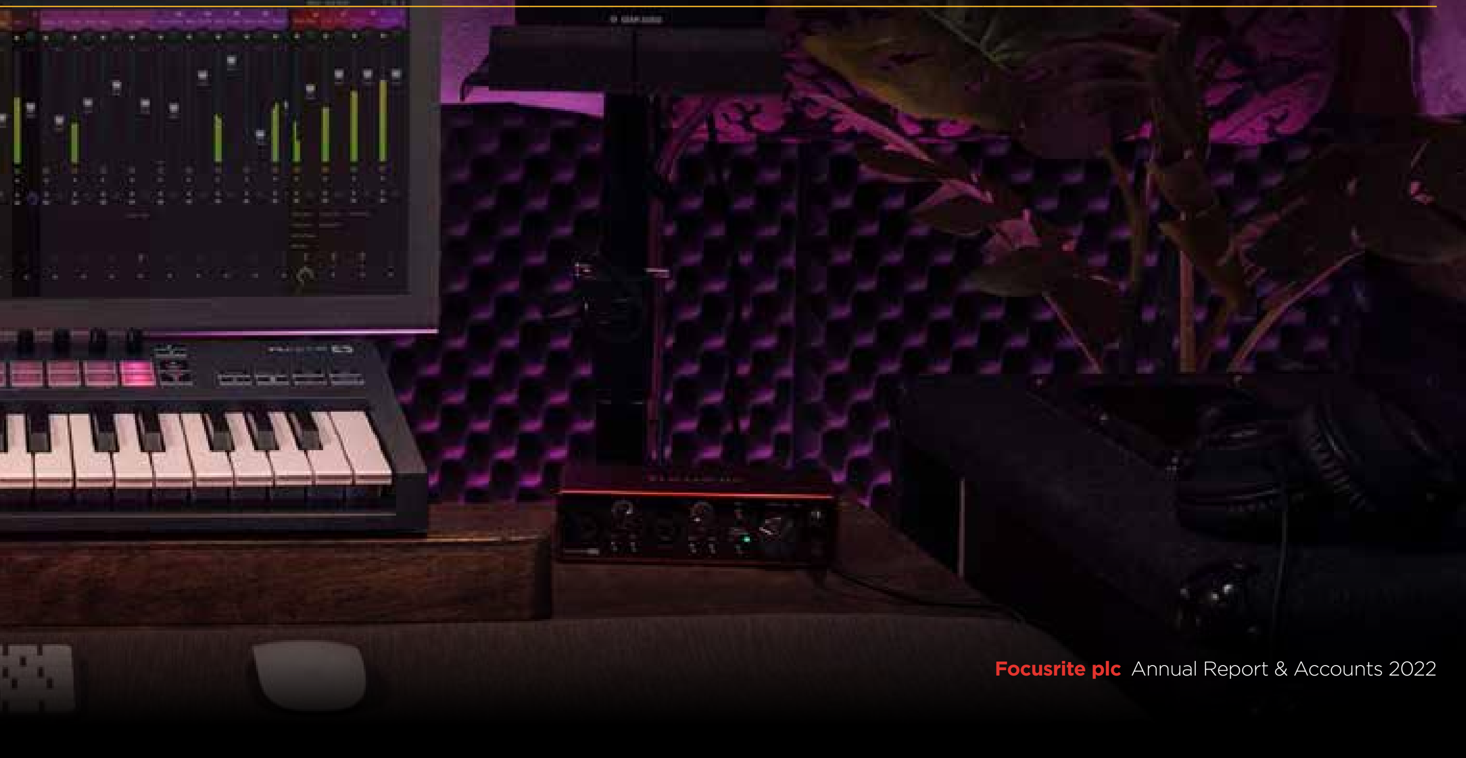


Our Audience
Content Creation

	The Aspiring Creator	The Passionate Maker
Market size	£450m–£500m	£625m–£675m
Products	Audio Interfaces, Audio software, Keyboard and pad controllers	Audio Interfaces, Audio software, Grooveboxes, Keyboard and pad controllers, Monitor speakers, Synthesizers
Customer use	Inspired by artists and influencers, the Aspiring Creator wants to capture ideas and express themselves. Making their own songs or podcasts brings them into the same world that their favourite artists occupy. Excited but impatient, they want fast results and are eager to share what they've made with friends and followers.	Considering themselves as artists or music-makers, they feel a sense of achievement when they complete a track they can call their own. They know enough to create their music but are hungry to improve. Unsure of the quality of their output, they're cautious about what they share, and with whom. All too often, the tracks they create remain ideas, never to be refined and polished. New music-making tools excite them, though they consider these new purchases independently.
Brands	AMPIFY novation Focusrite	AMPIFY novation Focusrite ADAM AUDIO SEQUENTIAL Oberheim

Market sizing determined using a combination of US Retail data for Recording and Electronic Music equipment (source – Music Trades Industry Census) and management input.

The Serious Producer	The Music Master	The Facility
£250m–£275m	**£200m–£250m**	**£300m–£350m**
Audio Interfaces, Audio software, Grooveboxes, Keyboard and pad controllers, Monitor speakers, Synthesizers	Audio Interfaces, Grooveboxes, Keyboard and pad controllers, Monitor speakers, Synthesizers	Audio Interfaces, Monitor speakers, Synthesizers
The Serious Producer feels a sense of achievement when they complete a release-ready track. Actively networking within groups of like-minded people, they're constantly honing their skills, and adding to their studio. Some earn a living in music production, while music production is a 'side hustle' for others. The Serious Producer is committed to a weekly, if not daily, music routine with self-imposed deadlines. Any new purchases must contribute to the refinement of their music production process.	The Music Master produces music for a living. They accept the deadlines and pressures that come with the job, and get a sense of achievement when their hard work receives both critical acclaim and financial success. The Music Master is proud to be part of a community that produces music for a living. Having mastered their craft, they understand that they'll always be learning. Gear purchases are either professional or passion-based, but any purchase must have a positive impact on their workflow.	The facility is often made up of multiple decision-makers, all focused on playing their part to ensure the business's success. Every facility's requirements are unique and often complex, from the largest post-production houses and sprawling media arts campuses, to live and broadcast stages and beyond. Driven to remain competitive, they're always looking for ways to grow their business. Dolby Atmos and Apple's Spatial Audio are good examples that have spurred investment in multichannel networked audio.
novation Focusrite Focusrite PRO ADAM AUDIO SEQUENTIAL Oberheim	novation Focusrite Focusrite PRO ADAM AUDIO SEQUENTIAL Oberheim	Focusrite Focusrite PRO ADAM AUDIO SEQUENTIAL Oberheim



Our Audience
Audio Reproduction

REMOVING BARRIERS TO CREATIVITY

Throw range	Less than 15 metres	15-30 metres
Market size	£960m-£1,200m	£960m-£1,200m
Products	Point source portable and on-wall speakers	Micro or mini line arrays as well as constant curvature arrays
Customer use	Intimate gigs or corporate events, permanent installations into smaller nightclubs, houses of worship and hospitality venues.	Medium-sized auditoria, theatres, houses of worship and nightclubs.
Brands	MARTIN AUDIO Optimal Audio LINEA RESEARCH	MARTIN AUDIO Optimal Audio LINEA RESEARCH

Market sizing determined using a combination of US Retail data for Recording and Electronic Music equipment (source – Music Trades Industry Census) and management input.

The Live Venue

The vast majority of music creators want an audience to hear their music. Therefore, there is an enormous market for both installed sound and live sound equipment used for the reproduction of music.

This will include festivals, concerts, nightclubs, houses of worship and hospitality venues. The technology needs to give each member of the audience an exceptional sonic experience, irrespective of the size of the audience or the distance from the speaker.

For this reason, the market sizing can also be split into the capability of the loudspeaker to throw distance.

Martin Audio is the recognised global leader in optimised line array technology ensuring great coverage and control of any audience space. The company was founded in 1971 by the innovative loudspeaker designer David Martin. His vision was to enable bands to play to larger audiences and be properly heard for the first time.

30+ metres

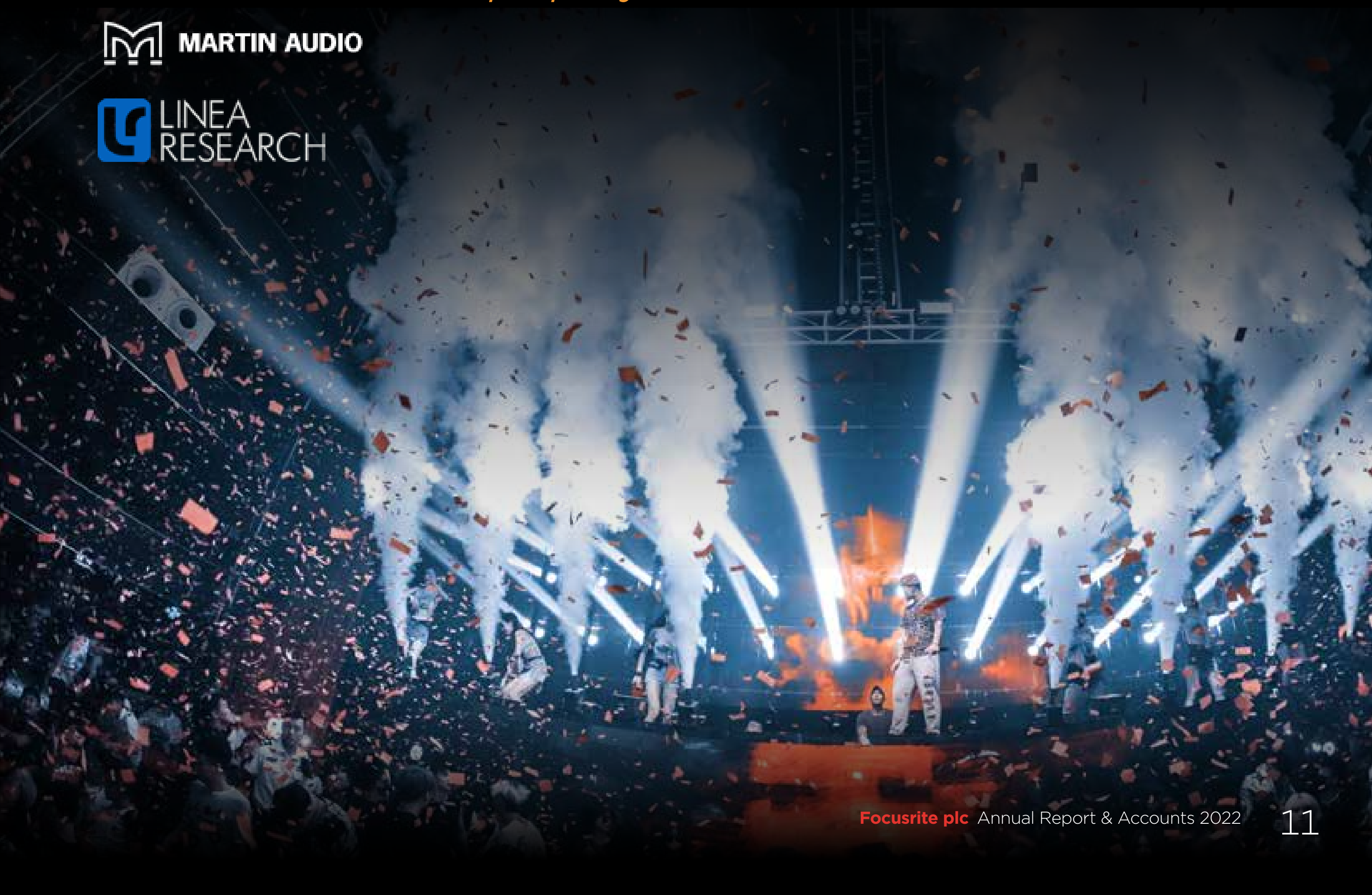
£480m-£600m

Large-scale line arrays

Concerts and festivals of up to 100,00 people as well as being installed into superclubs, megachurches or large-scale theatres or arenas.

MARTIN AUDIO

LINEA RESEARCH



ENHANCING OUR OFFERING

The value we create

The following relationships and resources are at the centre of everything we do as a business.

Innovative product design & development

- On-site R&D teams in the US, the UK, Germany and China.
- Leveraging insights from our global customer care teams leading to an intuitive user experience.
- Customer-led and competitor-aware product roadmap.

Efficient manufacturing and supply chains

- On-site manufacturing in the UK and Germany with long-term manufacturing partnerships in China, Malaysia and the US for high-volume products.
- Managed by experienced Group operational teams in the US, the UK, Germany and now Australia sharing best practice across all brands.

What sets us apart

Market-leading products

With over five million customers across 240+ territories our products continue to be best-sellers, setting the standard for quality and value.

Industry experience and expertise

The Group General Executive Committee's experience, and all our people, are critical to meet the needs of our customers.

Built to scale

Our scalable systems and processes ensure we can compete successfully in a rapidly expanding and ever-changing market, meaning we are ready for further acquisition should the right opportunity arise.

Our people
- Employees: the opportunity to realise their potential in an appealing working environment.
- Communities: engaging in local and industry-wide communities to enable positive change.

Our customers
- End users of our products: intuitive high-quality products helping them create great sound.

Our partners
- Suppliers: we are a reliable and ethical partner who is easy to do business with.
- Distributors and resellers: we provide customer service and marketing support for our end users.

Our planet
- Environment: aiming to become environmental sustainability leaders in our industry.

Investors
- Shareholders and banks: generating above-market returns on investment.

Industry-leading global sales and marketing

- Distributor and reseller partners across 240 territories, with internal distribution in targeted markets.
- In-house commercial, technical and marketing professionals driving mass awareness through social and other media channels and supporting our channel partners.
- Worldwide direct-to-consumer channel in place.

World-class customer care

- Customer experience teams in the UK, Germany, the US and Asia providing award-winning 24/7 customer care.
- Exceptional Net Promoter Score of 71.

International reputation and reach

Our reputation for quality, coupled with a rich heritage spanning decades, makes our brands category leaders in the music-making industry.

Inclusive culture

Our mission is to cultivate an equitable culture, internally and externally, where all people feel they are welcome, safe and positively represented – because at Focusrite they truly are.

Customer focus

Our customers are at the heart of everything we do. We proactively engage with existing and prospective customers, to ensure that their feedback drives all our decisions.

A RESILIENT STRATEGY FOR CONTINUED GROWTH

Growth drivers

The foundation of our growth strategy, while constantly evolving, remains fundamentally unchanged: creating a great place to work, continuing investment to grow our core products, expanding into new market opportunities and focusing on lifetime value for our customers continues to be a winning formula for the Group.

Growth Drivers	Our Strategy
Creating a great place to work	Enabling our people to bring to market cutting-edge solutions starts with striving to be a great place to work. We are embracing the diverse foundations of the world of audio to nurture our talent and build a culture of equality and inclusion. Our people know how they contribute to the overall success of the business and feel meaning and purpose in what they do.
Growing the core	The Group believes that all our core markets are still ripe with opportunity for growth. As a leading technology company, we take on the challenge to ensure that we are creating solutions for the present as well as what creative minds will need in the future. Hence, our annual R&D expenditure goes into ensuring that we will be delivering next-generation versions of our current products as well as incremental new offerings in our core groups that are considered cutting-edge and advance our customers' capabilities.
Expanding into new markets	The Group views expansion into new markets as a multi-prong approach for growth. Firstly we are constantly reviewing the go-to-market strategy in all regions to ensure we have the best structure in place for success. In some markets this has resulted in our investing in local people and resources to be closer to our customers and ensure our products resonate with the local community. Secondly, we look to expand into new markets both organically and through acquisition. ADAM Audio, Martin Audio and Sequential were acquired over the last three years; companies with a similar culture and brand recognition in complementary product categories for the Group. In 2021, we launched Optimal Audio, a new brand dedicated to commercial audio.
Focusing on lifetime value for our customers	Lifetime value is delivered through our world-class technical support, now with 24/7 follow-the-sun coverage, a highly differentiated out-of-box experience that is tailored to customer experience level and continuous product updates and offerings that brings more functionality and capabilities for the customers' investment.

1 Market sizing determined using a combination of US Retail data for Recording and Electronic Music equipment (source – Music Trades Industry Census) and management input.

Measures	Impact in 2022

eNPS

18

2022	**18**
2021	43
2020	43

For the first year our engagement survey covered the entire Group and as a result is not directly comparable with prior years. With a tougher external climate a reduction was expected and this year we have continued our engagement programmes as well as integrate the Sequential team into the Group, and have welcomed the team from Linea Research. Our engagement and diversity and inclusion programmes are a continuing focus as we manage a hybrid working environment for all our teams.

Number of registered core users

4.73m

2022	**4.73m**
2021	4.13m
2020	3.25m

Across the year we saw product introductions across all brands, most notably the OB-X8 with the relaunch of Oberheim and the introduction of our podcasting platform, Vocaster.

Product Development case study **see pages 30 to 31**

Total addressable market[1]

£5bn

2022	**£5bn**
2021	£4.6bn
2020	£4.4bn

During the year, we acquired two new brands, Linea Research and Oberheim. Whilst the synthesizer market, in which Oberheim operates, was already included in our addressable market data due to our Novation and Sequential brands, Linea Research takes us deeper into the amplifier market both as a standalone brand and through its collaboration with Martin Audio.

See pages 8 to 11

We have also invested in our company in Australia in order to sell direct to resellers, improving our margins and growing revenue.

Net Promoter Score

71

2022	**71**
2021	74
2020	75

We now have 24/7 follow-the-sun support across our locations in the UK, the US and APAC and constantly work to refine our onboarding journeys through feedback to help our customers start creating as quickly as possible.

Chairman's Statement
Phil Dudderidge

Welcome

Focusrite is unique as being the only global group of branded businesses in the music technology industry listed on the London Stock Exchange. It is therefore with great pride that I present this set of financial results, our eighth as a public company, and one in which we have once again made substantial progress.

We trace our origins back to 1989, and the foundation of Focusrite Audio Engineering Ltd., which is still the largest operating company in the Group. Our business has completely transformed and evolved since then, and now trades under ten established brands: Focusrite, Focusrite Pro, Novation, Ampify, ADAM Audio, Martin Audio, Optimal Audio, Sequential, Oberheim and Linea Research. Our brands are recognised as category leaders in the music-making, recording, live performance and electronic musical instrument industries. We have offices on four continents and a global customer base with a distribution network covering approximately 240 territories.

We have achieved success by pursuing our stated mission of growing both organically and through the acquisition of complementary brands that address similar market verticals.

Music technology encompasses several strands. Our original and core business under the Focusrite brand is that of Audio Interfaces, used by musicians of all abilities, amateur and professional, to record music using the computer as the medium. Focusrite has become the leading brand globally in this field.

We have added to Focusrite with musical instruments (Novation, Sequential and Oberheim synthesizers), loudspeakers for the recording studio (ADAM Audio) and live performance and installations (Martin Audio). Martin Audio has created a second brand, Optimal Audio, for installation in public spaces like bars, restaurants, and other areas where low operating expertise is available, but quality performance is expected. In the last year Martin Audio acquired Linea Research, the supplier of amplifiers to Martin Audio and a well-established and respected brand in its own right.

Within months of acquiring Martin Audio in 2019, the world was hit by COVID-19. With demand for Martin Audio's products impacted by the pandemic, Martin Audio's management did an outstanding job of managing costs and refocussing the business on the installation market where government mandated lockdowns were seen as presenting an opportunity for venue owners to invest in assets in public performance spaces and houses of worship and I am pleased to report that since the lifting of live music restrictions Martin Audio's business has prospered with demand for festivals and touring solutions overall continuing to grow beyond pre-COVID-19 levels.

Conversely, as many millions were forced into various lockdowns, Focusrite experienced a substantial uplift in demand globally for our interface and musical instrument products. As anticipated, demand and sales volumes for home creation solutions have reduced from the unprecedented high levels of demand

GLOBAL LEADER
IN MUSIC & AUDIO
PRODUCTS

Focusrite plc is becoming recognised in our industry as a successful and friendly home for complementary branded businesses, with the successful integration of our ADAM Audio, Martin Audio, Linea Research and Sequential acquisitions.

Group revenue
£183.7m
(FY21: £173.9m)
(growth of 5.6%)

For more info, **see pages 32 to 37**

during the peak of the pandemic but pleasingly remain materially ahead of pre COVID-19 pandemic levels. Many trade sources cite continued strong demand for streaming services and content creation, giving us confidence that this strong demand is sustainable.

The Focusrite Scarlett product range continues to be a standout success. This is a range of inexpensive, easy to set up and use, audio interfaces used by musicians and others to record digitally, which is how music is mostly recorded these days. By using our products, many musicians have rediscovered their passion and learned to record for the first time at home. Others, most notably podcasters, producers of content for radio, and voice actors in television and film who are now also able to work remotely, also use our technology at home. The change in working practices is now well established. It is also cost effective and flexible, compared with having to bring talent into a studio.

When sales of Scarlett rapidly increased during the lockdowns, our manufacturing partners in Malaysia and China stepped up to the challenge. Despite some supply chain challenges, notably with silicon chips, our operations management and our partners deftly managed the situation to ensure that we consistently met the demand. This was reflected in exceptional FY20 and FY21 performance. This sustained high level of demand is reflected in FY22 revenue, which is well above the pre-pandemic levels of FY19, albeit not at those peak levels.

This demand has been further boosted by the successful acquisition and integration into the Group of Sequential, a classic American brand of synthesizers which in turn has acquired the Oberheim brand. Two hugely popular synthesizer brands under one roof, based in San Francisco, has enabled the company to meet all our expectations and more, for this acquisition.

After the pandemic boom, FY22 has been a year of restoring normality and stability. We have paid for our recent acquisitions with our existing cash reserves and maintained a largely unleveraged balance sheet. We have rebuilt our inventories, which were depleted during peak demand, achieved price increases to support Group margins, which have come under significant pressure, and since year end are finally seeing cost reductions in shipping. We are managing other inflationary impacts and have turned in a Group performance that is still significantly ahead of pre-COVID-19 results.

The outlook remains positive for the Group. We are continuing to invest in new product development in all our businesses to grow each of them to deliver increased market share objectives and seize new market opportunities. We are investing in new brands and businesses that fit our strategic objectives to build a truly great family of brands. This is an area where we employ a dedicated business development manager and to which I personally contribute through my network of contacts and recognition established over many decades working in the industry.

In January 2022 I formally stepped down from my executive role; I am today Non-executive Chairman of the Group, and I remain as committed as ever to the success of the Group. I am grateful to the skill and efforts of the entire executive leadership team, the business leadership teams and all our Group employees, who continue to be the driving force of our success.

Music will always play a vital role in our lives and despite the many macro-economic challenges we face, not least the consequences of the continuing conflict in the Ukraine for which we hope for a swift and peaceful conclusion, we look forward to a successful FY23.

Philip Dudderidge
Founder and Non-executive Chairman
8 December 2022

Chief Executive's Report
Tim Carroll

Introduction

I am pleased to report our results for the financial year ended 31 August 2022. The Group has performed admirably during a period of unprecedented global challenges, once again delivering revenue growth and executing on its strategy of both organic growth and successful acquisitions, adding two new brands to our family: Oberheim and Linea Research.

FY22 saw some return to normality as the COVID-19 pandemic subsided and the resultant slow but steady return of the live sound business. Additionally, demand for content creation solutions continued to be steady over the year, compared to record high volumes in 2021 during the peak of worldwide lockdowns. Most pleasingly, demand remains materially higher than at pre-COVID-19 levels.

FY22 was not without its challenges, particularly in component supply issues, high freight costs, war in Europe, heightened signs of recession and an increased cost of living world-wide. Despite this the Group has fared well throughout the period, by leveraging the size and scale of our organisation to deftly negotiate component and freight costs, and by raising prices across most brands to partially mitigate margin impact. Importantly, the Group brought 22 new products to market, continued to invest in our infrastructure to support a global organisation, and further refined our routes to market approach.

Our employee base has grown to over 500 strong and is supported by a distribution network covering over 240 territories. Investing in our people is paramount to our success and we look wherever possible to promote from within, whilst also hiring top talent from around the world, across all divisions and brands.

Our key locations are in the UK (High Wycombe, Hertfordshire and London), Germany (Berlin), Hong Kong, Mexico, Australia and the US (Los Angeles, Nashville and San Francisco). Our employee base consists of an incredible group of passionate individuals, many accomplished musicians, DJs, audio engineers, live sound specialists and podcasters in their own right. The Group is fortunate to have so many employees who use our solutions in real world applications, bringing their feedback and experiences into their work to continually improve our offerings.

Creating a great place to work is one of the core pillars for our growth strategy. The Group recruits and retains the top talent in our industry. We continue to invest in our employees with tactical training, an increased HR footprint, regular reviews, career advancement opportunities across the brands, biannual surveys, and consistent communication. This past year, we onboarded our first Group Head of People as well as a Head of HR for the US region. From our various employee surveys, we know our employees highly value Diversity and Inclusion ('D&I') awareness, and champion green initiatives and charitable efforts inside our industry. The Group has made good strides in advancing all these causes, positioning itself to be an industry leader on these fronts.

Our operations

The Group's portfolio of products is sold in approximately 240 territories across the globe. We are acutely aware that the landscape in which customers want to purchase our solutions is ever-evolving, which in turn presents us with new opportunities. Hence, we continue to refine our routes to market, utilising a combination of retailers and system integrators (online as well as bricks and mortar shops), regional distributors, and direct-to-end user via our own e-commerce platform and in-app sales.

Last year we sold over 1.5 million physical products and had over 1.3 million downloads of our various software titles. Across the Group, we launched 22 new products along with numerous updates to existing ranges. Our manufacturing approach is multifaceted, driven by the specific needs of each individual brand, with a mixture of manufacturing on-site and mass production in China and Malaysia.

For more info, **see pages 32 to 37**

Our growth strategy continues to pay off for us, providing focus and clarity on where we should invest and deploy our resources.

REMOVING BARRIERS TO CREATIVITY

Chief Executive's Report
continued

Our markets
The Group's portfolio could be categorised into two, broad categories:

- Solutions that enable the creation of content – approx. 83% of FY22 revenue; and
- Solutions that enable the reproduction of sound – approx. 17% of FY22 revenue.

These two broad categories have distinct customers, routes to market and product-specific technical requirements.

Most of our products across Focusrite, Focusrite Pro, Novation, Ampify, ADAM Audio, Sequential and Oberheim are focused on Content Creation. These products are used by a wide range of customers for creating music and audio content: from absolute beginners and hobbyists to aspiring and seasoned professionals, many of them household names.

Martin Audio, Optimal Audio and Linea Research products are focussed on professional Audio Reproduction. These solutions offer best in class sound for small bands to the largest professional tours and festivals, and for permanent installations for bars, clubs, corporate, houses of worship, theatres and performance halls.

Each of the individual business units continue to focus on innovation, ensuring a robust roadmap of refreshes for current products whilst also introducing completely new solutions. Content creation and live sound reproduction workflows are constantly evolving, and the Group aims to lead the industry by spending considerable effort and resources in our various R&D efforts. Additionally, the Group has a very proactive stance towards M&A, carefully considering potential acquisitions that are not only earnings enhancing, but which can also expand our reach into existing and new markets, and enhance our R&D capability.

The Group is committed to learning as much as we can from our customers, actively collecting data during their on-boarding and user journey as they use our solutions. Additionally, we collate our own data with industry market sources to ensure that we are always on top of our customers' needs and buying behaviours. Greater detail on our markets and customer types is provided elsewhere in this report.

Operating review
Despite the numerous macro-economic and global supply chain issues experienced this year, the Group still delivered top line growth and made considerable progress in restocking our distribution channels. We also progressed a number of initiatives across routes to market and ESG, and invested in our employees and IT infrastructure across the Group. This investment, along with continued heightened freight and component costs in the year, resulted in an adjusted EBITDA below the record profits achieved in FY21, but still an admirable performance, given the factors cited above and well above FY20 and the last pre-pandemic year of FY19.

Revenue for the Group was £183.7 million, up 5.6% from the previous year. Our Content Creation focused brands finished the year roughly flat over the previous year, but this was against a very strong comparable in the previous year driven by the lockdown boost. ADAM Audio was materially impacted by component shortages that caused stock-outs on their very popular A Series mid-range monitors and consequently this impacted the release for the refresh on this line. This was partially offset by the full year effect and strong performance from Sequential which joined the Group in FY21. Looking forward to FY23, we expect to see recovery to more normal levels of performance at ADAM Audio.

Completion of the Linea Research and Oberheim Acquisitions

For more info, **see pages 26 to 29**

Our Audio Reproduction brands all witnessed strong growth, increasing 56% over the prior year. This was primarily fuelled by the return of live events across the globe and the addition of Linea Research in March.

Purchase of Linea Research

Linea Research manufactures professional power amplifiers and digital signal processors and joined the Group in March 2022. The acquisition has helped secure amplifiers for Martin Audio (which is a long-standing customer of Linea Research) during this critical time. This was achieved using the Group's considerable expertise in sourcing components thereby helping to shore up supply. Since joining the Group, Linea Research has significantly increased production to meet market demand that continues to grow, alongside further integration into the Group and investment in people to fuel continued growth for the future.

Linea Research significantly increases the total addressable market for the Group by having our own brand sales of professional electronics to the professional live and installed sound sector.

Purchase of Oberheim brand

Oberheim Electronics was founded in 1969 and rose to prominence as a synthesizer producer throughout the 1970s. By the mid-1980s, it had risen to prominence and powered the characteristic sound of hits like 'Jump' by Van Halen, '1999' by Prince, and 'Flash' by Queen, among many others.

Changing musical tastes combined with delays in introducing new products resulted in the Oberheim brand all but disappearing by the late 1980s, but the keyboards continued to be prized by collectors, with vintage instruments often fetching over $20,000 on the second-hand market.

Recognising this value and through our relationship with Tom Oberheim, the Group acquired all the IP and trademarks relating to Oberheim synthesizers in May 2022. Our strategy is to collaborate with Tom to bring to life an entire portfolio of Oberheim instruments, to expand our share of the synthesizer market and to offer an alternative that appeals beyond the core Sequential customer base. While it is early days on this journey, the market interest and positive feedback we have received, particularly regarding the recent launch of the OB-X8 has been extremely encouraging and we look forward to our revival of this legendary brand.

Current economic challenges

As the pandemic began to subside, a number of challenges related to COVID-19 remained throughout the year. Additionally, as the year progressed new global macro factors have also added complexity and concern across our industry, like many others. As with previous years, the Group has met these challenges head on, working tirelessly to ensure a steady and reliable flow of products to our channel; protecting the well-being of our employees, and mitigating the impact of cost inflation on gross margin.

Component availability and pricing, as cited in last year's report, is an ongoing concern that virtually every manufacturer has had to deal with. During this past year, demand for silicon and wafers has continued to increase, causing lead times and pricing to remain at unprecedented levels. The Group has had to face lead times as long as 36 months as well as spot buys on the open market at exaggerated prices. We have benefited from placing early orders during the onset of COVID-19, resulting in most of the major components flowing in on a regular basis. However, we have encountered numerous occasions where shipments have not arrived on time, requiring us to look at even more elevated spot buys or the potential of stock-outs in our channel.

Chief Executive's Report
continued

We continue to monitor and mitigate this issue rigorously, leveraging the size and scale of the Group's overall component needs to negotiate priority and better pricing.

Likewise, freight and logistics costs have also continued throughout last year at unprecedented high pricing levels, although we have seen reductions since year end. During the second half of last year, the Group did see some reduction on lead times as well as pricing, but these still finished the year materially higher than in previous years. Again, the Group has leveraged our scale to address this issue, and in addition, has negotiated with a number of major resellers to collect up their orders directly from China and thus take on the freight and duty cost themselves.

Beyond working on the above issues as a Group as opposed to individual brands, we also put through price increases throughout last year to help offset some of the gross margin impact. These price increases were calculated by looking at mid to long-term forecasts on costs, price elasticity models for every category, and discount structures for our channel.

The Group has kept a watchful eye on rising global economic issues around inflation, cost of living, and the protracted war in Ukraine. Over the past few years, the Group has invested more into our IT infrastructure, enabling us to monitor the current and projected future performance of our businesses better and thereby improving the speed and quality of our decision-making.

Brand overview

Focusrite and Focusrite Pro

Our Focusrite branded family of audio interfaces, Scarlett and Clarett, offer customers high-quality solutions to capture and process audio. Across this past year, while demand levels were not as high as during the pandemic periods, demand for our audio interfaces has remained at steady levels, and materially up over pre-pandemic volumes. Additionally, we have expanded our suite of FAST plug-ins, offering both perpetual licences as well as rent-to-own schemes.

This past year, we introduced a new Focusrite branded suite of products focused on Podcasting. Podcasting is now a well-established media form in its own right with a massive following. There is a growing number of new podcasts every month, and in turn a growing advertising revenue. To serve these customers' unique needs, we launched the Vocaster series in June 2022. These solutions have received rave reviews in both mainstream magazines such as the New York Times, Macworld and Forbes, as well as with key influencers and sites dedicated to Podcasting.

The Focusrite Pro suite of solutions provides professional audio engineers and facilities with the best quality audio in scalable systems that fit the need for any professional workflow. This year's performance continued to be impacted by component shortages leading to a decline in sales over the prior year. We expect supply to remain constrained in this area over the coming year.

Novation and Ampify
Electronic music, and its many genres, continues to grow and to democratise the art of music creation. This past year, we introduced three new products to our controller keyboard line: the Launchkey88, the FLStudio Mini and FLStudio 37. These new offerings offer more choices to musicians looking for tight integration with the world's most popular music creation software.

Ampify expands the Group's electronic music offerings into free to down load iOS and cross-platform desktop solutions that allow anyone to experiment with and create high-quality soundtracks. Our iOS music creation app, Launchpad OS, is one of the most popular electronic music apps available. Over the past year, both offerings had 1.28 million downloads, with roughly 192,000 in-App purchases. Last year, we began monthly and annual subscription services for both platforms. This year the number of subscribers grew by 44% and the monthly recurring revenue grew by 51%.

ADAM Audio
ADAM Audio professional studio monitors are known internationally as one the most accurate and reliable suite of reference monitors available. 2022 has brought with it much anticipated product launches for ADAM Audio, most notably the all-new A Series.

The A Series builds on and reinvents our industry standard AX models, trusted in thousands of studios across the globe. The A Series has been the largest launch in ADAM Audio's history, with a successful rollout of all five models and strong demand. Due to various component shortages and lockdowns during the first half, the A Series shipped much later than originally planned, with products not getting into the channel until late in the second half of the year. This resulted in a period of almost five months where supply of the old AX series was limited, and the new A Series was not available. Across all our brands, ADAM Audio was the most impacted from component issues, but we are pleased to report that supply and production are now flowing smoothly again. There is also more on the horizon as its portfolio roadmap has been reviewed and we aim to fulfil these plans with an expanded R&D team over the coming year.

Martin Audio
Martin Audio remains and has extended its lead as the UK's largest manufacturer of professional loudspeakers for both live and installed sound. Following the pandemic, FY22 was the first year that live performances returned in full force including some of the world's largest festivals such as BST Hyde Park and Glastonbury where Martin Audio graced the main stages once again.

Major system sales of products capable of throwing over 30 metres followed and brought a host of new rental partners to the Martin Audio fold. This was further supported by runaway sales of our flexible TORUS constant curvature system for throws of 15–30 metres, which won many plaudits and fans throughout the live sound community. Further refinement to our 3D system design software – Display3 – has been well received and has enabled rental partners to better understand the performance of our sound systems.

Installations which provided a bedrock of revenue in FY21 further accelerated in FY22, as with the return of live events, people around the world ventured out in ever bigger numbers to re-experience venues for hospitality and entertainment. This meant a further increase in sales of ranges designed for up to 15 metre throws, most notably with our popular CDD and ADORN install ranges as well as fuelling yet further sales of TORUS.

'Supply chain' was the watchword of the industry in 2022. Decisions taken during the height of the pandemic around long-term relationships with suppliers contributed to Martin Audio being better placed than many as demand surged across the industry. Equally, this year the team has worked proactively to mitigate supply challenges, and this has helped with a continuity of supply against a backdrop of elevated demand.

Chief Executive's Report
continued

I am immensely proud of the Group's performance this past year; our leadership teams continue to prove they can meet both ordinary and extraordinary challenges head on and achieve strong results.

Optimal Audio
Optimal Audio delivered meaningful revenue for the first time and reaffirmed the belief that the brand has a bright future targeting commercial audio sectors with electronics and speakers for throws up to 15 metres. This year the brand signed 50 distribution agreements, and added notable products including more ceiling and on-wall speakers as well as further enhancing its WebApp, seen as the key to the success of the eco-system approach of the brand.

In its first full year of trading, Optimal Audio returned a small profit as we continue to invest in R&D for future growth in the commercial audio space.

Linea Research
In March of this year Linea Research, a long time supplier of amplifiers to Martin Audio, joined the Focusrite family. Linea Research has begun to work closely with Martin Audio, to improve supply chain planning and robustness and to work collaboratively on new product ideas. Performance in the five months in which Linea Research has been part of the Group has exceeded expectations.

Sequential
This year concludes the first complete fiscal year with Sequential as a member of the Group. Sequential products continued to win awards from the industry, with Music Radar declaring Take 5 as its Best Hardware Synth of 2021, and Prophet-5 picking up the Award for Technical Achievement in the Musical Instrument Hardware category at the National Association of Music Merchants TEC Awards in June 2022.

Demand for analogue synthesizers continues to be strong and Sequential managed production and component inventory carefully throughout the year, avoiding any major interruptions to the continued supply of all existing products, from the entry-level Take 5 through to its higher-end models.

Tragically, Dave Smith, founder of Sequential and leader of the engineering team, died unexpectedly in May 2022. We pay tribute to the immense contributions he made to the art of synthesizer design and intend to carry his spirit of design innovation into the future. We offer our heartfelt condolences to his family, friends and colleagues.

Several members of the product team have stepped into expanded roles, and the company remains fully equipped to bring new products to market on time. The Sequential team expanded to 21 full-time team members, with approximately half of them engaged in research and development.

In May 2022, the Group added the Oberheim brand to its portfolio by acquiring all the IP and trademarks owned by Tom Oberheim. We launched the Oberheim OB-X8 keyboard shortly afterwards. The Oberheim OB-X8 was the culmination of a year-long design collaboration between Tom Oberheim and the Sequential team, and the acquisition and product together represent the welcome return of the iconic brand. With this second leading synthesizer brand, the Group can dramatically expand its market reach and appeal to a wider range of synthesizer buyers. We are at work on producing a full product line of Oberheim offerings.

The return of Oberheim was enormously exciting news within the industry. As Trent Reznor, Academy Award winner and creative force behind Nine Inch Nails, put it in a Forbes magazine article covering the revival of Oberheim: "The incredible Oberheim sound absolutely holds its own in the present."

The new OB-X8 product design won over many fans and became an immediate success. Our production capacity continues to be absorbed with fulfilling the heavy order interest.

We remain excited about the product roadmap and overall potential for these two legendary brands and plan multiple new products to drive growth throughout FY23 and beyond.

Routes to market
The Group's routes to market strategy is constantly evolving. We are investing considerable time and resource in order to improve efficiency and margin in this area. We aim to ensure we are on top of customer buying behaviours, trends and opportunities in every region we service.

Our content creation brands utilise a combination of brick-and-mortar shops, e-tail focused resellers, distributors and our own direct-to-end user e-stores. Our audio reproduction channel includes rental companies, system integrators, distributors, and sales directly to end customers.

We continue to invest in people and infrastructure in local regions, allowing us to service our resellers and end users locally and in their own language. Most regions have their own demand generation teams, working with local artists and the community to ensure our products are represented and resonate with customers.

Regional review
The Group reports regional performance in three groups: North America, EMEA and Rest of World (comprising APAC and LATAM). Top line revenue numbers for North America and EMEA were flat year over year, with ROW growing at 30%.

North America

North America remains our largest region for the Group, accounting for 41% of total revenue in FY22. This past year, and coming off very high prior year comparatives, our Content Creation brands finished at 95% compared to the prior year. Our Audio Reproduction brands, coming off a very low base from lockdowns, had a very strong performance at 69% up over the prior year. Our North American operations include sales and marketing, customer support, finance, and remote employees across product and engineering. Last year's creation of one unified team in the US has settled in well and allowed the Group to continue to leverage the size and scale of our brands.

Europe, Middle East and Asia ('EMEA')

Europe remains our second largest region, comprising 38% of total revenue in FY22. Eight out of ten of the Group's brands are headquartered in Europe. As part of our route to market evolution, all our Content Creation brands now have a centralised sales and marketing team focused on the EMEA region. This new structure, formally started on 1 September 2022 will give us one unified team representing the totality of our Content Creation brands to our resellers.

We believe this structure will allow us to scale our demand generation efforts and work closer with our local resellers and distributors to ensure our brands are front of mind with their customers. Our Content Creation brands, coming off very high pandemic level comparisons and facing headwinds caused by the conflict in Ukraine and concerns about recession, still managed to turn in a good performance, finishing approximately 10% down when compared to the prior year. Our Audio Reproduction brands, coming off a low base during lockdowns, also turned in a strong performance, finishing the year 103% up on the prior year.

Rest of World ('ROW')

The ROW region comprises Asia Pacific ('APAC') and Latin America ('LATAM'). Overall, ROW represents 21% of the Group's total revenue in FY22, up from 30% for the previous year and in line with our initiatives to grow this region. Our Content Creation brands had a strong year, finishing the year 38% up versus the prior year. This was partially due to the continued investment in the region. LATAM now has a team of eight people across the region for sales, marketing and support functions. For APAC, this past year saw the Group go direct in Australia, setting up our own logistics and warehouse to supply our Content Creation brands directly to the reseller channel.

Additionally, more localised content and demand generation efforts proved fruitful in both China and Japan, areas where the Group will continue to invest. For our Audio Reproduction brands, ROW finished the year 12% up versus the prior year. This was lower than the growth in other regions, primarily due to ROW's live sound and installed business coming back much earlier in 2021 than in other regions.

Summary and outlook

I am immensely proud of the Group's performance this past year: our leadership teams continue to prove they can meet both ordinary and extraordinary challenges head on and achieve strong results. Whilst there is still much well publicised uncertainty about global markets, we continue to see the strengths of our brands driving healthy demand across the entire portfolio. For the current year, our first quarter trading has finished in line with our expectations. Overall demand for the Group's portfolio of products has remained strong.

We remain mindful of the current significant global economic and political challenges, as well as the ongoing cost pressures in the supply chain, but we have worked hard to build back our inventory position. This provides greater resilience against supply chain volatility and ensures we are able to meet demand as we head into the key holiday season in FY23.

We have also introduced a number of measures to maintain margins, through pricing actions and ongoing review of our production costs. With new product launches across the product portfolio planned for FY23 and beyond, we remain confident that the Group continues to have significant organic growth potential within our existing brands. In tandem, the Group has proven that it has the capability to successfully execute on its proactive M&A strategy, carefully considering potential acquisitions that are not only earnings enhancing, but can also add to our market potential, expand our R&D footprint, and add scale and dynamism to our business.

All these factors combined leave us optimistic about our future prospects.

Tim Carroll
Chief Executive Officer
8 December 2022

Our Strategy in Action
Expanding into New Market Opportunities

FROM STUDIO TO STAGE

LINEA RESEARCH

Linea Research joined the Group in March 2022.

A long time supplier and partner to Martin Audio, Linea Research was formed in 2003 by a team of experienced professional audio specialists, designing and developing a range of ground-breaking amplifiers, including the world-renowned M Series, together with Digital Signal Processors, audio networking and software products.

The addition of Linea Research brings a world-class development team to the Group and enables us to further strengthen the product roadmap for the Audio Reproduction division, with exciting, planned developments across the Martin Audio and Linea Research ranges.

Focusrite is a fantastic UK-based group of professional audio brands and will be a great partner to Linea Research. We are delighted to have the opportunity to strengthen the brand with the Group's support and are excited for the opportunities that lie ahead for us and our valued clients.

Ben Ver and Dave Smalley
Directors of Linea Research

SONIC EXCELLENCE

Linea Research's 88C Series of eight channel amplifiers are optimised for use in installations. Combining massive power and peerless audio performance with unique digital signal processing, the 88C Series represents an unmatched advancement in amplifier technology.

Acquisition of Oberheim

OBERHEIM IS BACK

Oberheim

Oberheim is the legendary company that helped fuel the original electronic music revolution,

but apart from some sporadic short production runs of a few products, it had effectively been dormant for nearly four decades. This year the Group purchased the brands and trademarks from Tom Oberheim, with the Sequential team now partnering with Tom to relaunch this great brand.

> *My original OB-8 remains one of my prized synth possessions. The idea that Tom Oberheim and Focusrite are joining forces on a new synth literally makes me want to jump on my bike and find out more.*
>
> **JJ Abrams**
> Hollywood film director

OB-X, OB-Xa, OB-8

The OB series were Oberheim's first poly synths that combined the convenience of full programmability from a single set of controls and greater portability — while delivering the much-coveted, commanding Oberheim sound. These synths fuelled much of the music of the 1980s and beyond, appearing on tracks by Van Halen, Rush, Prince, Queen, Earth, Wind & Fire and countless others.

This year the new OB-X8, the culmination of a year of development, was launched in May 2022 by Tom and the Sequential team to great acclaim. This represents the start of the next phase of the Oberheim brand and a significant new contribution to the Group.

Our Strategy in Action
Product Development

Research and development is central to the Group's strategy. Starting from the feedback from customers as part of our world-leading customer onboarding and support processes, our engineering teams are constantly looking for ways to further enhance and expand our product ranges. This commitment to excellence is at the heart of all our brands.

This year saw significant product introductions across our key brands:

- Focusrite: Vocaster. A new dedicated range aimed at podcasters, providing the same great Focusrite recording quality, onboarding and customer support.
- ADAM Audio: A Series.
- Martin Audio: Further additions to the Optimal range including enhancements to the Web app.
- Sequential: Take 5 and OB-X8.

These introductions have been supported by our global engineering and product management teams, based in High Wycombe, Berlin and San Francisco.

This year we have seen significant product launches across all our brands.

Expand into new markets

Focusrite Vocaster

A range of products focussed on providing podcasters with broadcast-quality sound and an easy-to-use feature set that removes the need for any technical knowledge.

Grow the core

Focusrite Clarett+

A major update to the Clarett range of audio interfaces, boasting improved audio quality and better specs across the board.

Increase CLV

Focusrite FAST

An AI-powered collection of software tools that enable Focusrite customers to achieve professional sounding mixes with limited production knowledge.

Grow the core

Novation FLKey

The world's only dedicated range of keyboard controllers aimed at users of popular music-making software FLStudio.

Grow the core

ADAM Audio A Series

A Series loudspeakers deliver highly accurate, transparent sound and the launch of the third generation introduces real-time remote control and built-in DSP room correction.

Grow the core

Sequential Take 5

Sequential's most affordable synth yet. A fully featured, powerful and portable polyphonic synth that brings the sound and quality of Sequential to a new audience.

Grow the core

Oberheim OB-X8

An all-analogue polyphonic synthesizer that marks the return of the distinctive Oberheim sound after almost 40 years.

Grow the core

Martin Audio DISPLAY 3

Further development of our prediction software to aid installers and rental partners with their system design.

Expand into new markets

Optimal Audio Up & Cuboid

The addition of a new Up ceiling speaker and two on-wall Cuboid loudspeakers provide added flexibility and support for smaller venues.

Financial Review
Sally McKone

DRIVING RESILIENT RESULTS

Overview
Overall the Group has had a resilient year, delivering revenue growth of 5.6%, but the global macro headwinds have resulted in a decline in adjusted EBITDA of 12.2% and a decline of 9.6% in adjusted diluted earnings per share ('EPS').

Income statement

	2022 £m			2021 £m		
	Adjusted	**Non-underlying[1]**	**Reported**	Adjusted	Non-underlying[1]	Reported
Revenue	**183.7**	**–**	**183.7**	173.9	–	173.9
Cost of sales	**(100.4)**	**–**	**(100.4)**	(89.8)	–	(89.8)
Gross profit	**83.3**	**–**	**83.3**	84.1	–	84.1
Administrative expenses	**(48.6)**	**(6.0)**	**(54.6)**	(42.7)	(5.6)	(48.3)
Operating profit	**34.7**	**(6.0)**	**28.7**	41.4	(5.6)	35.8
Net finance income (expense)	**1.9**	**–**	**1.9**	(0.8)	–	(0.8)
Profit before tax	**36.6**	**(6.0)**	**30.6**	40.6	(5.6)	35.0
Income tax expense	**(6.0)**	**0.2**	**(5.8)**	(6.9)	0.2	(6.7)
Profit for the period	**30.6**	**(5.8)**	**24.8**	33.7	(5.4)	28.3

1 Non-underlying costs and income as defined in note 5 and note 15 to the Group Financial Statements.

"Overall the Group has had a resilient year, delivering revenue growth of 5.6%, but the global macro headwinds have resulted in a decline in adjusted EBITDA of 12.2% and a decline of 9.6% in adjusted diluted earnings per share.

Revenue

Revenue for the Group grew 5.6% from £173.9 million to £183.7 million; adjusting for acquisitions and constant currency this is an organic decline of 2.8%. Sequential was acquired at the end of April 2021 and FY21 included four months of revenue. Linea Research was acquired in March 2022 and FY22 includes six months of revenue.

The euro average exchange rate was €1.18 (FY21: €1.14). Sterling has weakened against the US dollar from $1.36 in FY21 to $1.31 in FY22. This has increased reported revenue but the currency impact is broadly neutral at a gross profit level as the majority of cost of sales are also charged in US dollars.

	FY22 Revenue £m	**FY22 Acquisition £m**	**FY22 Organic £m**	FY21 Revenue £m	FY21 Exchange £m	FY21 Organic Constant Currency £m	FY22 Reported Growth %	FY22 OCC Growth[1] %
Focusrite	**97.2**	**–**	**97.2**	102.1	1.5	103.6	(4.8)	(6.2)
Novation	**20.6**	**–**	**20.6**	22.3	0.3	22.6	(7.5)	(8.9)
ADAM Audio	**17.8**	**–**	**17.8**	23.8	(0.4)	23.4	(25.2)	(24.0)
Martin Audio	**31.9**	**(3.1)**	**28.8**	20.4	0.3	20.7	56.4	39.5
Sequential	**16.2**	**(10.0)**	**6.2**	5.3	–	5.3	205.7	17.9
Total	**183.7**	**(13.1)**	**170.6**	173.9	1.7	175.6	5.6	(2.8)

1 OCC (organic constant currency growth). This is calculated by comparing FY22 revenue to FY21 revenue adjusted for FY22 exchange rates and the impact of acquisitions.

Revenue growth of 5.6% for the full year has improved since the half year (HY22: -2.5% reported), with revenue in the second half of the year growing by 15.5% compared with the second half of FY21. Revenue in the second half was helped by improved component supply which was a significant issue in the previous 18 months, a strong dollar (with 41% of the Group's sales in North America), and the introduction of new products across several of our brands, in particular the new A Series in ADAM Audio and OB-X8 in Sequential, both of which have been launched to critical acclaim.

The Focusrite segment comprises the products used in the recording and broadcasting of music or voice, the primary ranges being Scarlett and Clarett, declined by 6.2% on an organic constant currency basis and 4.8% on an organic basis to £97.2 million (FY21: £102.1 million). Revenue for the Novation synthesizer and controller ranges decreased on a reported and organic constant currency basis by 7.5% and 8.9% respectively to £20.6 million (FY21: £22.3 million). Both segments are against strong comparators, particularly during the first half of FY21, and included sales to rebuild stock in our channel to be ready for the forthcoming holiday season.

ADAM Audio makes studio monitors of the type used by many of the Group's customers. Revenue has reduced by 25% in the year (24% on an organic constant currency basis) to £17.8 million (FY21: £23.8 million). With the resolution of the problems experienced in the transition of the A Series range in the first half of the year, ADAM Audio's revenue strengthened in the second half to £9.4 million from £8.4 million in the first half, and with the successful launch of the A Series, we expect to see revenue improvements in the upcoming year.

Martin Audio has built on the growth seen in the first half of the year of 44% with full year reported revenue growth of 56% (39% on an organic constant currency basis reflecting the acquisition of Linea Research in March 2022) and with revenue of £31.9 million for the year, compared to £20.4 million in FY21. The resurgence in live sound following COVID-19 lockdowns has contributed to this growth, as has the extension of the Optimal range, now contributing £1 million to Martin Audio's overall sales.

Sequential also had a strong second half with growth of 82% leading to full year growth of reported revenue of over 200% (18% on an organic constant currency basis: FY21 includes only four months of sales from Sequential's acquisition in April 2021). The introduction of the OB-X8 synthesizer in the final quarter of the year supported this growth, being the first of the new Oberheim products, following the acquisition of the Oberheim brand in May 2022.

	FY22 Revenue £m	**FY22 Acquisition £m**	**FY22 Organic £m**	FY21 Revenue £m	FY21 Exchange £m	FY21 Constant Currency £m	FY22 Growth %	FY22 OCC Growth %
North America	**74.5**	**(4.8)**	**69.7**	74.6	2.4	77.0	(0.1)	(9.4)
EMEA	**70.1**	**(6.8)**	**63.3**	69.3	(1.9)	67.4	1.2	(6.1)
Rest of the World	**39.1**	**(1.5)**	**37.6**	30.0	1.2	31.2	30.3	20.5
Total	**183.7**	**(13.1)**	**170.6**	173.9	1.7	175.6	5.6	(2.8)

North America represents 41% of the Group's revenue and saw 9% organic constant currency revenue decline, against a particularly strong FY21 COVID-19 tailwind. Due to the strength of the dollar during the year reported revenue was broadly flat between years. Compared to FY20 the Group's revenue in this region is still ahead by 46% on a reported basis. Focusrite brands grew by 6% on a reported basis in the second half, with channel stock returning to levels in line with our service expectation, but against strong full year comparators, resulting in a full year decline of 5%. ADAM Audio's stock situation was particularly weak in this region, with reported revenue for the full year lower by 50%. This was more than offset by the exceptional growth for Martin Audio which grew by 56% for the full year on a reported basis.

EMEA, which represents 38% of Group revenue, grew marginally by 1.2% (–6.1% on an organic constant currency basis) to £70.1 million. This growth was led by Martin Audio, where sales more than doubled in this region for the year.

Financial Review
continued

Both Focusrite and ADAM Audio reported overall revenue decreases across the year, against strong comparators.

ROW comprises mainly APAC and LATAM and represents the remaining 21% of Group revenue. Revenue in ROW grew strongly by 30.3% (20.5% on an organic constant currency basis), with growth across the majority of our brands. This region was particularly strong for in APAC, as we continue to strengthen our local presence in these markets, launching our own distributor in Australia in December 2021, resulting in 55% reported revenue growth for the year for our Focusrite brands in this region.

Segment profit
Segment profit is disclosed in more detail in note 7 to the Group's financial statements 'Business Segments'. The revenue is compared with the directly attributable costs to create a segment profit. The only major change has been the inclusion of Linea Research upon acquisition and the combining of Focusrite and Focusrite Pro into one segment, reflecting the way these brands are now managed.

Gross profit
In FY22, the gross margin was 45.3% down from 48.4% in FY21, which included a one-off benefit from US duty rebates of £1.5 million (0.9% points of margin). The remainder of the decline was principally due to the high freight rates and the increased costs from component spot buys experienced in the first half of the year continuing into the second half with sea freight rates only recently starting to reduce to closer to pre-pandemic levels. Going forward the Group is mindful of the current inflationary environment on costs, and whilst we seek to mitigate this through pricing, as we have done this year, we expect some impact from promotional pricing over the competitive holiday season, which may offset some of the benefits from lower freight.

Importantly, the gross margin remains higher than the historic pre-COVID-19 levels of 42.2% in 2019. Since 2019 structural factors, such as improved routes to market, with more products being sold either directly to dealers rather than distributors or directly to the consumer together with focused cost and price management, reducing royalties and tariffs, have successfully more than offset the increased costs of components such that margins have improved.

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 £54.6 million, up from £48.4 million last year. These costs also include depreciation and amortisation of £7.0 million (FY21: £6.1 million), amortisation of acquired intangible assets, £5.1 million (FY21: £4.0 million) and non-underlying items, £0.9 million (FY20: £1.6 million), which are discussed further below. Excluding these items, administrative costs were £41.6 million (FY21: £36.6 million), an increase of £5.0 million over the prior year.

Acquisitions partially contributed to this increase with the annualisation of Sequential contributing £0.9 million and the inclusion of Linea Research a further £0.4 million. With the opening of markets, travel and marketing costs have increased, although not to pre-COVID-19 levels, as teams adjust to a hybrid way of working, adding £1.5 million of cost this year. In addition, we have strengthened our IT infrastructure and a central team now supports all Group companies, with standard approaches to security and governance, and an agreed roll-out plan for our Group ERP system, Oracle Netsuite.

We continue to invest in our product teams and local sales and marketing, with distribution now managed by a local team in Australia, the costs of which have been offset by increased gross profit in this market.

Adjusted EBITDA
EBITDA is a non-GAAP measure but it is widely recognised in the financial markets and it is used, as adjusted for non-underlying items, as a key performance measure and as the basis for some of the incentivisation of senior management within the Group. Adjusted EBITDA decreased from £47.5 million in FY21 to £41.7 million in FY22. This was primarily as a result of the factors affecting costs and gross margin as described above.

	2022 £m			2021 £m		
	Adjusted	**Non-underlying**	**Reported**	Adjusted	Non-underlying	Reported
Operating profit	**34.7**	**(6.0)**	**28.7**	41.4	(5.6)	35.8
Add – amortisation of intangible assets	**4.8**	**5.1**	**9.9**	4.1	4.0	8.1
Add – depreciation of tangible assets	**2.2**	**–**	**2.2**	2.0	–	2.0
EBITDA[1]	**41.7**	**(0.9)**	**40.8**	47.5	(1.6)	45.9

1 EBITDA is defined as earnings before tax, interest, depreciation, and amortisation. Adjusted EBITDA includes items treated as non-underlying which are explained in note 15.

Depreciation and amortisation
Depreciation of £2.2 million (FY21: £2.0 million) is charged on tangible fixed assets on a straight-line basis over the assets' estimated useful lives. Amortisation on non-acquired intangibles is mainly charged on capitalised development costs, writing off the development cost over the life of the resultant product. Development costs related to an individual product are written off over periods of between two years to ten years reflecting the different lifespans of the products across our brands. Normally, the capitalised development costs are greater than the amortisation, reflecting the continued investment in product development in a growing group of companies.

During FY22, capitalised development costs were £7.9 million (FY21: £4.9 million), compared with amortisation of £3.9 million (FY21: £3.5 million). As expected, our development costs have increased this year as the Group's R&D teams build out the future product roadmap, investing in the development of the new products launched during the year and we have begun to capitalise costs for Sequential, with £1.6 million being capitalised from this brand in the year. In addition, this year we acquired licences to utilise certain technologies which have added £1.7 million to intangible assets.

Non-underlying items

In FY22 the Group acquired Linea Research with associated acquisition costs relating to the transaction of £0.6 million (FY21: £0.7 million relating to the Sequential acquisition). In addition, as part of the acquisition, the Group has agreed to pay employee bonuses if agreed gross profit targets to May 2023 are achieved. It is currently anticipated that these targets will be achieved and £0.1 million of non-underlying costs has been included for these bonuses, which will continue pro rata in FY23. Also included is £1.1 million (FY21: £0.8 million) relating to a bonus for Sequential employees, based on achieving gross profit targets to December 2022. These costs have been offset in FY22 by £0.8 million of income relating to the sale of a trademark. In FY21 a further £0.1 million of employee-related costs related to restructuring has also been included in non-underlying costs. Non-underlying items also include amortisation of the intangible assets from acquisitions of £5.1 million (FY21: £4.0 million). This has increased due to the inclusion of amortisation on the Sequential and Linea Research brands and technology. See note 15 to the Group's financial statements.

Foreign exchange and hedging

Sterling has marginally strengthened against the euro between FY21 and FY22, but has weakened more significantly against the US dollar.

Exchange rates	2022	2021
Average		
USD:GBP	**1.31**	1.36
EUR:GBP	**1.18**	1.14
Year end		
USD:GBP	**1.16**	1.38
EUR:GBP	**1.16**	1.12

Sterling has weakened against the average US dollar rate from $1.36 to $1.31. The US dollar accounts for 41% of Group revenue but over 80% of cost of sales so this has increased revenue but is neutral in terms of gross profit.

The euro comprises approximately a quarter of revenue but little cost. The Group has continued entering into forward contracts to convert euro to sterling. The policy adopted by the Group is to hedge approximately 75% of the euro flows for the current financial year (year ended 31 August 2022) and approximately 50% of the euro flows for the following financial year (FY23). In FY22, approximately three-quarters of euro flows were hedged at €1.13, and the average transaction rate was €1.18, thereby creating a blended exchange rate of approximately €1.14. In FY21, 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.

Finance income of £2.3 million (FY21: £nil) includes a large gain from retranslation of US dollar balances within the Group, which is not expected to reoccur.

Corporation tax

In FY22, the corporation tax charge totalled £5.7 million on reported profit before tax of £30.5 million, an effective tax rate of 18.9% (FY21: 19.3%). Adjusting for non-underlying items the effective tax rate is 16.2% (FY21: 17.0%) on adjusted profit before tax of £36.5 million. Going forward we expect the effective tax rate to remain broadly in line with the UK corporate tax rate.

Financial Review
continued

Earnings per share
The basic EPS for the year was 42.5 pence, down 12.9% from 48.8 pence in FY21. This decrease is broadly in line with the reduction in operating profits, partially offset by the foreign exchange gain in finance income due to an exceptionally strong dollar at year end. The alternative measure including the dilutive effect of share options, is the adjusted diluted EPS. This decreased by 9.6% from 57.5 pence in FY21 to 52.0 pence in FY22.

	2022 pence	2021 pence	Change %
Basic	**42.5**	48.8	(12.9)
Diluted	**42.1**	48.2	(12.7)
Adjusted basic[1]	**52.5**	58.2	(9.8)
Adjusted diluted[1]	**52.0**	57.5	(9.6)

1 Adjusted for amortisation of acquired intangible assets and other adjusting items (see note 15, note 20).

Balance sheet

	2022 £m	2021 £m
Non-current assets	**87.5**	62.8
Current assets:		
Inventories	**48.3**	20.8
Trade and other receivables	**28.9**	16.3
Cash	**12.8**	17.3
Current liabilities	**(54.2)**	(25.6)
Non-current liabilities	**(18.0)**	(7.3)
Net assets	**105.3**	84.3

Non-current assets
The non-current assets comprise: goodwill of £13.7 million, other intangible assets of £62.0 million, property, plant and equipment of £10.9 million and a deferred tax asset of £0.9 million. The goodwill of £13.7 million (FY21: £10.1 million) relates to acquisitions as follows: £0.4 million for Novation purchased in 2004, £4.7 million for ADAM Audio purchased in July 2019, £2.4 million for Martin Audio purchased in December 2019, £2.8 million for Sequential purchased in April 2021, and £3.4 million for Linea Research purchased in March 2022.

The other intangible assets of £62.0 million (FY21: £49.1 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 £13.1million (FY21: £9.1 million). This increase of £4.0 million comprises the excess during the year of capitalised development costs (£7.9 million) over the amortisation (£3.9 million). The increase represents the ongoing investment in our product teams across the Group and the capitalisation of costs in Sequential this year. Approximately 65% of development costs are capitalised and they are amortised over the life of the relevant products.

Acquired capitalised development costs had a carrying value of £24.2 million (FY21: £21.0 million) at the end of the year, and had increased due to the inclusion of Linea Research's development costs of £5.7 million and the retranslation impact of the Sequential acquired assets of £1 million less the annual amortisation charge of £3.5 million.

The remaining intangible assets, totalling £24.8 million (FY21: £19.1 million), include brands acquired as part of the acquisitions, to be amortised over 10 years for ADAM Audio, 20 years for Martin Audio, 15 years for Sequential and nine years for Linea Research. In May 2022 the Group purchased the Oberheim brands and trademarks from Tom Oberheim for £4.5 million, with an initial payment of £1.0 million paid in May and the remainder in annual planned payments to FY28. This replaces any future royalty payments and provides a home for Tom to work with our Sequential team to further develop the Oberheim product range.

Tangible assets have increased this year from £3.6 million at the end of FY21 to £10.9 million at the end of FY22 due to the recognition of two new property leases and the addition of the property acquired as part of Linea Research. Martin Audio has renewed its lease on its existing site for a further 10 years and Focusrite has a planned move to new offices in High Wycombe.

Working capital
At the end of the year, working capital was 19.9% of revenue (FY21: 6.6%). This planned increase arises from the Group rebuilding stock to historic norms to support customer demand, particularly ahead of the busy Thanksgiving and Christmas holiday season in 2022. In addition, the Group is holding higher than average levels of raw materials to ensure component supply is secure during FY23. Debtor balances are also high due to strong sales in the final quarter of the year, but as the Group has continued to place great emphasis on the timely collection of debts, this is expected to reduce during FY23. Creditors continue to be paid on time.

As we move to supply customers through more direct routes to market this has also led to an increase in inventory being directly held by the Group rather than by distributors. With the launch of our distributor in Australia in FY22, we now hold £2.0 million of stock in this market to supply our customers.

Cash flow

	2022 £m	2021 £m
Cash and cash equivalents at beginning of year	**17.3**	(15.0)
Foreign exchange movements	**0.7**	0.0
Cash and cash equivalents at end of year	**12.8**	17.3
Net (decrease)/increase in cash and cash equivalents (per Cash Flow Statement)	**(5.2)**	2.3
Change in bank loan	**(13.2)**	11.9
(Increase)/decrease in Net Debt (before foreign exchange movements)	**(18.4)**	14.2
Add back: equity dividend paid	**3.2**	2.6
Add back: acquisition of business (net of cash acquired)	**10.9**	13.9
Free cashflow	**(4.3)**	30.7
Add back: non-underlying items	**0.9**	0.8
Underlying free cashflow[1]	**(3.4)**	31.5

1 Defined as cashflow before equity dividends, acquisition of subsidiary (net of cash acquired) and adjusting items.

In FY22, the net debt balance at the year-end was £0.3 million (FY21: net cash £17.6 million). The Group also has a £40 million revolving credit facility (RCF) with HSBC and NatWest due to expire in December 2024. At the year end the Group had drawn down £13.2 million of the RCF to fund the acquisitions of Linea Research and the Oberheim brand as well as our working capital rebuild.

The underlying free cash flow for the full year was a cash outflow of £3.4 million (FY21: cash inflow of £31.5 million) leading to a year end net debt position of £0.3 million. Within this, the movement in working capital was an outflow of £26.9 million (FY21: inflow of £1.7 million), largely due to improvements in production and supply as the year progressed enabling a planned rebuild of our inventory levels. Capital investment this year totalled £12.5 million (FY21: £6.6 million), of this £8.4 million related to capitalised R&D reflecting the Group's ongoing commitment to product development. We expect this level of investment to continue into FY23 to support the Group's product roadmap. A further £1.0 million related to the acquisition of the Oberheim brand.

Dividend
The Board is proposing a final dividend of 4.15 pence per share (FY21 final dividend: 3.7 pence), which would result in a total of 6.0 pence per share for the year (FY21: 5.2 pence). This represents an adjusted earnings dividend cover of 8.7 times (FY21: 11.1 times).

Summary
The Group has once again delivered a robust financial performance, despite the prevailing global economic headwinds, and against very strong comparators. Much of the growth achieved during the COVID-19 period has been maintained, and in some regions has continued to increase from this new, larger base. As planned, with production at record levels, FY22 has enabled us to rebuild our inventory in addition to increasing stock in our various channels, ready for the FY23 holiday season. In addition, we have added two new exciting brands to the Focusrite family, as well as delivering new products across all our existing brands, providing strong foundations for our future performance. We have a largely unleveraged balance sheet and are inherently highly cash generative. We have achieved price increases to support margins, and are managing other inflationary impacts to help support future growth.

Sally McKone
Chief Financial Officer
8 December 2022

Principal Risks and Uncertainties

COVID–19 honed our risk management strategy with the safety, health and wellbeing of our people continuing to be our first priority. Over the year we managed and responded to a number of challenges driven by significant supply chain disruption but have delivered a strong performance.

Risk management plays an important role in everything we do at Focusrite and its objective is to add the maximum sustainable value to all of our activities.

Overview
As with any business, we face risks and uncertainties, especially as the business grows throughout the world. Effective risk management helps support the successful delivery of our strategic objectives. We have an established risk management framework to identify, assess, mitigate and monitor the risks we face as a business and help deliver a balance between risk and opportunity.

Risk appetite
During the year we reviewed and amended our risk appetite and have set a clear scale for how we categorise and quantify risk. All business teams are responsible for identifying and assessing their risks, both current and emerging, and measuring them against the defined criteria, considering the likelihood of occurrence and the potential impact to the Group.

Risk management
A principal risk is a risk or combination of risks that can seriously affect the performance, future prospects or reputation of the Group. This includes those risks that would threaten our business model, future performance, solvency or liquidity and are aligned to our strategic goals and priorities. Our principal risks have been determined and reviewed by the General Executive Committee and wider executive team and approved by the Board.

Risk culture
The Board sets the risk culture for the business. Each risk has a single risk owner who is responsible for the monitoring and mitigation of that risk on an ongoing basis. The principal risks and their changes are reviewed by the General Executive Committee. Their involvement ensures that the importance of risk management flows throughout the Group and risk assessments are included in new projects, business cases and strategic planning.

Emerging risks
We seek to identify changes in existing risks, whilst also ensuring that there is appropriate focus on emerging risks. The consequences of the COVID-19 pandemic, the war in Ukraine and the threat of a long-lasting global recession dominate the changing and emerging risks we face as a business. We continue to monitor inflationary pressures, the resilience of our supply chain, changes in both routes to market and the retailer landscape and our ability to attract, retain and motivate talent, not only in order to try and predict emerging and changing risks but also to ensure that we have an appropriate mitigation plan in place.

In previous years we viewed climate change as an emerging risk but now it is a principal risk that is assessed and the consequences managed through our risk management process.

Current focus
We monitor and update our principal risks during each year. In doing so, we assess changing and emerging risks and the progress of our risk mitigation plans.

We have reduced the risk associated with our intellectual property following implementation of the Group's brand protection programme. As a result, this is no longer deemed a principal risk. In addition, the risk of a customer or the systems we rely on to support them failing is covered by the cyber risk and the new macro-economic risk categories.

Finally, the principal risk relating to COVID-19 has been removed, in line with the UK government's roadmap to living with COVID-19 and as we have embedded the oversight and controls into our existing processes.

Risks in the year ahead
We will continue to embed the risk management approach into existing processes and ways of working to drive greater integration of risk management. We will work with risk owners to evolve and improve our approach to risk management and ability to manage uncertainties in the external environment.

We will continue to support the integration of the actions required to meet the requirements of the Task Force on Climate-Related Financial Disclosures ('TCFD') into our risk management process.

Changes to Risk Scores vs Prior Year

↗ Product supply

- Availability of raw materials.
- Impact of holding large amount of raw materials.

The supply chain risk facing the Group has changed shape over the financial year. Where previously the pandemic stretched supply chains, highlighting the risk to being able to respond to constraints on supply whilst continuing to deliver products to our customers, we now see increased inflationary pressure along with the well-publicised global material shortages that persist. Some pressure points e.g. shipping disruption and haulage driver shortages occur from time to time, heightening the risks we, along with many other businesses, face across our supply chain.

↘ Intellectual property

The Group has long seen the protection of its intellectual property and proprietary rights as a key strength in protecting the Group's brand and maintaining end users' trust in our products and this has not changed, but the actions we have taken over the past 12 months means that the Group's intellectual property is better protected than ever before.

Principal risks

Our principal risks are those considered by the General Executive Committee to pose the most potential threat to the smooth operation of the business. The table below (not in priority order) sets out our principal risks, a summary description of the risk, the connection with our strategy, and a summary of key controls in place to mitigate the impact should a risk come to fruition. Naturally risks change over time and so whilst the list is our current set of principal risks we see it as a live document. There will be unknown risks or risks currently assessed as less material, that may also have an adverse effect on the business in time.

Risk

Business strategy development and implementation

Description	Change vs. prior year and residual risk	Impact on the business	Risk mitigation
As the world emerges from the COVID-19 pandemic, uncertainty remains and therefore being able to implement our acquisition strategy and our move to direct to reseller remains a strategic priority against a backdrop of strain on the channel, in particular retailers having financial difficulties.	• We have worked collaboratively with our contractual partners through the challenges of the past 12 months to strengthen our relationships. • We offer credit terms where necessary.	• If our products fail to win customers our existing brands will weaken which means we may lose and/or not win new customers. • This would also lead to reduced margin and pricing not keeping up with inflation and/or customer trends.	• We are increasing the different customer channels and markets in which we operate and continually monitor product performance and customer trends.

Principal Risks and Uncertainties continued

Risk

Product innovation

Description	Change vs. prior year and residual risk	Impact on the business	Risk mitigation
The market for the Group's products remains characterised by continued evolution in technology, evolving industry standards, frequent new competitive product introductions and – particularly in the post-pandemic environment – changes in customer needs. The Group invests in designing and developing products that customers want to buy, at appropriate price points. Failure to meet the design, quality and value expectations will quickly see customers turn away from our products.	• Risk that our products fall out of favour with our customers if we do not adapt to changing needs, trends and demands and as such we lose market share/revenue, in an increasingly competitive market.	• We have continued to develop and build our innovative product pipeline across our markets.	• We undertake continuous consumer and customer feedback into trends and insights in order to predict trends and adapt our product offering accordingly.

Risk

Product supply

Description	Change vs. prior year and residual risk	Impact on the business	Risk mitigation
Due to the global supply chain issues, risks to our ability to service customer demand are real and present.	• The threat of scarcity of raw materials may result in the over-purchase of such materials as and when available in order to ensure the availability of materials for production. • The cost increases arising from supply and transportation challenges remain a risk to the business.	• The unavailability of products that are essential for the Group to operate will have an impact on sales, cash flows and revenue.	• The Group has continued to communicate regularly with key semi-conductor companies instead of via distributors and the appointment of a full-time sourcing manager has helped to ensure the availability of materials to the Group. • Where possible, the Group has also continued to make spot purchases of components in order to ensure their future availability.

Risk

People

Description	Change versus prior year and residual risk	Impact on the business	Risk mitigation
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 retention of senior managers and technical personnel as well as on our ability to attract, motivate and retain highly qualified people.	• The appointment of a full time Group Head of People and a dedicated talent manager has seen the number of vacancies and time to recruit reduce. • See ESG Our People on page 48 on our strategy to become a great place to work.	• We continue to rely on key individuals to contribute to the success of the Group. We need our people to develop their skills in order to future proof the Group's business whilst being able to attract, retain and motive people.	• Employee surveys have been expanded across the Group and regular pulse surveys help ensure that Focusrite is a great place to work. • Sharing people resources across the Group creates opportunities for career development and promotion opportunities. • The Board considers succession planning, remuneration and the skills, diversity and experience of the Group's people to ensure there are plans for employee development.

Risk

Information security, data privacy, business continuity and cyber risks

Description	Change vs. prior year and residual risk	Impact on the business	Risk mitigation
The unencumbered availability and integrity of the Group's IT systems is ever critical to successful trading. **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.**	• Investment in our cyber shields and efforts to support and drive employee awareness of phishing attacks and how to respond appropriately have continued.	• Disruption to our information systems may have a significant impact on our sales, cash flows and profits. • A cyber security breach could lead to unauthorised access to, or loss of, personal and/or sensitive information.	• The Group's business continuity plan has been updated. • Regular system and security patching is in place including the use of vulnerability scanning to identify security weaknesses. • We also run regular phishing campaigns to raise awareness and such exercises are supported by training and guidance.

Risk

Macro-economic/Geopolitical conditions

Description	Change vs. prior year and residual risk	Impact on the business	Risk mitigation
The effect of the difficult global macro-economic situation, rising cost inflation and the ongoing impact of the war in Ukraine is predicted to heavily impact FY23. The broader global political situation with China is also something that we monitor given our contract manufacturing presence there.	• Changing geopolitical situations, in particular the effect of tensions in various parts of the world, have resulted in greater global volatility.	• Political dynamics, which are outside of our control, are driving economics which are likely to have a lasting effect on the global economy.	• We have continued to build scale and diversification through our enhanced product offerings and expanded geographic reach. • Regular management reviews monitor financial results, end markets, alternative product supply arrangements and competitor behaviour.

Principal Risks and Uncertainties
continued

Risk

Climate change

Description	Change versus prior year and residual risk	Impact on the business	Risk mitigation
Climate change is a multi-faceted risk to the business at many levels. Failure to deliver on climate change initiatives, particularly around the reduction in the use of energy and carbon within required timescales, will have short, medium and long-term climate change risks to residents, businesses and infrastructure.	• Significant work to prepare for TCFD, in particular, identifying and modelling the key climate risks and opportunities has also been undertaken. • A number of key brands have switched to the use of recycled materials.	• Reputational impact arising from the failure to adequately address societal concerns. • Reduced availability of raw materials could result in price rises or interruptions to supply. • Less sustainable product and supply options impact our market position.	• Systems to monitor and reduce the environmental impact of our operations and ensure compliance with environmental legislation are in place. • Managing our operations towards a low-carbon future e.g. through the use of recycled materials in order to sustain the longevity and prosperity of the business. • Sustainability criteria is embedded throughout the product design process in order to mitigate risks and identify opportunities to deliver our Planet objectives. • For information on our Planet objectives, see pages 51 to 57.

Glossary of climate terms

Carbon Neutral	An organisation is carbon neutral over a specified time period if it has achieved no net increase in the global emission of greenhouse gases to the atmosphere through a combination of reduction, removal and avoidance of emissions equivalent to its own emissions within that time period.
Carbon Offset	Carbon offsetting refers to the process of compensating for greenhouse gas ('GHG') emissions from industrial or other human activity by financing projects designed to make equivalent reductions of carbon dioxide in the atmosphere in exchange for carbon credits. Projects can achieve emissions reduction through removal, sequestering CO_2 from the atmosphere, or preventing the release of emissions at the source.
Lifecycle Assessment	A peer reviewed and trusted process of mapping a product's lifecycle to calculate the complete environmental impact including GHG emissions.
Net-Zero	Net-zero is a situation in which there is a balance between human-induced GHG emissions and carbon removals. The critical difference between net-zero and carbon neutrality is the route to achieving this. Net-zero requires significant emissions reductions to be achieved or to a residual level consistent with reaching net-zero emissions at the global or sector level in line with The Paris Agreement 1.5°C-aligned pathways. Any residual emissions should then be neutralised through carbon removals (sequestered in trees or via carbon capture technology, etc.).
Science Based Targets (SBTi)	Science Based Targets are an externally reviewed process of setting decarbonisation targets that require a reduction of at least 90% of GHG emissions by 2050 across the entire value chain's, scope 1, 2 and 3 emissions (prorated against a base year no earlier than 2015).
Scope 1, 2 and 3 GHG Emissions	There are three scopes of greenhouse gas emissions, categorised by where in a company's supply chain they are emitted. In the context of the Focusrite Group: • Scope 1 are direct emissions from assets owned by a company (gas boilers and company vehicles). • Scope 2 are indirect emissions from energy purchased (electricity). • Scope 3 are all other indirect emissions (products, logistics, business travel etc.).

FUTURE CLIMATE CHANGE SCENARIOS

Leading on from Climate Change in our Risk Register, and as part of our journey to comply with the TCFD, we have conducted an analysis of future Climate Scenarios so that we can uncover our risks and opportunities. As this is our first year of disclosure, we have chosen three scenarios: IEA 'Sustainable Development Scenario' for 1.5°C, IEA 'Stated Policies Scenario' for 2°C; and NGFS 'Current Policies' for 4°C increases in global temperatures, to give us an overview of potential risks.

We worked with an independent consultancy, Ricardo PLC, to conduct the scenario analysis, with key stakeholders within the Group providing feedback to Ricardo PLC on our business. Within the TCFD, short, medium and long-term timeframes are recommended to review climate risks. Our work so far has not looked at short-term (up to 2030) impacts, but does identify qualitative risks across the medium-term (up to 2050) and long-term (up to 2100) timeframes. For next year's report we will focus on quantitative impact and short-term impact.

Identified climate-related risks
Climate Change already features on our Group Risk Register (see page 42), and we have assessed how the business would respond to each of the three future Climate Scenarios, and categorised against each of the four TCFD risk categories. From this, seven risks have been shortlisted that are material, and to go a step further we have selected the three that are of most interest to conduct a deeper dive into the impacts as these are both well represented within the Climate Scenarios and are applicable to our hardware products. These risks have all been discussed with the PLC Board and are being incorporated into the Green Team's list of initiatives.

TCFD climate-related risks shortlist

- **Markets & Technology Shift**
  - Movement towards Circular Economy Principles*
  - Mineral Commodity Shifts*
- **Policy & Legal**
  - Shipping and Logistics
  - Low Carbon Products
- **Reputation**
  - Increase in consumer and investor climate consciousness
- **Physical Risks**
  - Increase in Storm Intensity*
  - Climate-induced Conflict

*Selected for deeper dive on following page.

Green = Likely Opportunity
Blue = Either Risk or Opportunity
Red = Likely Risk

Principal Risks and Uncertainties
continued

CLIMATE-RELATED RISKS DEEPER DIVE

These three deeper dive risks have been reviewed against our selected future warming scenarios, and we have ranked whether these will be Low, Medium or High level risks to Focusrite over the medium-term (up to 2050) and long-term (up to 2100). Short-term impacts have not yet been reviewed.

Climate-related Risk Description	
Increase in Storm Intensity **Category:** Physical **TCFD:** Acute **Assessment:** Risk	Increase in acute weather events such as floods and fires leading to direct or indirect impacts on Focusrite operations, employees, and supply chain. This could lead to a continuous impact on supply chain, raw material shortages, price increases/inflation and supply chain delays. There is also the risk of direct damage to suppliers, warehouses, production facilities, as well as potential risks to employees.
Movement towards Circular Economy Principles **Category:** Transition **TCFD:** Markets and Technology **Assessment:** Likely Opportunity	Consumers, investors and governments are increasingly demanding products with greater longevity and re-usability. A shift from the linear economy to circular economy where products at the end of their life are the resource for the next generation is both a risk and an opportunity for us. Failure to adapt fast enough could have negative reputational impacts on the Group. However, there is an opportunity to become a market leader here, particularly within specific product categories to extend life well beyond the original lifecycle, and to make our products more easily recyclable.
Mineral Commodity Shifts **Category:** Transition **TCFD:** Markets and Technology **Assessment:** Either Risk or Opportunity	Use of raw materials in products, including wood and rare earth metal neodymium (both used in loudspeaker manufacturing). Supply of neodymium poses potential issues – only sourced from China, with a changing climate having potential to affect supply. This has the potential to impact supply chain, and therefore profit if minerals become unavailable. However, there is an opportunity if we can secure alternative minerals, and it may provide a competitive advantage.

IEA SDS '1.5°C Scenario'		IEA STEPS '2°C Scenario'		NGFS CP '4°C Scenario'		Our Management Approach
Risk Level by Year						
2050	**2100**	**2050**	**2100**	**2050**	**2100**	
Medium	**Medium**	**Medium**	**High**	**High**	**High**	Continual monitoring and engagement with suppliers to assess vulnerabilities. Looking beyond we will conduct a quantitative risk analysis.
Warming has a 50% chance of remaining below 1.65°C, so it is likely the most severe acute weather events will be limited.		Expect an increase in the frequency and severity of acute weather events.		Rapid increase in severe acute weather events across the globe expected.		
High	**High**	**High**	**High**	**Medium**	**Medium**	We have already taken steps to include recycled materials in a number of our products (something we are continuing with), and are aiming to improve product disassembly to enhance product lifetimes through easier servicing, and ultimately more efficient recycling. On an ongoing basis we will monitor market trends and keep up to date with new raw material alternatives that can improve our circularity.
Expect increased demand for high-quality products that are made from recycled materials, that last longer, and can be repurposed at end of life.		No regulatory or legal incentive to move to circular economy, but still pushed due to physical impacts of climate change causing disruption in linear supply chains.				
High	**High**	**Medium**	**High**	**Medium**	**High**	Establish alternative raw materials for the most at-risk minerals and continue to monitor research and development into new lower impact options.
Expect a higher demand of all raw materials required for a green transition which could cause supply chain shortages.		For minerals specifically sourced from China, there will be an increase in acute and chronic physical risks which could affect global supply.				

BEING A GREAT PLACE TO WORK

Environmental, Social and Governance (‘ESG’) continues to progress as an essential part of doing business, divided into our four pillars of People, Planet, Partners and Passion.

Just as we are changing our expectations as consumers, people are changing their expectations of their employers. It is no longer enough to fulfil a basic requirement for the sake of a statistic – employees now demand real, tangible actions and outcomes. We need to demonstrate how we have built an organisation which aims to be inclusive for everybody. We need to show that we thrive on difference, innovation, and creative thought, and that our people work for a company that is contributing to the future of the world around them, and that they are part of that.

In last year’s Annual Report we published our first ESG Materiality Matrix, identifying 17 key issues to track, with Overall ESG Governance being one of the most material issues to address. Following this we have formed an ESG Committee, chaired by CFO Sally McKone, with the goal of both addressing our ESG Governance concern by putting in place a structure, and identifying synergies between Environment, Social and Governance.

ESG Strategy in Action
Vocaster

The Vocaster range is the first Focusrite product to have environmental sustainability considered from the product inception, and features three key sustainability initiatives.

These three initiatives make Vocaster a more circular product that has a smaller environmental footprint, but the bigger potential is how these can be transferred across to other products. We are already looking at how product ranges like Scarlett can benefit from the same initiatives in combination with recycled aluminium, a material often-used for the main structural chassis for even bigger improvements.

Post Consumer Recycled (‘PCR’) Plastic
This is the first time we have used recycled plastic in a product, and early in the design process we researched an 85% PCR plastic resin that was suitable. This is used as the main structural chassis and the quality is indistinguishable from virgin plastic. Across our product portfolio, plastic is a commonly used material due to the combination of affordability, mechanical strength and ability to be formed into complex shapes. Having a PCR plastic resin available will significantly reduce our environmental footprint over time.

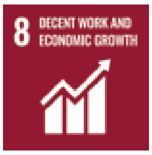
Compostable Product Bags
Almost all our products are currently packaged with a polythene bag around them to prevent scratches in transit. The environmental impact of these bags is small compared to the manufacture of products, but they are a single-use plastic item. Compostable bags are able to fulfil the same purpose without the long-term pollution risk, and Vocaster is the first product range to switch to these bags.

Bio-based Foam Packaging
We have historically used expanded polyethylene foam as padding inside our product boxes, but this is made with virgin plastic. As a step towards a fully plastic-free packaging future, we have instead chosen a bio-based foam which reduces our reliance on fossil fuel-based plastics.

CREATING A GREAT PLACE TO WORK FOR EVERYONE

UN Sustainable Development Goals:

Achieve gender equality and empower all women and girls



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Reduce inequality within and among countries

Returning to the offices post COVID-19 and implementing hybrid working

The health and wellbeing of our people has remained paramount this year as we gradually emerged from the COVID-19 pandemic. We have recognised the value and importance that flexible working has offered people over recent years, and we aim to make sure that we continue to capture the magic that happens with people being in the office together. Each business unit has implemented a hybrid office working policy, and we continue to support our production and warehouse employees in Martin Audio (UK) and ADAM Audio (Germany) that have worked on-site throughout the pandemic.

Enhanced office environment

Significant research has taken place in relation to our building strategy. FAEL has outgrown the current HQ offices and has secured a new home in High Wycombe. We plan to move during FY23.

We have also embarked on a project to update the Martin Audio office, also based in High Wycombe, and aim to create a more relaxing environment for our office and production employees.

Bringing together regional teams

The first half of FY22 saw the completion of the merger of our three teams in the US. This has brought together colleagues from ADAM Audio, Martin Audio and Focusrite Novation into one entity (Focusrite Group US). Employees will now share the benefits of this merger in areas such as training, engagement activities, and medical benefits, supported by dedicated HR resource in the US.

A new brand joining the family

In March 2022 we acquired Linea Research and have been working hard to offer the benefits of being part of a larger group to these new employees. We began in May 2022 by improving the employee benefits package to bring it into line with the wider Group offerings.

Sharing best practice across the Group

Alicia Cousins, the Martin Audio HR director was promoted to the newly created role of Chief People Officer (CPO) for the Group in October 2021 and has created a new team structure to support our strategy of being a 'great place to work' and to share best practice across the Group.

We plan to have an overarching approach for our people, creating a common sense of what it feels like to be part of the Focusrite family. This has four key pillars:

- A common approach to measuring engagement and employee feedback.
- Focussing on our recruitment and development process to attract and retain passionate talented people to our Group.
- Celebrating diversity and inclusion across the Group.
- Engaging and supporting our communities.

Alicia Cousins
Chief People Officer

Engagement
We recognise that at the heart of all we do we aim to create a culture of a listening organisation, with an engaged workforce, where we all embrace diversity and support development – it's all about how we treat our people. And at the same time we want to keep our brands 'unique'. Each brand is special within our 'family' and retaining their individuality is paramount.

To remain focussed on the aim of creating a 'great place to work' we encourage feedback and conduct regular engagement surveys. The timing of our UK annual engagement survey was changed and the most recent one took place in October 2022; allowing us to include the whole Group for the first time.

Our focus on employee engagement has meant that despite challenging times, our UK employee turnover rate has remained stable throughout the year. Going forward we will monitor and review this globally.

Talent acquisition
This year we have taken the recruitment function in house to enable us to offer a full recruitment service to all our business units across the Group. This enables us to focus on sourcing great candidates that share our passion for the Audio industry. This also enables us to continue running our university placement programme in the UK with 15 students currently learning with us.

Employee learning and development
Ongoing development has always been an important part of our offering. During FY22 we introduced a third stage to our well received existing leadership programme – Coaching Skills for Leaders and Managers. In addition, we created our first official mentoring programme in 2022, matching colleagues from around the globe.

We have partnered with LinkedIn Learning to enable all employees to access training and development 'on demand' and at a suitable pace. Our German colleagues have also benefited from free language courses to help improve their English written and verbal skills. Our UK people are offered low-cost piano lessons to further our mission of removing barriers to creativity!

Diversity and inclusion
We report our gender pay gap in the UK and have also chosen to analyse data from our smaller business units across the Group.

The following data shows the improvement in the average pay gap over recent years:

- 2022: 6.9%
- 2021: 8.7%
- 2020: 18.1%

We have been successful in our work to address the gender pay gap, actively working to increase the representation of women in our senior management team and at management levels across the organisation. We have continued to celebrate inclusion throughout the year with a number of employee-led initiatives, including guest speakers from the music industry.

Community engagement
We believe it is important to engage with the communities of which we are a part, be they local, the broader music community, or those which our teams identify with.

This year we continued our ongoing partnership with a non-profit organisation which supports both the development of the music education sector and the music industry in the southern African region. Their unique Music Crossroads Academies across southern Africa empower talented young musicians with a music education programme and the necessary tools for a career in music. Focusrite currently sponsors 14 scholarships across these academies.

Case study
Ketullah Manzvinji
(aged 25) *Masvingo province, Zimbabwe*

Ketullah is passionate about music, and her aim is to continue studying after she has obtained her certificate. In the future she wants to teach music to young people in rural areas of Zimbabwe, and share her passion with others. In the UK we continue our partnership with Music Support, a charity that helps those in the music and industry affected by mental health issues; from this we have 12 fully trained mental health first aiders and offered 100 spaces for employees to attend mental health awareness training.

Shortly after the news of the Ukraine/Russia war, we donated to charities providing support and supported two individuals from Ukraine to come to the UK with their families and find work.

In Europe ADAM Audio works with the charity Santuri, based in Nairobi, and Open Music School. Santuri provides an academy level education in music production, incorporating local musical traditions. Open Music School provides skill-sharing projects that aim to support diversity in music.

In the US we have continued a programme to support our local neighbours with donations to Season of Sharing which provides support to individuals and families in crisis, and Dechomai which works to empower ethnic minority women. We also participate in a grant programme in the US supporting under-resourced schools and communities with Focusrite equipment and training.

FROM RESEARCH TO ACTIONS

We seek to become environmental sustainability leaders in our industry, setting the standards that peers strive to emulate.

Introduction

Over the last year we have been establishing a fundamentally sound baseline from which we can make our business operations more sustainable, and making this detail available to our designers and engineers to make each generation of products less environmentally impactful than the last. Although not yet fully compliant with TCFD requirements, this year we have made strong progress towards reporting in line with TCFD recommendations ahead of the mandatory deadline next year. This framework has been a natural evolution of existing processes, allowing us to strengthen our governance structures, and better integrate climate change within our risk management process.

Andy Land
Head of Sustainability

Environmental highlights

Greenhouse gas emissions

Publishing our Scope 1, 2 and 3 greenhouse gas ('GHG') emissions for the first time.

Carbon Neutral

Carbon Neutral in Scopes 1 and 2: We've continued switching to purchasing renewable energy where available, and we're now offsetting the small remainder.

Climate and Ecological Emergency

We're the first music tech company to declare a Climate and Ecological Emergency.

Sustainability

Our first products are released with sustainability considered from the start of a project.

greeningmusic.tech

In collaboration with industry peers, we have founded 'greeningmusic.tech', a working group on environmental sustainability.

Coverage

Our progress has been noticed by the music industry press, with Sound on Sound, Headliner and TPi magazines running coverage among others.

We retain design sovereignty of our products, and work closely with our suppliers to build products that use materials efficiently and are built to last. We are now incorporating recycled materials into our products, using our demand to develop the market for these options, and being transparent about this to inspire others to switch to a more circular production model.

UN Sustainable Development Goals:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Ensure sustainable consumption and production patterns

13 CLIMATE ACTION — Take urgent action to combat climate change and its impacts

Key numbers for FY22:

54,010
Total Number of Trees Planted

2,072
Total Tonnes of CO_2e Offset

49
Internal Product Lifecycle Assessments Completed

16
Products in Production with Sustainability Initiatives Implemented

(0.57) tCO_2e
Carbon Neutral Net Scope 1 GHG (Direct Emissions)
FY21: 208.71 tCO_2e

(0.38) tCO_2e
Carbon Neutral Net Scope 2 GHG (Emissions from Purchased Energy)
FY21: 154.84 tCO_2e

332,578 tCO_2e
Initial Disclosure Scope 3 GHG (Indirect Emissions)

About the Taskforce on Climate-related Financial Disclosures ('TCFD')

The TCFD is a framework for assessing and managing the climate-related risks and opportunities to an organisation's operations, strategy and financial planning. There are four interconnected themes: Governance, Strategy, Risk Management, Metrics and Targets, with 11 disclosure recommendations.

The TCFD also categorises climate-related risks and opportunities into two categories: transition risks/opportunities and physical risks/opportunities. Transition risks are associated with decarbonisation of the global economy, with three main categories of these: Policy & Legal, Markets & Technology Shifts, Reputation. Physical risks are associated with the physical impacts of climate change.

Statement on TCFD compliance

We have made significant progress ahead of our mandatory date for disclosures against the TCFD, and are pleased to share our work so far against all 11 categories, signposted accordingly below. The management of Climate Risks is aligned with our existing risk management process, and detail on this can be found in the Assessment of Principal Risks and Uncertainties section on page 38. This year we are not fully compliant with TCFD but we will build on this work for next year's report, which will contain a step forward against each area of the TCFD, particularly focussing on quantifying the impact of risks upon the Group.

TCFD Area	Disclosure	Applicable Section
Governance Disclose the organisation's governance around climate-related risks and opportunities.	A. We describe the Board's oversight of climate-related risks and opportunities.	Page 54: Planet: Our Environmental Governance
	B. We describe management's role in assessing and managing climate-related risks and opportunities and describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	A. We describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Page 43: Assessment of Principal Risks and Uncertainties: Future Climate Change Scenarios Page 38: Assessment of Principal Risks and Uncertainties
	B. We describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	
	C. We describe the organisation's processes for identifying and assessing climate-related risks.	
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks.	A. We describe the organisation's processes for identifying and assessing climate-related risks.	Page 38: Assessment of Principal Risks and Uncertainties
	B. We describe the organisation's processes for managing climate-related risks.	
	C. We describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	A. We disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Page 55: Planet: Our Climate Metrics Page 56: Planet: Carbon Balance Sheet
	B. We disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.	
	C. We describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Page 53: Planet: Our Environmental Strategy

Our Environmental Strategy

The climate crisis continues to intensify, and at the Focusrite Group our momentum has continued to build towards ultimately achieving Net Zero. We are now not only putting into practice steps to reduce our footprint, but also looking externally at how we can shape the industry on sustainability.

We have worked on our strategy throughout FY22. The Board considered various proposals, taking into account the effect they would have on the business as a whole, as well as the messages we are receiving from our customers before approving three areas of focus that are now captured in our Environmental Strategy, which will evolve over time as we complete interim milestones to deliver Net Zero for the Group.

Our biggest impacts on the environment are manufacturing and power consumption, with individual brands leaning towards one of these main categories. The most complex aspect to address is manufacturing, where the raw materials used presents a range of challenges which we are tackling methodically. Power consumption relies heavily on electricity grids to decarbonise, but we are still taking steps to improve power efficiency with each generation of products.

For associated metrics with these targets, see section: 'Our Climate Metrics' on page 55.

1. Carbon Neutral Business Operations

Target
Ensure our internal business operations have no GHG impact by the end of FY24.

The energy we use is only a small portion of our total footprint, but we have the most control over this. The work we've done over the last few years has already reduced this significantly, and we have a target for completion by the end of FY24.

Emissions Covered
- Office electricity and gas consumption
- Business travel
- Waste generated

2. Focus on Products

Target
Reduce and neutralise product GHG emissions by 2030.

Our indirect emissions are the majority of our environmental footprint, so we have a responsibility to understand this in as much detail as possible, and put in place initiatives to reduce our impact here.

Emissions Covered
- Product manufacturing and logistics
- Product usage
- Product end of life

3. Lead the Industry

Target
Commit to Science Based Targets for decarbonisation by 2025 at the latest, and then set a Net Zero Target.

Our products are always part of a wider system, interacting with other pieces of technology. As a result we must do what we can to drive forward our entire industry to become more environmentally sustainable.

Emissions Covered
- Total Group GHG emissions

Future milestones

2022
- Achieve Carbon Neutral Scope 1 and 2 GHG emissions.

2023
- Calculate Scope 3 GHG emissions using a Lifecycle Assessment based method.
- Switch all energy tariffs to renewable energy across the whole Group (where possible), and begin generating renewable energy.

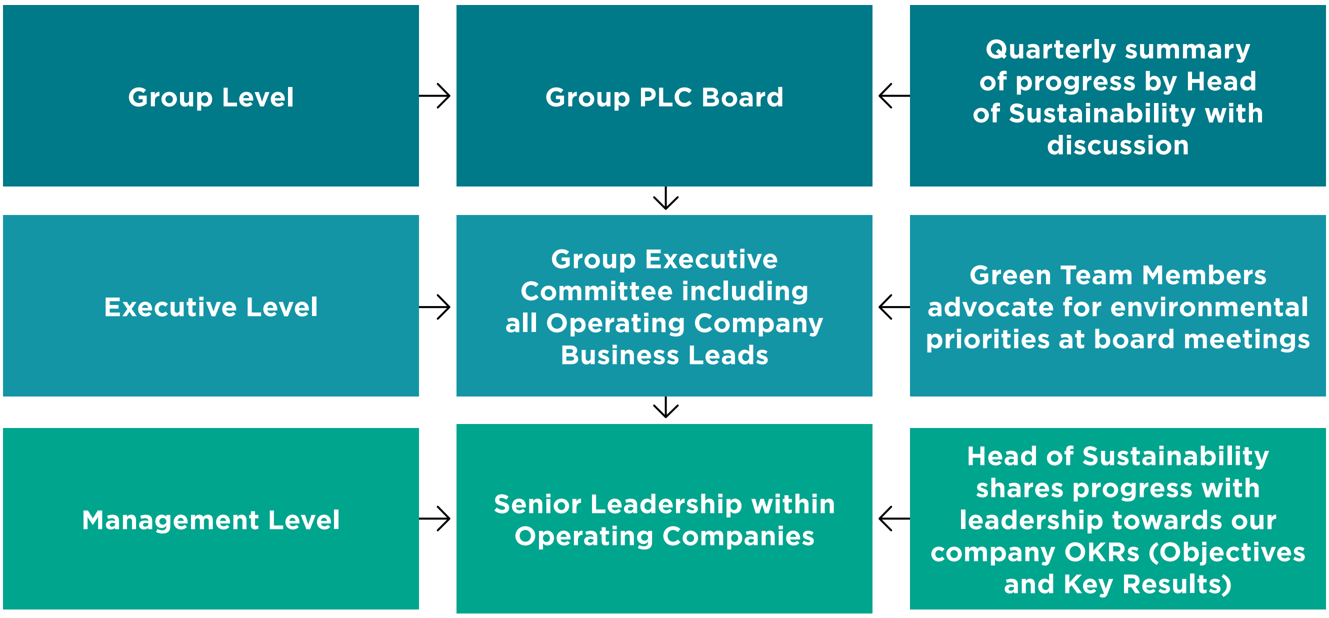
2024
- Reduce and neutralise all Non-Product Scope 3 GHG emissions.

2025
- Commit to Science Based Targets.

2030
- Achieve Carbon Neutral Products.

Our Environmental Governance

Level	Stakeholder	Description
Group	**PLC Board**	The PLC Board receives an update on Environmental progress every quarter as a fixed agenda item, and provides oversight on our progress as well as an update on climate risks/opportunities.
Group	**ESG Committee**	The ESG Committee was formed following last year's ESG Materiality Report that highlighted that Governance was one of the most material issues for us. The Committee meets monthly and aims to achieve coherence between the Environmental, Social and Governance workstreams, as well as responding to upcoming regulatory requirements.
Executive	**Group CFO**	The Head of Sustainability also has a monthly one-to-one with the Group CFO, providing a high level summary and view on upcoming work that needs to be progressed.
Executive	**Group COO**	The Head of Sustainability reports directly to the Group COO and has weekly one-to-one meetings.
Management	**Senior Leadership Management**	Senior Leadership are updated regularly by the Head of Sustainability, with an opportunity for feedback by managers on progress towards Company climate-related objectives and key results.
	Green Team Members	Green Team Members are representatives from around the Group backed by a Terms of Reference document outlining their responsibilities within our Environmental Governance. Members must hold influential positions within their operating company and work directly with the Head of Sustainability through one-to-one meetings every two weeks to advance company-specific initiatives. Green Team Members are then responsible for providing feedback to the leadership team within each operating company.



We have an existing robust governance framework that is easily adapted to include the TCFD recommendations. Following last year's ESG Materiality review, ESG governance was uncovered as one of the highest priority items for us. A year ago we established the ESG Committee. This committee is chaired by our Group CFO, and our Head of Sustainability represents the Environment side, with a wider network of Green Team Members who hold senior positions around the Group providing additional input. This committee has provided scrutiny of progress on the TCFD, and through collaboration with the Group General Counsel, Terms of Reference outlining duties for the Green Team have been drawn up.

Climate Change has featured for many years on our Company Risk Register (see page 42 Climate Risks Section of report), and Environmental issues are a fixed agenda item at the PLC Board, as well as at Management meetings. The Board has played a key part in our work towards TCFD compliance providing input on and approving our metrics and targets. The Board recognises the adverse affects we could face due to climate change and agree we should act to mitigate this.

Our Climate Metrics

We use a range of high level metrics to measure our progress against our Environmental Strategy, including Scope 1, 2 and 3 GHG emissions which are cross–cutting measures.

Emissions calculation methodology
Our Carbon Footprint Analysis has been assessed externally by McGrady Clarke based on information provided by Focusrite, and covers Scopes 1 and 2 (as part of our Streamlined Energy and Carbon Report) and Scope 3 for the first time. The reporting methodology involves usage of both 2022 DEFRA (Department for Environment, Food and Rural Affairs), and Ecoinvent 3.8 emissions factors.

This work is done in accordance with the 'Green House Gas (GHG) Protocol Corporate Accounting and Reporting Standard' and in line with DEFRA's 'Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting Requirements'. The SECR reporting period covers Focusrite plc's operations from the 1 September 2021 to the 31 August 2022 and our calculations are for Building-related energy (natural gas consumption (Scope 1) and purchased electricity consumption (Scope 2)), and Transportation (fuel combustion for business travel in company vehicles (Scope 1) and in employee vehicles reimbursed by Focusrite plc (Scope 3)).

Reported emissions from Linea Research were calculated based on the length of ownership by Focusrite plc following acquisition in March 2022 and associated emissions are for the period from 10 March 2022 to 31 August 2022. We have used the operational control approach to reporting boundaries.

Energy efficiency measures
In FY23 we are conducting significant renovations to the Martin Audio HQ (with the addition of a PV Solar Array), and relocating the Focusrite HQ. In both cases we expect energy efficiency to be improved significantly which will improve our total energy efficiency as these are our two largest sites.

Activity-based vs Spend/ Procurement-based Scope 3 emissions
Scope 3 greenhouse gas emissions include all indirect emissions, which for Focusrite includes all hardware product sales. These emissions are difficult to calculate accurately, and it is common to start with a spend-based method where financial data is converted to emissions, or a procurement-based method where raw materials are converted to emissions. The best method is an activity-based calculation, where direct actions (such as selling one product), are directly converted into carbon dioxide emissions, but requires more data collection upfront.

For this year we have used activity data where available, but some categories are using spend or procurement-based methods. This does mean the figures will differ from our true footprint, but are an important baseline for us to refine. We plan to replace all categories of Scope 3 emissions with activity-based calculations in future years.

Climate Metrics Matrix

Environmental Strategy	GHG Emissions				Energy		Intensity Metrics
	Scope 1 GHG tCO_2e	Scope 2 GHG tCO_2e	Scope 3 GHG tCO_2e (Non Products)	Scope 3 tCO_2e (Products)	Consumed kWh	Generated kWh	
Carbon Neutral Business Operations	✓	✓	✓		✓	✓	Power consumption in kWh per Employee Scope 1 and 2 GHG Emissions per Employee
Focus on Products				✓			Average tCO_2e per Product Sold
Lead the Industry	✓	✓	✓	✓			Average Total tCO_2e GHG Emissions per £m Revenue

ESG
Our Planet continued

Full carbon balance sheet

Our complete Scope 1, 2 and 3 Carbon Dioxide Equivalent footprint is summarised here. All units are gross tCO_2e unless stated otherwise.

For Scopes 1 and 2, we have achieved Carbon Neutral status this year as a result of switching to renewable energy and purchasing verified carbon offsets, which has resulting in small negative emissions against these categories.

Scope 3 is the significant majority of our gross emissions, with Purchased Goods & Services, and Use of Sold Products being the two largest categories as these are associated with our hardware products. In FY23 we are planning to increase the level of accuracy here by continuing to conduct Lifecycle Assessments, but the data here is an important baseline for us to build on, and in a number of categories we expect the total emissions to reduce from the current level as more activity data becomes available.

Category	Metric	Value	% of Gross CO_2e Footprint
Intensity Metrics	tCO_2e per Product Sold	0.21	
	tCO_2e per £m Revenue	1,812.78	
Scope 1 GHG Emissions	**Total Scope 1***	**222.84**	**0.07%**
	Total Scope 1 (Net)*	**(0.57)**	
	Combustion of Natural Gas (location-based)*	188.60	0.06%
	Combustion of Natural Gas (market-based)*	0.20	
	Transportation (excluding grey fleet)*	34.23	0.01%
	Scope 1 Carbon Offsets against Combustion of Natural Gas (market-based) and Transportation (excluding grey fleet)*	(35.00)	
Scope 2 GHG Emissions	**Total Scope 2***	**206.43**	**0.06%**
	Total Scope 2 (Net)*	**(0.38)**	
	Electricity (location-based)*	206.80	0.06%
	Electricity (market-based)*	124.62	
	Scope 2 Carbon Offsets against Electricity (market-based)*	(125.00)	
Scope 3 GHG Emissions	**Total Scope 3**	**332,578.16**	**99.87%**
	01: Purchased Goods & Services	127,427.07	38.27%
	02: Capital Goods	197.37	0.06%
	03: Fuel & Energy-related Activities*	99.75	0.03%
	04: Upstream Transportation & Distribution*	5,485.03	1.65%
	05: Waste Generated in Operations*	11.13	0.00%
	06a: Business Travel	215.24	0.06%
	07: Employee Commuting*	202.42	0.06%
	09: Downstream Transportation & Distribution*	10,047.01	3.02%
	10: Processing of Sold Products	33.79	0.01%
	11: Use of Sold Products*	170,212.13	51.11%
	12: End-Of-Life Treatment of Sold Products	18,647.21	5.60%
Totals	**Scope 1, 2 and 3**	**333,007.80**	**100.00%**
	Scope 1, 2 and 3 (Net)	**332,577.21**	

* Activity-based Calculation

Note: Categories 08: Upstream leased assets tCO_2e, 13: Downstream Leased Assets tCO_2e, 14: Franchises tCO_2e and 15: Investments tCO_2e do not apply to the Focusrite Group.

SECR disclosure table

Our Streamlined, Energy and Carbon Reporting disclosure table is summarised here. All units are in tCO_2e unless stated otherwise.

Our Gross Scope 1 and 2 emissions are a very small part of our total footprint, but having Carbon Neutral Internal Operations is a key part of our Environmental Strategy. As the Group has grown in the last year with the addition of Linea Research, and as offices continue to reopen after COVID-19, we have seen energy consumption and gross emissions rise, however as shown in the Full Carbon Balance Sheet, actions taken to date have resulted in Carbon Neutral status across each of these scopes. With major changes over FY23 to the Martin Audio and Focusrite HQ offices, we expect to see a reduction in energy consumption in next year's Annual Report.

	FY22: 1 Sep 2021 – 31 Aug 2022			FY21: 1 Sep 2020 – 31 Aug 2021		
Reporting Period	**UK & Offshore**	**Global (excluding UK & Offshore)**	**Total**	UK & Offshore	Global (excluding UK & Offshore)	Total
Emissions from Combustion of Gas (Scope 1)	**188.60**	**0**	**188.60**	184.10	0	184.10
Emissions from Combustion of Fuel for Transport Purposes (Scope 1)	**6.33**	**27.91**	**34.24**	6.44	18.17	24.61
Fugitive Emissions from Refrigerant Leakages (Scope 1)	**–**	**–**	**–**	–	–	–
Total Scope 1 Emissions – Emissions from activities for which the company own or control including combustion of fuel & operation of facilities	**194.93**	**27.91**	**222.84**	190.54	18.17	208.71
Total Scope 2 Emissions – Emissions from purchase of electricity for own use (location-based)	**147.62**	**59.18**	**206.80**	105.86	48.98	154.84
Total Gross Scope 1 & Scope 2 Emissions	**342.55**	**87.09**	**429.63**	296.40	67.15	363.56
Other Indirect Emissions (Scope 3) – Emissions from business travel in rental cars or employee owned vehicles where company is responsible for purchasing the fuel	**16.65**	**1.01**	**17.66**	2.10	0.05	2.15
Total Gross Scope 1, 2 & 3 Emissions	**359.20**	**88.09**	**447.29**	298.50	67.20	365.71
Intensity Metric (Gross Emissions): tCO_2e per £m turnover	**2.43**	**–**	**2.43**	2.10	–	2.10
Intensity Metric (Gross Emissions): tCO_2e per employee	**0.83**	**–**	**0.83**	0.79	–	0.79
Total Energy Consumption (kWh)	**1,740,864.84**	**266,273.66**	**2,007,138.50**	1,538,021.00	207,126.00	1,745,147.00

Pride in Music, Gender Balance in Music, Race and Ethnic Diversity in Music, Accessibility in Music

Relevance and authenticity are the hallmarks of our end user communication strategy, with industry-leading video being the primary medium for us. We have a productive line of communication with end users and our swift response rates have helped to grow our social media channels further. Investments are made in the generation of relevant, useful, inspirational content that the community fully engages with.

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Reduce inequality within and among countries

Customer support is at the heart of our Group, and widely recognised as industry-leading, both informally across forums and formally recognised in the form of a 'Best Support' award from a leading industry media title. We haven't rested on our laurels, however, and have built on this further over the last year, now offering 24/7/365 support. With over 30 of the Group's headcount dedicated to end user customer support, we make sure our users are helped to overcome any barriers to getting the most out of our solutions, whatever time of the day or night.

The customer support team meets weekly to discuss lessons learned in a bid for constant improvement. They also relay this information directly to research and development, either to affect improved usability of a product or to influence future product innovation and design. They are our most direct and human connection to our end users and this feedback loop ensures we constantly push ourselves to remove barriers to creativity.

We are always seeking to create the best experiences and solutions for anyone wanting to make music. We speak to our customers daily about how they make music and the challenges they have, with the goal of designing better performing and more inclusive music-making solutions.

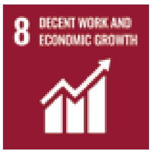
To make it easier for customers to engage and have conversations with us, we have rolled out a wide-reaching localisation programme. We now provide customer messaging, product support materials, and a registration process in multiple languages, with a focus on key markets across Europe, Latin America and Asia Pacific. As a result, we capture and act on a wider range of customer and cultural feedback in our activities.

We aim for our brands to truly resonate and connect with music makers from many different communities. In order to do this, we have been actively working on four key initiatives: Pride in Music, Gender Balance in Music, Race and Ethnic Diversity in Music and Accessibility in Music. This group of initiatives has seen us gather feedback from members of these communities around their music-making experiences, ensuring their views are represented and our products, services and activities address their needs.

We are now not only putting into practice steps to reduce our footprint, but also looking externally at how we can shape the industry on sustainability.

ESG
Our Partners

Manufacturing partners:



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

Our choice of contract manufacturers is critical to our business, not only for ensuring our quality of manufacture but also in terms of social responsibility and sustainability.

Manufacturing partners
Whilst price will always play an important part in our commercial decision-making around suppliers, partners and contractors, it is by no means the only significant consideration. We pride ourselves not only on what we do, but the way we do it. This must also be true for those third parties with which we partner.

Our choice of contract manufacturers is critical to our business, not only for ensuring our quality of manufacture but also in terms of social responsibility and sustainability. The initiatives of our suppliers include reducing energy and water consumption and the reduction of waste through recycling, solar power and rainwater collection, among others.

We continue to work with them to improve in all these areas. All our contract manufacturers operate with a minimum accreditation of ISO 9001 and ISO 14001. Our largest manufacturer also holds SA 8000 and OHSAS 18001 accreditation with a strong, active corporate social responsibility ('CSR') programme in place to improve worker engagement, health and safety. They are all responsible employers, complying with local employment law and providing good working and living conditions for their staff.

We remain committed to ensuring that slavery and human trafficking do not exist in our supply chains through a combination of risk assessment, collaborative programmes, policies and activities which help us identify, mitigate and manage the risk. Our Slavery and Human Trafficking Statement, as published on our Group website, reflects our commitment to acting ethically and with integrity in all our business relationships, and to implementing and enforcing effective systems and controls.

Distributor and reseller partners
The quality of service received by our customers is of paramount importance and the routes to market we employ are designed to ensure that our customers can always source our products in an efficient manner, no matter where in the world they are located, while receiving the very best localised guidance and support.

In several key markets, such as the UK, Germany, Australia and the US we have dedicated teams of account managers, technical product specialists and channel marketeers who work directly with the retail channel to ensure that a consistently high quality of service is experienced.

In areas where more localised expertise is required, we employ specialist distributors who provide account management, channel training and marketing activities that extends the reach of the brands to their regional reseller networks.

Our distributors are carefully selected based on the service level that they provide and the benefit that they bring to our customers, from ensuring consistent supply through to in-person demonstrations. They are managed locally by our dedicated regional subsidiaries and teams across Europe, Asia Pacific and Latin America.

Community engagement partners
We recognise the importance of education, and most notably the crisis that music education finds itself in globally, due to poor funding and a de-focus away from the arts. We believe that technology has a substantial role to play in addressing this. We're working with educators to understand better how technology can help them ensure that anyone who wants music education can get it.

We're also proud of the relationships we've fostered with various music and business institutions around the world. Working with education establishments is not a new concept for us. Since 1999, we've worked closely with several renowned universities. Each year we employ a number of third-year undergraduate interns, providing them with a year of fulfilling and valuable work experience on full pay. Many go on to play pivotal roles in our organisation once they've graduated. We regularly run guest lectures and support some select local initiatives, providing prizes for student competitions closer to home.

Section 172 Statement

This section describes how during the year under review the Directors have acted to promote the long-term success of the Company for the benefit of its members as a whole, whilst having due regard for the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

A – The likely consequences of any decision in the long-term
The Board regularly reviews the long-term planning of the Group, as part of an annual three-year planning exercise. Regular reviews of the product roadmap, M&A pipeline and ESG, particularly climate, are included in the Board agenda, as are the management and longer-term implications of more immediate issues such as the current global economic and political challenges and the component supply issues. This year the purchase of Linea Research and the launch of Vocaster were supported by the Board as steps towards us delivering against our overall strategic goals.

B – The interests of our employees
See People section on pages 48 to 49 and below in the section on stakeholders.

C – The need to foster our business relationships with suppliers, customer and others
See Partners section on page 60 and below in the section on stakeholders.

D – The impact of the company's operations on the environment and the community
See Planet section on pages 50 to 57, People section on pages 48 to 49 and below in the section on stakeholders.

E – The desire to maintain a reputation for high standards of business conduct
The Board recognises the importance of a robust Corporate Governance Framework and follows the Quoted Companies Alliance Corporate Governance Code – see Corporate Governance Code on pages 64 to 65. Quarterly ESG updates continue to be reviewed by the Board.

Our stakeholders and why they are important	How we engage
People Our people are at the heart of our success; they are passionate advocates driving innovation and world-class customer care. We also strive to support the communities in which we operate, local communities and the broader music and audio industry.	• Regular Group-wide all-hands communication led by the CEO and brand leaders • Employee-led D&I and Sustainability networks • Monthly People forum to discuss topics raised by employees • Regular engagement surveys – including input into COVID-19 return to work plans • Engagement with charities to support education
Customers Our customers are the reason we exist. In a world of increasing choice it is essential we understand our customer needs to provide attractive high-quality products at an accessible price.	• Regular NPS surveys giving constant feedback on service and products • Social media campaigns and interaction • Dedicated 24/7 customer service lines across the globe
Partners We partner across manufacturing, logistics, distributors and resellers to bring our products to market as efficiently as possible.	• Engagement for key partners by our Chief Operating Officer and Chief Revenue Officer • Regular joint business and account reviews through dedicated account managers • Discussions supported by shared metrics and targets
Planet As a global leader in the audio industry, we have the opportunity to demonstrate climate leadership and values, define good environmental practice, and benefit from an opportunity to meaningfully engage with our employees, customers, and the wider audio community.	• ESG Committee meetings • Scenario analysis with Ricardo plc • Working with suppliers to reduce our carbon footprint • Educating our workforce on how they can make a difference at work and at home • Reporting transparently on our targets and environmental performance
Investors Our shareholders are individual and institutional investors who provide the funds for our business to grow, expecting good corporate governance and robust returns on their capital.	• Annual General Meetings • Investor roadshows and personal meetings with analysts and investors • Appropriate stock exchange announcements

F – The need to act fairly between members of the company
The Company has one class of shares in issue, therefore all shareholders have the same rights. The Board does not take any decisions or actions that would provide any shareholder with an unfair advantage or position compared to the shareholders as a whole. It should be noted that where directors are also shareholders of the Company they are privy to confidential or inside information that is discussed at Board meetings. The Company has a share dealing code that prevents directors who are also shareholders of the Company from dealing in the Company's shares when they are in possession of inside information.

The strategic report, as set out on pages 1 to 61 has been approved by the Board. On behalf of the Board

Sally McKone
Chief Financial Officer
8 December 2022

Tim Carroll
Chief Executive Officer
8 December 2022

Board of Directors

PHILIP DUDDERIDGE

Non-executive Chairman and Founder

Appointed

Phil acquired the assets of Focusrite Limited in 1989 and served as Chief Executive Officer of Focusrite from 1989 until he became Executive Chairman in 2012, leading the Company through its listing on the Alternative Investment Market of the London Stock Exchange in 2014, becoming Non-executive Chairman in January 2022.

Skills, competence and experience

Phil has a distinguished career in the professional audio industry. He co-founded Soundcraft in 1973, which became a leading brand of sound mixing consoles and was sold to Harman International in 1988. Phil has a vast insight into the audio industry and brings a wealth of experience in leadership and commercial success to the Board.

TIM CARROLL

Chief Executive Officer

Appointed

Tim was appointed Chief Executive Officer of Focusrite plc in January 2017.

Skills, competence and experience

Previously, Tim was Vice President of Avid Technology, responsible for product development, commercialisation and delivery on all of Avid's audio portfolio including the industry standard Pro Tools audio workstation, the S6 Control surface, the Venue and S6L Live Sound solutions, and Sibelius notation and music learning applications. Combined with his earlier career as a professional musician, having recorded and toured for nearly 20 years as a keyboard player, Tim has a unique insight into how Focusrite's products appeal to new audiences while improving the customer experience for existing customers.

SALLY MCKONE

Chief Financial Officer

Appointed

Sally joined Focusrite plc as Chief Financial Officer in March 2021.

Skills, competence and experience

Sally has extensive financial and international experience with a strong background in the B2B distribution and manufacturing industry. Having trained as a Chartered Accountant with Grant Thornton, Sally moved into industry at Electrocomponents plc and then IMI plc where she held a number of roles covering both financial reporting and operations roles across Europe, Asia Pacific and the US.

DAVID BEZEM

Senior Independent Director

Appointed

David joined the Board of Focusrite plc as a Non-executive Director in December 2014 and served as the Chair of the Remuneration Committee until 31 December 2021. David became Senior Independent Director in January 2022 and continues to serve as the Chair of the Nomination Committee, an appointment he has held since joining Focusrite.

Skills, competence and experience

David was an investment banker in the City for more than 25 years advising UK public companies across a range of sectors. Prior to that he qualified as a Chartered Accountant with Arthur Andersen & Co. in London. From 2013 until October 2018 David was also a Non-executive Director and Chair of the Remuneration Committee of Harvey Nash Group plc.

NAOMI CLIMER CBE

Independent Non-executive Director

Appointed

Naomi joined the Board of Focusrite plc as a Non-executive Director in May 2018 and became Chair of the Remuneration Committee in January 2022.

Skills, competence and experience

Naomi had an illustrious career, having held senior leadership positions in technology, media, engineering and scientific industries – all closely aligned to Focusrite's sectors. With strong international experience across EMEA, the US and Asia, Naomi also has experience across hardware, software and SAAS technology development, sales and marketing, and business models. Until March 2015, she was the President of Sony's Media Cloud Services based in Los Angeles. Prior to this, she was Vice President of Sony's B2B organisation across Europe covering diverse markets including media, broadcast, cinema, sports, security and healthcare. She currently holds a number of prestigious positions including: Non-executive Director of Sony UK Technology Centre and Oxford Metrics plc; Co-Chair of the Institute for the Future of Work; and is also a member of the UK government's Science and Technology Awards Committee.

MIKE BUTTERWORTH

Independent Non-executive Director

Appointed

Mike joined the Board of Focusrite plc as a Non-executive Director and Chair of the Audit Committee in January 2022.

Skills, competence and experience

Mike has over 35 years of experience in finance roles across numerous sectors in both an executive and Non-executive capacity. Previously, he was Chief Financial Officer at Cookson Group plc between 2005 and 2013 and Incepta Group plc between 2001 and 2005. More recently, Mike has held a number of Non-executive directorships and is currently a Non-executive Director and Chair of the Audit Committee at Hammerson plc and Pressure Technologies plc. Mike is a Chartered Accountant and has extensive financial experience and has worked across a range of sectors both in the UK and internationally. These skills complement and enhance the existing skills we have at Board level and he brings a valuable and fresh perspective.

Corporate Governance Report
Philip Dudderidge

Dear Shareholder,

I am pleased to present the Corporate Governance Report for the year ended 31 August 2022 ('FY22'). The report sets out our governance framework, the Board's key actions during the year, our approach to the alignment of purpose, values, culture and strategy and our engagement with stakeholders.

There is an increasingly diverse range of stakeholders and factors that the Board considers as it steers the business towards a resilient strategy for continued growth and Board time is balanced between people, sustainability and performance to align with the Group's purpose and values.

The Board is mindful that it needs to create the right balance between considering in-year activities and looking ahead at more strategic matters. In FY22 much of the focus has been on managing the ongoing impact of the COVID-19 pandemic as well as industry and supply chain challenges. In addition, the Board has reviewed the Group's three-year plan to ensure that it is right for the post-COVID-19 world and sets the Group on the right course to take advantage of new opportunities and address new challenges.

My role as Chairman is to maintain high standards of corporate governance and ensure the Board is suitably equipped to perform its duties. I believe that the Company's governance structure facilitates the growth and development of the Group, while remaining accountable to its shareholders, employees, partners and regulators. As the Group continues to grow, we will continue to evaluate this structure and will take the governance steps necessary to support the Group's development.

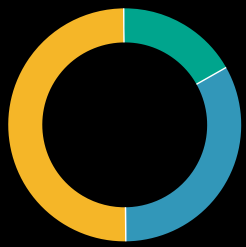
The Quoted Companies Alliance Code

The AIM Rules for Companies require the Board to apply a recognised corporate governance code. As an AIM-listed company, the Board has chosen to formally apply the Quoted Companies Alliance Corporate Governance Code, updated in 2018 (the 'QCA Code').

Board gender

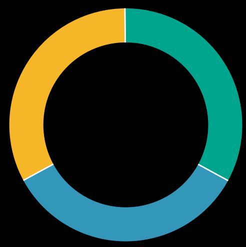
- Male 4
- Female 2

Board Executive/ Non-executive membership



- Chair (Non-executive) 1
- Executive Directors 2
- Non-executive Directors 3

Tenure (Board)



- 0-3 Years 2
- 4-6 Years 2
- 7+ Years 2

The QCA Code is constructed around 10 broad principles and a set of disclosures grouped under three broad headings: deliver growth; maintain a dynamic management framework; and build trust. An overview of how the Company complies with these principles can be found on our website at https://focusriteplc.com/. Further information is provided below.

How the Board works
Biographies of the individual Directors are provided on pages 62 to 63 and their Board and Committee responsibilities are outlined in this corporate governance report and the Committees' reports.

During the year, the Board appointed Mike Butterworth as a Non-executive Director and Chair of the Audit Committee to replace Paul Dean who has served as a Non-executive Director and Chair of the Audit Committee since the Company listed until 31 December 2021. I would like to thank Paul for his stewardship of the Company from being a newly listed Company to the global Group we are today.

Board leadership
The role of the Board is to promote the long-term success of the Group through its direction of the Group's business for the benefit of its stakeholders as a whole. The Board is responsible for setting the long-term business strategy and establishing the Group's purpose, vision and values, which, together, underpin the culture of the business – see page 14 for details of our strategy and purpose.

The Board assesses the basis on which the Group fulfils is purpose by focusing on a number of key areas:

Growing the core

Focusing on lifetime value for our customers

Expanding into new market opportunities

Creating a great place to work

Strategy
The Board is focused on the Group's strategic direction and is responsible for assessing the appropriateness of the Group's strategy against its vision and values, making adjustments over time as required. The Board evaluates and approves targets for both financial and non-financial matters, including the Group's environmental impact, to ensure alignment with strategic aims. In its revolving Board agenda, the Board considers economic, social, environmental and regulatory issues and any other relevant external matters that may influence or affect the Group's achievement of its objectives.

For more info, **see pages 14 to 15**

Performance
The Board evaluates and monitors current performance against agreed targets and is responsible for approving three-year plans, annual budgets, capital commitments, acquisitions, results, dividends and announcements, including the going concern and viability statements. It ensures that the necessary financial resources, assets and skills are in place for the Group to meet its objectives. Performance monitoring includes non-financial performance such as health and safety, employee engagement, diversity and environmental measures such as carbon footprint.

Internal controls and risk management
The Board considers the Group's risk appetite for each principal risk as set out on page 38. It assesses principal and emerging risks, approves changes to risk evaluation and reviews and considers mitigation plans. While the Board has ultimate responsibility for the Group's risk management and internal control systems, monitoring of these systems is delegated to the Audit Committee.

Board effectiveness evaluation
The Board conducts a formal evaluation process every second year. This is carried out by way of a questionnaire and the process is led by the Senior Independent Director. It is intended that this should become an annual process in future and that an external consultant will be used periodically. The questionnaire is completed anonymously and the results, both qualitative and quantitative, are collated by the Group Company Secretary. The topics covered comprise: objectives & strategy; performance management; communication with stakeholders; risks & compliance; boardroom behaviour & skills; and processes underpinning Board effectiveness. The results are compared with those from the previous exercise. The Senior Independent Director discusses these with the Chairman and, as appropriate, other Directors. Where warranted, a plan of action is agreed to address any areas which could be improved. The most recent Board evaluation exercise was carried out in FY22.

Corporate Governance Report
continued

Our governance framework

Shareholders
421 shareholders as at 31 October 2022

Board

Non-executive Chairman
Philip Dudderidge
The Chairman leads the Board and is responsible for creating the right conditions for the overall Board and individual Director effectiveness in directing the Group.

Chief Executive Officer
Tim Carroll
The CEO is responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy. Tim is supported by the General Executive Committee.

Chief Financial Officer
Sally McKone
The CFO is responsible for all financial-related activities including the development of financial and operational strategies, strategic planning and deal analysis. Sally also leads the Group's ESG Committee.

Senior Independent Director
David Bezem
The Senior Independent Director works closely with the Chairman, acting as a sounding board and providing support. He is available to shareholders and other Directors to address any concerns or issues.

Independent Non-executive Directors
Mike Butterworth, Naomi Climer
The Non-executive Directors' role is to provide critical and constructive challenge to the Executive Directors, while scrutinising and holding their performance to account against agreed performance objectives. They bring independent judgement and oversight on issues of strategy, performance and resources, and, through the Board's committees, on matters such as remuneration, financial controls, financial reporting, the appointment of further Directors and sustainability.

General Counsel and Company Secretary
Francine Godrich
The General Counsel and Company Secretary is the senior legal officer for the Group and is responsible for advising the Board on all governance matters and ensuring that Board procedures are followed. Support is also provided to the Chairman in ensuring that the Directors receive accurate, timely and clear information.

Board Committees

Nomination Committee
David Bezem
Responsible for:
- Board appointments;
- succession planning; and
- reviewing the structure, size and composition of the Board, ensuring that there is a balance of skills, knowledge, experience and diversity on the Board.

Audit Committee
Mike Butterworth
Monitors the integrity of the Group's external reporting and provides oversight and governance of the Group's internal controls, risk management and the relationship with internal and external auditors.

Remuneration Committee
Naomi Climer
Responsible for setting the remuneration policy and individual compensation for the Executive Directors to ensure that it is in line with the long-term interests of the Group.

General Executive Committee ('GEC')
Responsible for formulating and, after approval, implementing the Group's strategic plan. The GEC consists of the Group CFO, Group CEO, Chief Revenue and Operations Officers, together with the CEOs of each of the brands. They support the Group CEO in carrying out his role and manage the day-to-day operation of the Group.

General Executive Committee Committees
ESG, People Forum, Privacy Council

People
The Board receives and considers the analysis of employee engagement surveys, covering Company culture including wellbeing, learning & development, belonging and career progression, noting performance, progress made and future next steps. The Board reviews health and safety incidents at every meeting.

The Board is responsible for succession planning and the remuneration policy for the Chairman and Executive Directors following advice and recommendations made by the Nomination and Remuneration Committees.

Governance, shareholders and stakeholders
The Board reports to shareholders in the form of an Annual Report and Accounts, trading updates and full and half year results updates, as well as various other statutory non-financial statements. The Board considers the views of, and effects on, the Company's key stakeholders in Board discussions and decision making.

How the Board operates
The Board is accountable to shareholders for the actions of the Company. The Articles of Association of Focusrite plc set out the rules agreed between shareholders as to how the Company is run, including the powers and responsibilities of the Directors. These Articles were updated in January 2019 to incorporate best practice and current legal and governance standards.

Matters reserved
The Board has a formal schedule of matters specifically reserved for its decision making and approval. These include responsibility for the overall management and performance of the Group and the approval of its long-term objectives, commercial strategy, annual and interim results, annual budgets, acquisitions, material contracts, major capital commitments, going concern and long-term viability statements and key policies.

Committees
The Board is assisted by three Board committees to which it formally delegates matters as set out in each committee's terms of reference, which are reviewed annually.

Terms of reference for each committee can be found at https://focusriteplc.com/investors/corporate-governance.

The reports of the committees can be found on pages 69 to 71. The Board also has a Disclosure Committee which meets when required. Other than to approve various share sales by Persons Discharging Managerial Responsibilities, the Disclosure Committee was not called on to meet during the year. The Board may also call on a number of Directors to form a sub-committee for an individual decision or authorisation.

Delegation of authority
The Board delegates authority for the executive management of the Group to the CEO, other than those matters reserved for decision by the Board and matters delegated to committees of the Board. The Group has a delegated authority matrix which is an internal document that sets out the delegations below Board level. It provides a structured framework to ensure the correct level of scrutiny of various decisions covering matters including contracts, capital expenditure, tax, treasury and People decisions.

Meetings
The Chairman, in conjunction with the CEO, CFO and Company Secretary, plans an annual programme of business. This ensures that essential topics are covered at appropriate times and that the Board has the opportunity to have in-depth discussions on key issues. The Board met 12 times during the year.

The Chairman regularly meets with the Senior Independent Director and the other Non-executive Directors without the Executive Directors present, both collectively and individually. In addition, the Chairman discusses matters relevant to the Audit and Remuneration Committees with the Chairs of each on a regular basis. Led by the Senior Independent Director, the independent Non-executive Directors also meet regularly during the year without the Chairman.

The Chairman and the Company Secretary ensure that the Directors receive clear, timely information on all relevant matters. Board papers are circulated electronically via a secure Board portal in advance of meetings to ensure that there is adequate time for them to be read and to facilitate robust and informed discussion. The portal is also used to distribute reference documents such as Company policies and other useful resources like articles and discussion papers.

Director	Role	Board	Audit	Nomination	Remuneration
Number of meetings held in year		12	4	2	6
Phil Dudderidge	Chairman	12/12	4/4*	2/2	6/6*
Tim Carroll	Chief Executive Officer	12/12	4/4*	n/a	2/6*
Sally McKone	Chief Financial Officer	12/12	4/4*	n/a	n/a
David Bezem	Non-executive Director	12/12	4/4	2/2	6/6
Naomi Climer	Non-executive Director	12/12	4/4	2/2	6/6
Paul Dean**	Non-executive Director	4/12	1/4	1/2	2/6
Mike Butterworth***	Non-executive Director	8/12	3/4	1/2	4/6

* Attended by invitation.
** Left 31/12/2021.
*** Joined 01/01/2022.

Corporate Governance Report
continued

Directors
The majority of the Board are Non-executive Directors and save for the Chairman, are considered to be independent as to character and judgement and free of relationships and other circumstances which might impact their independence at the time of appointment. The Chairman is not considered independent due to his significant shareholding. The roles of the Chairman and CEO are separate and there is a clear division of responsibilities between the two.

Non-executive Director appointments are initially for a period of three years and may be renewed for two further terms of three years subject to recommendation from the Nomination Committee, taking into account both individual contribution, length of service of the Board overall and its future needs. Details of the Executive Directors' service contracts and the Chairman's and the Non-executive Directors' letters of appointment are set out in the Directors' Remuneration Report on pages 72 to 77. These documents are available for inspection at the registered office of the Company during normal business hours and at the AGM. All Directors stand for annual re-election by shareholders.

Time commitment and external appointments
Non-executive Directors are required to devote sufficient time to their role and responsibilities as a member of the Board and its committees. The Nomination Committee considers any existing time commitments of potential new Directors as part of its selection process and prior to any new appointment being approved. All new Directors are required to provide confirmation of their external appointments on joining the Board. The Company Secretary maintains a record of all external appointments held by the Directors.

Directors' indemnity insurance
The Group maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against a Director. Each Director has been granted indemnities in respect of potential liabilities that may be incurred as a result of their position as an officer of the Company. A Director will not be covered by the insurance in the event that they have been proven to have acted dishonestly or fraudulently.

Conflicts of interest
All Directors have a duty to avoid conflicts of interest, and where they arise to declare conflicts to the Board, including significant shareholdings. The Board considers, and if thought fit, authorises any potential conflict and the conflicted Director may not participate in any discussion or vote on the authorisation.

Advice and access to employees
All Directors have access to the advice of the Company Secretary, who is responsible for advising the Board on all governance matters. Directors are also entitled to obtain independent professional advice on any matters related to their responsibilities to the Company, at the Company's expense. The Board is authorised to seek any information it requires from any employee of the Company, including the Company Secretary, in order to perform its duties.

Training and development
Newly appointed Directors are offered a comprehensive induction on joining the Board and continuing training and education is available to all Directors to enable them to fulfil their responsibilities as Directors and to develop their understanding of the business. The Company Secretary arranges for external speakers to provide training on specific topics as appropriate. During the year, Stephenson Harwood LLP provided training on Directors' duties and the Company's NOMAD providing refresher training on the AIM Rules.

Philip Dudderidge
Non-executive Chairman and Founder
8 December 2022

Audit Committee Report
Mike Butterworth

Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report for the year ended 31 August 2022.

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported and reviewed. Its role includes:

- monitoring the integrity of the financial statements (including annual and interim accounts and results announcements);
- reviewing internal control and risk management systems;
- reviewing any changes to accounting policies;
- reviewing and monitoring the extent of the non-audit services undertaken by the external auditor;
- advising on the appointment of the external auditor; and
- meeting with the external auditor outside the Committee schedule to ensure there is full opportunity for discussion.

Members of the Audit Committee
The Committee consists of three independent Non-executive Directors: Mike Butterworth (who replaced Paul Dean as Chair on 1 January 2022), David Bezem and Naomi Climer. Phil Dudderidge, Tim Carroll and Sally McKone may attend Committee meetings by invitation if required. The Committee met four times during the year.

The Board is satisfied that I, as Chair of the Committee, have recent and relevant financial experience. I am a Chartered Accountant and served as CFO of a FTSE 250 company for eight years until December 2012. I am currently Chair of the Audit Committee of Hammerson plc and Pressure Technologies plc, and previously Cambian Group plc, Johnston Press plc, Kin and Carta plc and Stock Spirits Group plc. The Company Secretary, Francine Godrich, acts as Secretary to the Committee. I report the Committee's deliberations at the next Board meeting and the minutes of each meeting are made available to all members of the Board.

Duties
The main duties of the Audit Committee are set out in its Terms of Reference, which are available on the Company's website (www.focusriteplc.com) and are available on request from the Company Secretary.

The main items of business considered by the Audit Committee during the year included:

- appointment of the external auditor;
- agreement and approval of the external audit plan and fees;
- monitoring the extent of the non-audit services undertaken by the external auditor;
- review of the effectiveness of internal controls and risk management systems;
- reviews of going concern, key judgements and significant accounting policies;
- reviews of the carrying values of intangible assets;
- review of the interim results;
- review of the auditor's findings from the annual audit including consideration of the external audit report and management representation letter;
- review of the annual financial statements;
- review of the Annual Report to ensure that it is fair, balanced and understandable;
- meeting with the external auditor without management present;
- the agreement of the internal audit programme and review of the internal audit reports; and
- review of the IT position of the Group with particular regard to systems development and access controls.

Audit Committee Report
continued

Role of the external auditor
The Audit Committee monitors the relationship with the external auditor, KPMG LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in note 10 to the Group's financial statements.

The Audit Committee also assesses the external auditor's independence and performance. KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors. James Tracey became the audit partner in the current year, replacing Michael Froom who rotated out in line with audit guidelines having been audit partner since 2018. Having reviewed the external auditor's independence and performance, the Audit Committee recommends that KPMG LLP be reappointed as the Company's external auditor at the next AGM.

As an AIM listed company there is no formal requirement as to the retendering of the external auditor. However the Audit Committee has decided it would be best practice to follow the requirements of the Corporate Governance Code, applicable to companies listed on the main market, which require an audit tender after 10 year and a rotation of the external auditor after 20 years. KPMG LLP have been the Group's auditor since the IPO in 2014, and as a result it is currently expected that a retendering exercise will be completed no later than for the year ending 31 August 2025.

Significant financial judgements and estimates
The significant judgements reviewed by the Committee in respect of the year under review were as follows:

Revenue recognition
No significant judgements have been made in applying the Group's accounting policies. In FY21 a judgement was made regarding the relationship with our largest distributor in the US, but given contractual changes and established practice, it is now considered to be no longer a matter of judgement that they are considered a principal and not an agent.

Acquisition of intangible assets
In May 2022 the Group purchased Marion Systems LLC, a substantively non-trading LLC. Prior to the purchase the brand and trademarks of a synthesizer brand, Oberheim, were transferred to Marion Systems LLC. The Committee reviewed the terms of the transaction and, given the lack of ongoing trading, concluded that it was appropriate for it to be accounted for as an acquisition of an intangible asset rather than a business.

Capitalisation and recoverability of internally generated intangible assets
The Committee accepted that, under IAS 38, it was necessary to capitalise product development costs if certain conditions were met. The Committee considered the capitalisation of cost, the commencement of amortisation and the period over which the costs were amortised and concluded that all were acceptable.

The significant estimates reviewed by the Committee in respect of the year under review were as follows:

Acquisition accounting and recoverability of investment
Following the acquisition of Linea Research Holdings Ltd in March 2022, the purchase price was allocated across the fair value of the assets and liabilities acquired. This included the assessment of the fair value of intangibles acquired such as brand and product development in which there has been significant estimation and judgement applied by management. Evelyn Partners LLP was engaged to assist with this valuation to determine which assets were identifiable and the relevant valuation methodology to be used.

Impairment testing
For all of the major intangible assets, there is an ongoing review process in which these assets are tested for impairment. The recoverable value of an asset is assessed and, in the event that the recoverable value is less that the carrying value, an impairment is recognised.

For all intangibles, the recoverable amount exceeded the carrying value of the assets. Therefore, no impairment was indicated for the intangible assets on the balance sheet.

Audit process
The external auditor prepares an audit plan for its review of the full-year financial statements, including any acquisitions that have taken place. The audit plan sets out the scope of the audit, areas to be targeted and audit timetable. This plan is reviewed and agreed in advance by the Audit Committee. Following its review, the external auditor presented its findings to the Audit Committee for discussion. No major areas of concern were highlighted by the external auditor during the year. However, areas of significant risk and other matters of audit relevance are regularly communicated. The Committee also formally reviews the effectiveness of the external audit process.

Internal audit

At present, the Group does not have a dedicated internal audit function and the Committee believes that management is able to derive assurance as to the adequacy and effectiveness of internal controls and risk management by using an outsourced resource to carry out internal audits. Crowe Whitehill LLP has been appointed in this capacity and the Group is also planning to use a second firm during the coming year.

An audit programme was agreed for the year focusing on key risk areas. The programme comprised four reviews of the Group's consolidation and reporting process, indirect taxes in the UK, and financial control processes in Sequential and Focusrite US. Two of the reviews were completed in the year which identified a number of control improvements which management have since rectified. The other two reviews were delayed into the coming year. Further audits are planned in the coming year, focusing on new acquisitions and risk focus areas.

Risk management and internal controls

As described on page 65 of the Corporate Governance Report, the Group has established a framework of risk management and internal control systems, policies and procedures. The Audit Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively.

During the year, the Committee has reviewed the framework and whilst the Committee considered the system of risk management and internal control to be generally effective in the year, in light of the additional size and complexity of the Group as a result of its recent very significant growth, both organic and through acquisitions, there is a recognition of the need to improve the effectiveness and efficiency of the Group's central and regional finance functions. It is recognised that it is essential that the Group's central and regional finance functions evolve over time to match the Group's ambitious future growth plans. Key initiatives planned for the FY23 financial year include:

- Formalising and strengthening our internal controls and risk management systems.
- Implementation of a new Group-wide consolidation software package to replace the current spreadsheet-based tool.
- Reviewing the resources and skills across the central and regional finance teams.

Whistleblowing, fraud and the UK Bribery Act

The Group has in place a whistleblowing policy which sets out the formal process by which an employee of the Group may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. Whistleblowing is a standing item on the Audit Committee's agenda, and regular updates are provided. During the year, no incidents were reported to the Committee.

The Group also has a procedure in place for detecting fraud, and systems and controls to prevent a breach of anti-bribery legislation. All employees are required to participate in an online training course to provide awareness of anti-bribery regulations and controls. The Group is committed to a zero-tolerance position with regards to bribery. During the year, no incidents were reported to the Committee.

Mike Butterworth
Chair of the Audit Committee
8 December 2022

Directors' Remuneration Report
Naomi Climer

Dear Shareholder,

Focusrite's performance in FY22 has been resilient, and underlying demand has remained strong, notwithstanding the challenges of global, industry-wide headwinds such as supply chain volatility, high freight costs, and general cost inflation. As a result, the outcome for the year was in line with market expectations for revenue, but slightly below expectations for EBITDA.

The Group remains in a solid position despite continued market and global economic uncertainties thanks to our growing portfolio with R&D delivering a more diverse product range, a continued attention to customer needs and a restocking of the channel during FY22.

Despite solid performance, the Remuneration Committee has determined that the financial criteria for the bonus were not met. However, the individual contributions to developing strategic opportunities for the Group were met in full, which is reflected in the modest bonus outcomes for the Executive Directors set out in this report. The Remuneration Committee considers that these bonuses are appropriate and there is good alignment with shareholders' interests.

As planned, and reported last year, a detailed review of all aspects of the Executive Directors' remuneration was undertaken during the year. This covered both quantum and structure and involved taking external advice. The last time such a review was carried out was in the 2019 and, as a rule, the Remuneration Committee reviews Executive Directors' salaries triennially, taking account of the evolution of the Group, individual performance and contribution, and competitive market practice. As a result of the review, the Executive Directors' base salaries are being adjusted to more appropriately reflect the significant growth in size and complexity of the business since the last review three years ago. This approach is in line with that applied to staff pay more generally. Following the review of the remuneration structure, the pension contribution paid by the Company to the Executive Directors has been aligned to that of the wider workforce, from 15% to 3% of salary. Going forward, the Committee will keep under review the Executive Directors' salaries and other aspects of their remuneration annually, in line with the approach that is taken for other employees.

As a company admitted to AIM, Focusrite plc is not required to prepare a Directors' Remuneration Report. However, the Board supports the principle of transparency and has therefore prepared this report in order to provide useful information to shareholders on its executive remuneration arrangements. Although not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations'), the Company has used these Regulations, and those recommended by the Quoted Companies Alliance, as guidance for presenting selected disclosures where it considers these to be relevant, helpful and appropriate. Accordingly, this report sets out information about the remuneration of the Directors of the Company for the 2022 financial year and, as appropriate, the following year.

Remuneration Committee

The members of the Remuneration Committee are Naomi Climer (Chair), David Bezem, and Mike Butterworth (who replaced Paul Dean on 1 January 2022), who are all independent Non-executive Directors. Attendance at meetings of the Remuneration Committee by individual member is detailed in the Corporate Governance Report on page 67. Naomi Climer took over as Chair of the committee on 1 January 2022 from David Bezem.

The Chairman, Phil Dudderidge, attends the meetings and the CEO, Tim Carroll, and external advisers may be invited to attend meetings too. They do not take part in the decision-making and are absent when their own remuneration is being discussed. The Company Secretary, Francine Godrich, acts as Secretary to the Committee.

Terms of reference have been approved for the Remuneration Committee and are reviewed annually. The Committee's primary responsibility is to determine, on behalf of the Board, the remuneration of the Executive Directors and to review the remuneration of such other members of the senior management team of the Group as is deemed appropriate. The remuneration of the members of the Committee is determined by the Board.

The Committee members have no personal financial interest, other than as shareholders in the Company, in the matters to be decided. They have no conflicts of interest arising from cross-directorships or from being involved in the day-to-day business of the Group. None of the Committee members or Phil Dudderidge participate in any bonus, share awards or pension arrangements.

Executive Director Remuneration Policy

The Committee's principal aims in setting a remuneration policy are to attract, retain and motivate high-calibre senior management, to focus them on the delivery of the Group's strategic and business objectives, to promote a strong and sustainable performance culture, and to align the interests of Executive Directors and other senior members of the management team with those of shareholders.

The remuneration package for each Executive Director is designed to include performance and non-performance-related elements appropriate for a Group whose objectives include continued growth over the medium-term. Non-performance elements include salary, taxable benefits and employer pension contributions. All other components of the remuneration package are performance-related and comprise a mixture of cash and share-based remuneration, and short and long-term incentives, as set out below.

The main elements of the remuneration packages for Executive Directors are:

- base salary;
- performance-based annual bonus;
- long-term share incentives;
- pension contribution; and
- benefits.

Base salary

To date, base salaries for the Executive Directors have been reviewed on a triennial basis but, going forward, will be reviewed annually and determined taking account of individual performance, scope of responsibility and relative pay levels within the Group. The Executives' base salaries for the 2022 financial year are set out in the table on page 77. As a result of the triennial review, which notes the significant increase in the size and complexity of the business since the last review in 2019, Tim Carroll's base salary will be increased to £380,000 and Sally McKone's base salary will be increased to £270,000 for the 2023 financial year.

Performance-based annual bonus

The Executive Directors, other than Phil Dudderidge, were entitled to discretionary performance-based annual bonuses for the financial year ended 31 August 2022. Phil Dudderidge became a Non-executive Director from 1 January 2022 and did not receive a bonus for his time served as an Executive Director.

The annual bonus for the 2022 financial year was based on four performance criteria:

- 70% on adjusted EBITDA;
- 10% on adjusted free cash flow as a proportion of revenue;
- 10% on gross margin; and
- 10% on individual contribution to developing strategic opportunities for the Group (assessed qualitatively by the Committee).

The four performance criteria operated independently of one another.

The maximum cash bonus for both Tim Carroll and Sally McKone was 100% of annual base salary, unchanged from previous years. In addition, the Executive Directors had the opportunity to elect to receive a portion of any cash bonus in the form of shares up to a maximum value of 25% of their respective base salary. To the extent they elected to do so, the Company undertook to make a matching award of shares (the 'matching shares'). This was subject to the condition that both the shares they elected to receive out of their cash bonus and the matching shares would be held for not less than two years, including if they were no longer employed by the Company, subject only to satisfying any tax payments arising in respect of this remuneration. This arrangement is consistent with that adopted in preceding financial years and is designed to accelerate the rate at which the Executive Directors acquire shares in the Company.

As a result of the performance of the Group in the 2022 financial year, the Remuneration Committee determined that the financial criteria for the bonus were not met. However, the Committee determined that individual contributions to developing strategic opportunities for the Group, warranted a maximum payout of that element (10% of the bonus opportunity). The table below shows the upper and lower performance boundaries and the targets for the financial elements of the bonus. No discretionary adjustments were deemed appropriate. The amounts shown in the table are after taking into account any elections to receive a portion of their bonus in shares.

		Performance range below which no bonus is paid and above which no additional bonus is paid, and calculated on a straight-line basis between Threshold and Target as well as between Target and Maximum[1]			
	Performance criterion	Lower boundary	Target	Upper boundary	Actual
Tim Carroll	**Adjusted EBITDA[1]**	£43.5m	£47.4m	£51.3m	£41.7m[1]
	Cash bonus entitlement	£0	£124,536	£207,560	£0
	% salary	0%	42%	70%	0%
	Free cash flow % of revenue[2]	3.3%	5.3%	7.8%	(1.9)%[2]
	Cash bonus entitlement	£8,302	£17,791	£29,651	£0
	% salary	3%	6%	10%	0%
	Gross margin %	47.5%	48.4%	49.0%	45.3%
	Cash bonus entitlement	£0	£17,791	£29,651	£0
	% salary	0%	6%	10%	0%
	Strategic bonus cash settlement	£0	£17,791	£29,651	£0
	% salary	0%	6%	10%	10%
	Total cash bonus	**£8,302**	**£177,909**	**£296,513**	**£0[3]**
Sally McKone	**Adjusted EBITDA[1]**	£43.5m	£47.4m	£51.3m	£41.7m[1]
	Cash bonus entitlement	£0	£97,675	£162,792	£0
	% salary	0%	42%	70%	0%
	Free cash flow % of revenue[2]	3.3%	5.3%	7.8%	(1.9)%
	Cash bonus entitlement	£6,512	£13,954	£23,256	£0
	% salary	0%	6%	20%	0%
	Gross margin %	47.5%	48.4%	49.0%	43.5%
	Cash bonus entitlement	£0	£13,954	£23,256	£0
	% salary	0%	6%	10%	0%
	Strategic bonus cash settlement	£0	£13,954	£23,256	£0
	% salary	0%	6%	10%	10%
	Total cash bonus	**£6,512**	**£139,537**	**£232,560**	**£0[3]**

1 Adjusted EBITDA is as per the value published in the accompanying financial statements.

2 The free cash flow as a % of revenue excludes equity dividends paid, the impact of the cash cost associated with the purchase of Linea Research, the non-underlying costs paid up to the year end and the movements in the bank loan taken out to acquire Linea Research.

3 Tim Carroll and Sally McKone have elected to take an amount equivalent to 10% of their annual base salary in the form of shares in lieu of a cash bonus, matched by a similar additional award from the Company as set out in the Directors' emoluments table on page 77.

Long-term share incentives

The following table shows details of the awards made to Tim Carroll and Sally McKone, as well as other senior management, under the Focusrite Performance Share Plan ('PSP') which had not vested or lapsed as at 31 August 2022.

PSP awards to Executive Directors and other senior managers

Grant date	23-Dec-19	18-Nov-20	17-Nov-21
Terms:			
Performance period – three years to:	31-Aug-22	31-Aug-23	31-Aug-24
Performance criterion: adjusted EPS CAGR[1]	10% to 18% or greater	10% to 18% or greater	10% to 18% or greater
Proportion of award vesting	20% to 100%	20% to 100%	20% to 100%
Exercise price	0.1p	0.1p	0.1p
Options granted:			
Tim Carroll	47,263	31,190	18,247
Sally McKone	N/A	N/A	14,311
Other senior managers	57,557	47,169	34,612
Vesting (%)	100%	N/A	N/A
Shares vesting:			
Tim Carroll	47,263[2]	N/A	N/A
Sally McKone	N/A	N/A	N/A
Other senior managers	57,557[2]	N/A	N/A

1 Compound annual growth rate.
2 Due to vest on 23 December 2022.

Awards to be made in the 2023 financial year

Following the announcement of results in respect of the 2022 financial year, it is intended that awards will be granted under the PSP to Tim Carroll and Sally McKone in respect of the performance period to the end of the 2025 financial year. As in previous years, these awards will be worth a maximum of 100% of base salary at the time of grant and be subject to EPS performance over the three financial years to 31 August 2025. Given prevailing volatile market conditions, the Committee has decided to change the performance criteria from 3yr EPS CAGR to 3yr cumulative EPS value. The Committee has been mindful of the need to set challenging targets that are nevertheless appropriately realistic so as to be motivational in this context. As previously awards will be subject to malus and clawback provisions. PSP awards will also be made to other senior management.

Details of all awards made in FY23 will be set out in the DRR in next year's Annual Report.

Long-term incentives for other employees

A Company Share Option Plan ('CSOP') was introduced in the 2018 financial year, operating in a similar way to a conventional option scheme with grants of awards with an exercise price equivalent to the market price at the time the award is made and, as a CSOP, has certain tax advantages for employees. The awards vest in equal tranches after three, four and five years from the date of grant. The last of such grants was awarded in 2020, and since that date the existing PSP was extended more deeply into the Group than in previous years.

Directors' Remuneration Report
continued

Dilution
All the Group's equity-based awards are subject to an overall limit on the number of new ordinary shares that can be issued which will be dilutive. Other than awards to be satisfied by shares held by the Employee Benefit Trust ('EBT') at the time of the IPO, these must not, in aggregate, exceed 10% of the Company's issued share capital over any rolling ten-year period post-IPO. The following table illustrates the maximum outstanding share awards and potential net dilution as at 31 August 2022:

Plan	Maximum number of shares relating to award	% of issued share capital
Tim Carroll – PSP	96,700	0.2
Sally McKone – PSP	14,311	0.0
Other senior management – PSP	170,784	0.3
Sally McKone – deferred shares[1]	6,132	0.0
Other employee share option plans – EMI and CSOP	493,951[3]	0.8
Options outstanding at end of period	781,878	1.3%
Less: unallocated issued shares held in EBT[2]	(262,929)	(0.4%)
Potential net dilution	518,949	0.9%

1 On joining Focusrite Plc, Sally McKone was awarded 13,337 deferred shares to vest in three tranches. The first tranche of 3,176 shares vested in March 2021, the second tranche of 4,029 vested in March 2022 and the third tranche of 6,132 shares will vest in March 2023. These deferred shares were awarded as compensation for loss of long-term share awards granted by her previous employer which lapsed when she left to join Focusrite Plc, as explained above.

2 Represents the number of shares held by the EBT as at the IPO and since issued into the EBT less the number of shares used by the EBT to satisfy options that have vested and been exercised.

3 Of the 741,853 shares in last year's financial statements, no further options were issued, 226,851 options were exercised, and 21,051 options have lapsed through employees leaving the company.

Pension contribution
For FY22 Tim Carroll and Sally McKone were entitled to a pension contribution made by the Company of 15% of annual base salary during the financial year. This is being reduced to 3% for FY23 to be in line with the contribution available to the wider workforce. They can elect to be paid the pension contribution in cash subject to a deduction in respect of employer's National Insurance contributions.

Benefits
The Company provides life assurance, membership of the Group's healthcare insurance scheme, critical illness insurance and travel insurance to the Executive Directors. These benefits do not form part of their pensionable earnings.

Executive Directors' service contracts
The service contracts for the Executive Directors are terminable by either the Company or the Executive Directors on not less than six months' notice. There are no predetermined special provisions for Executive Directors with regard to compensation in the event of loss of office.

Non-executive Directors' terms of appointment
David Bezem was appointed Non-executive Director of the Company for an initial period of three years from the IPO in December 2014. His appointment was extended for a further period of three years from 21 December 2017 and again on 18 December 2020. Naomi Climer was appointed a Non-executive Director on 25 May 2018 for an initial period of three years which expired on 24 May 2021 and was extended for a further period of three years. Mike Butterworth was appointed a Non-executive Director on 1 January 2022 for an initial period of three years.

The appointment letters for the Non-executive Directors provide that no compensation is payable on termination. The appointments are terminable by the Company or the Non-executive Directors on six months' notice.

Directors' emoluments table

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Joining bonus £'000	Pension contribution £'000	Total £'000
Executive Directors							
Tim Carroll[1]	FY21	291	3	363	–	38	695
	FY22	**297**	**3**	**60**	**–**	**38**	**398**
Jeremy Wilson[2]	FY21	122	2	122	–	17	263
	FY22	**–**	**–**	**–**	**–**	**–**	**–**
Sally McKone[3]	FY21	114	–	143	170	17	444
	FY22	**233**	**–**	**46**	**–**	**30**	**309**
Phil Dudderidge[4]	FY21	186	5	–	–	–	191
	FY22	**63**	**2**	**–**	**–**	**–**	**65**
Non-executive Directors							
Phil Dudderidge[4]	FY21	–	–	–	–	–	–
	FY22	**126**	**3**	**–**	**–**	**–**	**129**
David Bezem[5]	FY21	42	–	–	–	–	42
	FY22	**55**	**–**	**–**	**–**	**–**	**55**
Naomi Climer[6]	FY21	37	–	–	–	–	37
	FY22	**52**	**–**	**–**	**–**	**–**	**52**
Mike Butterworth[7]	FY21	–	–	–	–	–	–
	FY22	**37**	**–**	**–**	**–**	**–**	**37**
Paul Dean[7]	FY21	42	–	–	–	–	42
	FY22	**18**	**–**	**–**	**–**	**–**	**18**

1 The bonus for Tim Carroll comprises £nil paid in cash (FY21: £218,025), £29,651 taken as shares (FY21: £72,675) and £29,651 in the form of matching shares (FY21: £72,675). The pension contribution was taken as additional income net of the appropriate percentage of Income Tax and Employer's National Insurance which would not otherwise have fallen due.

2 Jeremy Wilson left the Group on 19 March 2021.

3 The bonus for Sally McKone, who joined the Group on 1 March 2021, comprises £nil (FY21: £85,500) paid in cash, £23,256 taken as shares (FY21; £28,500) and £23,256 in the form of matching shares (FY21; £28,500). The joining bonus in FY21 comprises £169,800 paid in cash in compensation for annual bonus forfeited by leaving her former employer.

4 The remuneration for Phil Dudderidge comprises a Chairman's fee/salary of £189,000 (FY21: £186,000). Effective 1 January 2022, Phil moved from Executive Chairman to Non-executive Chairman and his fee/salary has been pro-rated accordingly.

5 The remuneration for David Bezem comprises a basic fee of £45,000 per annum for his role as Non-executive Director of the Group and an additional £10,000 per annum for his role as Chair of the Remuneration Committee until 31 December 2021 and then as Senior Independent Director thereafter at an additional £10,000 per annum.

6 The remuneration for Naomi Climer comprises a basic fee of £45,000 per annum for her role as Non-executive Director of the Group and an additional £10,000 per annum for her role as Chair of the Remuneration Committee pro-rated from 1 January 2022.

7 Mike Butterworth joined the Group as Non-executive Director from 1 January 2022, following the resignation of Paul Dean. Remuneration for both Directors comprised a basic fee of £45,000 per annum for their role as Non-executive Director of the Group and an additional £10,000 per annum as Chair of the Audit Committee pro-rated for the time of their appointments.

Approval

This report was approved by the Directors and signed by order of the Board.

Naomi Climer
Chair of the Remuneration Committee
8 December 2022

Directors' Report
For the year ended 31 August 2022

The Directors present their report and audited financial statements for the year ended 31 August 2022.

Focusrite plc (the 'Company') is listed on the Alternative Investment Market ('AIM'), a market operated by the London Stock Exchange.

Pursuant to section 414c, Companies Act 2006, certain information required to be included in the Directors' Report has been included in the Strategic Report:

- information in respect of employee matters (including implementing hybrid working, details on sharing best practice across the Group, remaining focused on employee engagement and our approach to ongoing employee learning and development) (see Our People on page 48);
- likely future developments (see Chief Executive's Report on page 18);
- risk management (see Principal Risks and Uncertainties on page 38);
- details on how the Directors have had regard to the need to foster business relationships with stakeholders (see s172 on page 61); and
- greenhouse gas emissions (see Our Planet on page 50).

AGM Notice
The 2022 Annual General Meeting ('AGM') will be held at Artisan, Hillbottom Road, High Wycombe HP12 4HJ on Friday 10 February 2022 at 12 noon.

Capital – shares and major shareholders
Details of the Company's share capital are shown in note 29 to the financial statements.

As at the financial year end 31 August 2022, the Company had 58,661,639 ordinary shares of £0.001 each in issue (31 August 2021: 58,661,639). The shares are traded on AIM, a market operated by the London Stock Exchange. The rights and obligations attached to the shares are set out in the Company's Articles of Association which are available at https://focusriteplc.com/investors/aim-rule-26.

As at 7 November 2022, the Company had been notified of the following substantial interests in 3% or more of its ordinary shares:

Significant shareholders as at 7 November 2022	Number of shares	% of issued share capital
Directors, Employees & Related Parties	20,375,424	34.73
Sanford DeLand Asset Mgt	5,845,684	9.97
abrdn plc	5,817,729	9.92
Canaccord Genuity Group Inc	4,241,005	7.23
Charles Stanley Group	4,052,687	6.91
Liontrust Asset Mgt	3,900,916	6.65
Investec Group	1,915,100	3.26

Note: These holdings may have changed since the Company was notified. Notification of any change is not required until the next notifiable threshold is crossed.

As at 31 August 2022 the EBT held 262,929 (2021: 554,712) ordinary shares of £0.001 each for the satisfaction of future vesting share options. The EBT has waived its right to dividends.

Details of ordinary shares under option in respect of the Company's share schemes are shown in note 32 to the financial statements.

The Articles of Association do not contain any restrictions on the transfer of ordinary shares in the capital of the Company other than the usual restrictions, which are applicable where a share instrument is not duly stamped or certified as exempt from stamp duty, is in respect of more than one class of share, relates to joint transferees and such transfer is in favour of more than four such transferees, or relates to shares that are not fully paid. The rules of the CSOP set out the consequences in the event of a change of control.

Corporate governance
The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 64. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Directors and their interests
Directors in the year ended 31 August 2022:

Philip Dudderidge

Timothy Carroll

Sally McKone

David Bezem

Naomi Climer

Paul Dean

Mike Butterworth

In the year ended 31 August 2022, Paul Dean, Independent Non-executive Director and Chair of the Audit Committee, who tendered his resignation in 2021, left on 31 December 2021 and Mike Butterworth joined on 1 January 2022 as Independent Non-executive Director and Chair of the Audit Committee.

Details of each Director's contractual arrangements, including notice periods, are included as part of the Directors' Remuneration Report on pages 72 and that information is incorporated by reference into the Directors' Report. The Directors' shareholdings can be viewed on the Focusrite plc website https://focusriteplc.com/investors/significantshareholders.

Directors are subject to annual re-election in line with best practice and details of Directors' remuneration, service agreements and interests in the share capital of the Company are given in the Directors' Remuneration Report on pages 72.

The Chairman owns a small property, part of which the Group leases. Details are in note 37 to the financial statements. Other than this, no Director has had any material interest in any contract of significance with the Company or any of its subsidiaries during the year under review.

Dividends
Subject to shareholder approval at the AGM on 3 February 2023, the Board proposes paying a final dividend of 4.15p per ordinary share (2021: 3.7p) on 17 February 2023 to the shareholders on the register at the close of business on 13 February 2023.

Employees
The Company's strategy is to be a great place to work. Part of this means ensuring adequate provision for the welfare and health and safety of its employees and of other people who may be affected by our activities and the Group is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion and belief, sexual orientation, disability and marital status. All People are treated fairly and equally. Applications for employment are reviewed equally, with a focus on applicants' ability, experience and the requirements of the job.

Ethical business practices
The Company has a zero tolerance approach to bribery and corruption and is committed to ensuring that it has effective processes and procedures in place to counter that risk. A formal anti-bribery policy is in place and training is undertaken annually. The policy is reviewed on a regular basis by the Audit Committee. The anti-bribery policy and whistleblowing policy are reviewed annually by the Audit Committee.

The Company is committed to conducting business responsibly and takes action to ensure that our supply chains operate to those same high standards, including in relation to employment practices, workplace conditions and, more specifically, the prevention of forced, bonded and trafficked labour. This is upheld through the Group's policies and processes which are fully supported by the Board. The steps taken to help manage the risks outlined by the legislation are detailed in our Modern Slavery statement which is published annually on our website.

Going concern
Directors considered the going concern assumption and after careful enquiry and review of available financial information, including detailed projections of profitability and cash flows for a period of at least 12 months ('the going concern period'), the Directors believe that the Group has adequate resources to continue to operate for the going concern period and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and Company financial statements.

Shareholder and voting rights
All members who hold ordinary shares are entitled to attend and vote at the AGM.

The Notice of Meeting specifies the deadlines for exercising voting rights.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and voting rights. There are no restrictions on the transfer of ordinary shares in the Company other than certain restrictions imposed by laws and regulations (such as insider trading laws and market requirements relating to closed periods) and requirements of internal rules and procedures whereby Directors and certain employees of the Company require prior approval to deal in the Company's securities.

Statement as to disclosure of information to the auditor
The Directors have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. The Directors have individually confirmed that they have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor. The auditor, KPMG LLP, has indicated its willingness to be reappointed and, in accordance with Section 489 of the Companies Act 2006, a resolution for reappointment will be proposed at the AGM.

By order of the Board

Francine Godrich
Company Secretary
8 December 2022

Statement of Directors' Responsibilities
In respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards (IAS) and applicable law and they have elected to prepare the Parent Company financial statements with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
- for the Parent Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101');
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and a directors' report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Francine Godrich
Company Secretary
8 December 2022

Independent Auditor's Report
To the members of Focusrite plc

1 Our opinion is unmodified

We have audited the financial statements of Focusrite plc ("the Company") for the year ended 31 August 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement, the Company Balance Sheet, the Company Statement of Changes in Equity and the related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality: group financial statements as a whole		£1.3m (2021: £1.5m) 4.3% (2021: 4.3%) of group profit before tax
Coverage		91% (2021: 94%) of group profit before tax
Key audit matters		**vs 2021**
Event driven	**New:** Valuation of acquired intangibles	
Recurring risks	**New:** Revenue recognition	▲
	Recoverability of parent Company's investment in subsidiaries and debt due from group entities	▼

Independent Auditor's Report continued
To the members of Focusrite plc

2 Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Valuation of acquired intangibles (£6.5 million; 2021: £14.5m) *Refer to page 69 (Audit Committee Report), page 94 (accounting policy) and page 103 (financial disclosures).*	**Subjective valuation:** During the year ended 31 August 2022, the Group acquired a 100% equity interest in Linea Research Holdings Limited for a total consideration of £12.3m. The fair values of identifiable net assets acquired on the date of acquisition amounted to £9.9m and goodwill arising from the acquisition amounted to £2.4m. The Group exercised both judgement in selecting the most appropriate valuation method for the intangible assets acquired, as well as estimation in the value of those intangible assets. Although judgement was exercised by management as part of the process, the key audit matter relates to the estimation used in valuing the intangible assets only. The estimate is particularly sensitive to the forecasted cash flows, for which there are a range of possible scenarios. The effect of these matters is that, as part of our risk assessment, we determined that the fair value on intangibles assets acquired has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 6) disclose the sensitivity estimated by the Group.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Tests of details:** We assessed the key assumptions used in the value in use model including the cash flows and their growth rates. This involved performing sensitivity analysis, as well as evaluating management's ability to forecast by comparing previous years' budgets to actual results; • **Assessment of management's expert:** We carried out an assessment as to whether the experts engaged by management had the necessary competence to carry out the acquisition accounting work, whether the scope was in line with our expectations, and whether they were independent; • **Tests of details:** We read the acquisition agreements and assessed whether the assets and liabilities acquired reflect the contractual terms; • **Tests of details:** We evaluated the valuation methodology used by the Group. This included assessing the intangible assets acquired, and the basis of their valuation; • **Our valuation expertise:** We engaged our internal valuation specialist to assist us in our assessment of the fair value attributed to the acquired intangible assets; and • **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the valuation of acquired intangibles in Note 6 to the financial statements.

	The risk	Our response
Revenue recognition (£183.7 million; 2021: £173.9 million) *Refer to page 69 (Audit Committee Report), page 94 (accounting policy) and page 105 (financial disclosures).*	**2022 revenue:** There continues to be pressure on the Group to meet the performance expectations of the wider stakeholder group, including investors. The majority of the Group's sales arrangements are straightforward, with revenue being recognised at the point of despatch, and therefore requiring little judgement and no estimation. The risk is specifically relating to the incentive for management to manipulate the results in order to achieve those performance expectations. As a result, there is a risk that management may override controls intentionally to misstate revenue transactions by recording fictitious revenue transactions or by manipulating the timing of revenue recognition. This risk was assessed as lower in the previous financial year as the performance of the Group meant that both management's incentive targets and market expectations were reached part way through the year.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls, and related IT controls indicated that we would not be able to obtain the required evidence to support reliance on controls. Our procedures included: • **Tests of details:** We inspected the terms of the contracts with a sample of key customers to understand whether there were any conditions which needed to be taken into account as part of the revenue recognised on sales to these customers; and • **Tests of details:** We inspected a sample of sales close to the year end, and vouched these to supporting documentation such as delivery notes, to assess whether revenue had been correctly recognised in line with the specific incoterms of that customer. These sales were selected using a risk based approach which highlighted customers with an abnormal value or volume of transactions close to the year end, compared to their activity throughout the year.
Recoverability of parent Company's investment in subsidiaries and debt due from group entities (Investment balance £61.1 million; 2021: £61.1 million), (Receivables balance £36.7 million; 2021: £25.7 million). *Refer to page 69 (Audit Committee Report), page 94 (accounting policy) and page 111 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent Company's investments in subsidiaries represents 62% (2021: 69%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit. In addition to this, the carrying amount of the intra-group debtor balance represents 41% (2021: 20%) of the parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit. In the previous financial year this risk related specifically to Martin Audio, due to the heightened risk associated with the recoverability of the investment in the Martin Audio business. This year, the risk associated with Martin Audio has reduced due improved performance in Martin Audio and as a result the risk is now considered to relate to all investments in subsidiaries and debt due from group companies.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Tests of details:** Comparing the carrying amount of 100% of investments with the net assets of the relevant subsidiary included in the group consolidation, to identify whether the net asset value, being an approximation of the minimum recoverable amount, was in excess of the carrying amount and assessing whether those subsidiaries have historically been profit making. This procedure also gave us audit evidence over the recoverability of 100% of the debt due to the Company; • **Tests of details:** When the net assets of the relevant subsidiary was insufficient to support the carrying value, we evaluated the impairment model prepared for the relevant subsidiary in order to assess if there was an impairment; and • **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team on one of those subsidiaries and considering the results of that work, on that subsidiary's profits and net assets.

In the prior year we reporting key audit matters over recoverability of acquired goodwill in the Martin Audio CGU and acquisition accounting for Sequential LLC. However, following the results of the Martin Audio CGU being more positive post global COVID -19 restrictions easing, we have not assessed recoverability of acquired goodwill for this CGU as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year. The key audit matter in relation to acquisition accounting for Sequential LLC related to transactions in the year ended 31 August 2021.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £1.3m (2021: £1.5m), determined with reference to a benchmark of group profit before tax of which it represents 4.4% (2021: 4.3%).

Materiality for the parent company financial statements as a whole was set at £0.7m (2021: £0.7m), determined with reference to a benchmark of parent company total assets, of which it represents 0.7% (2021: 0.8%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £0.98m (2021: £1.13m) for the group and £0.53m (2021: £0.53m) for the parent company.

We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.07m (2021: £0.08m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's sixteen (2021: nine) reporting components, we subjected five (2021: four) to full scope audits for group purposes.

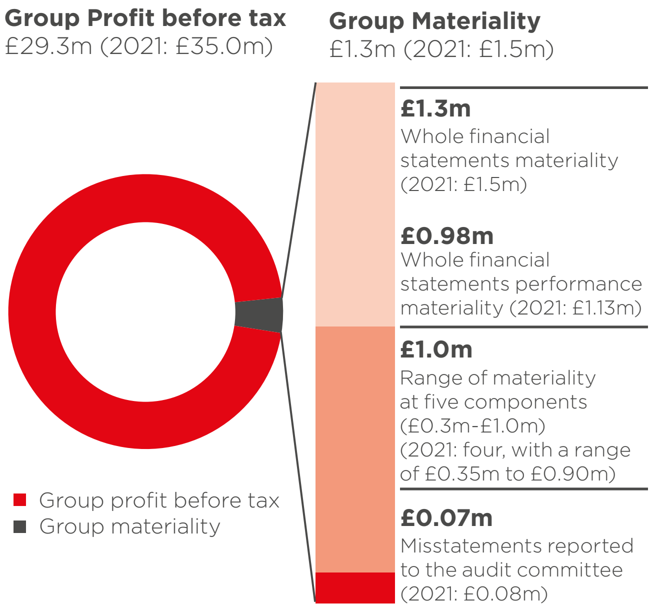
The components within the scope of our work accounted for the percentages illustrated opposite.

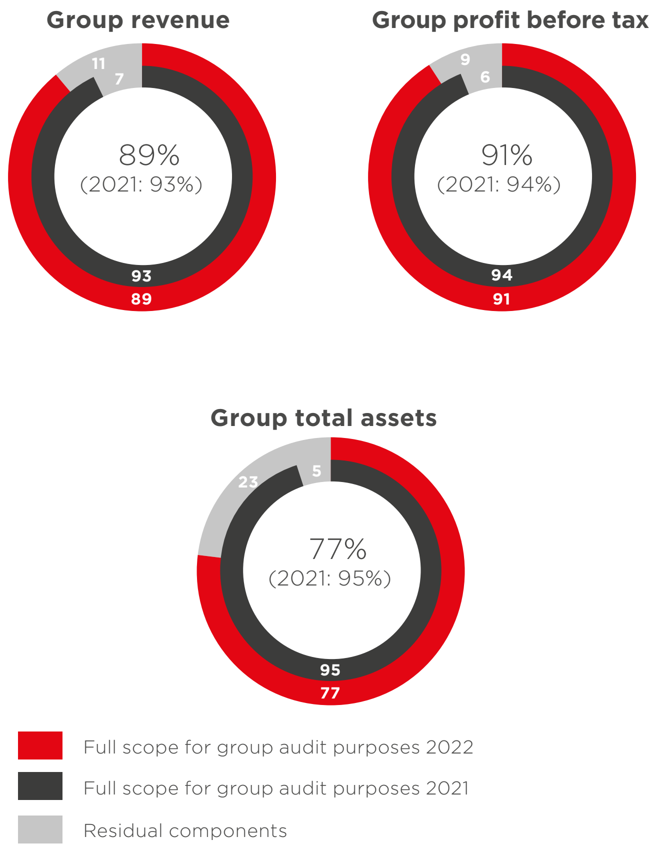
The remaining 11% (2021: 7%) of total Group revenue, 9% (2021: 6%) of Group profit before tax and 23% (2021: 5%) of total Group assets is represented by eleven (2021: five) reporting components, none of which individually represented more than 1% (2021: 1%) of any of total Group revenue, Group profit before tax or total Group assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.3m to £1.0m (2021: £0.35m to 0.90m), having regard to the mix of size and risk profile of the Group across the components. The work on one of the five components (2021: one of the four components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The Group team visited one (2021: none) component location in Germany (2021: none), to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.





4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The ability to maintain and grow customer demand
- The ability to maintain profit margins
- The maintenance of relationships with key distributors
- The ability to continue to source scarce raw materials

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and, dependencies.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management including the EBITDA target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets due to market expectations or personal incentives, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group and component management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting estimates such as the valuation on intangible assets; and
- the risk that revenue from sales of products are overstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

Further detail in respect of the revenue recognition risk is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

5 Fraud and breaches of laws and regulations – ability to detect continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non- compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non- compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non- compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 80, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and, parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

James Tracey (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

8 December 2022

Consolidated Income Statement
For the year ended 31 August 2022

	Note	2022 £'000	2021 £'000
Revenue	7	**183,733**	173,935
Cost of sales		**(100,453)**	(89,805)
Gross profit		**83,280**	84,130
Administrative expenses		**(54,619)**	(48,356)
Adjusted EBITDA (non-GAAP measure)		**41,663**	47,548
Depreciation and amortisation		**(6,991)**	(6,133)
Adjusting items:			
Amortisation of acquired intangible assets	15	**(5,116)**	(4,013)
Other adjusting items	15	**(895)**	(1,628)
Operating profit		**28,661**	35,774
Finance income	11	**2,286**	48
Finance costs	12	**(398)**	(784)
Profit before tax		**30,549**	35,038
Income tax expense	16	**(5,773)**	(6,759)
Profit for the period from continuing operations		**24,776**	28,279

Earnings per share		**Pence**	Pence
Basic (pence per share)	18	**42.5**	48.8
Diluted (pence per share)	18	**42.1**	48.2

The accompanying notes on pages 93 to 128 form part of these financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 August 2022

	2022 £'000	2021 £'000
Profit for the period (attributable to equity shareholders)	**24,776**	28,279
Items that may be subsequently reclassified to the income statement:		
Exchange differences on translation of foreign operations	**(486)**	(726)
(Loss)/gain on forward exchange contracts	**(1,009)**	445
Tax on hedging instrument	**199**	(85)
Total comprehensive income for the period	**23,480**	27,913

The accompanying notes on pages 93 to 128 form part of these financial statements.

Consolidated Statement of Financial Position
As at 31 August 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Goodwill	19	**13,728**	10,054
Other intangible assets	20	**61,964**	49,066
Property, plant and equipment	21	**10,870**	3,646
Deferred tax assets	25	**938**	–
Total non-current assets		**87,500**	62,766
Current assets			
Inventories	23	**48,340**	20,749
Trade and other receivables	24	**28,520**	14,775
Cash and cash equivalents	31	**12,758**	17,339
Current tax asset		**413**	869
Derivative financial instruments	34	**–**	716
Total current assets		**90,031**	54,448
Current liabilities			
Trade and other payables	27	**(36,348)**	(23,673)
Other liabilities	26	**(1,641)**	(774)
Current tax liabilities		**(1,066)**	–
Provisions	28	**(1,840)**	(1,092)
Bank loan	34	**(13,054)**	–
Derivative financial instruments	34	**(293)**	–
Total current liabilities		**(54,242)**	(25,539)
Net current assets		**35,789**	28,909
Total assets less current liabilities		**123,289**	91,675
Non-current liabilities			
Deferred tax liabilities	25	**(9,130)**	(5,996)
Other liabilities	26	**(8,843)**	(511)
Provisions	28	**–**	(1,069)
Bank loan	34	**–**	248
Total non-current liabilities		**(17,973)**	(7,328)
Total liabilities		**(72,215)**	(32,867)
Net assets		**105,316**	84,347
Capital and reserves			
Share capital	29	**59**	59
Share premium	30	**115**	115
Merger reserve	30	**14,595**	14,595
Merger difference reserve	30	**(13,147)**	(13,147)
Translation reserve	30	**(1,015)**	(529)
Hedging reserve	30	**(293)**	716
EBT reserve	30	**(1)**	(1)
Retained earnings		**105,003**	82,539
Equity attributable to the owners of the Company		**105,316**	84,347
Total equity		**105,316**	84,347

The financial statements were approved by the Board of Directors and authorised for issue on 8 December 2022. They were signed on its behalf by:

Sally McKone
Chief Financial Officer
The company number of Focusrite plc is 09312676

The accompanying notes on pages 93 to 128 form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 August 2022

	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 2020	58	115	14,595	(13,147)	197	220	(1)	54,861	56,898
Profit for the period	–	–	–	–	–	–	–	28,279	28,279
Transfer of reserve	–	–	–	–	–	51	–	(51)	–
Other comprehensive income	–	–	–	–	(726)	445	–	(85)	(366)
Total comprehensive income	–	–	–	–	(726)	496	–	28,143	27,913
Transactions with shareholders	1	–	–	–	–	–	(1)	–	–
Share-based payments deferred tax deduction	–	–	–	–	–	–	–	786	786
Share-based payments current tax deduction	–	–	–	–	–	–	–	690	690
EBT shares issued	–	–	–	–	–	–	1	660	661
Share-based payments	–	–	–	–	–	–	–	632	632
Shares withheld to settle tax obligations	–	–	–	–	–	–	–	(739)	(739)
Premium on shares in lieu of bonuses	–	–	–	–	–	–	–	60	60
Dividends paid	–	–	–	–	–	–	–	(2,554)	(2,554)
Balance at 31 August 2021	59	115	14,595	(13,147)	(529)	716	(1)	82,539	84,347
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24,776**	**24,776**
Other comprehensive income	**–**	**–**	**–**	**–**	**(486)**	**(1,009)**	**–**	**199**	**(1,296)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(486)**	**(1,009)**	**–**	**24,975**	**23,480**
Share-based payments deferred tax deduction	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,131)**	**(1,131)**
Share-based payments current tax deduction	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**723**	**723**
EBT shares issued	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**674**	**674**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,120**	**1,120**
Shares withheld to settle tax obligations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(865)**	**(865)**
Premium on shares in lieu of bonuses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**202**	**202**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,234)**	**(3,234)**
Balance at 31 August 2022	**59**	**115**	**14,595**	**(13,147)**	**(1,015)**	**(293)**	**(1)**	**105,003**	**105,316**

The accompanying notes on pages 93 to 128 form part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 August 2022

	Note	2022 £'000	2021 £'000
Operating activities			
Profit for the financial year		**24,776**	28,279
Income tax expense	16	**5,773**	6,759
Net interest (income)/expense	11,12	**(1,888)**	736
Loss on disposal of property, plant and equipment		**24**	4
Loss on disposal of intangible assets		**105**	498
Gain on sale of trademark		**(830)**	–
Amortisation of intangibles	20	**9,883**	8,126
Depreciation of property, plant and equipment	21	**2,223**	2,022
Other non-cash items		**(369)**	–
Share-based payments charge	32	**1,313**	973
Operating cashflow before movements in working capital		**41,010**	47,397
(Increase)/decrease in trade and other receivables		**(12,316)**	3,533
Increase in inventories		**(27,591)**	(1,023)
Increase/(decrease) in trade and other payables		**12,988**	(773)
Operating cash flows before interest and tax		**14,091**	49,134
Net interest paid		**(330)**	(311)
Income tax paid		**(3,380)**	(9,741)
Cash generated by operations		**10,381**	39,082
Net foreign exchange movements		**(1,918)**	(566)
Net cash from operating activities		**8,463**	38,516
Investing activities			
Purchase of property, plant and equipment	21	**(1,045)**	(1,126)
Purchase of intangible assets	20	**(3,095)**	(591)
Capitalised R&D costs	20	**(8,368)**	(4,894)
Proceeds from disposal of intangible assets	15	**830**	–
Acquisition of business, net of cash acquired	6	**(10,923)**	(13,948)
Net cash used in investing activities		**(22,601)**	(20,559)
Financing activities			
Proceeds from loans and borrowings	34	**13,228**	7,353
Repayments of loans and borrowings	34	**-**	(19,335)
Payment of lease liabilities	26	**(1,168)**	(1,057)
Equity dividends paid		**(3,234)**	(2,554)
Net cash from/(used in) financing activities		**8,826**	(15,593)
Net (decrease)/increase in cash and cash equivalents		**(5,312)**	2,364
Cash and cash equivalents at the beginning of the year		**17,339**	14,975
Foreign exchange movements		**731**	–
Cash and cash equivalents at the end of the year	31	**12,758**	17,339

The accompanying notes on pages 93 to 128 form part of these financial statements.

Notes to the Financial Statements
For the year ended 31 August 2022

1 General information

Focusrite plc (the 'Company'), is a company incorporated in the UK. The consolidated financial statements ('financial statements') as at and for the year ended 31 August 2022 comprised the Company and its subsidiaries (together referred to as the 'Group').

The Group is a business engaged in the development, manufacture and marketing of professional audio and electronic music products.

Basis of preparation

Statement of compliance

The Group financial statements for the year ended 31 August 2022 are presented in Pounds Sterling ('GBP' thousands; £'000). This is the functional currency of the Company.

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards ('IAS') with the requirements of the Companies Act 2006 and the Company has elected to prepare its Parent Company accounts in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standards ('FRS') 101 Reduced Disclosure Framework.

These financial statements were authorised for issue by the Company's Board of Directors on 8 December 2022.

Going concern

The Board of Directors has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and meet their liabilities as they fall due for a period of at least 12 months from the approval of these financial statements ('the going concern period'). 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 which is due for renewal in December 2024. The availability of the revolving credit facility is subject to continued compliance with certain covenants.

The Directors have prepared projected cash flow forecasts for the going concern period. These forecasts include a severe but plausible downside scenario, which includes potential impacts from risks identified from the business including:

- Loss of or reduction in key revenue streams.
- Recessionary impact of reduction in revenue and margin across revenue streams.
- Loss of key distribution contracts.

Whilst climate change is considered to bring both risks and opportunities to the Group, as outlined in our ESG section on pages 46 to 60, we do not consider there to be a significant quantifiable risk in the short-term, other than the potential loss of a distributor due to the increasing likelihood of extreme weather events, and this is included as one of the scenarios. Component supply is still considered to be a risk, although the situation is improving. Our first scenario, the loss of key revenue streams, considers the impact of being unable to supply a major product group.

The base case covers a period of at least 12 months from the date of signing and includes demanding but achievable forecast growth. The forecast has been extracted from the Group's FY23 budget and three-year plan for the remainder of the going concern period.

Key assumptions include:

- Future growth assumptions consistent with those recently achieved by the business and adjusted for the annualisation of recent acquisitions.
- Working capital requirements in line with historic trends.
- 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.
- Foreign exchange rates in line with those prevailing as at 31 August 2022.

Throughout the period the forecast cash flow information indicates that the Group will have sufficient cash reserves and headroom on the loan facility to continue to meet its liabilities throughout the forecast period.

The Directors have modelled severe but plausible downside scenarios of the three risks identified above, including the Group experiencing all three downsides simultaneously. This model assumes that purchases of stock would, in time, reduce to reflect reduced sales, if they occurred. The Group would also respond to a revenue shortfall by taking reasonable steps to reduce overheads within its control. In this scenario, a draw down from the loan facility of an average of around £30 million for a period of 8 months is expected, however 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 the maximum of -2.5x.

Separately, as a reverse stress test, the Directors estimate that if the Group were to experience a shortfall in revenue of greater than 30% permanently from the start of the forecast period, debt and leverage could rise to the upper limits allowed by the banking covenants by June 2023. This scenario includes consequential reductions in the purchases of stock and overheads.

Notes to the Financial Statements continued
For the year ended 31 August 2022

1 General information continued
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 the severe yet plausible scenario above is not realistic.

In practice, the Group is still currently experiencing high levels of consumer registrations and customer demand, and therefore the revenue levels have been maintained at expected levels since year end. The Group has continued to invest in stock prior to the holiday season, with the Group's net debt balance reducing from net position of £0.3 million reported at year end to approximately net debt of £10 million at 5 December 2022, which is expected to improve following the upcoming 2022 holiday season. As a result the Directors are confident that the Group and Company will have sufficient funds to continue to meet their 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.

2 Adoption of new and revised standards
New and amended standards and interpretations adopted by the Group and Company for the first time in the year ended 31 August 2022
The following amendments and interpretations have been adopted by the Group in the year ended 31 August 2022.

- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments, IFRS 4 Insurance Contracts and IFRS 16 Leases: Disclosures – Interest rate benchmark reform; and
- Amendments to IFRS 16 Leases – COVID-19 related rent concessions beyond 30 June 2021.

The adoption of these amendments and interpretations has not had a significant impact on the consolidated financial statements.

Standards, revisions and amendments to standards and interpretations not yet effective and not yet adopted by the Group
The following pronouncement, issued by the IASB and endorsed by the UK, is not yet effective and has not yet been adopted by the Group. This amendment is effective for annual reporting periods beginning on or after 1 January 2022.

- Amendments to IFRS 3 Business Combinations – Reference to the conceptual framework;
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous contracts – cost of fulfilling a contract;
- Annual improvements to IFRS standards 2018-2020 cycle;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before intended use;
- IFRS 17 Insurance Contracts; and
- Amendments to IFRS 17 and IFRS 19 Initial Application of IFRS 17 and IFRS 9 – Comparative Information.

The Group is currently assessing the impact of these pronouncements on the consolidated financial statements.

Standards, revisions and amendments to standards and interpretations not yet endorsed by the UK and not yet adopted by the Group
The following pronouncements, issued by the IASB, have not yet been endorsed by the UK, are not yet effective and have not yet been adopted by the Group.

- Amendments to IAS 1 Presentation of Financial Statements – Classification of liabilities as current or non-current;
- Amendments to IAS 1 Presentation of Financial Statements – disclosure of accounting policies;
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – definition of accounting estimates; and
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The standards have been reviewed to assess the impact they will have on future financial statements. No material impact is expected to the accounts and any changes are expected to be limited to changes to disclosures notes only.

3 Significant accounting policies
The accounting policies set out below have been applied consistently for all periods presented in the financial statements.

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Group in these financial statements.

Basis of consolidation
The consolidated financial statements include the accounts of the Company and all entities controlled by the Group from the date control commences until the date that control ceases. Control is achieved where the Company:

- has the power over the investee;
- is exposed or has rights to a variable return from the involvement with the investee; and
- has the ability to use its power to affect its returns.

As such, the results of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired.

Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Goodwill
Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the 'acquisition date'). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the amounts of the identifiable assets acquired and the liabilities assumed. Further information about the assumptions made in measuring fair values of the acquisition of a subsidiary is included in note 6.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units ('CGUs') expected to benefit from synergies arising from the combination. CGUs to which goodwill has been attributed under IFRS 3 Business Combinations are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Revenue recognition
The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Having identified the customer, the performance obligations and the transaction price, the revenue is recognised when the Group satisfies the performance obligations.

The value of revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales taxes and discounts.

Due to the fact that the vast majority of sales by Focusrite involve sale of goods, the timing of the revenue recognition is considered in relation to 'Performance obligations satisfied at a point in time' (IFRS 15; 38) when one of the following has occurred:

a) The entity has a present right to payment for the asset.
b) The customer has legal title to the asset.
c) The entity has transferred physical possession of the asset.
d) The customer has the significant risks and rewards of ownership of the asset.
e) The customer has accepted the asset.

Sale of goods
The Group has three routes to market for the sale of goods: distributors, resellers and direct to end users. These cover all segments and geographical markets. Revenue from sales to distributors, resellers and direct to end users are recognised in line with the Incoterms defined within the contract of sales, as this will define when control is passed to the customer.

Sale of apps
Revenue from the download of apps and paid feature upgrades is recognised upon confirmation from the app store provider.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of other income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Adjusting items
Adjusting items are those items that are unusual because of their size, nature or incidence, and are applied consistently year on year. The Directors consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's results. Items included are acquisition and restructuring costs, earnout accrual in relation to acquisitions and gains on sales of trademarks. See note 15 for more information on adjusting items.

Leases
The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the basis as those of property and equipment. In addition, the right-of-use asset is periodically assessed for impairment triggers and adjusted for certain remeasurements of the lease liability.

3 Significant accounting policies continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if available, otherwise the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise fixed payments and variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in index or rate, of if the Group changes its assessment of whether it will exercise an extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'Property, plant and equipment' and lease liabilities as 'Other liabilities' in the statement of financial position.

Foreign currencies

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which it operates (its functional currency). Sterling is the predominant functional currency of the Group and presentation currency for the consolidated financial information.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the Income Statement in the period in which they arise. Exchange differences on revenue are recognised within revenue. Exceptions to this are as follows:

- Exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments/cash flow hedges).
- For the purpose of presenting consolidated financial information, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any, are recognised in the income statement.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Equity-settled share-based payments

The Group issues equity-settled payments to certain employees (including Directors). Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to retained earnings.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. It is recognised in the Income Statement except to the extent that it relates to a business combination, or items recognised directly in equity or in Other Comprehensive Income ('OCI').

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are only recognised for taxable temporary differences arising on investments in subsidiaries, where the Group can foresee the reversal of the temporary difference and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment
Other items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less residual value over their useful lives, using the straight-line method, on the following bases:

Plant, equipment and tooling	3 to 5 years
Computer equipment	2 to 3 years
Fixtures and fittings	3 to 5 years
Leasehold improvements	5 to 8 years
Land and buildings	25 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Income Statement on the transfer of the risks and rewards of ownership.

Intangible assets
Intangible assets are amortised over the following periods on a straight-line basis:

Internally generated development	2 to 10 years
Purchased intellectual property	2 years
Licences	2 to 5 years
Software	2 years

3 Significant accounting policies continued

Acquired intangible assets

Intangible assets acquired through a business combination are amortised over the following periods on a straight-line basis:

Subsidiary	Brand	Developed technology, products and patents	Technology, products and patents in development
ADAM Audio	10 years	3 years	8 years
Martin Audio	20 years	8 years	11 years
Sequential	10 to 15 years	15 years	10 years
Linea Research	15 years	9 years	9 years

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development of new and enhanced products is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as a product design);
- the asset is technologically feasible;
- the Group intends to complete the asset and use or sell it;
- adequate technical, financial and other resources are available to complete the asset and use or sell it;
- it is probable and demonstrable that the asset created will generate future economic benefits; and
- the costs of developing this asset can be measured reliably. Costs include payroll costs plus project-specific subcontractor and materials costs.

Where no internally generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

Valuation of investment in subsidiaries for business combination purposes

For the purposes of valuation of the Group's subsidiaries for the purposes of business combinations and reorganisations, the Group applies the acquisition method rather than the book value.

Impairment of goodwill and intangible assets with an indefinite useful life

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

Recoverable amount is the higher of: (i) fair value less costs to sell; and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Where an impairment loss subsequently reverses (excluding goodwill), the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years for the asset (or CGU). A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade and other receivables
Trade debtors, which generally have 30 to 60-day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. The Company measures loss allowances at an amount equal to lifetime expected credit loss ('ECL'), except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL (see the accounting policy on impairment in section (iv) below). Balances are written off when the probability of recovery is assessed as being remote.

Financial instruments

(i) Recognition and initial measurement
Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value, for an item not at fair value through profit and loss ('FVTPL'), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification
On initial recognition, a financial asset is classified as measured at amortised cost or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses
Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity
Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

3 Significant accounting policies continued

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

(iv) Impairment of financial assets

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables and contract assets with a significant financing component are measured using the general model described above.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset. The Group has insurance on debts of up to £10.9 million. Therefore, ECLs focus primarily on uninsured debts that are considered impaired.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

4 Judgements and estimations in applying the Group's accounting policies

The following are the important judgements and estimations that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial information.

Judgements
No significant judgements have been made in applying the Group's accounting policies. In FY21 a judgement was made regarding the relationship with our largest distributor in the US, but given contractual changes and established practice, it is now considered to be no longer a matter of judgement that they are considered a principal and not an agent.

Estimates
The Directors believe that the following estimates are critical due to the degree of estimation required, and that they have the risk of material change which could impact upon the financial statements of future periods.

Valuation of acquired intangible assets
Since most intangibles acquired through business combinations are not traded on an open market, the absence of a market price means that the valuations are normally based on a discounted cash flow approach. This relies on achieving revenue forecasts, growth rates, asset-specific discount rates, useful economic life assumptions and an estimate of tax amortisation benefits arising from the recognition of these intangibles. In most circumstances the valuations are prepared by independent valuation firms with knowledge of the market in which the Group operates. Amounts recognised on acquisitions through business combinations totalled £6,500,000 (2021: £12,212,000). See note 6 to the Group Financial Statements.

Other judgements and estimates
The Directors have also applied the following judgements and estimates to these financial statements, but consider them to not be significant in this financial year.

Stock manufactured and distributed by third parties
Sequential has a relationship with its key manufacturer to purchase raw material, to build product and distribute its stock to customers. Sequential is not the contract manufacturer's sole customer. It has been determined for the purposes of the financial statements that the risks and rewards in relation to products that are both work in progress and finished goods not yet shipped to customers are Sequential's, and therefore should be recognised as inventory, with a corresponding entry to liabilities for the payment due to the manufacturer. As raw materials have alternative use to the manufacturer, and there is no requirement for Sequential to compensate the manufacturer for unused or unusable raw materials, it has been determined that they are not in substance under Sequential's control. Therefore no accrual is made for raw materials.

The amount accrued at year end for work in progress and finished goods held by the contract manufacturer was £1,885,000 (2021: £1,309,000).

Impairment of intangible assets with indefinite lives
The Group has intangible assets with indefinite lives and therefore tests annually whether intangible and tangible fixed assets have suffered any impairment. The recoverable amount of the CGU is based on the higher of value in use and the fair value less cost of disposal. Value in use is calculated from cash flow projections generally over five years using data from the Group's latest internal forecasts and extrapolated beyond five years using estimated long-term growth rates. Key assumptions and sensitivities for impairment are disclosed in note 19.

Capitalisation and recoverability of internally generated intangible assets
Management considers both the capitalisation and the recoverability of its internally generated intangible asset for development costs are sources of estimation uncertainty; balances are included in the balance sheet at 31 August 2022 at £13,055,000 (2021: £9,138,000). The amount capitalised in the year was £7,851,000 (2021: £4,894,000). Management applied estimates in their assessment of amounts capitalised in accordance with IAS 38 Intangible Assets, in particular around measuring reliably the expenditure incurred on projects during their development. A sensitivity analysis has not been performed over the estimates of the expenditure incurred as it would not provide a meaningful analysis. These projects continue to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the projects.

Management is confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

5 Alternative performance measures ('APMs')

The Group has applied certain alternative performance measures ('APMs') within these financial results. A reconciliation to GAAP measures is provided in the table below, or are cross referenced to tables within the Financial review section. The APMs presented are used in discussions with the Board, management and investors to aid the understanding of the performance of the Group. The Group considers that the presentation of APMs allows for improved insight to the trading performance of the Group. The Group consider that the term 'Adjusted' together with an adjusting items category, best reflects the trading performance of the Group.

Adjusting items are those items that are unusual because of their size, nature or incidence, and are applied consistently year on year. The Directors consider that these items should be separately identified within their relevant income statement category to enable full understanding of the Group's results. Items included are acquisition costs, earnout payable to employees of acquired businesses, profit on sale of trademarks and restructuring costs.

The following APMs have been used in these financial results:

- Organic constant currency growth – this is calculated by comparing FY22 revenue to FY21 revenue adjusted for FY22 exchange rates and the impact of acquisitions. As shown within the Financial Review.
- Adjusted EBITDA – comprising earnings adjusted for interest, taxation, depreciation, amortisation and adjusting items. This is shown on the face of the income statement.
- Adjusted operating profit – operating profit adjusted for adjusting items. See reconciliation below.
- Adjusted earnings per share ('EPS') – earnings per share excluding adjusting items. See reconciliation below.
- Free cash flow – net decrease in cash and cash equivalents excluding net cash used acquisitions, movements on the bank loan and dividends paid. See reconciliation below.
- Underlying free cash flow – as free cash flow but adding back adjusting items. See reconciliation below.
- Net debt – comprised of cash and cash equivalents, overdrafts and amounts drawn against the RCF including the costs of arranging the RCF.

	Adjusted EBITDA £'000	Adjusted Operating Profit £'000	Adjusted Diluted Earnings Per Share £'000
Reported:			
Operating Profit	28,661	28,661	–
Profit after tax	–	–	24,776
Add back (deduct):			
Underlying depreciation and amortisation	6,991	–	–
Amortisation on acquired intangibles	5,116	5,116	5,116
Acquisition costs	565	565	565
Gain on sale of trademark	(830)	(830)	(830)
Earnout in relation to acquisition	1,160	1,160	1,160
Tax on sale of trademark	–	–	158
Tax on earnout in relation to acquisition	–	–	(314)
Adjusted	**41,663**	**34,672**	**30,631**

	Adjusted Diluted Earnings Per Share
Weighted average number of total ordinary shares including dilutive impact (£'000)	58,917
Adjusted diluted EPS (p)	52.0

	Free cash flow £'000	Adjusted free cash flow £'000
Net decrease in cash and cash equivalents during the year	(5,312)	(5,312)
Add back dividends paid	3,234	3,234
Add back cash outflow in relation to acquisition of business	10,923	10,923
Change in bank loan	(13,228)	(13,228)
Add back: adjusting items	–	895
Free cashflow/Adjusted Free cashflow	**(4,383)**	**(3,488)**

Definition of net debt	Net debt £'000
Cash and cash equivalents	12,758
Bank loan	(13,228)
RCF arrangement fee	174
Net debt	**(296)**

6 Acquisition of a subsidiary

On 10 March 2022, the Group completed the acquisition of 100% of the share capital of Linea Research Holdings Limited (Linea Research). The total consideration was £12.3 million payable on completion with a further £0.5 million to be paid in cash subject to certain performance conditions being satisfied in the period ending May 2023, of which £0.1 million has been accrued for as an adjusting item this year, see note 15. The acquisition was funded by a combination of existing cash resources and a drawdown of £5 million on the existing revolving credit facility of £40 million with HSBC and Natwest.

A long time supplier and partner to Martin Audio, Linea Research was formed in 2003 by a team of experienced professional audio specialists, and they design, develop, manufacture and market innovative professional audio equipment globally. Their products include a range of ground-breaking amplifiers, including the world-renowned M Series together with Digital Signal Processors, audio networking and software products.

The addition of Linea Research brings a world-class development team to the Group and enables us to further strengthen the product roadmap for the Audio Reproduction division, with planned developments across the Martin Audio and Linea Research ranges.

For the six-month period between the acquisition and 31 August 2022, Linea Research contributed revenue of £3.1 million and a profit before tax of £0.8 million to the Group. If the acquisition had occurred on 1 September 2021, management estimates that Linea Research's revenue would have been £6.0 million and profit before tax for the year would have been £1.4 million. 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 2021.

Acquisition-related costs

The Group incurred acquisition-related costs of £565,000 on legal fees and due diligence costs. These have been included in adjusting items to give investors a better understanding of the costs related to the acquisition of Linea Research. Additionally, because of their size, nature and the fact that they vary from acquisition to acquisition, the Group considers it a better reflection of the trading performance to show these separately.

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 values on acquisition	£'000
Developed technology	3,675
Intellectual property and research & development ('IPR&D')	1,600
Brand	850
OEM relationships	50
Distributor relationships	50
Order book	275
Intangible assets	**6,500**
Property, plant and equipment	1,535
Cash	1,354
Working capital	1,505
Acquired deferred tax liability	(47)
Deferred tax liability	(1,957)
Net identifiable assets and liabilities at fair value	**8,890**
Goodwill recognised on acquisition	3,387
Consideration paid	**12,277**

The deferred tax liability has been estimated by applying the uplift in asset fair value to the average expected corporate tax rates over the life of the assets.

6 Acquisition of a subsidiary continued

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.
Other intangible assets	• Income approach (multi-period excess earnings method 'MEEM'). • The key assumption used is the forecast revenues attributable to the existing asset.
Brand	• Income approach (relief from royalty method) • The key assumption used is the forecast revenues attributable to the existing asset.

Fair values measured on a provisional basis

Linea Research was acquired six 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 recognised is attributable to:

- the skills and technical talent of the Linea Research workforce;
- income growth potential from new products, future relationships and a proportion of synergies;
- alignment to the Group's existing customer base; and
- strong strategic fit.

Intangible assets sensitivity analysis

In assessing the estimated useful life of the intangible assets, management considered the sensitivity in the forecast sales on the valuation of the developed technology and brand. The following table details the sensitivity to a 10% increase and decrease in the sales forecast and related cost of sales impact this would have on the valuation of the assets.

		Valuation impact	
Asset	Cost £'000	10% sales increase £'000	10% sales decrease £'000
Developed technology	3,675	845	(845)
Intellectual property rights and development	1,600	490	(490)
Brand	850	95	(95)
Total	6,125	1,430	(1,430)

In 2021 the Group purchased Sequential LLC for £14,595,000, resulting in acquired intangible assets additions of £12,212,000 and goodwill of £2,397,000 arising due to this business combination.

7 Revenue

An analysis of the Group's revenue by reportable segment and by location of customer is as follows:

	Year ended 31 August 2022				Year ended 31 August 2021			
	North America £'000	**EMEA £'000**	**Rest of World £'000**	**Total £'000**	North America £'000	EMEA £'000	Rest of World £'000	Total £'000
Focusrite	**47,558**	**30,936**	**18,692**	**97,186**	49,438	39,038	13,619	102,095
Novation	**8,603**	**8,088**	**3,892**	**20,583**	9,706	9,242	3,314	22,262
ADAM Audio	**3,964**	**9,036**	**4,797**	**17,797**	8,073	11,849	3,943	23,865
Martin Audio	**8,084**	**14,176**	**9,658**	**31,918**	4,787	6,983	8,628	20,398
Sequential	**6,300**	**7,874**	**2,075**	**16,249**	2,629	2,164	506	5,299
Distribution	**–**	**–**	**–**	**–**	–	16	–	16
Total	**74,509**	**70,110**	**39,114**	**183,733**	74,633	69,292	30,010	173,935

The amount of revenue sold to external customers in the UK was £21,830,000 (2021: £19,510,000).

8 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 and 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, Optimal Audio and Linea Research branded products
Sequential	–	Sales of Sequential branded products
Distribution	–	Distribution of third-party brands including KRK, Stanton, Cerwin-Vega, and Se Electronics (ceased in August 2020)

Segment revenues and results

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. 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 (note 32) of £1,313,000 for the year ended 31 August 2022 (2021: £973,000).

8 Business segments continued

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

	2022 £'000	2021 Restated* £'000
Revenue from external customers		
Focusrite	**97,186**	102,095
Novation	**20,583**	22,262
ADAM Audio	**17,797**	23,865
Martin Audio	**31,918**	20,398
Sequential	**16,249**	5,299
Distribution	**–**	16
Total	**183,733**	173,935
Segment profit		
Focusrite	**45,108**	50,338
Novation	**8,132**	7,965
ADAM Audio	**8,941**	14,040
Martin Audio	**14,280**	9,471
Sequential	**6,819**	2,341
Distribution	**–**	(25)
	83,280	84,130
Central distribution costs and administrative expenses	**(53,724)**	(46,728)
Adjusting items (note 15)	**(895)**	(1,628)
Operating profit	**28,661**	35,774
Finance income	**2,286**	48
Finance costs	**(398)**	(784)
Profit before tax	**30,549**	35,038
Tax	**(5,773)**	(6,759)
Profit after tax	**24,776**	28,279

* From 1 September 2021, "other cost of sales" cost allocations across intercompany sales have been realigned to better reflect the allocation of freight and warehousing costs between segments. This has resulted in changes to segmental profit as previously reported in the year to 31 August 2021. As required by IFRS 8, comparative information has been restated as indicated by "restated" in the Operating segments note. The revision does not result in any changes to the consolidated income statement, consolidated statement of financial position or consolidated statement of cash flows.

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

	2022 £'000	2021 £'000
Non-current assets		
North America	**21,311**	15,104
Europe, Middle East and Africa	**66,189**	45,277
Rest of the World	**–**	2,385
Total non-current assets	**87,500**	62,766
UK	**63,543**	43,363

Information about major customers

Included in the revenues shown for FY22 is £51.3 million (FY21: £53.2 million) attributed to the Group's largest customer, which is located in North America. Amounts owed at the year end by this customer were £7.9 million (FY21: £4.2 million).

9 Profit for the year

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

	Note	Year ended 31 August 2022 £'000	2021 £'000
Net foreign exchange gains	11, 12	**2,364**	333
Loss on disposal of property, plant and equipment		**23**	4
Research and development costs		**4,178**	2,374
Depreciation and impairment of property, plant & equipment	21	**2,223**	2,022
Amortisation of intangibles	20	**9,883**	8,126
Cost of inventories within cost of sales		**94,481**	76,488
Staff costs	13	**25,244**	22,138
Gain on sale of trademark	15	**(830)**	–
Movement in expected credit loss	24	**(26)**	1
Share-based payments	32	**1,313**	973

10 Auditor's remuneration

	Year ended 31 August 2022 £'000	2021 £'000
Fees payable to the Group's auditor for the audit of the Group's Annual Report and Accounts	**473**	218
Additional fee in respect of prior year audit	**30**	30
Fees payable to the Group's auditor and its associates for other services	**–**	–
Audit of the accounts of subsidiaries pursuant to legislation	**237**	149
Total audit fees	**740**	397
Audit-related assurance services (half-year review)	**50**	40
Total	**790**	437

No other tax or assurance services were provided by the Group's auditors in FY22 or FY21.

11 Finance income

	Year ended 31 August 2022 £'000	2021 £'000
Bank deposit interest	**11**	–
Exchange gain	**2,275**	48
	2,286	48

Due to the strength of the USD at the end of FY22 a large gain arose on the retranslation of US debt within the Group.

12 Finance costs

	Year ended 31 August 2022 £'000	2021 £'000
Bank charges	**340**	282
Unwinding of RCF arrangement fee	**74**	93
Charge on right-of-use assets	**73**	28
Exchange (gains)/losses	**(89)**	381
	398	784

13 Staff costs

	Year ended 31 August 2022 £'000	Year ended 31 August 2021 £'000
Wages and salaries	**26,640**	21,855
Social security costs	**3,215**	2,623
Other pension costs	**658**	538
Share-based payments	**1,313**	973
	31,826	25,989
Less: amounts capitalised within development costs	**(6,582)**	(3,851)
	25,244	22,138

The average number of persons, including Executive Directors, employed by the Group during the year was as follows:

	2022 Number	2021 Number
Research and Development	**163**	132
Sales and Marketing	**150**	117
Operations	**135**	145
Administration	**76**	55
	524	449

14 Directors' remuneration

A detailed analysis of Directors' remuneration, including salaries, bonuses and long-term incentives, and the highest paid Director, is provided in the audited remuneration table in the Directors' Remuneration Report, which forms part of this Annual Report and Accounts (page 72) and in note 3 of the Company financial statements (page 132).

15 Adjusting items

The following adjusting items have been disclosed in the period because they do not reflect the normal business activities for the Group:

	Year ended 31 August 2022 £'000	Year ended 31 August 2021 £'000
Acquisition costs	**565**	716
Gain on trademark	**(830)**	–
Earnout accrual in relation to acquisition	**1,160**	788
Restructuring	**–**	124
Adjusting items	**895**	1,628
Amortisation of acquired intangible assets	**5,116**	4,013
Total adjusting items for adjusted EBITDA	**6,011**	5,641

Acquisition Costs in FY22 relate to the acquisition of Linea Research. The earnout accrual relates to the remaining amount due on the $4 million classed as employee remuneration rather than contingent consideration in relation to Sequential, acquired during FY21, and an amount due in respect of Linea Research of £0.1 million. The remaining accrual relating to Sequential is payable directly to employees and is subject to the achievement of gross profit targets and their continuing employment with Sequential until December 2022.

16 Tax

	Year ended 31 August	
	2022 £'000	2021 £'000
Corporation tax charges		
Over provision in prior year	**(11)**	(367)
Current year	**6,523**	8,099
	6,512	7,732
Deferred taxation		
Over provision in prior year	**(438)**	(265)
Current year	**(301)**	(708)
	5,773	6,759

Corporation tax is calculated at 19% (2021: 19%) of the estimated taxable profit for the year. Taxation for the US and German 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	
	2022 £'000	2021 £'000
Current taxation		
Profit before tax on continuing operations	**30,549**	35,038
Tax at the UK corporation tax rate of 19% (2021: 19%)	**5,804**	6,657
Effects of:		
Expenses not deductible for tax purposes	**168**	615
Deferred tax assets recognition	**–**	(1,385)
Other differences	**(49)**	(28)
Additional UK tax reliefs	**(140)**	–
Prior period adjustment	**(449)**	(367)
Effect of change in standard rate of deferred tax	**173**	1,147
Impact of foreign tax rates	**266**	120
Tax charge for the year	**5,773**	6,759

Expenses not deductible relate to the costs of acquiring Linea Research Holdings Limited and entertainment expenses.

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:

	2022 £'000	2021 £'000
Share-based payment deferred tax deduction	**(1,131)**	786
Share-based payment current tax deduction	**723**	690
	(408)	1,476

The net corporation tax creditor is £653,000 (FY21: debtor £869,000). The prior year debtor related to overpayments to tax authorities throughout the year and has been settled during the year ended 31 August 2022.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. Deferred taxes as at 31 August 2022 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

17 Dividends

The following equity dividends have been declared or proposed:

	Year to 31 August 2022 Pence	Year to 31 August 2021 Pence
Dividend per qualifying ordinary share	**6.0**	5.2

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2022 of 1.85p per share (FY21: 1.50p per share).

On 5 December 2022, the Directors proposed a final dividend of 4.15p per share (FY21: 3.7p per share) making a total of 6.0p per share for the year (FY21: 5.2p per share).

18 Earnings per share ('EPS')

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

	Year ended 31 August	
	2022 £'000	2021 £'000
Profit after tax	**24,776**	28,279
Adjusting items (note 15)	**6,011**	5,641
Tax on adjusting items	**(156)**	(165)
Total underlying profit	**30,631**	33,755

	Year ended 31 August	
	2022 Number '000	2021 Number '000
Number of shares		
Weighted average number of ordinary shares	**58,294**	57,993
Effect of dilutive potential ordinary shares:		
Share option plans	**623**	725
Weighted average number of total ordinary shares including dilutive impact	**58,917**	58,718

EPS	**Pence**	Pence
Basic EPS	**42.5**	48.8
Diluted EPS	**42.1**	48.2
Adjusted basic EPS	**52.5**	58.2
Adjusted diluted EPS	**52.0**	57.5

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For diluted EPS, the weighted average number of ordinary shares is adjusted for the dilutive effect of potential ordinary shares arising from the exercise of granted share options.

At 31 August 2022, the total number of ordinary shares issued and fully paid was 58,661,639. This included 262,929 (FY21: 554,712) 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 58,661,639 (FY21: 58,488,351) less the weighted average number of shares held by the EBT 367,333 (FY21: 495,323). 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.

The effective tax rate on the items above is much lower than the Group's overall effective tax rate, as the majority items are not deductible for corporation tax. The impact of tax on the adjusting items is shown in note 5 (APMs).

19 Goodwill and intangible assets with indefinite useful life

	Sequential £'000	Martin Audio £'000	ADAM Audio £'000	Novation Digital Music Systems £'000	Linea Research £'000	Total £'000
Cost	–	–	–	–	–	–
At 1 September 2020	–	12,564	5,099	419	–	18,082
Goodwill on business combinations	2,397	–	–	–	–	2,397
Foreign exchange	–	–	(225)	–	–	(225)
At 31 August 2021	2,397	12,564	4,874	419	–	20,254
Goodwill on business combinations	–	–	–	–	3,387	3,387
Foreign exchange	443	–	(156)	–	–	287
At 31 August 2022	**2,840**	**12,564**	**4,718**	**419**	**3,387**	**23,928**

	Sequential £'000	Martin Audio £'000	ADAM Audio £'000	Novation Digital Music Systems £'000	Linea Research £'000	Total £'000
Carrying amount	–	–	–	–	–	–
At 1 September 2020	–	2,364	5,099	419	–	7,882
Goodwill on business combinations	2,397	–	–	–	–	2,397
Foreign exchange	–	–	(225)	–	–	(225)
At 31 August 2021	2,397	2,364	4,874	419	–	10,054
Goodwill on business combinations	–	–	–	–	3,387	3,387
Foreign exchange	443	–	(156)	–	–	287
At 31 August 2022	**2,840**	**2,364**	**4,718**	**419**	**3,387**	**13,728**

The carrying value of goodwill includes cumulative impairment losses of £10,200,000 (2021: £10,200,000) attributable to Martin Audio.

In note 20, 'other intangible assets', there are £5,815,000 of development costs which have not yet started to be amortised. These are projects in development, which have not yet been completed. The carrying value of these assets has been assessed for impairment.

No impairment is considered to be required on these assets.

The goodwill shown in the table above and intangible assets not yet started to be amortised are allocated to the CGUs as per the table below:

CGUs	Goodwill £'000	Development costs not yet started to be amortised £'000
Focusrite	419	3,454
Novation	–	840
ADAM Audio	4,718	1,054
Martin Audio	2,364	–
Sequential	2,840	467
Linea Research	3,387	–
Total	**13,728**	**5,815**

19 Goodwill and intangible assets with indefinite useful life continued

Assumptions for assessment of impairment

The discount rate applied against future cash flows has been calculated with reference to a weighted average cost of capital ('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 impairment review undertaken as described below for all CGUs covers goodwill, intangible assets with indefinite useful life and other internally generated assets.

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 and a three-year plan approved by management covering a four-year period to the end of FY26. Cash flows beyond that period have been extrapolated using a perpetual 1% growth rate (FY21: 1%) based on IMF estimates of long-term inflation thereafter.

The following pre tax discount rates were then used for the CGUs:

CGUs	2022	2021
Focusrite and Focusrite Pro	**10.8%**	9.4%
Novation	**10.8%**	9.4%
ADAM Audio	**13.9%**	12.1%
Martin Audio	**13.9%**	12.8%
Sequential	**18.1%**	12.3%
Linea Research	**17.9%**	–

Management believes that any reasonably possible change in any assumptions on which these CGUs' recoverable amounts are based would not cause the carrying amount to exceed their respective recoverable amounts.

20 Other intangible assets

	Intellectual property £'000	Internally generated development £'000	Acquired development costs £'000	Licences £'000	Trademark £'000	Computer software £'000	Brands £'000	Total £'000
Cost								
At 1 September 2020	580	23,690	19,943	166	826	1,527	14,300	61,032
Additions								
Acquired separately	–	–	–	30	229	330	–	589
Products developed during the year	2	4,894	–	–	–	–	–	4,896
Business combinations	–	–	6,142	–	–	–	6,070	12,212
Transfers	(175)	–	–	–	–	175	–	–
Disposals	–	(2,839)	–	–	–	(447)	–	(3,286)
Foreign exchange	–	–	(188)	–	–		(350)	(538)
At 31 August 2021	407	25,745	25,897	196	1,055	1,585	20,020	74,905
Additions								
Acquired separately	–	–	–	1,684	–	44	4,535	6,263
Products developed during the year	21	7,851	–	–	385	–	–	8,257
Business combinations	–	–	5,650	–	–	–	850	6,500
Transfers	(21)	21	–	–	–	–	–	–
Disposals	–	–	–	–	(1)	(245)	–	(246)
Foreign exchange	–	–	1,032	–	–	–	913	1,945
At 31 August 2022	**407**	**33,617**	**32,579**	**1,880**	**1,439**	**1,384**	**26,318**	**97,624**
Amortisation								
At 1 September 2020	520	15,506	2,152	122	464	826	1,068	20,658
Charge for the year	1	3,463	2,780	41	287	321	1,233	8,126
Transfers	(114)	–	–	–	–	114	–	–
Eliminated on disposal	–	(2,371)	–	–	–	(455)	–	(2,826)
Foreign exchange	–	9	(81)	–	–	27	(74)	(119)
At 31 August 2021	407	16,607	4,851	163	751	833	2,227	25,839
Charge for the year	–	3,938	3,457	61	301	467	1,659	9,883
Eliminated on disposal	–	–	–	–	–	(141)	–	(141)
Foreign exchange	–	17	39	–	–	–	23	79
At 31 August 2022	**407**	**20,562**	**8,347**	**224**	**1,052**	**1,159**	**3,909**	**35,660**
Carrying amount								
At 31 August 2022	**–**	**13,055**	**24,232**	**1,656**	**387**	**225**	**22,409**	**61,964**
At 31 August 2021	–	9,138	21,046	33	304	752	17,793	49,066
At 31 August 2020	60	8,184	17,791	44	362	701	13,232	40,374

In FY22, no disposals (FY21: £315,000) related to development costs previously capitalised but which are considered to be no longer viable projects. All disposals in the year related to fully amortised assets.

Transfers relate to assets that have been previously misclassified.

21 Property, plant and equipment

	Land and Buildings £'000	Plant, tooling equipment and machinery £'000	Right-of-use assets £'000	Fixtures, fittings and leasehold improvements £'000	Computer equipment £'000	Customer demonstration units £'000	Total £'000
Cost							
At 1 September 2020	–	3,292	2,840	1,131	1,236	139	8,638
Additions	–	635	160	209	314	–	1,318
Transfers	–	(466)	106	333	48	(21)	–
Additions through business combination	–	–	282	–	22	–	304
Disposals	–	(16)	–	(37)	(4)	–	(57)
Foreign exchange	–	(23)	(38)	–	–	–	(61)
At 31 August 2021	–	3,422	3,350	1,636	1,616	118	10,142
Additions	–	694	6,735	12	339	–	7,780
Additions through business combination	1,500	35	–	–	–	–	1,535
Disposals	–	(97)	–	(43)	(10)	–	(150)
Foreign exchange	–	3	187	27	50	1	268
At 31 August 2022	**1,500**	**4,057**	**10,272**	**1,632**	**1,995**	**119**	**19,575**
Accumulated depreciation							
At 1 September 2020	–	1,589	1,080	819	943	125	4,556
Charge for the year	–	519	1,029	190	284	–	2,022
Transfers	–	(162)	–	136	35	(9)	–
Disposals	–	(16)	–	(36)	(3)	–	(55)
Foreign exchange	–	(12)	(14)	(1)	–	–	(27)
At 31 August 2021	–	1,918	2,095	1,108	1,259	116	6,496
Charge for the year	30	715	979	178	321	–	2,223
Disposals	–	(78)	–	(44)	(5)	–	(127)
Foreign exchange	–	2	58	19	33	1	113
At 31 August 2022	**30**	**2,557**	**3,132**	**1,261**	**1,608**	**117**	**8,705**
Carrying amount							
At 31 August 2022	**1,470**	**1,500**	**7,140**	**371**	**387**	**2**	**10,870**
At 31 August 2021	–	1,504	1,255	528	357	2	3,646
At 31 August 2020	–	1,703	1,760	312	293	14	4,082

Transfers relate to assets that have been previously misclassified.

22 Subsidiaries

The Group's subsidiary undertakings for the period are listed below, including the name, country of incorporation, and proportion of ownership interest:

Name	Country of registration or incorporation	Address	Principal activity	Class of shares	2022 %	2021 %
Focusrite Audio Engineering Limited ('FAEL')	England and Wales	Windsor House, Turnpike Road, High Wycombe, Bucks, HP12 3FX	Manufacture and distribution	Ordinary	**100**	100
Focusrite Group US[6]	USA	909 N Pacific Coast Highway Suite 270, El Segundo, CA, 90245, USA	Marketing services	Ordinary	**100**	100
Focusrite Novation Asia Limited[1]	Hong Kong	2316, 23/F Hong Kong Plaza, 181-191 Connaught Road West, Shek Tong Tsui, Hong Kong	Marketing services	Ordinary	**100**	100
Focusrite Australia PTY Limited[1]	Australia	Suite 5, Level 1, 796 High Street, Kew East, Victoria 3102, Australia	Marketing services	Ordinary	**100**	100
Pro Audio Beteiligungs GmbH	Germany	Grünstraße 13, Hugstetten, 79232, Germany	Holding company	Ordinary	**100**	100
ADAM Audio GmbH[2]	Germany	Rudower Chaussee 50, Berlin, 12489, Germany	Manufacture and distribution	Ordinary	**100**	100
ADAM Audio USA, Inc.[9]	USA	514 E Iris Drive, Nashville, TN, 37204, USA	Marketing services and distribution	Ordinary	**100**	100
Dongguan ADAM Audio Business Service Co., Limited[3]	China	Room 505, Building 1(-3H Maker Center), No. 552, Tangxia Avenue North, Tangxia Town, Dongguan, Guangdong, China	Operational services	Ordinary	**100**	100
Optimal Audio Group Limited	England and Wales	Unit 2 Century Point, Halifax Road, High Wycombe, Bucks, HP12 3SL	Manufacture and distribution	Ordinary	**100**	100
Martin Audio Limited[4]	England and Wales	Unit 2 Century Point, Halifax Road, High Wycombe, Bucks, HP12 3SL	Manufacture and distribution	Ordinary	**100**	100
Martin Audio US, LLC [9]	USA	3108 Glendale Blvd., #669, Los Angeles, CA, 90039, USA	Manufacture and distribution	Ordinary	**100**	100
Focusrite Investments Inc.	USA	909 N Pacific Coast Highway Suite 270, El Segundo, CA, 90245, USA	Holding company	Ordinary	**100**	100
Sequential LLC[5]	USA	1527 Stockton Street, 3rd Floor, San Francisco, CA, 94133, USA	Manufacture and distribution	Ordinary	**100**	100
Marion Systems LLC[7]	USA	1527 Stockton Street, 3rd Floor, San Francisco, CA, 94133, USA	Manufacture and distribution	N/A	**100**	–
Linea Research Holdings Ltd[8]	UK	Unit 1 & 2 Aylesford Court, Works Road, Letchworth Garden City, Hertfordshire, SG6 1LP	Activities of other holding companies	Ordinary	**100**	–
Linea Research Limited[8]	UK	Unit 1 & 2 Aylesford Court, Works Road, Letchworth Garden City, Hertfordshire, SG6 1LP	Engineering activities	Ordinary	**100**	–
Herts & Beds Electronic Services Limited[8]	UK	Unit 1 & 2 Aylesford Court, Works Road, Letchworth Garden City, Hertfordshire, SG6 1LP	Wholesale of electronic and telecommunications equipment and parts	Ordinary	**100**	–
Aylesford Court (Letchworth) Management Company Limited[8]	UK	Lewis House, Great Chesterford Court, Great Chesterford, Essex, CB10 1PF	Combined facilities support activities	Ordinary	**40**	–

1 Owned indirectly through FAEL.
2 Owned indirectly through Pro Audio Beteiligungs GmbH.
3 Owned indirectly through ADAM Audio GmbH.
4 Owned indirectly through Optimal Audio Group Limited.
5 Owned indirectly through Focusrite Investments Inc.
6 Renamed from Focusrite Novation Inc in FY21.
7 Owned indirectly through Sequential LLC.
8 Owned indirectly through Optimal Audio Group Limited.
9 Merged into Focusrite Group US and dissolved on 1 September 2021.

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23 Inventories

	2022 £'000	2021 £'000
Raw materials	**3,820**	2,226
Work in progress	**2,778**	1,471
Finished goods	**41,742**	17,052
	48,340	20,749

The stock value includes a provision of £4,342,000 (FY21: £2,855,000). This stock provision is for slow moving inventory and raw material where demand is low, therefore is at higher risk of becoming obsolete. Of this provision, £310,000 (FY21: £308,000) was reversed and £23,000 (FY21: £140,000) was utilised during the year.

Stock charged to cost of sales during the year was £94,481,000 (FY21: £76,488,000).

No specific inventories have been pledged as security against borrowings (FY21: £nil). The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertakings. This debenture is in place to support the revolving credit facility, provision of forward contracts and a duty deferment facility.

24 Trade and other receivables

	2022 £'000	2021 £'000
Trade debtors	**27,345**	12,234
Expected credit loss	**(458)**	(484)
	26,887	11,750
Other debtors	**127**	1,042
Prepayments	**1,285**	1,484
Tax debtor	**221**	499
	28,520	14,775

Trade receivables
Trade receivables disclosed above are classified as loans and receivables and are measured at amortised cost.

The Group has not charged interest for late payment of invoices in FY21 or FY22 but in certain cases the Group has withheld some of that customer's discount from the invoiced price.

Expected credit loss is recognised on the total trade receivables based on estimated irrecoverable amounts by reference to past default experience. Specific counterparty risk is also considered where an analysis of the counterparty's current financial position indicates a change in credit risk.

A single major distributor accounted for 31% (FY21: 34%) of the total balance of trade receivables net of allowances for doubtful debts. This is largely covered by credit insurance. No other single customer accounted for more than 10% of the total balance of trade receivables net of allowances for doubtful debts during the period under review.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the year end but against which the Group has not recognised an allowance for doubtful receivables. There has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing of not impaired receivables

	2022 £'000	2021 £'000
Not overdue	**17,701**	9,605
Overdue between 0–30 days	**7,669**	2,019
Overdue between 31–60 days	**893**	77
Overdue between 61–90 days	**81**	49
Overdue more than 90 days	**543**	–
	26,887	11,750

Movement in the expected credit loss

	2022 £'000	2021 £'000
Balance at the beginning of the period	**484**	483
Movement in expected loss recognised	**(26)**	1
Balance at the end of the period	**458**	484

Ageing of impaired trade receivables

	2022 £'000	2021 £'000
Overdue up to 30 days	**50**	11
Overdue between 31–60 days	**16**	44
Overdue between 61–90 days	**139**	3
Overdue more than 90 days	**253**	426
	458	484

Of the £458,000 (FY21: £484,000) provision for the expected credit loss, £220,000 (FY21: £350,000) of this covers debt that has been provided for in full.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes to the Financial Statements continued
For the year ended 31 August 2022

25 Deferred tax
The following are the major deferred tax liabilities and assets recognised by the Group:

	Intangible assets recognised on acquisition £'000	Capitalised development costs £'000	Share-based payments £'000	Other deferred tax £'000	Hedging instrument £'000	Total £'000
Cost						
At 1 September 2020	6,970	1,398	(647)	–	51	7,772
Transfers	–	244	–	(244)	–	–
Debit/(credit) to income statement	(918)	384	2	(430)	–	(962)
Debit/(credit) to other comprehensive income	(111)	–	–	–	85	(26)
Directly recognised in equity	–	–	(786)	–	–	(786)
At 31 August 2021	5,941	2,026	(1,431)	(674)	136	5,998
Transfers	–	202	–	(202)	–	–
Debit/(credit) to income statement	(746)	397	(128)	(265)	–	(742)
Credit to other comprehensive income	–	–	–	–	(199)	(199)
Arising on business combinations	1,585	–	–	419	–	2,004
Directly recognised in equity	–	–	1,131	–	–	1,131
At 31 August 2022	**6,780**	**2,625**	**(428)**	**(722)**	**(63)**	**8,192**

Other deferred tax includes £1,296,000 (2021: £852,000) relating to deferred tax assets on the elimination of unrealised profit held within stock and £573,000 (2021: £180,000) relating to deferred tax liabilities on fixed asset timing differences.

Deferred tax assets and liabilities are offset when related to income taxes levied by the same taxation authority. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2022 £'000	2021 £'000
Deferred tax liabilities	**(9,130)**	(9,018)
Deferred tax assets	**938**	3,022
	(8,192)	(5,996)

26 Other liabilities
The Group has leases for its offices, warehouses and related facilities, plant and machinery and some vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet. The Group classifies its right-of-use assets within 'property, plant and equipment' (see note 21).

The remaining terms of the leases for offices and warehouses range from one to ten years in term, with the last leases due to expire in 2032. Lease payments are generally fixed and there is no option to purchase the buildings at the end of the term. For leases over office buildings and warehouses, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

Right-of-use assets consist of the following leases:

	2022 £'000	2021 £'000
Offices and warehouses	**7,140**	1,253
Vehicles	**–**	2
	7,140	1,255

Lease liabilities are split between current and non-current:

	2022 £'000	2021 £'000
Current	**897**	774
Non-current	**6,013**	511
	6,910	1,285

When measuring the lease liabilities the Company discounted lease payments using its incremental borrowing rate. The weighted average rate applied to leases adopted in the year was 1.19% (2021: 1.35%).

The movement in lease liabilities is as follows:

	2022 £'000	2021 £'000
Balance at 1 September	**1,285**	1,907
Lease payments	**(1,168)**	(1,057)
	117	850
Interest on lease liabilities	**24**	27
New leases in the year	**6,629**	442
Foreign exchange	**140**	(34)
Balance at 31 August	**6,910**	1,285

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable leases, which fall due as follows:

	2022 £'000	2021 £'000
Within one year	**897**	778
Between 2 and 5 years	**2,965**	510
After 5 years	**3,048**	–
	6,910	1,288

At the balance sheet date, the Group had the following liabilities in relation to staged acquisition payments relating to the purchase of the Oberheim brand in May 2022.

	2022 £'000	2021 £'000
Within one year	**744**	–
Between 2 and 5 years	**2,382**	–
After 5 years	**448**	–
	3,574	–

Total other liabilities

	2022 £'000	2021 £'000
Within one year	**1,641**	778
Between 2 and 5 years	**5,347**	510
After 5 years	**3,496**	–
	10,484	1,288

Notes to the Financial Statements continued
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27 Trade and other payables

	2022 £'000	2021 £'000
Trade payables	**22,809**	11,520
Accruals	**12,551**	11,704
Other taxation and social security	**988**	449
	36,348	23,673

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. No interest costs have been incurred in relation to trade payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities.

28 Provisions

	Warranty £'000	Duty £'000	Property £'000	Total £'000
At 1 September 2021	**399**	**415**	**1,347**	**2,161**
Additional provisions	**9**	**–**	**–**	**9**
Provisions released	**(104)**	**–**	**(301)**	**(405)**
Foreign exchange	**–**	**75**	**–**	**75**
At 31 August 2022	**304**	**490**	**1,046**	**1,840**
Current	**304**	**490**	**1,046**	**1,840**
Non-current	**–**	**–**	**–**	**–**
	304	**490**	**1,046**	**1,840**

The Group provides warranty cover for its products for no additional charge in respect of manufacturing defects which become apparent shortly after purchase. The Group offers warranties of up to five years and the estimated liability for product warranty is recognised when products are sold. No additional warranty services are provided to customers. These estimates are established using historical information on the nature, frequency and average cost of warranty claims and cost to repair.

The duty provision was established in FY20 to cover the retrospective correction of the duty paid prior to March 2020. See note 36 for more detail.

Property provisions relate to the maximum potential costs to reinstate the Group's leased buildings to their condition at lease commencement.

29 Share capital

	2022 Number	2021 Number
Issued and fully paid		
Ordinary shares of £0.001 each	**58,661,639**	58,661,639

	2022 £'000	2021 £'000
Issued and fully paid		
Ordinary shares of £0.001 each	**58,662**	58,662

In the financial year, no shares were issued to the Employee Benefit Trust (EBT) (FY21: 550,000 shares).

30 Other reserves

Share premium reserve

	2022 £'000	2021 £'000
Balance at 1 September and 31 August	**115**	115

Merger reserve

	2022 £'000	2021 £'000
Balance at 1 September and 31 August	**14,595**	14,595

On 4 December 2014, Focusrite plc obtained control of 100% of the share capital of Focusrite Audio Engineering Limited ('FAEL') in a share-for-share exchange, thereby inserting Focusrite plc as the Parent Company of the Group. In accordance with the Companies Act 2006, the difference between the cost of the investment and the nominal value of the share capital acquired was recognised in the merger reserve.

Merger difference reserve

	2022 £'000	2021 £'000
Balance at 1 September and 31 August	**(13,147)**	(13,147)

Under IFRS 3, the equity structure should reflect the equity structure of the legal parent (Focusrite plc) including the equity interests Focusrite plc issued to the combination. The merger difference reserve is the difference between the sum of the plc share capital and merger reserve, and the sum of the FAEL share capital, share premium and capital redemption reserve.

There were no movements in the merger difference reserve in the period.

Translation reserve

	2022 £'000	2021 £'000
Balance at 1 September	**(529)**	197
Exchange differences on translating the net assets of foreign operations	**(486)**	(726)
Balance at 31 August	**(1,015)**	(529)

Exchange differences relating to the translation of the net assets and results of the Group's US, German, Australian and Hong Kong subsidiaries from its functional currency into the Group's presentational functional currency are recognised directly in the translation reserve.

Hedging reserve

	2022 £'000	2021 £'000
Balance at 1 September	**716**	220
Gain on forward exchange contracts	**(1,009)**	445
Transfer of deferred tax to reserves	**–**	51
At 31 August	**(293)**	716

EBT reserve

	2022 £'000	2021 £'000
Balance at 1 September	**(1)**	(1)
Shares issued to the EBT	**–**	1
Share options exercised	**–**	(1)
Balance at 31 August	**(1)**	(1)

The EBT reserve arose when the Company issued equity share capital which is held in trust by the EBT. The interests of this trust are consolidated into the Group's financial statements and the relevant amount treated as a reduction in equity. The shares held in the trust relate to share options granted; upon exercise of the share options this amount is reduced.

31 Cash and cash equivalents

	2022 £'000	2021 £'000
Cash and bank balances per the balance sheet	**12,758**	17,339
Net cash per the cash flow statement	**12,758**	17,339

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The Group has no outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

32 Share-based payments

Equity-settled share option schemes

335,180 options over Focusrite plc's shares were exercised during the year ended 31 August 2022 (2021: 435,261). As at 31 August 2022, the total number of ordinary shares under option in Focusrite plc was 786,166 (2021: 1,032,852) of which 262,930 (2021: 554,712) can be satisfied by ordinary shares that are held in the EBT.

The remaining number of options would, if exercised, result in the issue of 523,236 (2021: 478,140) ordinary shares. The options held by the Directors are subject to performance-related vesting conditions.

The weighted average share price at the date of exercise for share options exercised during the year ended 31 August 2022 was £12.64 (2021: £10.02). For the share options outstanding at the year end, the weighted average remaining contractual life was 7.0 years (2021: 8.3 years).

	2022		2021	
	Number of options	**Weighted average exercise price £**	Number of options	Weighted average exercise price £
Outstanding at start of period	**1,032,852**	**3.12**	1,523,547	2.69
Granted during the period				
2020 PSP: Executive Directors	**–**	**–**	31,190	–
2020 PSP: Other senior employees	**–**	**–**	47,169	–
2021 PSP: Executive Directors	**32,558**	**–**	–	–
2021 PSP: Other senior employees	**34,612**	**–**	–	–
2021: Management shares	**–**	**–**	13,337	–
2021 Management bonus award	**6,599**	**–**	–	–
2021 Next 20	**31,446**	**–**	–	–
2021 GBS	**4,287**	**–**	–	–
Exercised during the year				
2014 EMI scheme: other employees	**–**	**–**	(53,323)	0.15
2015 EMI scheme: other employees	**(107,540)**	**1.71**	(116,498)	1.71
2017 PSP: Executive Directors	**–**	**–**	(126,240)	–
2017 PSP: Other senior employees	**–**	**–**	(23,194)	–
2018 PSP: Other senior employees	**(45,988)**	**–**	–	–
2018 PSP: Executive Directors	**(51,713)**	**–**	–	–
2018 LTIP	**(101,522)**	**3.94**	(112,830)	3.94
2019 LTIP	**(17,789)**	**5.10**	–	–
2021: Management shares	**(4,029)**	**–**	(3,176)	–
2021 Management bonus award	**(6,599)**	**–**	–	–
Cancelled during the period				
2015 EMI scheme: other employees	**51**	**1.71**	(5,663)	1.71
2018 PSP: Executive Directors	**–**	**–**	(41,318)	–
2018 PSP: Other senior employees	**–**	**–**	(12,758)	–
2019 PSP: Other senior employees	**–**	**–**	(9,151)	–
2019 PSP: Executive Directors	**–**	**–**	(35,655)	–
2018 LTIP	**(4,335)**	**3.94**	(16,122)	3.94
2019 LTIP	**(1,414)**	**5.10**	(14,851)	5.10
2020 LTIP	**(15,310)**	**6.45**	(11,612)	6.45
Outstanding at the end of the year	**786,166**	**3.08**	1,032,852	3.12
Exercisable at the end of the year	**110,853**	**3.94**	32,223	3.14

	2022 £'000	2021 £'000
Expense arising from share-based payment transactions	**1,313**	973

32 Share-based payments continued
The estimated fair value of the share options was calculated by applying a Black-Scholes model. The model inputs were:

Grant date	Share price at date of grant	Exercise price	Expected volatility	Dividend yield	Contractual life of option	Risk-free interest rate
1 September 2014	£1.74–£2.00	£0.001	51.8%	1.50%	10 years	1.93%
18 September 2014	£0.15	£0.15	51.8%	1.50%	10 years	0.56–1.93%
1 December 2015	£1.76	£1.76	37.2–40.6%	1.50%	10 years	1.46–1.59%
12 March 2018	£3.94	£3.94	31.0%	0.99%	10 years	1.24–1.34%
13 March 2019	£5.10	£5.10	31.6%	0.63%	10 years	0.97–1.04%
17 February 2020	£6.37	£6.37	31.0%	0.61%	10 years	0.50–0.53%
18 June 2020	£6.45	£6.45	33.6%	0.40%	10 years	0.03–0.08%
18 November 2020	£9.35	£0.001	n/a	0.75%	10 years	n/a
16 November 2021	£16.25	£0.001	n/a	0.28%	10 years	n/a

33 Retirement benefit scheme
The Group operates a number of defined contribution pension plans which are open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the pension fund, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The pension charge for the period represents contributions payable to the fund and amounted to £658,000 (2021: £538,000) for the year. Contributions totalling £107,000 (2021: £95,000) were payable to the fund at the balance sheet date and are included in trade and other payables.

34 Financial instruments
Capital risk management
The Group manages its capital to maximise future profitable growth and thereby the return on investment for shareholders. The Group's overall strategy has evolved in the last five years in response to organic growth opportunities.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to equity holders of the Parent Company, comprising issued capital, reserves and retained earnings as disclosed in notes 29 and 30.

The Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the Group that are managed as capital.

Categories of financial instruments

	2022 £'000	2021 £'000
Financial assets		
Amortised cost		
Cash and cash equivalents	**12,758**	17,339
Trade and other receivables	**26,887**	11,782
Derivative financial assets designated and effective as cash flow hedging instruments	**(293)**	716
	39,352	29,837
Financial liabilities		
Amortised cost		
Trade and other payables	**22,809**	12,028
Bank loan (RCF) and arrangement fee	**13,054**	(248)
Amounts payable in relation to staged acquisition payments	**3,573**	–
	39,436	11,780

The £0.2 million recorded as at 31 August 2021 against bank loan and arrangement fee is the amount paid to arrange the RCF in December 2019. The cost is being written down over the term of the RCF, which is five years. This is shown net with the loan amount. As at 31 August 2022 the amount drawn down against the RCF is £13.2 million (2021: £nil).

Financial assets and liabilities are measured at amortised cost, which is a reasonable approximation of fair value.

Financial risk management objectives
The Group's finance function is responsible for all aspects of corporate treasury. It coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide guidance to the finance function in addressing all risks, including foreign exchange risk, credit risk and the appropriate use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertakings. This debenture is in place to support the revolving credit facility, provision of forward contracts and a duty deferment facility.

Market risk
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group enters into derivative financial instruments to manage its exposure to foreign currency risk. Currently the exposure to short-term foreign exchange rate risks is mitigated through the purchase of forward foreign exchange contracts to hedge the exchange rate risk arising on trading with overseas customers.

Foreign currency risk management
The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters, utilising forward foreign exchange contracts.

The carrying amounts of the Group's monetary assets and monetary liabilities at the relevant period end dates are as follows:

	Liabilities		Assets	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
USD	**17,537**	2,785	**18,647**	12,486
Euro	**2,754**	1,718	**6,887**	9,886
AUD	**147**	-	**1,280**	110
HKD	**16**	-	**124**	142
CNY	**-**	-	**100**	–
GBP	**18,982**	7,277	**12,314**	7,213
	39,436	11,780	**39,352**	29,837

Foreign currency sensitivity analysis
The Group is mainly exposed to the euro and USD.

The following table details the Group's sensitivity to a 10% increase and decrease in GBP against the relevant foreign currencies.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

	Euro impact		USD impact	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000
Profit or loss impact	**413**	817	**920**	970

Forward foreign exchange contracts
It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts during the following financial year with the aim that approximately 75% of the euro foreign exchange exposure is covered. In addition, approximately 50% of the euro foreign exchange exposure is covered for the year after that. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place. The Group hedges payments and receipts of trade debtors and creditors and no other financial assets, and therefore there is no uncertainty over the accounting for any payments for stock and other financial assets.

34 Financial instruments continued
For the current and prior year, all forward foreign exchange contracts have been hedge accounted. For cash flow hedges the following table sets out the periods when the cash flows are expected to occur and when they are expected to affect profit or loss:

	2022				
	Carrying amount £'000	**Expected cash flow £'000**	**Within 1 year £'000**	**Between 1 and 5 years £'000**	**Over 5 years £'000**
Forward exchange contracts					
Liabilities	**(293)**	**(293)**	**(293)**	**–**	**–**
Total	**(293)**	**(293)**	**(293)**	**–**	**–**

	2021				
	Carrying amount £'000	Expected cash flow £'000	Within 1 year £'000	Between 1 and 5 years £'000	Over 5 years £'000
Forward exchange contracts					
Assets	716	716	716	–	–
Total	716	716	716	–	–

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a well-established system of credit limits and credit insurance, where credit insurance typically covers around 80% of the Group's trade receivables.

The carrying amount recorded for financial assets in the consolidated financial information is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties.

Liquidity risk management
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. To counter this risk, the Group operates with a high level of cash and has an RCF in place. In addition, it benefits from strong cash flow from its normal trading activities.

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

Financial assets	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2022						
Non-interest bearing	**–**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**	**–**
2021						
Non-interest bearing	17,339	–	–	–	–	17,339
	17,339	–	–	–	–	17,339

Financial liabilities	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2022						
Non-interest bearing	**–**	**–**	**–**	**174**	**–**	**174**
RCF	**(13,228)**	**–**	**–**	**–**	**–**	**(13,228)**
	(13,228)	**–**	**–**	**174**	**–**	**(13,054)**
2021						
Non-interest bearing	–	–	–	248	–	248
	–	–	–	248	–	248

The amounts drawn down on the RCF are shown as less than one month as this agreed term of the drawdown, but it can be renewed within the term of the credit facility.

The £0.17 million (2021: £0.3 million) recorded against bank loan and arrangement fee as at 31 August 2021 is the amount paid to arrange the RCF in December 2020. The cost is being written down over the term of the RCF, which is five years.

The movement in financial liabilities is shown below:

	2022 £'000	2021 £'000
Balance as at 1 September	**(248)**	11,641
Changes from financing cash flows:		
Proceeds from loans and borrowings	**13,228**	7,353
Repayment of loans and borrowings	**-**	(19,335)
	12,980	(341)
Other changes		
Write-down of RCF arrangement fee	**74**	93
Balance at 31 August 2021	**13,054**	(248)

The maturity of non-derivative financial liabilities, comprising trade payables and other creditors, is less than three months for both of the financial period ends.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the relevant year ends presented above.

On 19 December 2019, Focusrite plc took out a £40 million revolving credit facility with HSBC UK and NatWest, for a period of five years. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.25%-1.90% + SONIA on utilised funds and 0.4% + SONIA on unutilised funds.

Fair value of financial instruments

Fair value of financial instruments carried at amortised cost
The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (including listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Fair value measurements recognised in the statement of financial position
Under IAS 39, all derivative financial instruments not in a hedge relationship are classified as derivatives at fair value through the income statement. The Group does not use derivatives for speculative purposes. All transactions in derivative financial instruments are underpinned by firm orders from customers or to suppliers or where there is a high degree of certainty that orders will be received.

35 Contingent liabilities
In the opinion of the Directors, as at 31 August 2022, the Company and its subsidiaries had no liabilities considered to be contingent.

Notes to the Financial Statements continued
For the year ended 31 August 2022

36 Contingent assets
In early 2020, Focusrite agreed with the US authorities to use a new import code for Scarlett interfaces. This resulted in a retrospective correction for duty, with a payment of $1.0 million, accrued for in FY20, and a rebate of $2.5 million, which were accounted for as a contingent asset. As at 31 August 2022 the rebates had all been received (31 August 2021: $0.5 million outstanding as a contingent asset), and as a result there is no contingent asset at 31 August 2022.

37 Related party transactions
Balances and transactions between the Parent Company and its subsidiary, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

Remuneration of key management personnel
The key management personnel are the operational Directors of the Group and the remuneration that they have received during the year while employed as an operational Director is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2022 £'000	2021 £'000
Short-term employee benefits	**2,790**	2,570
Share-based payments	**1,512**	1,504
Pension contributions	**63**	74
	4,365	4,148
Aggregate emoluments of the highest paid Director	**338**	550

More details on the members of the Board can be found on page 62. Aggregate emoluments exclude share-based payments.

Transactions involving Directors and key management personnel
During the year, the Company continued a commercial lease agreement in Lincoln Road, High Wycombe. Mr P Dudderidge, a Director and shareholder of the Company, is the landlord of the property in Lincoln Road, High Wycombe. The annual rental is £24,250 (2021: £24,250) and is considered to be at arm's length. No amounts are outstanding at the year end (2021: £nil).

During the year Mr T Carroll, a Director and shareholder of the Company purchased an OB-X8 synthesizer from the company under the Company's employee discount purchase programme for £2,304. This amount was outstanding and included within trade debtors at the year end.

38 Capital commitments
As at 31 August 2022 the Group had a capital commitment of US $704k relating to technical development work with an external third party. This is expected to be paid within FY23.

39 Post balance sheet events
The Company intends to issue 550,000 New Ordinary Shares at their par value to the Employee Benefit Trust (EBT). The New Ordinary Shares are intended to be used by the EBT to satisfy employee options vesting in future years.

Accordingly, the Company plans to allot 550,000 New Ordinary Shares to the EBT and such shares will rank pari passu in all respects with the existing ordinary shares of the Company. An application has been made for 550,000 New Ordinary Shares of 0.1 pence each in the capital of the Company to be allotted and admitted to trading on AIM on or around 9 December 2022 ('Admission').

Following Admission, the Company's issued share capital will comprise 59,211,639 Ordinary Shares, of which 812,042 Ordinary Shares will be held by the EBT. The Company does not hold any shares in treasury.

Company Balance Sheet
As at 31 August 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Investment in subsidiaries	6	**61,090**	61,090
Trade and other receivables	7	**4,787**	7,613
Total fixed assets		**65,877**	68,703
Current assets			
Trade and other receivables	7	**31,973**	18,868
Deferred tax asset		**428**	819
Cash at bank and in hand		**179**	111
Total current assets		**35,579**	19,798
Creditors: amounts falling due within one year			
Trade and other payables	8	**(41,753)**	(44,331)
Bank loan	9	**(13,054)**	–
Net current liabilities		**(48,306)**	(24,533)
Total assets less current liabilities		**79,003**	44,170
Creditors: amounts falling due later than one year			
Bank loan	9	**–**	248
Net assets		**43,650**	44,418
Capital and reserves			
Share capital	10	**59**	59
Share premium		**115**	115
Merger reserve	11	**14,595**	14,595
EBT reserve	12	**(1)**	(1)
Non-distributable reserve		**3,650**	3,650
Retained earnings	13	**25,232**	26,000
Total equity and shareholders' funds		**43,650**	44,418

The financial statements were approved by the Board of Directors and authorised for issue on 8 December 2022. They were signed on its behalf by:

Sally McKone
Chief Financial Officer
Registered number 09312676

The accompanying notes on pages 131 to 137 form part of these financial statements.

Company Statement of Changes in Equity
For the year ended 31 August 2022

	Share capital £'000	Share premium £'000	Merger reserve £'000	EBT reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total £'000
Balance at 31 August 2020	58	115	14,595	(1)	–	16,712	31,479
Profit for the period	–	–	–	–	3,650	8,984	12,634
Dividends	–	–	–	–	–	(2,554)	(2,554)
Shares issued to EBT	1	–	–	(1)	–	–	–
Premium on shares issued in lieu of bonuses	–	–	–	–	–	60	60
Share-based payment charge	–	–	–	–	–	634	634
Shares from EBT exercised	–	–	–	1	–	660	661
Share-based payment current tax deduction in excess of remuneration expense	–	–	–	–	–	718	718
Share-based payment deferred tax deduction in excess of remuneration expense	–	–	–	–	–	786	786
Balance at 31 August 2021	59	115	14,595	(1)	3,650	26,000	44,418
Profit for the period	**–**	**–**	**–**	**–**	**–**	**878**	**878**
Share-based payments deferred tax deduction	**–**	**–**	**–**	**–**	**–**	**(1,131)**	**(1,131)**
Share-based payments current tax deduction	**–**	**–**	**–**	**–**	**–**	**723**	**723**
EBT shares issued	**–**	**–**	**–**	**–**	**–**	**674**	**674**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**1,120**	**1,120**
Premium on shares in lieu of bonuses	**–**	**–**	**–**	**–**	**–**	**202**	**202**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(3,234)**	**(3,234)**
Balance at 31 August 2022	**59**	**115**	**14,595**	**(1)**	**3,650**	**25,232**	**43,650**

The accompanying notes on pages 131 to 137 form part of these financial statements.

Notes to the Company Accounts
For the year ended 31 August 2022

1 Authorisation of financial statements and statement of compliance with FRS 101
The Parent Company financial statements of Focusrite plc for the year ended 31 August 2022 were authorised for issue by the Board of Directors on 8 December 2022 and the balance sheet was signed on the Board's behalf by Sally McKone.

Focusrite plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on AIM. These financial statements were prepared in accordance with FRS 101.

No profit and loss account is presented by the Company as permitted by section 408 of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 August 2022.

2 Basis of preparation and summary of significant accounting policies
Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures required under IFRS 2 in relation to share-based payments;
- the effects of new but not yet effective IFRS; and
- disclosures in respect of the compensation of key management personnel.

Under section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

Investments in subsidiaries
Investments in subsidiaries are stated at cost less any provision for impairment. This is detailed in more depth in the Group accounting policies detailed in note 3.

Cash
Cash and short-term deposits in the balance sheet comprise cash at banks and in hand, and short-term deposits with an original maturity of three months or less.

Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, with the following exception: deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

2 Basis of preparation and summary of significant accounting policies continued

Deferred income tax assets and liabilities are offset only if a legally enforced right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise, income tax is recognised in the income statement.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Equity-settled share-based payments

The Company issues equity-settled payments to certain employees (including Directors). All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Share options are valued at the date of grant using the Black-Scholes option pricing model for options with non-market vesting conditions attached and a simulation model for options with market vesting conditions attached, and are charged to operating profit over the vesting period of the award with a corresponding credit to the 'Other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium account.

The share option charge related to the grant by the Company of options over its equity instruments to the employees of subsidiary undertakings is subsequently recharged to the relevant employing subsidiary.

3 Directors' remuneration

Directors' emoluments

	2022 £'000	2021 £'000
Salaries, bonuses and other employee benefits	**1,925**	1,424
Social security costs	**325**	384
Pension costs	**63**	57
	2,313	1,865

During the year, retirement benefits were accruing to two Directors (2021: three) in respect of defined contribution pension schemes. The highest paid Director received remuneration (excluding the value of vested share options) of £338,000 (2021: £550,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2021: £nil). During the year, 62,350 share options were exercised by Directors (2021: 135,898), resulting in a gain of £949,000 (2021: £1,318,000).

The Directors' remuneration for the year including vested share options was as follows:

		Salary/fees £'000	Other taxable benefits £'000	Annual bonus £'000	Joining bonus £'000	Pension contribution £'000	Total £'000
Executive Directors							
Tim Carroll[1]	FY21	291	3	363	–	38	695
	FY22	**297**	**3**	**60**	**–**	**38**	**398**
Jeremy Wilson[2]	FY21	122	2	122	–	17	263
	FY22	**–**	**–**	**–**	**–**	**–**	**–**
Sally McKone[3]	FY21	114	–	143	170	17	444
	FY22	**233**	**–**	**46**	**–**	**30**	**309**
Phil Dudderidge[4]	FY21	186	5	–	–	–	191
	FY22	**63**	**2**	**–**	**–**	**–**	**65**
Non-executive Directors							
Phil Dudderidge[4]	FY21	–	–	–	–	–	–
	FY22	**126**	**3**	**–**	**–**	**–**	**129**
David Bezem[5]	FY21	42	–	–	–	–	42
	FY22	**55**	**–**	**–**	**–**	**–**	**55**
Naomi Climer[6]	FY21	37	–	–	–	–	37
	FY22	**52**	**–**	**–**	**–**	**–**	**52**
Mike Butterworth[7]	FY21	–	–	–	–	–	–
	FY22	**37**	**–**	**–**	**–**	**–**	**37**
Paul Dean[7]	FY21	42	–	–	–	–	42
	FY22	**18**	**–**	**–**	**–**	**–**	**18**

1 The bonus for Tim Carroll comprises £nil paid in cash (FY21: £218,025), £29,651 taken as shares (FY21: £72,675) and £29,651 in the form of matching shares (FY21: £72,675). The pension contribution was taken as additional salary net of the appropriate percentage of Income Tax and Employer's National Insurance which would not otherwise have fallen due.

2 Jeremy Wilson left the Group on 19 March 2021.

3 The bonus for Sally McKone, who joined the Group on 1 March 2021, comprises £nil (FY21: £85,500) paid in cash, £23,256 taken as shares (FY21; £28,500) and £23,256 in the form of matching shares (FY21; £28,500). The joining bonus in FY21 comprises £169,800 paid in cash in compensation for an annual bonus forfeited by leaving her former employer.

4 The remuneration for Phil Dudderidge comprises a Chairman's salary of £189,000 (FY21: £186,000). Phil Dudderidge moved from being Executive Chairman to Non-Executive Chairman from 1 January 2022 and his salary has been pro rated from that date.

5 The remuneration for David Bezem comprises a basic fee of £45,000 per annum for his role as Non-executive Director of the Group and an additional £5,000 per annum for his role as Chair of the Remuneration Committee until 31 December 2021 and then as Senior Independent Director thereafter at an additional £10,000 per annum.

6 The remuneration for Naomi Climer comprises a basic fee of £45,000 per annum for her role as Non-executive Director of the Group and an additional £10,000 per annum for her role as Chair of the Remuneration Committee pro rated from 1 January 2022.

7 Mike Butterworth joined the Group as Non-executive Director from 1 January 2022, following the resignation of Paul Dean. Remuneration for both Directors comprised a basic fee of £45,000 per annum for their role as Non-executive Director of the Group and an additional £10,000 per annum as Chair of the Audit Committee pro rated for the time of their appointments.

Notes to the Company Accounts continued
For the year ended 31 August 2022

4 Staff costs
Staff costs, including Directors' remuneration, were as follows:

	2022 £'000	2021 £'000
Wages and salaries	**3,019**	1,475
Social security costs	**453**	389
Other pension costs	**24**	61
	3,496	1,925

The average monthly number of employees, including the Directors, during the year was as follows:

	2022 Number	2021 Number
Management and administration	**16**	7

5 Dividends
The following equity dividends have been declared or proposed:

	2022 Pence	2021 Pence
Dividend per qualifying ordinary share	**6.0**	5.2

During the year, the Company paid an interim dividend in respect of the year ended 31 August 2022 of 1.85p per share (2021: 1.50p per share).

On 5 December 2022, the Directors proposed a final dividend of 4.15p per share (2021: 3.7p per share) making a total of 6.0p per share for the year (2021: 5.2p per share).

6 Investments in subsidiaries

	2022 £'000	2021 £'000
At 1 September	**61,090**	44,250
Reversal of impairment on investment (Martin Audio)	**–**	10,200
Acquired as part of reorganisation of US entities	**–**	6,640
At 31 August	**61,090**	61,090

In FY20 a £10.2 million impairment was recognised against the investment in Martin Audio as forecasts made at that time indicated the fair value of the investment was lower than the carrying value. However, due to the improved trading in FY21 and forecast revenue in the next five years, which included new revenue streams generated in FY21, which will be reoccurring within Martin Audio, it was considered that this impairment was no longer required and so was reversed.

The investment in US entities in 2021 arose as a result of the distribution of ADAM Audio US, Martin Audio LLC and Focusrite Group US (formally known as Focusrite Novation Inc.) up to the direct ownership by Focusrite plc. This was achieved by a dividend of £3.6 million and a reduction in the loan owed by Martin Audio of £3.0 million. The dividends were in specie, and as such the dividend received will be distributable, and as such a non-distributable reserve has been set up to separate this from distributable reserves.

In 2022 these shares were exchanged for shares of equal value in Focusrite Investments Inc.

The investments in subsidiaries comprise:

Name	Country of registration or incorporation	Principal activity	Class of shares	**2022 %**	2021 %
Focusrite Audio Engineering Limited ('FAEL')	England and Wales	Manufacture and distribution	Ordinary	**100**	100
Focusrite Group US[6]	USA	Marketing services	Ordinary	**100**	100
Focusrite Novation Asia Limited[1]	Hong Kong	Marketing services	Ordinary	**100**	100
Focusrite Australia PTY Limited[1]	Australia	Marketing services	Ordinary	**100**	100
Pro Audio Beteiligungs GmbH	Germany	Holding company	Ordinary	**100**	100
ADAM Audio GmbH[2]	Germany	Manufacture and distribution	Ordinary	**100**	100
ADAM Audio USA, Inc.	USA	Marketing services and distribution	Ordinary	**100**	100
Dongguan ADAM Audio Business Service Co., Limited[3]	China	Operational services	Ordinary	**100**	100
Optimal Audio Group Limited	England and Wales	Manufacture and distribution	Ordinary	**100**	100
Martin Audio Limited[4]	England and Wales	Manufacture and distribution	Ordinary	**100**	100
Martin Audio US, LLC	USA	Manufacture and distribution	Ordinary	**100**	100
Focusrite Investments Inc	USA	Holding company	Ordinary	**100**	–
Sequential LLC[5]	USA	Manufacture and distribution	Ordinary	**100**	–

1 Owned indirectly through FAEL.
2 Owned indirectly through Pro Audio Beteiligungs GmbH.
3 Owned indirectly through ADAM Audio GmbH.
4 Owned indirectly through Optimal Audio Group Limited.
5 Owned indirectly through Focusrite Investments Inc.
6 Renamed from Focusrite Novation Inc in FY21.

On 31 August 2021, the US-based entities within the Group were restructured to be owned directly by Focusrite plc. See note 14 of the FY21 Company Accounts for more details.

7 Trade and other receivables

Debtors due in less than one year	2022 £'000	2021 £'000
Other debtors	**74**	718
Prepayments	**33**	24
Amounts owed by Group undertakings	**5,787**	18,126
	5,894	18,868
Debtors due in more than one year		
Amounts owed by Group undertakings	**30,866**	7,613

The amounts owed by Group undertakings are repayable on demand. These amounts include loans made to ADAM Audio, Martin Audio, Sequential LLC and Focusrite Investments Inc totalling £36,653,000 (2021: £18,126,000). These loans have been made on an arm's length basis and interest is payable at a rate of 2%.

Of the amounts owed, management do not expect repayment of £30,866,000 within one year, therefore this balance has been classified as due in more than one year.

8 Creditors

	2022 £'000	2021 £'000
Other creditors	**1,851**	2,179
Amounts due to Group undertakings	**39,902**	42,152
	41,753	44,331

The amounts owed to Group undertakings are repayable on demand. Included within the intercompany balance is £4,549,000, which is expected to be repaid within one year. The remaining amounts are not expected to be repaid during the next 12 months.

9 Bank loan

	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	5+ years £'000	Total £'000
2022						
Non-interest-bearing	**–**	**–**	**–**	**174**	**–**	**174**
RCF	**(13,228)**	**–**	**–**	**–**	**–**	**(13,228)**
	(13,228)	**–**	**–**	**174**	**–**	**(13,054)**
2021						
Non-interest-bearing	–	–	–	248	–	248
	–	–	–	248	–	248

On 19 December 2019, Focusrite plc took out a £40,000,000 revolving credit facility with HSBC UK and NatWest, for a period of five years. Under this agreement, Focusrite plc may draw down funds on demand, at an interest rate of 1.25%-1.90% + SONIA on utilised funds and 0.4% + SONIA on unutilised funds.

The £0.2 million recorded as at 31 August 2021 and 2022 against bank loan and arrangement fee is the amount paid to arrange the RCF in December 2020. The cost is being written down over the term of the RCF, which is five years.

The Group's bankers are party to a debenture which provides for security over the whole of the Company's assets and undertakings. This debenture is in place to support the revolving credit facility, provision of forward contracts and a duty deferment facility.

10 Share capital

	2022 Number	2021 Number
Issued and fully paid		
Ordinary shares of £0.001 each	**58,661,639**	58,661,639

	2022 £'000	2021 £'000
Issued and fully paid		
Ordinary shares of £0.001 each	**58,662**	58,662
	58,662	58,662

The Company has one class of ordinary shares which carries no right to fixed income.

11 Merger reserve

	2022 £'000	2021 £'000
At 1 September and 31 August	**14,595**	14,595

The merger reserve represents the difference between the cost of the investment in FAEL (and its subsidiary, Focusrite Novation Inc.) of £14,647,000 and the nominal value of the ordinary shares issued in exchange of £52,000.

12 EBT reserve

	2022 £'000	2021 £'000
Balance at 1 September	**(1)**	(1)
Shares issued to the EBT	**–**	1
Share options exercised	**–**	(1)
Balance at 31 August	**(1)**	(1)

13 Retained earnings

	2022 £'000	2021 £'000
At 1 September	**26,000**	16,712
Net profit for the period	**878**	8,984
Dividend	**(3,234)**	(2,554)
Premium on shares issued in lieu of bonuses	**202**	60
Share-based payment charge	**1,120**	634
EBT shares issued	**674**	660
Share-based payment – current tax deduction in excess of remuneration expense	**723**	718
Share-based payment – deferred tax deduction in excess of remuneration expense	**(1,131)**	786
At 31 August	**25,232**	26,000

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The Parent Company's profit for the year was £878,000 (2021: £8,984,000).

14 Post balance sheet events

The Company intends to issue 550,000 New Ordinary Shares at their par value to the Employee Benefit Trust (EBT). The New Ordinary Shares are intended to be used by the EBT to satisfy employee options vesting in future years.

Accordingly, the Company plans to allot 550,000 New Ordinary Shares to the EBT and such shares will rank pari passu in all respects with the existing ordinary shares of the Company. An application has been made for 550,000 New Ordinary Shares of 0.1 pence each in the capital of the Company to be allotted and admitted to trading on AIM on or around 9 December 2022 ('Admission').

Following Admission, the Company's issued share capital will comprise 59,211,639 Ordinary Shares, of which 812,042 Ordinary Shares will be held by the EBT. The Company does not hold any shares in treasury.

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